

STEM CELL

THERAPEUTICS

Stem Cell Therapeutics Corp.

Management Discussion and Analysis
For the three and six month periods ended June 30th, 2008

Dated: August 27, 2008

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The following information should be read in conjunction with the Company's unaudited financial statements as at and for the three and six months ended June 30, 2008 and 2007, and should also be read in conjunction with the audited financial statements and Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2007.

The financial statements have been 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.

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 requirements of National Instrument 51-102 and covers the period from January 1, 2008 to August 27, 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 disorders. 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.

Our primary program, NTx™-265, is a therapeutic regimen of two approved and clinically well-defined drugs, human Chorionic Gonadotropin (hCG) and Erythropoietin (EPO), targeting the treatment of stroke. The twin objectives of the regimen are to stimulate the growth and differentiation of new neurons to replace the brain cells that were lost or damaged by the stroke, and importantly, to direct motor, visual and cognitive

recovery after acute ischemic stroke. Animal studies have shown a significant recovery in motor function after receiving the NTx™-265 regimen 24-48 hours post stroke. Encouraging clinical results in SCT's BETAS Phase IIa stroke trial were presented at the International Stroke Conference in February 2008, showing clinically relevant recovery in 8 of 8 patients who received the complete regimen. SCT is recruiting patients in Canada for its multi-centre, double-blind, placebo-controlled REGENESIS Phase IIb stroke study for NTx™-265 with primary endpoints of efficacy.

2008 Milestones

- Complete enrolment in the REGENESIS Phase IIb clinical stroke study for NTx™-265
- Initiate enrolment of the U.S. Phase IIb clinical stroke study for NTx™-265
- Initiate and enrol Phase IIa clinical study for Traumatic Brain Injury
- Complete animal efficacy studies for Multiple Sclerosis

Highlights from the period April 1, 2008 to August 27, 2008.

On April 16, 2008 the Company announced that Dr. Samuel Weiss, Director of the Hotchkiss Brain Institute at the University of Calgary, had received the distinguished Gairdner Award. This esteemed award was granted to Dr. Weiss "for his seminal discovery of adult neural stem cells in the mammalian brain and its importance in nerve cell regeneration".

Dr. Weiss discovered that the adult brain can produce new cells - adult stem cells - that can grow into new brain cells called neurons. The finding raised the prospect of regenerating damaged nerves with stem cells the brain can produce itself. Dr Weiss' stem cell regenerative work is the foundation of SCT's therapeutic approach to stroke, traumatic brain injury and multiple sclerosis. He continues his association with SCT as a key member of its Scientific Advisory Board.

On April 23, 2008, SCT announced that the U.S. Food and Drug Administration has allowed its investigational new drug application (IND) to proceed. The IND-opening study is a double-blind, randomized, placebo-controlled Phase IIb clinical trial of its lead program, NTx™-265, for the treatment of acute ischemic stroke. The FDA response allows initiation of the U.S Phase IIb clinical trial in acute ischemic stroke, led by the Principle Investigator of the Phase IIa BETAS stroke trial, Dr. Steven C. Cramer, at the University of California, Irvine. Dr. Cramer is also the co-Lead Investigator of the Canadian Phase IIb REGENESIS trial along with Dr. Michael Hill at the Foothills Hospital, University of Calgary.

This U.S. Phase IIb acute ischemic stroke trial is similar to the previously announced Canadian-based REGENESIS trial. The recruitment target for this US study is to enroll 20-30 patients at two enrolling sites. Enrolment in the U.S. Phase IIb study is expected to begin in Q4 2008 and finish in Q2 2009. This will accompany the currently enrolling Canadian Phase IIb REGENESIS stroke trial, which is projected to enroll 134 patients at approximately 15 sites in Canada. The U.S. and Canadian Phase IIb clinical stroke

studies share similar protocols, safety and efficacy endpoints. This U.S. companion study of the Canadian Phase IIb study is a key component of the pre-pivotal Phase III program as we aspire to meet worldwide regulatory acceptance and because the FDA sets a critical regulatory standard.

On May 28, 2008, SCT announced the enrollment of the first patient in its REGENESIS Phase IIb stroke trial. The REGENESIS trial is a double-blind, randomized, placebo-controlled Phase IIb clinical trial for SCT's lead program, NTx™-265, for the treatment of acute ischemic stroke.

On May 30, 2008, the Company announced the appointment of Thomas R. Franck to the Executive Team as Vice President of Commercial Planning. Mr. Franck is a 30-year veteran of Procter & Gamble and has extensive experience and skill as a sales and marketing director. Mr. Franck's knowledge will assist in managing our pre-launch professional relations as well as establish the valuation both of individual programs and the Company as a whole.

On July 7, 2008, SCT announced the issuance of two keystone prolactin patents. The U.S. patent, numbered 7,393,830 and entitled "Prolactin induced increase in neural stem cell numbers" was issued July 1, 2008. The Australian patent, numbered 2002325711 and entitled "Prolactin induced increase in neural stem cell numbers and therapeutical use thereof" was issued January 10, 2008. These are the first patents to issue in this patent family. These patents cover the use of prolactin alone, as well as in combination with other therapeutics that augment recovery and therefore provide a broad base of protection. We have the exclusive right to the use of prolactin for treating neurodegenerative diseases and therefore have a strong foundation to develop many possible products using prolactin, either as a single therapeutic or in combination with other neurogenic agents.

On July 28 2008, SCT announced the presentation of data from the phase I open labeled uncontrolled pharmacokinetic study of a single intra-muscular (IM) hCG dose in healthy male volunteers at the IX World Conference on Clinical Pharmacology and Therapeutics in Quebec City, Quebec. This study demonstrated for the first time that administering hCG systemically in man resulted in appreciable amounts of hCG in the central nervous system and established that drug would be present and available to signal neurogenesis during the time of an acute neurological injury. Additionally, two forms of hCG were compared - Pregnyl™ derived from human urine and Ovitrelle™ a recombinant form. These two forms of hCG demonstrated similar pharmacokinetics when administered peripherally, both in blood and cerebrospinal fluid.

Development Programs

Stroke

The primary focus of Stem Cell Therapeutics development activities are aimed at rapidly advancing NTx™-265 for the treatment of acute ischemic stroke. Stroke was chosen as our lead program because it represents both a large, attractive market opportunity with

few competitors and a key first application for our neuroregeneration technology platform.

A human stroke can be compared to a heart attack but located in the brain, and occurs due to a reduction in blood flow to certain regions due to a blockage, or rupture of a blood vessel's wall. This interrupted blood flow causes a reduction in oxygen available to affected regions of the brain, and cells located there subsequently die. After acute ischemic injury stroke, brain tissue dies quickly in the absence of gas and nutrient exchange and has a limited capacity to spontaneously repair, regenerate or regain lost functionality. For this reason, injury due to stroke is frequently irreversible, recovery is insufficient and extensive recovery periods that range from months to years accompanied by intensive physiotherapy are required. Moderate to severe acute ischemic stroke is accompanied by the loss of a large number of neural cells within a patient's brain. Loss of brain matter is accompanied by a varied array of symptoms including loss of cognitive function, loss of motor control to one side or both sides of the body, loss of visual field and other symptoms that creates a syndrome from which patient, family and medical practitioners must address. It is generally accepted that improved prognosis is directly related to maintenance of brain matter. Thus, this therapeutic approach using NTx™-265 for increasing regeneration of new, functional brain matter represents a novel approach that may directly influence a patient's prognosis and the degree of improvement of stroke patients' symptoms. A final benefit that results from improved speed and robustness of recovery is decreased dependence of recovering patients on family and the medical system.

The next step in the clinical development for NTx™-265 is completion of the REGENESIS Phase IIb double-blind, randomized, placebo-controlled clinical trial focused on functional outcome measures. This will involve approximately 134 stroke patients in approximately 15 different centers in Canada. Dr. Steven Cramer at the University of California, Irvine and Dr. Michael Hill at the University of Calgary, Calgary Health Region, are serving as co-Principal Investigators for this Phase IIb program. The Company is hoping to complete enrollment in this trial by the end of 2008 as noted under "2008 Milestones".

On May 28, 2008, SCT announced enrollment of the first patient in its REGENESIS Phase IIb stroke trial. Since that time, site initiation and patient enrollment have been slower than anticipated such that it seems unlikely that the Company will be able to meet its enrollment objective for the end of this year. As a result, SCT is investigating the possibility of conducting a portion of the Phase IIb trial in India. An application for regulatory approval was filed in August. The Company is hoping to start recruiting patients in India by the end of October at nine sites. If the Company is successful in this regard, it is still possible that patient enrollment for the Phase IIb study will be completed by the end of 2008.

Traumatic Brain Injury

SCT is working on a preclinical comparator study designed to characterize the neuroregenerative effects of stem cell proliferative agents plus EPO in an animal model

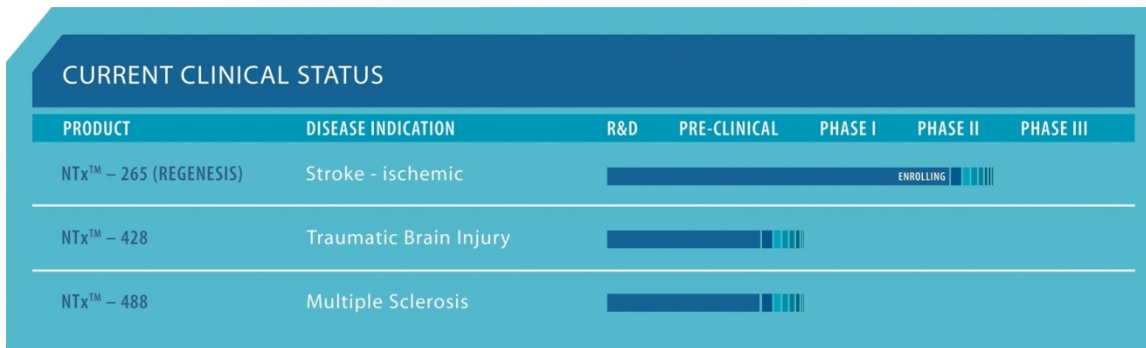
of traumatic brain injury (TBI). This study represents a promising new program launch that builds upon intellectual property held by SCT and supported by fundamental findings from the laboratory of Dr. Samuel Weiss at an Alberta-based University. Acute traumatic injury to the head resulting from automobile 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 that induces improved neurological recovery or functional recovery after an acute injury, would increase patient independence, decrease rehabilitation time and cost, represents a new important scientific advancement and medical development.

The preclinical comparator study mentioned previously is sponsored by SCT and is designed to characterize the ability of either hCG or prolactin 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 the two proliferative agents plus EPO in a rat animal model of TBI. Results of this study are expected early Q3 2008.

Building upon the results of this study and those previously obtained, a Phase IIa TBI clinical study is anticipated to start at one site in Canada in Q3 2008. This approach is similar in concept to the Phase IIa clinical trial that SCT conducted last year to begin testing NTx™-265 in stroke patients. If this new Phase IIa study for TBI produces positive results, the Company will likely initiate a Phase IIb study in 2009 for this indication.

Multiple Sclerosis

SCT has substantial intellectual property relating to the use of neurogenic agents for treating demyelinating diseases such as multiple sclerosis (MS). Previous scientific investigations have characterized two potentially important therapeutic effects of prolactin on the CNS. In these published studies prolactin has been shown to act 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 two key patents 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) strongly support and validate the concept that prolactin may represent a potential new therapeutic platform for the treatment of white matter injury, and an impetus for a clinical program aimed at treating patients with 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. The results of this study are anticipated to be announced in early 2009.



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 77 patents and pending patent applications, including four 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 is 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 six month period ended June 30, 2008 increased by \$802,835 to \$2,892,025 (\$0.03 per common share) from the loss of \$2,089,190 (\$0.03 per common share) reported for the six month period ended June 30, 2007. The primary reason for the change in the reported loss figure is the increase in research and development costs.

Research and Development

The Company's research and development costs 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 costs are expensed, and total \$6,674,548 since inception.

Research and development costs increased to \$1,417,626 for the six months ended June 30, 2008 compared to \$322,135 for the six months ended June 30, 2007 (\$772,735 for the three month period ended June 30, 2008 compared to \$64,842 for the three month period ended June 30, 2007). This increase of \$1,095,491 for the six months period ended June 30, 2008 was primarily due to the progress of Phase IIb clinical trials and preclinical development throughout the period in addition, research and development costs for the six months period ended June 30, 2007 were affected by a reimbursement that the company received of \$162,323 for a preclinical study that was not completed and led to reducing research and development costs for that period.

The following is a breakdown of R&D costs for 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 expenses	772,735	64,842	1,417,626	322,135	6,674,548

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 \$2,209,433. Professional fees for the six months ended June 30, 2008 decreased by \$16,093 to \$357,612 from \$373,705 for the six months ended June 30, 2007 (\$194,401 for the three month period ended June 30, 2008 compared to \$205,544 for the three month period ended June 30, 2007).

The following is an analysis of professional fees charges for 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
	\$	\$	\$	\$	\$
Auditing and accounting fees	15,995	17,725	31,128	23,016	296,713
Legal fees – Intellectual property	164,322	167,465	292,372	304,635	1,625,607
Legal fees – Other	14,084	20,354	34,112	46,054	287,113
Total professional fees	194,401	205,544	357,612	373,705	2,209,433

Management and Consulting Fees

Although Management and consulting fees total charges for the six month periods ended June 30, 2008 and June 30, 2007 remain relatively unchanged, it should be noted that management and consulting fees for the six months period ended June 30, 2007 included a severance payment of \$165,000 which increased management and consulting fees to a level close to the June 30, 2008 total costs. Management and consulting fees for the three months period ended June 30, 2008 increased by \$71,864 from \$81,350 for the three months ended 30 June 2007 to \$153,214 for the three months ended June 30, 2008. The increase was mainly caused by the board of directors retainers and attendance fees booked in 2008 with no such costs being existent in 2007 as well as salary increases for company's management, including offering a salary to one of the company's officers for the first time in 2008 while in previous years the compensation of this officer was only limited to grants of stock purchase options.

General and Administration (G&A)

General and administrative expenses for the six months period ended June 30, 2008 decreased by \$61,643 to \$565,151 from \$626,794 for the six months period ended June 30, 2007, also total general and administrative costs for the three months period ended June 30, 2008 decreased by 60,584 to \$282,653 from \$343,237 for the three months period ended June 30, 2007. The decrease resulted mainly from decrease in investor relations and promotional costs for the six and three months period ended June 30, 2008 compared to the same periods in 2007 and foreign exchange gain recorded in 2008.

Stock-based Compensation

Stock-based Compensation since inception total \$1,539,059. Charges for the six months ended June 30, 2008 decreased to \$154,923 from \$194,201 for the six months ended June 30, 2007. The decrease is mainly due to new stock options granted and vested immediately in the first and second quarters of 2007. Stock option expenses for the three months period ended June 30, 2008 increased by \$45,035 from \$36,399 for the three months ended 30 June 2007 to \$81,434 for the three months ended June 30, 2008. The increase was mainly caused by cost for stock options grants in prior years which cost is being carried over amortized in 2008.

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 June 30, 2008. 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 December 31, 2007 is limited to the effect of amortization calculated during the six months ended June 30, 2008.

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 68 pending patent applications, five 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 \$1,042,887. Amortization charges for property and equipment decreased to \$14,284 for the six months ended June 30, 2008 from \$19,059 for the six months ended June 30, 2007 (decreased to \$7,347 for the three months ended June 30, 2008 from \$9,590 for the three months ended June 30, 2007). This decrease is due to property and equipment disposed of during 2007 and assets which economic useful life ended in 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 2008 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 for the six and three month periods ended June 30, 2008 and June 30, 2007. No intellectual property asset additions were made during the six month period ended June 30, 2008.

The Company anticipates that intellectual property assets amortization charges will remain within the same level during 2008 as there are no plans for major additions to existing intellectual property assets to be capitalized. 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 six month period ended June 30, 2008 is \$185,808 (\$68,237 for the three months period then ended) as compared to \$43,602 for the six month period ended June 30, 2007 (\$31,077 for the three months period then ended). This increase in

interest income primarily resulted from higher cash balances throughout the six and three month periods ended June 30, 2008 resulting from financing transactions completed throughout 2007. Since inception the total interest earned by the Company amounted to \$548,426.

Summary of Quarterly Results

	As at, and for the three months ended							
	2008		2007				2006	
	June	March	December	September	June	March	December	September
Revenue(1)	\$68,237	\$117,571	\$58,183	\$35,242	\$31,077	\$12,525	\$9,776	\$25,866
Net loss	\$1,537,839	\$1,354,186	\$2,087,895	\$1,276,496	\$838,461	\$1,250,729	\$1,115,536	\$1,298,475
Basic and diluted loss per common share	\$0.01	\$0.01	\$0.02	\$0.02	\$0.01	\$0.02	\$0.02	\$0.02
Total assets	\$10,616,754	\$11,994,405	\$13,085,155	\$4,499,181	\$5,370,281	\$6,051,992	\$3,237,706	\$4,061,031
Unrestricted cash and cash equivalents	\$8,394,583	\$9,737,180	\$10,764,097	\$2,285,870	\$3,342,738	\$3,972,958	\$1,037,914	\$1,600,612
Total long-term obligations (2)	\$2,523,936	\$8,678	\$10,007	\$11,721	\$1,434,783	\$1,434,831	\$1,436,617	\$1,438,535

- (1) Interest income on cash and cash equivalents 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.

Increase in the 2007 fourth quarter net loss is mainly caused by increase in research and development costs and management and consulting fees during this quarter. For further discussion of financial results of the 2007 fourth quarter, refer to the management discussion and analysis of December 31, 2007.

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 cash equivalents as of June 30, 2008 is \$8,394,583. Expected cash needs for the following 12 months amount to \$8.9 million. This includes the \$1,650,000 payment due to Transition Therapeutics Inc. on September 30, 2008, which the Company can elect to pay in shares instead of cash. See "Acquisition of Stem Cell Therapeutics Inc."

The Company believes that it has adequate financial resources for anticipated expenditures until the end of the first quarter of 2009. 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.

As of June 30, 2008 the working capital (current assets minus current liabilities) of the Company was \$6,515,537 (\$9,138,263 as of December 31, 2007).

Outstanding securities as of June 30, 2008 and August 27, 2008 totaled 103,529,864 common shares, 6,000,000 class B shares, 25,912,500 common share purchase warrants and 7,930,556 common share options.

As of August 27, 2008 the gross proceeds raised through equity financing since inception by the Company totalled \$26,308,135. 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.

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 \$36,467 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.

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.

Change in Management

Mr. Thomas Franck was appointed as Vice President of Commercial Planning on May 29, 2008. Mr. Franck is currently focusing on development programs that will play a key role with SCT's pre-Phase III planning. Dr. Brett Schonekess resigned as Vice President of Business Development as of July 31, 2008.

Change in Accounting Policies

The company's financial statements as at and for the six months ended June 30, 2008 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 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 to the June 30, 2008 financial statements 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.

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. 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.