



## **Stem Cell Therapeutics Corp.**

Management Discussion and Analysis

Dated: November 23, 2005

The following information should be read in conjunction with the Corporation's 2004 audited financial statements and notes thereto and the interim financial statements for September 30, 2005 which were prepared in accordance with Canadian generally accepted accounting 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 and potentially, 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 regimen 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 nine month period ended September 30, 2005 was \$ 2,186,543 or \$0.04 per share while net loss for the three month period ended September 30, 2005 was \$865,010 or \$0.02 per share (was \$268,365 or \$0.03 per share for the six month period ended September 30, 2004 and \$149,244 or \$0.01 per share for the three month period then ended). 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 has 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. The contract was further amended on August 30, 2005 and the new contract will expire on August 31, 2006. For the nine months ended September 30, 2005, the total research and development costs was \$491,804 while it was \$315,835 for the three month period ended September 30, 2005 with respect to the contract with the Alberta based university, as well as with a number of contract research organizations (research and development charge was \$105,000 for the six month period ended September 30, 2004 and \$63,000 for the three months period then ended).

Regarding NTx<sup>TM</sup>-265, our lead program, we plan to continue with additional pre-clinical studies into 2006, which we expect to take approximately six more months to complete. Concurrently with these advanced pre-clinical studies the Corporation has received approval to enter undertake a Phase I clinical study in Denmark.

The Corporation has spent \$697,842 on research and development since inception up to September 30, 2005. The Corporation's current financial resources are expected to provide for operations to the end of the fourth calendar quarter of 2007.

Subsequent to the period ending September 30, 2005, SCT received approval to begin a Phase I Clinical Study in the Corporations NTx<sup>TM</sup>-265 program, for the treatment of stroke from the Danish Medicines Agency ("DMA") and the Institutional Review Board ("IRB"). The DMA is the government regulatory agency responsible for drug and clinical trial approvals in Denmark, while the IRB consists of an independent panel of medical and scientific members who must approve the proposal for a clinical trial in accordance with FDA regulations.

## **Professional Fees**

Professional fees reflect charges for intellectual property development (i.e., patents), general corporate legal fees with regards to ongoing corporate matters, as well as fees for accounting and audit services. For the nine months ended September 30, 2005, \$272,122 (\$42,695 for the three month period ended September 30, 2005) was expensed for these services, which was primarily for intellectual property development (\$67,971 for the six month period ended September 30, 2004 and \$21,455 for the three month period then ended).

## **Management and Consulting Fees**

Management and consulting fees for the nine months ended September 30, 2005 totaled \$280,179 while they were \$90,775 for the three month period ended September 30, 2005 (\$45,370 for the six month period ended September 30, 2004 and \$38,314 for the three month period then ended). This charge represents payroll charges for the Corporation's management.

## **General and Administration**

General and administrative (G&A) expenses, for the nine months ended September 30, 2005 were \$562,962 and totaled \$185,712 for the three month period ended September 30, 2005 (\$30,322 for the six month period ended September 30, 2004 and \$27,273 for the three month period then ended). The expenses have increased primarily due to increased staffing travel, conferences, and associated promotional activity, as well as the ongoing costs associated with office lease, exchange and regulatory fees.

## **Stock options**

Compensation expense was recorded in the amount of \$245,241 for stock options granted to directors, management, employees, and consultants for the nine months ended September 30, 2005 - \$112,099 for the three month period then ended - (\$20,000 for the six month period ended September 30, 2004 and nil for the three months period then ended).

The following table summarizes the outstanding granted options under the Corporation's stock option plan as at November 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>
November 2004 (i)	\$0.25	3,750,000
February 2005	\$0.35	800,000
May 2005	\$0.25	250,000
July 2005	\$0.25	175,000
September 2005	\$0.25	50,000

(i) Options granted in November 2004 totaled 3,925,000. 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.

### **Intellectual Property**

The value of the intellectual property acquired from Transition Therapeutics Inc. on October 4, 2004 in conjunction with the purchase of Stem Cell Therapeutics Inc., 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 September 30, 2005.

SCT had its first patent which provides for a method of treating Parkinson's disease, issued from the Stem Cell Therapeutics Inc. portfolio 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 nine months ended September 30, 2005 was \$21,304 and \$9,047 for the three month period then ended (\$651 for the six and three month periods ended September 30, 2004). This increase was primarily due to new computer assets added and amortized in 2005. 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 \$181,524 for the nine months ended September 30, 2005 and \$60,786 for the three month period then ended (\$1,000 for the six month period ended September 30, 2004 and \$500 for the three month period then ended).

### **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 nine months ended September 30, 2005, interest income accrued and received amounted to \$106,086 and \$34,247 for the three month period then ended (\$1,949 for the six and three month periods ended September 30, 2004).

## Summary of Quarterly Results

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

<b>As at and for the three months ended</b>						
	<b>2005</b>			<b>2004</b>		
	<b>September</b>	<b>June</b>	<b>March</b>	<b>December</b>	<b>September</b>	<b>June</b>
Revenue(1)	34,247	35,917	35,922	1,889	1,949	Nil
Net loss	865,011	725,848	595,685	681,500	149,244	119,121
Basic and diluted loss per common share	0.02	0.01	0.01	0.01	0.01	0.01
Total assets	8,473,903	9,511,232	10,081,738	2,972,645	1,093,696	546,357
Cash balance	6,084,348	7,061,821	7,599,790	422,899	962,073	525,087
Total long-term debt (2)	1,824,110	1,937,903	1,925,876	1,926,564	2,801	Nil
Cash dividends declared	Nil	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 payments to lease office space which will total \$4,527 from October 1, 2005 until expiry of the lease on December 31, 2005. The Corporation entered into a new lease contract for the office space which covers a three year period starting January 1, 2006, Corporation's commitment under the new lease contract for the three years is \$116,340. 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 Corporation will pay \$219,000 up to September 2006 as well as US \$143,678 and 101,320 Euro during the remainder of 2005 and up to March, 2006 in research costs under separate research and development contracts.

The Corporation has raised significant operating capital since its inception. For the six months ended December 31, 2004, gross proceeds of \$1,460,010 were raised from initial subscribers to the Corporation's shares 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 September 30, 2005 totaled 53,186,364 common shares and 6,600,000 class B shares (non-voting convertible at 1:1 for common shares upon Class B

shareholders request). Outstanding common shares as of November 23, 2005 increased to 53,361,364 due to the exercise of stock options.

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 which are planned for the fourth quarter in 2005.

As of September 30, 2005 the working capital (current assets minus current liabilities) for the Corporation was \$5,787,601 (was \$1,020,340 as of September 30, 2004).

On October 4, 2004, the Corporation entered into a share purchase agreement to acquire all of the issued and outstanding shares of Stem Cell Therapeutics Inc. ["Stem Cell"] from Transition Therapeutics Inc. ["Transition"], which represents an acquisition of intellectual property. The Corporation agreed to pay Transition an aggregate purchase price of \$3,500,000. The purchase price is payable in installments beginning on closing, October 4, 2004, in the amount of \$325,000, and on the anniversary of closing in each of the following four years in the amount of \$475,000, \$400,000, \$650,000 and \$1,650,000, respectively. Except for the initial payment, all subsequent payments may be made, at the Corporation's election, by either cash or common shares; provided that the Corporation may only elect to issue common shares as payment for the final installment if the common shares are at such time listed and posted for trading on a recognized stock exchange. As of September 30, 2005 the second installment of \$475,000 was paid in cash to Transition. As part of the share purchase agreement, the Corporation is subject to commitments for future royalty payments.

### **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 November 23, 2005 the cumulative gross proceeds raised since inception by the Corporation totaled \$10,003,760.

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 deposits are currently in interest bearing bank accounts.

## **Related Party Transactions**

Pursuant to a sub-lease agreement entered into with LaunchVision Research Inc. (controlled by a former director of the Company), the Corporation incurred rent expense of \$40,848 for the nine month period ended September 30, 2005 and \$13,583 for the three month period then ended, (\$5,947 for the six and three month periods ended September 30, 2004), which is included in general and administration expense. No amount is owing at September 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 Corporation 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 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.