



STEM CELL
THERAPEUTICS

Stem Cell Therapeutics Corp.

Interim Unaudited Financial Statements

March 31, 2006

Stem Cell Therapeutics Corp.

Balance Sheets

[a development stage company]

(unaudited)

As at,

| | March 31, 2006 | December 31, 2005 |
|--|-------------------|----------------------|
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash | 4,623,813 | 5,551,187 |
| Short-term investment | 60,000 | 60,000 |
| Accounts receivable | 28,503 | 24,961 |
| Prepaid expenses | 56,829 | 62,315 |
| | 4,769,145 | 5,698,463 |
| Property and equipment, net | 93,368 | 97,869 |
| Intellectual property, net | 2,068,556 | 2,129,331 |
| Other non-current assets | 3,458 | 3,458 |
| | 6,934,527 | 7,929,121 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities | 634,459 | 638,446 |
| Current portion of obligation under share purchase agreement | 252,916 | 181,746 |
| Current portion of capital lease obligation | 8,398 | 9,536 |
| | 895,773 | 829,728 |
| Long Term Obligations | | |
| Obligation under share purchase agreement | 1,812,854 | 1,812,854 |
| Capital lease obligation | 7,321 | 9,060 |
| Commitments and contingencies [note 6] | | |
| Shareholders' equity | | |
| Share capital [note 4] | 9,072,613 | 9,061,143 |
| Contributed surplus [note 5] | 544,597 | 436,353 |
| Deficit | (5,398,631) | (4,220,017) |
| Total shareholders' equity | 4,218,579 | 5,277,479 |
| | 6,934,527 | 7,929,121 |

See accompanying notes

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

(unaudited)

For the three month periods ended,

| | March 31, 2006 | March 31, 2005 | Cumulative from inception on March 31, 2004 to March 31, 2006 |
|--|-------------------|-------------------|---|
| | \$ | \$ | \$ |
| OPERATING EXPENSES | | | |
| Research and development costs <i>[note 3]</i> | 548,102 | 77,209 | 1,795,544 |
| Professional fees | 73,956 | 113,361 | 635,244 |
| Management and consulting fees | 87,013 | 66,573 | 501,941 |
| General and administration | 242,392 | 170,187 | 1,168,439 |
| Stock option expense | 113,464 | 62,520 | 602,818 |
| Deemed interest expense on obligation under share purchase agreement | 71,170 | 77,164 | 454,491 |
| Amortization of property and equipment | 10,474 | 4,637 | 46,076 |
| Amortization of intellectual property | 60,775 | 59,956 | 362,723 |
| Total operating expenses | 1,207,346 | 631,607 | 5,567,276 |
| Interest income | (28,732) | (35,922) | (168,645) |
| Net loss for the period | 1,178,614 | 595,685 | 5,398,631 |
| Deficit, beginning of period | 4,220,017 | 949,865 | - |
| Deficit, end of period | 5,398,631 | 1,545,550 | 5,398,631 |
| Basic and diluted loss per share | 0.02 | 0.01 | 0.15 |

See accompanying notes

Stem Cell Therapeutics Corp.
Statements of Cash Flows
[a development stage company]
(unaudited)

For the three month periods ended,

| | March 31, 2006 | March 31, 2005 | Cumulative from inception on March 31, 2004 to March 31, 2006 |
|--|-------------------|-------------------|---|
| | \$ | \$ | \$ |
| OPERATING ACTIVITIES | | | |
| Net loss for the period | (1,178,614) | (595,685) | (5,398,631) |
| <u>Add items not involving cash</u> | | | |
| Stock option expense | 113,464 | 62,520 | 602,818 |
| Deemed interest expense on obligation under share purchase agreement | 71,170 | 77,164 | 66,100 |
| Amortization of property and equipment | 10,474 | 4,637 | 46,076 |
| Amortization of intellectual property | 60,775 | 59,956 | 362,723 |
| | (922,731) | (391,408) | (4,320,914) |
| Changes in non-cash working capital items | | | |
| Accounts receivable | (3,542) | (41,966) | (12,235) |
| Prepaid expenses | 5,486 | 61,172 | (70,980) |
| Accounts payable and accrued liabilities | (3,987) | 71,980 | 709,909 |
| Cash used in operating activities | (924,774) | (300,222) | (3,694,220) |
| INVESTING ACTIVITIES | | | |
| Acquisition of property and equipment | (5,974) | (16,001) | (120,158) |
| Acquisition of intellectual property | - | - | (327,000) |
| Short term Investment | - | - | (60,000) |
| Other non-current assets | - | - | (3,458) |
| Cash used in investing activities | (5,974) | (16,001) | (510,616) |
| FINANCING ACTIVITIES | | | |
| Decrease in capital lease obligation | (2,876) | (686) | (5,686) |
| Settlement of long term obligation under share purchase agreement | - | - | (162,058) |
| Issuance of share capital, net of share issue costs | 6,250 | 7,493,800 | 8,996,393 |
| Net cash provided by financing activities | 3,374 | 7,493,114 | 8,828,649 |
| Net (decrease) increase in cash during the period | (927,374) | 7,176,891 | 4,623,813 |
| Cash, beginning of period | 5,551,187 | 422,899 | |
| Cash, end of period | 4,623,813 | 7,599,790 | 4,623,813 |

Stem Cell Therapeutics Corp.
NOTES TO FINANCIAL STATEMENTS

March 31, 2006 (*unaudited*)

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. ACCOUNTING POLICIES

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles and do not include all of the disclosures included in the Company's annual financial statements. Accordingly, these unaudited interim financial statements should be read in conjunction with the Company's most recent annual financial statements. The information as at and for the year ended December 31, 2005 has been derived from the Company's audited financial statements.

The accounting policies used in the preparation of these unaudited interim financial statements conform with those used in the Company's most recent annual financial statements.

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.

| | Three Month Period Ended March 31, 2006 \$ | Three Month Period Ended March 31, 2005 \$ | Cumulative from Inception on March 31, 2004 to December 31, 2005 \$ |
|--|--|---|--|
| Clinical development | 175,422 | - | 390,005 |
| Preclinical development | 141,508 | 30,409 | 539,449 |
| Research | 81,489 | 21,000 | 430,663 |
| Salaries and bonuses | 85,311 | 25,800 | 267,415 |
| Other (consultants, travel, conferences) | 64,372 | - | 168,012 |
| Research and development costs | 548,102 | 77,209 | 1,795,544 |

All research and development costs incurred to date have been expensed. No revenue has been earned from commercialization of the Company's technology.

Stem Cell Therapeutics Corp.
NOTES TO FINANCIAL STATEMENTS
March 31, 2006 *(unaudited)*

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.

[b] Issued and outstanding

| | Number of shares | |
|--|-----------------------------|------------------|
| | # | \$ |
| <u>Common</u> | | |
| 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) |
| 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 |
| Options exercised, October 14, 2005 (vi) | 175,000 | 76,750 |
| | 34,375,000 | 8,581,750 |
| Share Issue Costs | - | (1,006,200) |
| Balance, December 31, 2005 | 53,361,364 | 8,896,143 |
| Conversion of Class B to Common, January 11, 2006 (vii) | 120,000 | 3,000 |
| Options exercised, March 21, 2006 (viii) | 25,000 | 11,470 |
| Balance, March 31, 2006 | 53,506,364 | 8,910,613 |
| <u>Class B</u> | | |
| 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) |
| 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) |
| Balance, December 31, 2005 | 6,600,000 | 165,000 |
| Conversion of Class B to Common, January 11, 2006 (vii) | (120,000) | (3,000) |
| Balance, March 31, 2006 | 6,480,000 | 162,000 |
| Share Capital, March 31, 2006 | 59,986,364 | 9,072,613 |

Stem Cell Therapeutics Corp.
NOTES TO FINANCIAL STATEMENTS
 March 31, 2006 (*unaudited*)

- (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.
- (vii) On January 11, 2006 120,000 Class B shares were converted to 120,000 Common shares on a one for one basis.
- (viii) On March 21, 2006 25,000 options were exercised at a price of \$0.25. Contributed surplus of \$5,220 was reclassified to share capital upon exercise of the options.

[c]Employee stock options

The following table summarizes the activity of the Company's stock option plan for the three months ended March 31, 2006:

| | March 31, 2006 | |
|--------------------------------------|----------------------|---|
| | Number of Options | Weighted- average exercise price \$ |
| Outstanding, January 1, 2006 | 5,025,000 | 0.27 |
| Granted | 175,000 | 0.25 |
| Exercised | (25,000) | 0.25 |
| Cancelled | — | — |
| Outstanding, end of period | 5,175,000 | 0.27 |
| Exercisable, at end of period | 2,704,167 | \$0.26 |

The fair value of options granted to employees, consultants and directors of the Company during the three months ended March 31, 2006 was estimated on the date of grant using the Black Scholes option pricing model with the following assumptions:

| | |
|-------------------------|---------|
| Risk-free interest rate | 5% |
| Volatility | 151% |
| Dividend yield | 0% |
| Expected life | 5 years |

Stem Cell Therapeutics Corp.
NOTES TO FINANCIAL STATEMENTS
March 31, 2006 (*unaudited*)

5. Contributed Surplus

The following table summarizes the change in contributed surplus for the three month period ended March 31, 2006:

| | Balance as at March 31, 2006 \$ |
|----------------------------|--|
| Balance, beginning of year | 436,353 |
| Stock option expense | 113,464 |
| Exercise of stock options | (5,220) |
| Balance end of period | 544,597 |

6. Commitments

[a] Operating leases

The Company leases its office space under contract which covers a three year period effective from 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 \$200,569 over the remainder of the contract life.

[b] Research contracts

Expected charges in 2006 under a research contract with an Alberta-based university amount to \$69,000. Expected 2006 and 2007 charges related to contracts that the Company entered into with research organizations based in the United States of America totaling US\$635,050 ⁽¹⁾.

(1) Exchange rate for the US Dollar as of March 31, 2006 was 1 USD = 1.1676 CAD

7. COMPARATIVE FIGURES

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