



STEM CELL  
THERAPEUTICS

**Stem Cell Therapeutics Corp.**

Management Discussion and Analysis  
First Quarter Ended March 31, 2006

Dated: May 10, 2006

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The following information should be read in conjunction with the Corporation's unaudited financial statements as at and for the three months ended March 31, 2006 and 2005, and should also be read in conjunction with the audited financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") contained in the Corporation's annual report for the year ended December 31, 2005.

The financial statements have been 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 including the Corporation's most recently filed Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **FORWARD-LOOKING STATEMENTS**

Certain information contained in management's discussion and analysis of our financial condition and results of our operations constitute forward looking statements. Forward-looking statements are identified by words such as "expect", "believe", "intend", "anticipate", "will", "may", or other similar expressions. 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. Such risks and uncertainties include, but are not limited to, uncertainties related to the research and development of pharmaceuticals, the difficulty of predicting regulatory approvals, acceptance and demand for new pharmaceutical products, the impact of competitive products and pricing, the Corporation's ability to finance, manufacture and commercialize its products, the protection of intellectual property and any other similar or related risks and uncertainties.

### **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.

### **Review of Operations**

Net loss for the three month period ended March 31, 2006 was \$1,178,614 or \$0.02 per common share for the period compared to \$595,685 or \$0.01 for the first quarter of 2005. The increase in the Corporation's net loss amounting to \$582,929 mainly reflects the increase in research and development costs (increased by \$470,893 accounting for 81% of the total increase in net loss) as well as other cost items as detailed below.

### **Research and Development**

The majority of the Corporation's research and development expenses consist 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 with absolute certainty the specific timing and future costs of our research and development programs.

The Corporation has contracts with several research organizations in Canada, the United States of America and in Europe to further develop stem cell related therapies. For the three months ended March 31, 2006, the total research and development charge was \$548,102 compared to \$77,209 for the three month period ended March 31, 2005. The increase between the two periods is mainly a function of the increased research and development activities of the Corporation.

The following analysis details costs for the two periods:

	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
<b>Research and development costs</b>	<b>548,102</b>	<b>77,209</b>	<b>1,795,544</b>

Regarding NTx<sup>TM</sup>-265, our lead product candidate, we plan to continue with pre-clinical studies in 2006. Concurrently with these advanced pre-clinical studies, a Phase IIa clinical safety study with NTx<sup>TM</sup>-265 in stroke patients was initiated at the end of April, 2006.

We currently estimate that cumulative (since inception of the Corporation) research and development expenditures will increase to \$3.1 million by the end of 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 accounting and audit services. Professional fees for the three months ended March 31, 2006 amounted to \$73,956 compared to \$113,361 for the three months ended March 31, 2005. This change is mainly due to higher professional and legal fees in the first quarter of 2005 as the Corporation had higher intellectual property related costs and general legal costs.

### **Management and Consulting Fees**

Management and consulting fees for the three months ended March 31, 2006 totaled \$87,013 compared to \$66,573 for the three months ended March 31, 2005. The increase is mainly due to an increase in management compensation between the two periods.

### **General and Administration (G&A)**

G&A expense, for the three months ended March 31, 2006 were \$242,392 compared to \$170,187 for the three months ended March 31, 2005 representing

an increase of \$72,205. This increase is mainly due to an increase in the number of administrative staff and salary increases, additional printing costs of the annual report for 2005, and an increase in lease charges for the office space for the Corporation.

### **Stock options**

Stock options expense for the three month period ended March 31, 2006 amounted to \$113,464 compared to \$62,520 for the three month period ended March 31, 2005. The increase is mainly a result of stock options granted to a new director of the Corporation which vested at the grant date as well as other stock options granted after March, 2005 for which costs are spread into the first quarter of 2006.

### **Intellectual Property**

The value of the intellectual property purchased from Transition Therapeutics Inc. on October 4, 2004 was recorded based on the present value of the purchase price amortized over a 10 year period at 15% as an intellectual property asset. The current and long term portions of the corresponding purchase liability as well as the deemed interest expense were recorded accordingly at the end of March 31, 2006.

The change in the net intellectual property balance from the period ended March 31, 2005 is due to the amortization assessed for the first quarter ended March 31, 2006.

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 that developed through our contracts with independent contract research organizations.

### **Amortization**

Amortization of property and equipment over the three months ended March 31, 2006 was \$10,474 compared to \$4,637 for the three month period ended March 31, 2005. This increase was primarily due to new assets added and amortized over the period. 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 is amortized over a 10 year period using a straight line basis. The accumulated amortization for intellectual property amounted to \$60,775 for the three months ended March 31, 2006.

## 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. Revenues to date include only interest income generated on our cash balances. For the three months ended March 31, 2006, interest income accrued and received amounted to \$28,732 compared to \$35,922 for the three months ended March 31, 2005. The decrease is due to lower cash balances invested in interest bearing accounts or guaranteed investment certificates.

## Summary of Quarterly Results

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

As at, and for, the three months ended  
(all amounts in dollars)

	2006	2005				2004		
	March	December	September	June	March	December	September	June
Revenue(1)	28,732	29,990	34,247	35,917	35,922	1,889	1,949	Nil
Net loss	1,178,614	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	0.02	0.01	0.01	0.01	0.01	0.01
Total assets	6,934,528	7,929,121	8,473,903	9,511,232	10,081,738	2,972,645	1,093,696	546,357
Cash balance	4,623,813	5,551,187	6,084,348	7,061,821	7,599,790	422,899	962,073	525,087
Total long-term debt(2)	1,820,175	1,821,914	1,824,110	1,937,903	1,925,876	1,926,564	2,801	Nil

(1) Interest income on cash balances

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

(3) The Corporation has not declared or paid any dividends since incorporation.

The quarterly results of the Corporation reflect the increase in net losses and decrease in cash balances between the periods as the Corporation continues its preclinical and clinical development activities, and incurs administrative costs to sustain these activities.

## 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 commitments include the lease for its office space 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. Also, expected charges within 2006 under a research contract with an Alberta-based university amount to \$69,000, and expected in 2006 and 2007 are charges related to contracts that the company entered into with research organizations based in the United States of America total USD 635,050.

The Corporation's cash and short-term investments were \$4,683,813 at March 31, 2006. The Corporation currently believes that it has adequate financial resources for anticipated expenditures until mid 2007.

As of March 31, 2006 the working capital (current assets minus current liabilities) for the Corporation was \$3,873,371 (\$7,213,681 as of March 31, 2005).

Outstanding shares as of March 31, 2006 totaled 53,506,364 common shares and 6,480,000 class B shares. Outstanding shares as of May 10, 2006 are 53,681,364 common and 6,480,000 class B shares. Outstanding and exercisable options as at March 31, 2006 total 5,175,000 and 2,704,167 respectively.

### **Financing Activities**

During the three month period ending March 31<sup>st</sup>, 2006, SCT raised gross proceeds of \$6,250 from the issuance of common shares resulting from the conversion of stock options into common shares. Subsequent to May 10, 2006 additional proceeds of \$43,750 were received due to the issuance of common shares resulting from the conversion of stock options into common shares.

As of May 10, 2006 the gross proceeds raised since inception by the Corporation totaled \$10,053,760.

The Corporation's ability to continue operations in the long term 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 Investment Certificates, interest-bearing and non interest-bearing bank accounts.

## **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 that it has filed as well as others 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.