

Financial Statements

**Stem Cell Therapeutics Corp.**

[a development stage company]

December 31, 2005

## AUDITORS' REPORT

To the Shareholders of  
**Stem Cell Therapeutics Corp.**

We have audited the balance sheet of **Stem Cell Therapeutics Corp.** as at December 31, 2005 and the statements of operations and deficit and cash flows for the year ended December 31, 2005, the period from inception on March 31, 2004 to December 31, 2004, and the cumulative period from inception on March 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005, the period from inception on March 31, 2004 to December 31, 2004, and the cumulative period from inception on March 31, 2004 in accordance with Canadian generally accepted accounting principles.

*Ernst + Young LLP*

Calgary, Canada  
February 1, 2006

Chartered Accountants



**Stem Cell Therapeutics Corp.**  
[a development stage company]

**BALANCE SHEETS**

As at December 31

	2005	2004
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash	5,551,187	422,899
Short-term investments	60,000	40,000
Accounts receivable	24,961	14,151
Prepaid expenses	62,315	78,804
	<b>5,698,463</b>	555,854
Property and equipment, net <i>[notes 3 and 8]</i>	97,869	45,150
Intellectual property, net <i>[note 4]</i>	2,129,331	2,371,641
Other non-current assets	3,458	—
	<b>7,929,121</b>	2,972,645
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	638,446	110,402
Current portion of obligation under share purchase agreement <i>[note 6]</i>	181,746	237,507
Current portion of capital lease obligation <i>[note 8]</i>	9,536	2,803
	<b>829,728</b>	350,712
<b>Long Term Obligations</b>		
Obligation under share purchase agreement <i>[note 6]</i>	1,812,854	1,924,221
Capital lease obligation <i>[note 8]</i>	9,060	2,343
Commitments and contingencies <i>[note 9]</i>		
<b>Shareholders' equity</b>		
Share capital <i>[note 11]</i>	9,061,143	1,490,593
Contributed surplus <i>[note 12]</i>	436,353	154,641
Deficit	(4,220,017)	(949,865)
<b>Total shareholders' equity</b>	<b>5,277,479</b>	695,369
	<b>7,929,121</b>	2,972,645

*See accompanying notes*

On behalf of the Board:

“Ian Brown”  
Director

“Joseph Tucker”  
Director

**Stem Cell Therapeutics Corp.**  
[a development stage company]

**STATEMENTS OF LOSS AND DEFICIT**

	For the Twelve Month Period Ended December 31, 2005 \$	For the period from March 31, 2004 to December 31, 2004 \$	Cumulative from Inception on March 31, 2004 to December 31, 2005 \$
<b>OPERATING EXPENSES</b>			
Research and development costs <i>[note 10]</i>	1,031,320	216,123	1,247,443
Professional fees	366,894	194,396	561,290
Management and consulting fees	307,190	107,738	414,928
General and administration <i>[note 5]</i>	804,486	121,560	926,046
Stock option expense	314,712	174,641	489,353
Deemed interest expense on obligation under share purchase agreement	307,872	75,449	383,321
Amortization of property and equipment	31,444	4,158	35,602
Amortization of intellectual property	242,310	59,638	301,948
<b>Total operating expenses</b>	<b>3,406,228</b>	<b>953,703</b>	<b>4,359,931</b>
<b>Interest income</b>	<b>136,076</b>	<b>3,838</b>	<b>139,914</b>
<b>Net loss for the period</b>	<b>3,270,152</b>	<b>949,865</b>	<b>4,220,017</b>
Deficit, beginning of period	949,865	—	—
<b>Deficit, end of period</b>	<b>4,220,017</b>	<b>949,865</b>	<b>4,220,017</b>
<b>Basic and diluted loss per share <i>[note 13]</i></b>	<b>0.06</b>	<b>0.08</b>	<b>0.12</b>

*See accompanying notes*

**Stem Cell Therapeutics Corp.**  
[a development stage company]

**STATEMENTS OF CASH FLOWS**

	For the Twelve Month Period Ended December 31, 2005 \$	For the period from March 31, 2004 to December 31, 2004 \$	Cumulative from Inception on March 31, 2004 to December 31, 2005 \$
<b>OPERATING ACTIVITIES</b>			
Net loss for the period	(3,270,152)	(949,865)	(4,220,017)
Add items not involving cash			
Stock option expense	314,712	174,641	489,353
Accrued interest expense on obligation under share purchase agreement (note 6)	(5,069)	75,449	70,380
Amortization of property and equipment	31,444	4,158	35,602
Amortization of intellectual property	242,310	59,638	301,948
	(2,686,755)	(635,979)	(3,322,734)
Changes in non-cash working capital items			
Accounts receivable	(8,693)	(14,151)	(22,844)
Prepaid expenses	16,489	(78,804)	(62,315)
Accounts payable and accrued liabilities	528,044	110,402	638,446
<b>Cash used in operating activities</b>	<b>(2,150,915)</b>	<b>(618,532)</b>	<b>(2,769,447)</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of property and equipment	(64,875)	(49,308)	(114,183)
Acquisition of intellectual property	—	(327,000)	(327,000)
Short-term investments	(20,000)	(40,000)	(60,000)
Other non-current assets	(3,458)	—	(3,458)
<b>Cash used in investing activities</b>	<b>(88,333)</b>	<b>(416,308)</b>	<b>(504,641)</b>
<b>FINANCING ACTIVITIES</b>			
(Decrease) increase in capital lease obligation	(7,956)	5,146	(2,810)
Principal settlement of obligation under share purchase agreement (note 6)	(162,058)	—	(162,058)
Issuance of share capital, net of share issue costs	7,537,550	1,452,593	8,990,143
<b>Net cash provided by financing activities</b>	<b>7,367,536</b>	<b>1,457,739</b>	<b>8,825,275</b>
<b>Net increase in cash during the period</b>	<b>5,128,288</b>	<b>422,899</b>	<b>5,551,187</b>
Cash, beginning of period	422,899	—	—
<b>Cash, end of period</b>	<b>5,551,187</b>	<b>422,899</b>	<b>5,551,187</b>
<b>Cash interest paid</b>	<b>314,016</b>	<b>78</b>	<b>314,094</b>

*See accompanying notes*

**Stem Cell Therapeutics Corp.**  
[a development stage company]

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2005 and 2004

### **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**

#### **Basis of presentation**

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows:

#### **Use of estimates**

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may vary from those estimates.

**Stem Cell Therapeutics Corp.**  
[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2005 and 2004

**Short-term investments**

Short-term investments, consisting of guaranteed investment certificates, are liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value with original maturities of less than two years at the time of purchase. Short-term investments serve as collateral for Company credit facilities. These credit facilities do not exceed the value of the short-term investments. The following table shows details of short-term guaranteed investment certificates held at December 31, 2005:

<b>Value</b>	<b>Maturity</b>	<b>Interest</b>
<b>\$</b>	<b>date</b>	<b>rate</b>
20,000	April 6, 2006	1.5%
40,000	August 1, 2006	1.3%

The short-term investments market values at December 31, 2005 approximate their cost.

**Property and equipment**

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Computer equipment	3 years
Computer software	2 years
Office furniture and equipment	5 years

**Intellectual property**

Intellectual property represents the value of patents as of the acquisition date which is amortized on a straight-line basis over its estimated useful life of 10 years.

**Financial instruments**

The Company's financial instruments consist of cash, short-term investments, accounts receivable, accounts payable, capital lease obligations and obligation under share purchase agreement. The carrying value of these financial instruments approximates the fair value due to the short-term nature of the instruments.

**Stem Cell Therapeutics Corp.**  
[a development stage company]

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2005 and 2004

### **Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Foreign denominated transactions are translated at the exchange rates prevailing at the transaction dates.

### **Impairment or disposal of long-lived assets**

The Company tests long-lived assets or asset groups for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. Recoverability is assessed based on the carrying amount of the assets and their net recoverable values, which are generally determined based on undiscounted cash flows expected to result from the use and the eventual disposal of the assets. If the carrying value of the assets is not recoverable, an impairment loss is recognized to write down the assets to their fair value.

### **Income taxes**

The Company follows the liability method of accounting for income taxes. Under the liability method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in income or loss in the year that the income tax rates change occurs.

### **Investment tax credits**

The Company recognizes investment tax credits for qualifying research and development costs when the claim is received. The Company accounts for investment tax credits relating to research and development expenses as a reduction of such expenses and those relating to capital expenditures as a reduction of the cost of the asset acquired. No investment tax credits have been recorded in these financial statements as there is no reasonable assurance of realization.

### **Loss per share**

Basic and diluted net loss per share has been calculated using the weighted-average number of common shares outstanding during the period. Diluted loss per share is calculated in accordance with the treasury stock method. This method assumes that any proceeds from the exercise of stock options would be used to purchase common shares at the average share price during the period.

**Stem Cell Therapeutics Corp.**  
[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2005 and 2004

**Research and development**

Research costs, other than capital expenditures that have alternative uses, are expensed as incurred. Development costs that meet specific criteria related to technical, market and financial feasibility are capitalized. All development costs incurred to date have been expensed.

**Stock-based compensation**

The Company uses the fair value-based method of accounting for all stock-based compensation. The fair value of the stock options is determined using the Black-Scholes option-pricing model. The compensation expense is recognized in the statement of loss using a straight-line method over the vesting period of the stock options.

**3. PROPERTY AND EQUIPMENT**

	2005		
	Cost \$	Accumulated amortization \$	Net book value \$
Computer equipment	89,795	24,824	64,971
Computer software	12,835	4,528	8,307
Office furniture and equipment	30,065	5,474	24,591
	<b>132,695</b>	<b>34,826</b>	<b>97,869</b>

  

	2004		
	Cost \$	Accumulated amortization \$	Net book value \$
Computer equipment	27,052	1,978	25,074
Computer software	4,721	504	4,217
Office furniture and equipment	17,535	1,676	15,859
	<b>49,308</b>	<b>4,158</b>	<b>45,150</b>

Included in computer equipment are assets under capital lease with a cost of \$27,008 (\$5,603 for 2004), and accumulated amortization of \$7,316 (\$679 for 2004).

**Stem Cell Therapeutics Corp.**  
[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2005 and 2004

**4. INTELLECTUAL PROPERTY**

	2005		
	Cost	Accumulated amortization	Net book value
Intellectual property	\$	\$	\$
Owned by the Company	20,000	3,511	16,489
Subject to purchase commitments <i>[note 6]</i>	2,411,279	298,437	2,112,842
	<b>2,431,279</b>	<b>301,948</b>	<b>2,129,331</b>

  

	2004		
	Cost	Accumulated amortization	Net book value
Intellectual property	\$	\$	\$
Owned by the Company	20,000	1,503	18,497
Subject to purchase commitments <i>[note 6]</i>	2,411,279	58,135	2,353,144
	<b>2,431,279</b>	<b>59,638</b>	<b>2,371,641</b>

A portion of the intellectual property was acquired during 2004 for \$20,000 which represents the fair value of the intellectual property acquired and was paid through the issuance of 3,636,364 Common shares with a value of \$18,000 and a \$2,000 cash payment.

**5. RELATED PARTY TRANSACTIONS**

Pursuant to a sub-lease agreement entered into with LaunchVision Research Inc. (controlled by a former director of the Company), the Company incurred rent expense of \$54,470 (\$19,530 for 2004) which is included in general and administration expense. No amount is owing at December 31, 2005 or December 31, 2004. This transaction was recorded at its exchange amounts, and took place in the normal course of business. This sublease has expired and the Company entered into a new lease contract with the premises owner.

**Stem Cell Therapeutics Corp.**  
[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2005 and 2004

**6. OBLIGATION ON SHARE PURCHASE AGREEMENT**

On October 4, 2004, the Company entered into a share purchase agreement to acquire all of the issued and outstanding shares of Stem Cell Therapeutics Inc. ["SCT Inc."] from Transition Therapeutics Inc. ["Transition"], which represents an acquisition of intellectual property. The Company 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 Company's election, by either cash or common shares; provided that the Company 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. On closing, the certificates representing the SCT Inc. shares were placed in escrow subject to the payment in full of the purchase price. Payment for 2005 was made in cash rather than by issuing Company's shares. As part of the share purchase agreement, the Company is subject to commitments for future royalty payments [see note 9[c]].

The Chairman and Chief Executive Officer of Transition was a director of the Company during 2005.

As the Company has use of the intellectual property during the installment period, the commitment to acquire SCT Inc. has been recorded as a liability based on the discounted present value of the purchase installments. The current and long-term portions of the obligation as of December 31, 2004 and December 31, 2005 were calculated as follows:

	<b>2005</b>
	\$
2006	400,000
2007	650,000
2008	1,650,000
	2,700,000
Less amount representing deemed interest at 15%	775,780
	1,924,220
Less current portion of obligation principal	111,366
Long term portion	1,812,854

**Stem Cell Therapeutics Corp.**  
[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2005 and 2004

Current portion of the obligation under the purchase of SCT Inc. shown on the balance sheet represents the following:

	<b>2005</b>	<b>2004</b>
	\$	\$
Current portion of obligation principal	<b>111,366</b>	162,058
Accrued interest on obligation	<b>70,380</b>	75,449
<b>Total</b>	<b>181,746</b>	237,507

**7. INCOME TAXES**

The reconciliation of income tax attributable to continuing operations computed at the statutory rate to income tax expenses is as follows:

	<b>2005</b>	<b>2004</b>
	\$	\$
Statutory tax rate	<b>33.60%</b>	33.90%
Expected tax recovery	<b>(1,098,771)</b>	(322,004)
Add: non-deductible stock option expense	<b>105,743</b>	59,203
	<b>(993,028)</b>	(262,801)
Valuation allowance	<b>993,028</b>	262,801
<b>Income tax expense</b>	<b>—</b>	<b>—</b>

A valuation allowance is recorded against any future income tax asset if it is not more likely than not that the asset will be realized. Significant components of the Company's future tax assets are as follows:

	<b>2005</b>	<b>2004</b>
	\$	\$
Future tax assets		
Non-capital loss carry forwards	<b>721,006</b>	171,327
Scientific research and experimental development pool	<b>419,141</b>	69,847
Federal investment tax credit carry forwards	<b>249,489</b>	41,208
Tax basis of capital and intangible assets in excess of accounting basis	<b>113,357</b>	21,627
<b>Total future tax assets</b>	<b>1,502,993</b>	304,009
Valuation allowance on future tax assets	<b>(1,502,993)</b>	(304,009)
<b>Net future tax assets</b>	<b>—</b>	<b>—</b>

**Stem Cell Therapeutics Corp.**  
[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2005 and 2004

As at December 31, 2005, the Company has accumulated tax losses for federal and provincial purposes in Canada. The Company also has unclaimed Canadian federal scientific research investment tax credits. The losses and investment tax credits can be used to offset future years' Canadian taxable income, the benefit of which has not been recorded in the accounts. The tax losses and investment tax credits expire as follows:

	<b>Federal</b>	<b>Investment</b>
	\$	tax credits
		\$
2014	505,390	41,208
2015	1,650,545	208,281

**8. CAPITAL LEASE OBLIGATION**

The Company has leased certain assets under capital lease contracts. The lease obligations have no underlying collateral other than the assets in subject. Imbedded interest rates for the capital lease contracts range between 2.6% and 14.6% and expiry dates for the contracts range between July, 2006 and April, 2008. The following schedule details the Company's obligation under those lease contracts:

	\$
2006	9,922
2007	7,514
2008	1,879
	19,315
Less amount representing interest	719
Obligation under capital lease (excluding interest)	18,596
Less current portion	9,536
Non-current portion of obligation under capital lease (excluding interest)	9,060

**Stem Cell Therapeutics Corp.**  
[a development stage company]

## NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

### 9. COMMITMENTS AND CONTINGENCIES

#### [a] Operating leases

The Company entered into a lease contract for the office space which covers a three year period starting January 1, 2006. Annual costs under this contract are limited to an annual rent charge of \$38,780 and annual operating costs estimated to be \$34,154, with a total expected cost of \$218,802 over the next three years.

#### [b] Research contracts

Future expected payments under a research contract with an Alberta-based university, which was renewed on May 1, 2005 and amended to conclude on August 31, 2006, are as follows:

	\$
2006	144,000
Total	144,000

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

	\$ US <sup>(1)</sup>	€ <sup>(2)</sup>
2006	249,600	38,969
Total	249,600	38,969

(1) Exchange rate for the US Dollar as of December 31, 2005 was 1 USD = 1.1630 CAD

(2) Exchange rate for the Euro as of December 31, 2005 was 1 Euro = 1.3805 CAD

#### [c] Contingency

Pursuant to the share purchase agreement from Transition [see note 6], royalty payments may become due and payable in accordance with this agreement upon realization of sales or licensing of patent rights from intellectual property in the Stem Cell Therapeutics Inc. portfolio. When the Company realizes sales of products or processes, a royalty of 2% of net sales will become payable to Transition. In addition, if patent rights are licensed, a royalty of 5% of the consideration for such licenses will become payable.

**Stem Cell Therapeutics Corp.**  
[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2005 and 2004

**10. RESEARCH AND DEVELOPMENT COSTS**

The Company is involved in the research and development of therapeutics involved in the stimulation of stem cells for the treatment of neurological diseases. The following costs have been incurred for research and development work performed to December 31, 2005:

	<b>For the Twelve Month Period Ended December 31, 2005 \$</b>	<b>For the period from March 31, 2004 to December 31, 2004 \$</b>	<b>Cumulative from Inception on March 31, 2004 to December 31, 2005 \$</b>
Preclinical development	<b>338,903</b>	59,038	397,941
Clinical development	<b>214,583</b>	—	214,583
Research	<b>202,174</b>	147,000	349,174
Salaries and bonuses	<b>172,019</b>	10,085	182,104
Other costs	<b>103,641</b>	—	103,641
<b>Research and development costs</b>	<b>1,031,320</b>	216,123	1,247,443

**Stem Cell Therapeutics Corp.**  
[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2005 and 2004

**11. 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.

**[b] Issued and outstanding**

	Number of shares	\$
	#	
<hr/>		
<b><u>Common</u></b>		
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
	18,986,364	1,328,010
Share issue costs	—	(7,417)
<b>Balance, December 31, 2004</b>	<b>18,986,364</b>	<b>1,320,593</b>
<hr/>		
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
Options exercised, October 14, 2005 (vi)	175,000	76,750
	34,375,000	8,581,750
Share Issue Costs	—	(1,006,200)
<b>Balance, December 31, 2005</b>	<b>53,361,364</b>	<b>8,896,143</b>

**Stem Cell Therapeutics Corp.**  
[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2005 and 2004

	Number of shares	\$
	#	
<b><u>Class B</u></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)
<b>Balance, December 31, 2004</b>	<b>6,800,000</b>	<b>170,000</b>
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)
<b>Balance, December 31, 2005</b>	<b>6,600,000</b>	<b>165,000</b>
<b>Share Capital, December 31, 2005</b>	<b>59,961,364</b>	<b>9,061,143</b>

- (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.
- (vi) On October 14, 2005 175,000 options were exercised at a price of \$0.25. Contributed surplus of \$ 33,250 was reclassified to share capital upon exercise of the options.

**Stem Cell Therapeutics Corp.**  
[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2005 and 2004

**[c] Employee stock options**

The following table summarizes the activity of the Company's stock option plan for the year ended:

	December 31, 2005		December 31, 2004	
	Number of Options	Weighted-average exercise price \$	Number of Options	Weighted-average exercise price \$
Outstanding, beginning of period	3,925,000	0.25	—	—
Granted	1,275,000	0.31	4,725,000	0.21
Exercised	175,000	0.25	800,000	0.044
Cancelled	—	—	—	—
Outstanding, end of period	5,025,000	0.27	3,925,000	0.25
Exercisable, at end of period	2,193,750	0.26	3,925,000	0.25

The following table summarizes information about stock options outstanding as at December 31, 2005:

Options outstanding			Options exercisable		
Range of exercise prices \$	Options outstanding #	Weighted-average remaining contractual life	Weighted-average exercise price \$	Options exercisable #	Weighted-average exercise price \$
0.25 - 0.35	5,025,000	4.00 years	0.27	2,193,750	0.26

The fair value of options granted to employees, consultants and directors of the Company during the year ended December 31, 2005 was estimated on the date of grant using the Black Scholes option pricing model with the following assumptions:

	2005 \$	2004 \$
Risk-free interest rate	5%	5%
Volatility	120%	100%
Dividend yield	0%	0%
Expected life	5 years	0.4 - 5 years

**Stem Cell Therapeutics Corp.**  
[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2005 and 2004

Details of stock options granted during 2005 are as follows:

<b>Date Granted</b>	<b>Strike Price</b>	<b>Share Price</b>	<b>Number of Options</b>	<b>Remaining Contractual Life</b>	<b>Calculated value per option</b>	<b>Total Value</b>
Feb-05	\$0.35	\$0.35	800,000	4.12 years	\$0.27	\$216,000 <sup>(1)</sup>
May-05	\$0.25	\$0.25	250,000	4.38 years	\$0.21	\$ 52,500 <sup>(2)</sup>
Jul-05	\$0.25	\$0.25	175,000	4.55 years	\$0.21	\$ 36,750 <sup>(3)</sup>
Sep-05	\$0.25	\$0.25	50,000	4.67 years	\$0.21	\$ 10,500 <sup>(4)</sup>

- (1) 1/36 of the options vest on a monthly basis from February 28, 2005.
- (2) Includes 25,000 options granted to a consultant that vested November 18, 2005, remainder was granted to employees with 1/6 of the options vesting 6 months after grant date and the balance vests over the following 30 months.
- (3) Vested on date of grant.
- (4) 1/6 of the options vest 6 months after grant date, remainder vests over the following 30 months.

**12. CONTRIBUTED SURPLUS**

	<b>2005</b>	<b>2004</b>
	\$	\$
Balance, beginning of year	154,641	—
Stock option expense	314,712	174,641
Exercise of stock options	(33,000)	(20,000)
Balance, end of year	436,353	154,641

**13. LOSS PER COMMON SHARE**

Loss per common share is calculated using the weighted average number of common shares outstanding for the year ended December 31, 2005 of 52,726,926 (2004 – 11,614,727). The Company has excluded all outstanding stock options and Class B shares from the calculation of diluted loss per share because all such securities are considered anti-dilutive.

**Stem Cell Therapeutics Corp.**  
[a development stage company]

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2005 and 2004

### **14. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the current year's presentation.