



STEM CELL

THERAPEUTICS

Stem Cell Therapeutics Corp.

Interim Unaudited Financial Statements

September 30, 2006

Stem Cell Therapeutics Corp.**Balance Sheets**

[a development stage company]

(Unaudited)(see Note 1 – *DESCRIPTION OF BUSINESS AND GOING CONCERN UNCERTAINTY*)

As at,

	September 30, 2006	December 31, 2005
	\$	\$
ASSETS		
Current		
Cash	1,600,612	5,551,187
Short-term investment	60,902	60,000
Accounts receivable	18,354	24,961
Prepaid expenses	358,683	62,315
	2,038,551	5,698,463
Property and equipment, net	72,033	97,869
Intellectual property, net	1,946,989	2,129,331
Other non-current assets	3,458	3,458
	4,061,031	7,929,121
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	316,443	638,446
Current portion of obligation under share purchase agreement	378,072	181,746
Current portion of capital lease obligation	7,027	9,535
	701,542	829,728
Long Term Obligations		
Obligation under share purchase agreement	1,434,782	1,812,854
Capital lease obligation	3,753	9,059
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>	635,751	436,353
Deficit	(7,864,410)	(4,220,017)
Total Shareholders' Equity	1,920,954	5,277,480
	4,061,031	7,929,121

See accompanying notes

On behalf of the Board:

Stem Cell Therapeutics Corp.**Statement of Loss and Deficit***(Unaudited)*

(see Note 1 – DESCRIPTION OF BUSINESS AND GOING CONCERN UNCERTAINTY)

For the period ended,

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005	Cumulative from Inception on March 31, 2004 to September 30, 2006
	\$	\$	\$	\$	\$
OPERATING EXPENSES					
Research and development costs <i>[note 3]</i>	693,630	346,152	1,778,190	577,047	3,025,632
Professional fees	138,308	42,695	269,928	272,122	831,217
Management and consulting fees	79,720	60,458	257,619	194,936	672,548
General and administration	199,427	185,713	743,557	562,962	1,669,604
Stock option expense	66,252	112,099	237,867	245,241	727,222
Deemed interest expense on obligation under share purchase agreement	75,123	82,308	218,254	237,493	601,575
Amortization of property and equipment	11,095	9,047	32,536	21,304	68,137
Amortization of intangibles	60,786	60,786	182,342	181,524	484,290
Total Operating Expenses	1,324,341	899,259	3,720,293	2,292,629	8,080,225
Interest income	25,866	34,247	75,900	106,086	215,815
Net loss for the period	1,298,475	865,011	3,644,393	2,186,543	7,864,410
Deficit beginning of period	6,565,935	2,271,398	4,220,017	949,865	-
Deficit, end of period	7,864,410	3,136,408	7,864,410	3,136,408	7,864,410
Basic and diluted loss per share	0.02	0.02	0.07	0.04	0.19

See accompanying notes

Stem Cell Therapeutics Corp.**Statement of Cash Flows***(Unaudited)*

(see Note 1 – DESCRIPTION OF BUSINESS AND GOING CONCERN UNCERTAINTY)

For the period ended,

	Three Months Ended September 30, 2006 \$	Three Months Ended September 30, 2005 \$	Nine Months Ended September 30, 2006 \$	Nine Months Ended September 30, 2005 \$	Cumulative from Inception on March 31, 2004 to September 30, 2006 \$
OPERATING ACTIVITIES					
Net loss for the period	(1,298,477)	(865,011)	(3,644,395)	(2,186,543)	(7,864,410)
<u>Add items not involving cash</u>					
Stock option expense	66,252	112,099	237,867	245,241	727,220
Deemed interest expense on obligation under share purchase agreement	75,123	82,308	218,254	237,493	601,575
Amortization of property and equipment	11,095	9,047	32,536	21,304	68,137
Amortization of intangibles	60,786	60,786	182,342	181,524	484,289
	(1,085,221)	(600,771)	(2,973,396)	(1,500,981)	(5,983,189)
Changes in non-cash working capital items					
Accounts receivable	(1,046)	335	6,607	(9,003)	(2,086)
Prepaid expenses	189,851	(1,893)	(296,368)	56,779	(372,833)
Accounts payable and accrued liabilities	(145,706)	110,698	(322,003)	170,395	316,443
Cash used in operating activities	(1,042,122)	(491,631)	(3,585,160)	(1,282,810)	(6,041,665)
INVESTING ACTIVITIES					
Acquisition of property and equipment	-	(8,419)	(6,699)	(70,413)	(120,882)
Acquisition of Intangibles	-	-	-	-	(327,000)
Short Term Investment	(520)	-	(902)	(20,000)	(60,902)
Other non-current assets	-	-	-	-	(3,458)
Cash used in investing activities	(520)	(8,419)	(7,601)	(90,413)	(512,242)
FINANCING ACTIVITIES					
Net increase (decrease) in capital lease obligation	(2,469)	(2,424)	(7,814)	15,872	(10,624)
Settlement of long term obligation under share purchase agreement	(111,367)	(162,058)	(111,367)	(162,058)	(273,425)
Interest paid on obligation on share purchase agreement	(288,633)	(312,941)	(288,633)	(312,942)	(601,575)
Issuance of share capital, net of share issue costs	-	-	50,000	7,493,800	9,040,143
Shareholder loan	-	-	-	-	-
Net cash provided by financing activities	(402,469)	(477,423)	(357,814)	7,034,672	8,154,519
Net increase in cash during the period	(1,445,111)	(977,473)	(3,950,575)	5,661,449	1,600,612
Cash, beginning of period	3,045,723	7,061,821	5,551,187	422,899	-
Cash, end of period	1,600,612	6,084,348	1,600,612	6,084,348	1,600,612

Stem Cell Therapeutics Corp.

Statements of Cash Flows (continued)

[a development stage company]

(Unaudited)

(see Note 1 – DESCRIPTION OF BUSINESS AND GOING CONCERN UNCERTAINTY)

For the period ended,

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005	Cumulative from Inception on March 31, 2004 to September 30, 2006
	\$	\$	\$	\$	\$

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

Interest paid on obligation on share purchase agreement	288,633	312,942	288,633	312,942	601,575
Income taxes	0	0	0	0	0

Stem Cell Therapeutics Corp.
NOTES TO FINANCIAL STATEMENTS

September 30, 2006 *(unaudited)*

(see Note 1 – DESCRIPTION OF BUSINESS AND GOING CONCERN UNCERTAINTY)

1. DESCRIPTION OF BUSINESS AND GOING CONCERN UNCERTAINTY

A. 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.

B. Going Concern Uncertainty

The Company's consolidated financial statements have been prepared on the "going concern" basis, which presumes the realization of assets and the discharge of liabilities and commitments in the normal course of business for the foreseeable future. The Company has incurred significant operating losses since its inception and used \$1,042,122 and \$3,585,160 of net cash in operating activities of continuing operations for the three and nine months ended September 30, 2006. The continuation of the company as a going concern is dependent upon its ability to finance its cash requirements, which will allow it to continue its research and development activity and the commercialization of its stem cell related technologies. The outcome of this matter cannot be predicted at this time

These financial statements do not reflect any adjustments that might be necessary should the Company be unable to continue as a going concern.

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 September 30, 2006	Three Month Period Ended September 30, 2005	Nine Month Period Ended September 30, 2006	Nine Month Period Ended September 30, 2005	Cumulative from Inception on March 31, 2004 to September 30, 2006
	\$	\$	\$	\$	\$
Clinical development	85,780	-	407,101	-	621,684
Preclinical development	119,561	205,907	416,930	281,923	814,871
Research	43,187	78,174	186,000	127,174	535,174
Salaries and bonuses	49,930	38,071	158,065	96,213	369,276
Consulting fees	61,256	24,000	206,924	71,737	283,123
Other costs ⁽¹⁾	333,916	0	403,170	-	401,504
Research and development costs	693,630	346,152	1,778,190	577,047	3,025,632

(1) Other costs includes payment related to the cross licensing agreement with Stem Cells Inc.

Stem Cell Therapeutics Corp.
NOTES TO FINANCIAL STATEMENTS

September 30, 2006 *(unaudited)*

(see Note 1 – DESCRIPTION OF BUSINESS AND GOING CONCERN UNCERTAINTY)

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

	#	\$
<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
Options exercised, April 26, 2006 (ix)	175,000	77,000
Conversion of Class B to Common, July 15, 2006 (x)	120,000	3,000
Balance, September 30, 2006	53,801,364	8,990,613
<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)
Conversion of Class B to Common, July 15, 2006 (x)	(120,000)	(3,000)
Balance, September 30, 2006	6,360,000	159,000
Share Capital, September 30, 2006	60,161,364	9,149,613

Stem Cell Therapeutics Corp.
NOTES TO FINANCIAL STATEMENTS

September 30, 2006 *(unaudited)*

(see Note 1 – DESCRIPTION OF BUSINESS AND GOING CONCERN UNCERTAINTY)

- (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.
- (x) On July 15, 2006 120,000 Class B shares were converted to 120,000 Common shares on a one for one basis.

[c]Employee stock options

The following table summarizes the activity of the Company's stock option plan as at September 30, 2006:

	September 30, 2006	
	Number of Options	Weighted- average exercise price
		\$
Outstanding, January 1, 2006	5,025,000	0.27
Granted	350,000	0.25
Exercised	200,000	0.25
Cancelled	375,000	0.25
Outstanding, end of period	4,800,000	0.27
Exercisable, at end of period	2,627,778	0.27

The fair value of options granted during the nine months ended September 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	133% - 151%
Dividend yield	0%
Expected life	5 years

The options have been allocated pursuant to a 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 stock option plan, the Company may grant stock options to purchase up to an aggregate of 10% of the Company's issued and outstanding share capital. As of September 30, 2006 the company is entitled to issue an additional 580,136 stock options under this plan.

Stem Cell Therapeutics Corp.
NOTES TO FINANCIAL STATEMENTS

September 30, 2006 *(unaudited)*

(see Note 1 – DESCRIPTION OF BUSINESS AND GOING CONCERN UNCERTAINTY)

5. Contributed Surplus

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

	Balance as at September 30, 2006 \$	Balance as at December 31, 2005 \$
Balance, beginning of year	436,353	154,641
Stock option expense	237,867	314,712
Exercise of stock options	(38,469)	(33,000)
Balance end of period	635,751	436,353

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 \$164,102 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 \$42,000.

7. COMPARATIVE FIGURES

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