



**Stem Cell Therapeutics Corp.**

Audited Financial Statements

For the years ended December 31, 2007 and 2006

## AUDITORS' REPORT

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

We have audited the balance sheets of Stem Cell Therapeutics Corp. as at December 31, 2007 and 2006 and the statements of loss, comprehensive loss and deficit and cash flows for the twelve months ended December 31, 2007 and 2006 and for 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 audits.

We conducted our audits 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 at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years ended December 31, 2007 and 2006 and the cumulative period from inception on March 31, 2004 in accordance with Canadian generally accepted accounting principles.

Calgary, Canada  
March 19, 2008

*Ernst & Young LLP*

Chartered Accountants

# Stem Cell Therapeutics Corp.

## Balance Sheets

[a development stage company]

As at December 31,

|  | 2007              | 2006             |
|--|-------------------|------------------|
|  | \$                | \$               |
| <b>ASSETS</b>  |                   |                  |
| <b>Current</b>   |                   |                  |
| Cash and cash equivalents <i>[note 3]</i>                                    | 10,764,097        | 1,037,914        |
| Restricted cash <i>[note 4]</i>  | 81,427            | 60,383           |
| Accounts receivable  | 139,588           | 20,636           |
| Prepaid expenses   | 395,281           | 168,174          |
|  | <u>11,380,393</u> | <u>1,287,107</u> |
| Property and equipment, net <i>[note 5]</i>                                  | 58,229            | 60,938           |
| Intellectual property, net <i>[note 6]</i>                                   | 1,643,075         | 1,886,203        |
| Other non-current assets   | 3,458             | 3,458            |
|  | <u>13,085,155</u> | <u>3,237,706</u> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                  |                   |                  |
| <b>Current</b>   |                   |                  |
| Accounts payable and accrued liabilities                                     | 749,313           | 426,516          |
| Current portion of obligation under share purchase agreement <i>[note 7]</i> | 1,487,118         | 444,378          |
| Current portion of capital lease obligation <i>[note 8]</i>                  | 5,699             | 7,275            |
|  | <u>2,242,130</u>  | <u>878,169</u>   |
| <b>Long-Term Obligations</b>   |                   |                  |
| Obligation under share purchase agreement <i>[note 7]</i>                    | -                 | 1,434,786        |
| Capital lease obligation <i>[note 8]</i>                                     | 10,007            | 1,831            |
| Commitments and contingencies <i>[note 14]</i>                               |                   |                  |
| <b>Shareholders' Equity</b>  |                   |                  |
| Share capital <i>[note 11]</i>   | 24,079,436        | 9,149,613        |
| Contributed surplus <i>[note 13]</i>   | 1,187,109         | 753,253          |
| Deficit  | (14,433,527)      | (8,979,946)      |
| <b>Total Shareholders' Equity</b>  | <u>10,833,018</u> | <u>922,920</u>   |
|  | <u>13,085,155</u> | <u>3,237,706</u> |

See accompanying notes

On behalf of the Board:

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

For the period ended,

|  | Twelve Months<br>Ended<br>December 31,<br>2007 | Twelve Months<br>Ended<br>December 31,<br>2006 | Cumulative from<br>Inception on<br>March 31, 2004 to<br>December 31,<br>2007 |
|--|--|--|--|
|  | \$   | \$   | \$   |
| <b>OPERATING EXPENSES</b>  |  |  |  |
| Research and development costs <i>[note 10]</i>                                      | 1,849,952                                      | 2,159,527                                      | 5,256,922  |
| Professional fees  | 821,120  | 469,411  | 1,851,821  |
| Management and consulting fees   | 763,662  | 347,204  | 1,525,794  |
| General and administration   | 1,075,763                                      | 942,775  | 2,944,584  |
| Stock option expense <i>[note 11]</i>  | 539,413  | 355,370  | 1,384,136  |
| Deemed interest expense on obligation under share purchase agreement <i>[note 7]</i> | 257,957  | 284,564  | 925,842  |
| Amortization of property and equipment   | 39,613   | 43,627   | 118,842  |
| Amortization of intellectual property  | 243,128  | 243,128  | 788,204  |
| Total operating expenses   | 5,590,608                                      | 4,845,606                                      | 14,796,145   |
| Interest income  | (137,027)                                      | (85,677)                                       | (362,618)  |
| <b>Net loss and comprehensive loss for the period</b>                                | <b>5,453,581</b>                               | <b>4,759,929</b>                               | <b>14,433,527</b>  |
| Deficit, beginning of period   | 8,979,946                                      | 4,220,017                                      | -  |
| <b>Deficit, end of period</b>  | <b>14,433,527</b>                              | <b>8,979,946</b>                               | <b>14,433,527</b>  |
| Basic and diluted loss per Common share <i>[note 15]</i>                             | 0.08   | 0.09   | 0.29   |

*See accompanying notes*

**Stem Cell Therapeutics Corp.**  
**Statements of Cash Flows**  
[a development stage company]

For the period ended,

|   | Twelve Months<br>Ended<br>December 31,<br>2007<br>\$ | Twelve<br>Months Ended<br>December 31,<br>2006<br>\$ | Cumulative from<br>Inception on<br>March 31, 2004<br>to December 31,<br>2007<br>\$ |
|---|--|--|--|
| <b>OPERATING ACTIVITIES</b>   |  |  |  |
| Net loss and comprehensive loss for the period                                | (5,453,581)  | (4,759,929)  | (14,433,527)   |
| <u>Add (deduct) items not involving cash</u>                                  |  |  |  |
| Stock option expense  | 539,413  | 355,370  | 1,384,136  |
| Deemed interest expense on obligation under share purchase agreement [note 7] | (13,971)   | (4,069)  | 52,340   |
| Amortization of property and equipment  | 39,613   | 43,627   | 118,842  |
| Amortization of intellectual property   | 243,128  | 243,128  | 788,204  |
| Foreign exchange difference   | (79,489)   | (3,135)  | (75,134)   |
|   | (4,724,887)  | (4,125,008)  | (12,165,139)   |
| Changes in non-cash working capital items                                     |  |  |  |
| Accounts receivable   | (118,952)  | 4,325  | (137,471)  |
| Prepaid expenses  | (227,107)  | (105,859)  | (395,281)  |
| Accounts payable and accrued liabilities                                      | 322,797  | (211,930)  | 749,313  |
| <b>Cash used in operating activities</b>                                      | <b>(4,748,149)</b>                                   | <b>(4,438,472)</b>                                   | <b>(11,948,578)</b>  |
| <b>INVESTING ACTIVITIES</b>   |  |  |  |
| Acquisition of property and equipment   | (36,904)   | (6,696)  | (157,786)  |
| Acquisition of intellectual property  | -  | -  | (327,000)  |
| Other non-current assets  | -  | -  | (3,458)  |
| <b>Cash used in investing activities</b>                                      | <b>(36,904)</b>                                      | <b>(6,696)</b>                                       | <b>(488,244)</b>   |
| <b>FINANCING ACTIVITIES</b>   |  |  |  |
| Restricted cash   | (21,044)   | (383)  | (81,427)   |
| Net increase (decrease) in capital lease obligation                           | 6,600  | (9,490)  | (5,700)  |
| Settlement of long-term obligation under share purchase agreement             | (378,075)  | (111,367)  | (651,497)  |
| Issuance of share capital, net of share issue costs                           | 14,824,266   | 50,000   | 23,864,409   |
| <b>Net Cash provided by (used in) financing activities</b>                    | <b>14,431,747</b>                                    | <b>(71,240)</b>                                      | <b>23,125,785</b>  |
| <b>Net increase (decrease) in cash and cash equivalents during the period</b> | <b>9,646,694</b>                                     | <b>(4,516,408)</b>                                   | <b>10,688,963</b>  |
| Foreign exchange difference   | 79,489   | 3,135  | 75,134   |
| Cash and cash equivalents, beginning of period                                | 1,037,914  | 5,551,187  | -  |
| <b>Cash and cash equivalents, end of period</b>                               | <b>10,764,097</b>                                    | <b>1,037,914</b>                                     | <b>10,764,097</b>  |
| <b>Deemed interest paid in cash</b>   | <b>271,928</b>                                       | <b>288,633</b>                                       | <b>874,655</b>   |

See accompanying notes

---

**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2007 and 2006

---

**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. 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 "GAAP". The significant accounting policies are summarized as follows:

**Use of estimates**

The preparation of financial statements in conformity with Canadian GAAP 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.

**Cash and cash equivalents**

Cash and cash equivalents include unrestricted cash balances in bank accounts and guaranteed investment certificates that can be redeemed within 30 days of purchase without penalty.

**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 |

---

**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2007 and 2006

---

**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 and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, capital lease obligation 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.

*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 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 rate change is substantially enacted.

**Investment tax credits**

The Company recognizes investment tax credits for qualifying research and development costs when there is reasonable assurance of realization of the credit. 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.

---

**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2007 and 2006

---

**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 provisions of the stock options are determined at the discretion of the Board of directors' and typically involve immediate vesting provisions, or three year vesting provisions.

Further to the above, the accounting policies used in the preparation of these financial statements conform with those used in the Company's most recent prior financial statements except for the following:

**Changes to accounting policies**

Effective January 1, 2007, the Company adopted the new recommendations of The 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. There was no material impact resulting from adopting these new recommendations.

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, 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 financial statements to date.

**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 characteristics. Section 3855 provides guidance on the recognition and measurement of financial assets, financial liabilities and derivative 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

---

**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2007 and 2006

---

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 and fixed 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 or loss is recognized immediately in net income or loss.

**Loans and 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 or 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 or loss 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>                   |                       |                    |
| Accounts receivable                       | Loans and receivables | Amortized cost     |
| <u>Financial liabilities</u>              |                       |                    |
| Accounts payable and accrued liabilities  | Other liabilities     | Amortized cost     |
| Obligation under share purchase agreement | Other liabilities     | Amortized cost     |

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 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 year 2007, net loss and comprehensive loss for the period were equal.

**Future accounting changes**

In 2006, the CICA announced that accounting standards in Canada will converge with International Financial Reporting Standards ("IFRS"). The Company will need to begin reporting under IFRS in the first quarter of 2011 with comparative data for the prior year. IFRS uses a conceptual framework similar to GAAP, but there could be significant differences on recognition, measurement and disclosures that will need to be addressed. The Company is currently assessing the impact of these standards on its financial statements.

---

**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2007 and 2006

---

In addition, the CICA has issued the following new Handbook Sections, which will become effective on January 1, 2008 for the Company:

- Section 3862 - *Financial Instruments – Disclosures*;
- Section 3863 - *Financial Instruments – Presentation*;
- Section 1535 - *Capital disclosures*;
- Section 3064 - *Goodwill and Intangible Assets*.

These new Sections carry forward unchanged presentation requirements of Section 3861 - *Financial Instruments – Disclosure and Presentation*; and converge with the capital disclosure-related amendments to International Accounting Standards.

Section 3862 places an increased emphasis on disclosures about the risks associated with both recognized and unrecognized financial instruments and how these risks are managed and also simplifies the disclosures about concentrations of risk, credit risk, liquidity risk and market risk currently found in Section 3861. Additional requirements include: more extensive disclosures about exposures to liquidity; currency and other price risks and an analysis of the sensitivity of net income for possible changes thereto; more specific disclosures about collateral; and details of liabilities that are in default or in breach of their terms and conditions.

Section 3863 carries forward, without change, the presentation-related requirements of Section 3861.

Section 1535 requires the disclosure of: an entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and, if it has not complied, the consequences of such non-compliance.

Section 3064 replaces CICA 3062 - *Goodwill and Intangible Assets* and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the recognition of internally developed intangible assets, whether separately acquired or internally developed, and provides guidance for the treatment of preproduction and start-up costs and requires that these costs be expensed as incurred.

The Company is in the process of assessing the full impact of these new Sections on its financial statements.

**3. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include unrestricted cash balances in bank accounts amounting to \$1,260,097 (\$1,037,914 as at December 31, 2006) and guaranteed investment certificates that can be redeemed within 30 days of purchase without penalty. The following table shows details of these guaranteed investment certificates as at December 31, 2007 (no such balances existed as at December 31, 2006):

| <b>Value</b> | <b>Maturity date</b> | <b>Interest</b> | <b>Remarks</b>  |
|--------------|----------------------|-----------------|---|
| <b>\$</b>    |                      | <b>rate</b>     |   |
| 540,000      | March 31, 2008       | Prime linked    | Interest rate at investment date was 4% per annum, and is subject to change.                        |
| 1,964,000    | January 8, 2008      | 4.00%           | Guaranteed investment certificates are denominated in foreign currency and amount to US\$2,000,000. |
| 7,000,000    | November 10, 2008    | Prime linked    | Interest rate at investment date was 4.25% per annum, and is subject to change.                     |

---

**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2007 and 2006

---

**4. RESTRICTED CASH**

Restricted cash balances of \$81,427 (\$60,383 as at December 31, 2006) deposited in an investment account with a bank yielding an annual interest rate of 2.05% (on December 31, 2007) and held by the bank as collateral for available credit facilities of equivalent value offered to the Company.

**5. PROPERTY AND EQUIPMENT**

|                                | 2007           |                             |                   |
|--------------------------------|----------------|-----------------------------|-------------------|
|                                | Cost           | Accumulated<br>amortization | Net book<br>value |
|                                | \$             | \$                          | \$                |
| Computer equipment             | 99,801         | 64,994                      | 34,807            |
| Computer software              | 21,275         | 14,031                      | 7,244             |
| Office furniture and equipment | 34,789         | 18,611                      | 16,178            |
|                                | <b>155,865</b> | <b>97,636</b>               | <b>58,229</b>     |

  

|                                | 2006           |                             |                   |
|--------------------------------|----------------|-----------------------------|-------------------|
|                                | Cost           | Accumulated<br>amortization | Net book<br>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            |
|                                | <b>139,391</b> | <b>78,453</b>               | <b>60,938</b>     |

Included in computer equipment are assets under capital lease with a cost of \$23,964 (\$27,008 for 2006), and accumulated amortization of \$7,665 (\$16,318 for 2006).

**6. INTELLECTUAL PROPERTY**

|   | 2007             |                             |                   |
|---|------------------|-----------------------------|-------------------|
|   | Cost             | Accumulated<br>amortization | Net book<br>value |
|   | \$               | \$                          | \$                |
| Owned by the Company                            | 20,000           | 7,511                       | 12,489            |
| Subject to purchase commitments <i>[note 7]</i> | 2,411,279        | 780,693                     | 1,630,586         |
|   | <b>2,431,279</b> | <b>788,204</b>              | <b>1,643,075</b>  |

  

|   | 2006             |                             |                   |
|---|------------------|-----------------------------|-------------------|
|   | Cost             | Accumulated<br>amortization | Net book<br>value |
|   | \$               | \$                          | \$                |
| Owned by the Company                            | 20,000           | 5,511                       | 14,489            |
| Subject to purchase commitments <i>[note 7]</i> | 2,411,279        | 539,565                     | 1,871,714         |
|   | <b>2,431,279</b> | <b>545,076</b>              | <b>1,886,203</b>  |

---

**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2007 and 2006

---

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.

**7. 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, 2006 and 2007 were made in cash rather than by issuing the Company's Common shares. As part of the share purchase agreement, the Company is subject to commitments for future royalty payments [see note 14[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:

|   | <b>December 31,</b> |
|---|---------------------|
|   | <b>2007</b>         |
|   | <b>\$</b>           |
| Payment due in September 2008                   | <b>1,650,000</b>    |
| Less amount representing deemed interest at 15% | <b>215,217</b>      |
|   | <b>1,434,783</b>    |
| Less current portion of obligation principal    | <b>1,434,783</b>    |
| Long-term portion                               | <b>-</b>            |

The current portion of obligation under share purchase agreement shown on the balance sheets represents the following:

|   | <b>2007</b>      | 2006      |
|---|------------------|-----------|
|   | <b>\$</b>        | <b>\$</b> |
| Current portion of obligation principal | <b>1,434,783</b> | 378,073   |
| Deemed interest on obligation           | <b>52,335</b>    | 66,305    |
|   | <b>1,487,118</b> | 444,378   |

---

**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2007 and 2006

---

**8. CAPITAL LEASE OBLIGATION**

The Company has leased certain assets under capital lease contracts. The balance shown on the financial statements as at December 31, 2007 relates 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 14.5% and expiry date for the contract is June 2010. The following schedule details the Company's obligation under the lease contract at December 31, 2007:

|  | \$     |
|--|--------|
| Payments for 2008  | 7,975  |
| Payments for 2009  | 7,975  |
| Payments for 2010  | 3,989  |
| Total future payments under capital lease contract                   | 19,939 |
| Less amount representing interest                                    | 4,233  |
| Capital lease obligation (excluding interest)                        | 15,706 |
| Less current portion   | 5,699  |
| Non-current portion of Capital lease obligation (excluding interest) | 10,007 |

**9. INCOME TAXES**

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

|                                       | 2007        | 2006        |
|---------------------------------------|-------------|-------------|
|                                       | \$          | \$          |
| Statutory tax rate                    | 25.00%      | 29.00%      |
| Expected tax recovery                 | (1,363,396) | (1,380,379) |
| Impact of change in enacted tax rates | 359,821     | 205,767     |
| Add: stock option expense             | 134,853     | 103,057     |
|                                       | (868,722)   | (1,071,555) |
| Future tax assets not recorded        | 868,722     | 1,071,555   |
|                                       | -           | -           |

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 are as follows:

|   | 2007        | 2006        |
|---|-------------|-------------|
|   | \$          | \$          |
| <b>Future tax assets</b>  |             |             |
| Non-capital loss carry forwards   | 2,571,889   | 1,816,458   |
| Scientific research and experimental development pool                         | -           | 361,758     |
| Federal investment tax credit carry forwards                                  | 217,198     | 249,489     |
| Carrying value of capital and intangible assets in excess of accounting basis | 226,718     | 180,998     |
| Total future tax assets   | 3,015,805   | 2,608,703   |
| Valuation allowance on future tax assets                                      | (3,015,805) | (2,608,703) |
| <b>Net future tax assets</b>  | -           | -           |

---

**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2007 and 2006

---

As at December 31, 2007, the Company has accumulated non-capital losses for federal and provincial income tax purposes in Canada which are available for application against future taxable income. As at December 31, 2007, the Company also has unclaimed Canadian federal scientific research and development, and investment tax credits which are available to reduce future federal taxes payable. The benefit of these losses and investment tax credits has not been recorded in the accounts. The non-capital tax losses and investment tax credits expire as follows:

|      | <b>Federal</b> | <b>Investment<br/>tax credits</b> |
|------|----------------|-----------------------------------|
|      | \$             | \$                                |
| 2014 | 516,205        | 72,119                            |
| 2015 | 1,321,527      | 130,725                           |
| 2026 | 411,425        | 86,753                            |
| 2027 | 4,631,429      | -                                 |

---

**10. 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 programs:

|                                   | <b>Twelve Months<br/>Ended<br/>December 31,<br/>2007</b> | Twelve Months<br>Ended<br>December 31,<br>2006 | Cumulative from<br>Inception on<br>March 31, 2004 to<br>December 31, 2007 |
|-----------------------------------|--|--|---|
|                                   | \$   | \$   | \$  |
| Clinical development              | <b>700,916</b>   | 536,296  | 1,451,795   |
| Preclinical development           | <b>271,733</b>   | 495,197  | 1,164,871   |
| Research                          | <b>168,000</b>   | 228,000  | 745,174   |
| Salaries and bonuses              | <b>345,517</b>   | 208,502  | 736,123   |
| Consulting fees                   | <b>168,657</b>   | 264,426  | 509,282   |
| Licensing cost                    | <b>53,525</b>  | 291,122  | 344,647   |
| Other costs                       | <b>141,604</b>   | 135,984  | 305,030   |
| Research and development expenses | <b>1,849,952</b>   | 2,159,527                                      | 5,256,922   |

---

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

---

**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2007 and 2006

---

**11. SHARE CAPITAL****[a] Authorized**

The authorized share capital of the Company consists of an unlimited number of Common shares, Class B shares and First Preferred shares, in each case without nominal or par value. Common shares are voting, and may receive dividends as declared at the discretion of the directors. Class B shares are non-voting and convertible to Common shares at the holder's discretion, on a one-for-one basis. Upon dissolution or wind-up of the Company, Class B shares participate ratably with the Common shares in the distribution of the Company's assets. Preferred shares have voting rights as decided upon by the Board of Directors at the 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**

|  | <b>Number<br/>of shares</b> |                        |
|--|-----------------------------|------------------------|
|  | #                           | \$                     |
| <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                 |
|  | <hr/> 18,986,364            | <hr/> 1,328,010        |
| Share issuance costs   | -                           | (7,417)                |
| <b>Balance, December 31, 2004</b>  | <hr/> <b>18,986,364</b>     | <hr/> <b>1,320,593</b> |
| <br>   |                             |                        |
| 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 shares (iv) & (v)                          | 200,000                     | 5,000                  |
| Options exercised, October 14, 2005 (vi)                                   | 175,000                     | 76,750                 |
|  | <hr/> 34,375,000            | <hr/> 8,581,750        |
| Share issuance costs   | -                           | (1,006,200)            |
| <b>Balance, December 31, 2005</b>  | <hr/> <b>53,361,364</b>     | <hr/> <b>8,896,143</b> |
| <br>   |                             |                        |
| Conversion of Class B to Common shares (vii) & (viii)                      | 240,000                     | 6,000                  |
| Options exercised, (ix)  | 200,000                     | 88,470                 |
| <b>Balance, December 31, 2006</b>  | <hr/> <b>53,801,364</b>     | <hr/> <b>8,990,613</b> |

---

**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2007 and 2006

---

|   |                    |                   |
|---|--------------------|-------------------|
| Issuance of shares in private placement, February 1, 2007 (xi)      | 10,000,000         | 2,000,000         |
| Share issuance costs, February 1, 2007                              | -                  | (144,390)         |
| Issuance of shares in private placement, March 27, 2007 (xii)       | 4,000,000          | 2,000,000         |
| Issuance of shares covering financing costs, March 27, 2007 (xiii)  | 151,000            | 113,250           |
| Share issuance costs, second private placement in 2007              | -                  | (182,712)         |
| Exercise of share purchase warrants during June, 2007 (xiv)         | 62,500             | 15,625            |
| Issuance of shares in short form prospectus, November 9, 2007 (xvi) | 34,500,000         | 12,075,000        |
| Share issuance costs - short form prospectus                        | -                  | (1,216,258)       |
| Conversion of Class B to Common shares, (x) & (xv)                  | 240,000            | 6,000             |
| Options exercised, (xvii)   | 655,000            | 269,308           |
| <b>Balance, December 31, 2007</b>                                   | <b>103,409,864</b> | <b>23,926,436</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 (ii)             | (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 shares, (iv) & (v)                  | (200,000)          | (5,000)           |
| <b>Balance, December 31, 2005</b>                                   | <b>6,600,000</b>   | <b>165,000</b>    |
| Conversion of Class B to Common shares, (vii) & (viii)              | (240,000)          | (6,000)           |
| <b>Balance, December 31, 2006</b>                                   | <b>6,360,000</b>   | <b>159,000</b>    |
| Conversion of Class B to Common shares, (x) & (xv)                  | (240,000)          | (6,000)           |
| <b>Balance, December 31, 2007</b>                                   | <b>6,120,000</b>   | <b>153,000</b>    |
| <b>Share Capital, December 31, 2007</b>                             | <b>109,529,864</b> | <b>24,079,436</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 of \$18,000.

(ii) On November 19, 2004, 4,000,000 Class B shares were converted to 4,000,000 Common shares on a one-for-one basis.

(iii) On November 21, 2004, 600,000 options were exercised at a price of \$0.025 and 200,000 options were exercised at a price of \$0.10. In addition, contributed surplus of \$20,000 was reclassified to share capital upon exercise of the options.

(iv) On January 10, 2005, 80,000 Class B shares were converted to 80,000 Common shares on a one-for-one basis.

(v) On April 1, 2005, 120,000 Class B shares were converted to 120,000 Common shares on a one-for-one basis.

(vi) On October 14, 2005, 175,000 options were exercised at a price of \$0.25. Contributed surplus of \$33,000 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.

---

**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2007 and 2006

---

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

(ix) The following table provides details of stock options exercised during 2006:

| Date           | Number of issued shares | Exercise price | Total proceeds | Amount transferred from contributed surplus | Total increase in share capital |
|----------------|-------------------------|----------------|----------------|---|---------------------------------|
| March 21, 2006 | 25,000                  | 0.25           | 6,250          | 5,220                                       | 11,470                          |
| April 26, 2006 | 175,000                 | 0.25           | 43,750         | 33,250                                      | 77,000                          |
|                | <u>200,000</u>          |                | <u>50,000</u>  | <u>38,470</u>                               | <u>88,470</u>                   |

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

(xi) 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.

(xii) 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.

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

(xiv) During June 2007, 62,500 share purchase warrants were exercised at \$0.25.

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

(xvi) On November 9, 2007, the Company completed a \$12,075,000 bought deal of 34,500,000 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 \$0.50 until May 9, 2010.

(xvii) The following table provides details of stock options exercised during 2007:

| Date               | Number of issued shares | Exercise price | Total proceeds | Amount transferred from contributed surplus | Total increase in share capital |
|--------------------|-------------------------|----------------|----------------|---|---------------------------------|
| April 13, 2007     | 100,000                 | 0.25           | 25,000         | 19,050                                      | 44,050                          |
| September 12, 2007 | 32,000                  | 0.25           | 8,000          | 6,098                                       | 14,098                          |
| October 01, 2007   | 63,500                  | 0.25           | 15,875         | 12,097                                      | 27,972                          |
| October 22, 2007   | 109,500                 | 0.25           | 27,375         | 20,860                                      | 48,235                          |
| November 19, 2007  | 170,000                 | 0.25           | 42,500         | 32,385                                      | 74,885                          |
| November 27, 2007  | 50,000                  | 0.25           | 12,500         | 9,525                                       | 22,025                          |
| December 07, 2007  | 130,000                 | 0.25           | 32,500         | 5,543                                       | 38,043                          |
|                    | <u>655,000</u>          |                | <u>163,750</u> | <u>105,558</u>                              | <u>269,308</u>                  |

**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2007 and 2006

**[c] Employee stock options**

The following table summarizes the activity of the Company's stock option plan for the year ended:

|                                 | December 31, 2007 |                                       | December 31, 2006 |                                       |
|---------------------------------|-------------------|---------------------------------------|-------------------|---------------------------------------|
|                                 | Number of options | Weighted-average exercise price<br>\$ | Number of options | Weighted-average exercise price<br>\$ |
| <b>Outstanding, January 1</b>   | <b>4,555,556</b>  | <b>0.27</b>                           | 5,025,000         | 0.27                                  |
| Granted                         | <b>4,005,000</b>  | <b>0.36</b>                           | 350,000           | 0.25                                  |
| Exercised                       | <b>(655,000)</b>  | <b>0.25</b>                           | (200,000)         | 0.25                                  |
| Cancelled                       | <b>(20,000)</b>   | <b>0.34</b>                           | (619,444)         | 0.25                                  |
| <b>Outstanding, December 31</b> | <b>7,885,556</b>  | <b>0.32</b>                           | 4,555,556         | 0.27                                  |
| <b>Exercisable, December 31</b> | <b>4,852,306</b>  | <b>0.29</b>                           | 3,492,361         | 0.27                                  |

The following table summarizes information about stock options outstanding as at December 31, 2007:

| Options outstanding            |                          |   | Options exercisable                   |                          |                                       |
|--------------------------------|--------------------------|---|---------------------------------------|--------------------------|---------------------------------------|
| Range of exercise prices<br>\$ | Options outstanding<br># | Weighted-average remaining contractual life<br>in years | Weighted-average exercise price<br>\$ | Options exercisable<br># | Weighted-average exercise price<br>\$ |
| <b>0.25 - 0.58</b>             | <b>7,885,556</b>         | <b>2.96</b>   | <b>0.32</b>                           | <b>4,852,306</b>         | <b>\$0.29</b>                         |

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

|                         | 2007              | 2006        |
|-------------------------|-------------------|-------------|
| Risk-free interest rate | <b>5%</b>         | 5%          |
| Volatility              | <b>96% - 125%</b> | 120% - 133% |
| Dividend yield          | <b>0%</b>         | 0%          |
| Expected life           | <b>5 years</b>    | 5 years     |

The options have been allocated pursuant to a 10% rolling stock option plan which was reapproved by the Company's shareholders at its annual general meeting held on May 28, 2007. 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 at December 31, 2007, the Company is entitled to issue an additional 2,455,430 stock options under this plan.

## Stem Cell Therapeutics Corp.

[a development stage company]

### NOTES TO FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2007 and 2006

Details of stock options granted during 2007 are as follows:

| Date granted  | Exercise price | Share price at date of grant | Number of options | Expected life | Black-Scholes valuation per option | Total value |
|---------------|----------------|------------------------------|-------------------|---------------|------------------------------------|-------------|
| January 2007  | \$0.25         | \$0.21                       | 100,000           | 5 years       | \$0.16                             | \$16,000    |
| February 2007 | \$0.34         | \$0.34                       | 880,000           | 5 years       | \$0.29                             | \$255,200   |
| May 2007      | \$0.58         | \$0.58                       | 250,000           | 5 years       | \$0.44                             | \$110,000   |
| October 2007  | \$0.39         | \$0.39                       | 175,000           | 5 years       | \$0.32                             | \$56,000    |
| November 2007 | \$0.35         | \$0.33                       | 2,600,000         | 5 years       | \$0.27                             | \$702,000   |

## 12. 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 shares outstanding as of December 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   | 4,937,500          | 4,937,500                                   | \$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 <sup>(1)</sup> | March 27, 2009   |
| Warrants issued in connection with short form prospectus closed on November 9, 2007 (including 1,725,000 brokers' warrants) | 18,975,000         | 18,975,000                                  | \$0.50                | May 9, 2010      |

(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.

## 13. CONTRIBUTED SURPLUS

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

|                            | 2007      | 2006     |
|----------------------------|-----------|----------|
|                            | \$        | \$       |
| Balance, beginning of year | 753,253   | 436,353  |
| Stock-based compensation   | 539,413   | 355,370  |
| Exercise of stock options  | (105,557) | (38,470) |
| Balance, end of year       | 1,187,109 | 753,253  |

---

**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2007 and 2006

---

**14. 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 committed cost of \$72,934 for 2008.

**[b] Research contracts**

The Company has an ongoing research a contract with an Alberta-based university. Monthly charges under this contract amount to \$14,000. In addition, the Company has entered into a new contract with the same university which will continue from July 1, 2007 to June 30, 2008. Total costs under the new contract amount to \$196,000. Payments and costs under the contract during 2007 amounted to \$98,000. Expected costs for 2008 under the new contract amount to \$98,000.

Additional contracted costs for 2008 include pre-clinical activities at a cost of \$245,000 and clinical activities at a cost of \$1,725,000.

Expected future costs under a cross-licensing agreement that the Company entered into in 2006 include an ongoing annual license maintenance fee of US \$50,000.

**[c] Contingency**

Pursuant to the share purchase agreement from Transition [see note 7], 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.

Contingent future costs under a cross licensing agreement that the Company entered into in 2006 amount to US\$1,650,000, payable in several tranches upon the achievement of certain product development targets.

**15. LOSS PER COMMON SHARE**

Loss per Common share is calculated using the weighted-average number of Common shares outstanding during the year ended December 31, 2007 of 71,513,490 (53,673,419 as at December 31, 2006). The cumulative weighted-average number of Common shares since inception to December 31, 2007 is 49,640,226. The Company has excluded all outstanding stock options, share purchase warrants and Class B shares from the calculation of diluted loss per share because all such securities are considered anti-dilutive.

**16. 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.

**17. COMPARATIVE FIGURES**

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