



STEM CELL  

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THERAPEUTICS

**Stem Cell Therapeutics Corp.**

Management Discussion and Analysis  
For fiscal year ending December 31<sup>st</sup>, 2006

Dated: April 4, 2007

Dated April 4, 2007

The following information should be read in conjunction with the Corporation's 2006 audited financial statements and notes thereto, which were prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Where "we", "us", "our", "SCT", "Company" 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 Annual Information Form can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Certain information contained in management's discussion and analysis of our financial condition and results of our operations constitutes forward-looking statements. 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.

## **Overview**

Stem Cell Therapeutics Corp. is a biotechnology company focused on the development and commercialization of drug-based therapies to treat central nervous system diseases. SCT is a leader in the development of therapies that utilize drugs to stimulate a patient's own resident stem cells. The company's programs aim to repair neurological function lost due to disease or injury. Our currently enrolling phase IIa clinical program for NTx™-265 targets the treatment of stroke by repurposing approved and clinically well defined drugs. The company's extensive patent portfolio of owned and licensed intellectual property supports the potential expansion into future clinical programs in numerous neurological diseases.

NTx™-265 is a therapeutic regimen of two drugs being developed by SCT for the treatment of stroke. Human chorionic gonadotropin (hCG) is the first drug administered in the regimen, and aims to increase the number of neural stem cells (NSCs) located in the brain of a patient suffering from a recent stroke. Erythropoietin (EPO) is the second drug administered in the regimen, and aims to promote the differentiation of these newly formed NSCs into new neurons. New neurons thus formed are anticipated to provide benefit to the patient through the replacement of the brain cells that were lost or damaged by the stroke. Animal studies have shown a significant recovery in motor function in animals that have received a stroke followed by the NTx™-265 therapy. Currently, SCT is enrolling patients in a phase IIa clinical trial in the United States in order to investigate the safety and efficacy of NTx™-265 in humans.

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.

### **Achievements during 2006**

During 2006, SCT achieved the following significant milestones:

- Appointed Dr. Alan Moore as the Company's President and Chief Executive Officer.
- Initiated and started enrollment in a Phase IIa clinical safety study for NTx™-265 in stroke patients at the University of California, Irvine.
- Formed a Clinical Advisory Board (CAB) with three leading stroke physicians in the United States, Canada and Europe.
- Released positive results from a Phase I clinical trial in support of NTx™-265 demonstrating that no drug related adverse events were encountered and that both drugs under study were detected in the cerebrospinal fluid following intramuscular administration.
- Released results from a key preclinical study of NTx™-265 at the European Stroke Conference.

Subsequent to the year end SCT has:

- Closed a \$2 million private placement on February 1, 2007 and a second \$2 million private placement on March 27, 2007.
- Appointed four leading stroke and stem cell scientists to SCT's Scientific Advisory Board (SAB).
- Supported the presentation by Dr. Steven Cramer on SCT's key preclinical data and Phase IIa clinical trial design information at the International Stroke Conference in San Francisco, Feb 5-7, 2007.

### **Development Program**

Our current therapy under development, NTx™-265, is based on a novel application of human chorionic gonadotropin (hCG) and erythropoietin (EPO), two drugs that are currently on the market for other indications, not related to central nervous system diseases. This market advantage is anticipated to decrease development timelines and costs due to the substantial body of existing pre-clinical and human clinical trial information that substantiates the safety of these drugs.

Components of the NTx™-265 therapeutic regimen have already undergone clinical trials by the Company in a Phase I clinical trial that was performed in Denmark, with dosing completed in December 2005. This Phase I clinical trial permitted characterization of the relationship between intramuscular administration, passage into blood and subsequent transport into the brain of hCG. The study also generated new evidence that hCG, the

first component of the NTx™-265 regimen reaches the brain when administered to human subjects.

Our next step in the clinical development for NTx™-265 is an already initiated and currently enrolling open-label, Phase IIa clinical safety study in stroke. The program’s primary focus is on safety assessment in stroke patients with secondary efficacy end-points being measured. The cost of developing NTx™-265 through the end of 2006 (including early planning and initiation of a Phase IIb multi-centre efficacy study) was estimated at \$3.1 million. Cumulative research and development costs have amounted to \$3.4 million up to the end of December 2006.

The Phase IIb program is estimated to cost \$5.2 million and SCT expects to initiate the full Phase IIb clinical efficacy program in stroke during H2, 2007. 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.

It is a possibility that SCT may discover, in-license, or co-develop new chemical entities (NCE’s) with a similar mechanism of action as the on market drugs in the NTx™-265 therapy. In this case the Company may have to undertake studies that will investigate the pharmacokinetics, toxicology profiles, and manufacturing process of these NCE’s.

Additional programs are under consideration for development. Below is a summary of the programs that SCT is developing or has under consideration for future development.

Product	Disease Indication	R&D	Pre-Clinical	Phase I	Phase II	Phase III
<b>Current program</b>						
NTx™-265 (hCG and EPO)	Stroke					
<b>2<sup>nd</sup> Programs</b>						
NTx™-428 (Prolactin + EPO)	Brain Trauma			*		
<b>Programs seeking funding partners</b>						
NTx™-028 (EPO)	Schizophrenia					

\* Expect to proceed directly into Phase II based upon existing safety data for hCG and EPO.

### *Lead Program – Stroke*

Stroke is the lead disease indication being targeted by the Company's therapeutic approach. We have chosen stroke as our lead program because it represents both an attractive market opportunity and potentially a viable application for our technology platform.

A human stroke is essentially a heart attack in the brain, in which a reduction in blood flow occurs in certain regions due to a blockage, or bursting of a blood vessel. This interrupted blood flow causes a reduction in oxygen available to affected regions of the brain, and cells located there subsequently die. Normally, following injury, brain tissue does not spontaneously regenerate. Therefore, strokes typically cause irreversible damage. As stroke events can lead to a wide area of dead and damaged neural cells in the patient's brain, and an associated loss of cognitive function and motor control, they can be extremely serious to those surviving the stroke. However, the regeneration of new, functional brain tissue may lead directly to an improvement in stroke patients' motor control and thus to improved patient health and quality of life.

### **Patents and Proprietary Rights**

The Company's NTx™-265 technology was originally developed primarily by Dr. Samuel Weiss at an Alberta-based university. We acquired 100% ownership of this intellectual property from Dr. Weiss and his co-inventors in exchange for 3,636,364 shares in the Company and \$2,000 in cash consideration. The Company was formed specifically to commercialize this technology.

The Company currently owns or has rights to 47 pending patent applications and three issued United States patents. These make up 15 patent families which have been filed in the US and internationally. Six of these patent families were filed by the company and the remainder was acquired through acquisition of Stem Cell Therapeutics Inc. which occurred on October 4, 2004 (see "Acquisition of Stem Cell Therapeutics Inc.").

Our intellectual property portfolio covers several methods and treatments for neurological disorders through the use of various approved drugs or other agents. In addition to NTx™-265, our intellectual property portfolio anticipates adding other products in our pipeline, as well as forming out-licensing opportunities. We intend to protect additional intellectual property developed by the Company through the filing of patent applications within the appropriate jurisdictions throughout the world.

Additionally, during the term of a research contract with an Alberta-based university and the laboratory of Dr. Weiss, under which we pay consideration to such Alberta-based university, we in turn acquire 100% ownership in any new intellectual property developed by Dr. Weiss and his research group pertaining to the development of novel methods to induce neurogenesis. Through this agreement the Company continues to file intellectual property protection around these assets, the cost of which is expensed.

## **Acquisition of Stem Cell Therapeutics Inc.**

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. (the “Stem Cell Shares”) from Transition Therapeutics Inc. (“Transition”). Pursuant to this agreement, the Company agreed to pay Transition an aggregate purchase price of \$3,500,000 as consideration for the Stem Cell Shares. The purchase price is payable in installments beginning at closing when the amount of \$325,000 was paid and thereafter payments are required on the anniversary of closing in each of the following four years in the amounts of \$475,000, \$400,000, \$650,000 and \$1,650,000, respectively. Except for the initial payment on closing, all subsequent payments may be made, at the Company’s election, either by cash or through the issuance of 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. At closing, the certificates representing the Stem Cell Shares were placed in escrow subject to the payment in full of the purchase price, such payment being secured by a security agreement.

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.

Dr. Tony Cruz, the Chief Executive Officer of Transition, was appointed to the Company’s board of directors on November 1, 2004 subsequent to the closing of the Stem Cell Therapeutics Inc. acquisition. Dr. Tony Cruz did not stand for re-election as a director at the May 10, 2006 Annual General Meeting.

On September 30, 2006 we made our third payment in cash to Transition in the amount of \$400,000.

## **Future milestones (2007)**

Some selected upcoming milestones for SCT in 2007 are:

- Release interim results of NTx™-265 Phase IIa clinical safety study in stroke, April 2007.
- Initiate preclinical comparator traumatic brain injury study, Q2 2007
- Release final results of NTx™-265 Phase IIa stroke Clinical Safety Study, Q3 2007
- Begin NTx™-265 Phase IIb stroke Clinical Efficacy Study, 2H 2007
- Complete partnership agreements for development of Schizophrenia program, Q4 2007

## **Financial performance**

The Company’s loss for the year ended December 31, 2006 increased by \$1,489,777 to \$4,759,929 from the loss of \$3,270,152 reported in 2005. The increase in loss is primarily

due to increases in research and development costs, including our Phase I and Phase IIa clinical trials. General and administrative expenses also increased due to increased staffing, greater need for office resources, travel and promotional activities, general corporate legal expenses, and increased intellectual property expenses. In addition, interest income was lower for 2006 in comparison to 2005. Detailed analysis follows:

- Interest income for 2006 resulted from interest paid on our cash balances, and amounted to \$85,677 compared to \$136,076 for 2005.
- The increase in research and development expenses was primarily the result of an increase in NTx™-265 technology development expenses, in particular, the Company's Phase I and Phase IIa clinical trials. Research and development expenses amounted to \$2,159,527, compared to \$1,031,320 in 2005.
- Management and consulting fees in 2006 totaled \$347,204 compared to \$307,190 in 2005. Change is mainly driven by increase in management compensation for the year 2006 in comparison to 2005.
- The increase in general and administrative expenses was primarily the result of an increase in regulatory costs, travel and promotional activities, intellectual property development and patent maintenance, and insurance premiums. These expenses totaled \$942,775 in 2006 compared to \$804,486 for 2005.

In upcoming periods, the Company's losses are expected to increase, primarily because of increased clinical expenditures, as the Company continues the development of the NTx™-265 product into a Phase IIb clinical trial, and as a result of increased research and development expenditures on other products and programs of interest.

### **Selected annual information**

The following table is a summary of selected audited financial information of the Company for 2006 and 2005:

	<b>December 31, 2006</b>	December 31, 2005
	\$	\$
Interest income	<b>85,677</b>	136,076
Net loss	<b>4,759,929</b>	3,270,152
Basic and diluted net loss per common share	<b>0.09</b>	0.06
Total assets	<b>3,237,706</b>	7,929,121
Total long-term liabilities	<b>1,436,617</b>	1,821,914

### **Annual results – Year ended December 31, 2006 compared to results for the year ended December 31, 2005.**

#### **Results of Operations**

For the year ended December 31, 2006, the Company recorded a net loss of \$4,759,929 (\$0.09 per common share) compared to a net loss of \$3,270,152 (\$0.06 per share) for the period ended December 31, 2005. This increase is primarily due to the increases in

research and development and general and administrative expenses, and a decrease in interest income.

## Research and Development

The Corporation's research and development expenses primarily consist of fees paid and accrued to external service providers. All research and development fees are expensed, and total \$3,406,970 since inception. Research and development expenses increased to \$2,159,527 for the fiscal year ended December 31, 2006 from \$1,031,320 for the fiscal year ended December 31, 2005. This increase of \$1,128,207 was primarily the result of an increase in NTx™-265 technology development expenses as the Company prepared for, commenced and completed enrolment for its Phase I trial, and prepared for and commenced a Phase IIa clinical trial, as well as additions to the Company's product development team and increased contract research validating the Company's lead program.

During 2006 the Company entered into new research agreements with universities and a mutual licensing agreement with a company in the United States of America as part of development activities for its lead product and additional programs and products.

The following is a breakdown of R&D costs:

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

Clinical development costs increased substantially in 2006 compared to 2005 as the Phase IIa clinical trial was initiated. Preclinical development was increased from \$338,903 for year ended December 31, 2005 to \$536,296 for year ended December 31, 2006 as additional proof of principle experiments were undertaken. Consulting fees increased due to Dr. Moore being paid as a consultant for his work as Chief Clinical and Regulatory Officer in 2006. Licensing cost relates to a onetime license payment to StemCells Inc. for the cross-license of intellectual property announced on August 29, 2006. Other costs were associated with travel, clinical trial insurance, training, and associated expenses.

We expect our research and development expenses to increase significantly over the next few years as our products enter more advanced 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 the specific timing and future costs of our research and development programs.

The Corporation has a contract with an Alberta-based university to further develop neurogenesis related therapies. This contract was initiated on February 13, 2004 and was renewed on May 1, 2005 and was further amended on August 30, 2006 with the new contract expiring on August 31, 2007. SCT expects that the subsequent renewal of the contract on an ongoing basis is likely.

### **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 fees for accounting and audit services. Since inception, these fees total \$1,030,701. Professional fees for the year ended December 31, 2006 increased to \$469,411 from \$366,894 for the year ended December 31, 2005. This increase of \$102,517 is primarily due to increased patent filing costs due to the advanced stage of our patent portfolio in the patent review system. The following is an analysis of professional fees charges:

	<b>2006</b>	<b>2005</b>	<b>Cumulative since inception</b>
	\$	\$	\$
Auditing and accounting fees	84,190	57,537	183,227
Legal fees – Intellectual property	320,388	229,435	635,001
Legal fees – Other	64,833	79,922	212,473
<b>Total professional fees</b>	<b>469,411</b>	<b>366,894</b>	<b>1,030,701</b>

The Company anticipates that professional fees will further increase during the year 2007 as the Company continues to pursue its program to register and maintain its patent portfolio and due to expected increases in accounting and auditing, legal fees and regulatory costs.

### **Management and Consulting Fees**

Management and consulting fees increased to \$347,204 for the year ended December 31, 2006 from \$307,190 for the year ended December 31, 2005. This increase of \$40,014 is primarily the result of increase in management compensation during 2006.

### **General and Administration**

General and administrative expenses increased to \$942,775 for the year ended December 31, 2006 from \$804,486 for the year ended December 31, 2005. This increase of \$138,289 primarily resulted from the increase in investor relations expenses (from \$122,442 for 2005 to \$244,384 for 2006) in addition to increases in other operating expenses, mainly office lease and insurance costs.

The Company anticipates that general and administrative expenses will increase during 2007 due to expected higher level of investor relations activities as well as potential staffing increases relating to business development and intellectual property development.

### Stock options

Stock option charges since inception total \$844,723. These increased to \$355,370 for the year ended December 31, 2006 from \$314,712 for the year ended December 31, 2005. Increase is mainly due to stock options granted during 2006.

The following table summarizes the granted, exercised, cancelled and outstanding options under the Corporation's stock option plan as at April 4, 2007. All options have a five year expiry from the date of grant, and either vest immediately, or vest over a three year period.

<b>Date Granted</b>	<b>Exercise Price</b>	<b>Number of Options Granted</b>	<b>Number of Options Exercised<sup>(1)</sup></b>	<b>Number of Options Cancelled<sup>(2)</sup></b>	<b>Number of Options Outstanding</b>
November 2004	\$0.25	3,925,000	350,000	441,667	3,133,333
February 2005	\$0.35	800,000	0	0	800,000
May 2005	\$0.25	250,000	25,000	200,000	25,000
July 2005	\$0.25	175,000	0	0	175,000
September 2005	\$0.25	50,000	0	0	50,000
January 9, 2006	\$0.25	175,000	0	0	175,000
September 18, 2006	\$0.25	175,000	0	0	175,000
January 22, 2007	\$0.25	100,000	0	0	100,000
February 1, 2007	\$0.34	900,000	0	0	900,000

(1) Options exercised are from the specific grant period

(2) Options cancelled are from the specific grant period

### Intellectual Property

The value of the intellectual property purchased from Transition Therapeutics Inc. on October 4, 2004 (see "Acquisition of Stem Cell Therapeutics Inc.") was recorded based on the present value of the future payments. It is amortized over a 10-year period as an intellectual property asset. The deemed interest calculations were based on an assumed rate of 15%. The current and long-term portions of the corresponding purchase liability as well as the deemed interest expense are recorded in the financial statements to the end of December 31, 2006. The Company reviews the valuation of its intellectual property in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). If the result of such review indicates impairment, the Company would assess the fair value of its intellectual property and would record a reduction if the fair value was less than the book value.

The Company currently owns or has rights to 47 pending patent applications and three issued United States patents. These make up 15 patent families which have been filed in the US and internationally. Six of these patent families were filed by the company and the remainder was acquired through the acquisition of Stem Cell Therapeutics Inc. which occurred on October 4, 2004. Stem Cell Therapeutics Inc. was granted its first patent in the United States which provides for a method of treating Parkinson's disease, issued from the Stem Cell Therapeutics Inc. portfolio on January 18, 2005.

Stem Cell Therapeutics Inc. was granted its second U.S. patent 7 033 995 from the United States Patent and Trademark Office on May 11, 2006. The patent, entitled "Production of Radial Glial Cells," protects novel methods of producing radial glial cells in the brain. The production of radial glial cells in the brain of a patient suffering from a central nervous system (CNS) disease has the potential to be a fundamental technology in the field, key to the successful development of neural-stem-cell-based approaches for the treatment of many CNS diseases. CNS diseases possibly affected by successful implementation of this technology include stroke, acute brain injury, Alzheimer's disease, multiple sclerosis, Huntington's disease, amyotrophic lateral sclerosis and Parkinson's disease.

Stem Cell Therapeutics Inc. was granted its third U.S. patent 7 048 934 on May 23, 2006. The patent, entitled "Combined Regulation of Neural Cell Production," protects novel methods of treating patients suffering from a variety of central nervous system disorders including stroke, brain injury, Alzheimer's disease, multiple sclerosis, Huntington's disease and others. The combined regulation method of neural cell production in the patent has the potential to be a key technology, required for the successful development of stem-cell-based approaches for the treatment of many CNS diseases.

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 those developed through our contracts with independent contract research organizations.

### **Amortization**

Total amortization charges since inception for the Company are \$624,305. Amortization charges for property and equipment increased to \$43,627 for the year ended December 31, 2006 from \$31,444 for the year ended December 31, 2005. This increase of \$12,183 is due to property and equipment additions throughout 2006 as well as calculating depreciation charge for a full year for assets that were purchased in 2005, while the year of purchase was only charged with proportionate amortization charge depending on the date of placing it in service.

The Company anticipates that property and equipment amortization charges will remain within the same level during 2007 as there are no plans for major additions to existing property and equipment. All amortization was calculated on a straight-line basis over the estimated useful lives of the assets.

Amortization charges for intellectual property assets remained relatively constant (\$243,128 for the year ended December 31, 2006 compared to \$242,310 for year ended December 31, 2005). No intellectual property asset additions were made during 2006. The Company anticipates that intellectual property assets amortization charges will remain within the same level during 2007 as there are no plans for major additions to existing intellectual property assets to be capitalized on the financial statements. All amortization was calculated on a straight-line basis over the estimated useful lives of the assets.

## Revenue

As an early development stage biotechnology company 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 state. Revenues to date include only interest income generated on our cash balances.

Interest income for the year ended December 31, 2006 was \$85,677 as compared to \$136,076 for the year ended December 31, 2005. This decrease of \$50,399 in interest income primarily resulted from lower cash balances throughout the year ended December 31, 2006 as compared to the year ended December 31, 2005. Since inception the total interest earned by the Company amounted to \$225,591.

## Summary of Quarterly Results

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

(1) Interest income on cash balances

	As at, and for the three months ended							
	2006				2005			
	December	September	June	March	December	September	June	March
Revenue(1)	\$9,776	\$25,866	\$21,303	\$28,732	\$29,990	\$34,247	\$35,917	\$35,922
Net loss	\$1,115,536	\$1,298,475	\$1,167,304	\$1,178,614	\$1,083,608	\$865,011	\$725,848	\$595,685
Basic and diluted loss per common share	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02	\$0.01	\$0.01
Total assets	\$3,237,706	\$4,061,031	\$5,766,306	\$6,934,528	\$7,929,121	\$8,473,903	\$9,511,232	\$10,081,738
Cash balance	\$1,037,914	\$1,600,612	\$3,045,722	\$4,623,813	\$5,551,187	\$6,084,348	\$7,061,821	\$7,599,790
Total long-term obligations (2)	\$1,436,617	\$1,438,535	\$1,818,391	\$1,820,175	\$1,821,914	\$1,824,110	\$1,937,903	\$1,925,876

(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 company continues its preclinical and clinical development activities and incur administrative costs to sustain activities.

#### **Fourth Quarter**

Statements of loss for the three-month period ended December 31, 2006 and 2005 are as follows:

	<b>2006</b>	2005
	<b>\$</b>	\$
<b>OPERATING EXPENSES</b>		
Research and development costs	<b>381,337</b>	454,273
Professional fees	<b>199,483</b>	94,771
Management and consulting fees	<b>89,585</b>	112,254
General and administration	<b>199,217</b>	241,524
Stock option expense	<b>117,503</b>	69,470
Deemed interest expense on obligation under share purchase agreement	<b>66,310</b>	70,380
Amortization of property and equipment	<b>11,091</b>	10,140
Amortization of intellectual property	<b>60,786</b>	60,786
<b>Total operating expenses</b>	<b>1,125,312</b>	1,113,598
Interest income	<b>9,776</b>	29,990
<b>Net loss for the period</b>	<b>1,115,536</b>	1,083,608

#### **Results of Operations**

For the three-month period ended December 31, 2006, the Company's net loss was relatively unchanged at \$1,115,536 compared to \$1,083,608 for the three-month period ended December 31, 2005.

#### **Research and Development**

The Company's research and development costs decreased to \$381,337 for the three-month period ended December 31, 2006 compared to \$454,273 for the three-month period ended December 31, 2005. A breakdown of these costs are as follows:

	<b>2006</b>	2005
	<b>\$</b>	\$
Clinical development	<b>129,194</b>	90,854
Preclinical development	<b>78,268</b>	154,974
Research	<b>42,000</b>	75,000
Salaries and bonuses	<b>50,437</b>	72,623
Consulting fees	<b>57,502</b>	33,380
Other costs	<b>23,936</b>	27,442
<b>Research and development costs</b>	<b>381,337</b>	454,273

Preclinical costs in the fourth quarter of 2006 were less than the comparable fourth quarter of 2005 due to decreasing need for preclinical experiments to support the Phase IIa stroke trial. Research costs also decreased compared the fourth quarter of 2005 due to less material costs for the basic research component of the contract with Dr. Sam Weiss. Salaries and bonuses were decreased due to no bonus being declared for 2006, and consulting costs increased due to the addition of Dr. Moore as a consultant in the fourth quarter of 2006 as compared to the fourth quarter of 2005.

### **Professional fees**

Professional fees for the three-month period ended December 31, 2006 amounted to \$199,483 compared to \$94,771 for the three-month period ended December 31, 2005. Analysis of these expenses is as follows:

	<b>2006</b>	2005
	\$	\$
Auditing and accounting fees	<b>45,690</b>	31,758
Legal fees – Intellectual property	<b>135,117</b>	53,770
Legal fees – Other	<b>18,676</b>	9,243
<b>Total professional fees</b>	<b>199,483</b>	94,771

Legal fees associated with the development and continued prosecution of the Company's intellectual property was significantly increased in the fourth quarter of 2006 compared to the fourth quarter of 2005. This was due to the nature of the intellectual property process and the increased amount of activity with regards to queries and questions from the United States Patent and Trademark Office, as well as other intellectual property offices world wide.

### **Management and Consulting Fees**

Management and consulting fees for the three-month period ended December 31, 2006 amounted to \$89,585 compared to \$112,254 for the three-month period ended December 31, 2005. This decrease is mainly caused by the fact that management bonuses were recorded in the fourth quarter of 2005 while no bonuses were declared for 2006.

### **General and Administration**

General and administrative expenses amounted to \$199,217 for the three-month period ended December 31, 2006 compared to \$241,524 for the three-month period ended December 31, 2005. This decrease reflects the fact that the fourth quarter of 2005 was charged with administrative employee bonuses declared for 2005 while no such bonuses were declared for 2006.

## **Stock options**

Stock option charges for the three-month period ended December 31, 2006 amounted to \$117,503 compared to \$69,470 for the three-month period ended December 31, 2005. Increase is mainly due to stock options granted during 2006 as well as an accounting adjustment booked in the last quarter of the year.

## **Amortization**

Amortization charges for property and equipment increased to \$11,091 for the three-month period ended December 31, 2006 compared to \$10,140 for the three-month period ended December 31, 2005.

Amortization charge for intellectual property assets remained constant as no intellectual property assets were added during 2006. Charges amounted to \$60,786 for the three-month periods ended December 31, 2006 and December 31, 2005.

## **Interest income**

Interest income for the three-month period ended December 31, 2006 was \$9,776 as compared to \$29,990 for the three-month period ended December 31, 2005. This decrease in interest income resulted from lower cash balances throughout the fourth quarter of 2006.

## **Liquidity and Capital Resources**

### **Overview**

The Corporation's primary capital needs are for funds to support our scientific research and development activities including pre-clinical and clinical trials and for working capital.

The Company's cash and short-term investments were \$1,098,297 at December 31, 2006. The Company has raised additional funds through a private placement of shares in February and March, 2007 (see Financing Activities section) and currently the Company believes that it has adequate financial resources for anticipated expenditures until the end of the first quarter of 2008.

As of December 31, 2006 the working capital (current assets minus current liabilities) for the Corporation was \$408,938 (\$4,868,735 as of December 31, 2005).

Outstanding shares as of December 31, 2006 totaled 53,801,364 common shares and 6,360,000 class B shares, and 4,533,333 common share options. Outstanding shares as of April 4, 2007 are 68,072,364 common shares, 6,240,000 class B shares, 7,000,000 common share purchase warrants, and 5,533,333 common share options.

The Corporation has raised significant operating capital since its inception on March 31, 2004. On January 6, 2005 the Corporation closed its Initial Public Offering and raised

gross proceeds of \$8,500,000. On February 1, 2007 the Corporation closed a \$2 million private placement of 10 million units, each unit consisting of one common share of SCT and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share of SCT for \$0.25 until February 1, 2009. On March 27, 2007 the Corporation closed a second \$2 million private placement of 4 million units, each unit consisting of one common share of SCT and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share of SCT for \$0.75 per share in the first year and \$1.00 per share until the end of the second year.

These capital resources have provided the means to advance our lead product NTx™-265 well past the Phase IIa clinical trial final reporting period and into further development of the Phase IIb clinical trial package, as well as additional preclinical programs for other indications.

### **Commitments & Contingencies**

#### **[a] Operating leases**

The Company leases its office space under a 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.

#### **[b] Research contracts**

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

#### **[c] Clinical trial costs**

As the Company further develops NTx™-265 and enters into a Phase IIb or other clinical trial as necessary, significant costs will be incurred to carry these trials forward. Any additional clinical trial program in other indications of neurological disease will also require significant capital.

#### **[d] Contingency**

Pursuant to the share purchase agreement from Transition [see “Acquisition of Stem Cell Therapeutics Inc.”], 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.

## Financing Activities

As of April 4, 2007 the gross proceeds raised since inception by the Company totaled \$14,053,760.

SCT closed its initial public offering on January 6, 2005 and began trading on the TSX-Venture Exchange under the symbol SSS on January 11, 2005. 34,000,000 common shares were issued from treasury at \$0.25 per share. An underwriters' commission of 9% of the aggregate gross proceeds was netted from the offering proceeds, resulting in net proceeds to the Company amounting to \$7,640,453.

At the time of our Initial Public Offering we expected that approximately \$4.7 million of the proceeds would be used over 2005 and 2006 for research and development focusing on our lead product and the remaining \$1.8 million to \$2.8 million would be used for general and administrative expenses, including working capital and possible acquisitions of additional technology. Up to December 31, 2006 research and development costs totaled \$3,406,970, intellectual property legal expense totaled \$635,001, other professional fees totaled \$395,700, and general administrative and management costs amounted \$1,868,821 since inception.

The Company closed a \$2,000,000 private placement of 10,000,000 units on February 1, 2007, each unit consisting of one common share of SCT and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share of SCT for \$0.25 until February 1, 2009. Certain registrants were paid an aggregate cash commission of \$115,409 in connection with this private placement. The common shares and warrants were legended with a restricted resale period which expires on June 2, 2007.

The Company closed a second \$2,000,000 private placement of 4,000,000 units on March 27, 2007 each unit consisting of one common share of SCT and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share of SCT for \$0.75 until March 28, 2008 or at \$1.00 until March 28, 2009. Certain registrants were paid a finders fee of 151,000 common shares of SCT in connection with this private placement. All securities issued in connection with this financing were legended with a restricted resale period which expires on July 27, 2007.

The use of proceeds from the sale of the units will include:

- completion of key support activities for receipt of final Phase IIa program results by end of 2007
- completion of planning for the Phase IIb program in stroke with NTx™-265 including IND submission
- initiation of pre-clinical programs for a second clinical indication.

The Corporation's ability to continue operation in the long run is contingent upon its ability to obtain additional sources of funding to finance future operations. Efforts will

be made 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 as well as others recently 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 patent grants in relevant jurisdictions; however, there is no guarantee patents will be granted, and, if granted, 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.

## **Disclosure Controls and Procedures**

The Company's Chief Executive Officer and Chief Financial Officer evaluated the Company's disclosure controls and procedures as of December 31, 2006 and have concluded, based on that evaluation, that the Company's disclosure controls and procedures as of such date provide a reasonable level of assurance that material information relating to the Company is disclosed.

Management believes these controls to have been effective and adequate in controlling the release of material information in a factual and timely manner. As such, there have been no changes in the Company's internal control procedures.

The Company will adopt all relevant accounting policies and standards that were introduced January 1, 2007; in particular those standards relating to financial instruments and comprehensive income and deficit recording.