



STEM CELL
THERAPEUTICS

Stem Cell Therapeutics Corp.

Third Quarter 2005 Financial Statements
(Unaudited)

September 30, 2005

Stem Cell Therapeutics Corp.
Unaudited Balance Sheets
[a development stage company]

As at,

	September 30, 2005	December 31, 2004
	\$	\$
ASSETS		
Current		
Cash	6,084,348	422,899
Short-term investment	60,000	40,000
Accounts receivable	23,154	14,151
Prepaid expenses	22,025	78,804
	6,189,527	555,854
Property and equipment, net	94,259	45,150
Intellectual property, net	2,190,117	2,371,641
	8,473,903	2,972,645
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	280,797	110,402
Current portion of obligation under share purchase agreement	111,367	237,507
Current portion of capital lease obligation	9,762	2,803
	401,926	350,712
Long Term Obligations		
Obligation under share purchase agreement	1,812,854	1,924,221
Capital lease obligation	11,256	2,343
Shareholders' equity		
Share capital [note 4]	8,984,393	1,490,593
Contributed surplus	399,882	154,641
Deficit	(3,136,408)	(949,865)
Total shareholders' equity	6,247,867	695,369
	8,473,903	2,972,645

See accompanying notes

On behalf of the Board:

Director
signed

“Joseph Tucker”

Director
signed

“Don McCaffrey”

Stem Cell Therapeutics Corp.
Unaudited Statements of Loss and Deficit
[a development stage company]

For the period ended,

	Three Month Period Ended September 30, 2005	Three Month Period Ended September 30, 2004	Nine Month Period Ended September 30, 2005	For the period March 31, 2004 to September 30, 2004 (Note 1)	Cumulative from Inception
	\$	\$	\$	\$	\$
OPERATING EXPENSES					
Research and development costs <i>[note 3]</i>	315,835	63,000	491,804	105,000	697,842
Professional fees	42,695	21,455	272,122	67,971	466,518
Management and consulting fees	90,775	38,314	280,179	45,370	398,002
General and administration	185,712	27,273	562,962	30,322	684,522
Stock option expense	112,099	-	245,241	20,000	419,882
Deemed interest expense on obligation under share purchase agreement	82,308	-	237,493	-	312,942
Amortization of property and equipment	9,047	651	21,304	651	25,462
Amortization of intellectual property	60,786	500	181,524	1,000	241,162
Total Operating expenses	899,257	151,193	2,292,629	270,314	3,246,332
Interest income	34,247	1,949	106,086	1,949	109,924
Net loss for the period	865,010	149,244	2,186,543	268,365	3,136,408
Deficit beginning of period	2,271,398	119,121	949,865	-	-
Deficit, end of period	3,136,408	268,365	3,136,408	268,365	3,136,408
Basic and diluted loss per share	0.02	0.01	0.04	0.03	0.10

See accompanying notes

Stem Cell Therapeutics Corp.
Unaudited Statements of Cash Flows
[a development stage company]

For the period ended,

	Three Month Period Ended September 30, 2005 \$	Three Month Period Ended September 30, 2004 \$	Nine Month Ended September 30, 2005 \$	For the period March 31, 2004 to September 30, 2004 \$	Cumulative from Inception \$
OPERATING ACTIVITIES					
Net loss for the period	(865,010)	(149,244)	(2,186,543)	(268,365)	(3,136,408)
<u>Add items not involving cash</u>					
Stock option expense	112,099	-	245,241	20,000	419,882
Deemed interest expense on obligation under share purchase agreement	82,308	-	237,493	-	312,942
Amortization of property and equipment	9,047	651	21,304	651	25,462
Amortization of intellectual property	60,786	500	181,524	1,000	241,162
	(600,770)	(148,093)	(1,500,981)	(246,714)	(2,136,960)
Changes in non-cash working capital items					
Accounts receivable	335	(5,420)	(9,003)	(7,192)	(23,154)
Prepaid expenses	(1,893)	(13,876)	56,779	(13,876)	(22,025)
Accounts payable and accrued liabilities	110,698	103,025	170,395	150,554	280,797
Cash used in operating activities	(491,630)	(64,364)	(1,282,810)	(117,228)	(1,901,342)
INVESTING ACTIVITIES					
Acquisition of property and equipment	(8,419)	(37,280)	(70,413)	(37,280)	(119,721)
Acquisition of intellectual property	-	-	-	(2,000)	(327,000)
Short Term Investment	-	(40,000)	(20,000)	(40,000)	(60,000)
Other non-current assets		(9,323)		(9,323)	-
Cash used in investing activities	(8,419)	(86,603)	(90,413)	(88,603)	(506,721)
FINANCING ACTIVITIES					
Increase (decrease) in capital lease obligation	(2,424)	-	15,872	-	21,018
Settlement of long term obligation under share purchase agreement	(475,000)	-	(475,000)	-	(475,000)
Issuance of share capital, net of share issue costs	-	594,676	7,493,800	1,167,904	8,946,393
Shareholder loan		(6,722)		-	-
Cash (used in) provided by financing activities	(477,424)	587,954	7,034,672	1,167,904	8,492,411
(Decrease) increase in cash during the period	(977,473)	436,987	5,661,449	962,073	6,084,348
Cash, beginning of period	7,061,821	525,086	422,899		-
Cash, end of period	6,084,348	962,073	6,084,348	962,073	6,084,348

See accompanying notes

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

1. DESCRIPTION OF BUSINESS

Stem Cell Therapeutics Corp. (the "Company") was incorporated under the laws of Alberta on March 31, 2004 with nominal share capital. On October 19, 2004, the Company changed its name from Neurogenesis Biotech Corp. to Stem Cell Therapeutics Corp. The Company was created to further develop and commercialize stem cell related technologies acquired from an Alberta based university. To date, the Company has not earned product revenue and is considered to be in the development stage.

The continuation of the Company's research and development activity and the commercialization of its stem cell related technologies is dependent on the Company's ability to complete its research and development programs, achieve future profitable operations and finance its cash requirements. The outcome of these matters cannot be predicted at this time. The value of the Company's intangible assets could become impaired should its research and development activities change significantly or cease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim financial statements of Stem Cell Therapeutics Corp. have been prepared in accordance with Canadian generally accepted accounting principles, following the same accounting policies as the financial statements of the Company as at and for the nine months ended December 31, 2004. The disclosures included below are incremental to those included in the December 31, 2004 financial statements. The unaudited interim financial statements should be read in conjunction with the Company's financial statements and notes thereto as at and for the nine-month period ended December 31, 2004.

3. RESEARCH AND DEVELOPMENT PROJECTS

The Company is involved in the research and development of therapeutics involved in the stimulation of stem cells for the treatment of neurological diseases. All research and development costs incurred to date have been expensed. No revenue has been earned from commercialization of the Company's technology.

4. SHARE CAPITAL

[a] Authorized

The authorized share capital of the Company consists of an unlimited number of common shares, Class B shares and First Preferred shares, in each case without nominal or par value. Common shares are voting, and may receive dividends as declared at the discretion of the directors. Class B shares are non-voting and convertible to common shares at the holder's discretion, on a one-for-one basis. Upon dissolution or wind-up of the Company, Class B shares participate ratably with the Common shares in the distribution of the Company's assets.

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

[b] Issued and outstanding

	Number of shares	
	#	\$
Common		
Formation of Company, March 31, 2004	1,000,000	10
Acquisition of intellectual property, April 1, 2004 (i)	3,636,364	18,000
Proceeds from issuance at \$0.025 per share, April 14, 2004	2,000,000	50,000
Proceeds from issuance at \$0.10 per share, June 7, 2004	2,550,000	255,000
Proceeds from issuance at \$0.15 per share, August 19, 2004	4,000,000	600,000
Proceeds from issuance at \$0.25 per share, November 19, 2004	1,000,000	250,000
Conversion of Class B to common, November 19, 2004 (ii)	4,000,000	100,000
Options exercised, November 21, 2004 (iii)	800,000	55,000
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	18,986,364	1,328,010
Share Issue Costs	-	(7,417)
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Balance, December 31, 2004	18,986,364	1,320,593
Proceeds from Initial Public Offering at \$0.25 per share, January 6, 2005	34,000,000	8,500,000
Conversion of Class B to Common, January 10, 2005(iv)	80,000	2,000
Conversion of Class B to Common, April 1, 2005 (v)	120,000	3,000
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	34,200,000	8,505,000
Share Issue Costs	-	(1,006,200)
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Balance, September 30, 2005	53,186,364	8,819,393
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Class B		
Proceeds from issuance at \$0.025 per share, April 20, 2004	10,800,000	270,000
Conversion of Class B to common, November 19, 2004	(4,000,000)	(100,000)
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Balance, December 31, 2004	6,800,000	170,000
Conversion of Class B to Common, January 10, 2005 (iv)	(80,000)	(2,000)
Conversion of Class B to Common, April 1, 2005 (v)	(120,000)	(3,000)
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Balance, September 30, 2005	6,600,000	165,000
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Share Capital, September 30, 2005	59,786,364	8,984,393
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NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

(i) On April 1, 2004 3,636,364 Common shares were issued for the acquisition of intellectual property. The value of the shares was based on the fair value of the intellectual property acquired, \$18,000.

(ii) On November 19, 2004, 4,000,000 Class B shares were converted to 4,000,000 Common shares on a one for one basis.

(iii) On November 21, 2004, 600,000 options were exercised at a price of \$0.025 and 200,000 options were exercised at a price of \$0.10. In addition, contributed surplus of \$20,000 was reclassified to share capital upon exercise of the options.

(iv) On January 10, 2005 80,000 Class B shares were converted to 80,000 Common shares on a one for one basis.

(v) On April 1, 2005 120,000 Class B shares were converted to 120,000 Common shares on a one for one basis.

[c]Employee stock options

The following table summarizes the activity of the Company's stock option plan as at September 30, 2005:

	September 30, 2005	
	Number of Options	Weighted- average exercise price
		\$
Outstanding, January 1, 2005	3,925,000	0.25
Granted	1,275,000	0.31
Exercised	—	—
Cancelled	—	—
Outstanding, end of period	5,200,000	0.27
Exercisable, at end of period	1,966,667	\$0.26

The fair value of options granted to employees, consultants and directors of the Company during the nine months ended September 30, 2005 was estimated on the date of grant using the Black Scholes option pricing model with the following assumptions:

Risk-free interest rate	5%
Volatility	120%
Dividend yield	0%
Expected life	5 years

NOTES TO THE FINANCIAL STATEMENTS
September 30, 2005

5. COMMITMENTS

[a] Operating leases

The Company leases its office space, payments under lease contract will total \$4,527 from October 1, 2005 until expiry of the lease on December 31, 2005. The company entered into a new lease contract for the office space which covers a three year period starting January 1, 2006, company's commitment under the new lease contract is \$116,340.

[b] Research contracts

Future expected payments under a research contract with an Alberta-based university, which was renewed for an additional year on May 1, 2005, are as follows:

	\$
2005	75,000
2006	144,000
Total	219,000

Future expected payments under a research contract with a contract research organization in the United States (US Dollars) and with research organizations in Europe (Euro), are as follows:

	\$ US ⁽¹⁾	€ ⁽²⁾
2005	76,065	62,351
2006	67,613	38,969
Total	143,678	101,320

(1) Exchange rate for the US Dollar as of September 30, 2005 was 1 USD = 1.1611 CAD

(2) Exchange rate for the Euro as of September 30, 2005 was 1 Euro = 1.40030 CAD

6. SUBSEQUENT EVENTS

[a] On October 14, 2005 175,000 stock options were exercised at \$ 0.25 per stock option with gross proceeds amounting \$43,750 and 175,000 Common shares issued in exchange.

[b] On November 9, 2005 the company received approval to begin a Phase I Clinical Study in the NTx(TX)-265 program for the treatment of stroke to be carried out by Medicon A/S in Denmark on our behalf.

7. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current period.