

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated August 23, 2005

The following information should be read in conjunction with the Corporation's 2004 audited financial statements and notes thereto, which were prepared in accordance with Canadian generally accepted account principles ("GAAP").

Where "we", "us", "our", "SCT" or the "Corporation" is used, it is referring to Stem Cell Therapeutics Corp. unless otherwise indicated.

All amounts are in Canadian dollars, unless otherwise indicated.

Additional information relating to the Corporation can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Certain information contained in management's discussion and analysis of our financial condition and results of our operations constitute forward looking statements. These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward looking statements.

### **Overview**

Stem Cell Therapeutics Corp. (SCT) is a biotechnology company focused on the development of our technology platform and intellectual property to selectively induce a patient's own stem cells to proliferate in the brain. Our core technology has been demonstrated to increase the number of innate adult stem cells that grow in place when our therapeutic approach is applied to test animals. This fundamental technology will be further developed to create specific disease treatments for stroke, Huntington's disease, Alzheimer's disease and other neurodegenerative conditions. Our collaborators and researchers have used animals to demonstrate re-growth of functional brain cells from existing stem cells using our therapeutic approach. Since these tests were completed, we have identified additional agents that may be used for neurogenesis-promoting from which we have created a combination of agents and termed it NTx<sup>TM</sup>-265. We plan to test NTx<sup>TM</sup>-265 in humans concurrently with our advanced pre-clinical testing program.

As a development stage company, the continuation of the SCT's research and development activity and the commercialization of its stem cell related technologies are dependent on the Corporation's ability to complete its research and development programs and finance its cash requirements. The value of our intangible assets could become impaired should our research and development activities change significantly or cease.

### **Review of Operations**

Net loss for the six month period ended June 30, 2005 was \$ 1,321,533 or \$0.02 per common share for the period while losses for the three month period ended June 30, 2005 were 725,848 or \$0.01 per common share for the period (was \$119,121 or \$0.01 per common share for the six and three month periods ended June 30, 2004). The loss is reflective of costs associated with intellectual property development, research contracts with an Alberta based university and certain contract research organizations, option grants and management fees.

### **Research and Development**

The Corporation's research and development expenses consist primarily of fees paid to external service providers. We expect our research and development expenses to increase significantly over the next few years as our products enter clinical trials and we continue to advance other research and development programs. As a result of the risks and uncertainties that are discussed in the "Risk and Uncertainties" section, we are unable to estimate the specific timing and future costs of our research and development programs.

The Corporation had a contract with an Alberta based university to further develop stem cell related therapies. This contract expired on February 13, 2005 and was renewed on May 1, 2005 for another one year period. For the six months ended June 30, 2005, the total research and development charge was \$175,968 while it was \$124,560 for the three month period ended June 30, 2005 with respect to the contract with the Alberta based university, as well as with a number of contract research organizations in Alberta (research and development charge was \$42,000 for the six and three month periods ended June 30, 2004).

Regarding NTx<sup>TM</sup>-265, our lead program, we plan to continue with our pre-clinical studies in 2005, which we expect to take approximately nine more months to complete. Concurrently with these advanced pre-clinical studies we plan to begin testing in humans in late 2005. We have spent \$382,007 in research and development since inception up to June 30, 2005 and anticipate spending a further \$6 million to \$7 million over the next two years to achieve our development plan.

### **Professional Fees**

Professional fees reflect charges for intellectual property development (i.e. patents), general corporate legal fees with regards to ongoing Corporation matters, as well as accounting and audit services. For the six months ended June 30, 2005, a \$229,427 charge (\$116,066 for the three month period ended June 30, 2005) was expensed for these services which was primarily for intellectual property development (nil for the six and three month periods ended June 30, 2004).

### **Management and Consulting Fees**

Management and consulting fees for the six months ended June 30, 2005 totaled \$189,404 while it was \$97,031 for the three month period ended June 30, 2005 (\$7,056 for the six and three month periods ended June 30, 2004). This charge represents payroll charges for the Corporation's management as well as outside consultants.

### **General and Administration**

General and administrative (G&A) expenses, for the six months ended June 30, 2005 were \$377,250 and totaled \$207,063 for the three month period ended June 30, 2005 (\$49,565 for the six and three month periods ended June 30, 2004). The expenses have increased primarily due to increased staffing travel, conferences, and associated promotional activity, as well as the standard costs associated with office lease, exchange and regulatory fees, office supplies, printing, and courier.

### **Stock options**

Compensation expense was recorded in the amount of \$133,142 for stock options granted and vested to management, employees, and consultants for the six months ended June 30, 2005 - \$70,622 for the three month period ended then - (\$ 20,000 for the six and three month periods ended June 30, 2004). This charge for the period ended June 30, 2005 related to the granting of 3,925,000 stock options at a price of \$0.25 per share to the Corporation's management and directors during November 2004 (vesting over 36 months), 800,000 stock options at \$0.35 per share granted during February 2005 (vesting over 36 months) and an additional 250,000 stock options at \$0.25 per share granted during May 2005 (vesting over 6 to 36 months).

The following table summarizes the outstanding granted options under the Corporation's stock option plan as at August 23, 2005. All options have a five year expiry from date of grant.

<b>Date Granted</b>	<b>Strike Price</b>	<b>Number of Options</b>	<b>Number Exercised / Date</b>	<b>Cash received</b>
November 2004	\$0.25	3,925,000	-	-
February 2005	\$0.35	800,000	-	-
May 2005	\$0.25	250,000	-	-
July 2005	\$0.25	175,000	-	-

### **Intellectual Property**

The value of the intellectual property purchased from Transition Therapeutics Inc. on October 4, 2004 was recorded based on the present value of the purchase price. It will be amortized over a 10 year period as an intellectual property asset. The deemed interest calculations were based on a rate of 15%. The current and long term portions of the corresponding purchase liability as well as the deemed interest expense are recorded in the financial statements to the end of June 30, 2005.

SCT had its first patent issued from the Stem Cell Therapeutics Inc. portfolio, which provides for a method of treating Parkinson's disease, on January 18, 2005.

The Corporation continues to aggressively file patents on all new intellectual property that is developed under the research contract with an Alberta based university as well as that developed through our contracts with independent contract research organizations.

### **Amortization**

Amortization for property and equipment over the six months ended June 30, 2005 was \$12,257 - \$7,620 for the three month period ended then - (was nil for the six and three month periods ended June 30, 2004). This increase was primarily due to new computer assets added and amortized over the period. All amortization was calculated on a straight line basis over the estimated useful lives of the assets.

Intellectual property assets, such as the intellectual property purchased via the Stem Cell Therapeutics Inc. agreement are amortized over a 10 year time frame using a straight line basis. The amortization for intellectual property amounted to \$120,738 for the six months ended June 30, 2005 - \$60,782 for the three month period ended then - (was \$500 for the period ended June 30, 2004).

### **Revenue**

As an early development stage company developing biotechnology related products for the treatment of disease, we have not generated any revenues from product sales to date and do not expect to do so for a number of years. This is primarily due to the long time line that is required to develop drugs that are proven in a clinical setting in humans to be safe and useful for treating a particular disease state. Revenues to date include only interest income generated on our cash balances. For the six months ended June 30, 2005, interest income accrued and received amounted to \$71,838 - \$35,917 for the three month period ended then - (was nil for the six and three month periods ended June 30, 2004).

### **Summary of Quarterly Results**

The following unaudited quarterly information is presented in dollars except for per share amounts:

	<b>2005</b>		<b>2004</b>		
	<b>June</b>	<b>March</b>	<b>December</b>	<b>September</b>	<b>June</b>
Revenue(1)	35,917	35,922	1,889	1,949	Nil
Net loss	725,848	595,685	681,500	149,244	119,121
Basic and diluted loss per common share	0.01	0.01	0.01	0.01	0.01
Total assets	9,511,232	10,081,738	2,972,645	1,093,696	546,357
Cash balance	7,061,821	7,599,790	422,899	962,073	525,087
Total long-term debt (2)	1,937,903	1,925,876	1,926,564	2,801	Nil
Cash dividends declared	Nil	Nil	Nil	Nil	Nil

- (1) Interest income on cash balances
- (2) Includes capital lease obligations and obligation under share purchase agreement

## **Liquidity and Capital Resources**

The Corporation's primary capital needs are for funds to support our scientific research and development activities including pre-clinical and clinical trials and capital expenditures for development of facilities and working capital.

The Corporation's specific capital commitments include payment to lease office space which will total \$18,248 from July 1, 2005 until expiry of the lease on December 31, 2005. We will also incur expenses pursuant to service agreements for the next five years for a total of \$1,940 through 2010. In addition it is expected that the company will pay \$140,000 up to May 2006 as well as US \$143,678 during the remainder of 2005 in research costs under separate research and development contracts.

The Corporation has raised significant operating capital since its inception. For the nine-months ended December 31, 2004, gross proceeds of \$1,460,010 was raised from initial subscribers to the Corporation's capital as well as from the exercise of options. On January 6, 2005 the Corporation closed its Initial Public Offering and raised gross proceeds of \$8,500,000.

Outstanding shares as of June 30, 2005 and August 23, 2005 totaled 53,186,364 common shares and 6,600,000 class B shares

This capital has provided the Corporation with the resources required to establish the corporate office, further develop intellectual property pursuant to an Alberta based university research contract, as well as provide the initial payment for the purchase of the intellectual property held by Stem Cell Therapeutics Inc. from Transition Therapeutics Inc.

Additionally, these capital resources will provide the means to advance our lead product NTx™-265 into advanced pre-clinical studies as well as concurrent clinical studies in humans.

As of June 30, 2005 the working capital (current assets minus current liabilities) for the Corporation was \$ 6,592,890 (was \$ 472,607 as of June 30, 2004).

## **Financing Activities**

The Corporation closed its initial public offering on January 6, 2005 and began trading on the TSX-Venture Exchange under the symbol SSS on January 11, 2005. 34,000,000 common shares were issued from treasury at \$0.25 per share. An underwriters' commission of 9% of the aggregate gross proceeds was netted from the Offering proceeds, resulting in net proceeds to the company amounting \$7,640,453.

As of June 30, 2005, the gross proceeds raised since inception by the Corporation totaled \$9,960,010.

The Corporation's ability to continue as a going concern is contingent upon its ability to obtain additional sources of funding to finance future operations. Efforts will be required to obtain these additional funds, but there is no assurance that additional financing will be available on acceptable terms, if at all.

### **Investing Activities**

The Corporation has invested capital into intellectual property development and patent filing activities and basic corporate office infrastructure. Cash and cash equivalents are currently in interest bearing Guaranteed Interest Certificates and or bank accounts.

### **Related Party Transactions**

Pursuant to a sub-lease agreement entered into with LaunchVision Research Inc. (controlled by a director of the Company), the Company incurred rent expense of \$27,265 for the six month period ended June 30, 2005 - \$13,683 for the three month period ended then - (nil for the six and three month periods ended June 30, 2004), which is included in general and administration expense. No amount is owing at June 30, 2005.

### **Risks and Uncertainties**

Prospects for companies in the biotechnology industry may generally be regarded as uncertain given the nature of the industry. Accordingly, investments in biotechnology companies should be regarded as highly speculative. The realization of our long-term potential will be dependent upon the successful development and commercialization of products and product candidates currently under development. We can make no assurance that these products and product candidates will be developed or that they will receive regulatory approval. Our new products and product candidates are currently in the research and development stages, the highest risk stages for a company in the biotechnology industry.

We can make no assurance that our research and development programs will result in commercially viable products and product candidates. To achieve profitable operations, we, alone or with others, must successfully develop, launch and market our products and product candidates. To obtain regulatory approvals for the products and product candidates being developed and to achieve commercial success, clinical trials must demonstrate that the products and product candidates are safe for human and/or animal use and that they demonstrate efficacy. Unsatisfactory results obtained from a particular study relating to a research and development program may cause the company or its collaborators to abandon their commitments to that program. We can make no assurance that any future tests, if undertaken, will yield favorable results.

The Corporation has several patent filings in progress that it has filed as well as others recently acquired from Stem Cell Therapeutics Inc., only one of which has been issued to

date. The Corporation's success is dependent upon its ability to obtain these patents; however, there is no guarantee that they will be obtained, and, if obtained, the Corporation may not be able to successfully defend any subsequent infringements to these patents. The Corporation is currently unaware that it has infringed any existing patents issued to third parties and the Corporation's success will, in part, depend on operating without such infringement. The presence of such patents could severely limit the Corporation's ability to conduct its existing research and/or require financial resources to defend litigation, which may be in excess of the Corporation's ability to raise such funds. Additionally, the Corporation relies on trade secrets, know-how and other proprietary information as well as requiring its employees, consultants, advisors and collaborators to sign confidentiality agreements.