



STEM CELL
THERAPEUTICS

Stem Cell Therapeutics Corp.

Interim Unaudited Financial Statements

June 30, 2006

Stem Cell Therapeutics Corp.**Balance Sheets**

[a development stage company]

(Unaudited)

As at,

	June 30, 2006	December 31, 2005
	\$	\$
ASSETS		
Current		
Cash	3,045,722	5,551,187
Short-term investment	60,382	60,000
Accounts receivable	17,308	24,961
Prepaid expenses	548,533	62,315
	3,671,945	5,698,463
Property and equipment, net	83,128	97,869
Intellectual property, net	2,007,775	2,129,331
Other non-current assets	3,458	3,458
	5,766,306	7,929,121
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	462,149	638,446
Current portion of obligation under share purchase agreement	324,877	181,746
Current portion of capital lease obligation	7,712	9,536
	794,738	829,728
Long Term Obligations		
Obligation under share purchase agreement	1,812,854	1,812,854
Capital lease obligation	5,537	9,060
Commitments and contingencies <i>[note 6]</i>		
Shareholders' Equity		
Share capital <i>[note 4]</i>	9,149,613	9,061,143
Contributed surplus <i>[note 5]</i>	569,499	436,353
Deficit	(6,565,935)	(4,220,017)
Total Shareholders' Equity	3,153,177	5,277,479
	5,766,306	7,929,121

See accompanying notes

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

(Unaudited)

For the period ended,

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005	Cumulative from Inception on March 31, 2004 to June 30, 2006
	\$	\$	\$	\$	\$
OPERATING EXPENSES					
Research and development costs <i>[note 3]</i>	536,458	153,686	1,084,560	230,894	2,332,002
Professional fees	57,665	116,066	131,619	229,427	692,909
Management and consulting fees	90,887	67,905	177,900	134,478	592,828
General and administration	301,738	207,063	544,130	377,250	1,470,177
Stock option expense	58,152	70,622	171,616	133,142	660,970
Deemed interest expense on obligation under share purchase agreement	71,961	78,021	143,130	155,185	526,452
Amortization of property and equipment	10,966	7,620	21,441	12,257	57,042
Amortization of intangibles	60,780	60,782	121,556	120,738	423,503
Total Operating Expenses	1,188,607	761,765	2,395,952	1,393,371	6,755,883
Interest income	21,303	35,917	50,034	71,838	189,948
Net loss for the period	1,167,304	725,848	2,345,918	1,321,533	6,565,935
Deficit beginning of period	5,398,631	1,545,550	4,220,017	949,865	-
Deficit, end of period	6,565,935	2,271,398	6,565,935	2,271,398	6,565,935
Basic and diluted loss per share	0.02	0.01	0.04	0.02	0.17

See accompanying notes

Stem Cell Therapeutics Corp.**Statements of Cash Flows**

[a development stage company]

(Unaudited)

For the period ended,

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005	Cumulative from Inception on March 31, 2004 to June 30, 2006
	\$	\$	\$	\$	\$
OPERATING ACTIVITIES					
Net loss for the period	(1,167,304)	(725,848)	(2,345,918)	(1,321,533)	(6,565,935)
<u>Add items not involving cash</u>					
Stock option expense	58,152	70,622	171,616	133,142	660,970
Deemed interest expense on obligation under share purchase agreement	71,961	78,021	143,130	155,185	213,510
Amortization of property and equipment	10,966	7,620	21,441	12,257	57,042
Amortization of intangibles	60,780	60,782	121,556	120,738	423,503
	(965,445)	(508,803)	(1,888,175)	(900,211)	(5,210,910)
Changes in non-cash working capital items					
Accounts receivable	11,195	32,628	7,653	(9,338)	(15,190)
Prepaid expenses	(491,704)	(2,500)	(486,218)	58,672	(548,534)
Accounts payable and accrued liabilities	(172,311)	(12,282)	(176,297)	59,698	462,149
Cash used in operating activities	(1,618,265)	(490,957)	(2,543,037)	(791,179)	(5,312,485)
INVESTING ACTIVITIES					
Acquisition of property and equipment	(724)	(45,994)	(6,699)	(61,995)	(120,882)
Acquisition of intangibles	-	-	-	-	(327,000)
Short term investment	(382)	(20,000)	(382)	(20,000)	(60,382)
Other non-current assets	-	-	-	-	(3,458)
Cash used in investing activities	(1,106)	(65,994)	(7,081)	(81,995)	(511,722)
FINANCING ACTIVITIES					
Net increase (decrease) in capital lease obligation	(2,470)	18,982	(5,347)	18,296	(8,156)
Settlement of long term obligation under share purchase agreement	-	-	-	-	(162,058)
Issuance of share capital, net of share issue costs	43,750	-	50,000	7,493,800	9,040,143
Shareholder loan					
Net cash provided by financing activities	41,280	18,982	44,653	7,512,096	8,869,929
Net increase (decrease) in cash during the period	(1,578,091)	(537,969)	(2,505,465)	6,638,922	3,045,722
Cash, beginning of period	4,623,813	7,599,790	5,551,187	422,899	-
Cash, end of period	3,045,722	7,061,821	3,045,722	7,061,821	3,045,722

Stem Cell Therapeutics Corp.**Statements of Cash Flows (continued)**

[a development stage company]

(Unaudited)

For the period ended,

Interest and income taxes paid and classified as operating activities are as follows:

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005	Cumulative from Inception on March 31, 2004 to June 30, 2006
	\$	\$	\$	\$	\$
Interest paid on obligation on share purchase agreement (payable annually on October 4th)	0	0	0	0	312,942
Income taxes	0	0	0	0	0

Stem Cell Therapeutics Corp.
NOTES TO FINANCIAL STATEMENTS

June 30, 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 are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP), 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 June 30, 2006 \$	Three Month Period Ended June 30, 2005 \$	Six Month Period Ended June 30, 2006 \$	Six Month Period Ended June 30, 2005 \$	Cumulative from Inception on March 31, 2004 to June 30, 2006 \$
Clinical development	145,899	-	321,322	-	535,904
Preclinical development	155,861	45,607	297,369	76,015	695,310
Research	61,325	28,000	142,813	49,000	491,987
Salaries and bonuses	94,668	32,342	194,532	58,142	362,083
Consulting fees	35,270	47,737	59,271	47,737	179,130
Other costs (travel and conferences)	43,435	-	69,253	-	67,588
Research and development costs	536,458	153,686	1,084,560	230,894	2,332,002

Stem Cell Therapeutics Corp.
NOTES TO FINANCIAL STATEMENTS

June 30, 2006 (*unaudited*)

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

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	\$
Common		
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
Options exercised, April 26, 2006 (ix)	175,000	77,000
Balance, June 30, 2006	53,681,364	8,987,613

Stem Cell Therapeutics Corp.
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 *(unaudited)*

Class 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)
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, June 30, 2006	6,480,000	162,000
Share Capital, June 30, 2006	60,161,364	9,149,613

(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.

(ix) On April 26, 2006, 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.
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 *(unaudited)*

[c]Employee stock options

The following table summarizes the activity of the Company's stock option plan for the 6 months ended June 30, 2006:

	Number of Options	Weighted- average exercise price \$
Outstanding, January 1, 2006	5,025,000	0.27
Granted	175,000	0.25
Exercised	200,000	0.25
Cancelled	200,000	0.25
Outstanding, end of period	4,800,000	0.27
Exercisable, at end of period	2,813,194	0.25

The fair value of options granted during the six months period ended June 30, 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

The options have been allocated pursuant to a new 10% rolling stock option plan which was approved by the Company's shareholders at its annual general meeting held on May 9, 2006. Pursuant to the new stock option plan, the Company may grant stock options to purchase up to an aggregate of 10% of the Company's issued and outstanding common share capital. As of June 30, 2006 the Company is entitled to issue an additional 568,136 stock options under this plan.

5. Contributed Surplus

The following table summarizes the change in contributed surplus for the periods ending June 30, 2006 and December 31, 2005:

	6 months ended June 30, 2006 \$	Year ended December 31, 2005 \$
Balance, beginning of period	436,353	154,641
Stock option expense	171,616	314,712
Exercise of stock options	(38,470)	(33,000)
Balance end of period	569,499	436,353

Stem Cell Therapeutics Corp.
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 (*unaudited*)

6. Commitments and Contingencies

[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 \$182,335 over the remainder of the contract life.

[b] Research contracts

Expected charges for the remainder of 2006 under a research contract with an Alberta-based university amount to \$22,000.

7. COMPARATIVE FIGURES

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