



STEM CELL  

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THERAPEUTICS

**Stem Cell Therapeutics Corp.**

Unaudited Consolidated Interim Financial Statements

September 30, 2009

MANAGEMENT'S COMMENTS ON  
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements of Stem Cell Therapeutics Corp. for the three and nine month periods ended September 30, 2009, have been prepared by and are the responsibility of the Company's management. These statements have not been reviewed by the Company's external auditors.

**Stem Cell Therapeutics Corp.**  
**Consolidated Balance Sheets**

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

(unaudited)

	As at September 30, 2009 \$	As at December 31, 2008 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents <i>[note 3]</i>	3,517,483	6,400,486
Restricted cash <i>[note 4]</i>	83,814	83,112
Accounts receivable	69,250	57,897
Prepaid expenses	99,127	266,114
	<b>3,769,674</b>	<b>6,807,609</b>
Property and equipment, net	20,153	41,360
Intellectual property, net	1,216,940	1,399,286
	<b>5,006,767</b>	<b>8,248,255</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	484,901	996,979
Current portion of capital lease obligation	5,351	7,253
	<b>490,252</b>	<b>1,004,232</b>
<b>Long Term Obligations</b>		
Capital lease obligation	-	3,192
Commitments and contingencies <i>[note 11]</i>		
<b>Shareholders' Equity</b>		
Share capital <i>[note 6]</i>	26,026,816	25,726,336
Contributed surplus <i>[note 8]</i>	1,851,943	1,507,539
Deficit	(23,362,244)	(19,993,044)
<b>Total Shareholders' Equity</b>	<b>4,516,515</b>	<b>7,240,831</b>
	<b>5,006,767</b>	<b>8,248,255</b>

*Subsequent Event see Note 14*

*See accompanying notes*

On behalf of the Board:

"Mark Wayne"  
Chairman

"Ian Brown"  
Director

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

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

(unaudited)

	<b>For the three month period ended September 30, 2009 \$</b>	For the three month period ended September 30, 2008 \$	<b>For the nine month period ended September 30, 2009 \$</b>	For the nine month period ended September 30, 2008 \$	Cumulative from inception on March 31, 2004 to September 30, 2009 \$
<b>OPERATING EXPENSES</b>					
Research and development costs <i>[note 5]</i>	<b>853,597</b>	744,744	<b>1,706,431</b>	2,162,370	9,660,741
Professional fees	<b>147,453</b>	154,759	<b>485,023</b>	512,371	3,205,455
Management and consulting fees	<b>72,387</b>	252,880	<b>236,002</b>	592,538	2,474,139
General and administration	<b>146,159</b>	187,657	<b>395,544</b>	824,015	4,487,307
Stock option expense <i>[note 8]</i>	<b>164,648</b>	82,128	<b>344,404</b>	237,051	2,048,970
Deemed interest expense on obligation under share purchase agreement	-	54,098	-	161,120	1,088,725
Amortization of property and equipment	<b>6,976</b>	7,344	<b>21,207</b>	21,629	172,627
Amortization of intangibles	<b>60,782</b>	60,780	<b>182,346</b>	182,337	1,214,338
Foreign Exchange (Gain)	<b>43,522</b>	(45,942)	<b>13,269</b>	(117,149)	(379,191)
Total Operating Expenses	<b>1,495,524</b>	1,498,448	<b>3,384,226</b>	4,576,282	23,973,111
Interest income	<b>(319)</b>	(63,737)	<b>(15,026)</b>	(249,545)	(610,867)
<b>Net loss and comprehensive loss for the period</b>	<b>1,495,205</b>	1,434,711	<b>3,369,200</b>	4,326,737	23,362,244
Deficit, beginning of period	<b>21,867,039</b>	17,325,552	<b>19,993,044</b>	14,433,526	-
<b>Deficit, end of period</b>	<b>23,362,244</b>	18,760,263	<b>23,362,244</b>	18,760,263	23,362,244
Basic and diluted loss per share <i>[note 12]</i>	<b>0.01</b>	0.01	<b>0.03</b>	0.04	0.32

See accompanying notes

## Stem Cell Therapeutics Corp.

### Consolidated Statements of Cash Flows

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

(unaudited)

	<b>For the three month period ended September 30, 2009 \$</b>	For the three month period ended September 30, 2008 \$	<b>For the nine month period ended September 30, 2009 \$</b>	For the nine month period ended September 30, 2008 \$	Cumulative from inception on March 31, 2004 to September 30, 2009 \$
<b>OPERATING ACTIVITIES</b>					
Net loss and comprehensive loss for the period	<b>(1,495,205)</b>	(1,434,711)	<b>(3,369,200)</b>	(4,326,737)	(23,362,244)
<u>Add (deduct) items not involving cash</u>					
Stock option expense	<b>164,648</b>	82,128	<b>344,404</b>	237,051	2,048,970
Deemed interest expense on obligation under share purchase agreement	-	54,098	-	161,120	162,883
Amortization of property and equipment	<b>6,976</b>	7,344	<b>21,207</b>	21,629	172,627
Amortization of intangibles	<b>60,782</b>	60,780	<b>182,346</b>	182,337	1,214,338
Foreign exchange difference	<b>43,522</b>	(45,942)	<b>13,269</b>	(117,149)	(379,191)
	<b>(1,219,277)</b>	(1,276,303)	<b>(2,807,974)</b>	(3,841,749)	(20,142,617)
Changes in non-cash working capital items					
Accounts receivable	<b>3,135</b>	9,035	<b>(11,353)</b>	(146,882)	(69,250)
Prepaid expenses	<b>12,350</b>	(11,757)	<b>166,987</b>	123,750	(99,127)
Accounts payable and accrued liabilities	<b>197,385</b>	151,999	<b>(512,077)</b>	319,433	484,901
<b>Cash used in operating activities</b>	<b>(1,006,409)</b>	(1,127,026)	<b>(3,164,417)</b>	(3,545,448)	(19,826,093)
<b>INVESTING ACTIVITIES</b>					
Acquisition of property and equipment	-	-	-	(15,710)	(192,782)
Acquisition of intangibles	-	-	-	-	(926,161)
<b>Cash used in investing activities</b>	-	-	-	(15,710)	(1,118,943)
<b>FINANCING ACTIVITIES</b>					
Restricted cash	<b>(107)</b>	(424)	<b>(703)</b>	(1,258)	(83,814)
Net increase (decrease) in capital lease obligation	-	(1,327)	<b>(5,094)</b>	(3,984)	5,351
Issuance of share capital, net of share issue costs	<b>300,480</b>	-	<b>300,480</b>	(3,098)	24,161,790
<b>Net cash provided by (used in) financing activities</b>	<b>300,373</b>	(1,751)	<b>294,683</b>	(8,340)	24,083,327
<b>Net increase (decrease) in cash and cash equivalents during the period</b>	<b>(706,036)</b>	(1,128,777)	<b>(2,869,734)</b>	(3,569,498)	3,138,293
Deduct: Foreign exchange difference	<b>(43,521)</b>	45,942	<b>(13,269)</b>	117,149	379,191
Cash, and cash equivalents beginning of period	<b>4,267,042</b>	8,394,583	<b>6,400,486</b>	10,764,097	-
<b>Cash, and cash equivalents end of period</b>	<b>3,517,483</b>	7,311,748	<b>3,517,483</b>	7,311,748	3,517,484
<b>Deemed interest paid in cash</b>	-	-	-	-	874,655

See accompanying notes

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**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

September 30, 2009

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**1. DESCRIPTION OF BUSINESS AND GOING CONCERN UNCERTAINTY****A. Description of Business**

Stem Cell Therapeutics Corp. (the "Company" or "SCT") was incorporated under the laws of Alberta on March 31, 2004 with nominal share capital. On October 19, 2004, the Company changed its name from Neurogenesis Biotech Corp. to Stem Cell Therapeutics Corp.

The Company was created to further develop and commercialize stem cell related technologies acquired from an Alberta based university. To date, the Company has not earned product revenue and is considered to be in the development stage.

On September 18, 2008 the Company announced that it had received a letter from Health Canada and a verbal request from the U.S. Food and Drug Association (FDA) calling for a temporary 'full clinical hold' on its currently enrolling REGENESIS Phase IIb stroke trial in Canada, and to not begin recruiting in the U.S., respectively. Additionally, Health Canada requested that recruitment not begin in the recently announced traumatic brain injury trial. The reason for these requests was that a trend in data found from a third party's stroke trial being conducted in Germany, which is unrelated to the Company's trial, reported safety results that required further analysis. On May 22, 2009 the FDA announced that they had removed the full clinical hold and SCT has resumed the REGENESIS Phase IIb stroke trial. On August 11, 2009 the Company announced the enrollment of the first patient in the dose response designed modified REGENESIS Phase IIb stroke trial. At this time, the Company does not believe that this delay negatively affected the carrying value of the assets referenced in the consolidated financial statements for the period ending September 30, 2009.

The continuation of the Company's research and development activities and the commercialization of its stem cell related technologies are dependent on the Company's ability to complete its research and development programs, achieve future profitable operations and finance its cash requirements. The outcome of these matters cannot be predicted at this time.

**B. Going Concern Uncertainty**

The Company's consolidated financial statements have been prepared on the going concern basis, which presumes the realization of assets and the discharge of liabilities and commitments in the normal course of business for the foreseeable future. The Company has incurred significant operating losses since its inception and used \$3,164,417 net cash in operating activities of continuing operations for the nine months ending September 30, 2009. The continuation of the Company as a going concern is dependent upon its ability to finance its cash requirements which will allow it to continue its research and development activity and the commercialization of its stem cell related technologies. The outcome of these matters cannot be predicted at this time. The value of the Company's intangible assets could become impaired should its research and development activities change significantly or cease. Accordingly, there is significant uncertainty regarding the Company's ability to continue as a going concern.

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

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**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS**

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

These unaudited consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (“GAAP”) and do not include all of the disclosures included in the Company’s annual audited consolidated financial statements. Accordingly, these financial statements should be read in conjunction with the Company’s most recent annual audited consolidated financial statements. The information as at and for the nine months ended September 30, 2009 has been derived from the Company’s annual audited financial statements.

These consolidated financial statements have been prepared using the accounting policies described in the December 31, 2008 audited consolidated financial statements, except as noted below.

**Future Changes**

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

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

**Recent accounting pronouncements**

In 2006, the Accounting Standards Board (“AcSB”) adopted a new strategic plan for financial

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**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS**

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

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

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

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

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

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

**3. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include unrestricted cash balances in bank accounts amounting to \$3,517,483 (\$6,400,486 as at December 31, 2008) and guaranteed investment certificates that can be redeemed without penalty. The following table shows details of these guaranteed investment certificates as at September 30, 2009:

<b>Value</b>	<b>Maturity date</b>	<b>Interest rate</b>	<b>Remarks</b>
<b>\$</b>			
2,404,900	November 10, 2009	Prime linked	Interest rate at investment date was 2.00% per annum, and is subject to change.

**4. RESTRICTED CASH**

Restricted cash balances of \$83,814 (\$83,112 as at December 31, 2008) represents deposits in an investment bank account yielding an annual interest rate of 2.05% (on December 31, 2008), and held

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**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS**

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by the bank as collateral for available credit facilities of equivalent value.

**5. RESEARCH AND DEVELOPMENT PROJECTS**

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

	<b>For the three month period ended September 30, 2009</b>	For the three month period ended September 30, 2008	<b>For the nine month period ended September 30, 2009</b>	For the nine month period ended September 30, 2008	Cumulative from Inception on March 31, 2004 to September 30, 2009
	\$	\$	\$	\$	\$
Clinical development	<b>651,486</b>	451,207	<b>970,392</b>	1,095,250	3,606,370
Preclinical development	<b>(3,243)</b>	31,374	<b>245,809</b>	192,120	1,662,973
Research	<b>26,600</b>	42,000	<b>93,800</b>	126,000	1,006,974
Salaries and bonuses	<b>78,833</b>	76,165	<b>231,043</b>	313,526	1,358,245
Consulting fees	<b>18,727</b>	67,728	<b>67,887</b>	243,032	849,763
Licensing cost	<b>54,800</b>	51,075	<b>54,800</b>	51,075	639,087
Other costs	<b>26,394</b>	25,195	<b>42,700</b>	141,367	537,329
Total research and development costs	<b>853,597</b>	744,744	<b>1,706,430</b>	2,162,370	9,660,740

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

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

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

**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

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**[b] Issued and outstanding**

	<b>Number of shares</b>	
	<b>#</b>	<b>\$</b>
<b>Common</b>		
Formation of Company, March 31, 2004	1,000,000	10
Acquisition of intellectual property, April 1, 2004 (i)	3,636,364	18,000
Proceeds from issuance at \$0.025 per share, April 14, 2004	2,000,000	50,000
Proceeds from issuance at \$0.10 per share, June 7, 2004	2,550,000	255,000
Proceeds from issuance at \$0.15 per share, August 19, 2004	4,000,000	600,000
Proceeds from issuance at \$0.25 per share, November 19, 2004	1,000,000	250,000
Conversion of Class B to Common, November 19, 2004 (ii)	4,000,000	100,000
Options exercised, November 21, 2004 (iii)	800,000	55,000
	<u>18,986,364</u>	<u>1,328,010</u>
Share issuance costs	-	(7,417)
<b>Balance, December 31, 2004</b>	<b>18,986,364</b>	<b>1,320,593</b>
Proceeds from Initial Public Offering at \$0.25 per share, January 6, 2005 (iv)	34,000,000	8,500,000
Conversion of Class B to Common, January 10, 2005 (v)	80,000	2,000
Conversion of Class B to Common, April 1, 2005 (vi)	120,000	3,000
Options exercised, October 14, 2005 (vii)	175,000	76,750
	<u>34,375,000</u>	<u>8,581,750</u>
Share issuance costs	-	(1,006,200)
<b>Balance, December 31, 2005</b>	<b>53,361,364</b>	<b>8,896,143</b>
Conversion of Class B to Common, January 11, 2006 (viii)	120,000	3,000
Options exercised, March 21, 2006 (ix)	25,000	11,470
Options exercised, April 26, 2006 (x)	175,000	77,000
Conversion of Class B to Common, July 15, 2006 (xi)	120,000	3,000
<b>Balance, December 31, 2006</b>	<b>53,801,364</b>	<b>8,990,613</b>
Conversion of Class B to Common, January 11, 2007 (xii)	120,000	3,000
Issuance of shares in private placement, February 1, 2007 (xiii)	10,000,000	2,000,000
Share issuance costs, February 1, 2007	-	(144,390)
Issuance of shares in private placement, March 27, 2007 (xiv)	4,000,000	2,000,000
Issuance of shares covering financing costs, March 27, 2007 (xv)	151,000	113,250
Share issuance costs, 2nd private placement in 2007	-	(182,712)
Options exercised, April 13, 2007 (xvi)	100,000	44,050
Exercise of share purchase warrants during June, 2007 (xvii)	62,500	15,625
Conversion of Class B to Common, July 11, 2007 (xviii)	120,000	3,000
Options exercised, September 12, 2007 (xix)	32,000	14,098
Options exercised, October 1, 2007 (xx)	63,500	27,972

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**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

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Options exercised, October 22, 2007 (xxi)	109,500	48,235
Issuance of shares in short form prospectus, November 9, 2007 (xxii)	34,500,000	12,075,000
Share issuance costs - short form prospectus	-	(1,216,258)
Options exercised, November 19, 2007 (xxiii)	170,000	74,885
Options exercised, November 27, 2007 (xxiv)	50,000	22,025
Options exercised, December 7, 2007 (xxv)	130,000	38,043
<b>Balance, December 31, 2007</b>	<b>103,409,864</b>	<b>23,926,436</b>
Conversion of Class B to Common, January 3, 2008 (xxvi)	120,000	3,000
Issuance of shares to Transition, October 4, 2008 (xxvii)	23,272,633	1,650,000
Conversion of Class B to Common, October 14, 2008 (xxviii)	6,000,000	150,000
Share issuance costs 2008	-	(3,100)
<b>Balance, December 31, 2008</b>	<b>132,802,497</b>	<b>25,726,336</b>
Exercise of share purchase warrants, August 7, 2009 (xxix)	1,878,000	300,480
<b>Balance, September 30, 2009</b>	<b>134,680,497</b>	<b>26,026,816</b>
<b>Class B</b>		
Proceeds from issuance at \$0.025 per share, April 20, 2004 (i)	10,800,000	270,000
Conversion of Class B to Common, November 19, 2004 (ii)	(4,000,000)	(100,000)
<b>Balance, December 31, 2004</b>	<b>6,800,000</b>	<b>170,000</b>
Conversion of Class B to Common, January 10, 2005 (v)	(80,000)	(2,000)
Conversion of Class B to Common, April 1, 2005 (vi)	(120,000)	(3,000)
<b>Balance, December 31, 2005</b>	<b>6,600,000</b>	<b>165,000</b>
Conversion of Class B to Common, January 11, 2006 (viii)	(120,000)	(3,000)
Conversion of Class B to Common, July 15, 2006 (xi)	(120,000)	(3,000)
<b>Balance, December 31, 2006</b>	<b>6,360,000</b>	<b>159,000</b>
Conversion of Class B to Common, January 11, 2007 (xii)	(120,000)	(3,000)
Conversion of Class B to Common, July 11, 2007 (xviii)	(120,000)	(3,000)
<b>Balance, December 31, 2007</b>	<b>6,120,000</b>	<b>153,000</b>
Conversion of Class B to Common, January 3, 2008 (xxvi)	(120,000)	(3,000)
Conversion of Class B to Common, October 14, 2008 (xxviii)	(6,000,000)	(150,000)
<b>Balance, December 31, 2008</b>	<b>0</b>	<b>0</b>
<b>Share Capital, September 30, 2009</b>	<b>134,680,497</b>	<b>26,026,816</b>

(i) On April 1, 2004, 3,636,364 common shares were issued for the acquisition of intellectual property. The value of the shares was based on the fair value of the intellectual property acquired of \$18,000.

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**Stem Cell Therapeutics Corp.**

[a development stage company]

**NOTES TO CONSOLIDATED UNAUDITED INTERIM FINANCIAL STATEMENTS**

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(ii) On November 19, 2004, 4,000,000 Class B shares were converted to 4,000,000 common shares on a one for one basis.

(iii) On November 21, 2004, 600,000 options were exercised at a price of \$0.025 and 200,000 options were exercised at a price of \$0.10. In addition, contributed surplus of \$20,000 was reclassified to share capital upon exercise of the options.

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

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

(vi) On April 1, 2005, 120,000 Class B shares were converted to 120,000 common shares on a one for one basis.

(vii) On October 14, 2005, 175,000 options were exercised at a price of \$0.25. Contributed surplus of \$33,000 was reclassified to share capital upon exercise of the options.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(xxii) On November 9, 2007, the Company completed a \$12,075,000 bought deal of 34,500,000 units, each unit consisting of one common share and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one additional common share for \$0.50 until May 9, 2010.

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

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

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

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

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

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

(xxix) On August 7, 2009, 1,878,000 warrants were exercised for the same number of common shares providing gross proceeds of \$300,480 to the Corporation as part of an early warrant exercised program offered to warrant holders of the November 9, 2007 bought deal financing.

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**[c] Employee stock options**

The following table summarizes the activity of the Company's stock option plan for the period ending September 30, 2009.

	Number of Options	Weighted-average exercise price \$
<b>Outstanding, January 1, 2009</b>	<b>7,481,103</b>	<b>0.31</b>
Granted	5,630,000	0.11
Exercised	-	-
Forfeited	1,093,603	0.27
<b>Outstanding, September 30, 2009</b>	<b>12,017,500</b>	<b>0.22</b>
<b>Exercisable, September 30, 2009</b>	<b>6,482,621</b>	<b>0.28</b>

**7. SHARE PURCHASE WARRANTS**

The Company has issued warrants for the purchase of common shares, for a specified price for a specific period of time. The following table contains information regarding the warrants to acquire common shares outstanding as of September 30, 2009.

	Number of warrants	Number of common shares underlying warrants	Exercise price \$	Expiry date
Warrants issued in connection with short form prospectus closed on November 9, 2007	15,372,000	15,372,000	\$0.50	May 9, 2010
Broker Warrants issued in connection with short form prospectus closed on November 9, 2007	1,725,000	1,725,000	\$0.35	November 9, 2009

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**8. CONTRIBUTED SURPLUS**

The following table summarizes the change in contributed surplus for the period ending September 30, 2009.

	\$
Balance, January 1, 2009	1,507,539
Stock-based compensation	344,404
Exercise of stock options	-
Balance, September 30, 2009	1,851,943

**9. CAPITAL DISCLOSURES**

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

The Company defines capital as total shareholders' equity. To fund its activities, the Company has followed an approach that relies almost exclusively on the issuance of common equity. Since inception, the Company has financed its liquidity needs primarily through share issuance. The Company believes that funds from operations as well as from existing financing agreements will be sufficient to meet the Company's cash requirements through 2010.

The capital management objectives remain the same as for the previous fiscal year. The Company has no debt. The Company is not subject to any capital requirements imposed by external parties.

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

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

**[b] Credit risk**

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

**[c] Liquidity risk**

Liquidity risk is the risk that, as a result of operational liquidity requirements, the Company will not

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have sufficient funds to settle a transaction on the due date, will be forced to sell financial assets at a price which is less than what they are worth, or will be unable to settle or recover a financial asset.

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

As at September 30, 2009, the Company had available \$3,517,483 of cash and cash equivalents. The Company believes it has sufficient funding through operations and the use of this facility to meet foreseeable financial obligations.

**[d] Market risk**

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

*Interest rate risk*

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

Based on the value of variable interest-bearing cash equivalents during the year ended December 31, 2008, and assumed 0.5% increase or 0.5% decrease in interest rates during such period would have an impact of \$32,000 on interest income. The Company does not currently use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations.

*Foreign exchange risk*

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

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

The Company leases its office space under contract which covers a one year period effective from July 1, 2009. Annual costs under this contract were limited to an annual rent charge of \$55,400 and annual operating costs and property taxes estimated to be \$51,716 with a total committed cost of \$107,116 for the term of the lease.

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**[b] Research contracts**

The Company has an ongoing research contract with an Alberta-based university. Monthly charges under this contract amounted to \$7,000.

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.

**[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.

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

**12. LOSS PER COMMON SHARE**

Loss per common share is calculated using the weighted average number of common shares outstanding during the nine month period ending September 30, 2009 of 133,173,970 (103,528,988 as at September 30, 2008). The Company has excluded all outstanding stock options and share purchase warrants that are considered anti-dilutive from the calculation of diluted loss per share.

**13. SEGMENTED INFORMATION**

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

**14. SUBSEQUENT EVENT**

Pursuant to a financing which closed on October 29, 2009, a total of \$2,186,941 gross proceeds were raised as consideration for the issuance of 18,224,507 units at a price of \$0.12. Each unit consisted of one common share of the Corporation ("Common Share") and one common share purchase warrant ("Warrant"). Each Warrant is exercisable to acquire one additional Common Share at a price of \$0.15 per share for 12 months from the closing date. Additionally, 474,476 Broker Warrants were issued as part of the financing. Each Broker Warrant is exercisable to acquire one Common Share at a price of \$0.12 per share for 12 months from the closing date.

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A total commission of \$165,835 was paid to registered dealers in connection with the financing.

**15. COMPARATIVE FIGURES**

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