



STEM CELL

THERAPEUTICS

Stem Cell Therapeutics Corp.

Management Discussion and Analysis
For the fiscal year ended December 31, 2008

Dated: April 9, 2009

Dated April 9, 2009

The following information should be read in conjunction with the Company's 2008 audited consolidated financial statements and notes thereto, which were prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Where "we", "us", "our", "SCT", "Company" or the "Corporation" is used, it is referring to Stem Cell Therapeutics Corp. and its wholly owned subsidiary Stem Cell Therapeutics Inc. 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 guidelines of National instrument 51-102 and covers the period from January 1, 2008 to April 9, 2009 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 autologous stem cells. The Company's programs aim to repair neurological functions lost due to disease or injury. SCT's stem cell regenerative therapeutic approach was founded on the work of Dr. Samuel Weiss, Director of the Hotchkiss Brain Institute at the University of Calgary, who was awarded the Gairdner Award in April 2008 for this work on neural stem cells. SCT's lead product, NTx-265®, targets the treatment of stroke by repurposing approved and clinically well defined drugs. The Company's extensive patent portfolio supports the potential expansion into future clinical programs in numerous other neurological diseases such as traumatic brain injury and multiple sclerosis.

SCT's 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 final clinical results from SCT's completed BETAS (Beta-hCG + Erythropoietin in Acute Stroke) Phase IIa stroke trial were presented at the International Stroke Conference in February 2009, showing clinically relevant recovery in 12 of 12 patients who received the complete regimen. In May of 2008 SCT began recruiting patients for its multi-centre, double-blind, placebo-controlled REGENESIS (a Phase II prospective, randomized, double-blind, placebo controlled study of NTX-265®: human chorionic Gonadotropin (hCG) and epoetin alfa (EPO) in acute ischemic stroke patients) Phase IIb stroke study for NTx-265® with primary endpoints of safety and efficacy.

Due to an unrelated German clinical study, the REGENESIS Phase IIb clinical trial was officially placed on hold in September at the request of Health Canada and the U.S. Food and Drug Administration (“FDA”). The Company is actively pursuing the removal of the clinical hold through ongoing discussions with the FDA but as yet, no formal notice has been received to lift the clinical hold on its REGENESIS Phase IIb stroke trial. In addition to continuing to pursue lifting the clinical hold, the Company has decided to investigate alternate stroke regimen options from within its patent portfolio that do not involve EPO as the Company understands that it was safety concerns related to the dose of EPO in the German study that gave rise to the clinical hold. Any alternate regimen will continue to follow the same therapeutic approach whereby adult stem cells are stimulated to proliferate and differentiate into neurons to replace damaged brain tissue. The Company expects to be in a position to assess the viability of pursuing other options in the second quarter of this year, 2009. At this time, the Company does not believe that this delay negatively affects the carrying value of the assets referenced in the consolidated financial statements for the year ending December 31, 2008.

Operating Highlights from 2008 and the period ending April 9, 2009

- Received ‘May Proceed’ notification from the FDA for its Phase IIb clinical stroke trial and IND in April, 2008
- Enrolled first patient in the Canadian REGENESIS Phase IIb stroke trial, announced May 2008
- Completed animal efficacy study for Multiple Sclerosis
- Completed traumatic brain injury animal study comparator
- Received positive review from the Data Safety & Monitoring Board to continue progress of the REGENESIS Phase IIb clinical stroke trial, September 2008
- Received ‘No Objection Letter’ from Health Canada for its Traumatic Brain Injury Trial, September 2008
- Received Letter from Health Canada and Verbal Request from the FDA to place a clinical hold on the REGENESIS Phase IIb stroke trial in Canada; triggered by an unrelated German study, September 2008
- Announced final payment, in common shares, to Transition Therapeutics Inc. to complete the intellectual property acquisition of Stem Cell Therapeutics Inc., October 2008
- Appointed Mr. Barry Herring as Chief Financial Officer and VP, Finance, January 2009
- Presented positive final results for the BETAS Phase IIa clinical safety study in stroke in February 2009, including all U.S. and Canadian patient data

2009 Objectives

- Receive FDA approval to proceed with REGENESIS or alternate strategy for the Phase IIb stroke trial; Q2 09
- Complete REGENESIS Phase IIb clinical stroke study; Q4 09
- Initiate and enrol patients in the U.S. IND approved Phase IIb clinical stroke study; H1 09
- Initiate and enrol patients in the Phase IIa clinical study for Traumatic Brain Injury; H2 09
- Initiate clinical Proof-of-Concept study for Multiple Sclerosis; H2 09
- Partnership/Co-Development deal in advanced stage for at least one indication

Operating results for the period January 1, 2008 to April 9, 2009

On January 8, 2008, The Company was issued an Australian patent, numbered 2002325712 and entitled “Differentiation of Neural Stem Cells and Therapeutic Use Thereof”. This Australian patent expands the Company’s international intellectual property coverage for this patent family, adding to the patents previously issued in the U.S. and Japan. This patent protects the combination of prolactin with agents such as erythropoietin (EPO) or pituitary adenylate cyclase activating polypeptide (PACAP) for treating

patients suffering from a variety of central nervous system (CNS) disorders including brain injury, stroke, Alzheimer's disease, multiple sclerosis (MS), Huntington's disease, amyotrophic lateral sclerosis, Parkinson's disease, and other CNS diseases. The strategy of using a therapeutic regimen of drugs to produce neuronal or glial precursor cells, as taught in this patent, has the potential to be a key treatment for many CNS diseases.

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

Results from the BETAS trial showed no serious adverse events to NTx-265® in the 13 patients enrolled. Of these, 8 patients completed the 90 day assessment term and each of them showed a clinically relevant improvement in their NIHSS score of 4 points or greater. Patients entered the trial with NIHSS scores ranging from 6-19 (moderate to severe). In these patients, the average baseline NIHSS was 8.3+/- 4.1 and improved in 8 out of 8 patients to an average day 90 NIHSS of 2.5 +/- 1.8 (mean +/- SD), an improvement in NIHSS score of 5.8+/-2.5 points. Five of these 8 patients had a day 90 Barthel Index score of 95-100 (out of 100); consistent with excellent outcome. Specific assessments of neurological recovery affected by NTx-265® were also favorable, including the Arm Motor Fugl-Meyer scale, an arm motor recovery assessment; Trailmaking A test, a measure of cognitive function; and measures of neglect and aphasia. Further the drug regimen decreased the size of the infarct in 6 out of 8 patients overall. 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 permitted 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 BETAS Phase IIa stroke trial, Dr. Steven C. Cramer, at the University of California, Irvine. Dr. Cramer is also the co-Lead Investigator of the Canadian REGENESIS Phase IIb 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. The U.S. Phase IIb study will accompany the currently enrolling Canadian REGENESIS Phase IIb 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. For the last 10 years of his career at Procter and Gamble he was in New Drug Marketing for pharmaceuticals, and for the remaining 5 years he was Marketing Director (Department head) Pharmaceuticals Research and Licensing and Acquisitions Planning Department with global responsibility for the market and financial assessment of both internal and external new drug product opportunities. 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.

On September 4, 2008, SCT announced that it had received results from the Data Safety Monitoring Board (DSMB) that provides oversight for the Company's REGENESIS Phase IIB trial. The DSMB advised that it had completed a safety analysis and had recommended the trial continue as per the protocol. The REGENESIS Phase IIB clinical trial is designed to demonstrate that the NTx-265® therapy is both a safe and effective therapy capable of improving recovery after acute ischemic stroke. The mandate of the DSMB is to provide objective, independent monitoring of patient safety during the REGENESIS trial. This review was the second of several regularly scheduled reviews by the four-member DSMB that will occur over the duration of the trial.

On September 15, 2008, SCT announced it has received a No Objection Letter (NOL) from Health Canada for the Company supported, investigator led Phase IIa single centre, open label study to characterize the safety of hCG and EPO in severe traumatic brain injury (TBI). Dr. David Zygum, MD, MSc, FRCPC, Assistant Professor in the Departments of Critical Care Medicine, Clinical Neurosciences and Community Health Sciences, University of Calgary, Foothills Medical Centre, Calgary Health Region, will be the Principal Investigator for this Phase IIa

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 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. In addition to continuing to pursue lifting the clinical hold, the Company has decided to investigate alternate stroke regimen options from within its patent portfolio that do not involve EPO as the Company understands that it was safety concerns related to the dose of EPO in the German study that gave rise to the clinical hold. Any alternate regimen will continue to follow the same therapeutic approach whereby adult stem cells are stimulated to proliferate and differentiate into neurons to replace damaged brain tissue. The Company expects to be in a position to assess the viability of pursuing other options in the second quarter of this year, 2009. At this time, the Company does not believe that this delay negatively affects the carrying value of the assets referenced in the consolidated financial statements for the year ending December 31, 2008.

On October 1, 2008, SCT was issued Australian Patent No. 2003250697, entitled "Oligodendrocyte Production from Multipotent Neural Stem Cells". This patent, issued on August 14, 2008, covers methods of producing oligodendrocytes from neural stem cells using granulocyte-macrophage colony stimulating factor (GM-CSF), interleukin 3 (IL-3), or interleukin 5 (IL-5), either *in vivo* or in cell culture, as well as oligodendrocyte compositions produced by such methods. This is the first patent to issue in this patent family. This technology adds to the depth of SCT's patent portfolio by expanding the repertoire of pharmaceutical agents that can be used to activate neural stem cells, in this case to produce oligodendrocytes. Neurodegenerative demyelinating diseases such as multiple sclerosis are associated with loss of myelin-producing oligodendrocytes. Further, GM-CSF fits into the Company's "repurposing" approach of using old drugs in new indications for expediting entry into the marketplace. Whether SCT develops this technology in-house or utilizes it as an out-licensing opportunity, this patent adds to SCT's arsenal of commercialization opportunities.

On October 3, 2008, SCT announced that it had elected to pay the final installment of the intellectual property acquisition of Stem Cell Therapeutics Inc. to Transition Therapeutics Inc. (TSX: TTH, NASDAQ: TTHI, "Transition") in common shares. The final payment of \$1,650,000 was paid by SCT to Transition by issuing 23,272,633 shares, based on a 10-day average trading price of approximately C\$0.07.

On October 20, 2008, the Company announced that President and CEO, Dr. Alan Moore, had been invited to present at Florida's largest Bioscience forum. Dr. Moore presented and participated in a panel discussion titled 'Individualized Medicine' at BioFlorida's 11th Annual Conference held October 19-21 in Amelia Island, Florida. Dr. Moore's session was chaired by Dr Todd Golde, Professor at the Department of Neuroscience at the Mayo Clinic, Jacksonville. Other panelists included Dr. Daniel Kelly, Scientific Director and Professor at the Burnham Institute for Medical Research and Dr. Dennis Steindler, Professor of Neuroscience and Neurosurgery at the University of Florida's College of medicine.

On January 12, 2009, the Company announced the appointment of Mr. Barry Herring as the new Vice President of Finance and Chief Financial Officer (CFO), effective January 1, 2009. Mr. Herring has 25 years experience as an accounting executive for companies in Canada and the United States. He has been a senior executive in public and private corporations within the energy and mining sector. Prior to joining SCT, Mr Herring was the President, CFO and Director of Atlas Minerals Inc. Prior thereto he was the

CFO of Velo energy, a start-up oil and gas exploration company. Mr. Mark Wayne has resigned as CFO but will remain on the Board of Directors of SCT as Chairman.

On February 9, 2009, the Company provided a corporate update of key corporate developments and strategies, announcing that it is actively pursuing the removal of the clinical hold through ongoing discussions with the U.S. FDA but as yet no formal notice has been received to lift the hold on its REGENESIS Phase IIb stroke trial. The Company has therefore decided to investigate alternate stroke regimen options from within its patent portfolio that do not involve EPO. These alternate regimens will continue to follow the same therapeutic approach whereby adult stem cells are stimulated to proliferate and differentiate into neurons to replace damaged brain tissue.

On February 19, 2009, SCT announced a presentation of the complete positive results of the BETAS Phase IIa trial conducted by Drs. Steven Cramer, Michael Hill and David Brown at the International Stroke Conference, February 19, 2009 in San Diego, CA. The poster presentation was entitled “Safety of Beta-hCG and EPO in Acute Ischemic Stroke” and was a comprehensive evaluation of the safety and efficacy results of the completed BETAS Phase IIa trial.

Analysis of this trial by Dr. Steven C. Cramer, the Principle Investigator, highlights three key conclusions:

1. No Safety Concerns were present: NTx-265® administered to 12 patients with Acute Ischemic Stroke showed no Serious Adverse Events related to treatment.
2. ALL 12 patients enrolled in the trial and completing day 90 review improved; each recovered at least 4 points on the [National Institute of Health Stroke Scale](#) (NIHSS) and, on average, patient improved was greater than 6 points.
3. The 9 day treatment of beta-human Chorionic Gonadotropin (b-hCG) followed by Erythropoietin (EPO), started within 48 hours of stroke onset, and directly translated from a preclinical protocol, is safe. This therapy had minimal hematological effects, and was associated with significant clinical gains.

On February 25, 2009, the Company announced the issuance of stock options to officers and directors of the Company. These options were issued in connection with a reduction of executive salaries and Board of Directors’ fees, all effective as of January 1, 2009. SCT issued an aggregate of 3,840,000 stock options to the Company’s officers and Board of Directors at an exercise price of C\$0.10 per share. These options will expire no later than February 25, 2014 subject to applicable vesting provisions. These options were awarded in accordance with the Company’s Stock Option Plan.

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 neuro-regeneration 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 on 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 a stroke patient's 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 a number of 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 also planning to conduct a Phase IIb acute ischemic stroke trial in the U.S. similar to the Canadian-based REGENESIS trial. The recruitment target for this U.S. study is to enroll 20-30 patients at two enrolling sites. 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 enrollment of the first patient in its REGENESIS Phase IIb stroke trial. Enrolment in the U.S. Phase IIb study was expected to begin in Q4 2008 and finish in Q2 2009. Both the Canadian and U.S. trials are currently on clinical hold at the request of Health Canada and the FDA as noted above. At the time the clinical hold occurred, 7 patients had been enrolled in the REGENESIS Phase IIb study. Discussions with Health Canada and the FDA are ongoing.

Prior to the initiation of the clinical hold, patient enrollment in Canada had been slower than anticipated. As a result, SCT began 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 continuing to pursue this approach.

The Company is actively pursuing the removal of the clinical hold through ongoing discussions with the FDA but as yet, no formal notice has been received to lift the clinical hold on its REGENESIS Phase IIb stroke trial. The Company has therefore decided to investigate alternate stroke regimen options from within its patent portfolio that do not involve EPO as the Company believes it is the use of EPO as part of its stroke treatment that gave rise to the clinical hold. These alternate regimens will continue to follow the same therapeutic approach whereby adult stem cells are stimulated to proliferate and differentiate into neurons to replace damaged brain tissue. The Company expects to be in a position to assess the viability of pursuing other options in the second quarter of this year.

Traumatic Brain Injury

Stem Cell Therapeutics has completed a preclinical comparator study designed to characterize the neuroregenerative effects of stem cell proliferative agents plus EPO in an animal model of traumatic brain

injury (TBI). This study represents a promising new program launch that builds upon intellectual property held by SCT and supported by fundamental findings from the laboratory of Dr. Samuel Weiss at the University of Calgary. Acute traumatic injury to the head resulting from automobile accidents, concussive explosions or serious athletic impact to the head represents serious events that cause loss of independence and demand intense medical intervention with recovery periods that often persist for months or years. A therapy 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 was sponsored by SCT and was 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 objective of this study, conducted at Louisiana State University under the leadership of Dr. Ludmila Belayev, was to compare two proliferative agents, hCG plus EPO versus prolactin plus EPO, in a rat animal model of TBI. Top-line analysis shows that both regimens work equally well to reverse the behavioral and anatomical effects of TBI. Formal data from this study will be presented in the future in written and oral format.

Building upon the results of this animal study, and those previously obtained, a Phase IIa TBI clinical study was anticipated to start at one site in Canada in Q3 2008. This study was also placed on clinical hold at the request of Health Canada, as discussed above.

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. Samuel Weiss from the University of Calgary 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 a preliminary non-clinical study undertaken by Dr Wee Yong at University of Calgary is expected to quickly evolve into a clinical program to demonstrate efficacy in patients diagnosed with multiple sclerosis. The results of this study are anticipated to be announced in 2009, and the follow-on clinical study that will be lead by Dr Luann Metz at the University of Calgary is anticipated to begin in Q3 2009. This study is expected to be funded by an outside grant to the University of Calgary.

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 80 pending patent applications, five issued U.S. patents, four issued Australian patents and one issued Japanese patent. These make up 16 patent families which have been filed in the U.S. and internationally.

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”) which was completed on October 3, 2008. 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 was payable in installments beginning at closing and on the anniversary of closing in each of the following four years. All payments were made in cash, except the final payment of \$1,650,000 which was paid by the issuance of 23,272,633 common shares on October 3, 2008.

Financial performance

The Company’s loss for the year ended December 31, 2008 increased by \$105,936 to \$5,559,517 (\$0.05 per common share) from the loss of \$5,453,581 (\$0.08 per common share) reported for the year ended December 31, 2007. The primary reason for the increase in loss was an increase in research and development and professional fees. The increase in these expenses was partially offset by the increase in foreign exchange gains, as well as a decrease in interest income, income expense on obligation of the share purchase agreement, and general and administration expenses. Discussion of these variations follows.

- The increase in research and development expenses was primarily due to an increase in NTx-265® technology development expenses resulting in the commencement of the REGENESIS Phase IIb stroke trial. Research and development expenses amounted to \$2,697,388 compared to \$1,849,952 during 2007.
- An increase in the foreign exchange gain was recognized in 2008 as \$311,248 compared to \$79,488 for 2007 due to the appreciation of the U.S. dollar on the cash balance in the U.S. bank account maintained by the Company.
- Interest income for 2008 resulted from interest paid on our cash and cash equivalents, and amounted to \$233,223 compared to \$137,027 for 2007. This increase is due to higher balances in 2008.
- The decrease in general and administrative expenses amounting to \$89,284 was primarily the result of a decrease in investor relations and business development expenses. These expenses totaled \$1,065,967 compared to \$1,155,251 in 2007.

- Management and consulting fees in 2008 totaled \$712,343 compared to \$763,662 in 2007. The change was mainly driven by a decrease in management compensation for the year 2008 in comparison to 2007 as well as a management restructuring that was completed in 2008.

In upcoming periods, the Company's losses are expected to increase, primarily because of increased clinical expenditures, as the Company continues the development of the NTx-265® product through a Phase IIb clinical trial, and as a result of increased research and development expenditures on other products and programs of interest.

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.

Selected annual information

The following table is a summary of selected audited consolidated financial information of the Company for 2008 and 2007:

	December 31, 2008	December 31, 2007
	\$	\$
Interest income	(233,223)	(137,027)
Net loss	5,559,517	5,453,581
Basic and diluted net loss per common share	0.05	0.08
Total assets	8,248,255	13,085,155
Total long-term liabilities	3,192	10,007

Research and Development

The Company's research and development costs consist primarily of fees paid to external service providers. Our research and development expenses were expected to increase significantly over the next few years as our products advanced through clinical trials; however the recent hold imposed by Health Canada and the FDA has made the timing and extent of our future research and development expenses uncertain. As a result of the hold and the risks and uncertainties that are discussed in the "Risk and Uncertainties" section, we are unable to precisely estimate the specific timing and future costs of our research and development programs.

All research and development fees are expensed, and total \$7,954,310 since inception.

Research and development expenses increased to \$2,697,388 for the fiscal year ended December 31, 2008 from \$1,849,952 for the fiscal year ended December 31, 2007. This increase of \$847,436 was primarily due to the progress of Phase IIb clinical trials and preclinical development throughout the year.

The following is a breakdown of R&D costs:

	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
Research and development costs	2,697,388	1,849,952	7,954,310

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 \$2,720,432. Professional fees for the year ended December 31, 2008 increased to \$868,612 from \$821,120 for the year ended December 31, 2007. This increase of \$47,492 is partially due to increased patent filing costs due to the advanced stage of SCT's patent portfolio in the patent review system. The increase in general legal fees for the year ended December 31, 2008 was due to an increase in corporate activity and costs associated with restructuring. The following is an analysis of professional fees charges:

	2008 \$	2007 \$	Cumulative since inception \$
Auditing and accounting fees	88,995	82,358	354,580
Legal fees – Intellectual property	708,872	698,234	2,042,107
Legal fees – Other	70,745	40,528	323,745
Total professional fees	868,612	821,120	2,720,432

SCT's intellectual property estate continues to grow and mature; as such, there will be increasing expenses related to the filing, prosecution, and maintenance of the patents and patent applications that SCT currently has. For reference, upon SCT's formation and the purchase of Stem Cell Therapeutics Inc., the combined patent portfolio was 28 patent applications. As of the date of this report, the total patent portfolio consist of 80 pending patent applications, five issued U.S. patents, four issued Australian patents and one Japanese patent. These make up 16 patent families which have been filed in the U.S. and internationally. The Company's patent portfolio continues to grow as more applications enter national phase filing and additional new applications are filed.

Management and Consulting Fees

Management and consulting fees decreased to \$712,343 for the year ended December 31, 2008 from \$763,662 for the year ended December 31, 2007. This decrease of \$51,319 was due to a management-led initiative to cut costs and preserve capital for the resumption of the REGENESIS Phase IIb stroke trial.

General and Administration (G&A)

General and administrative expenses decreased to \$1,065,967 for the year ended December 31, 2008 from \$1,155,251 for the year ended December 31, 2007. This decrease of \$89,284 primarily resulted from the decrease in investor relations and promotional costs for the twelve month period ended December 31, 2008 compared to the same period in 2007.

Stock options

Stock option expenses since inception total \$1,704,566. Stock option expenses decreased to \$320,430 for the year ended December 31, 2008 from \$539,413 the year ended December 31, 2007. The decrease was mainly due to stock options grants in prior years being fully amortized in 2007.

The following table shows the granted, exercised, forfeited and outstanding options under the Company's stock option plan as at April 9, 2009. All options have a five year expiry from the date of grant, and either vest immediately, or vest over a three year period.

Number of Options Granted	Number of Options Exercised	Number of Options Forfeited	Number of Options Outstanding
14,445,000	1,030,000	1,293,897	12,121,103

Intellectual Property

The value of the intellectual property purchased from Transition Therapeutics Inc. on October 4, 2004 was recorded based on the present value of the purchase price amortized over a 10 year period at 15% as an intellectual property asset. The current and long term portions of the corresponding purchase liability as well as the deemed interest expense were recorded accordingly at December 31, 2008. As of that date, the total liability associated with this transaction is nil as the remaining liability balance has been paid.

The change in net intellectual property balance from the December 31, 2007 balance is limited to the effect of amortization calculated during 2008. The Company's review of the carrying value of the intellectual property as at December 31, 2008, determined no impairment being required.

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 80 pending patent applications, five issued U.S. patents, four issued Australian patents and one issued Japanese patent. These make up 16 patent families which have been filed in the U.S. and internationally.

Amortization

Total amortization charges since inception are \$1,183,412. Amortization charges for property and equipment decreased to \$32,578 from \$39,613 for the year ended December 31, 2008. This decrease of \$7,035 was due to property and equipment disposed of during 2007 and assets which economic useful life ended in 2008. 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 2009 as there are no plans for major additions to existing property and equipment.

Amortization charges for intellectual property assets were essentially unchanged in 2008 at \$243,788 from \$243,128 in 2007. No intellectual property asset additions were made during 2008.

The Company anticipates that intellectual property assets amortization charges will remain within the same level during 2009 as there are no plans for major additions to existing intellectual property assets to be capitalized on the financial statements. All amortization was calculated on a straight-line basis over the estimated useful lives of the assets.

Revenue

As an early development stage biotechnology company we have not generated any revenues from product sales to date and do not expect to do so for a number of years. This is primarily due to the long time that is required to develop drugs that are proven in a clinical setting in humans to be safe and useful for treating a particular disease state. Revenues to date include only interest income generated on our cash balances.

Interest income for the year ended December 31, 2008 was \$233,223 as compared to \$137,027 for the year ended December 31, 2007. This increase of \$96,196 in interest income primarily resulted from higher cash balances throughout the year ended December 31, 2008. Since inception the total interest earned by the Company amounted to \$595,841.

Summary of Quarterly Results

	As at, and for the three months ended							
	2008				2007			
	December	September	June	March	December	September	June	March
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue ¹	(16,322)	63,737	68,237	117,571	58,183	35,242	31,077	12,525
Net loss	1,232,781	1,434,711	1,537,839	1,354,186	2,087,895	1,276,496	838,461	1,250,729
Basic and diluted loss per common share	0.01	0.01	0.01	0.01	0.02	0.02	0.01	0.02
Total assets	8,248,255	9,468,938	10,616,754	11,994,405	13,085,155	4,499,181	5,370,284	6,051,992
Unrestricted cash and cash equivalents	6,400,486	7,311,748	8,394,583	9,737,180	10,764,097	2,285,870	3,342,738	3,972,958
Total long-term obligations ²	3,192	6,022	7,350	8,678	10,007	11,721	1,434,786	1,434,831

¹Interest income on cash balances

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

*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.

2008 Fourth Quarter Review

Statements of loss for the three-month period ended December 31, 2008 and 2007 are as follows:

	2008	2007
	\$	\$
OPERATING EXPENSES		
Research and development costs	535,018	982,983
Professional fees	356,241	204,784
Management and consulting fees	119,806	343,446
General and administration	249,950	315,579
Stock option expense	83,379	260,110
Deemed interest expense on obligation under share purchase agreement	1,763	54,569
Amortization of property and equipment	10,949	10,596
Amortization of intellectual property	61,452	60,786
Foreign Exchange (Gain)	(194,099)	(86,775)
Total operating expenses	1,216,459	2,146,078
Interest income	16,322	(58,183)
Net loss for the period	1,231,781	2,087,895

Results of Operations

For the three-month period ended December 31, 2008; the Company's net loss decreased to \$1,232,781 compared to \$2,087,895 for the three-month period ended December 31, 2007. Clinical development activities decreased in the fourth quarter of 2008 due to the clinical hold on the REGENESIS Phase IIB stroke trial which caused research and development costs to decrease. Management and consulting fees were also reduced based on a management-led initiative to cut costs to preserve funds for the resumption of the REGENESIS Phase IIB trial. Stock option expense decreased primarily because stock option grants from years prior were fully amortized in 2007. The foreign exchange gain increased due to the appreciation of the U.S. dollar on the cash balance of the U.S. bank account maintained by the Company. Interest expense under the share purchase agreement decreased as the final payment was made under the share purchase agreement to Transition on October 3, 2008. The decrease in these expenses was partially offset by an increase in professional fees which was due to an increase in general legal and intellectual property portfolio maintenance legal fees. Interest income also contributed to the offset as it was recorded as a loss due to a reversal of previous accruals as well as lower cash balances throughout the last quarter of 2008 compared to the last quarter of 2007.

Research and Development

The Company's research and development costs decreased to \$535,018 for the three-month period ended December 31, 2008 compared to \$982,983 for the three-month period ended December 31, 2007. A breakdown of these costs is as follows:

	2008	2007
	\$	\$
Clinical development	88,933	437,418
Preclinical development	60,173	249,252
Research	42,000	42,000
Salaries and bonuses	77,553	146,256
Consulting fees	29,562	76,189
Licensing costs	188,565	-
Other costs	48,232	31,868
Research and development costs	535,018	982,983

Preclinical costs in the fourth quarter of 2008 were less than the comparable fourth quarter of 2007 due to the majority of preclinical work being completed in the fourth quarter of 2007 to support the commencement of the REGENESIS Phase IIb stroke trial in early 2008. The decrease of research and development expenses for the fourth quarter of 2008 was primarily due to a decrease in clinical activity as the clinical hold on the REGENESIS Phase IIb stroke program was announced September 18, 2008. This was offset partially by the increase in licensing costs which consisted of the Phase IIa milestone payment to StemCells Inc.

Professional fees

Professional fees for the three-month period ended December 31, 2008 amounted to \$356,241 compared to \$204,784 for the three-month period ended December 31, 2007. This increase was due to an increase in intellectual property legal fees as more applications entered national phase filing and additional new applications are filed. Analysis of these expenses is as follows:

	2008	2007
	\$	\$
Auditing and accounting fees	57,867	47,388
Legal fees – Intellectual property	278,845	136,636
Legal fees – Other	19,529	20,760
Total professional fees	356,241	204,784

Management and Consulting Fees

Management and consulting fees for the three-month period ended December 31, 2008 amounted to \$119,806 compared to \$343,446 for the three-month period ended December 31, 2007. This decrease was caused by management bonuses and board of directors' retainers covering the entire of 2007 being recorded in the fourth quarter of 2007.

General and Administration (G&A)

General and administrative expenses amounted to \$241,950 for the three-month period ended December 31, 2008 compared to \$315,579 for the three-month period ended December 31, 2007. This decrease reflects a decrease in office operating costs in the three-month period ended December 31, 2008 compared to the three-month period ended December 31, 2007 as a result of the Company's cost cutting initiative.

Stock options

Stock option charges for the three-month period ended December 31, 2008 amounted to \$83,379 compared to \$260,110 for the three-month period ended December 31, 2007. Decrease is mainly due to stock options granted in prior years being fully amortized prior to the fourth quarter of 2008.

Amortization

Amortization charges for property and equipment was essentially unchanged at \$10,949 for the three-month period ended December 31, 2008 compared to \$10,596 for the three-month period ended December 31, 2007.

Amortization charge for intellectual property assets was essentially unchanged at \$61,452 for the three-month period ended December 31, 2008 from \$60,786 for the three-month period ended December 31, 2007.

Interest income

Interest income for the three-month period ended December 31, 2008 was a reversal of \$16,322 as compared to \$58,183 for the three-month period ended December 31, 2007. This decrease resulted from the reversal of previous accruals as well as lower cash balances throughout the last quarter of 2008 compared to the last quarter of 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 unrestricted cash and short-term investments totaled \$6,400,487 at December 31, 2008. In light of the regulatory hold on our clinical trials, we are unable to forecast our specific cash requirements over the next 12 months. If the hold is removed by the regulatory bodies, we may require additional funding in order to complete the clinical trials. There is no assurance that such financing will be available if and when required.

As of December 31, 2008 the working capital (current assets minus current liabilities) of the Company was \$5,803,377 (\$9,138,263 as of December 31, 2007).

Outstanding securities as of December 31, 2008 totaled 132,802,497 common shares 25,912,500 common share purchase warrants and 7,481,103 common share options.

Outstanding securities as of April 9, 2009 are 132,802,497 common shares, 18,975,000 common share purchase warrants and 12,121,103 common share options.

The Company has raised significant operating capital since its inception on March 31, 2004. On January 6, 2005 the Company closed its Initial Public Offering issuing 34,000,000 common shares at a price of \$0.25 per share which raised gross proceeds of \$8,500,000. On February 1, 2007 the Company closed a \$2 million private placement of 10 million units, each unit consisting of one common share of SCT and one-half of one common share purchase warrant. Each full warrant entitled the holder to purchase one additional common share of SCT for \$0.25 until February 1, 2009. On March 27, 2007 the Company closed a second \$2 million private placement of 4 million units, each unit consisting of one common share of SCT and one-half of one common share purchase warrant. Each full warrant entitled the holder to purchase one additional common share of SCT for \$0.75 per share in the first year and \$1.00 per share until the end of the second year. On November 9, 2007, the Company closed a bought deal financing with a syndicate of underwriters. Gross proceeds of \$12.075 million were raised, which included the exercise in full of a 15% overallotment option, resulting in 34,500,000 Units (the "Units") being sold to the public pursuant to a short form prospectus. The Units were sold to the public at a price of \$0.35 per Unit, with each Unit consisting of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant is exercisable to acquire one additional common share of the Company at a price of \$0.50 per share for 30 months. In addition, the Company issued 1,725,000 Broker warrants entitling warrant holders to acquire one common share at a price of \$0.35 per share for a period of 30 months after the closing of the financing. The net proceeds to the Company from the sale of the Units were approximately \$10.9 million after deducting the underwriters' fee and the expenses of the offering.

As of April 9, 2009 the gross proceeds raised since inception by the Company totaled \$26,620,413. 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 in the current economic climate 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 and non interest-bearing bank accounts.

Commitments and Contingencies

[a] Operating leases

The Company leased its office space under contract which covered a three year period effective from January 1, 2006. Annual costs under this contract were limited to an annual rent charge of \$38,780 and annual operating costs estimated to be \$34,154 with a total committed cost of \$72,934 for 2008.

The lease expired on January 1, 2009 and the Company is now under a month-to-month contractual agreement. Monthly rent charges are \$7,439 and monthly operating estimates to be \$3,515 with a total committed monthly cost of \$10,955.

[b] Research contracts

The Company has an ongoing research contract with an Alberta-based university. In 2008, the monthly charges under this contract amounted to \$14,000. As part of the Company's cost cutting initiative, this contract was reduced to a monthly cost of \$11,000 for the first six months of 2009.

In addition, the Company entered into a separate contract with the same university from July 1, 2007 to June 30, 2008. Total costs under this contract amounted to \$196,000.

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

[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 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.

The Company entered into a cross licensing agreement in 2006 with a third party. In 2008, the Company paid US\$150,000 as per the agreement (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.

Changes to Accounting Policies

These consolidated financial statements have been prepared using the accounting policies described in the 2007 Annual Report audited consolidated 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 – Disclosures*, 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. 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.

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 GAAP 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.

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 the Company's long-term potential will be dependent upon the successful development and commercialization of products and product candidates currently under development. The Company can make no assurance that these products and product candidates will be developed or that they will receive regulatory approval. New products and product candidates currently in the research and development stages are the highest risk stages for a company in the biotechnology industry.

SCT can make no assurance that its research and development programs will result in commercially viable products and product candidates. To achieve profitable operations, the Company, alone or with others, must successfully develop, launch and market its 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 its commitments to that program. SCT 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 were 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.