



STEM CELL

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Stem Cell Therapeutics Corp.

Audited Consolidated Financial Statements

December 31, 2009 and 2008

AUDITOR'S REPORT

To the Shareholders of
Stem Cell Therapeutics Corp.

We have audited the Consolidated Balance Sheets of Stem Cell Therapeutics Corp. as at December 31, 2009 and 2008 and the Consolidated Statements of Loss, Comprehensive Loss and Deficit, and Cash Flows for the years ended December 31, 2009 and 2008 and the cumulative period from inception on March 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Stem Cell Therapeutics Corp. as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended and the cumulative period from inception on March 31, 2004 in accordance with Canadian generally accepted accounting principles.

Calgary, Canada
April 13, 2010

Chartered Accountants

Ernst & Young LLP

Stem Cell Therapeutics Corp.

Consolidated Balance Sheets

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

	2009	2008
	\$	\$
ASSETS		
Current		
Cash and cash equivalents <i>[note 3]</i>	4,505,571	6,400,486
Restricted cash <i>[note 4]</i>	83,920	83,112
Accounts receivable	109,938	57,897
Prepaid expenses	38,762	266,114
	<u>4,738,191</u>	<u>6,807,609</u>
Property and equipment, net <i>[note 5]</i>	14,820	41,360
Intellectual property, net <i>[note 6]</i>	1,156,158	1,399,286
	<u>5,909,169</u>	<u>8,248,255</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	635,958	996,979
Current portion of capital lease obligation	1,364	7,253
	<u>637,322</u>	<u>1,004,232</u>
Long Term Obligations		
Capital lease obligation	-	3,192
Commitments and contingencies <i>[note 14]</i>		
Shareholders' Equity		
Share capital <i>[note 9]</i>	27,962,378	25,726,336
Contributed surplus <i>[note 11]</i>	1,959,406	1,507,539
Deficit	(24,649,937)	(19,993,044)
Total Shareholders' Equity	<u>5,271,847</u>	<u>7,240,831</u>
	<u>5,909,169</u>	<u>8,248,255</u>

See accompanying notes

On behalf of the Board:

"Mark Wayne"

Chairman

"Ian Brown"

Director

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

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

	Twelve Months Ended December 31, 2009	Twelve Months Ended December 31, 2008	Cumulative from Inception on March 31, 2004 to December 31, 2009
	\$	\$	\$
OPERATING EXPENSES			
Research and development costs <i>[note 8]</i>	2,364,038	2,697,388	10,318,348
Professional fees	640,570	868,612	3,361,002
Management and consulting fees	328,070	712,343	2,566,207
General and administration	590,972	1,065,967	4,682,735
Stock option expense <i>[note 12]</i>	451,867	320,430	2,156,433
Deemed interest expense on obligation under share purchase agreement	-	162,882	1,088,725
Amortization of property and equipment	26,540	32,578	177,960
Amortization of intangibles	243,128	243,788	1,275,120
Foreign exchange loss(gain)	31,446	(311,248)	(361,014)
Total Operating Expenses	4,676,631	5,792,740	25,265,516
Interest income	(19,738)	(233,223)	(615,579)
Net loss and comprehensive loss for the period	4,656,893	5,559,517	24,649,937
Deficit, beginning of period	19,993,044	14,433,527	-
Deficit, end of period	24,649,937	19,993,044	24,649,937
Basic and diluted loss per share	0.03	0.05	0.34

See accompanying notes

Stem Cell Therapeutics Corp.
Consolidated Statements of Cash Flows

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

	Twelve Months Ended December 31, 2009	Twelve Months Ended December 31, 2008	Cumulative from Inception on March 31, 2004 to December 31, 2009
	\$	\$	\$
OPERATING ACTIVITIES			
Net loss and comprehensive loss for the period	(4,656,893)	(5,559,517)	(24,649,937)
Add (deduct) items not involving cash			
Stock option expense	451,867	320,430	2,156,433
Deemed interest expense on obligation under share purchase agreement	-	162,882	162,883
Amortization of property and equipment	26,540	32,578	177,960
Amortization of intangibles	243,128	243,788	1,275,120
Foreign exchange loss(gain)	31,446	(311,248)	(361,014)
	(3,903,912)	(5,111,087)	(21,238,555)
Changes in non-cash working capital items			
Accounts receivable	(52,041)	81,691	(109,938)
Prepaid expenses	227,352	129,167	(38,762)
Accounts payable and accrued liabilities	(361,021)	247,666	635,957
Cash used in operating activities	(4,089,622)	(4,652,563)	(20,751,298)
INVESTING ACTIVITIES			
Acquisition of property and equipment	-	(15,708)	(192,780)
Acquisition of intangibles	-	-	(926,161)
Other non-current assets	-	3,458	-
Cash used in investing activities	-	(12,250)	(1,118,941)
FINANCING ACTIVITIES			
Restricted cash	(808)	(1,685)	(83,920)
Net increase (decrease) in capital lease obligation	(9,081)	(5,261)	1,364
Issuance of share capital, net of share issue costs	2,236,042	(3,100)	26,097,352
Net cash provided by (used in) financing activities	2,226,153	(10,046)	26,014,796
Net increase (decrease) in cash and cash equivalents during the period	(1,863,469)	(4,674,859)	4,144,557
Deduct: Foreign exchange difference	(31,446)	311,248	361,014
Cash, and cash equivalents beginning of period	6,400,486	10,764,097	-
Cash, and cash equivalents end of period	4,505,571	6,400,486	4,505,571
Deemed interest paid in cash	-	-	874,655

See accompanying notes

Stem Cell Therapeutics Corp.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Canadian dollars, unless otherwise noted)

December 31, 2009 and 2008

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 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. The Company does not believe that this delay negatively affected the carrying value of the assets referenced in the consolidated financial statements for the year ending December 31, 2009.

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

B. Going Concern Uncertainty

The Company's 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 \$4,089,622 of net cash in operating activities of continuing operations for the twelve months ended December 31, 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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[a development stage company, See note 1 –Description of business and going concern uncertainty]

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

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

Use of estimates

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

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

Principles of consolidation

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

Cash and cash equivalents

Cash and cash equivalents include unrestricted cash balances in bank accounts and guaranteed investment certificates that can be redeemed at any time without penalty.

Property and equipment

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

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

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Intellectual property

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

Financial instruments

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

Interest rate risk

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

Foreign exchange risk

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

Foreign currency translation

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

Impairment of long-lived assets

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

Income taxes

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

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

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Investment tax credits

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

Loss per share

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

Research and development

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

Stock-based compensation

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

Changes to accounting policies

Effective January 1, 2009, the Company adopted the following new accounting standards of The Canadian Institute of Chartered Accountants (“CICA”):

Handbook Section 3862, Financial Instruments – Disclosures. During 2009, the CICA Handbook was amended to include enhanced disclosures about inputs to fair value measurement, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

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Level 2 – Inputs, other than quoted prices in active markets, that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The amendments to section 3862 also clarify and enhance liquidity risk disclosures for financial and derivative financial liabilities and strengthen the relationship between qualitative and quantitative disclosures about liquidity risk. Section 3862 was adopted by the Company in the financial statements for the year ended December 31, 2009. The amendments were applied on a prospective basis, and comparative information was not required in the first year of adoption.

In January 2009, the Emerging Issues Committee (EIC) issued a new abstract, EIC-173: Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The EIC concluded that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative financial instruments. There has been no impact on the financial statements from the adoption of this accounting policy.

Future Changes to accounting policies

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.

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

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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 2010, 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.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include unrestricted cash balances in bank accounts amounting to \$705,571 (\$84,428 as at December 31, 2008) and guaranteed investment certificates that can be redeemed at any time without penalty. The following table shows details of these guaranteed investment certificates as at December 31, 2009:

Value	Maturity date	Interest rate	Remarks
\$			
3,800,000	November 10, 2010	0.30%	Interest rate at investment date was 0.30% per annum.

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4. RESTRICTED CASH

Restricted cash balances of \$83,920 (\$83,112 as at December 31, 2008) deposited in an investment account with a bank, and yielding an annual interest rate of 0.5% (on December 31, 2009) and held by the bank as collateral for available credit facilities.

5. PROPERTY AND EQUIPMENT

	2009		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Computer equipment	106,719	97,814	8,905
Computer software	30,065	27,443	2,622
Office furniture and equipment	34,789	31,496	3,293
	171,573	156,753	14,820

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

Included in computer equipment are assets under capital lease with a cost of \$23,964 (\$23,964 for 2008), and accumulated amortization of \$23,551 (\$15,563 for 2008).

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6. INTELLECTUAL PROPERTY

	2009		
	Cost \$	Accumulated amortization \$	Net book value \$
Intellectual Property	2,431,279	1,275,121	1,156,158

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

The Company's review of the carrying value of the intellectual property as at December 31, 2009, determined no impairment being required.

7. INCOME TAXES

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

	2009 \$	2008 \$
Statutory tax rate	29.00%	29.50%
Expected tax recovery	(1,350,500)	(1,640,058)
Impact of change in enacted tax rates	181,034	238,994
Add: stock option expense	131,041	94,527
Changes in estimates	(854,998)	
	(1,893,423)	(1,306,537)
Future tax assets not recorded	1,893,423	1,306,537
		-

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

	2009	2008
	\$	\$
Future tax assets		
Non-capital loss carryforward	4,295,394	3,812,569
Federal investment tax credit carryforward	745,466	217,198
Carrying value of capital and intangible assets in excess of accounting basis	304,738	292,375
SRED	1,343,650	-
Total future tax assets	6,689,248	4,322,142
Valuation allowance on future tax assets	(6,689,248)	(4,322,142)
Net future tax assets		-

As at December 31, 2009, the Company has accumulated non-capital losses for federal and provincial income tax purposes in Canada which are available for application against future taxable income. As at December 31, 2009, the Company also has unclaimed Canadian federal scientific research and development, and investment tax credits which are available to reduce future federal taxes payable. The benefit of these losses and investment tax credits has not been recorded in the accounts. The non-capital tax losses and investment tax credits expire as follows:

	Federal	Investment tax credits
	\$	\$
2010	35,991	
2014	1,004,482	72,856
2015	2,968,390	130,725
2026	3,320,493	86,753
2027	4,288,023	253,211
2028	3,992,874	304,967
2029	1,571,323	145,712

8. 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:

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	Twelve Months Ended December 31, 2009 \$	Twelve Months Ended December 31, 2008 \$	Cumulative from Inception on March 31, 2004 to December 31, 2009 \$
Clinical development	1,551,998	1,184,183	4,187,976
Preclinical development	253,883	252,293	1,671,047
Research	98,000	168,000	1,011,174
Salaries and bonuses	310,572	391,079	1,437,774
Consulting fees	40,517	272,594	822,393
Licensing cost	54,800	239,640	639,087
Other costs	54,268	189,599	548,897
Total research and development costs	2,364,038	2,697,388	10,318,348

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

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

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

[b] Issued and outstanding

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

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Options exercised, November 21, 2004 (iii)	800,000	55,000
Share issuance costs	-	(7,417)
Balance, December 31, 2004	18,986,364	1,320,593
Proceeds from Initial Public Offering at \$0.25 per share, January 6, 2005 (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
Share issuance costs	-	(1,006,200)
Balance, December 31, 2005	53,361,364	8,896,143
Conversion of Class B to Common, January 11, 2006 (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
Balance, December 31, 2006	53,801,364	8,990,613
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
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
Balance, December 31, 2007	103,409,864	23,926,436
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)
Balance, December 31, 2008	132,802,497	25,726,336
Exercise of share purchase warrants, August 7, 2009 (xxix)	1,878,000	300,480

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Issuance of shares in private placement, October 29, 2009 (xxx)	18,224,507	2,186,941
Share issuance costs – private placement	-	(251,379)
Balance, December 31, 2009	152,905,004	27,962,378
Class 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)
Balance, December 31, 2004	6,800,000	170,000
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)
Balance, December 31, 2005	6,600,000	165,000
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)
Balance, December 31, 2006	6,360,000	159,000
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)
Balance, December 31, 2007	6,120,000	153,000
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)
Balance, December 31, 2008 and 2009	0	0
Share Capital, December 31, 2009	152,905,004	27,962,378

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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(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, 2004, the Company entered into a share purchase agreement to acquire all of the issued and outstanding shares of Stem Cell from Transition Therapeutics Inc. ["Transition"], which represents an acquisition of intellectual property. The Company agreed to pay Transition an aggregate purchase price of \$3,500,000. The purchase price is payable in installments beginning on closing, October 4, 2004, in the amount of \$325,000, and on the anniversary of closing in each of the following four years in the amount of \$475,000, \$400,000, \$650,000 and \$1,650,000, respectively. On October 4, 2008, the Company issued 23,272,633 common shares to satisfy the final payment to Transition as noted above.

(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 Company as part of an early warrant exercise program offered to warrant holders of the November 9, 2007 bought deal financing.

(xxx) On October 29, 2009, the Company completed a \$2,186,941 private placement of 18,224,507 units, each unit consisting of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share for \$0.15 until October 29, 2010.

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[c] Employee stock options

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

	December 31, 2009		December 31, 2008	
	Number of Options	Weighted- average exercise price	Number of Options	Weighted- average exercise price
Outstanding, January 1	7,481,103	\$ 0.31	7,885,556	\$ 0.32
Granted	9,445,000	0.13	250,000	0.26
Exercised	-	-	-	-
Forfeited or expired	2,913,603	0.26	654,453	0.32
Outstanding, December 31	14,012,500	0.20	7,481,103	0.31
Exercisable, December 31	8,839,861	0.21	5,762,358	0.29

The following table summarizes information about stock options outstanding as at December 31, 2009:

	Options outstanding			Options exercisable	
Range of exercise prices \$	Options outstanding #	Weighted- average remaining contractual life in years	Weighted- average exercise price \$	Options exercisable #	Weighted- average exercise price \$
0.10 - 0.25	9,825,000	4.29	0.14	5,390,833	0.12
0.26 - 0.58	4,187,500	2.22	0.36	3,449,028	0.36

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

	2009	2008
Risk-free interest rate	1.92-2.67%	5%
Volatility	81.7-119%	120%
Dividend yield	0%	0%
Expected life	5 years	5 years

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The options have been allocated pursuant to a 10% rolling stock option plan which was reapproved by the Company's shareholders at its annual general meeting held on May 20, 2009. Pursuant to the new stock option plan, the Company may grant stock options to purchase up to an aggregate of 10% of the Company's issued and outstanding share capital. As at December 31, 2009, the Company is entitled to issue an additional 1,278,000 stock options under this plan.

Details of stock options granted during 2009 are as follows:

Date Issued	Exercise Price	Share Price at Date of Issued	Number of Options	Expected Life	Black-Scholes Valuation per option	Total Value
January 12, 2009	\$0.10	\$0.05	800,000	5 years	\$0.03	\$24,000
February 24, 2009	\$0.10	\$0.085	3,840,000	5 years	\$0.03	\$115,200
May 20, 2009	\$0.10	\$0.10	125,000	5 years	\$0.07	\$8,750
August 28, 2009	\$0.12	\$0.125	985,000	5 years	\$0.03	\$29,550
November 24, 2009	\$0.17	\$0.17	3,695,000	5 years	\$0.12	\$443,340

10. SHARE PURCHASE WARRANTS

The Company has issued warrants for the purchase of common shares, for a specified price for a specific period of time. The following table contains information regarding the warrants to acquire common shares outstanding as of December 31, 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
Warrants issued in connection with private placement closed on October 29, 2009	18,224,507	18,224,507	\$0.15	October 29, 2010
Broker Warrants issued in connection with private placement closed on October 29, 2009	474,476	474,476	\$0.12	October 29, 2010

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11. CONTRIBUTED SURPLUS

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

	2009	2008
	\$	\$
Balance, beginning of year	1,507,539	1,187,109
Stock-based compensation	451,867	320,430
Exercise of stock options	-	-
Balance end of year	1,959,406	1,507,539

12. 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 for the next twelve months.

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

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

The Company's financial instruments recognized on the consolidated balance sheet consist of cash and cash equivalents, 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

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amount of future cash inflows from financial assets on hand at the consolidated balance sheet date. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, which are maintained with a high-credit quality financial institution.

[c] Liquidity risk

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

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

As at December 31, 2009, the Company had available \$4,505,571 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, 2009, and assumed 0.5% increase or 0.5% decrease in interest rates during such period would have an impact of \$22,500 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 US dollars. As a result, fluctuations in the value of the Canadian dollar relative to the US dollar can result in foreign exchange gains and losses.

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14. 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 \$66,979 with a total committed cost of \$122,379 for the term of the lease.

[b] Research contracts

The Company has an ongoing research contract with an Alberta-based university. Monthly charges under this contract amount 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\$50,000 in 2009 (versus \$US150,000 in 2008). 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.

15. LOSS PER COMMON SHARE

Loss per common share is calculated using the weighted average number of common shares outstanding during the year ended December 31, 2009 of 136,688,650 (2008 - 110,403,175). The Company has excluded all outstanding stock options, and share purchase warrants from the calculation of diluted loss per share because all such securities are considered anti-dilutive.

16. 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.

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17. SUBSEQUENT EVENT

On January 29, 2010 100,000 warrants were exercised for the same number of common shares providing gross proceeds to the company of \$15,000.