



STEM CELL
THERAPEUTICS

Stem Cell Therapeutics Corp.

Management Discussion and Analysis
For fiscal year ending December 31st, 2005

Dated: March 22, 2006

Dated March 22, 2006

The following information should be read in conjunction with the Corporation's 2005 audited financial statements and notes thereto, which were prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Where "we", "us", "our", "SCT", "Company" 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.

Certain information contained in management's discussion and analysis of our financial condition and results of our operations constitutes 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. is a biotechnology company focused on the development of a 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 replication of innate adult stem cells 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 brain cells from existing stem cells and functional improvement using our therapeutic approach. Since these tests were completed, we have identified additional agents that may be used for neurogenesis-promoting and from which we have created the NTx™-265 regimen of agents for the treatment of stroke.

As a development stage company, the continuation of 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 decrease significantly or cease.

Achievements during 2005

During 2005 and up to the date of this MD&A, the Company achieved the following significant milestones:

- Successfully closed our Initial Public Offering for gross proceeds of \$8,500,000
- Commenced trading on the TSX-Venture exchange under the ticker symbol SSS.
- Was granted its first United States patent on January 18, 2005.
- Appointed Dr. Alan Moore as Chief Clinical and Regulatory Officer.
- Appointed Dr. Jim DeMesa, President and CEO of Migenix Inc., to the Board of Directors.
- Received approval to initiate, and subsequently commenced, the Phase I clinical trial evaluating the pharmacokinetic profile of the first drug in the NTxTM-265 regimen.

Subsequent to the year end, and up to the date of this MD&A, SCT:

- Appointed Mr. Ian Brown to its Board of Directors.
- Released interim results from a key preclinical study of NTxTM-265 and announced the acceptance for poster presentation of these results at the upcoming European Stroke Conference to be held May 16-19, 2006, in Brussels, Belgium.
- Released positive results from its Phase I clinical trial in support of NTxTM-265 demonstrating that no drug related adverse events were encountered and that both drugs under study were detected in the cerebrospinal fluid following intramuscular administration.

Development Program

Our current therapy under development, NTxTM-265, is based on a novel application of drugs that are currently on the market for other indications, not related to central nervous system diseases. This market advantage is anticipated to decrease development timelines and costs due to the substantial body of existing pre-clinical and human clinical trial information that substantiates both the safety of these drugs.

Components of the NTxTM-265 therapeutic regimen have already undergone clinical trials by the Company in a Phase I clinical trial that was performed in Denmark, with dosing completed in December 2005. This Phase I clinical trial permitted characterization of the relationship between intramuscular administration, passage into blood and subsequent transport into the brain. The study also generated new evidence that the first drug in the NTxTM-265 regimen reaches the brain when administered to human subjects.

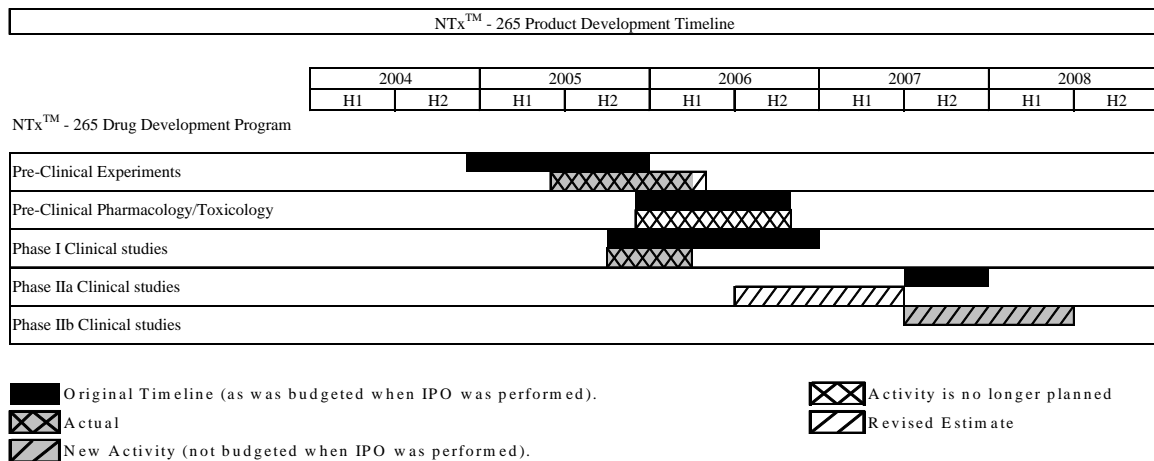
Our next step in the clinical development for NTxTM-265 will be a Phase IIa clinical safety study in stroke. The program will primarily focus on safety assessment in stroke patients and is estimated to commence mid-2006 and run into 2007. The cost of developing NTxTM-265 through the end of 2006 (including early planning and initiation of a Phase IIb multi-centre efficacy study) is estimated at \$3.1 million.

It is a possibility that SCT may discover, in-license, or co-develop new chemical entities (NCE's) with a similar mechanism of action as the on market drugs in the NTxTM-265 therapy. In this case the Company may have to undertake studies that will investigate the pharmacokinetics, toxicology profiles, and manufacturing process of these NCE's.

Lead Program – Stroke

Stroke is the lead disease indication being targeted by the Company’s therapeutic approach. We have chosen stroke as our lead program because it represents both an attractive market opportunity and potentially a viable application for our technology platform.

A human stroke is essentially a heart attack in the brain, in which a reduction in blood flow occurs in certain regions due to a blockage, or bursting of a blood vessel. This interrupted blood flow causes a reduction in oxygen available to affected regions of the brain, and cells located there subsequently die. Normally, following injury, brain tissue does not spontaneously regenerate. Therefore, strokes typically cause irreversible damage. As stroke events can lead to a wide area of dead and damaged neural cells in the patient’s brain, and an associated loss of cognitive function and motor control, they can be extremely serious to those surviving the stroke. However, the regeneration of new, functional brain tissue may lead directly to an improvement in stroke patients’ motor control and thus to improved patient health and quality of life.



Patents and Proprietary Rights

The Company’s NTx™-265 technology was originally developed primarily by Dr. Samuel Weiss at an Alberta-based university. We acquired 100% ownership of this intellectual property from Dr. Weiss and his co-inventors in exchange for 3,636,364 shares in the Company and \$2,000 in cash consideration. The Company was formed specifically to commercialize this technology.

The Company currently owns or has rights to 38 patent applications, and one issued United States patent. In part, these comprise fourteen United States, six European and seven Canadian applications.

Some of these applications were filed by the Company (eight) and the remainder was acquired through acquisition of Stem Cell Therapeutics Inc. which occurred on October 4, 2004 (see “Acquisition of Stem Cell Therapeutics Inc.”). Our intellectual property portfolio covers several methods and treatments for neurological disorders through the

use of approved drugs or other agents in novel combinations. We intend to protect the intellectual property developed by the Company through the filing of patent applications within the appropriate jurisdictions throughout the world.

Additionally, during the term of a research contract with an Alberta-based university and the laboratory of Dr. Weiss, under which we pay consideration to such Alberta-based university, we in turn acquire 100% ownership in any new intellectual property developed by Dr. Weiss and his research group pertaining to the development of novel methods to induce neurogenesis.

Acquisition of Stem Cell Therapeutics Inc.

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. (the “Stem Cell Shares”) from Transition Therapeutics Inc. (“Transition”). Pursuant to this agreement, the Company agreed to pay Transition an aggregate purchase price of \$3,500,000 as consideration for the Stem Cell Shares. The purchase price is payable in installments beginning at closing when the amount of \$325,000 was paid and thereafter payments are required on the anniversary of closing in each of the following four years in the amounts of \$475,000, \$400,000, \$650,000 and \$1,650,000, respectively. Except for the initial payment on closing, all subsequent payments may be made, at the Company’s election, either by cash or through the issuance of 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. At closing, the certificates representing the Stem Cell Shares were placed in escrow subject to the payment in full of the purchase price, such payment being secured by a security agreement.

Dr. Tony Cruz, the Chief Executive Officer of Transition, was appointed to the Company’s board of directors on November 1, 2004 subsequent to the closing of the Stem Cell Therapeutics Inc. acquisition.

On September 30, 2005 we made our second payment in cash to Transition in the amount of \$475,000.

Future milestones (2006)

Some selected upcoming milestones for SCT are:

- Initiate NTx^(TM)-265 Phase IIa single site, open label safety study in mid-2006;
- Initiate NTx^(TM)-265 Phase IIb multi-site, proof of concept study with anticipated completion in 2008; and
- Initiate development of second therapeutic program taking advantage of the Company’s intellectual property portfolio.

Overall performance

During 2005, the Company continued to advance clinical development of its lead product NTxTM-265. SCT had received approval to proceed with a Phase I clinical trial and finished dosing in December 2005. Final data from this clinical trial was released in March of 2006.

The Company's loss for the year ended December 31, 2005 increased by \$2,320,287 to \$3,270,152 from the loss of \$949,865 reported in 2004. The increase in loss is primarily due to increases in research and development costs including our Phase I clinical trial, as well as increases in expanding operations and administration with the required staff for a company in our stage of development. General and administrative expenses also increased due to increased staffing, greater need for office resources, travel and promotional activities, general corporate legal expenses, and increased intellectual property expenses in addition to the effect for operating for a full year in 2005 versus nine months only for 2004. These expenses were partially offset by an increase in interest income. Detailed analysis follows:

- Interest income for 2005 resulted from interest paid on the net cash deposit from our IPO closing, and amounted to \$136,076 compared to \$3,838 for the nine month period ended December 31, 2004.
- The increase in research and development expenses was primarily the result of an increase in NTxTM-265 technology development expenses as the Company prepared for, commenced enrolment, and completed dosing of patients in its Phase I clinical trial. Research and development expenses amounted to \$1,031,320 in 2005, compared to \$216,123 for the nine month period ended December 31, 2004.
- Management and consulting fees in 2005 totaled \$307,190 compared to \$107,738 in 2004. This was due to increased staffing levels over a full year of operations.
- The increase in general and administrative expenses was primarily the result of an increase in regulatory costs, travel and promotional activities, and insurance premiums. These expenses totaled \$804,486 in 2005 compared to \$121,560 for the period nine month ended December 31, 2004.

In upcoming periods, the Company's losses are expected to increase, primarily through increased clinical expenditures as the Company continues the clinical development of the NTxTM-265 product and increases research and development expenditures on other products of interest.

Selected annual information

The following table is a summary of selected audited financial information of the Company for 2005 and 2004:

	December 31, 2005 \$	December 31, 2004 (i) \$
Interest income	136,076	3,838
Net loss (ii)	3,270,152	949,865
Basic and diluted net loss per common share	0.06	0.08
Total assets	7,929,121	2,972,645
Total long-term liabilities	1,821,914	1,926,564

Notes:

- (i) The 2004 operational information covers the period since inception on March 31, 2004 to December 31, 2004.
- (ii) Net loss before discontinued operations and extraordinary items was equivalent to the net loss for such periods.

Annual results – Year ended December 31, 2005 compared to the period since inception on March 31, 2004 to December 31, 2004

Results of Operations

For the year ended December 31, 2005, the Company recorded a net loss of \$3,270,152 (\$0.06 per common share) compared to a net loss of \$949,865 (\$0.08 per common share) for the period since inception on March 31, 2004 to December 31, 2004. This increase is primarily due to the increases in research and development and general and administrative expenses, partially offset by an increase in interest income. Essentially, the 2005 period was one of increased activity and expenditures compared to the 2004 period, which was primarily a time of company start up, and financing activities.

Research and Development

The Corporation's research and development expenses primarily consist of fees paid and accrued to external service providers. All research and development fees are expensed, and total \$1,247,443 since inception. Research and development expenses increased to \$1,031,320 for the fiscal year ended December 31, 2005 from \$216,123 for the nine month period ended December 31, 2004. This increase of \$815,197 was primarily the result of an increase in NTxTM-265 technology development expenses as the Company prepared for, commenced and completed enrolment for its Phase I trial and prepared for a Phase II clinical trial, additions to the Company's product development team and increased contract research validating the Company's lead program.

The following is an analysis of R&D expenses:

	2005	2004	Cumulative since inception
	\$	\$	\$
Preclinical development	338,903	59,038	397,941
Clinical development	214,583	-	214,583
Research	202,174	147,000	349,174
Salaries and bonuses	172,019	10,085	182,104
Other costs	103,641	-	103,641
Research and development expenses	1,031,320	216,123	1,247,443

We expect our research and development expenses to increase significantly over the next few years as our products enter more advanced 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.

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. Since inception, these fees total \$561,290. Professional fees for the year ended December 31, 2005 increased to \$366,894 from \$194,396 for the period since inception on March 31, 2004 to December 31, 2004. This increase of \$172,498 is primarily due to increased patent filing costs due to the advanced stage of our patent portfolio in the patent review system. The following is an analysis of professional fees charges:

	2005	2004	Cumulative since inception
	\$	\$	\$
Auditing and accounting fees	57,537	41,500	99,037
Legal fees – Intellectual property	229,435	85,178	314,613
Legal fees – Other	79,922	67,718	147,640
Total professional fees	366,894	194,396	561,290

The Company anticipates that professional fees will increase during the year 2006 as the Company pursues its program to register and maintain its patents portfolio and due to expected increase in accounting and auditing, legal fees, and regulatory costs.

Management and Consulting Fees

Since inception, management and consulting fees total \$414,928 and account for all management salaries, benefits and payroll taxes. Management and consulting fees increased to \$307,190 for the year ended December 31, 2005 from \$107,738 for the period since inception on March 31, 2004 to December 31, 2004. This increase of \$199,452 is primarily the result of the Company experiencing the first full year of having a full-time, salaried management team.

General and Administration

General and administrative expenses increased to \$804,486 for the year ended December 31, 2005 from \$121,560 for the period since inception on March 31, 2004 to December 31, 2004. This increase of \$682,926 primarily resulted from the increase in salary for staff (\$175,607 in 2005 from \$0 in 2004), investor relations and business development expenses (\$379,247 in 2005 from \$19,868 in 2004) as well as costs incurred in routine administrative activities. Since inception, cumulative general and administration fees total \$926,046.

The Company anticipates that general and administrative expenses will remain steady during 2006 as the Company has developed a fully functional office and plans to continue its considerable corporate development and investor relations activities.

Stock options

Stock option charges since inception total \$489,353. These increased to \$314,712 for the year ended December 31, 2005 from \$174,641 for the period ending December 31, 2004. This increase of \$140,071 primarily resulted from managements efforts to attract management expertise in the clinical development area as well as to strengthen the board of directors and provide compensation packages to management, employees and consultants in line with the market.

The following table summarizes the outstanding granted options under the Corporation's stock option plan as at March 22, 2006. All options have a five year expiry from the date of grant.

Date Granted	Strike Price	Number of Options
November 2004 ⁽ⁱ⁾	\$0.25	3,750,000
February 2005	\$0.35	800,000
May 2005 ⁽ⁱⁱ⁾	\$0.25	225,000
July 2005	\$0.25	175,000
September 2005	\$0.25	50,000
January 9, 2006	\$0.25	175,000

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

(ii) Options granted in May 2005 totaled 250,000. During March, 2006, 25,000 stock options were exercised at \$0.25 per stock option with gross proceeds of \$6,250 and 25,000 common shares issued in exchange.

Intellectual Property

The value of the intellectual property purchased from Transition Therapeutics Inc. on October 4, 2004 (see “Acquisition of Stem Cell Therapeutics Inc.”) was recorded based on the present value of the future payments. 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 December 31, 2005. The Company reviews the valuation of its intellectual property in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). If the result of such review indicates impairment, the Company would assess the fair value of its intellectual property and would record a reduction if the fair value was less than the book value.

SCT was granted its first patent in the United States 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 file patents on all new intellectual property that is developed under the research contract with an Alberta-based university as well as those developed through our contracts with independent contract research organizations.

Amortization

Total amortization charges since inception for the Company are \$337,550. Amortization charges for property and equipment increased to \$31,444 for the year ended December 31, 2005 from \$4,158 for the period since inception on March 31, 2004 to December 31, 2004. This increase of \$27,286 is due to property and equipment additions throughout 2005 and recording amortization for the full year in 2005 versus nine months in 2004.

The Company anticipates that property and equipment amortization charges will remain within the same level during 2006 as there are no plans for major additions to existing property and equipment. All amortization was calculated on a straight-line basis over the estimated useful lives of the assets.

Amortization charge for intellectual property assets increased to \$242,310 for the year ended December 31, 2005 from \$59,638 for the period since inception on March 31, 2004 to December 31, 2004. This increase of \$182,672 primarily reflects the full year effect of intellectual property assets amortization of intellectual property assets carried forward from previous fiscal period. No intellectual property assets additions occurred during 2005.

The Company anticipates that intellectual property assets amortization charges will remain within the same level during 2006 as there are no plans for major additions to existing intellectual property assets. All amortization was calculated on a straight-line basis over the estimated useful lives of the assets.

Revenue

As an early development stage biotechnology company 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.

Interest income for the year ended December 31, 2005 was \$136,076 as compared to \$3,838 for the period since inception on March 31, 2004 to December 31, 2004. This increase of \$132,238 in interest income primarily resulted from higher cash and short-term investment balances during the year ended December 31, 2005 as compared to the fiscal period ended December 31, 2004. Since inception the total interest earned by the Company amounted to \$139,914. In the absence of additional financing, interest income is expected to decrease in fiscal 2006.

Summary of Quarterly Results

The following table is a summary of selected quarterly financial information of the Company for each of the most recently completed quarters.

	<u>As at, and for, the three months ended</u>						
	<u>2005</u>				<u>2004</u>		
	<u>December</u>	<u>September</u>	<u>June</u>	<u>March</u>	<u>December</u>	<u>September</u>	<u>June</u>
Interest income	29,990	34,247	35,917	35,922	1,889	1,949	Nil
Net loss	1,083,608	865,011	725,848	595,685	681,500	149,244	119,121
Basic and diluted loss per common share	0.02	0.02	0.01	0.01	0.01	0.01	0.01
Total assets	7,929,121	8,473,903	9,511,232	10,081,738	2,972,645	1,093,696	546,357
Cash balance	5,551,187	6,084,348	7,061,821	7,599,790	422,899	962,073	525,087
Total long-term debt ⁽ⁱ⁾	1,821,914	1,824,110	1,937,903	1,925,876	1,926,564	2,801	Nil

(i) Includes capital lease obligations and obligation under share purchase agreement

Fourth Quarter

Statement of loss for the three-month period ended December 31, 2005 and 2004

	2005	2004
	\$	\$
OPERATING EXPENSES		
Research and development costs	454,273	111,123
Professional fees	94,771	126,425
Management and consulting fees	112,254	62,368
General and administration	241,524	91,238
Stock option expense	69,470	154,641
Deemed interest expense on obligation under share purchase agreement	70,380	75,449
Amortization of property and equipment	10,140	3,507
Amortization of intellectual property	60,786	58,638
Total operating expenses	1,113,598	683,389
Interest income	29,990	1,889
Net loss for the period	1,083,608	681,500

Results of Operations

For the three-month period ended December 31, 2005, the Company's net loss increased to \$1,083,608 compared to \$681,500 for the three-month period ended December 31, 2004. The significant increases in expenditures are enumerated below:

Research and Development

The Company's research and Development expenses increased to \$454,273 for the three-month period ended December 31, 2005 compared to \$111,123 for the three-month period ended December 31, 2004. This increase reflects the increase in research and development activities for the fourth quarter of 2005. Analysis of the expenses is as follows:

	2005	2004
	\$	\$
Clinical development	90,854	-
Preclinical development	154,974	59,038
Research	75,000	42,000
Salaries and bonuses	72,623	10,085
Other costs	60,822	-
Research and development costs	454,273	111,123

Professional fees

Professional fees for the three-month period ended December 31, 2005 amounted to \$94,771 compared to \$126,425 for the three-month period ended December 31, 2004. Analysis of the expenses is as follows:

	2005	2004
	\$	\$
Auditing and accounting fees	31,758	31,500
Legal fees – Intellectual property	53,770	85,178
Legal fees – Other	9,243	9,747
Total professional fees	94,771	126,425

Management and Consulting Fees

Management and consulting fees for the three-month period ended December 31, 2005 amounted to \$112,254 compared to \$62,368 for the three-month period ended December 31, 2004, this increase is mainly caused by management bonus recorded in the fourth quarter of 2005.

General and Administration

General and administrative expenses amounted to \$241,524 for the three-month period ended December 31, 2005 compared to \$91,238 for the three-month period ended December 31, 2004. This increase reflects the increase in the number of general and administrative employees as well as the increase in investor relations activities for the fourth quarter of 2005.

Stock options

Stock option charges for the three-month period ended December 31, 2005 amounted to \$69,470 compared to \$154,641 for the three-month period ended December 31, 2004. The large expenditure related to the three months ended December 31, 2004 is mainly due to the fact that the Company had been recently established and active directors and management recruitment efforts were ongoing in that period.

Amortization

Amortization charges for property and equipment increased to \$10,140 for the three-month period ended December 31, 2005 compared to \$3,507 for the three-month period ended December 31, 2004. This increase primarily reflects the amortization associated with property and equipment additions throughout 2005.

Amortization charge for intellectual property assets mainly remained constant as no intellectual property assets were added during 2005. Charge amounted to \$60,786 for the three-month period ended December 31, 2005 compared to \$58,638 for the three-month period ended December 31, 2004.

Interest income

Interest income for the three-month period ended December 31, 2005 was \$29,990 as compared to \$1,889 for the three-month period ended December 31, 2004. This increase in interest income primarily resulted from higher cash and short-term investment balances during the fourth quarter of 2005.

Liquidity and Capital Resources

Overview

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 Company's cash and short-term investments were \$5,611,187 at December 31, 2005. The Company currently believes that it has adequate financial resources for anticipated expenditures until mid 2007.

As of December 31, 2005 the working capital (current assets minus current liabilities) for the Corporation was \$4,868,735 (\$205,142 as of December 31, 2004).

Outstanding shares as of December 31, 2005 totaled 53,361,364 common shares and 6,600,000 class B shares. Outstanding shares as of March 22, 2006 are 53,506,364 common and 6,480,000 class B shares.

The Corporation has raised significant operating capital since its inception on March 31, 2004. For the nine-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.

These capital resources have provided the means to advance our lead product NTx™-265 into advanced pre-clinical studies as well as concurrent clinical studies in humans, which were carried out during the fourth quarter of 2005.

Commitments & Contingencies

Pursuant to the share purchase agreement from Transition [see "Acquisition of Stem Cell Therapeutics Inc."], 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.

The Corporation entered into a new lease contract for the office space which covers a three-year period starting January 1, 2006. The Corporation's commitment under the new lease contract for the three years is \$218,802. We will also incur expenses pursuant to service agreements for the next five years for a total of \$1,940 through 2010. In addition, the Corporation will pay \$144,000 during 2006 as well as US \$249,600 and 38,969 Euro in research, preclinical development, and clinical development costs under separate research and development contracts.

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 to \$7,640,453.

As of March 22, 2006 the gross proceeds raised since inception by the Corporation totaled \$10,010,010.

At the time of our Initial Public Offering we expected that approximately \$4.7 million of the proceeds would be used over 2005 and 2006 for research and development focusing on our lead product and out of the remaining \$1.8 million to \$2.8 million will be used for general and administrative expenses including working capital and possible acquisitions of additional technology. Up to December 31, 2005 research and development costs totalled \$1,247,443, intellectual property legal expense totalled \$314,613 and other administrative expenses totalled \$1,340,974.

We currently estimate that cumulative (since inception of the Company) research and development expenditures will increase to \$3.1 million, cumulative intellectual property and legal costs will increase to \$0.8 million, and cumulative administrative costs will increase to \$3.9 million by the end of 2006.

The Corporation's ability to continue operation in the long run 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 is currently in interest bearing Guaranteed Interest Certificates and/or 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 for its premises of \$54,470 for the year ended December 31, 2005, which is included in general and administration expense. Rent charges incurred under this agreement for the period ended December 31, 2004 were \$19,530. No amount is owing at December 31, 2005. This sublease has expired and the Company entered into a new lease contract with the premises owner.

Dr. Tony Cruz, the Chief Executive Officer of Transition, was appointed to the Company's board of directors on November 1, 2004 subsequent to the closing of the Stem Cell Therapeutics Inc. acquisition.

Related party transactions were measured at exchange amounts and were in the ordinary course of business.

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 patent grants in relevant jurisdictions; however, there is no guarantee patents will be granted, and, if granted, 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.

Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer evaluated the Company's disclosure controls and procedures as of December 31, 2005 and have concluded, based on that evaluation, that the Company's disclosure controls and procedures as of such date provide a reasonable level of assurance that material information relating to the Company is disclosed.