



STEM CELL  

---

THERAPEUTICS

**Stem Cell Therapeutics Corp.**

Unaudited Consolidated Financial Statements

March 31, 2010

MANAGEMENT'S COMMENTS ON  
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements of Stem Cell Therapeutics Corp. for the three month periods ended March 31, 2010, 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]

|  | As at<br>March 31, 2010 | As at<br>December 31, 2009 |
|--|-------------------------|----------------------------|
|  | \$                      | \$                         |
|  | (unaudited)             |                            |
| <b>ASSETS</b>                                  |                         |                            |
| <b>Current</b>                                 |                         |                            |
| Cash and cash equivalents <i>[note 3]</i>      | 3,338,527               | 4,505,571                  |
| Restricted cash <i>[note 4]</i>                | 84,023                  | 83,920                     |
| Accounts receivable                            | 41,629                  | 109,938                    |
| Prepaid expenses                               | 29,937                  | 38,762                     |
|  | <u>3,494,117</u>        | 4,738,191                  |
| Property and equipment, net                    | 10,157                  | 14,820                     |
| Intellectual property, net                     | 1,095,377               | 1,156,158                  |
|  | <u>4,599,650</u>        | 5,909,169                  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>    |                         |                            |
| <b>Current</b>                                 |                         |                            |
| Accounts payable and accrued liabilities       | 422,399                 | 635,958                    |
| Capital lease obligation                       | -                       | 1,364                      |
|  | <u>422,399</u>          | 637,322                    |
| Commitments and contingencies <i>[note 11]</i> |                         |                            |
| <b>Shareholders' Equity</b>                    |                         |                            |
| Share capital <i>[note 6]</i>                  | 27,977,378              | 27,962,378                 |
| Contributed surplus <i>[note 8]</i>            | 2,141,346               | 1,959,406                  |
| Deficit  | (25,941,473)            | (24,649,937)               |
| <b>Total Shareholders' Equity</b>              | <u>4,177,251</u>        | 5,271,847                  |
|  | <u>4,599,650</u>        | 5,909,169                  |

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<br/>month period<br/>ended on<br/>March 31,<br/>2010</b> | For the three<br>month period<br>ended on<br>March 31,<br>2009 | Cumulative from<br>Inception on<br>March 31, 2004<br>to March 31,<br>2010 |
|--|---|--|---|
|  | \$  | \$   | \$  |
| <b>OPERATING EXPENSES</b>  |   |  |   |
| Research and development costs <i>[note 5]</i>                       | <b>541,627</b>  | 422,281  | 10,859,975  |
| Professional fees  | <b>232,613</b>  | 171,540  | 3,593,616   |
| Management and consulting fees                                       | <b>80,786</b>   | 76,583   | 2,646,992   |
| General and administration   | <b>180,529</b>  | 112,488  | 4,863,264   |
| Stock option expense <i>[note 8]</i>                                 | <b>181,940</b>  | 88,137   | 2,338,373   |
| Deemed interest expense on obligation under share purchase agreement | -   | -  | 1,088,725   |
| Amortization of property and equipment                               | <b>4,663</b>  | 7,255  | 182,623   |
| Amortization of intangibles  | <b>60,782</b>   | 60,782   | 1,335,902   |
| Foreign exchange loss(gain)  | <b>9,271</b>  | (42,286)   | (351,743)   |
| Total Operating Expenses   | <b>1,292,211</b>  | 896,780  | 26,557,727  |
| Interest income  | <b>(675)</b>  | (12,021)   | (616,254)   |
| <b>Net loss and comprehensive loss for the period</b>                | <b>1,291,536</b>  | 884,759  | 25,941,473  |
| Deficit, beginning of period   | <b>24,649,937</b>   | 19,993,044   | -   |
| <b>Deficit, end of period</b>  | <b>25,941,473</b>   | 20,877,803   | 25,941,473  |
| Basic and diluted loss per share                                     | <b>0.01</b>   | 0.01   | 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]

[Unaudited]

|   | For the three<br>month period<br>ended on March<br>31, 2010<br>\$ | For the three<br>month period<br>ended on March<br>31, 2009<br>\$ | Cumulative from<br>Inception on<br>March 31, 2004<br>to March 31,<br>2010<br>\$ |
|---|---|---|---|
| <b>OPERATING ACTIVITIES</b>   |   |   |   |
| Net loss and comprehensive loss for the period                                | (1,291,536)   | (884,759)   | (25,941,473)  |
| Add (deduct) items not involving cash   |   |   |   |
| Stock option expense  | 181,940   | 88,137  | 2,338,373   |
| Deemed interest expense on obligation under share purchase agreement          | -   | -   | 162,883   |
| Amortization of property and equipment  | 4,663   | 7,255   | 182,623   |
| Amortization of intangibles   | 60,782  | 60,782  | 1,335,902   |
| Foreign exchange loss(gain)   | 9,271   | (42,286)  | (351,743)   |
|   | (1,034,880)   | (770,871)   | (22,273,435)  |
| Changes in non-cash working capital items                                     |   |   |   |
| Accounts receivable   | 68,309  | 11,361  | (41,629)  |
| Prepaid expenses  | 8,825   | (11,911)  | (29,937)  |
| Accounts payable and accrued liabilities                                      | (213,559)   | (212,706)   | 422,399   |
| <b>Cash used in operating activities</b>                                      | <b>(1,171,305)</b>  | <b>(984,127)</b>  | <b>(21,922,602)</b>   |
| <b>INVESTING ACTIVITIES</b>   |   |   |   |
| Acquisition of property and equipment   | -   | -   | (192,780)   |
| Acquisition of intangibles  | -   | -   | (926,161)   |
| Other non-current assets  | -   | -   | -   |
| <b>Cash used in investing activities</b>                                      | <b>-</b>  | <b>-</b>  | <b>(1,118,941)</b>  |
| <b>FINANCING ACTIVITIES</b>   |   |   |   |
| Restricted cash   | (104)   | (420)   | (84,024)  |
| Net increase (decrease) in capital lease obligation                           | (1,364)   | (1,993)   | -   |
| Issuance of share capital, net of share issue costs                           | 15,000  | -   | 26,112,350  |
| <b>Net cash provided by (used in) financing activities</b>                    | <b>13,532</b>   | <b>(2,414)</b>  | <b>26,028,326</b>   |
| <b>Net increase (decrease) in cash and cash equivalents during the period</b> | <b>(1,157,773)</b>  | <b>(986,541)</b>  | <b>2,986,784</b>  |
| Deduct: Foreign exchange difference   | (9,271)   | 42,286  | 351,743   |
| Cash, and cash equivalents beginning of period                                | 4,505,571   | 6,400,486   | -   |
| <b>Cash, and cash equivalents end of period</b>                               | <b>3,338,527</b>  | <b>5,456,232</b>  | <b>3,338,527</b>  |
| <b>Deemed interest paid in cash</b>   | <b>-</b>  | <b>-</b>  | <b>874,655</b>  |

See accompanying notes

---

**Stem Cell Therapeutics Corp.**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

March 31, 2010

---

**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. On March 31, 2010 the Company announced that it closed patient enrollment of the modified Phase IIb stroke trial.

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 \$1,171,305 of net cash in operating activities of continuing operations for the three months ended March 31, 2010. The continuation of the Company as a going concern is dependent upon its ability to finance its cash requirements which will allow it to continue its research and development activity and the commercialization of its stem cell related technologies. The outcome of these matters cannot be predicted at this time. The value of the Company's intangible assets could become impaired should its research and development activities change significantly or cease. Accordingly, there is significant uncertainty regarding the Company's ability to continue as a going concern.

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

---

**Stem Cell Therapeutics Corp.**

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

[Unaudited]

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

March 31, 2010

---

**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 |

---

**Stem Cell Therapeutics Corp.**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

March 31, 2010

---

**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

---

**Stem Cell Therapeutics Corp.**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

March 31, 2010

---

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.

**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.

**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

---

**Stem Cell Therapeutics Corp.**

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

[Unaudited]

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

March 31, 2010

---

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 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. This phase of the transition has been completed.

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. The Company has completed an impact analysis and is currently designing the transition process.

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.

---

**Stem Cell Therapeutics Corp.**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

March 31, 2010

---

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 \$138,527 (\$705,571 as at December 31, 2009) 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 March 31, 2010:

| <b>Value</b> | <b>Maturity date</b> | <b>Interest rate</b> | <b>Remarks</b>  |
|--------------|----------------------|----------------------|---|
| <b>\$</b>    |                      |                      |   |
| 3,200,000    | November 10, 2010    | 0.30%                | Interest rate at investment date was 0.30% per annum. |

**4. RESTRICTED CASH**

Restricted cash balances of \$84,023 (\$83,920 as at December 31, 2009) 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. 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 March 31, 2010</b> | <b>For the three month period ended March 31, 2009</b> | <b>Cumulative from Inception on March 31, 2004 to March 31, 2010</b> |
|--------------------------------------|--|--|--|
|                                      | <b>\$</b>  | <b>\$</b>  | <b>\$</b>  |
| Clinical development                 | <b>383,338</b>   | 40,918   | 4,571,314  |
| Preclinical development              | -  | 253,052  | 1,671,047  |
| Research                             | <b>21,000</b>  | 14,000   | 1,032,174  |
| Salaries and bonuses                 | <b>88,309</b>  | 64,375   | 1,526,083  |
| Consulting fees                      | <b>20,953</b>  | 40,481   | 843,346  |
| Licensing cost                       | -  | -  | 639,087  |
| Other costs                          | <b>28,027</b>  | 9,455  | 576,924  |
| Total research and development costs | <b>541,627</b>   | 422,281  | 10,859,975   |

---

**Stem Cell Therapeutics Corp.**

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

[Unaudited]

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

March 31, 2010

---

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 ratably 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**

|   | <b>Number<br/>of shares</b> |                  |
|---|-----------------------------|------------------|
|   | #                           | \$               |
| <hr/>   |                             |                  |
| <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           |
| Share issuance costs  | -                           | (7,417)          |
| <b>Balance, December 31, 2004</b>   | <b>18,986,364</b>           | <b>1,320,593</b> |
| <br>  |                             |                  |
| 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)      |
| <b>Balance, December 31, 2005</b>   | <b>53,361,364</b>           | <b>8,896,143</b> |
| <br>  |                             |                  |
| 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           |

---

**Stem Cell Therapeutics Corp.**

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

[Unaudited]

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

March 31, 2010

---

|  |                    |                   |
|--|--------------------|-------------------|
| 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            |
| 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           |
| Issuance of shares in private placement, October 29, 2009 (xxx)      | 18,224,507         | 2,186,941         |
| Share issuance costs – private placement                             | -                  | (251,379)         |
| <b>Balance, December 31, 2009</b>                                    | <b>152,905,004</b> | <b>27,962,378</b> |
| Exercise of share purchase warrants, January 29, 2010 (xxxi)         | 100,000            | 15,000            |
| <b>Balance, March 31, 2010</b>                                       | <b>153,005,004</b> | <b>27,977,378</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)           |

---

**Stem Cell Therapeutics Corp.**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

March 31, 2010

---

|  |                    |                   |
|--|--------------------|-------------------|
| <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 and 2009</b>                 | <b>0</b>           | <b>0</b>          |
| <b>Share Capital March 31, 2010</b>                        | <b>153,005,004</b> | <b>27,977,378</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.

(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.

---

**Stem Cell Therapeutics Corp.**

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

[Unaudited]

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

March 31, 2010

---

(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.

(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.

---

**Stem Cell Therapeutics Corp.**

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

[Unaudited]

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

March 31, 2010

---

(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.

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

---

**Stem Cell Therapeutics Corp.**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

March 31, 2010

---

**[c] Employee stock options**

The following table summarizes the activity of the Company's stock option plan for the period ending March 31, 2010 and December 31, 2009:

|                                     | March 31, 2010       |  | December 31, 2009    |  |
|-------------------------------------|----------------------|--|----------------------|--|
|                                     | Number of<br>Options | Weighted-<br>average<br>exercise price | Number of<br>Options | Weighted-<br>average<br>exercise price |
| <b>Outstanding, January 1, 2010</b> | <b>14,012,500</b>    | <b>\$ 0.20</b>                         | 7,481,103            | \$ 0.31                                |
| Granted                             | -                    | -                                      | 9,445,000            | 0.13                                   |
| Exercised                           | -                    | -                                      | -                    | -                                      |
| Forfeited or expired                | <b>800,000</b>       | <b>0.35</b>                            | 2,913,603            | 0.26                                   |
| <b>Outstanding, March 31, 2010</b>  | <b>13,212,500</b>    | <b>0.19</b>                            | 14,012,500           | 0.20                                   |
| <b>Exercisable, March 31, 2010</b>  | <b>9,673,333</b>     | <b>0.20</b>                            | 8,839,861            | 0.21                                   |

**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 March 31, 2010.

|   | Number of<br>warrants | Number of<br>common shares<br>underlying<br>warrants | Exercise<br>price | Expiry date  |
|---|-----------------------|--|-------------------|--|
| Warrants issued in connection<br>with short form prospectus closed<br>on November 9, 2007 | 15,372,000            | 15,372,000   | \$0.50            | June 30, 2010<br>(previously May<br>9, 2010 – see<br>Note 14<br>Subsequent<br>Event) |
| Warrants issued in connection<br>with private placement closed on<br>October 29, 2009     | 18,124,507            | 18,124,507   | \$0.15            | October 29, 2010   |

---

**Stem Cell Therapeutics Corp.**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

March 31, 2010

---

|  |         |         |        |                  |
|--|---------|---------|--------|------------------|
| Broker Warrants issued in connection with private placement closed on October 29, 2009 | 474,476 | 474,476 | \$0.12 | October 29, 2010 |
|--|---------|---------|--------|------------------|

**8. CONTRIBUTED SURPLUS**

The following table summarizes the change in contributed surplus for the period ending March 31, 2010:

|                           | <b>March 31,<br/>2010</b> | December 31,<br>2009 |
|---------------------------|---------------------------|----------------------|
|                           | \$                        | \$                   |
| Balance, January 1, 2010  | <b>1,959,406</b>          | 1,507,539            |
| Stock-based compensation  | <b>181,940</b>            | 451,867              |
| Exercise of stock options |                           | -                    |
| Balance March 31, 2010    | <b>2,141,346</b>          | 1,959,406            |

**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 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.

---

**Stem Cell Therapeutics Corp.**

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

[Unaudited]

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

March 31, 2010

---

**10. 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 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 March 31, 2010, the Company had available \$3,338,527 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 three month period ended March 31, 2010, and assumed 0.5% increase or 0.5% decrease in interest rates during such period

---

**Stem Cell Therapeutics Corp.**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

March 31, 2010

---

would have an impact of \$4,000 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 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.

**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 \$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 is obligated to make future payments of (a) US\$500,000 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 payable upon its commercialization.

---

**Stem Cell Therapeutics Corp.**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Canadian dollars, unless otherwise noted)

March 31, 2010

---

**12. LOSS PER COMMON SHARE**

Loss per common share is calculated using the weighted average number of common shares outstanding during the year ended March 31, 2010 of 152,972,782 (132,802,497 as at March 31, 2009). 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.

**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 EVENTS**

[a] On April 16, 2010 the Company announced the extension of the expiry date of the \$0.50 warrants issued in conjunction with a financing dated November 9, 2007 from May 9, 2010 to June 30, 2010.

[b] Between April 1 and May 18, 2010 2,516,667 warrants were exercised for the same number of common shares providing gross proceeds to the company of \$377,500.