



STEM CELL

THERAPEUTICS

Stem Cell Therapeutics Corp.

Audited Consolidated Financial Statements

December 31, 2008 and 2007

To the Shareholders of
Stem Cell Therapeutics Corp.

We have audited the Consolidated Balance Sheets of Stem Cell Therapeutics Corp. as at December 31, 2008 and 2007 and the Consolidated Statements of Loss, Comprehensive Loss and Deficit and the Consolidated Statements of Cash Flows for the years ended December 31, 2008 and 2007 and the cumulative period from inception on March 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Stem Cell Therapeutics Corp. as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended and the cumulative period from inception on March 31, 2004 in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Calgary, Canada
April 3, 2009

Chartered Accountants

Stem Cell Therapeutics Corp.

Consolidated Balance Sheets

[A development stage company. See note 1 – Description of business and going concern uncertainty]

	2008	2007
	\$	\$
ASSETS		
Current		
Cash and cash equivalents <i>[note 3]</i>	6,400,486	10,764,097
Restricted cash <i>[note 4]</i>	83,112	81,427
Accounts receivable	57,897	139,588
Prepaid expenses	266,114	395,281
	<u>6,807,609</u>	<u>11,380,393</u>
Property and equipment, net <i>[note 5]</i>	41,360	58,229
Intellectual property, net <i>[note 6]</i>	1,399,286	1,643,075
Other non-current assets	-	3,458
	<u>8,248,255</u>	<u>13,085,155</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	996,979	749,313
Current portion of obligation under share purchase agreement <i>[note 7]</i>	-	1,487,118
Current portion of capital lease obligation <i>[note 8]</i>	7,253	5,699
	<u>1,004,232</u>	<u>2,242,130</u>
Long Term Obligations		
Capital lease obligation <i>[note 8]</i>	3,192	10,007
Commitments and contingencies <i>[note 14]</i>		
Shareholders' Equity		
Share capital <i>[note 11]</i>	25,726,336	24,079,436
Contributed surplus <i>[note 13]</i>	1,507,539	1,187,109
Deficit	(19,993,044)	(14,433,527)
Total Shareholders' Equity	<u>7,240,831</u>	<u>10,833,018</u>
	<u>8,248,255</u>	<u>13,085,155</u>

See accompanying notes

On behalf of the Board:

"Mark Wayne"
Chairman

"Ian Brown"
Director

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

[A development stage company. See note 1 – Description of business and going concern uncertainty]

	Twelve Months Ended December 31, 2008	Twelve Months Ended December 31, 2007	Cumulative from Inception on March 31, 2004 to December 31, 2008
	\$	\$	\$
OPERATING EXPENSES			
Research and development costs <i>[note 10]</i>	2,697,388	1,849,952	7,954,310
Professional fees	868,612	821,120	2,720,432
Management and consulting fees	712,343	763,662	2,238,137
General and administration	1,065,967	1,155,251	4,091,763
Stock option expense <i>[note 13]</i>	320,430	539,413	1,704,566
Deemed interest expense on obligation under share purchase agreement <i>[note 7]</i>	162,882	257,957	1,088,725
Amortization of property and equipment	32,578	39,613	151,420
Amortization of intangibles	243,788	243,128	1,031,992
Foreign Exchange (Gain)	(311,248)	(79,488)	(392,460)
Total Operating Expenses	5,792,740	5,590,608	20,588,885
Interest income	(233,223)	(137,027)	(595,841)
Net loss and comprehensive loss for the period	5,559,517	5,453,581	19,993,044
Deficit, beginning of period	14,433,527	8,979,946	-
Deficit, end of period	19,993,044	14,433,527	19,993,044
Basic and diluted loss per share	0.05	0.08	0.32

See accompanying notes

Stem Cell Therapeutics Corp.

Consolidated Statements of Cash Flows

[A development stage company. See note 1 – Description of business and going concern uncertainty]

	Twelve Months Ended December 31, 2008 \$	Twelve Months Ended December 31, 2007 \$	Cumulative from Inception on March 31, 2004 to December 31, 2008 \$
OPERATING ACTIVITIES			
Net loss and comprehensive loss for the period	(5,559,517)	(5,453,581)	(19,993,044)
Add (deduct) items not involving cash			
Stock option expense	320,430	539,413	1,704,566
Deemed interest expense on obligation under share purchase agreement [note 7]	162,882	(13,971)	162,883
Amortization of property and equipment	32,578	39,613	151,420
Amortization of intangibles	243,788	243,128	1,031,992
Foreign exchange	(311,248)	(79,489)	(392,460)
	(5,111,087)	(4,724,887)	(17,334,643)
Changes in non-cash working capital items			
Accounts receivable	81,691	(118,952)	(57,897)
Prepaid expenses	129,167	(227,107)	(266,114)
Accounts payable and accrued liabilities	247,666	322,797	996,978
Cash used in operating activities	(4,652,563)	(4,748,149)	(16,661,676)
INVESTING ACTIVITIES			
Acquisition of property and equipment	(15,708)	(36,904)	(192,780)
Acquisition of intangibles	-	-	(926,161)
Other non-current assets	3,458	-	-
Cash used in investing activities	(12,250)	(36,904)	(1,118,941)
FINANCING ACTIVITIES			
Restricted cash	(1,685)	(21,044)	(83,112)
Net increase (decrease) in capital lease obligation	(5,261)	6,600	10,445
Issuance of share capital, net of share issue costs	(3,100)	14,446,191	23,861,310
Net cash provided by (used in) financing activities	(10,046)	14,431,747	23,788,643
Net increase (decrease) in cash and cash equivalents during the period	(4,674,859)	9,646,694	6,008,026
Deduct: Foreign exchange difference	311,248	79,489	392,460
Cash, and cash equivalents beginning of period	10,764,097	1,037,914	-
Cash, and cash equivalents end of period	6,400,486	10,764,097	6,400,486
Deemed interest paid in cash	-	271,928	874,655

See accompanying notes

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

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.

On September 18, 2008 the Company announced that it had received a letter from Health Canada and a verbal request from the U.S. Food and Drug Association (FDA) calling for a temporary 'full clinical hold' on its currently enrolling REGENESIS Phase IIb stroke trial in Canada, and to not begin recruiting in the U.S., respectively. Additionally, Health Canada requested that recruitment not begin in the recently announced traumatic brain injury trial. The reason for these requests was that a trend in data found from a third party's stroke trial being conducted in Germany, which is unrelated to the Company's trial, reported safety results that required further analysis. SCT has been in discussions with Health Canada and the FDA with the objective of having the hold removed so that the trial can resume, but there has no formal resolution to this matter at this time. At this time, the Company does not believe that this delay negatively affects the carrying value of the assets referenced in the financial statements for the year ending December 31, 2009.

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.

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 \$1,224,264 and \$4,652,563 of net cash in operating activities of continuing operations for the three and twelve months ended December 31, 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. 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. Accordingly, there is significant uncertainty regarding the Company's ability to continue as a going concern.

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

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

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

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”). The significant accounting policies are summarized as follows:

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may vary from those estimates.

Key areas of estimation, where management has made difficult, complex or subjective judgments often as a result of matters that are inherently uncertain, are estimated useful lives of depreciable assets, intellectual property and potential impairment, and contingent liabilities. Significant changes in the assumptions with respect to the competitive environment could result in an impairment of intellectual property.

Principles of consolidation

The consolidated financial statements include the Company’s accounts and the accounts of its subsidiary, Stem Cell Therapeutics Inc. (“Stem Cell”). All intercompany transactions and balances have been eliminated.

Cash and cash equivalents

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

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Computer equipment	3 years
Computer software	2 years
Office furniture and equipment	5 years

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

Intellectual property

Intellectual property represents the value of patents as of the acquisition date which is amortized on a straight-line basis over the estimated useful life of 10 years.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, capital lease obligation and obligation under share purchase agreement. The carrying value of these financial instruments approximates the fair value due to the short-term nature of the instruments.

Interest rate risk

The Company earns interest on its fixed rate short-term investments and, is therefore, exposed to interest rate risk from fluctuations in short-term interest rates.

Foreign exchange risk

The Company purchases goods and services denominated in Canadian, U.S. and other currencies. To manage its foreign exchange risk, the Company, from time to time, maintains reserve funds denominated in these currencies adequate to meet liabilities arising from the purchase of such goods and services.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the exchange rate prevailing at the consolidated balance sheet dates. Foreign denominated transactions are translated at the exchange rates prevailing at the transaction dates.

Impairment of long-lived assets

The Company tests long-lived assets or asset groups, including intellectual property, for recoverability when events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability is assessed based on the carrying amount of the assets and their net recoverable values, which are generally determined based on undiscounted cash flows expected to result from the use and the eventual disposal of the assets. If the carrying value of the assets is not recoverable, an impairment loss is recognized to write down the assets to their fair value.

Income taxes

The Company follows the liability method of accounting for income taxes. Under the liability method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in income or

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

loss in the year that the income tax rate change is substantially enacted.

Investment tax credits

The Company recognizes investment tax credits for qualifying research and development costs when there is reasonable assurance of realization of the credit. The Company accounts for investment tax credits relating to research and development expenses as a reduction of such expenses and those relating to capital expenditures as a reduction of the cost of the asset acquired. No investment tax credits have been recorded in these consolidated financial statements as there is no reasonable assurance of realization.

Loss per share

Basic and diluted net loss per share has been calculated using the weighted-average number of common shares outstanding during the period. Diluted loss per share is calculated in accordance with the treasury stock method. This method assumes that any proceeds from the exercise of stock options would be used to purchase common shares at the average share price during the period.

Research and development

Research costs, other than capital expenditures that have alternative uses, are expensed as incurred. Development costs that meet specific criteria related to technical, market and financial feasibility are capitalized. All development costs incurred to date have been expensed.

Stock-based compensation

The Company uses the fair value-based method of accounting for all stock-based compensation. The fair value of the stock options is determined using the Black-Scholes option-pricing model. The compensation expense is recognized in the consolidated statements of loss, comprehensive loss and deficit using a straight-line method over the vesting period of the stock options. Vesting provisions of the stock options are determined at the discretion of the Board of Directors and typically involve immediate vesting provisions, or three year vesting provisions.

Changes to accounting policies

These consolidated financial statements have been prepared using the accounting policies described in the 2008 Annual Report audited consolidated financial statements, except as noted below.

Current Changes

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 – Disclosures*, which establishes standards for the disclosure of financial instruments including disclosing the significance of financial instruments and

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

the nature and extent of risks arising from financial instruments. 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 consolidated 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 consolidated 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.

Future Changes

In December 2008, the CICA issued Section 1582 "Business Combinations", which will replace CICA Section 1581 of the same name. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of the exchange. Currently the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is agreed upon and announced. This new guidance generally requires all acquisition costs to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and re-measured at fair value through earnings each period until settled. Currently only contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill is required to be recognized immediately in the earnings, unlike the current requirement to eliminate it by deducting it from the non-current assets in the purchase price allocation. Section 1582 will be effective for the Company on January 1, 2011 with prospective application. The Company is currently evaluating the impact of the adoption of the new section on its consolidated financial statements.

Additionally, in December 2008, the CICA issued Sections 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests", which replaces existing guidance under Section 1600 "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards will be effective for the Company on January 1, 2011. The Company is currently evaluating the impact of the adoption of these new Sections on its consolidated financial statements.

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

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.

In 2009, the Company plans to commence the process to transition from current Canadian GAPP to IFRS. The Company’s transition plan, which in certain cases will be in process concurrently as IFRS is applied, includes the following three phases:

1. Scoping and diagnostic phase: This phase involves performing a high-level diagnostic assessment to identify key areas that may be impacted by the transition to IFRS. As a result of the diagnostic assessment, the potentially affected areas are ranked as high, medium or low priority.

2. Impact analysis, evaluation and design phase: In this phase, each area identified from the scoping and diagnostic phase will be addressed in order of descending priority. This phase involves specification of changes required to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS.

3. Implementation and review phase: This phase includes execution of changes to information systems and business processes, completing formal authorization processes to approve recommended accounting policy changes and training. At the end of the implementation and review phase the Company will be able to compile financial statements compliant with IFRS.

The regulatory bodies that establish Canadian GAAP and IFRS have significant ongoing projects that could affect the ultimate differences that impact the Company’s consolidated financial statements in future years.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include unrestricted cash balances in bank accounts amounting to \$84,428 (\$1,260,097 as at December 31, 2007) and guaranteed investment certificates that can be redeemed without penalty. The following table shows details of these guaranteed investment certificates as at December 31, 2008:

Value \$	Maturity date	Interest rate	Remarks
956,355	January 5, 2009	0.50%	Guaranteed investment certificates are denominated in foreign currency and amount to US\$780,494.
5,359,703	November 10, 2009	Prime linked	Interest rate at investment date was 2.00% per annum, and is subject to change.

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

4. RESTRICTED CASH

Restricted cash balances of \$83,112 (\$81,427 as at December 31, 2007) deposited in an investment account with a bank, and yielding an annual interest rate of 2.05% (on December 31, 2008) and held by the bank as collateral for available credit facilities of equivalent value was offered to the Company.

5. PROPERTY AND EQUIPMENT

	2008		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Computer equipment	106,719	84,046	22,673
Computer software	30,065	20,579	9,486
Office furniture and equipment	34,789	25,588	9,201
	171,573	130,213	41,360

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

Included in computer equipment are assets under capital lease with a cost of \$23,964 (\$23,964 for 2007), and accumulated amortization of \$15,563 (\$7,665 for 2007).

6. INTELLECTUAL PROPERTY

	2008		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Intellectual Property	2,431,279	1,031,993	1,399,286

	2007		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Owned by the Company	20,000	7,511	12,489

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

Subject to purchase commitments [note 7]	2,411,279	780,693	1,630,586
Intellectual Property	2,431,279	788,204	1,643,075

A portion of the intellectual property was acquired on April 1, 2004 for \$20,000 which represents the fair value of the intellectual property acquired and was paid through the issuance of 3,636,364 common shares with a value of \$18,000 and a \$2,000 cash payment.

The Company's review of the carrying value of the intellectual property as at December 31, 2008, determined no impairment being required.

7. OBLIGATION UNDER SHARE PURCHASE AGREEMENT

On October 4, 2004, the Company entered into a share purchase agreement to acquire all of the issued and outstanding shares of Stem Cell 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 lacked control over Stem Cell's strategic operations and therefore the consolidated financial statements of the acquired company were not consolidated into the consolidated financial statements until 2008. Payments for 2005, 2006 and 2007 were made in cash rather than by issuing the Company's shares. On October 4, 2008 the Company issued 23,272,633 common shares to satisfy the final payment to Transition as noted above. Effective from that date, the Company has consolidated the accounts of Stem Cell which do not have a material effect on the consolidated financial statements for the year ending December 31, 2008. As part of the share purchase agreement, the Company is subject to commitments for future royalty payments [see note 14[c]].

As the Company had use of the intellectual property during the installment period, the commitment to acquire Stem Cell had been recorded as a liability based on the discounted present value of the purchase installments in the 2007 accounts. The current and long-term portions of the obligation are calculated as follows:

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

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

	2008	2007
	\$	\$
Current portion of obligation principal	·	1,434,783
Deemed interest on obligation	·	52,335
	·	1,487,118

8. CAPITAL LEASE OBLIGATION

The Company has leased certain assets under capital lease contracts. The balance shown on the consolidated balance sheets as at December 31, 2008 relates to one asset only. The lease obligations have no underlying collateral other than the assets in subject. The imbedded interest rate for the capital lease contract is 14.5% and expiry date for the contract is June 2010. The following schedule details the Company's obligation under the lease contract at December 31, 2008:

	\$
Payments for 2009	7,975
Payments for 2010	3,989
Total future payments under capital lease contract	11,964
Less amount representing interest	1,519
Obligation under capital lease (excluding interest)	10,445
Less current portion	7,253
Non-current portion of obligation under capital lease (excluding interest)	3,192

9. INCOME TAXES

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

	2008	2007
	\$	\$
Statutory tax rate	29.50%	25.00%
Expected tax recovery	(1,640,058)	(1,363,396)
Impact of change in enacted tax rates	238,994	359,821
Add: stock option expense	94,527	134,853
	(1,306,537)	(868,722)
Future tax assets not recorded	1,306,537	868,722
	-	-

A valuation allowance is recorded against any future income tax asset if it is not more likely than not that the asset will be realized. Significant components of the Company's future tax assets are as follows:

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

	2008	2007
	\$	\$
Future tax assets		
Non-capital loss carry forwards	3,812,569	2,571,889
Federal investment tax credit carry forwards	217,198	217,198
Carrying value of capital and intangible assets in excess of accounting basis	292,375	226,718
Total future tax assets	4,322,142	3,015,805
Valuation allowance on future tax assets	(4,322,142)	(3,015,805)
Net future tax assets	-	-

As at December 31, 2008, the Company has accumulated non-capital losses for federal and provincial income tax purposes in Canada which are available for application against future taxable income. As at December 31, 2008, the Company also has unclaimed Canadian federal scientific research and development, and investment tax credits which are available to reduce future federal taxes payable. The benefit of these losses and investment tax credits has not been recorded in the accounts. The non-capital tax losses and investment tax credits expire as follows:

	Federal	Investment tax credits
	\$	\$
2014	516,205	72,119
2015	1,321,527	130,725
2026	411,425	86,753
2027	4,631,429	-
2028	4,962,720	-

10. RESEARCH AND DEVELOPMENT PROJECTS

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

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

	Twelve Months Ended December 31, 2008 \$	Twelve Months Ended December 31, 2007 \$	Cumulative from Inception on March 31, 2004 to December 31, 2008 \$
Clinical development	1,184,183	700,916	2,635,978
Preclinical development	252,293	271,733	1,417,164
Research	168,000	168,000	913,174
Salaries and bonuses	391,079	345,517	1,127,202
Consulting fees	272,594	168,657	781,876
Licensing cost	239,640	53,525	584,287
Other costs	189,599	141,604	494,629
Total research and development costs	2,697,388	1,849,952	7,954,310

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

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

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

[b] Issued and outstanding

	Number of shares #	\$
Common		
Formation of Company, March 31, 2004	1,000,000	10
Acquisition of intellectual property, April 1, 2004 (i)	3,636,364	18,000
Proceeds from issuance at \$0.025 per share, April 14, 2004	2,000,000	50,000
Proceeds from issuance at \$0.10 per share, June 7, 2004	2,550,000	255,000
Proceeds from issuance at \$0.15 per share, August 19, 2004	4,000,000	600,000

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

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
	<u>18,986,364</u>	<u>1,328,010</u>
Share issuance costs	-	(7,417)
Balance, December 31, 2004	18,986,364	1,320,593
Proceeds from Initial Public Offering at \$0.25 per share, January 6, 2005	34,000,000	8,500,000
Conversion of Class B to Common, January 10, 2005 (iv)	80,000	2,000
Conversion of Class B to Common, April 1, 2005 (v)	120,000	3,000
Options exercised, October 14, 2005 (vi)	175,000	76,750
	<u>34,375,000</u>	<u>8,581,750</u>
Share issuance costs	-	(1,006,200)
Balance, December 31, 2005	53,361,364	8,896,143
Conversion of Class B to Common, January 11, 2006 (vii)	120,000	3,000
Options exercised, March 21, 2006 (viii)	25,000	11,470
Options exercised, April 26, 2006 (ix)	175,000	77,000
Conversion of Class B to Common, July 15, 2006 (x)	120,000	3,000
	<u>53,801,364</u>	<u>8,990,613</u>
Balance, December 31, 2006	53,801,364	8,990,613
Conversion of Class B to Common, January 11, 2007 (xi)	120,000	3,000
Issuance of shares in private placement, February 1, 2007 (xii)	10,000,000	2,000,000
Share issuance costs, February 1, 2007	-	(144,390)
Issuance of shares in private placement, March 27, 2007 (xiii)	4,000,000	2,000,000
Issuance of shares covering financing costs, March 27, 2007 (xiv)	151,000	113,250
Share issuance costs, 2nd private placement in 2007	-	(182,712)
Options exercised, April 13, 2007 (xv)	100,000	44,050
Exercise of share purchase warrants during June, 2007 (xvi)	62,500	15,625
Conversion of Class B to Common, July 11, 2007 (xvii)	120,000	3,000
Options exercised, September 12, 2007 (xviii)	32,000	14,098
Options exercised, October 1, 2007 (xix)	63,500	27,972
Options exercised, October 22, 2007 (xx)	109,500	48,235
Issuance of shares in short form prospectus, November 9, 2007 (xxi)	34,500,000	12,075,000
Share issuance costs - short form prospectus	-	(1,216,258)
Options exercised, November 19, 2007 (xxii)	170,000	74,885
Options exercised, November 27, 2007 (xxiii)	50,000	22,025
Options exercised, December 7, 2007 (xxiv)	130,000	38,043
	<u>103,409,864</u>	<u>23,926,436</u>
Balance, December 31, 2007	103,409,864	23,926,436
Conversion of Class B to Common, January 3, 2008 (xxv)	120,000	3,000
Issuance of shares to Transition, October 4, 2008 (xxvi)	23,272,633	1,650,000

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

Conversion of Class B to Common, October 14, 2008 (xxvii)	6,000,000	150,000
Share issuance costs 2008	-	(3,100)
Balance, December 31, 2008	132,802,497	25,726,336
Class B		
Proceeds from issuance at \$0.025 per share, April 20, 2004	10,800,000	270,000
Conversion of Class B to Common, November 19, 2004	(4,000,000)	(100,000)
Balance, December 31, 2004	6,800,000	170,000
Conversion of Class B to Common, January 10, 2005 (iv)	(80,000)	(2,000)
Conversion of Class B to Common, April 1, 2005 (v)	(120,000)	(3,000)
Balance, December 31, 2005	6,600,000	165,000
Conversion of Class B to Common, January 11, 2006 (vii)	(120,000)	(3,000)
Conversion of Class B to Common, July 15, 2006 (x)	(120,000)	(3,000)
Balance, December 31, 2006	6,360,000	159,000
Conversion of Class B to Common, January 11, 2007 (xi)	(120,000)	(3,000)
Conversion of Class B to Common, July 11, 2007 (xvii)	(120,000)	(3,000)
Balance, December 31, 2007	6,120,000	153,000
Conversion of Class B to Common, January 3, 2008 (xxv)	(120,000)	(3,000)
Conversion of Class B to Common, October 14, 2008 (xxvii)	(6,000,000)	(150,000)
Balance, December 31, 2008	-	-
Share Capital, December 31, 2008	132,802,497	25,726,336

(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 6, 2005, the Company completed its Initial Public Offering raising gross proceeds of \$8,500,000 by issuing 34,000,000 common shares at a price of \$0.25 per share.

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

(vi) On April 1, 2005, 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 CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

(vii) 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.

(viii) On January 11, 2006, 120,000 Class B shares were converted to 120,000 common shares on a one-for-one basis.

(ix) On March 21, 2006, 25,000 options were exercised at a price of \$0.25. Contributed surplus of \$5,220 was reclassified to share capital upon exercise of the options.

(x) On April 26, 2006, 175,000 options were exercised at a price of \$0.25. Contributed surplus of \$33,250 was reclassified to share capital upon exercise of the options.

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

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

(xiii) On February 1, 2007, the Company completed a \$2 million private placement of 10,000,000 units, each unit consisting of one common share and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share for \$0.25 until February 1, 2009.

(xiv) On March 27, 2007, the Company completed a \$2 million private placement of 4,000,000 units, each unit consisting of one common share and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share for \$0.75 for the first year following closing and at \$1.00 for the second year following closing.

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

(xvi) On April 13, 2007, 100,000 options were exercised at a price of \$0.25. Contributed surplus of \$19,050 was reclassified to share capital upon exercise of the options.

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

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

(xix) On September 12, 2007, 32,000 options were exercised at \$0.25. Contributed surplus of \$6,097 was reclassified to share capital upon exercise of the options.

(xx) On October 1, 2007, 63,500 options were exercised at \$0.25. Contributed surplus of \$12,097 was reclassified to share capital upon exercise of the options.

(xxi) On October 22, 2007, 109,500 options were exercised at \$0.25. Contributed surplus of \$20,860 was reclassified to share capital upon exercise of the options.

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

(xxii) 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.

(xxiii) On November 19, 2007, 170,000 options were exercised at \$0.25. Contributed surplus of \$32,385 was reclassified to share capital upon exercise of the options.

(xxiv) On November 27, 2007, 50,000 options were exercised at \$0.25. Contributed surplus of \$9,525 was reclassified to share capital upon exercise of the options.

(xxv) On December 7, 2007, 130,000 options were exercised at \$0.25. Contributed surplus of \$5,543 was reclassified to share capital upon exercise of the options.

(xxvi) On January 3, 2008, 120,000 Class B shares were converted to 120,000 common shares on a one-for-one basis.

(xxvii) On October 4, 2008, 23,272,633 common shares were issued to Transition Therapeutics Inc. as the final payment for the share purchase agreement to acquire all of the issued and outstanding shares of Stem Cell. The value per share of \$0.07 was calculated by the weighted average of common shares traded in the 10 days prior to issuance.

(xxviii) On October 14, 2008, 6,000,000 Class B shares were converted to 6,000,000 common shares on a one-for-one basis.

[c] Employee stock options

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

	December 31, 2008		December 31, 2007	
	Number of Options	Weighted-average exercise price \$	Number of Options	Weighted-average exercise price \$
Outstanding, January 1.	7,885,556	0.32	4,555,556	0.27
Granted	250,000	0.26	4,005,000	0.36
Exercised	-	-	655,000	0.25
Forfeited	654,453	0.32	20,000	0.34
Outstanding, December 31.	7,481,103	0.31	7,885,556	0.32
Exercisable, December 31.	5,762,358	0.29	4,852,306	0.29

The following table summarizes information about stock options outstanding as at December 31, 2008:

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

Range of exercise prices \$	Options outstanding			Options exercisable	
	Options outstanding #	Weighted-average remaining contractual life in years	Weighted-average exercise price \$	Options exercisable #	Weighted-average exercise price \$
0.25 - 0.58	7,481,103	2.53	0.31	5,762,358	0.29

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

	2008	2007
Risk-free interest rate	5%	5%
Volatility	120%	96-125%
Dividend yield	0%	0%
Expected life	5 years	5 years

The options have been allocated pursuant to a 10% rolling stock option plan which was reapproved by the Company's shareholders at its annual general meeting held on May 16, 2008. Pursuant to the new stock option plan, the Company may grant stock options to purchase up to an aggregate of 10% of the Company's issued and outstanding share capital. As at December 31, 2008, the Company is entitled to issue an additional 5,799,147 stock options under this plan.

Details of stock options granted during 2008 are as follows:

Date Granted	Exercise Price	Share Price at Date of Grant	Number of Options	Expected Life	Black-Scholes Valuation per option	Total Value
May, 2008	\$0.26	\$0.23	250,000	5 years	\$0.19	\$47,500

12. SHARE PURCHASE WARRANTS

The Company has issued warrants for the purchase of common shares, for a specified price for a specific period of time. The following table contains information regarding the warrants to acquire common shares outstanding as of December 31, 2008.

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

	Number of warrants	Number of common shares underlying warrants	Exercise price	Expiry date
Warrants issued in connection with private placement closed on February 1, 2007	4,937,500	4,937,500	\$0.25	February 1, 2009
Warrants issued in connection with private placement closed on March 27, 2007	2,000,000	2,000,000	\$1.00 ¹	March 27, 2009
Warrants issued in connection with short form prospectus closed on November 9, 2007	17,250,000	18,975,000	\$0.50	May 9, 2010
Broker Warrants issued in connection with short form prospectus closed on November 9, 2007	1,725,000	17,250,000	\$0.35	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 higher exercise price was used in the above schedule.

13. CONTRIBUTED SURPLUS

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

	2008	2007
	\$	\$
Balance, beginning of year	1,187,109	753,253
Stock-based compensation	320,430	539,413
Exercise of stock options	-	(105,557)
Balance end of year	1,507,539	1,187,109

14. CAPITAL DISCLOSURES

The Company's objective in managing capital is to ensure a sufficient liquidity position to finance its research and development activities, general and administrative expenses, working capital and overall capital expenditures, including those associated with patents. The Company makes every attempt to manage its liquidity to minimize shareholder dilution when possible.

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

The Company defines capital as total shareholders' equity. To fund its activities, the Company has followed an approach that relies almost exclusively on the issuance of common equity. Since inception, the Company has financed its liquidity needs primarily through share issuance. The Company believes that funds from operations as well as from existing financing agreements will be sufficient to meet the Company's cash requirements for the next twelve months.

The capital management objectives remain the same as for the previous fiscal year. When possible, the Company tries to optimize its liquidity needs by non-dilutive sources, including interest income, to respond to changes in economic conditions and the risk characteristics of underlying assets. The Company has no debt. The Company is not subject to any capital requirements imposed by external parties.

15. FINANCIAL RISK MANAGEMENT**[a] Fair values**

The Company's financial instruments recognized on the consolidated balance sheet consist of cash, accounts receivable, and accounts payable. The fair values of these recognized financial instruments approximate their carrying values due to their short-term maturity.

[b] Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, which are maintained with a high-credit quality financial institution.

[c] Liquidity risk

Liquidity risk is the risk that, as a result of operational liquidity requirements, the Company will not have sufficient funds to settle a transaction on the due date, will be forced to sell financial assets at a price which is less than what they are worth, or will be unable to settle or recover a financial asset.

The Company's operating cash requirements are continuously monitored by management. As factors impacting cash requirements change, liquidity risks may necessitate the need for the Company to raise capital by issuing equity. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

As at December 31, 2008, the Company had available \$6,400,486 of cash and cash equivalents. The Company believes it has sufficient funding through operations and the use of this facility to meet foreseeable financial obligations.

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

[d] Market risk

The significant market risk exposures affecting the financial instruments held by the Company, are those related to interest rates and foreign currency exchange rates which are explained as follows:

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. Cash and cash equivalents bear interest at a variable rate. Accounts receivable, other receivables, accounts payable and accrued liabilities bear no interest. The Company has no other interest-bearing financial instruments.

Based on the value of variable interest-bearing cash equivalents during the year ended December 31, 2008, and assumed 0.5% increase or 0.5% decrease in interest rates during such period would have an impact of \$40,000 on interest income. The Company does not currently use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations.

Foreign exchange risk

The Company makes certain payments in United States dollars. As a result, fluctuations in the value of the Canadian dollar relative to the United States dollar can result in foreign exchange gains and losses. The Company does not currently have any agreements to fix or hedge the exchange rate of the Canadian dollar to the United States dollar.

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

The Company leases its office space under contract which covered a three year period effective from January 1, 2006. At the expiry of this lease, the Company has elected to continue the lease on a month-to-month basis.

[b] Research contracts

The Company has an ongoing research contract with an Alberta-based university. Monthly charges under this contract amount to \$14,000 until June 2009. Effective January 1, 2009, the fee has been reduced to \$11,000 per month.

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, 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

Stem Cell Therapeutics Corp.

[a development stage company]

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2008 and 2007

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.

As part of the cross licensing agreement with a third party entered into in 2006, the Company paid US\$150,000 in 2008 (nil in 2007). Future payments of (a) US\$500,000 is payable upon the successful completion of a Phase II clinical trial using the drugs referenced under the cross-license agreement, and (b) US\$1,000,000 payment payable upon its commercialization.

17. LOSS PER COMMON SHARE

Loss per common share is calculated using the weighted average number of common shares outstanding during the year ended December 31, 2008 of 110,403,175 (71,513,490 as at December 31, 2007). The Company has excluded all outstanding stock options, and share purchase warrants from the calculation of diluted loss per share because all such securities are considered anti-dilutive.

18. SEGMENTED INFORMATION

The Company operates in a single business segment focused on the discovery, development and commercialization of novel therapeutics, substantially all of the Company's operations, assets and employees are located in Canada.

19. COMPARATIVE FIGURES

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