



Stem Cell Therapeutics Corp.

Interim Unaudited Financial Statements

March 31, 2007

Stem Cell Therapeutics Corp.

Balance Sheets

[a development stage company]

(Unaudited)

	As at March 31, 2007 \$	As at December 31, 2006 \$
ASSETS		
Current		
Cash and cash equivalents <i>[note 3]</i>	3,972,958	1,037,914
Restricted cash <i>[note 4]</i>	120,383	60,383
Accounts receivable	13,792	20,636
Prepaid expenses	57,692	168,174
	4,164,825	1,287,107
Property and equipment, net	58,281	60,938
Intellectual property, net	1,825,428	1,886,203
Other non-current assets	3,458	3,458
	6,051,992	3,237,706
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	457,319	426,516
Current portion of obligation under share purchase agreement	511,429	444,378
Current portion of capital lease obligation	7,275	7,275
	976,023	878,169
Long Term Obligations		
Obligation under share purchase agreement	1,434,783	1,434,786
Capital lease obligation	48	1,831
Commitments and contingencies <i>[note 10]</i>		
Shareholders' Equity		
Share capital <i>[note 7]</i>	12,960,758	9,149,613
Contributed surplus <i>[note 9]</i>	911,055	753,253
Deficit	(10,230,675)	(8,979,946)
Total Shareholders' Equity	3,641,138	922,920
	6,051,992	3,237,706

See accompanying notes

On behalf of the Board:

Stem Cell Therapeutics Corp.
Statements of Loss, Comprehensive Loss, and Deficit
[a development stage company]
(Unaudited)

	For the three month period ended March 31, 2007	For the three month period ended March 31, 2006	Cumulative from Inception on March 31, 2004 to March 31, 2007
	\$	\$	\$
OPERATING EXPENSES			
Research and development costs <i>[note 6]</i>	257,293	548,102	3,664,263
Professional fees	168,161	73,956	1,198,862
Management and consulting fees	259,145	87,013	1,021,277
General and administration	283,557	242,392	2,152,378
Stock option expense	157,802	113,464	1,002,525
Deemed interest expense on obligation under share purchase agreement	67,051	71,170	734,936
Amortization of property and equipment	9,469	10,474	88,698
Amortization of intellectual property	60,776	60,775	605,852
Total Operating Expenses	1,263,254	1,207,346	10,468,791
Interest income	12,525	28,732	238,116
Net loss and comprehensive loss for the period	1,250,729	1,178,614	10,230,675
Deficit, beginning of period	8,979,946	4,220,017	-
Deficit, end of period	10,230,675	5,398,631	10,230,675
Basic and diluted loss per share <i>[note 11]</i>	0.02	0.02	0.24

See accompanying notes

Stem Cell Therapeutics Corp.

Statements of Cash Flows

[a development stage company]

(Unaudited)

	For the three month period ended March 31, 2007	For the three month period ended March 31, 2006	Cumulative from Inception on March 31, 2004 to March 31, 2007
	\$	\$	\$
OPERATING ACTIVITIES			
Net loss for the period	(1,250,729)	(1,178,614)	(10,230,675)
<u>Add items not involving cash</u>			
Stock option expense	157,802	113,464	1,002,525
Accrued interest expense on obligation under share purchase agreement [note 5]	67,051	71,170	133,362
Amortization of property and equipment	9,469	10,474	88,698
Amortization of intellectual property	60,776	60,775	605,852
	(955,631)	(922,731)	(8,400,238)
Changes in non-cash working capital items			
Accounts receivable	6,844	(3,542)	(11,675)
Prepaid expenses	110,482	5,486	(57,692)
Accounts payable and accrued liabilities	30,803	(3,987)	457,319
Cash used in operating activities	(807,502)	(924,774)	(8,012,286)
INVESTING ACTIVITIES			
Acquisition of property and equipment	(6,816)	(5,974)	(127,695)
Acquisition of intellectual property	-	-	(327,000)
Other non-current assets	-	-	(3,458)
Cash used in investing activities	(6,816)	(5,974)	(458,153)
FINANCING ACTIVITIES			
Restricted cash	(60,000)	-	(120,383)
Net decrease in capital lease obligation	(1,783)	(2,876)	(14,083)
Settlement of long-term obligation under share purchase agreement	-	-	(273,425)
Issuance of share capital, net of share issue costs	3,811,145	6,250	12,851,288
Net cash provided by financing activities	3,749,362	3,374	12,443,397
Net increase (decrease) in cash during the period	2,935,044	(927,374)	3,972,958
Cash and cash equivalents, beginning of period	1,037,914	5,551,187	-
Cash and cash equivalents, end of period	3,972,958	4,623,813	3,972,958
Cash interest paid	-	-	602,727

See accompanying notes

Stem Cell Therapeutics Corp.
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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 are 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 unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles 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, 2006 has been derived from the Company's audited financial statements.

Cash and cash equivalents

Cash includes cash on hand and bank balances. Cash equivalents are comprised of highly liquid investments having original terms to maturity of 90 days or less when acquired. Cash equivalents are valued at cost plus accrued interest which approximates fair value.

Further to the above, 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 except for the following:

Changes to accounting policies

Effective January 1, 2007, the Company adopted the new recommendations of Canadian Institute of Chartered Accountants (CICA) Handbook Section 1506, Accounting Changes; Section 3855, Financial Instruments – Recognition and Measurement, Section 3865, Hedges and Section 1530, Comprehensive Income. In accordance with the transitional provisions of the new standards, prior period financial statements were not restated.

Prior to adoption of the new recommendations, the Company's financial assets and liabilities were accounted for at their cost or amortized cost except for short-term investments which were carried at market value, if their market value declined below carrying value.

Section 1506 – Accounting Changes

This section provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retroactively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or the change results in more relevant and reliable information. The Company has not had any such changes which impacted the interim financial statements.

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Section 3855 – Financial Instruments – Recognition and Measurement

Under the new standards, while financial assets and financial liabilities are initially recognized at fair value, they are subsequently revalued based on their classification and readjusted to account for any changes in their value.

The classification of the financial assets and liabilities depends on the purpose for which the financial instruments were acquired and their characteristic. Section 3855 provides guidance on the recognition and measurement of financial assets, financial liabilities and derivative financial instruments.

Held-for-trading

Financial assets and financial liabilities in this classification are acquired with the intention of generating profits. The Company may also designate as held-for-trading upon initial recognition, any financial instrument whose fair value can be reliably measured. These instruments are accounted for at fair value with the change in the fair value

From short-term fluctuation in price recognized immediately in net income or loss.

Held-to-maturity

Financial instruments included in this category have fixed maturity or determinable payments and management intends and has the ability to hold these instruments to maturity. The financial assets classified as held-to-maturity are measured at amortized cost using the effective interest method and the gain and loss is recognized immediately in net income or loss.

Loans, Receivables and Other Liabilities

This category includes all loans and receivables, except debt securities, and other liabilities that are not classified as held-for-trading. They are measured at amortized cost using the effective interest method and the gain and loss is recognized immediately in net income or loss.

Available-for-sale

Financial assets classified as available-for-sale are carried at fair value which represents the bid price when financial assets are quoted in active markets. For available-for-sale investments in equity securities for which there is no quote in active markets, they are measured at cost. The gain or loss originating from subsequent measurement is recognized in Other Comprehensive Income or loss and is transferred to net income or loss when the asset is derecognized. Any unrealized gain or loss of foreign exchange related to available-for-sale financial instruments is also recognized in Other Comprehensive Income or Loss and transferred to net income when the asset is derecognized. Impairment write-downs relating to available-for-sale financial instruments are immediately recognized in net income or loss.

As at January 1, 2007, the Company has elected the following classifications for its financial assets and liabilities:

	<u>Classification</u>	<u>Measurement</u>
<u>Financial assets</u>		
Short-term investments	Available-for-sale ⁽¹⁾	Fair value
Accounts receivable	Available-for-sale ⁽¹⁾	Fair value
<u>Financial liabilities</u>		
Accounts payable and accrued liabilities	Other liabilities	Amortized cost

(1) There was no impact of adopting these standards on the Company's financial statements for the first quarter of 2007, as the carrying value of these financial instruments at January 1, 2007 was equal to their fair value.

The Company does not currently have any outstanding contracts with embedded derivatives.

Section 3865 – Hedges

Under the new standard, hedges may be designated as either fair value hedges or cash flow hedges and hedges of net investments in self-sustaining foreign operations. The Company does not currently use hedging instruments as a policy; therefore, the adoption of this section does not have any impact on the Company's

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financial statements.

Section 1530 – Comprehensive Income

The comprehensive income section introduces new requirements for certain situations, including where financial instruments are classified as available-for-sale. The gain or loss on subsequent measurement and unrealized gain or loss on foreign exchange on these financial instruments is recognized in other comprehensive income (loss). Comprehensive income (loss) is comprised of the Company's net income (loss) and other comprehensive income (loss). For the three month period ended March 31, 2007 net loss and comprehensive loss for the period were equal.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include unrestricted cash balances in bank checking accounts amounting to \$966,992 and guaranteed investment certificates that can be redeemed within 90 days of purchase without penalty. The following table shows details of these guaranteed investment certificates as of March 31, 2007:

Value \$	Maturity date	Interest rate	Remarks
1,505,966	April 3, 2007	3.15%	Interest rate at investment date was 4% per annum, and is subject to change.
1,500,000	March 31, 2008	Variable	

4. RESTRICTED CASH

Restricted cash balances include \$60,000 deposited in an investment account with a bank and held by the bank as collateral for credit facilities of equivalent value offered to the Company, as well as the following guaranteed investment certificates held as collateral for Company's credit facilities not exceeding the value of the guaranteed investment certificates.

Value \$	Maturity date	Interest rate
20,383	April 6, 2007	2.75%
40,000	August 1, 2007	2.75%

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 9[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.

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6. 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 March 31 of the year indicated:

	2007	2006	Cumulative since inception
	\$	\$	\$
Clinical development	113,473	175,422	942,619
Preclinical development	-	141,508	814,871
Research	42,000	81,489	619,174
Salaries and bonuses	55,963	85,311	446,569
Consulting fees	14,115	38,554	354,740
Licensing cost	-	-	291,122
Other costs	31,742	25,818	195,168
Research and development costs	257,293	548,102	3,664,263

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

7. 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.

[b] Issued and outstanding

	Number of shares	\$
	#	
Common		
Formation of Company, March 31, 2004	1,000,000	10
Acquisition of intellectual property, April 1, 2004 (i)	3,636,364	18,000
Proceeds from issuance at \$0.025 per share, April 14, 2004	2,000,000	50,000
Proceeds from issuance at \$0.10 per share, June 7, 2004	2,550,000	255,000
Proceeds from issuance at \$0.15 per share, August 19, 2004	4,000,000	600,000
Proceeds from issuance at \$0.25 per share, November 19, 2004	1,000,000	250,000
Conversion of Class B to common, November 19, 2004 (ii)	4,000,000	100,000
Options exercised, November 21, 2004 (iii)	800,000	55,000
	18,986,364	1,328,010
Share Issue Costs	-	(7,417)
Balance, December 31, 2004	18,986,364	1,320,593
Proceeds from Initial Public Offering at \$0.25 per share, January 6, 2005	34,000,000	8,500,000
Conversion of Class B to Common, January 10, 2005 (iv)	80,000	2,000
Conversion of Class B to Common, April 1, 2005 (v)	120,000	3,000

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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, December 31, 2006	53,801,364	8,990,613
Conversion of Class B to Common, January 11, 2007 (xi)	120,000	3,000
Issuance of shares in private placement, February 1, 2007 (xii)	10,000,000	2,000,000
Share issuance costs, February 1, 2007	-	(144,390)
Issuance of shares in private placement, March 27, 2007 (xiii)	4,000,000	2,000,000
Issuance of shares as part of financing costs, March 27, 2007 (xiv)	151,000	113,250
Share issuance costs, March 27, 2007	-	(157,715)
Balance, March 31, 2007	68,072,364	12,804,758
Class B		
Proceeds from issuance at \$0.025 per share, April 20, 2004	10,800,000	270,000
Conversion of Class B to common, November 19, 2004	(4,000,000)	(100,000)
Balance, December 31, 2004	6,800,000	170,000
Conversion of Class B to Common, January 10, 2005 (iv)	(80,000)	(2,000)
Conversion of Class B to Common, April 1, 2005 (v)	(120,000)	(3,000)
Balance, December 31, 2005	6,600,000	165,000
Conversion of Class B to Common, January 11, 2006(vii)	(120,000)	(3,000)
Conversion of Class B to Common, July 15, 2006 (x)	(120,000)	(3,000)
Balance, December 31, 2006	6,360,000	159,000
Conversion of Class B to Common, January 11, 2007 (xi)	(120,000)	(3,000)
Balance, March 31, 2007	6,240,000	156,000
Share Capital, March 31, 2007	74,312,364	12,960,758

(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

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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.

(xi) On January 11, 2007 120,000 Class B shares were converted to 120,000 Common shares on a one for one basis.

(xii) 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.

(xiii) 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.

(xiv) On March 27, 2007 the company issued 151,000 shares as part of financing costs associated with the private placement closed on March 27, 2007.

[c]Employee stock options

The following table summarizes the activity of the Company's stock option plan as at March 31, 2007:

	Number of Options	Weighted- average exercise price \$
Outstanding, January 1, 2007	4,555,556	0.27
Granted	980,000	0.33
Exercised	-	-
Cancelled	-	-
Outstanding, end of period	5,535,556	0.28
Exercisable, at end of period	3,955,278	0.27

The fair value of options granted to employees, consultants and directors of the Company during the 3 months period ended March 31, 2007 was estimated on the date of grant using the Black Scholes option pricing model with the following assumptions:

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Risk-free interest rate	5%
Volatility	108% - 125%
Dividend yield	0%
Expected life	5 years

The options have been allocated pursuant to a new 10% rolling stock option plan which was approved by the Company's shareholders at its annual general meeting held on May 9, 2006. Pursuant to the new stock option plan, the Company may grant stock options to purchase up to an aggregate of 10% of the Company's issued and outstanding share capital. As of March 31, 2007 the company is entitled to issue an additional 1,271,680 stock options under this plan.

8. SHARE PURCHASE WARRANTS

The Company has issued warrants for the purchase of common shares, for a specified price for a specific period of time. The following table contains information regarding the warrants to acquire common share outstanding as of March 31, 2007.

	Number of warrants	Number of common shares underlying warrants	Exercise price	Expiry date
Warrants issued in connection with private placement closed on February 1, 2007	5,000,000	5,000,000	\$0.25	February 1, 2009
Warrants issued in connection with private placement closed on March 27, 2007	2,000,000	2,000,000	\$0.75 ⁽¹⁾	March 27, 2009

(1) Warrants issued March 27, 2007 entitle the holders to purchase each common share for \$0.75 for the first year following closing and at \$1.00 for the second year following closing. The lower exercise price was used in the above schedule.

9. CONTRIBUTED SURPLUS

The following table summarizes the change in contributed surplus for the three month period ended March 31, 2007 :

	March 31 2006
Balance, beginning of period	753,253
Stock option expense	157,802
Balance, end of period	911,055

10. 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 \$127,635 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 \$70,000.

[c] Contingency

Pursuant to the share purchase agreement from Transition [see note 4], 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.

11. LOSS PER COMMON SHARE

Loss per common share is calculated using the weighted average number of common shares outstanding during the three month period ended March 31, 2007 of 60,694,197 (53,471,086 for the three month period ended March 31, 2006). The cumulative weighted average number of common shares since inception to March 31, 2006 was 43,263,507 . 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.

12. COMPARATIVE FIGURES

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