



**STEM CELL**  

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**THERAPEUTICS**

**Stem Cell Therapeutics Corp.**

Audited Financial Statements

For year ending December 31, 2006

## AUDITORS' REPORT

To the Shareholders of  
**Stem Cell Therapeutics Corp.**

We have audited the balance sheets of Stem Cell as at December 31, 2006 and 2005 and the statements of operation and deficit and cash flows for the years ended December 31, 2006 and 2005 and the cumulative period from inception on March 31, 2004. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended and the cumulative period from inception on March 31, 2004 in accordance with Canadian generally accepted accounting principles.

*Ernst + Young LLP*

Calgary, Canada  
March 16, 2007 except as to Note 15  
which is as of March 27, 2007

Chartered Accountants

# Stem Cell Therapeutics Corp.

## Balance Sheets

[a development stage company]

As at,

	December 31, 2006	December 31, 2005
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash	1,037,914	5,551,187
Short-term investment	60,383	60,000
Accounts receivable	20,636	24,961
Prepaid expenses	168,174	62,315
	<b>1,287,107</b>	<b>5,698,463</b>
Property and equipment, net <i>[note 3]</i>	60,938	97,869
Intellectual property, net <i>[note 4]</i>	1,886,203	2,129,331
Other non-current assets	3,458	3,458
	<b>3,237,706</b>	<b>7,929,121</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	426,516	638,446
Current portion of obligation under share purchase agreement <i>[note 5]</i>	444,378	181,746
Current portion of capital lease obligation <i>[note 7]</i>	7,275	9,536
	<b>878,169</b>	<b>829,728</b>
<b>Long Term Obligations</b>		
Obligation under share purchase agreement <i>[note 5]</i>	1,434,786	1,812,854
Capital lease obligation <i>[note 7]</i>	1,831	9,060
Commitments and contingencies <i>[note 8]</i>		
<b>Shareholders' Equity</b>		
Share capital <i>[note 10]</i>	9,149,613	9,061,143
Contributed surplus <i>[note 11]</i>	753,253	436,353
Deficit	(8,979,946)	(4,220,017)
<b>Total Shareholders' Equity</b>	<b>922,920</b>	<b>5,277,479</b>
	<b>3,237,706</b>	<b>7,929,121</b>

*See accompanying notes*

On behalf of the Board:

Ian Brown

Mark Wayne

**Stem Cell Therapeutics Corp.**  
**Statements of Loss and Deficit**

For the period ended,

	Twelve Months Ended December 31, 2006	Twelve Months Ended December 31, 2005	Cumulative from Inception on March 31, 2004 to December 31, 2006
	\$	\$	\$
<b>OPERATING EXPENSES</b>			
Research and development costs <i>[note 9]</i>	2,159,527	1,031,320	3,406,970
Professional fees	469,411	366,894	1,030,701
Management and consulting fees	347,204	307,190	762,132
General and administration	942,775	804,486	1,868,821
Stock option expense <i>[note 10 (c)]</i>	355,370	314,712	844,723
Deemed interest expense on obligation under share purchase agreement	284,564	307,872	667,885
Amortization of property and equipment	43,627	31,444	79,229
Amortization of intellectual property	243,128	242,310	545,076
<b>Total Operating Expenses</b>	<b>4,845,606</b>	<b>3,406,228</b>	<b>9,205,537</b>
Interest income	85,677	136,076	225,591
<b>Net loss for the period</b>	<b>4,759,929</b>	<b>3,270,152</b>	<b>8,979,946</b>
Deficit beginning of period	4,220,017	949,865	-
<b>Deficit, end of period</b>	<b>8,979,946</b>	<b>4,220,017</b>	<b>8,979,946</b>
Basic and diluted loss per share <i>[note 12]</i>	0.09	0.06	0.21

*See accompanying notes*

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

For the period ended,

	Twelve Months Ended December 31, 2006 \$	Twelve Months Ended December 31, 2005 \$	Cumulative from Inception on March 31, 2004 to December 31, 2006 \$
<b>OPERATING ACTIVITIES</b>			
Net loss for the period	(4,759,929)	(3,270,152)	(8,979,946)
<u>Add items not involving cash</u>			
Stock option expense	355,370	314,712	844,723
Accrued interest expense on obligation under share purchase agreement <i>[note 5]</i>	(4,069)	(5,069)	66,311
Amortization of property and equipment	43,627	31,444	79,229
Amortization of intellectual property	243,128	242,310	545,076
	(4,121,873)	(2,686,755)	(7,444,607)
<u>Changes in non-cash working capital items</u>			
Accounts receivable	4,325	(8,693)	(18,519)
Prepaid expenses	(105,859)	16,489	(168,174)
Accounts payable and accrued liabilities	(211,930)	528,044	426,516
<b>Cash used in operating activities</b>	<b>(4,435,337)</b>	<b>(2,150,915)</b>	<b>(7,204,784)</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of property and equipment	(6,696)	(64,875)	(120,879)
Acquisition of intellectual property	-	-	(327,000)
Short-term investments	(383)	(20,000)	(60,383)
Other non-current assets	-	(3,458)	(3,458)
<b>Cash used in investing activities</b>	<b>(7,079)</b>	<b>(88,333)</b>	<b>(511,720)</b>
<b>FINANCING ACTIVITIES</b>			
Net increase (decrease) in capital lease obligation	(9,490)	(7,956)	(12,300)
Settlement of long-term obligation under share purchase agreement	(111,367)	(162,058)	(273,425)
Issuance of share capital, net of share issue costs	50,000	7,537,550	9,040,143
<b>Net cash (used in) provided by financing activities</b>	<b>(70,857)</b>	<b>7,367,536</b>	<b>8,754,418</b>
<b>Net (decrease) increase in cash during the period</b>	<b>(4,513,273)</b>	<b>5,128,288</b>	<b>1,037,914</b>
Cash, beginning of period	5,551,187	422,899	-
<b>Cash, end of period</b>	<b>1,037,914</b>	<b>5,551,187</b>	<b>1,037,914</b>
Cash interest paid	288,633	314,016	602,727

*See accompanying notes*

**Stem Cell Therapeutics Corp.**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2006 and 2005

**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. It will be necessary for the Company to raise additional funds for the continuing development and commercialization of its programs. Should the Company not be able to raise additional funds after the end of the second quarter of 2007, it will be required to curtail some of its research and development activities planned in the third and fourth quarters of 2007, until the necessary funds are available. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation**

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows:

**Use of estimates**

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may vary from those estimates.

Key areas of estimation, where management has made difficult, complex or subjective judgments often as a result of matters that are inherently uncertain are estimated useful lives of depreciable assets and intellectual property and contingent liabilities. Significant changes in the assumptions with respect to the competitive environment could result in impairment of intellectual property.

**Short-term investments**

Short-term investments, consisting of guaranteed investment certificates, are liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, with original maturities of less than two years at the time of purchase. Short-term investments serve as collateral for Company credit facilities. These credit facilities (Company expense cards) do not exceed the value of the short-term investments. The short-term investments market values at December 31, 2006 approximate their cost. The following table shows details of short-term guaranteed investment certificates held at December 31, 2006:

Value \$	Maturity date	Interest rate
20,382	April 6, 2007	2.75%
40,000	August 1, 2007	2.75%

**Stem Cell Therapeutics Corp.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Property and equipment**

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Computer equipment	3 years
Computer software	2 years
Office furniture and equipment	5 years

**Intellectual property**

Intellectual property represents the value of patents as of the acquisition date which is amortized on a straight-line basis over the estimated useful life of 10 years.

**Financial instruments**

The Company's financial instruments consist of cash, short-term investments, accounts receivable, accounts payable, capital lease obligations and obligation under share purchase agreement. The carrying value of these financial instruments approximates the fair value due to the short-term nature of the instruments and due to the fact that for long-term instruments their values are fixed based on contractual agreements and hence non-negotiable.

*Credit risk*

The Company is exposed to credit risk on its short-term investments and accounts receivable in the event of non-performance by counterparties, but does not anticipate such non-performance. The Company mitigates its exposure to credit risk by restricting its short term investments portfolio to guaranteed investment certificates with short term maturities and for accounts receivable by monitoring the credit risk and credit standing of counterparties.

*Interest rate risk*

The Company earns interest on its fixed rate short-term investments and is therefore exposed to interest rate risk from fluctuations in short-term interest rates.

*Foreign exchange risk*

The Company purchases goods and services denominated primarily in Canadian, U.S. and other currencies. To manage its foreign exchange risk, the Company, from time to time, maintains reserve funds denominated in these currencies adequate to meet liabilities arising from the purchase of such goods and services.

**Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the exchange rate prevailing at the balance sheet date. Foreign denominated transactions are translated at the exchange rates prevailing at the transaction dates.

**Impairment of long-lived assets**

The Company tests long-lived assets or asset groups for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. Recoverability is assessed based on the carrying amount of the assets and their net recoverable values, which are generally determined based on undiscounted cash flows expected to result from the use and the eventual disposal of the assets. If the carrying value of the assets is not recoverable, an impairment loss is recognized to write down the assets to their fair value.

**Income taxes**

The Company follows the liability method of accounting for income taxes. Under the liability method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in income or loss in the year that the income tax rates

**Stem Cell Therapeutics Corp.**  
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change occurs.

**Investment tax credits**

The Company recognizes investment tax credits for qualifying research and development costs when the credit is realized. The Company accounts for investment tax credits relating to research and development expenses as a reduction of such expenses and those relating to capital expenditures as a reduction of the cost of the asset acquired. No investment tax credits have been recorded in these financial statements as there is no reasonable assurance of realization.

**Loss per share**

Basic and diluted net loss per share has been calculated using the weighted-average number of common shares outstanding during the period. Diluted loss per share is calculated in accordance with the treasury stock method. This method assumes that any proceeds from the exercise of stock options would be used to purchase common shares at the average share price during the period.

**Research and development**

Research costs, other than capital expenditures that have alternative uses, are expensed as incurred. Development costs that meet specific criteria related to technical, market and financial feasibility are capitalized. All development costs incurred to date have been expensed.

**Stock-based compensation**

The Company uses the fair value-based method of accounting for all stock-based compensation. The fair value of the stock options is determined using the Black-Scholes option-pricing model. The compensation expense is recognized in the statement of loss using a straight-line method over the vesting period of the stock options. Vesting period of the stock options is determined at the discretion of the board and typically involve immediate vesting provisions, or three year vesting provisions.

**3. PROPERTY AND EQUIPMENT**

	2006		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Computer equipment	94,400	56,003	38,397
Computer software	13,600	10,724	2,876
Office furniture and equipment	31,391	11,726	19,665
	139,391	78,453	60,938
	2005		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Computer equipment	89,795	24,824	64,971
Computer software	12,835	4,528	8,307
Office furniture and equipment	30,065	5,474	24,591
	132,695	34,826	97,869

Included in computer equipment are assets under capital lease with a cost of \$27,008 (\$27,008 for 2005 and \$5,603 for 2004), and accumulated amortization of \$16,318 (\$7,316 for 2005, and \$679 for 2004).

**Stem Cell Therapeutics Corp.**  
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**4. INTELLECTUAL PROPERTY**

	2006		
<b>Intellectual property</b>	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
	\$	\$	\$
Owned by the Company	20,000	5,511	14,489
Subject to purchase commitments [note 5]	2,411,279	539,565	1,871,714
	2,431,279	545,076	1,886,203

  

	2005		
<b>Intellectual property</b>	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
	\$	\$	\$
Owned by the Company	20,000	3,511	16,489
Subject to purchase commitments [note 5]	2,411,279	298,437	2,112,842
	2,431,279	301,948	2,129,331

A portion of the intellectual property was acquired on April 1, 2004 for \$20,000 which represents the fair value of the intellectual property acquired and was paid through the issuance of 3,636,364 Common shares with a value of \$18,000 and a \$2,000 cash payment.

**5. OBLIGATION UNDER SHARE PURCHASE AGREEMENT**

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. ["Stem Cell"] from Transition Therapeutics Inc. ["Transition"], which represents an acquisition of intellectual property.

The Company agreed to pay Transition an aggregate purchase price of \$3,500,000. The purchase price is payable in installments beginning on closing, October 4, 2004, in the amount of \$325,000, and on the anniversary of closing in each of the following four years in the amount of \$475,000, \$400,000, \$650,000 and \$1,650,000, respectively. Except for the initial payment, all subsequent payments may be made, at the Company's election, by either cash or 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. On closing, the certificates representing the Stem Cell shares were placed in escrow subject to the payment in full of the purchase price. Until full settlement of the obligation under the share purchase agreement, the Company lacks control over the acquired company's strategic operations and therefore the financial statements of the acquired company were not consolidated into these financial statements. Payments for 2005 and 2006 were made in cash rather than by issuing Company's shares. As part of the share purchase agreement, the Company is subject to commitments for future royalty payments [see note 8[c]].

As the Company has use of the intellectual property during the installment period, the commitment to acquire Stem Cell has been recorded as a liability based on the discounted present value of the purchase installments. The current and long-term portions of the obligation are calculated as follows:

**Stem Cell Therapeutics Corp.**  
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	<b>As of December 31, 2006</b>
	<b>\$</b>
Payment due in October, 2007	650,000
Payment due in September, 2008	1,650,000
	2,300,000
Less amount representing deemed interest at 15%	487,141
	1,812,859
Less current portion of obligation principal	378,073
Long term portion	1,434,786

Current portion of the obligation under the purchase of SCT Inc. shown on the balance sheet represents the following:

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Current portion of obligation principal	378,073	111,366
Accrued interest on obligation	66,305	70,380
Total	444,378	181,746

## 6. INCOME TAXES

Future tax assets are determined based on differences between financial reporting and tax bases of assets and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The reconciliation of income tax attributable to continuing operations computed at the statutory rate to income tax expenses is as follows:

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Statutory tax rate	<b>29.00%</b>	<b>33.60%</b>
Expected tax recovery	(1,380,379)	(1,098,771)
Impact of change in enacted tax rates	205,767	
Add: stock option expense	<b>103,057</b>	<b>105,743</b>
	<b>(1,071,555)</b>	<b>(993,028)</b>
Future tax assets not recorded	<b>1,071,555</b>	<b>993,028</b>
	<b>-</b>	<b>-</b>

A valuation allowance is recorded against any future income tax asset if it is not more likely than not that the asset will be realized. Significant components of the Company's future tax assets as at December 31, 2006 and 2005 are as follows:

**Stem Cell Therapeutics Corp.**  
**NOTES TO FINANCIAL STATEMENTS**  
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	<b>2006</b>	2005
	\$	\$
<b>Future tax assets</b>		
Non-capital loss carry forwards	1,816,458	721,006
Scientific research and experimental development pool	361,758	419,141
Federal investment tax credit carry forwards	249,489	249,489
Carrying value of capital and intangible assets in excess of accounting basis	180,998	113,357
<b>Total future tax assets</b>	<b>2,608,703</b>	<b>1,502,993</b>
Valuation allowance on future tax assets	(2,608,703)	(1,502,993)
<b>Net future tax assets</b>	<b>-</b>	<b>-</b>

As at December 31, 2006, the Company has accumulated tax losses for federal and provincial purposes in Canada. The Company also has unclaimed Canadian federal scientific research investment tax credits. The losses and investment tax credits can be used to offset future years' Canadian taxable income, the benefit of which has not been recorded in the accounts. The tax losses and investment tax credits expire as follows:

	<b>Federal and Provincial</b>	<b>Investment tax credits</b>
	\$	\$
2014	505,390	41,208
2015	1,650,545	208,281
2016	4,117,800	0

For the year 2004, the company has filed its tax return showing net loss for income tax purposes amounting \$970,765, expenditure qualifying under the scientific research and development program amounting \$360,598 and investment tax credits amounting \$72,119.

## 7. CAPITAL LEASE OBLIGATION

The Company has leased certain assets under capital lease contracts. The balance shown on the financial statements relate to one asset only. The lease obligations have no underlying collateral other than the assets in subject. Imbedded interest rate for the capital lease contract is 2.6% and expiry date for the contract is April, 2008. The following schedule details the Company's obligation under the lease contract:

	\$
2007	7,514
2008	1,879
	9,393
Less amount representing interest	287
Obligation under capital lease (excluding interest)	9,106
Less current portion	7,275
Non-current portion of obligation under capital lease (excluding interest)	1,831

## 8. 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 \$145,868 over the remainder of the contract life.

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**[b] Research contracts**

Expected charges within 2007 under a research contract with an Alberta-based university amount to \$112,000.

**[c] Contingency**

Pursuant to the share purchase agreement from Transition [see note 5], 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.

**9. RESEARCH AND DEVELOPMENT PROJECTS**

The Company is involved in the research and development of therapeutics focused on the stimulation of stem cells for the treatment of neurological diseases. The following costs have been incurred for research and development work performed to December 31, 2006:

	<b>2006</b>	<b>2005</b>	<b>Cumulative since inception</b>
	\$	\$	\$
Clinical development	495,197	214,583	829,146
Preclinical development	536,296	338,903	814,871
Research	228,000	202,174	535,174
Salaries and bonuses	208,502	172,019	390,606
Consulting fees	264,426	76,199	340,625
Licensing cost	291,122	-	291,122
Other costs	135,984	27,442	163,426
Research and development costs	2,159,527	1,031,320	3,364,970

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

**10. 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 rateably with the Common shares in the distribution of the Company's assets. Preferred shares have voting rights as decided upon by the Board of Directors at time of grant. Upon dissolution or wind-up of the Company, Preferred shares are entitled to priority over common and Class B shares.

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**NOTES TO FINANCIAL STATEMENTS**  
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**[b] Issued and outstanding**

	Number of shares	\$
<b>Common</b>		
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)
<b>Balance, December 31, 2004</b>	<b>18,986,364</b>	<b>1,320,593</b>
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)
<b>Balance, December 31, 2005</b>	<b>53,361,364</b>	<b>8,896,143</b>
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
	53,801,364	8,990,613
<b>Balance, December 31, 2006</b>	<b>53,801,364</b>	<b>8,990,613</b>
<b>Class B</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)
<b>Balance, December 31, 2004</b>	<b>6,800,000</b>	<b>170,000</b>
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)
<b>Balance, December 31, 2005</b>	<b>6,600,000</b>	<b>165,000</b>
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)
	6,360,000	159,000
<b>Balance, December 31, 2006</b>	<b>6,360,000</b>	<b>159,000</b>
<b>Share Capital, December 31, 2006</b>	<b>60,161,364</b>	<b>9,149,613</b>

(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.

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(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 for the year ended:

	December 31, 2006		December 31, 2005	
	Number of Options	Weighted-average exercise price	Number of Options	Weighted-average exercise price
		\$		\$
<b>Outstanding, January 1, 2006</b>	5,025,000	0.27	3,925,000	0.25
Granted	350,000	0.25	1,275,000	0.31
Exercised	200,000	0.25	175,000	0.25
Cancelled	641,667	0.25	-	-
<b>Outstanding, end of year</b>	4,533,333	0.27	5,025,000	0.27
<b>Exercisable, at end of year</b>	3,225,694	0.27	2,193,750	0.26

The following table summarizes information about stock options outstanding as at December 31, 2006:

Range of exercise prices	Options outstanding			Options exercisable	
	Options outstanding	Weighted-average contractual life	Weighted-average exercise price	Options exercisable	Weighted-average exercise price
	#	in years	\$	#	\$
0.25 - 0.35	4,533,333	2.73	0.27	3,225,694	\$0.27

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

	2006	2005
Risk-free interest rate	5%	5%
Volatility	120 - 133%	120%
Dividend yield	0%	0%
Expected life	5 years	5 years

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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 share capital. As of December 31, 2006 the company is entitled to issue an additional 846,803 stock options under this plan.

Details of stock options granted during 2006 are as follows:

<b>Date Granted</b>	<b>Exercise Price</b>	<b>Share Price at Date of Grant</b>	<b>Number of Options</b>	<b>Expected Life</b>	<b>Value per Share</b>	<b>Total Value</b>
January, 2006	\$0.25	\$0.25	175,000	5 years	\$0.23	\$40,233
September, 2006	\$0.25	\$0.20	175,000	5 years	\$0.17	\$29,750

## 11. Contributed Surplus

The following table summarizes the change in contributed surplus for the years ending December 31:

	<b>2006</b>	<b>2005</b>	<b>March 31, 2004 to December 31, 2004</b>
	\$	\$	\$
Balance, beginning of year	436,353	154,641	-
Stock-based compensation	355,370	314,712	174,641
Exercise of stock options	(38,470)	(33,000)	(20,000)
<b>Balance end of year</b>	<b>753,253</b>	<b>436,353</b>	<b>154,641</b>

## 12. LOSS PER COMMON SHARE

Loss per common share is calculated using the weighted average number of common shares outstanding for the year ended December 31, 2006 of 53,673,419 (2005-52,726,926 and 2004-11,614,727). The Company has excluded all outstanding stock options and Class B shares from the calculation of diluted loss per share because all such securities are considered anti-dilutive.

## 13. SEGMENTED INFORMATION

The Company operates in a single business segment focused on the discovery, development and commercialization of novel therapeutics, substantially all of the Company's operations, assets and employees are located in Canada and the United States.

## 14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

## 15. SUBSEQUENT EVENTS

On February 1, 2007 the Company completed a \$2 million private placement of 10,000,000 units, each unit consisting of one common share and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share for \$0.25 until February 1, 2009.

On March 27, 2007 the Company completed a \$2 million private placement of 4,000,000 units, each unit consisting of one common share and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share for \$0.75 for the first year following closing and at \$1.00 for the second year following closing.