

STEM CELL  

---

THERAPEUTICS

**Stem Cell Therapeutics Corp.**

Management Discussion and Analysis  
For the fiscal year ended December 31<sup>st</sup>, 2007

Dated: March 31, 2008

Dated March 31, 2008

The following information should be read in conjunction with the Company's 2007 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 Company including the Company's Annual Information Form can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Certain information contained in this report 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.

This management's discussion and analysis ("MD&A") has been prepared in accordance with the guidelines of National instrument 51-102 and covers the period from January 1, 2007 to March 31, 2008 unless otherwise noted.

## **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 functions lost due to disease or injury. Our lead product, 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 other neurological diseases such as traumatic brain injury and multiple sclerosis.

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. SCT has conducted a Phase IIa clinical trial in the United States and Canada in order to investigate the safety and efficacy of NTx™-265 in human stroke patients. On April 10, 2007, the

Company released interim results from the Phase IIa trial and on February 20, 2008 the Company released further results from the trial, both of which showed positive outcomes as discussed in more detail in this report. The Company is in the process of commencing a Phase IIb prospective, randomized, double-blind, placebo controlled study of NTx™-265 termed REGENESIS.

### **Operating Highlights from 2007 and the period ending March 31, 2008**

- 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).
- Released positive interim results for the Phase IIa clinical safety study in stroke in April 2007.
- Appointed Scott Tannas to the Board of Directors
- Completed a bought-deal public offering in November with a group of investment dealers that raised \$12.075 million in gross proceeds
- Appointed Francesco Bellini to the Board of Directors
- Released formal results from the Phase IIa study in February 2008 that demonstrated favourable safety and efficacy outcomes from the trial
- Initiated the process to begin a Phase IIb Canadian-based, prospective, and randomized, double-blind, placebo controlled study of NTx™-265 in acute ischemic stroke patients, scheduled for completion in 2008.

### **2008 Milestones**

- Complete enrolment in the Phase IIb clinical stroke study for NTx™-265
- Initiate Phase IIa clinical study for Traumatic Brain Injury
- Complete animal efficacy studies for Multiple Sclerosis

### **Operating results for the period January 1, 2007 to March 31, 2008.**

On April 10, 2007, SCT announced positive interim results from its currently enrolling Phase IIa clinical program for NTx™-265. This uncontrolled open label safety trial was designed to determine whether NTx™-265 could be safely administered to a population of patients with acute stroke. In addition to the trial's primary safety endpoint, a number of secondary endpoints are being studied to characterize early indicators of efficacy in patients receiving this novel stroke therapy.

As of April 10, 2007, five patients had been enrolled. Each had a moderate to severe stroke, defined by study entry criterion of National Institute of Health Stroke Scale (NIHSS; [http://www.ninds.nih.gov/doctors/NIH\\_Stroke\\_Scale\\_Booklet.pdf](http://www.ninds.nih.gov/doctors/NIH_Stroke_Scale_Booklet.pdf)) as the score between 6 (moderate) and 24 (severe); 0 being normal and 30 being non-responsive or comatose. Of these, four patients had safely completed the NTx™-265 regimen of human chorionic gonadotropin (hCG) and erythropoietin (EPO), initiated 24-48 hours after stroke. No drug-related Serious Adverse Events (SAE's) had been noted. A fifth study patient, a 79 year-old female with concomitant myocardial infarct and multi-organ

failure, died before dosing was completed. This SAE was judged completely unrelated to the study drug regimen.

Accompanying the primary safety endpoint measures in this study is a battery of secondary endpoints that measure functional recovery. An earlier preclinical stroke study in rats established the proof of principle and impetus for proceeding into this clinical trial by demonstrating that administration of NTx™-265, as compared to a placebo, was associated with rapid and robust recovery of visual and tactile motor control of forelimb function, as well as reduced final infarct volume. Infarct volume is the term used to describe the volume of brain tissue affected by blockage of blood flow to that tissue. Interim results from the current Phase IIa NTx™-265 stroke clinical trial show that each of the patients who completed the therapy demonstrated significant recovery from their stroke symptoms. In addition, MRI readings at days 1 and 90 post-stroke, available from two of the patients, indicate that infarct volume had been reduced by 39-79% over this 90-day period. A copy of the MRI photos from one of the patients can be viewed on our website (<http://www.stemcellthera.com>).

Each of the four patients who completed therapy to date was screened, enrolled, and had a stroke of moderate severity (enrollees have had baseline NIHSS score ranging from 6 to 10), and presented with a constellation of symptoms. The most common symptoms have been weakness and neglect, the latter referring to reduced attention to half of the visual space. Prior studies suggest that as many as 30% of patients hospitalized with a moderate-severe stroke can spontaneously recover within 90 days of stroke onset, with recovery being defined as achieving either a final NIHSS score of 0 or 1, or a decrease of at least 4 points in this scale. In the present study, all patients who have completed treatment and been evaluated out to day 90 have shown such a level of recovery. Further, each of these patients demonstrated a multifaceted improvement across their constellation of neurological deficits. An example of a patient's recovery from neglect after receiving NTx™-265 can be viewed on our website.

On July 25, 2007 SCT initiated a pre-clinical comparator study designed to characterize the neuroregenerative effects of stem cell proliferative agents plus EPO in an animal model of traumatic brain injury (TBI). This study represents a promising new program launch that builds upon intellectual property held by SCT and supported by fundamental findings from the laboratory of an Alberta-based university.

On August 7, 2007 the Company announced the addition of a second Phase IIa site located at the Foothills Medical Center in Calgary, Alberta for its currently enrolling Phase IIa safety study, examining the safety and efficacy of its lead stroke-therapy regimen. The Company decided to open a second clinical trial site in view of the encouraging interim results obtained by Dr. Steven C. Cramer, Principal Investigator of the study. The initial trial is continuing at the University of California, Irvine Medical Center. The new Calgary site is lead by Dr. Michael Hill, MD, Associate Professor of Clinical Neurosciences at the University of Calgary and Director of the Stroke Unit at Foothills Medical Center, Calgary.

On September 25, 2007, SCT announced the grant of the Japanese patent numbered 3993560 and entitled "Combined Regulation of Neural Cell Production" to Stem Cell

Therapeutics Inc. This patent protects a pharmaceutical composition for enhancing neuronal precursor cell formation in a variety of central nervous system (CNS) disorders including brain injury, stroke, Alzheimer's disease, Huntington's disease, and other CNS diseases. The strategy of using a therapeutic regimen of drugs to enhance neurogenesis, as taught in this patent, has the potential to be a key treatment for many CNS diseases.

On October 15, 2007 SCT announced the appointment of Mr. Scott Tannas, a senior financial and insurance brokerage executive, to the Board of Directors. SCT also announced that Dr. J.P. Castaigne had resigned from SCT's Board of Directors in order to focus on his current obligations at Angiochem Inc.

On November 9, 2007 SCT closed a bought deal financing. Gross proceeds of \$12.075 million were raised, which includes the exercise in full of a 15% overallotment option, resulting in 34,500,000 Units (the "Units") being sold to the public pursuant to a short form prospectus. The Units were sold at a price of \$0.35 per Unit, with each Unit consisting of one common share of SCT and one-half of one common share purchase warrant. Each whole warrant is exercisable to acquire one additional common share of SCT at a price of \$0.50 per share for 30 months.

On November 13, 2007 SCT appointed Dr. Francesco Bellini, Chairman, President and Chief Executive Officer of Neurochem Inc., an industry leader in the development of therapeutic drugs for the central nervous system, to its Board of Directors.

On December 4, 2007 the Company announced that the Company had received a No Objection Letter (NOL) from Health Canada for its Phase IIb REGENESIS clinical trial in acute stroke investigating efficacy and safety endpoints. This will be a Canadian based prospective, randomized, double-blind, placebo controlled study of NTx™-265 in acute ischemic stroke patients and will be conducted in association with the Canadian Stroke Consortium. The trial is projected to recruit at approximately 15 to 20 enrolling centers across Canada with a target enrollment of 134 patients.

On December 11, 2007 the Company announced that Drs Trina Johnson, Wee Yong and Samuel Weiss would be presenting preliminary results from a study of the effects of prolactin in a mouse model of multiple sclerosis at the Canadian endMS Research Conference held in Banff, Alberta from December 10 through 13<sup>th</sup>. The work of Drs Johnson, Yong and Weiss explores prolactin's role as a therapy in acute and chronic central nervous system disease settings, specifically multiple sclerosis.

On February 20, 2008, the Company announced favorable results from the investigator led BETAS (Beta-hCG + Erythropoietin in Acute Stroke), Phase IIa, open label, safety trial conducted at the University of California, Irvine and Hoag Presbyterian Memorial Hospital, Newport Beach, CA. This trial was the first to test the safety of NTx™-265 in patients suffering acute ischemic stroke and to conduct a preliminary assessment of functional recovery in this patient population.

Results from the BETAS trial showed no serious adverse events related to NTx™-265 in the 13 patients enrolled. Of these, 8 patients completed the 90 day assessment term and

each of them showed a clinically relevant improvement in their National Institutes of Health Stroke Scale (NIHSS) score of 4 points or greater. Patients entered the trial with NIHSS scores ranging from 6-19 (moderate to severe). In these patients, average baseline NIHSS was 8.3 and improved in 8 of 8 patients to an average day 90 NIHSS of 2.5 plus, an improvement in NIHSS score of 5.8 plus. Five of these 8 patients had a day 90 Barthel Index score of 95-100 (out of 100); consistent with excellent outcome. Specific assessments of neurological recovery affected by NTx™-265 were also favorable, including the Arm Motor Fugl-Meyer Scale, an arm motor recovery assessment; Trailmaking A test, a measure of cognitive function; and measures of neglect and aphasia. Further, the drug regimen decreased the size of the infarct in 6 out of 8 patients overall, given a mean decrement in all 8 of about 10%.

## **Development Programs**

### *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 sufficiently to repair itself and regain lost functionality. Therefore, strokes typically cause either irreversible damage or recovery is incomplete and may take months to years. 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, which 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.

The next step in the clinical development for NTx™-265 is completion of a Phase IIb double-blind, randomized, placebo-controlled clinical trial focused on functional outcome measures. This will involve approximately 134 stroke patients in a number of different centers in Canada. We expect to begin recruiting patients during the second quarter of 2008. Dr. Steven Cramer at the University of California, Irvine and Dr. Michael Hill at the University of Calgary, Calgary Health Region, have agreed to serve as co-Principal Investigators for this Phase IIb program. The Phase IIb program is estimated to cost \$5.2 million.

### *Traumatic Brain Injury*

On July 25, 2007 SCT announced the initiation of a preclinical comparator study designed to characterize the neuroregenerative effects of stem cell proliferative agents

plus EPO in an animal model of traumatic brain injury (TBI). This study represents a promising new program launch that builds upon intellectual property held by SCT and supported by fundamental findings from the laboratory of Dr. Samuel Weiss at the University of Calgary. Acute traumatic injury to the head resulting from automobile accidents, concussive explosions or serious athletic impact to the head represents serious events that cause loss of independence and demand intense medical intervention with recovery periods that often persist for months or years. A therapy with the ability to improve neurological and functional recovery after an acute injury, thereby increasing patient independence and decreasing rehabilitation time and cost, would represent an extremely important development.

The preclinical comparator study announced is sponsored by SCT and is designed to describe the ability of prolactin or hCG followed by EPO to promote recovery of the brain following moderate-to-serious acute cortical (white matter) injury to the brain. The expected result of this study, to be conducted at Louisiana State University under the leadership of Dr. Ludmila Belayev, is to compare proliferative agents plus EPO in a rat animal model of TBI. Initial results are expected mid-year 2008.

Building from these data and those previously obtained, a phase IIa TBI clinical study is scheduled to start at one site in Canada in Q3 2008. This is similar in concept to the stroke therapy that SCT is currently testing in stroke victims in the phase IIa clinical study.

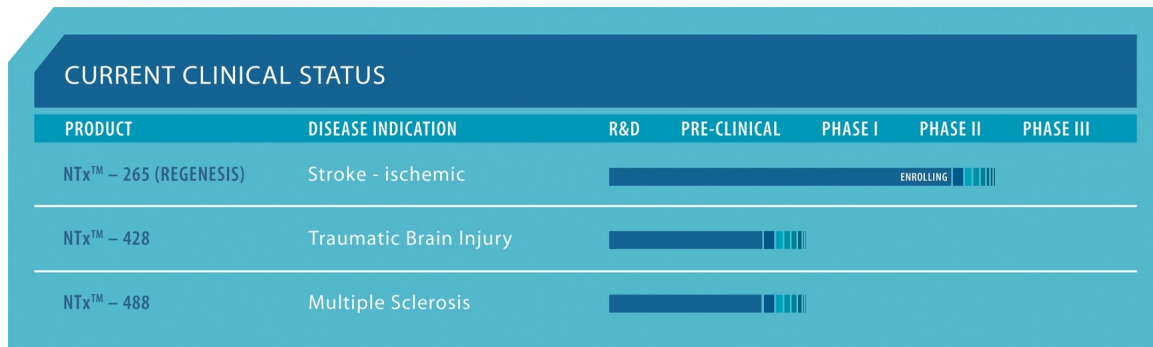
### *Multiple Sclerosis*

SCT has significant intellectual property around the use of neurogenic agents for treating demyelinating diseases such as Multiple Sclerosis. Previous scientific investigations have characterized two potentially important therapeutic effects of one of these agents, prolactin on the CNS: acting as both a neurogenic agent to increase the number of progenitor cells that mature into oligodendrocytes and as an agent that promotes remyelination of the brain in the presence of disease conditions. SCT was recently granted a key patent for the use of prolactin in neurologic diseases authored by Dr. Sam Weiss at an Alberta-based university and based on demonstrated insights into the effect of prolactin. Moreover, recent publications ( Journal of Neuroscience, Feb 21 2007 White Matter Plasticity and Enhanced Remyelination in Maternal CNS by Drs Yong and Weiss ) validating this concept suggest a potential new therapeutic platform upon which a MS based clinical program could be launched.

Although prolactin has not yet been approved for marketing, an extensive body of developmental and regulatory studies characterizing prolactin has been completed. As a result, rapid regulatory approval of prolactin is anticipated once demonstrated to be safe and efficacious in clinical studies. SCT has initiated a proof of concept study with prolactin in a well established experimental animal model of Multiple Sclerosis. Successful completion of this preliminary non-clinical study is expected to quickly evolve into clinical programs to demonstrate efficacy in humans if they are successful.

## Schizophrenia

SCT had an Option to Acquire agreement for a clinical stage program in Schizophrenia (dated September 13, 2006 and subsequently renewed March 13, 2007) that was allowed to expire September 13, 2007. No agreement to extend the option with the inventors of the study was concluded.



## 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 over 69 patents and pending patent applications, including three issued United States patents, three issued Australian patents and one issued Japanese patent. These make up 16 patent families which have been filed in the US and internationally. Seven of these patent families were filed by the Company and the remainder are being acquired through the 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.

All payments have thus far been in cash, except the final payment which has not yet been made. At the Company’s election the final payment can either be made by cash or through the issuance of common shares; provided that the Company is listed and has its shares 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.

### **Financial performance**

The Company’s loss for the year ended December 31, 2007 increased by \$693,652 to \$5,453,581 (\$0.08 per common share) from the loss of \$4,759,929 (\$0.09 per common share) reported for the year ended December 31, 2006. The primary reason for the increase in loss was an increase in professional fees, management and consulting fees, general and administration and stock option expenses. The increase in these expenses was partially offset by the decrease in research and development costs and increase of interest income, discussion of these variations follows.

- Interest income for 2007 resulted from interest paid on our cash balances, and amounted to \$137,027 compared to \$85,677 for 2006.
- The decrease in research and development expenses was primarily the result of a decrease in NTx™-265 technology development expenses, due primarily to the need to complete recruiting in the phase IIa clinical trial before beginning the phase IIb program. Research and development expenses amounted to \$1,849,952 during 2007, compared to \$2,159,527 in 2006.
- Professional fees in 2007 totaled \$821,120 compared to \$469,411 in 2006. The increase is mainly due to higher legal fees associated with intellectual property development for the year 2007 in comparison to 2006.

- Management and consulting fees in 2007 totaled \$763,662 compared to \$347,204 in 2006. The change is mainly driven by an increase in management compensation for the year 2007 in comparison to 2006, and a one-time employee severance cost.
- The increase in general and administrative expenses amounting to \$132,988 was primarily the result of an increase in investor relations and business development expenses. These expenses totaled \$1,075,763 in 2007 compared to \$942,775 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 2007 and 2006:

	<b>December 31, 2007</b>	December 31, 2006
	\$	\$
Interest income	<b>137,027</b>	85,677
Net loss	<b>5,453,581</b>	4,759,929
Basic and diluted net loss per common share	<b>0.08</b>	0.09
Total assets	<b>13,085,155</b>	3,237,706
Total long-term liabilities	<b>10,007</b>	1,436,617

### Research and Development

The Company's research and development expenses consist primarily of fees paid to external service providers. We expect our research and development expenses to increase significantly over the next few years as our products advance through 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.

All research and development fees are expensed, and total \$5,256,922 since inception.

Research and development expenses decreased to \$1,849,952 for the fiscal year ended December 31, 2007 from \$2,159,527 for the fiscal year ended December 31, 2006. This decrease of \$309,575 was primarily due to the need to complete the phase IIa clinical trial before proceeding to phase IIb. In addition, the decrease is caused by the following:

- (i) the completion of contracted preclinical studies that the Company was involved in during the first and second quarters of 2006; and

- (ii) a reimbursement of \$162,323 paid in the second quarter of 2006 for a preclinical study that was not completed. This reimbursement was received in the second quarter of 2007 and hence reduced research and development costs substantially in comparison to 2006.

The following is a breakdown of R&D costs:

	<b>Twelve Months Ended December 31, 2007</b>	Twelve Months Ended December 31, 2006	Cumulative from Inception on March 31, 2004 to 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
<b>Research and development expenses</b>	<b>1,849,952</b>	2,159,527	5,256,922

### 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 accounting and audit services.

Since inception, these fees total \$1,851,821. Professional fees for the year ended December 31, 2007 increased to \$821,120 from \$469,411 for the year ended December 31, 2006. This increase of \$351,709 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>2007</b>	2006	Cumulative since inception
	\$	\$	\$
Auditing and accounting fees	<b>82,358</b>	84,190	265,585
Legal fees – Intellectual property	<b>698,234</b>	320,388	1,333,235
Legal fees – Other	<b>40,528</b>	64,833	253,001
<b>Total professional fees</b>	<b>821,120</b>	469,411	1,851,821

SCT's intellectual property estate continues to grow and mature; as such, there will be increasing expenses related to the filing, prosecution, and maintenance of the patents and patent applications that SCT currently has. For reference, upon SCT's formation and the purchase of Stem Cell Therapeutics Inc., the combined patent portfolio was 28 patent

applications. As of the date of this report, the total patent pool now numbers 69 issued patents and pending applications, and is growing as more applications for example enter national phase filing, and additional new applications are filed.

### **Management and Consulting Fees**

Management and consulting fees increased to \$763,662 for the year ended December 31, 2007 from \$347,204 for the year ended December 31, 2006. This increase of \$416,458 is due to a severance payment paid during the first quarter of 2007 as well as increase in management and board of directors' compensation and bonuses declared and paid during the last quarter of 2007.

### **General and Administration (G&A)**

General and administrative expenses increased to \$1,075,763 for the year ended December 31, 2007 from \$942,775 for the year ended December 31, 2006. This increase of \$132,988 primarily resulted from the increase in investor relations expenses (from \$244,384 for 2006 to \$365,692 for 2007) in addition to increases in other operating expenses, mainly office lease and business development expenses.

The Company anticipates that general and administrative expenses will increase during 2008 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 \$1,384,136. These increased to \$539,413 for the year ended December 31, 2007 from \$355,370 for the year ended December 31, 2006. The increase is mainly due to new stock options granted during 2007.

The following table shows totals of granted, exercised, cancelled and outstanding options under the Company's stock option plan as at March 31, 2008. All options have a five year expiry from the date of grant, and either vest immediately, or vest over a three year period.

<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>
9,555,000	1,030,000	844,444	7,680,556

## Intellectual Property

The value of the intellectual property purchased from Transition Therapeutics Inc. on October 4, 2004 was recorded based on the present value of the purchase price amortized over a 10 year period at 15% as an intellectual property asset. The current and long term portions of the corresponding purchase liability as well as the deemed interest expense were recorded accordingly at December 31, 2007. As of that date, the long term liability associated with this transaction is nil as the remaining liability balance is payable within one year.

The change in net intellectual property balance from the December 31, 2006 balance is limited to the effect of amortization calculated during 2007.

The Company continues to file patents on all new intellectual property that is developed under the research contract with an Alberta-based university and contracts with independent research organizations and internally by the Company.

The Company currently owns or has rights to 62 pending patent applications, three issued United States patents, three issued Australian patents and one issued Japanese patent. These make up 16 patent families which have been filed in the US and internationally. Seven 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.

## Amortization

Total amortization charges since inception are \$907,046. Amortization charges for property and equipment decreased to \$39,613 for the year ended December 31, 2007 from \$43,627 for the year ended December 31, 2006. This decrease of \$4,014 is due to property and equipment disposed of throughout 2007. All amortization was calculated on a straight line basis over the estimated useful lives of the assets.

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 constant (\$243,128 for the years ended December 31, 2007 and December 31, 2006). No intellectual property asset additions were made during 2007.

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, 2007 was \$137,027 as compared to \$85,677 for the year ended December 31, 2006. This increase of \$51,350 in interest income primarily resulted from higher cash balances throughout the year ended December 31, 2007 resulting from financing transactions completed in the first and fourth quarter of 2007 as compared to the year ended December 31, 2006. Since inception the total interest earned by the Company amounted to \$362,618.

## Summary of Quarterly Results

	As at, and for the three months ended							
	2007				2006			
	December	September	June	March	December	September	June	March
Revenue(1)	\$58,183	\$35,242	\$31,077	\$12,525	\$9,776	\$25,866	\$21,303	\$28,732
Net loss	\$2,087,895	\$1,276,496	\$838,461	\$1,250,729	\$1,115,536	\$1,298,475	\$1,167,304	\$1,178,614
Basic and diluted loss per common share	\$0.02	\$0.02	\$0.01	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02
Total assets	\$13,085,155	\$4,499,181	\$5,370,281	\$6,051,992	\$3,237,706	\$4,061,031	\$5,766,306	\$6,934,528
Unrestricted cash and cash equivalents	\$10,764,097	\$2,285,870	\$3,342,738	\$3,972,958	\$1,037,914	\$1,600,612	\$3,045,722	\$4,623,813
Total long-term obligations (2)	\$10,007	\$11,721	\$1,434,783	\$1,434,831	\$1,436,617	\$1,438,535	\$1,818,391	\$1,820,175

(1) Interest income on cash balances

(2) Includes capital lease obligations and obligation under share purchase agreement.

(3) The Company has not declared or paid any dividends since incorporation.

The quarterly results of the Company reflect continuing losses as the Company continues its preclinical and clinical development activities and incurs administrative costs to sustain activities.

## 2007 Fourth Quarter Review

Statements of loss for the three-month period ended December 31, 2007 and 2006 are as follows:

	2007	2006
	\$	\$
<b>OPERATING EXPENSES</b>		
Research and development costs	<b>982,983</b>	381,337
Professional fees	<b>204,784</b>	199,483
Management and consulting fees	<b>343,446</b>	89,585
General and administration	<b>228,804</b>	199,217
Stock option expense	<b>260,110</b>	117,503
Deemed interest expense on obligation under share purchase agreement	<b>54,569</b>	66,310
Amortization of property and equipment	<b>10,596</b>	11,091
Amortization of intellectual property	<b>60,786</b>	60,786
<b>Total operating expenses</b>	<b>2,146,078</b>	1,125,312
Interest income	<b>(58,183)</b>	(9,776)
<b>Net loss for the period</b>	<b>2,087,895</b>	1,115,536

## Results of Operations

For the three-month period ended December 31, 2007; the Company's net loss increased to \$2,087,895 compared to \$1,115,536 for the three-month period ended December 31, 2006.

## Research and Development

The Company's research and development costs increased to \$982,983 for the three-month period ended December 31, 2007 compared to \$381,337 for the three-month period ended December 31, 2006. A breakdown of these costs are as follows:

	2007	2006
	\$	\$
Clinical development	<b>437,418</b>	129,194
Preclinical development	<b>249,252</b>	78,268
Research	<b>42,000</b>	42,000
Salaries and bonuses	<b>146,256</b>	50,437
Consulting fees	<b>76,189</b>	57,502
Other costs	<b>31,868</b>	23,936
<b>Research and development costs</b>	<b>982,983</b>	381,337

Preclinical costs in the fourth quarter of 2007 were higher than the comparable fourth quarter of 2006 due to new contracts with contract research organizations that the Company entered into during the fourth quarter of 2007. In addition, increase of research and development expenses for the fourth quarter of 2007 is partially due to salary increases and bonuses declared in this quarter covering the entire year 2007.

## Professional fees

Professional fees for the three-month period ended December 31, 2007 amounted to \$204,784 compared to \$199,483 for the three-month period ended December 31, 2006. Analysis of these expenses is as follows:

	2007	2006
	\$	\$
Auditing and accounting fees	<b>47,388</b>	45,690
Legal fees – Intellectual property	<b>136,636</b>	135,117
Legal fees – Other	<b>20,760</b>	18,676
<b>Total professional fees</b>	<b>204,784</b>	199,483

### **Management and Consulting Fees**

Management and consulting fees for the three-month period ended December 31, 2007 amounted to \$343,446 compared to \$89,585 for the three-month period ended December 31, 2006. This increase is caused by management salary increases and bonuses covering entire 2007 as well management bonuses and board of directors' retainer paid during the last quarter of 2007.

### **General and Administration**

General and administrative expenses amounted to \$228,804 for the three-month period ended December 31, 2007 compared to \$199,217 for the three-month period ended December 31, 2006. This slight increase reflects general increase in office operating costs as well as investor relations and business development expenses throughout 2007.

### **Stock options**

Stock option charges for the three-month period ended December 31, 2007 amounted to \$260,110 compared to \$117,503 for the three-month period ended December 31, 2006. Increase is mainly due to stock options granted during 2007.

### **Amortization**

Amortization charges for property and equipment decreased to \$10,596 for the three-month period ended December 31, 2007 compared to \$11,091 for the three-month period ended December 31, 2006.

Amortization charge for intellectual property assets remained constant as no intellectual property assets were added during 2007. Charges amounted to \$60,786 for the three-month periods ended December 31, 2007 and December 31, 2006.

### **Interest income**

Interest income for the three-month period ended December 31, 2007 was \$58,183 as compared to \$9,776 for the three-month period ended December 31, 2006. This increase resulted from higher cash balances throughout the last quarter of 2007 compared to the last quarter of 2006.

## **Liquidity and Capital Resources**

### **Overview**

The Company'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 totaled \$10,764,097 at December 31, 2007, Expected cash needs for 2008 amount to \$8.8 million dollars.. The Company raised funds in 2007 through a private placement of shares in February and March and a bought deal financing with a syndicate of underwriters in November, 2007 (see Financing Activities section). The Company believes that it has adequate financial resources for anticipated expenditures until the end of the first quarter of 2009.

As of December 31, 2007 the working capital (current assets minus current liabilities) of the Company was \$9,138,263 (\$408,938 as of December 31, 2006).

Outstanding securities as of December 31, 2007 totaled 103,409,864 common shares 6,120,000 class B shares, 25,912,500 common share purchase warrants and 7,885,556 common share options. Outstanding securities as of March 31, 2008 are 103,529,864 common shares, 6,000,000 class B shares, 25,912,500 common share purchase warrants and 7,680,556 common share options.

The Company has raised significant operating capital since its inception on March 31, 2004. On January 6, 2005 the Company closed its Initial Public Offering and raised gross proceeds of \$8,500,000. On February 1, 2007 the Company 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 Company 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. On November 9, 2007, the Company closed a bought deal financing with a syndicate of underwriters. Gross proceeds of \$12.075 million were raised, which includes the exercise in full of a 15% over-allotment option, resulting in 34,500,000 Units (the "Units") being sold to the public pursuant to a short form prospectus. The Units were sold to the public at a price of \$0.35 per Unit, with each Unit consisting of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant is exercisable to acquire one additional common share of the Company at a price of \$0.50 per share for 30 months. The net proceeds to the Company from the sale of the Units are approximately \$10.9 million after deducting the underwriters' fee and the expenses of the offering.

These capital resources have provided the means to advance our lead product NTx™-265 through the Phase IIa clinical trial final reporting period and into commencement of the Phase IIb clinical trial program, as well as additional programs for other indications

including traumatic brain injury and multiple sclerosis, and to meet working capital and current corporate needs, including but not limited to costs associated with ensuring the protection of the Company's intellectual property.

As of March 31, 2008 the gross proceeds raised since inception by the Company totaled \$26,308,135.

The Company'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 Company has invested capital into intellectual property development and patent filing activities and basic corporate office infrastructure. Cash balances are currently invested in interest bearing Guaranteed Investment Certificates, interest-bearing and non interest-bearing bank accounts.

### **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 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.

### **Change in 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 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 and 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 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:

	<b><u>Classification</u></b>	<b><u>Measurement</u></b>
<i><u>Financial assets</u></i>		
Accounts receivable	Loans and receivables	Amortized cost
<i><u>Financial liabilities</u></i>		
Accounts payable	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 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.

In addition, the CICA has issued the following new Handbook Sections, which will become effective on January 1, 2008 for Stem Cell Therapeutics Corp.:

- 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.

### **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 Company 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 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. The value of the Company's intangible assets could become impaired should its research and development activities change significantly or cease.

The Company has a significant number of patent filings in progress as well as others that are being acquired through the Stem Cell Therapeutics Inc. purchase, four of which have been issued to date, three in the United States and one in Japan. The Company'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 Company may not be able to successfully defend any subsequent infringements to these patents. The Company is currently unaware that it has infringed any existing patents issued to third parties and the Company's success will, in part, depend on operating without such infringement. The presence of such patents could severely limit the Company's ability to conduct its

existing research and/or require financial resources to defend litigation, which may be in excess of the Company's ability to raise such funds. Additionally, the Company 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, 2007 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 over financial reporting.