



STEM CELL  

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THERAPEUTICS

**Stem Cell Therapeutics Corp.**

Management Discussion and Analysis  
For the fiscal year ended March 31<sup>st</sup>, 2009

Dated: May 26, 2009

Dated May 26, 2009

The following information should be read in conjunction with the Company's unaudited financial statements as at and for the three months ended March 31, 2008 and 2009, and should also be read in conjunction with the audited financial statements and Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2008.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Where "we", "us", "our", "SCT", "Company" or the "Corporation" is used, it is referring to Stem Cell Therapeutics Corp. unless otherwise indicated.

All amounts are in Canadian dollars, unless otherwise indicated.

Additional information relating to the Company including the Company's Annual Information Form can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Certain information contained in this report constitutes forward-looking statements. These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements.

This management's discussion and analysis ("MD&A") has been prepared in accordance with the requirements of National Instrument 51-102 and covers the period from January 1, 2009 to May 26, 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 ("CNS") 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: hCG and epoetin alfa 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 clinical hold in September at the request of Health Canada and the U.S. Food and Drug Administration (“FDA”). The clinical hold was formally lifted by FDA on May 14, 2009 and a modified REGENESIS phase IIb stroke trial using NTx®-265 is expected to begin recruiting patients early H2 2009, and complete recruiting by the end of H2 2009. We anticipate a top-line read of the data to be available Q1 2010.

## **2009 Objectives**

- ✓ Receive FDA approval to proceed with modified REGENESIS Phase IIb stroke trial; Q2 09
- Initiate and enrol patients in modified REGENESIS Phase IIb stroke trial H2 09
- Complete recruiting for modified REGENESIS Phase IIb clinical stroke trial; Q4 09
- Top-line read of modified REGENESIS Phase IIb stroke trial data; Q1 2010
- Initiate and enrol patients in a 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, 2009 to May 26, 2009**

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. 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 was actively pursuing the removal of the clinical hold through ongoing discussions with the FDA but as yet no formal notice had been received to lift the hold on its REGENESIS Phase IIb stroke trial. The Company therefore decided to investigate alternate stroke regimen options from within its patent portfolio that did not involve EPO. These alternate regimens followed 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 C. Cramer, Michael D. Hill and David M. 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, highlighted 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-hCG (b-hCG) followed by EPO, started within 48 hours of stroke onset, and directly translated from a preclinical protocol, appears to be relatively 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.

On March 29, 2009, SCT announced that Dr. Joshua M. Hare, MD, FACC, Louis Lemberg Professor of Medicine and Director, Interdisciplinary Stem Cell Institute at the University of Miami, presented the "Effects of Combination of Proliferative Agents and Erythropoietin (EPO) on Left Ventricular Remodeling Post-Myocardial Infarction" at the 58<sup>th</sup> Annual American College of Cardiology Conference in Orlando, Florida. The study, conducted by Dr. Hare's team at the University of Miami, described the effects of two drug regimens: hCG plus EPO (NTx®-265 regimen) and a regimen composed of prolactin ("PRL") then EPO. Both of the regimens were dosed in a similar manner, following a severe left ventricular coronary occlusion - heart attack - in rats.

The study demonstrated that after a severe myocardial infarction ("MI"), the left ventricle chamber dimension increased by approximately 200% and decreased in ejection fraction by about 44%. Systemic treatment with hCG, EPO or hCG plus EPO (NTx®-265 regimen) significantly limited the expansion of ventricular chamber dimension and reversed the effects on ejection fraction by approximately 50%. Prolactin, however, did not have this effect.

Dr. Hare concluded "that hCG alone or in combination with EPO may be an effective therapeutic strategy to ameliorate post-MI remodeling. The absence of this same effect with PRL suggests a direct effect of on NTx®-265 on the myocardium." Moreover, Dr. Hare also believes that "given the established safety profile of hCG in humans, clinical trials may be warranted as a next step".

On April 30, 2009, Dr. Alan Moore, President and CEO, was invited to present at EDC's 8<sup>th</sup> Annual Life Science Conference in Miami, Florida. Dr. Moore discussed SCT's unique regenerative stem cell therapy and how it will be the frontier of personalized healthcare specifically in the key areas of stroke, traumatic brain injury and multiple sclerosis.

### **Development Programs**

#### *Stroke*

The primary focus of SCT's development activities is aimed at rapidly advancing NTx®-265 for the treatment of acute ischemic stroke. Stroke was chosen as the 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 an 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.

SCT announced enrollment of the first patient in its original REGENESIS Phase IIb stroke trial on May 28, 2008. Enrollment in the U.S. Phase IIb study was expected to begin in Q4 2008 and finish in Q2 2009. At the time the clinical hold occurred, 7 patients had been enrolled in the REGENESIS Phase IIb study. On May 15, 2009 the Company announced that the FDA had formally lifted its clinical hold, allowing the company to proceed with a modified REGENESIS Phase IIb stroke trial.

On May 21, 2009 the Company announced encouraging results from the original 7 patients enrolled in the trial prior to the clinical hold. The results of the Phase IIb trial from the 7 patients indicated an improvement in the treated group as compared to the placebo group. Of the 7 patients enrolled, 5 received placebo and 2 were treated with NTx®-265: A decrease in the NIHSS score represents an improvement in a patient's functionality. A change of 4 units in the NIHSS scale is considered clinically significant. The placebo patients score decreased by an average of 1.4 units, which did not attain this level of clinical significance. The treated patients, however, showed an average decrease of 9 units, exceeding the level for clinical significance. While the results of this study were not statistically significant due to the small number of patients enrolled before the study was halted, the large numerical difference in response to drug regimen versus placebo is encouraging.

The next step in the clinical development for NTx®-265 is completion of the modified REGENESIS Phase IIb double-blind, randomized, placebo-controlled clinical stroke trial focused on functional outcome measures. This will involve approximately 128 stroke patients in a number of different centers in Canada, India and the U.S. Dr. Steven C. Cramer at the University of California, Irvine and Dr. Michael D. Hill at the University of Calgary, Calgary Health Region, are serving as co-Principal Investigators for this Phase IIb clinical stroke program.

The Company plans to begin recruiting in the modified REGENESIS Phase IIb stroke trial in early H2 2009, and complete all patient recruitment by the end of H2 2009. Given that the protocol has a 90 day end-point, we anticipate a top-line data read by the end of Q1 2010.

### *Traumatic Brain Injury*

Stem Cell Therapeutic Corp. 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, and we are now working with Health Canada to lift the hold.

### *Multiple Sclerosis*

SCT has substantial intellectual property relating to the use of regenerative therapies for treating demyelinating diseases such as multiple sclerosis ("MS"). Scientific investigations by Dr. Samuel Weiss from the University of Calgary 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 oligodendrocyte production and remyelination of the brain and spinal cord.

SCT was recently granted two key United States patents and one Australian patent for the use of prolactin in neurologic diseases based on the demonstrated insights into the effect of prolactin by Dr. Samuel Weiss. Moreover, the publication of those studies in high impact journals 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 MS.

Successful completion of a preliminary non-clinical study undertaken by Dr. V. Wee Yong, a Professor in the Departments of Oncology and Clinical Neurosciences at the University of Calgary, is expected to quickly evolve into a clinical program to demonstrate efficacy in patients

diagnosed with multiple sclerosis. The non-clinical results will be announced in September 2009 at an international MS conference by Dr. V. Wee Yong, and the follow-on clinical study that will be lead by Dr. Luanne Metz, a neurologist at the Foothills Medical Center and a Professor in the Department of Clinical Neurosciences at the University of Calgary, is anticipated to begin in Q3 2009. This study will be funded by an outside grant to the University of Calgary by the Canadian Stem Cell Network.

### **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 83 pending patent applications, six 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.

### **Financial performance**

The Company's loss for the three month period ended March 31, 2009 decreased by \$469,427 to \$884,759 (\$0.01 per common share) from the loss of \$1,354,186 (\$0.01 per common share) reported for the three month period ended March 31, 2008. The primary reason for the decrease in loss was decreases in general and administration expenses, research and development costs and management and consulting fees offset by a decrease in interest income earned during the period.

Detailed analysis follows:

### **Research and Development**

The Company's research and development costs consist primarily of fees paid to external service providers. SCT's research and development expenses are expected to increase significantly over the next few years as products advanced through clinical trials. As a result of 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 costs are expensed, and total \$8,376,591 since inception.

Research and development costs decreased to \$422,281 for the three months ended March 31, 2009 from \$644,891 for the three months ended March 31, 2008. This decrease of \$222,610 was primarily due to the suspension of the phase IIb clinical trials offset by an increase in preclinical development costs throughout the first quarter of 2009 as the Company investigates alternate stroke regimen options from within its patent portfolio that do not involve EPO.

The following is a breakdown of R&D costs for the periods indicated:

	For the three month period ended March 31, 2009	For the three month period ended March 31, 2008	Cumulative from inception on March 31, 2004 to March 31, 2009
	\$	\$	\$
Clinical development	40,918	222,840	2,676,896
Preclinical development	253,052	80,373	1,670,216
Research	14,000	42,000	927,174
Salaries and bonuses	64,375	119,684	1,191,577
Consulting fees	40,481	106,896	822,357
Licensing Costs	-	-	584,287
Other costs	9,455	73,098	504,084
<b>Research and development expenses</b>	<b>422,281</b>	<b>644,891</b>	<b>8,376,591</b>

### 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 \$2,891,971. Professional fees for the three months ended March 31, 2009 increased by \$8,329 to \$171,540 from \$163,211 for the three months ended March 31, 2008.

The following is an analysis of professional fees charges for the periods indicated:

	For the three month period ended March 31, 2009	For the three month period ended March 31, 2008	Cumulative from inception on March 31, 2004 to March 31, 2009
	\$	\$	\$
Auditing and accounting fees	-	15,133	354,580
Legal fees – Intellectual property	156,242	128,050	2,198,349
Legal fees – Other	15,297	20,028	339,042
<b>Total professional fees</b>	<b>139,136</b>	<b>163,211</b>	<b>2,891,971</b>

### Management and Consulting Fees

Management and consulting fees decreased to \$76,583 for the three months ended March 31, 2009 from \$186,444 for the three months ended March 31, 2008. This decrease of \$109,861 is due to the cost cutting initiative initiated by the Company starting in the fourth quarter of 2008.

This has included a decrease in the Directors fees paid and a reduction in external consultants employed.

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

General and administrative expenses decreased by \$264,304 to \$112,488 for the three months ended March 31, 2009 from \$376,792 for the same period in 2008. This is also due to the cost cutting initiative that reduced management salaries, travel expenses and investor relation costs.

### **Stock-based Compensation**

Stock-based Compensation since inception total \$1,792,703. Charges for the three months ended March 31, 2009 increased to \$88,137 from \$73,489 for the three months ended March 31, 2008. The increase is due to the recently granted stock options.

The following table shows the granted, exercised, forfeited and outstanding options under the Company's stock option plan as at May 26, 2009. All options have a five year expiry from the date of grant and either vest immediately or six months or three years after the grant date.

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

### **Intellectual Property**

The value of the intellectual property purchased from Transition Therapeutics Inc. ("Transition") 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 change in net intellectual property balance from December 31, 2008 is limited to the effect of amortization calculated during the three months ended March 31, 2009.

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 83 pending patent applications, six 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 of intangibles and property and equipment since inception are \$1,251,449. Amortization charges for property and equipment increased to \$7,255 for the three months ended March 31, 2009 from \$6,937 for the three months ended March 31, 2008. This increase of \$318 is due to computer equipment acquired during 2008. All amortization was calculated on a straight line basis over the estimated useful lives of the assets.

Amortization charges for intellectual property assets remained constant (\$60,782 for the three month period ended March 31, 2009 and \$60,776 for March 31, 2008). No intellectual property asset additions were made during three month period ended March 31, 2009.

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. All amortization was calculated on a straight-line basis over the estimated useful lives of the assets.

## Revenue

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

Interest income for the three month period ended March 31, 2009 is \$12,021 as compared to \$117,571 for the three month period ended March 31, 2008. This decrease of \$105,550 in interest income primarily resulted from lower cash balances throughout the three month period ended March 31, 2008 as well as lower interest rates earned on the Company's cash balances during the current period. Since inception the total interest earned by the Company amounted to \$607,862.

## Summary of Quarterly Results

	As at, and for the three months ended							
	2009 March \$	2008 December \$	September \$	June \$	2007 March \$	December \$	September \$	June \$
Revenue <sup>(1)</sup>	12,021	(16,322)	63,737	68,237	117,571	58,183	35,242	31,077
Net loss Basic and diluted loss per common share	884,759 0.01	1,232,781 0.01	1,434,711 0.01	1,537,839 0.01	1,354,186 0.01	2,087,895 0.02	1,276,496 0.02	838,461 0.01
Total assets Unrestricted cash and cash equivalents	7,235,834 5,456,232	8,248,255 6,400,486	9,468,938 7,311,748	10,616,754 8,394,583	11,994,405 9,737,180	13,085,155 10,764,097	4,499,181 2,285,870	5,370,284 3,342,738
Total long-term obligations <sup>(2)</sup>	1,199	3,192	6,022	7,350	8,678	10,007	11,721	1,434,786

### Notes:

(1) Interest income on cash and cash equivalents balances

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

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

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

## **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 \$5,456,232 at March 31, 2009. The Company 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 March 31, 2009 the working capital (current assets minus current liabilities) of the Company was \$5,072,798 (\$5,803,377 as of December 31, 2008).

Outstanding securities as of March 31, 2009 totaled 132,802,497 common shares 18,975,000 share purchase warrants and 12,121,103 common share options.

Outstanding securities as of May 26, 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 May 26, 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 TBI and MS, 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, interest-bearing 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 \$7,615 and monthly operating estimates to be \$3,515 with a total committed monthly cost of \$11,130.

#### **[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 \$7,000 for the first six months of 2009.

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 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 2008 audited consolidated financial statements.

## **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.