



Stem Cell Therapeutics Corp.

Unaudited Interim Financial Statements

June 30, 2008

Stem Cell Therapeutics Corp.

Balance Sheets

[a development stage company]

(Unaudited)

	As at June 30, 2008 \$	As at December 31, 2007 \$
ASSETS		
Current		
Cash and cash equivalents [note 3]	8,394,583	10,764,097
Restricted cash [note 4]	82,261	81,427
Accounts receivable	295,505	139,588
Prepaid expenses	259,774	395,281
	<u>9,032,123</u>	<u>11,380,393</u>
Property and equipment, net	59,655	58,229
Intellectual assets, net	1,521,518	1,643,075
Other non-current assets	3,458	3,458
	<u>10,616,754</u>	<u>13,085,155</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	916,747	749,313
Obligation under share purchase agreement [note 5]	1,594,140	1,487,118
Current portion of capital lease obligation	5,699	5,699
	<u>2,516,586</u>	<u>2,242,130</u>
Long-term Obligations		
Capital lease obligation	7,350	10,007
Commitments and contingencies [note 10]		
Shareholders' Equity		
Share capital [note 7]	24,076,338	24,079,436
Contributed surplus [note 9]	1,342,032	1,187,109
Deficit	(17,325,552)	(14,433,527)
Total Shareholders' Equity	<u>8,092,818</u>	<u>10,833,018</u>
	<u>10,616,754</u>	<u>13,085,155</u>

See accompanying notes

On behalf of the Board:

Ian Brown
Director

Mark Wayne
Director

Stem Cell Therapeutics Corp.
Statements of Loss, Comprehensive Loss and Deficit

[a development stage company]

(Unaudited)

	For the three months ended June 30, 2008	For the three months ended June 30, 2007	For the six months ended June 30, 2008	For the six months ended June 30, 2007	Cumulative from inception on March 31, 2004 to June 30, 2008
	\$	\$	\$	\$	\$
OPERATING EXPENSES					
Research and development costs <i>[note 6]</i>	772,735	64,842	1,417,626	322,135	6,674,548
Professional fees	194,401	205,544	357,612	373,705	2,209,433
Management and consulting fees	153,214	81,350	339,658	340,495	1,865,452
General and administration	282,653	343,237	565,151	626,794	3,509,735
Stock option expense <i>[note 9]</i>	81,434	36,399	154,923	194,201	1,539,059
Deemed interest expense on obligation under share purchase agreement <i>[note 5]</i>	53,511	67,796	107,022	134,847	1,032,864
Amortization of property and equipment	7,347	9,590	14,284	19,059	133,126
Amortization of intangible assets	60,781	60,780	121,557	121,556	909,761
Total Operating Expenses	1,606,076	869,538	3,077,833	2,132,792	17,873,978
Interest income	68,237	31,077	185,808	43,602	548,426
Net loss and comprehensive loss for the period	1,537,839	838,461	2,892,025	2,089,190	17,325,552
Deficit, beginning of period	15,787,713	10,230,675	14,433,527	8,979,946	-
Deficit, end of period	17,325,552	11,069,136	17,325,552	11,069,136	17,325,552
Basic and diluted loss per share <i>[note 11]</i>	0.01	0.01	0.03	0.03	0.31

See accompanying notes

Stem Cell Therapeutics Corp.

Statements of Cash Flows

[a development stage company]

(Unaudited)

	For the three months ended June 30, 2008	For the three months ended June 30, 2007	For the six months ended June 30, 2008	For the six months ended June 30, 2007	Cumulative from inception on March 31, 2004 to June 30, 2008
	\$	\$	\$	\$	\$
OPERATING ACTIVITIES					
Net loss and comprehensive loss for the period	(1,537,839)	(838,461)	(2,892,025)	(2,089,190)	(17,325,552)
<u>Add (deduct) items not involving cash</u>					
Stock option expense	81,434	36,399	154,923	194,201	1,539,059
Deemed interest expense on obligation under share purchase agreement [note 5]	53,511	67,796	107,022	134,847	159,362
Amortization of property and equipment	7,347	9,590	14,284	19,059	133,126
Amortization of intangible assets	60,781	60,780	121,557	121,556	909,761
Foreign exchange difference	23,087	7,230	(71,207)	8,228	(146,341)
	(1,311,679)	(656,666)	(2,565,446)	(1,611,299)	(14,730,585)
Changes in non-cash working capital items					
Accounts receivable	(64,349)	(33,417)	(155,917)	(26,573)	(293,388)
Prepaid expenses	39,452	18,428	135,507	128,910	(259,774)
Accounts payable and accrued liabilities	26,571	38,710	167,434	69,513	916,747
Cash used in operating activities	(1,310,005)	(632,945)	(2,418,422)	(1,439,449)	(14,367,000)
INVESTING ACTIVITIES					
Acquisition of property and equipment	(7,759)	(3,682)	(15,710)	(10,498)	(173,496)
Acquisition of intangible assets	-	-	-	-	(327,000)
Other non-current assets	-	-	-	-	(3,458)
Cash used in investing activities	(7,759)	(3,682)	(15,710)	(10,498)	(503,954)
FINANCING ACTIVITIES					
Restricted cash	(418)	(208)	(834)	(60,208)	(82,261)
Net decrease in capital lease obligation	(1,328)	(1,784)	(2,657)	(3,567)	(8,357)
Settlement of long-term obligation under share purchase agreement	-	-	-	-	(651,497)
Issuance of share capital, net of share issue costs	-	15,629	(3,098)	3,826,774	23,861,311
Net cash (used in) provided by financing activities	(1,746)	13,637	(6,589)	3,762,999	23,119,196
Net (decrease) increase in cash and cash equivalents during the period	(1,319,510)	(622,990)	(2,440,721)	2,313,052	8,248,242
Foreign exchange difference	(23,087)	(7,230)	71,207	(8,228)	146,341
Cash and cash equivalents, beginning of period	9,737,180	3,972,958	10,764,097	1,037,914	-
Cash and cash equivalents, end of period	8,394,583	3,342,738	8,394,583	3,342,738	8,394,583
Deemed interest paid in cash	-	-	-	-	874,655

See accompanying notes

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

(Amounts in Canadian dollars, unless otherwise noted)

June 30, 2008

1. DESCRIPTION OF BUSINESS AND GOING CONCERN UNCERTAINTY**A. 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 activities 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.

B. Going Concern Uncertainty

The Company's financial statements have been prepared on the "going concern" basis, which presumes the realization of assets and the discharge of liabilities and commitments in the normal course of business for the foreseeable future. The Company has incurred significant operating losses since its inception and used \$1,310,005 and \$2,418,422 of net cash in operating activities of continuing operations for the three and six months ended June 30, 2008. The continuation of the Company as a going concern is dependent upon its ability to finance its cash requirements which will allow it to continue its research and development activity and the commercialization of its stem cell related technologies. Should the Company not be able to raise additional funds before the end of the first quarter in 2009, it will be required to curtail some of its research and development activities planned for the second quarter of 2009. 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.

These financial statements do not reflect any adjustments that might be necessary should the Company be unable to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of presentation**

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and do not include all of the disclosures included in the Company's annual audited financial statements. Accordingly, these financial statements should be read in conjunction with the Company's most recent annual audited financial statements. The information as at and for the year ended December 31, 2007 has been derived from the Company's annual audited financial statements.

Adoption of new accounting policies

These financial statements have been prepared using the accounting policies described in the 2007 annual audited financial statements, except as noted below.

Effective January 1, 2008 the Company adopted the following new accounting standards of the Canadian

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[a development stage company]

NOTES TO FINANCIAL STATEMENTS

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Institute of Chartered Accountants (“CICA”):

Handbook Section 3862, *Financial Instruments – Disclosure*, which establishes standards for the disclosure of financial instruments including disclosing the significance of financial instruments and the nature and extent of risks arising from financial instruments. Note 12 discuss financial instruments and related risks. The adoption of this new standard had no impact on the Company’s financial position or results of operations.

Handbook Section 3863, *Financial Instruments – Presentation*, which carries forward, without change, the presentation-related requirements of Section 3861. The adoption of this new standard had no impact on the Company’s financial position or results of operations.

Handbook Section 1535, *Capital Disclosures*, which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity’s objectives, policies and processes for managing capital. Effective January 1, 2008, the Company adopted this standard. The adoption of this standard had no material impact on the Company’s financial statements.

Handbook Section 3064, *Goodwill and Intangible Assets*, which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This 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 adoption of this new standard had no impact on the Company’s financial position or results of operations.

Recent accounting pronouncements

In 2006, the Accounting Standards Board (“AcSB”) adopted a new strategic plan for financial reporting in Canada, “Accounting Standards in Canada: New Directions”. For publicly accountable enterprises (“PAEs”), the AcSB will converge Canadian GAAP with International Financial Reporting Standards (“IFRS”) over a period from 2006 to 2011. After this time period, Canadian GAAP will be replaced by IFRS and cease to exist as a separate, distinct basis of financial reporting for PAEs. Canada will continue to maintain its own standard-setting capability to carry out the strategic direction outlined above, although roles, structures, processes and resources may evolve.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include unrestricted cash balances in bank accounts amounting to \$95,819 (\$1,260,097 as at December 31, 2007) and guaranteed investment certificates that can be redeemed within 30 days without penalty. The following table shows details of these guaranteed investment certificates as at June 30, 2008:

Value	Maturity date	Interest	Remarks
\$		rate	
405,718	Renewed daily	1.10%	Guaranteed investment certificate denominated in US dollars.
1,550,046	Renewed daily	2.05%	Guaranteed investment certificate denominated in US dollars.
6,343,000	November 10, 2008	Prime linked	Guaranteed investment certificate denominated in Canadian dollars. Interest rate at investment date was 4.25% per annum, and is subject to change.

NOTES TO FINANCIAL STATEMENTS

(Unaudited)

(Amounts in Canadian dollars, unless otherwise noted)

June 30, 2008

4. RESTRICTED CASH

The restricted cash balances of \$82,261 (\$81,427 as at December 31, 2007) represents the amount deposited in an investment account with a bank yielding an annual interest rate of 2.05% (at June 30, 2008) and held by the bank as collateral for available credit facilities of equivalent value offered to the Company.

5. OBLIGATION UNDER SHARE PURCHASE AGREEMENT

On October 4, 2004, the Company entered into a share purchase agreement to acquire all of the issued and outstanding shares of Stem Cell Therapeutics Inc. ["Stem Cell"] from Transition Therapeutics Inc. ["Transition"], which represents an acquisition of intellectual property.

The Company agreed to pay Transition an aggregate purchase price of \$3,500,000. The purchase price is payable in installments beginning on closing, October 4, 2004, in the amount of \$325,000, and on the anniversary of closing in each of the following four years in the amount of \$475,000, \$400,000, \$650,000 and \$1,650,000, respectively. Except for the initial payment, all subsequent payments may be made, at the Company's election, by either cash or common shares; provided that the Company may only elect to issue common shares as payment for the final installment if the common shares are at such time listed and posted for trading on a recognized stock exchange.

On closing, the certificates representing the Stem Cell shares were placed in escrow subject to the payment in full of the purchase price. Until full settlement of the obligation under the share purchase agreement, the Company lacks control over the acquired company's strategic operations and therefore the financial statements of the acquired company were not consolidated into these interim 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 10[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.

6. RESEARCH AND DEVELOPMENT COSTS

The Company is involved in the research and development of therapeutics focused on the stimulation of stem cells for the treatment of neurological diseases. The following costs have been incurred for research and development work performed during the periods indicated:

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007	Cumulative from inception on March 31, 2004 to June 30, 2008
	\$	\$	\$	\$	\$
Clinical development	421,203	28,459	644,043	141,932	2,095,838
Preclinical development	80,373	(162,323)	160,746	(162,323)	1,325,617
Research	42,000	42,000	84,000	84,000	829,174
Salaries and bonuses	117,677	66,916	237,361	122,879	973,484
Consulting fees	68,408	37,267	175,304	51,382	684,586
Licensing cost	-	-	-	-	344,647
Other costs	43,074	52,523	116,172	84,265	421,202
Research and development costs	772,735	64,842	1,417,626	322,135	6,674,548

Stem Cell Therapeutics Corp.*[a development stage company]***NOTES TO FINANCIAL STATEMENTS***(Unaudited)*

(Amounts in Canadian dollars, unless otherwise noted)

June 30, 2008

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

7. SHARE CAPITAL**[a] Authorized share capital**

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

	Number of shares	\$
Common		
Formation of Company, March 31, 2004	1,000,000	10
Acquisition of intellectual property, April 1, 2004 (i)	3,636,364	18,000
Proceeds from issuance at \$0.025 per share, April 14, 2004	2,000,000	50,000
Proceeds from issuance at \$0.10 per share, June 7, 2004	2,550,000	255,000
Proceeds from issuance at \$0.15 per share, August 19, 2004	4,000,000	600,000
Proceeds from issuance at \$0.25 per share, November 19, 2004	1,000,000	250,000
Conversion of Class B to common, November 19, 2004 (ii)	4,000,000	100,000
Options exercised, November 21, 2004 (iii)	800,000	55,000
	<hr/> 18,986,364	<hr/> 1,328,010
Share issuance costs	-	(7,417)
Balance, December 31, 2004	<hr/> 18,986,364	<hr/> 1,320,593
Proceeds from Initial Public Offering at \$0.25 per share, January 6, 2005	34,000,000	8,500,000
Conversion of Class B to common 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)
Balance, December 31, 2005	<hr/> 53,361,364	<hr/> 8,896,143
Conversion of Class B to common shares (vii) & (viii)	240,000	6,000
Options exercised (ix)	200,000	88,470
Balance, December 31, 2006	<hr/> 53,801,364	<hr/> 8,990,613
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

Stem Cell Therapeutics Corp.*[a development stage company]***NOTES TO FINANCIAL STATEMENTS***(Unaudited)*

(Amounts in Canadian dollars, unless otherwise noted)

June 30, 2008

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
Balance, December 31, 2007	103,409,864	23,926,436
Conversion of Class B to common shares (xviii)	120,000	3,000
Share issuance costs – short form prospectus of November 2007	-	(3,098)
Balance, June 30, 2008	103,529,864	23,926,338
Class B		
Proceeds from issuance at \$0.025 per share, April 20, 2004	10,800,000	270,000
Conversion of Class B to common, November 19, 2004 (ii)	(4,000,000)	(100,000)
Balance, December 31, 2004	6,800,000	170,000
Conversion of Class B to common shares (iv) & (v)	(200,000)	(5,000)
Balance, December 31, 2005	6,600,000	165,000
Conversion of Class B to common shares (vii) & (viii)	(240,000)	(6,000)
Balance, December 31, 2006	6,360,000	159,000
Conversion of Class B to common shares (x) & (xv)	(240,000)	(6,000)
Balance, December 31, 2007	6,120,000	153,000
Conversion of Class B to common shares (xviii)	(120,000)	(3,000)
Balance, June 30, 2008	6,000,000	150,000
Share Capital, June 30, 2008	109,529,864	24,076,338

(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.

(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:

Stem Cell Therapeutics Corp.*[a development stage company]***NOTES TO FINANCIAL STATEMENTS***(Unaudited)*

(Amounts in Canadian dollars, unless otherwise noted)

June 30, 2008

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	<u>175,000</u>	0.25	<u>43,750</u>	<u>33,250</u>	<u>77,000</u>
	<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 \$2,000,000 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 \$2,000,000 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 (up to March 26, 2008) and at \$1.00 for the second year following closing (up to March 26, 2009).

(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	<u>130,000</u>	0.25	<u>32,500</u>	<u>5,543</u>	<u>38,043</u>
	<u>655,000</u>		<u>163,750</u>	<u>105,558</u>	<u>269,308</u>

(xviii) On January 3, 2008, 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

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(Amounts in Canadian dollars, unless otherwise noted)
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[c] Employee stock options

The following table summarizes the activity of the Company's stock option plan for the six months ended June 30, 2008:

	Number of Options	Weighted- average exercise price \$
Outstanding, January 1, 2008	7,885,556	0.32
Granted	250,000	0.26
Expired	(205,000)	0.26
Outstanding, June 30, 2008	7,930,556	0.32
Exercisable, June 30, 2008	5,286,334	0.30

8. SHARE PURCHASE WARRANTS

The Company has issued warrants for the purchase of common shares, for a specified price for a specific period of time. The following table contains information regarding the warrants to acquire common shares outstanding as at June 30, 2008:

	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 ⁽¹⁾	March 26, 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.

9. CONTRIBUTED SURPLUS

The following table summarizes the change in contributed surplus for the six months ended June 30, 2008:

	\$
Balance, January 1, 2008	1,187,109
Stock-based compensation	154,923
Balance, June 30, 2008	1,342,032

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO FINANCIAL STATEMENTS

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(Amounts in Canadian dollars, unless otherwise noted)

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10. COMMITMENTS AND CONTINGENCIES**[a] Operating leases**

The Company leases its office space under contract which covers a three-year period effective from January 1, 2006. Annual costs under this contract are limited to an annual rent charge of \$38,780 and annual operating costs estimated to be \$34,154, with a total committed cost of \$36,467 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.

Costs for additional 2008 contracted clinical activities amount to \$1,436,381.

Expected 2008 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 5], royalty payments may become due and payable in accordance with this agreement upon realization of sales or licensing of patent rights from intellectual property in the Stem Cell Therapeutics Inc. portfolio. When the Company realizes sales of products or processes, a royalty of 2% of net sales will become payable to Transition. In addition, if patent rights are licensed, a royalty of 5% of the consideration for such licenses will become payable.

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.

11. LOSS PER COMMON SHARE

Loss per common share is calculated using the weighted-average number of common shares outstanding during the six-month period ended June 30, 2008 of 103,528,545 (70,703,262 for the six-month period ended June 30, 2007). The cumulative weighted-average number of common shares since inception to June 30, 2008 is 55,955,534. The Company has excluded all outstanding stock options, share purchase warrants and Class B shares from the calculation of diluted loss per share since all such securities are considered anti-dilutive.

12. 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. As at June 30, 2008, there are no significant differences between the carrying values of these financial instruments and their estimated market values.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk on its cash and cash equivalents, restricted cash and accounts receivable in the event of non-performance by counterparties, but does not anticipate such non-performance. The maximum exposure to credit risk of the Company at the end of the period is the carrying value of its cash and cash equivalents, restricted cash and accounts receivable.

The Company mitigates its exposure to credit risk by maintaining its primary operating and investment bank accounts with chartered banks in Canada.

Stem Cell Therapeutics Corp.

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NOTES TO FINANCIAL STATEMENTS

(Unaudited)

(Amounts in Canadian dollars, unless otherwise noted)

June 30, 2008

The Company also mitigates its exposure to credit risk by monitoring the credit risk and credit standing of counterparties.

Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk through its cash and cash equivalents and restricted cash.

Fluctuations in market interest rates do not have a significant impact on the Company's results of operations due to the short-term nature of interest bearing cash and cash equivalents and restricted cash balances. A change of 1% in interest rates can lead to an increase or decrease of interest income by \$42,000 for the second half of 2008.

Currency risk

Currency risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk from the purchase of goods and services primarily in the United States. The Company mitigates its foreign exchange risk through the purchase of foreign currencies in sufficient amounts to settle its foreign accounts payable as well as covering short-term foreign currency needs. A change of \$0.01 in exchange rates can result in a foreign exchange gain or loss of \$18,400.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure as described in note 7 to these interim financial statements.

13. CAPITAL DISCLOSURE

The Company's objective when managing capital is to maintain adequate cash resources to support planned activities which include the clinical trial program, administrative costs and intellectual property expansion and protection. The Company includes shareholders' equity and cash and cash equivalents in the definition of capital. The Company does not have any debt other than trade accounts payable and obligation under share purchase agreement. The Company also has commitments and contingencies discussed further under note 10.

In managing capital, the Company estimates its future cash requirements by preparing a budget and a multi-year plan annually for review and approval by the Company's Board. The budget establishes the approved activities for the upcoming year and estimates the costs associated with these activities. The multi-year plan estimates future activity along with the potential cash requirements and is based on the Company's assessment of its current clinical trial progress along with the expected results from the coming year's activity. Budget to actual variances are prepared monthly and reviewed by the Company's management.

Historically, funding for the Company's plan is primarily managed through the issuance of additional common shares and common share purchase warrants that upon exercise are converted to common shares. Management regularly monitors the capital markets attempting to balance the timing of issuing additional equity with the Company's progress through its clinical trial program, general market conditions, and the availability of capital. There are no assurances that funds will be made available to the Company when required.

The Company is not subject to externally imposed capital requirements.