

Amarantus BioSciences, Inc.  
Form 10-Q  
May 21, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

☒ Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **March 31, 2012**

☐ Transition Report pursuant to 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to \_\_\_\_\_

Commission File Number: **333-148922**

**Amarantus BioSciences, Inc.**

(Exact name of registrant as specified in its charter)

Delaware 26-0690857  
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

675 Almanor Ave., Sunnyvale, CA 94085  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(408) 737-2734**

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days ☒ Yes ☐ No

Edgar Filing: Amarantus BioSciences, Inc. - Form 10-Q

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

☐ Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer  
☒ Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:  
107,369,582 common shares as of May 15, 2012.

Table of Contents

TABLE OF CONTENTS

Page

PART I - FINANCIAL INFORMATION

Item 1:	<u>Financial Statements</u>	3
Item 2:	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	4
Item 3:	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	14
Item 4:	<u>Controls and Procedures</u>	14

PART II - OTHER INFORMATION

Item 1:	<u>Legal Proceedings</u>	15
Item 1A:	<u>Risk Factors</u>	16
Item 2:	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	16
Item 3:	<u>Defaults Upon Senior Securities</u>	16
Item 4:	<u>Mine Safety Disclosures</u>	16
Item 5:	<u>Other Information</u>	16
Item 6:	<u>Exhibits</u>	16

Table of Contents

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

Our financial statements included in this Form 10-Q are as follows:

- F-1 Consolidated Balance Sheets as of December 31, 2011 and March 31, 2012 (unaudited);
- F-2 Consolidated Statements of Operations for the three months ended March 31, 2012 and March 31, 2011 and for the period from January 14, 2008 (Date of Inception) to March 31, 2012 (unaudited);
- F-3 Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and March 31, 2011 and for the period from January 14, 2008 (Date of Inception) to March 31, 2012 (unaudited);
- F-4 Notes to Financial Statements

Edgar Filing: Amarantus BioSciences, Inc. - Form 10-Q

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the SEC instructions to Form 10-Q. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period ended March 31, 2012 are not necessarily indicative of the results that can be expected for the full year.

Table of Contents**AMARANTUS BIOSCIENCES, INC.****(A Development Stage Company)****BALANCE SHEETS****AS OF MARCH 31, 2012 AND DECEMBER 31, 2011**

	March 31, 2012 (Unaudited)	December 31, 2011 (Unaudited)
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 148	\$ 870
Prepaid expenses and other current assets	331,366	335,498
Total current assets	313,514	336,368
<b>PROPERTY AND EQUIPMENT - Net</b>	15,485	18,389
<b>OTHER ASSETS</b>	419,643	—
<b>TOTAL</b>	<b>\$ 766,642</b>	<b>\$ 354,757</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,994,522	\$ 2,052,764
Accrued liabilities	110,301	77,208
Related Party liabilities	222,230	222,230
Note payable	150,000	150,000
Current portion of warrant liability	267,914	281,143
Current portion of derivative liability	4,901	45,180
Current portion of convertible promissory notes	1,049,059	714,261
Total current liabilities	3,798,927	3,542,786
<b>STOCK WARRANT LIABILITY</b>	1,163	2,788
<b>DERIVATIVE LIABILITY – Net of current portion</b>	68,106	95,526
<b>CONVERTIBLE PROMISSORY NOTES - Net of current portion</b>	67,792	63,600
<b>Total liabilities</b>	<b>3,935,988</b>	<b>3,704,700</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' DEFICIT:</b>		

Edgar Filing: Amarantus BioSciences, Inc. - Form 10-Q

Common stock, \$0.001 par value - authorized, 250,000,000 shares; issued and outstanding, 80,936,592 shares at December 31, 2011 and 95,188,519 shares at March 31, 2012	95,189	80,937
Additional paid-in capital	4,824,354	3,295,549
Deficit accumulated during the development stage	(8,088,889)	(6,726,429)
Total stockholders' deficit	(3,169,347)	(3,349,943)
TOTAL	\$766,642	\$354,757



See notes to financial statements

F-1

Table of Contents**AMARANTUS BIOSCIENCES, INC.****(A Development Stage Company)****STATEMENTS OF OPERATIONS****FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2012 AND 2011, AND****FOR THE PERIOD FROM JANUARY 14, 2008 (DATE OF INCEPTION) TO MARCH 31, 2012**

	Three Months Ended March 31, 2012 (Unaudited)	Three Months Ended March 31, 2011 (Unaudited)	(Date of Inception) to March 31, 2012 (Unaudited)
NET REVENUES	\$—	\$178,308	\$415,996
OPERATING EXPENSES:			
Research and development	80,916	243,070	1,673,923
General and administrative	1,289,849	412,593	5,747,076
Total costs and expenses	1,370,765	655,663	7,420,999
LOSS FROM OPERATIONS	(1,370,765 )	(477,355 )	(7,005,003 )
INTEREST & OTHER INCOME (EXPENSE)			
Interest Expense	(72,215 )	(63,868 )	(1,283,390 )
Other Income (Expense)			87,685
Change in fair value of warrant & derivatives liabilities	80,520	38,045	477,688
Total interest & other income (Expense)	8,305	(25,823 )	(718,017 )
NET (LOSS)	\$(1,362,460 )	\$(503,178 )	\$(7,723,020 )
NET (LOSS) PER SHARE, BASIC	\$(0.02 )	\$(0.02 )	
COMMON SHARES OUTSTANDING - BASIC	84,094,163	24,961,474	

See notes to financial statements

F-2

Table of Contents**AMARANTUS BIOSCIENCES, INC.****(A Development Stage Company)****STATEMENTS OF CASH FLOWS****FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011 AND****FOR THE PERIOD FROM JANUARY 14, 2008 (DATE OF INCEPTION) TO MARCH 31, 2012 (Unaudited)**

	Three Months Ended March 31, 2012 (Unaudited)	Three Months Ended March 31, 2011 (Unaudited)	Period From January 14, 2008 (Date of Inception) to March 31, 2012 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$(1,362,460)	\$(503,178 )	\$(7,723,020)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	2,904	7,124	28,658
Gain on disposal of equipment	—	—	(3,750 )
Stock-based compensation	933,569	55,063	1,614,996
Non-cash interest expense related to warrants and derivatives	37,002	—	800,318
Non-cash interest expense related to convertible notes	2,620	—	2,620
Change in fair value of warrant and derivative liabilities	(80,520 )	12,340	(472,922 )
Gain on settlement of convertible note and warrants	—	—	(137,632 )
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	4,132	(29,356 )	(331,366 )
Accounts payable	256,188	318,026	2,462,729
Accrued liabilities	33,093	26,312	150,644
Related party liabilities	—	—	(143,640 )
Net cash used in operating activities	(173,472 )	(113,669 )	(3,752,364)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of property and equipment	—	(7,210 )	(40,392 )
Net cash used in investing activities	—	(7,210 )	(40,392 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from borrowings	172,750	85,514	1,430,298
Repayment of borrowings	—	—	(100,000 )
Proceeds from issuance of common stock	—	—	1,797,941
Proceeds from issuance of stock options	—	—	200,818

Edgar Filing: Amarantus BioSciences, Inc. - Form 10-Q

Proceeds from issuance of convertible preferred stock	—	—	540,000
Costs of financings	—	—	(76,187 )
Proceeds from sale of warrant	—	—	35
Net cash provided by financing activities	172,750	85,514	3,792,905
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(722 )	(35,365 )	148
CASH AND CASH EQUIVALENTS - Beginning of period	870	47,521	—
CASH AND CASH EQUIVALENTS - End of period	\$ 148	\$ 12,156	\$ 148
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Exchange of convertible promissory notes for preferred stock	\$—	\$—	\$ 195,342
Issuance of warrants to investors	\$—	\$—	\$ 371,180
Bifurcation of derivatives embedded in convertible notes	\$—	\$—	\$ 548,083
Stock warrants reclassified from liabilities to equity	\$ 2,032	\$—	\$ 39,142
Issuance of convertible notes in lieu of payment of payable	\$ 259,988	\$—	\$ 413,765
Dividend to founder for assumption of debts	\$—	\$—	\$ 365,870

See notes to financial statements

F-3

Table of Contents

AMARANTUS BIOSCIENCES, Inc.

NOTES TO FINANCIAL STATEMENTS

1.

General

Amarantus BioSciences, Inc. (the “Company”) was incorporated on January 14, 2008 in the state of Delaware. The Company is a development stage biopharmaceutical drug development company dedicated to sourcing high-potential therapeutic platform technologies and aligning their development with complementary clinical-stage compounds to reduce overall enterprise risk. Through March 31, 2012, the Company has been primarily engaged in biotechnology research and development and raising capital.

2.

Development Stage and Going Concern

The Company’s activities since inception have consisted principally of acquiring product and technology rights, raising capital, and performing research and development. Accordingly, the Company is considered to be in the development stage as of March 31, 2012, as defined by the Financial Accounting Standard Board, or FASB, Accounting Standard Codification, or ASC 915. Successful completion of the Company’s development programs and, ultimately, the attainment of profitable operations are dependent on future events, including, among other things, its ability to access potential markets; secure financing, develop a customer base; attract, retain and motivate qualified personnel; and develop strategic alliances. As of March 31, 2012, the Company has been funded by equity and debt financings. Although management believes that the Company will be able to successfully fund its operations, there can be no assurance that the Company will be able to do so or that the Company will ever operate profitably.

The Company expects to continue to incur substantial losses over the next several years during its development phase. To fully execute its business plan, the Company will need to complete certain research and development activities and clinical studies. Further, the Company’s product candidates will require regulatory approval prior to commercialization. These activities may span many years and require substantial expenditures to complete and may ultimately be unsuccessful. Any delays in completing these activities could adversely impact the Company. The Company plans to meet its capital requirements primarily through issuances of debt and equity securities and, in the longer term, revenue from product sales.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), which contemplate continuation of the Company as a going concern. As of March 31, 2012, the Company had cash and cash equivalents of \$148. During the three months ended March 31, 2012, the Company incurred a net loss of \$1,362,460 and had negative cash flows from operating activities of \$173,472. In addition, the Company had an accumulated deficit of \$8,088,889 at March 31, 2012. The Company believes its current capital resources are not sufficient to support its operations. Management intends to continue its research efforts and to finance operations of the Company through debt or equity financings. Management plans to seek additional debt and/or equity financing for the Company through private or public offerings or through a business

combination or strategic partnership. There can be no assurance that the Company will be successful in obtaining additional financing on favorable terms, or at all. These matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

3.

SIGNIFICANT ACCOUNTING POLICIES

**Use of Estimates** - The preparation of financial statements in conformity with GAAP 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 financial statements and reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

F-4



Table of Contents

**Certain Significant Risks and Uncertainties** - The Company participates in a global dynamic highly competitive industry and believes that changes in any of the following areas could have a material adverse effect on the Company's future financial position, results of operations, or cash flows: ability to obtain future financing; advances and trends in new technologies and industry standards; regulatory approval and market acceptance of the Company's products; development of the necessary manufacturing capabilities and to obtain adequate resources of necessary materials; development of sales channels; certain strategic relationships; litigation or claims against the Company based on intellectual property, patent, product, regulatory, or other factors; and the Company's ability to attract and retain employees necessary to support its growth.

**Concentration of Credit Risk** - Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents. The Company places its cash and cash equivalents with domestic financial institutions that are federally insured within statutory limits.

**Cash and Cash Equivalents** - The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**Property and Equipment** - Property and equipment are stated at cost and are depreciated on a straight-line basis over their estimated useful lives as follows:

Equipment	3 years
Computer equipment	2 years
Furniture and fixtures	3 years

The Company reviews the carrying value of long-lived assets, including property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. There have been no such impairments.

Property and equipment at March 31, 2012 and December 31, 2011, consisted of the following:

	March 31, 2012	December 31, 2011
Equipment	\$34,851	\$34,851
Computer equipment	3,179	3,179
Furniture and fixtures	2,363	2,363
	40,393	40,393
Less accumulated depreciation	(24,907 )	(22,004 )

Edgar Filing: Amarantus BioSciences, Inc. - Form 10-Q

Property and equipment - net	\$ 15,485	\$ 18,389
	March 31, 2012	March 31, 2011
Depreciation Expense:		
Three months ended	\$ 2,904	\$ 2,965
Inception to Date	28,658	

F-5

Table of Contents

**Revenue Recognition** - The Company recognizes revenue when the earnings process is complete, which under SEC Staff Accounting Bulletin No. 104, Topic No. 13, "Revenue Recognition" ("SAB 104"), is when revenue is realized or realizable and earned, there is persuasive evidence a revenue arrangement exists, delivery of goods or services has occurred, the sales price is fixed or determinable, and collectability is reasonably assured.

The Company accounts for milestones related to research and development activities in accordance with the milestone method of revenue recognition of Accounting Standards Codification Topic 605-28, under which consideration contingent on the achievement of a substantive milestone is recognized in its entirety in the period when the milestone is achieved. A milestone is considered to be substantive when it meets all of the following criteria: the milestone is commensurate with either the performance required to achieve the milestone or the enhancement of the value of the delivered items resulting from the performance required to achieve the milestone; the milestone relates solely to past performance; and, the milestone is reasonable relative to all of the deliverables and payment terms within the agreement.

To date, the Company has only received research grant revenue and contract revenue. Research grant revenue and contract revenue is recognized as the Company provides the services stipulated in the underlying agreement based on the time and expenditures incurred, and all milestones required in the agreement have been met. Amounts received in advance of services provided are recorded as deferred revenue and amortized as revenue when the services are provided and the milestones are met. The Company received and recognized total research grant revenue of \$-0- and \$178,308 in the three months ended March 31, 2012 and 2011, respectively, as the Company incurred all of the qualifying expenses and all applicable milestones were met. See Note 5 to the financial statements for further information on the research grant revenue received and recognized to date.

**Research and Development Expenditures** - Research and development expenses consist of personnel costs, including salaries, benefits and stock-based compensation, materials and supplies, licenses and fees, and overhead allocations consisting of various administrative and facilities related costs. Research and development activities are also separated into three main categories: research, clinical development, and biotechnology development. Research costs typically consist of preclinical and toxicology costs. Clinical development costs include costs for Phase 1 and 2 clinical studies. Biotechnology development costs consist of expenses incurred in connection with product formulation and analysis. The Company charges research and development costs, including clinical study costs, to expense when incurred, consistent with the guidance of FASB ASC 730, Research and Development.

**Stock-Based Compensation** - Stock-based compensation is measured at the grant date based on the fair value of the award. The fair value of the award that is ultimately expected to vest is recognized as expense on a straight-line basis over the requisite service period, which is generally the vesting period. The expense recognized for the portion of the award that is expected to vest has been reduced by an estimated forfeiture rate. The forfeiture rate is determined at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

*Expected Term* — The expected term of options represents the period that the Company's stock-based awards are expected to be outstanding based on the simplified method provided in Staff Accounting Bulletin No. 110, *Certain*

*Assumptions Used in Valuation Methods.*

*Expected Volatility* — As the Company has limited stock price history, expected volatility has been estimated based on the volatilities of similar companies that are publicly traded.

*Risk-Free Interest Rate* — The Company bases the risk-free interest rate on the implied yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term.

*Expected Dividend* — The Company has never declared or paid any cash dividends and does not plan to pay cash dividends in the foreseeable future, and, therefore, used an expected dividend yield of zero in the valuation model.

Table of Contents

The Company recognizes fair value of stock options granted to nonemployees as stock-based compensation expense over the period in which the related services are received.

**Stock Warrants** - Certain warrants to purchase the Company's stock are classified as liabilities in the balance sheets. These warrants are subject to remeasurement at each balance sheet date, and any change in fair value is recognized as a component of other income (expense). Other warrants to purchase the Company's convertible preferred stock are classified as equity in the balance sheet and are not subject to remeasurement.

**Derivative Liability** - Certain derivatives embedded within convertible promissory notes have been bifurcated and recorded as derivatives in the balance sheets because they are not clearly and closely related. These derivatives are subject to remeasurement at each balance sheet date, and any change in fair value is recognized as a component of other income (expense).

**Income Taxes** - The Company accounts for income taxes using the liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

In evaluating the ability to recover its deferred income tax assets, the Company considers all available positive and negative evidence, including its operating results, ongoing tax planning, and forecasts of future taxable income on a jurisdiction-by-jurisdiction basis. In the event the Company determines that it would be able to realize its deferred income tax assets in the future in excess of their net recorded amount, it would make an adjustment to the valuation allowance that would reduce the provision for income taxes. Conversely, in the event that all or part of the net deferred tax assets are determined not to be realizable in the future, an adjustment to the valuation allowance would be charged to earnings in the period such determination is made.

The Company recognizes the tax benefit from uncertain tax positions in accordance with GAAP, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of uncertain tax positions taken or expected to be taken in a company's tax return.

**Fair Value of Financial Instruments** -The carrying amount reported in the balance sheets for cash and cash equivalents, accounts payable, and accrued liabilities approximates their value due to the short-term maturities of such instruments.

**Net income (loss) per share attributable to Amarantus common stockholders**

Basic net income (loss) per share attributable to Amarantus common stockholders is calculated by dividing net income (loss) attributable to common stockholders by the weighted average number of shares outstanding for the period. In accordance with FASB ASC 260, because there was a net loss for the period, zero incremental shares were included for diluted earnings per share because the effect would be anti-dilutive ..

### **Recently Adopted Accounting Guidance**

*Variable Interest Entities.* In June 2009, the FASB issued new accounting guidance relating to consolidation of variable interest entities (“VIEs”), which amends the current accounting guidance for determining whether an entity is a VIE and defining the primary beneficiary. This guidance also requires additional disclosures relating to involvement with a VIE. We adopted this guidance during the first quarter of our fiscal 2010. The adoption of this guidance did not have a material effect on our Financial Statements and disclosures.

F-7

## Table of Contents

*Fair Value Measurements.* In January 2010, the FASB issued new accounting guidance requiring additional disclosures about the different classes of assets and liabilities measured at fair value, valuation techniques and inputs used, the activity in Level 3 fair value measurements, and the transfers between Levels 1 and 2. It also clarified guidance around disaggregation and disclosures of inputs and valuation techniques for Level 2 and Level 3 fair value measurements. The current guidance is effective beginning with the first quarter of our fiscal 2010, except for the new disclosures relating to the Level 3 reconciliation, which was effective for the first quarter of our fiscal 2011. Refer to Note 6 – Fair Value Measurements for our Company’s fair value measurements and disclosures.

## **Recently Issued Accounting Pronouncements**

In May 2011, the FASB issued updated accounting guidance to amend existing requirements for fair value measurements and disclosures. The guidance expands the disclosure requirements around fair value measurements categorized in Level 3 of the fair value hierarchy and requires disclosure of the level in the fair value hierarchy of items that are not measured at fair value but whose fair value must be disclosed. It also clarifies and expands upon existing requirements for fair value measurements of financial assets and liabilities as well as instruments classified in shareholders’ equity. The guidance is effective for annual and interim periods beginning after December 15, 2011. The implementation of this guidance is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued guidance concerning the presentation of Comprehensive Income in the financial statements. Entities will have the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate, but consecutive statements. The disclosure requirements are effective for annual and interim periods beginning after December 15, 2011 and should be retrospectively applied. The implementation of this guidance is not expected to have any impact on the Company’s consolidated financial position, results of operations or cash flows.

In September 2011, the FASB issued guidance on annual and interim goodwill impairment tests. An entity may now first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, Intangibles-Goodwill and Other. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The implementation of this guidance is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

## 4.

## AGREEMENT AND PLAN OF MERGER

On May 25, 2011, the Company entered into an Agreement and Plan of Merger (the Merger Agreement”) with Amarantus Therapeutics, Inc., a privately held Delaware corporation (Amarantus”), and JKIK Acquisition Corp. (Acquisition Sub”), our newly formed wholly-owned Delaware subsidiary. In connection with the closing of this

merger transaction, Amarantus merged with and into Acquisition Sub (the Merger”) on May 25, 2011, with the filing of articles of merger with the Delaware Secretary of State.

In addition, pursuant to the terms and conditions of the Merger Agreement:

Each share of Amarantus common stock and each share of Amarantus preferred stock issued and outstanding immediately prior to the closing of the Merger was converted into the right to receive a pro-rata portion of a total of 1,820,000 shares of our common stock. As a result, the shareholders of Amarantus received 1,820,000 newly issued shares of our common stock.

Our board of directors was reconstituted to consist of Martin D. Cleary, Chairman, together with Dr. John W. Commissiong, Gerald E. Commissiong, Arnold T. Grisham, Robert L. Harris, and Eugene Mancino, who prior to the Merger were the directors of Amarantus.

Our sole officer and director immediately prior to the Merger, Richard Douglas, resigned from the board and from all offices.

F-8



## Table of Contents

Our board appointed Martin D. Cleary as our Chief Executive Officer, Dr. John Commissiong as our Chief Scientific Officer, Gerald E. Commissiong as our Chief Operating Officer, and Marc E. Faerber as our Chief Financial Officer, Treasurer, and Secretary.

In connection with the Merger, our former sole officer and director immediately prior to the Merger, Richard Douglas, received a transfer of all assets and agreed to assume all liabilities related to our pre-merger business.

Following the closing of the merger, Mr. Douglas canceled and returned all 10,000,000 shares of his common stock.

Following the closing of the merger, in a separate transaction, we authorized a forward split of 25 shares for each share of our common stock issued and outstanding at the time of the split.

Following the closing of the merger, our board of directors and shareholders approved a change in the name of the company to Amarantus BioSciences, Inc.”

As a result, following these events, there were 67,000,000 shares of our common stock issued and outstanding.

In connection with the Merger, we adopted Amarantus’ 2008 Stock Plan and confirmed all options issued thereunder. In addition, we adopted and assumed certain convertible notes and warrants issued by Amarantus prior to the Merger.

Amarantus provided customary representations and warranties and complied with standard closing conditions, including approval of the Merger by its voting stockholders.

Expenses incurred with the merger were \$26,186 and have been recorded as part of Stockholders’ Equity.

The Merger is being accounted for as a reverse recapitalization. Reverse recapitalization accounting applies when a non-operating public shell company (Jumpkicks) acquires a private operating company (Amarantus) and the owners and management of the private operating company have actual or effective voting and operating control of the combined company. A reverse recapitalization is equivalent to the issuance of stock by the private operating company for the net monetary assets of the public shell corporation accompanied by a recapitalization with accounting similar to that resulting from a reverse acquisition, except that no goodwill or other intangible assets are recorded. In the Merger transaction, Jumpkicks qualifies as a non-operating public shell company because all pre-merger business assets and liabilities were transferred to and assumed by the sole officer and director of Jumpkicks, prior to the completion of the Merger. The reverse recapitalization accounting is attributable to a long-held position of the staff of the Securities and Exchange Commission as the acquisition of a non-operating public shell company does not qualify as a business for business combination purposes, as described in Accounting Standards Codification Topic 805, Business Combinations.

Complete information regarding the merger was included in our Form 8K/A filed on June 3, 2011.

## 5.

## MICHAEL J. FOX FOUNDATION GRANT

In April 2010, the Company was awarded a grant from the Michael J. Fox Foundation for Parkinson’s Research (“MJFF”). Pursuant to the MJFF grant, the Company performed research related to comparison and analysis of certain genes in rodent models of Parkinson’s disease. The grant provided for the reimbursement of expenses as incurred up to a maximum of \$370,716, payable in two installments with targeted payments in April 2010 and October 2010, and it established two milestones. During the three months ended March 31, 2011, the Company achieved certain milestones and received payment and recorded revenue of \$178,308. To date, through March 31, 2012, the Company has received

a total of \$370,716 from the MJFF.

F-9

Table of Contents

## 6. Fair Value Measurements

Assets and liabilities recorded at fair value in the financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, which are directly related to the amount of subjectivity, associated with the inputs to the valuation of these assets or liabilities are as follows:

*Level 1* — Inputs that are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

*Level 2* — Inputs (other than quoted prices included in Level 1) that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

*Level 3* — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities and which reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The Company's financial assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2012 and December 31, 2011, by level within the fair value hierarchy, are as follows:

## Fair Value Measurements at March 31, 2012

	Level 1	Level 2	Level 3	Total
Warrant Liability			\$269,077	\$269,077
Derivative Liability			73,007	73,007
Total	\$—	\$—	\$342,084	\$342,084

## Fair Value Measurements at December 31, 2011

	Level 1	Level 2	Level 3	Total
Warrant Liability			\$283,931	\$283,931
Derivative Liability			140,706	140,706
Total	\$—	\$—	\$424,637	\$424,637

The following table provides a summary of changes in the fair value of the Company's Level 3 financial liability mentioned above for the year ended December 31, 2011, for the period ended March 31, 2012 and for the period from January 14, 2008 (date of inception) to March 31, 2012:

F-10

Table of Contents

	Warrant Liability	Derivative Liability	Total
January 14, 2008 (date of inception)	\$-	\$-	\$-
Issuance of warrants	52,665		52,665
Issuance of convertible notes		9,377	9,377
Changes in fair value	(15,960 )	(4,402 )	(20,362 )
December 31, 2008	36,705	4,975	41,680
Changes in fair value	(1,692 )	(4,975 )	(6,667 )
December 31, 2009	35,013	0	35,013
Issuance of warrants	3,680		3,680
Issuance of convertibles notes		281,466	281,466
Reclassification of warrants to equity	(37,110 )		(37,110 )
Cancellation of warrants	(65,082 )		(65,082 )
Changes in fair value	67,915	6,081	73,996
December 31, 2010	\$4,416	\$287,547	\$291,963
Issuance of warrants	314,835		314,835
Issuance of convertible notes		257,210	257,210
Changes in fair value	(35,320)	(404,051)	(439,371)
December 31, 2011	\$283,931	\$140,706	\$424,637
Issuance of warrants			
Issuance of convertible notes			
Changes in fair value	(12,822 )	(67,698 )	(80,520 )
Reclassification of warrants to equity	(2,032 )		(2,032 )
March 31, 2012	\$269,077	\$73,008	\$342,085

The valuation of the convertible stock warrant liability is discussed in Note 8.

## 7.

## Accrued Liabilities

Accrued liabilities at March 31, 2012 and December 31, 2011, consisted of the following:

	March 31, 2012	December 31, 2011
Accrued compensation and related benefits	\$ 18,746	\$ 18,746

Edgar Filing: Amarantus BioSciences, Inc. - Form 10-Q

Accrued interest	91,555	58,462
Total	\$ 110,301	\$ 77,208

F-11

Table of Contents

## 8. Convertible Promissory Notes and derivative liability

The Company owes the principal amount of \$230,000 to a total of six (6) investors who were issued Convertible Promissory Notes under the terms of a Convertible Promissory Note Agreement dated December 13, 2010 and amended on March 23, 2011 as follows:

Principal Amount	Issue Date	Maturity Date
\$100,000	12-13-10	12-13-12
\$25,000	4-11-11	4-11-13
\$35,000	4-15-11	4-15-13
\$10,000	4-22-11	4-22-13
\$50,000	4-27-11	4-27-13
\$10,000	6-6-11	6-6-13

These notes bear interest at a rate of 5% per annum, with all principal and accrued interest payable on the maturity date. Principal and unpaid accrued interest due under these notes shall be automatically converted into our equity securities at the closing of our next equity financing in which the gross proceeds exceed \$1,000,000 (the Next Equity Financing”), based on a conversion price equal to one-third of the price per share of the stock sold to outside investors in the Next Equity Financing. If the Next Equity Financing does not occur on or before the maturity date, the principal and unpaid accrued interest can be converted at our option into shares of our most recently closed equity financing, based on a conversion price equal to one-third of the price per share of the most recently closed equity financing.

In addition, we also currently owe the principal sum of \$41,537 to Molecular Medicine Research Institute (MMRI”), who was issued a series of Convertible Promissory Notes under the terms of a Note and Warrant Purchase Agreement as follows:

Principal Amount	Issue Date	Maturity Date
\$16,037	11-1-10	11-1-12
\$4,250	12-1-10	12-1-12
\$4,250	1-1-11	1-1-13
\$4,250	2-1-11	2-1-13
\$4,250	3-1-11	3-1-13
\$4,250	4-1-11	4-1-13
\$4,250	5-1-11	5-1-13

These notes bear interest at a rate of 5% per annum, with all principal and accrued interest payable on demand by the holder on or after the maturity date. Principal and unpaid accrued interest due under these notes shall be converted, at the option of the holder, into our equity securities at the closing of our next equity financing in which the gross proceeds exceed \$1,000,000 (the Next Equity Financing”), based on a conversion price equal to the price per share of

the stock sold to outside investors in the Next Equity Financing. If the Next Equity Financing does not occur on or before the maturity date, the principal and unpaid accrued interest can be converted at our option into a new class of equity securities to be designated Series A Preferred Stock,” with the conversion price per share to be based upon a pre-money” valuation of the company at that time of \$2,000,000. These notes also include 20% warrant coverage which expire seven years from the date of the note.



We are currently party to a Sponsored Research Agreement with MMRI under which we are provided office and laboratory space, use of research equipment, and other items within MMRI's research facility in exchange for a monthly Sponsor Research Fee. The notes detailed above, in conjunction with certain warrants to purchase stock, were issued in payment of 50% of the respective monthly fees due under this agreement.

F-12

Table of Contents

We also owe the principal sum of \$500,000 to a total of ten (10) investors who were issued Secured Convertible Promissory Notes under the terms of a Senior Secured Convertible Promissory Note Agreement dated December 28, 2010, as amended May 20, 2011 as follows:

Principal Amount	Issue Date	Maturity Date
\$125,000	12-28-10	12-6-11
\$62,500	12-28-10	12-6-11
\$100,000	4-15-11	12-6-11
\$25,000	4-18-11	12-6-11
\$25,000	5-13-11	12-6-11
\$50,000	5-19-11	12-6-11
\$25,000	5-24-11	12-6-11
\$25,000	5-24-11	12-6-11
\$31,250	6-7-11	12-6-11
\$31,250	6-9-11	12-6-11

Principal and interest, accrued at the rate of 5% per annum, are due and payable on December 6, 2011, unless earlier converted into equity securities of the company. Principal and unpaid accrued interest shall be converted, at the option of the holder, into equity securities of the company at the closing of our next equity financing in which gross aggregate proceeds to the Company exceed \$1,750,000 and the Company registers its stock for sale pursuant to the Securities and Exchange Act of 1934. The conversion price shall be equal to one-third of the price per share of this financing. If this financing does not occur on or before the maturity date, the principal and unpaid accrued interest can be converted, at the option of the holders of a majority of the aggregate principal amount of the senior secured convertible promissory notes, into common stock of the Company. These notes were formerly secured by collateral consisting of substantially all assets of the company. Under the May 20, 2011 amendment to the Senior Secured Convertible Promissory Note Agreement, this security interest was terminated. Under the terms of the agreement as amended, we may not incur any indebtedness for borrowed money except pursuant to an agreement that provides that repayment of such indebtedness will be subordinated to repayment of the Notes. In addition, we may not encumber any of our property during such time as the Notes remain due and owing. As provided in the amendment the note holders have warrant coverage equal to 100% of the note principal at an exercise price equal to 100% of that to outside investors in the closing of the next equity financing of \$1,175,000, but not to be less than \$0.60 per share. The warrants expire five years from the date of the next equity financing closing. We are currently in default on these notes. See footnote 9 Commitments and Contingencies for further information.

In addition, we owe the principal sum of \$12,240 to The Parkinson's Institute, which was issued a Convertible Promissory Note under the terms of a Note and Warrant Purchase Agreement dated August 25, 2010. This note bears interest at a rate of 5% per annum, with all principal and accrued interest payable on demand by the holder on or after the maturity date of August 25, 2012. Principal and unpaid accrued interest due under this note shall be automatically converted into our equity securities at the closing of our next equity financing in which the gross proceeds exceed \$1,000,000 (the Next Equity Financing"), based on a conversion price equal to the price per share of the stock sold to outside investors in the Next Equity Financing. If the Next Equity Financing does not occur on or before the maturity date, the principal and unpaid accrued interest can be converted at our option into a new class of equity securities to be designated Series A Preferred Stock," with the conversion price per share to be based upon a pre-money" valuation of the company at that time of \$2,000,000. In addition the note holder has warrant coverage equal to 5% of the note principal with an warrant exercise price equal to in the next equity financing per share price, and expiration seven years from the date of the note.

F-13

Table of Contents

During the twelve months ended December 31, 2011, the Company issued convertible promissory notes to various investors for aggregate proceeds of \$90,000. Principal and interest on these convertible notes, accrued at the rate of 6% per annum, are due and payable 180 days from the issuance date, unless earlier converted into equity securities of the Company, at the option of the Holder of the promissory note. Conversion of the principal and interest will be at either \$0.10 or \$0.20 per share. In addition, the Company issued warrants to the note holders to purchase a number of shares of capital stock issued to investors at the equivalent to 100% of the principal amount of the notes divided by the respective price per share of the stock which the principal of the note converts at. The warrants expire one year from the date of the note. During the three months ended March 31, 2012, \$67,000 of these convertible notes converted to Company Common shares.

Principal Amount	Issue Date	Maturity Date	Converted to Equity	Conversion Date
\$21,000	7-28-11	1-24-12	\$21,000	February 2012
\$21,000	7-28-11	1-24-12	\$21,000	February 2012
\$10,000	8-16-11	2-12-12	\$10,000	February 2012
\$20,000	8-18-11	2-14-12		
\$5,000	9-6-11	3-4-12	\$5,000	February 2012
\$5,000	9-9-11	3-7-12	\$5,000	February 2012
\$3,000	9-26-11	3-24-12		
\$5,000	11-2-11	4-30-12	\$5,000	February 2012

During the period October, 2011 through March 31, 2012, the Company issued convertible promissory notes to various investors for aggregate proceeds of \$168,750. Principal and interest on these convertible notes, accrue at the rate of 6% per annum, are due and payable 180 days from the issuance date, unless earlier converted into equity securities of the Company, at the option of the Holder of the promissory note. Conversion of the principal and interest will be at either \$0.03 or \$0.05 per share.

Principal Amount	Issue Date	Maturity Date	Converted to Equity	Conversion Date
\$5,000	10-27-11	4-24-12	\$5,000	February 2012
\$10,000	11-23-11	5-21-12		
\$30,000	11-30-11	5-28-12	\$30,000	February 2012
\$10,000	12-8-11	6-5-12	\$10,000	February 2012
\$5,000	12-14-11	6-11-12	\$5,000	February 2012
\$5,000	12-30-11	6-27-12	\$5,000	February 2012
\$100,000	1-17-12	7-15-12		
\$3,750	2-21-12	8-19-12	\$3,750	February 2012

During the three months ended March 31, 2012, the Company issued two convertible promissory notes to one investor totaling \$54,500. Principal and interest on these convertible notes accrue at the rate of 8% per annum. The holder of the note can convert the note to common shares of the Company any time after the initial 180 days of the note at a conversion price that is a percentage of an average of the market low over for a certain number days over a greater number of prior number of trading days from the date of notice to convert.

Edgar Filing: Amarantus BioSciences, Inc. - Form 10-Q

Principal Amount	Issue Date	Maturity Date
\$37,500	2-7-12	10-27-12
\$17,000	11-23-11	5-21-12

In January, 2012, a vendor convertible their trade account to convertible promissory notes for the amount due them at the time of the note plus future billings, amounting to \$244,988. These notes accrue interest at 8.5% and have the option to convert to common stock at any time by the note holder, at a conversion price of \$0.11 per share. These notes are payable upon demand.

F-14

Table of Contents

In March, 2012, a third party acquired some older Company trade payables in exchange for a convertible promissory note in the amount of \$15,000, bearing an interest rate of 12% per annum, due September 9, 2012 and convertible at any time by the Holder. Simultaneous with the convertible promissory note transaction the note Holder elected to convert the full note into common shares of the Company at a conversion price of \$0.031 per share.

Also in March, 2012, the Company issued a convertible promissory note for \$9,500 as part of a unit debt instrument which consisted of a return on investment ("ROI") agreement and the convertible promissory note in return for \$10,000. The ROI has a redemption value of \$10,500 due on demand and the convertible promissory note is for \$9,500, non-interest bearing, due September 20, 2012, and is convertible to common shares after six months from the date of the note at a conversion price that is 50% of the lowest trading price over the 20 prior trading dates from the date of conversion notice

In connection with certain liabilities incurred in connection with our March 5, 2008 acquisition of the intellectual property rights to the MANF protein compound, we have an outstanding Promissory Note issued as follows:

Note Payable To:	Amount	Due Date
Neurotrophics, Inc.	\$222,083	3-5-15

This note bears interest at the rate of 2% per annum.

On October 4, 2011 we received short-term financing in the amount of \$150,000 under a Promissory Note issued to Dr. Samuel Herschkowitz as follows:

Note Payable To:	Amount	Due Date
Samuel Herschkowitz	\$150,000	4-1-12

The balance due under the Note bears interest at the rate of twenty percent (20%) per year.

In addition, in conjunction with the Promissory Note, Dr. Herschkowitz received an equity bonus of 2,054,794 shares of common stock. As security for our obligations under the note, we have pledged in favor of the note holder 8,219,178 shares of common stock. We are currently in default under this note. In April 2012, a third party acquired the note becoming the new note holder. As part of this transaction the 8,219,178 shares of common stock were returned to the company. Other terms of the new note are being negotiated.

Edgar Filing: Amarantus BioSciences, Inc. - Form 10-Q

At March 31, 2012, total future minimum payments under the Convertible Notes are as follows:

2012	\$1,084,5150
2013	151,250
Total minimum payments	1,235,765
Less: Debt discount resulting from warrant and derivative liabilities	(118,914 )
Total	1,116,851
Current portion of convertible promissory notes	(1,049,059 )
Convertible promissory notes - net of current portion	\$67,792

F-15

## Table of Contents

A number of Company's convertible notes contain embedded derivatives wherein their automatic conversion, which is contingent upon a future equity raise, can accelerate the realization of the expected payout for each note. This feature creates the possibility of a greater than expected return for the note holder and thus a higher than expected liability for the Company. The value of this feature was estimated for each note using the probability expected return method, in which the payout of distinct potential early conversion scenarios was discounted to the present using the expected IRR of the note and compared with the present value of the note if held to maturity. Probabilities were applied to the value of early conversion in each scenario to arrive at a probability weighted value of the early conversion feature.

As of March 31, 2012 and December 31, 2011, the fair value of the derivative liability was \$73,007 and \$140,709, respectively. The changes in fair value for the three month periods ended March 31, 2012 and March 31, 2011 of \$67,698 and \$ 38,260 respectively, and the period from January 14, 2008 (date of inception) to March 31, 2012 of \$479,811 have been recorded in the accompanying statements of operations as a component of other income (expense).

## 9. commitments and contingencies

**Commitments** — The Company leases its main office facility and a second facility for research in Sunnyvale, CA under sublease agreements that provide for month-to-month extensions by the Company.

Rent expense for the three months ended March 31, 2012 and 2011, and for the period from January 14, 2008 (date of inception) to March 31, 2012, were \$9,336, \$30,452, and \$257,090, respectively.

Effective November 1, 2011 the Company entered into a consulting agreement where the consultant is to receive a stock option for common stock of 500,000 shares, fully vested, to be priced upon the Board of Directors approving such grant.

**Contingencies** — From time to time, the Company may become involved in litigation. On January 6, 2012 the Company was served a summons regarding the filing of a lawsuit (Complaint for Breach of Contract, Specific Performance and Common Counts) against the Company by a former consultant to the Company, Peter Freeman v. Amarantus BioSciences, Inc. The Company intends to defend ourselves vigorously. The Company is unable to predict the likelihood of an unfavorable outcome or estimate its potential liability, if any, and no provision has been made in its financial statements for this matter.

In addition the Company is in default on payment of certain Convertible Notes that were due as of December 6, 2011 and is also late with regard to making payments to various trade account vendors for goods and services received, of which some accounts are currently with collection agencies and could possibly result in lawsuits with the Company.



The Company agreed to compensate certain vendors for services rendered contingent upon the occurrence of future financings as follows:

Future financing with  
proceeds of at least

\$1,000,000	\$50,000
1,250,000	20,000
1,500,000	26,000
2,000,000	50,000
5,000,000	50,000
6,000,000	20,000

Total	\$216,000
-------	-----------

The Company incurred various obligations related to the original acquisition of its intellectual property around the time the Company was founded. These transactions are described more fully below in Note 16, including a reference to contingent obligations reflected in the financial statements.

F-16

Table of Contents

10.

COMMON STOCK

The Company's Certificate of Incorporation, as amended, authorize the Company to issue 250,000,000 shares of \$0.001 par value common stock. Common stockholders are entitled to dividends when and if declared by the Board of Directors. The holder of each share of common stock is entitled to one vote. As of March 31, 2012, no dividends had been declared.

Common stock that the Company had reserved for issuance at March 31, 2012, is as follows:

Exercise and conversion of common stock warrants	1,743,056
Stock options outstanding	1,673,797
Stock options available for future grants under the 2008 Stock Plan	1,535,876
Total shares of common stock reserved	4,952,729

As of March 31, 2012 the Company had outstanding \$1,235,765 of convertible note principal. These convertible notes, along with related accrued interest, convert upon the Next Equity Financing or at the option of the note holder as follows:

\$12,240 and \$41,537 of convertible debt principal have interest at 5% and warrants equivalent to 5% and 20% of the principal balance, respectively, and convert upon the next equity financing.

\$500,000 and \$230,000 of convertible note principal and related accrued interest convert at two-thirds the price per share of the Next Equity Financing and the \$500,000 of convertible note principal have warrants equivalent to 100% of the principal balance and the \$230,000 of convertible note principal have no warrants attached.

\$168,750 of convertible note principal having interest at 6%, can convert at prices ranging from \$0.03 to \$0.10 per share at anytime at the option of the note holder, and have no warrants. As of March 31, 2012, \$68,750 of the principal of this \$168,750 convertible debt has converted to common shares.

\$72,000 of convertible note principal having interest at 6%, can convert at \$0.10 or \$0.20 per share at anytime at the option of the note holder and warrants equivalent to 100%. As of March 31, 2012, \$42,000 of the principal of this \$72,000 convertible debt has converted to common shares.

\$18,000 of convertible note principal having interest at 6%, can convert at \$0.10 per share at anytime at the option of the note holder, and warrants equivalent to 100%. As of March 31, 2012, \$15,000 of the principal of this \$18,000 convertible debt has converted to common shares.

\$244,988 of convertible note principal, having an interest rate of 8.5%. no warrants, can convert at \$0.11 per share at anytime at the option of the note holder.

\$54,500 of convertible note principal, having and interest rate of 8-8.5%, no warrants, can convert at 55% of the average of the three lowest trading days of the prior 10 trading days, there is a 180 day waiting period before the holder has the option to convert to common shares.

\$9,500 of convertible note principle was issued as part of a unit debt instrument which consisted of a return on investment ("ROI") agreement and a convertible promissory note in return for \$10,000. The ROI has a redemption value of \$10,500 due on demand and the convertible promissory note is for \$9,500, non-interest bearing, due September 20, 2012, and is convertible to common shares after six months from the date of the note at a conversion price that is 50% of the lowest trading price over the 20 prior trading dates from the date of conversion notice

The common share effect of the convertible debt is not included in the above schedule since the number of shares will not be determinable until the Next Equity Financing. (See Note 8)

Table of Contents

The common share effect of the warrants related to the following convertible debt has been included in the above schedule.

During the three months ended March 31, 2012 the Company issued \$920,787 worth of common stock to various consultants for services and it paid \$54,442 of trade accounts payable with shares of common stock in settlement of the trade debt.

11. Stock option plan

The Company's Board of Directors has approved the 2008 Stock Plan (the "Plan"). Under the Plan, the Board of Directors may grant up to 10,742,127 shares of incentive stock options, nonqualified stock options, or stock awards to eligible persons, including employees, nonemployees, members of the Board of Directors, consultants, and other independent advisors who provide services to the Company. In general, options are granted with an exercise price equal to the fair value of the underlying common stock on the date of the grant. Options generally have a contractual life of 10 years and vest over periods ranging from being fully vested as of the grant dates to four years.

F-18

Table of Contents

	Shares Available for Grant	Number of Shares	Outstanding Options Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Balance - January 14, 2008 (date of inception)				
Shares added to the plan	6,085,136			
Balance - December 31, 2008	6,085,136			
Balance - December 31, 2009	6,085,136			
Shares added to the plan	4,656,991		0.01	
Options granted (weighted average fair values of \$0.0237)	(3,206,494)	3,206,494	0.01	9.2
Balance - December 31, 2010	7,535,633	3,206,494	0.01	9.2
Shares added to the plan				
Options granted (weighted average fair value of \$0.0237)				
Employee	(4,610,422)	4,610,422	0.01	
Non-Employee	(3,601,407)	3,601,407	0.01	
Cancelled Shares	2,212,071	(2,212,071)	0.01	
Options exercised		(7,532,454)	0.01	
Balance - December 31, 2011	1,535,875	1,673,797		
Options vested- March 31, 2012	7,845,933			
Options vested and expected to vest- March 31, 2012	7,951,362			

F-19

Table of Contents

Stock-based compensation expense for the three month periods ended March 31, 2012 and March 31, 2011, and the period from January 14, 2008 (date of inception) to March 31, 2012, is classified in the statements of operations as follows:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Period From January 14, 2008 Date of Inception to March 31, 2012
Research and development	\$5,132	\$30,135	\$547,623
General and administrative	7,650	24,928	146,587
Total	\$12,782	\$55,063	\$694,210

At March 31, 2012, there was a total of \$28,178 of unrecognized compensation cost, net of estimated forfeitures, related to non-vested stock option awards, which is expected to be recognized over a weighted-average period of approximately 2.0 years.

The fair value of the Company's stock-based awards during the year ended December 31, 2011, and the period from January 14, 2008 (date of inception) to March 31, 2012, was estimated using the following weighted-average assumptions:

	Period Ended March 31, 2012	Year Ended December 31, 2011	Period From January 14, 2008 (Date of Inception) to March 31, 2012
Weighted-average volatility	71.0 %	71.0 %	80.2 %
Expected term (in years)	5	5	5
Expected dividends	None	None	None
Risk-free interest rate	1.04 %	2.5 %	2.5 %

The Company operates in one reportable segment. The Company's Chief Executive Officer, who is considered to be the chief operating decision maker, manages the Company's operations as a whole and reviews financial information presented on a this basis, for purposes of evaluating financial performance and allocating resources.

F-20

Table of Contents

13. Related-Party Transactions

The Company was co-founded in 2008 by Mr. Gerald Commissiong and Dr. John Commissiong under the original name of CNS Protein Therapeutics, Inc. ("CNS"), and changed its name to Amarantus BioSciences, Inc. in 2010. Dr. Commissiong is currently the Chief Scientific Officer, a member of the Board of Directors (appointed in March 2011) and majority shareholder of the Company. Mr. Gerald Commissiong is currently the Chief Operating Officer, a member of the Board of Directors, and a significant shareholder of the Company. Dr. Commissiong also founded Neurotrophics, Inc., a Canadian company, in 2003. In 2007, Neurotrophics established an agreement with EMS Development Group to acquire the intellectual property rights to a protein compound, mesencephalic astrocyte-derived neurotrophic factor ("MANF"), from Prescient Neuropharma Co. MANF was discovered by Dr. Commissiong while working for Prescient in 2002, as a drug candidate with promising therapeutic properties for treatment of syndromes such Parkinson's Disease.

EMS received \$59,000 in 2007 in funding from Neurotrophics to purchase the MANF intellectual property rights. Prior to this payment, Neurotrophics received a total of \$100,000 in investments from certain outside parties. The same investors provided \$100,000 in funding to CNS in 2008, and CNS renegotiated and assumed the \$100,000 convertible note investment made into Neurotrophics. The investors directed Neurotrophics and EMS to assign the MANF intellectual property rights to CNS and CNS agreed to assume certain other liabilities related to the technology transfer. CNS will compensate these creditors on a future date mutually agreeable between the parties. In addition, CNS agreed to compensate EMS for its assistance in acquiring the rights to MANF by making installment payments in an aggregate amount of \$95,000.

The technology transfer transaction created a contingent liability for the Company. Legal counsel to the Company has advised that transfers of assets out of the usual course of business, referred to under applicable Canadian law as "bulk sales", must comply with certain rules in order to avoid a potential voiding of the sale or transfer, making the purchaser liable to unpaid trade creditors, or creating an encumbrance on the assets transferred or sold. The transfer of the MANF rights by Neurotrophics to CNS may impose such obligations on CNS, as a purchaser. Counsel further advised that upon payment in full of all of the Neurotrophics debts outstanding as of March 5, 2008, no action can be successfully maintained to void or set aside the transfer of the MANF rights to CNS, and thus to the Company.

To remedy this contingent liability, CNS agreed to compensate Neurotrophics to repay its creditors on a future date mutually agreeable between the parties, and agreed to assume debts owed to John Commissiong and Gerald Commissiong by Neurotrophics.

The Company has recorded a total of \$287,462 and \$222,230 as of December 2010 and 2011, respectively in obligations reflecting this liability in its financial statements. The Company recorded the assumption of the Neurotrophics debts as a distribution in 2008.



In February 2011, the Company and Neurotrophics agreed to enter into two agreements regarding compensation for the March 5, 2008 transfer of the rights to MANF and issued notes in the amounts of \$222,083 and \$59,319, in favor of Neurotrophics and John and Gerald Commissiong, respectively. These notes bear interest at the rate of 2% per annum, and have maturity dates of March 5, 2015 and December 30, 2015, respectively. The loans may be repaid at the Company's option on or before the maturity dates in the form of common stock of the Company at the then fair market value.

In October 2010, the Company entered into an agreement with the founders, Gerald Commissiong and John Commissiong, where they will receive a 2.5% (1.25% each for Gerald Commissiong and John Commissiong) Royalty from the gross commercial revenue of patents derived from the Company's proprietary PhenoGuard platform technology, including patents associated with the MANF Protein and related Gene."

F-21

Table of Contents

The Company obtained the services of its Chairman Martin D. Cleary through a consulting agreement. During the years ended December 31, 2010, 2011, and the period from January 14, 2008 (date of inception) to December 31, 2011, consulting services of \$200,000, \$200,000, and \$479,166, respectively are included in the statement of operations. This agreement also includes a change of control clause whereby the Company shall pay Mr. Cleary a bonus of 5% of the gross proceeds to the Company resulting from the change of control. Upon his election and in his sole discretion, and in lieu of the change of control bonus, the Company shall issue to him shares of the Company's common stock equal to 2.5% of the Company's fully diluted capitalization as of the date of termination of the agreement.

In March 2012, a former and an existing Board of Director member converted a Convertible Promissory Note in the amount of \$21,000, each plus accrued interest. This resulted in 217,280 shares of Common Stock to each party.

14. SUBSEQUENT EVENTS

The Company evaluated subsequent events through the date its financial statements were available for issuance. The Company determined that the financial statements were available for issuance on April 17, 2012.

On January 16, 2012 the Company entered into a License Agreement with Power3 Medical Products, Inc (“Power3”) to license the NuroPro diagnostic test for Parkinson's disease to Amarantus BioSciences ( the "License"). As part of the License, Amarantus was granted an option to acquire the Parkinson's Intellectual Property, and a right of first refusal to acquire the entire diagnostic platform for neurodegenerative diseases (collectively the "IP"). This license may have been granted at a time when Power3 did not have the authority to grant a license in some of its intellectual property (IP). On March 15th, 2012 Power3 filed for bankruptcy and the Receiver sold Power3's IP in receivership to NeoGenomics, Inc. Although this sale may be subject to the avoidance powers of the Chapter 7 Trustee, at this time NeoGenomics has title to certain IP. Amarantus has put NeoGenomics on notice of the licensing agreement entered into with Power3 in order to provide equitable defenses in the event NeoGenomics makes an infringement claim against Amarantus. Amarantus is currently reviewing its legal options with respect to material misrepresentations made by the Executive Officers of Power3 at the time of the Licensing Agreement. Amarantus has also initiated discussions with NeoGenomics to acquire the IP related to the assignment made by the Receiver and expects those discussions to continue throughout the Power3's bankruptcy process. At this point the Company does not know how long the bankruptcy process may take.

F-22

Table of Contents

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Forward-Looking Statements**

Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are forward-looking statements." These forward-looking statements generally are identified by the words believes," project," expects," anticipates," estimates," intends," strategy," plan," may," will," would," will be," will continue," likely result," and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and future prospects on a consolidated basis include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

**Overview**

Amarantus BioSciences, Inc. is a California-based development-stage biotechnology company founded in January 2008. We focus on developing our intellectual property and proprietary technology to develop drug candidates to treat human disease. We own the intellectual property rights to a therapeutic protein known as Mesencephalic-Astrocyte-derived Neurotrophic Factor (MANF").

MANF is a protein that corrects protein misfolding. Protein misfolding is one of the major causes of apoptosis (cell death). This property provides a compelling rationale for the research and development of MANF-based products as therapeutics for human disease. Our lead MANF product development effort is centered on a therapy for Parkinson's disease.

We also own an inventory of 88 cell lines that we refer to as PhenoGuard Cell Lines. MANF was the first therapeutic protein discovered from a PhenoGuard Cell Line. We believe that we may identify additional therapeutic proteins from its inventory of PhenoGuard Cell Lines.

**Principal Products**

Our philosophy is to acquire in-license, discover and develop biologics with the potential to address critically important biological pathways involved in human disease. Since our inception, we have been focused on developing MANF as a therapeutic for Parkinson's disease, and other apoptosis-related disorders. Our business plans are focused in these specific areas:

- Development of MANF to treat Parkinson's disease
- Development of MANF to treat other apoptosis-related disorders
- Exploration of our PhenoGuard Cell Lines for therapeutic protein discovery
- Evaluation of external drug candidates for potential in-licensure or acquisition

#### MANF: Overview

We own the intellectual property rights to a novel therapeutic protein called MANF acquired from EMS Development Group in 2008. MANF is a novel, endogenous, evolutionally conserved and widely expressed secreted human protein. We believe that MANF is the first of a new class of therapeutic proteins that are secreted in response to stressful physiological conditions in the body. MANF is believed to have mechanisms of action that are fundamentally different from other therapeutic proteins; MANF decreases the activity of apoptosis-causing enzymes, corrects protein misfolding and increases neurotransmitter release.

Table of Contents

MANF: Development Plan

We will focus on developing MANF as a therapeutic protein for Parkinson's disease with the intention of gaining Investigational New Drug Status with the FDA in order to initiate human clinical studies in the United States. We will gather further information on additional MANF applications and will evaluate product development programs as data becomes available.

For the next 12 months, we will focus our product development efforts on the completion of experiments in non-human primate models of Parkinson's disease. This will provide the experimental rationale for moving forward into human clinical studies for the treatment of Parkinson's disease.

**Parkinson's Disease Overview**

Parkinson's disease (PD) is a severe neurological disorder characterized by tremor, muscle rigidity, and an inability to walk with a steady gait. PD was first reported by James Parkinson in 1817. It is currently widely accepted that PD is primarily associated with the degeneration of a specific set of dopaminergic (DA) neurons in the human brain located in the midbrain. According to the NIH, symptoms begin to appear when 60-80% of these DA neurons have become dysfunctional or have died. Humans have roughly 1 million of these critical DA neurons in the midbrain that play a vital role in controlling motor functions such as walking, stability and overall muscle control. DA neurons release the neurotransmitter dopamine, which plays a critical role in motor function. When a person is diagnosed with PD, roughly 600,000 to 800,000 of these DA neurons have already degenerated or have died. The remaining DA neurons continue to degenerate as PD progresses until such a time when there aren't enough DA neurons left for the body to function. PD progresses at different rates in different patients. Ultimately, every patient becomes incapable of functioning independently at a certain point in the progression of his or her PD. According to the NIH, it is estimated that at least 500,000 people are afflicted with this disorder in the United States. PD generally affects patients later in life, with an average onset age of 60. NIH estimates the total cost to the nation exceeds \$6 billion annually.

**Parkinson's Disease Market**

According to a 2008 report generated by DataMonitor, there are over 1.5 million PD in the United States, Western Europe and Japan. It is widely accepted that with the increasing trend towards a longer lifespan coupled with the baby-boomer population approaching retirement, the incidence of Parkinson's disease is likely to double by in the next 20 years.

Deep Brain Stimulation



Deep brain stimulation (DBS) is a surgical procedure used to treat the symptoms associated with Parkinson's disease. At present, the procedure is used only for patients whose symptoms cannot be adequately controlled with medications. DBS uses a surgically implanted, battery-operated medical device called a neurostimulator, which is similar to a heart pacemaker and approximately the size of a stopwatch, to deliver electrical stimulation to targeted areas in the brain that control movement.

Unlike previous surgeries for PD, DBS minimizes tissue damage by focusing on neural pathways. Instead the procedure blocks electrical signals from targeted areas in the brain. Thus, if newer, more promising treatments develop in the future, the DBS procedure can be reversed. Stimulation from the neurostimulator is adjustable without further surgical intervention. Although most patients still need to take medication after undergoing DBS, many patients experience considerable reduction of their PD symptoms and are able to greatly reduce their medications. The amount of reduction varies from patient to patient but can be considerably reduced in most patients.

Competition: Disease-modifying Treatment in Development

There are several disease-modifying treatments under development seeking to address the key unmet medical need in Parkinson's disease treatment.

### Table of Contents

A. MedGenesis licensed GDNF protein rights from Amgen in January 2010. GDNF is a promising disease-modifying therapy for Parkinson's Disease.

B. Ceregene reported Phase II data in 2010 of their neurturin gene therapy, showing improvement in Parkinson's symptoms (UPDRS) at 18 months vs. placebo. Genzyme licensed ex-US rights to this product. Ceregene is currently planning an additional Phase II study.

C. Amsterdam Molecular has a preclinical GDNF gene therapy program under an exclusive license from Amgen for GDNF in gene therapy.

MANF belongs to this category of therapies. Effective disease modifying treatments that become commercially available would dramatically affect the PD market, shifting the market from symptomatic drugs in favor of new disease modifying treatments and potentially growing the overall market

### **Manufacture of GMP quality MANF**

We will outsource the manufacturing of the MANF Parkinson's Disease product to a Contract Manufacturing Organization ("CMO"), with special capabilities to manufacture biological drug candidates for submission and clinical testing under Food & Drug Administration ("FDA") guidelines.

### **Distribution & Marketing**

We intend to develop its drug candidates and utilize its deep industry connections to effect partnering transactions with biopharmaceutical drug companies seeking to strategically fortify pipelines and fund the costly clinical development required to achieve successful commercialization. As such, we do not anticipate selling products directly into the marketplace; rather we will effect partnering transaction which will give us a distribution and marketing partner to sell our products into the marketplace, allowing the us to focus on the research and product development which represent our core competencies.

### **Regulatory Compliance**

Drug Development and distribution in the biotechnology and pharmaceutical industries in the United States is heavily regulated by the FDA. These regulations and policies relate to the safety and efficacy of drug candidates being developed for the US market. These regulations and policies are continually being updated to reflect the current state of the art in our understanding of science and human biology. The Affordable Healthcare for America Act passed in 2010 is an example of how the landscape in the healthcare and biotechnology space is continually evolving and subject to significant political influence.

The FDA imposed requirements represent a critical component to the overall development plan for Amarantus' drug development candidates. Management will use all resources available to it to ensure that the Company develops its drug candidates in compliance with all applicable laws and regulations.

### **Intellectual Property**

1. EU MANF Composition of Matter Patent
2. US MANF Composition of Matter Patent Application
3. US MANF Method of Use Patent Application
4. EU MANF Method of Use Patent Application
5. Japanese Method of Use Patent Application
6. Canadian Method of Use Patent Application
7. Chinese MANF Method of Use Patent Application
8. Indian MANF Method of Use Patent Application
9. Brazilian MANF Method of Use Patent Application

10. PCT Neurodegenerative disorders Method of Use Patent Application

6

Table of Contents

**Personnel**

We currently have four (4) employees/consultants. Our current internal departments include Business Development, Finance, Research & Development and Administration. We are led by a management team that includes an engineer, a scientist, an accountant and an executive. We intend to expand our management team as operations ramp up to include additional technical staff required to achieve our business objectives.

**Expected Changes In Number of Employees, Plant, and Equipment**

We do not currently plan to purchase specific additional physical plant and significant equipment within the immediate future. We do not currently have specific plans to change the number of our employees during the next twelve months.

**Results of Operations For Amarantus Biosciences, Inc. For The Three Months Ended March 31, 2012 and March 31, 2011**

During the three months ended March 31, 2012, Amarantus generated no revenue and incurred \$1,370,765 in operating expenses, resulting in loss from operations of \$1,370,765. Operating expenses consisted of research and development costs of \$80,916 and general and administrative expenses of \$1,289,849. Stock compensation expense of \$12,782 was included in operating income for the three months ended March 31, 2012. During the three months ended March 31, 2012, Amarantus also incurred interest expense of \$72,215, and other income of \$80,520 related to a change in fair value of warrant and derivative liabilities. Amarantus' net loss for the three months ended March 31, 2012 was \$1,362,460.

During the three months ended March 31, 2011, Amarantus generated \$178,308 of revenue and incurred \$655,663 in operating expenses, resulting in a loss from operations of \$477,355. Operating expenses consisted of research and development costs of \$243,070 and general and administrative expenses of \$412,593. Stock compensation expense of \$55,063 was included in the net loss from operations for the three months ended March 31, 2011. During the three months ended March 31, 2011, Amarantus incurred interest expense of \$63,868, and other income of \$38,045 related to a change in fair value of warrant and derivative liabilities. Amarantus' net loss for the three months ended March 31, 2011 was \$503,178.

Inflation adjustments have had no material impact on the Company.

**Liquidity and Capital Resources**

As of March 31, 2012, we had current assets in the amount of \$313,514 consisting of \$148 in cash and cash equivalents and \$331,366 in prepaid expenses and other current assets. As of March 31, 2012, we had current liabilities in the amount of \$3,798,927, consisting of \$1,994,522 in accounts payable, \$110,301 in accrued liabilities, \$222,230 in related party liabilities, \$150,000 in notes payable, \$267,914 representing the current portion of warrant liabilities, \$4,901 representing the current portion of derivative liabilities, and \$1,049,059 representing the current portion of convertible promissory notes. As of March 31, 2012, we had a working capital deficit in the amount of \$3,485,413.

The Company owes the principal amount of \$230,000 to a total of six (6) investors who were issued Convertible Promissory Notes under the terms of a Convertible Promissory Note Agreement dated December 13, 2010 and amended on March 23, 2011 as follows:

Principal Amount	Issue Date	Maturity Date
\$ 100,000	12-13-10	12-13-12
\$ 25,000	4-11-11	4-11-13
\$ 35,000	4-15-11	4-15-13
\$ 10,000	4-22-11	4-22-13
\$ 50,000	4-27-11	4-27-13
\$ 10,000	6-6-11	6-6-13

Table of Contents

These notes bear interest at a rate of 5% per annum, with all principal and accrued interest payable on the maturity date. Principal and unpaid accrued interest due under these notes shall be automatically converted into our equity securities at the closing of our next equity financing in which the gross proceeds exceed \$1,000,000 (the Next Equity Financing”), based on a conversion price equal to one-third of the price per share of the stock sold to outside investors in the Next Equity Financing. If the Next Equity Financing does not occur on or before the maturity date, the principal and unpaid accrued interest can be converted at our option into shares of our most recently closed equity financing, based on a conversion price equal to one-third of the price per share of the most recently closed equity financing.

In addition, we also currently owe the principal sum of \$41,537 to Molecular Medicine Research Institute (MMRI”), who was issued a series of Convertible Promissory Notes under the terms of a Note and Warrant Purchase Agreement as follows:

Principal Amount	Issue Date	Maturity Date
\$16,037	11-1-10	11-1-12
\$4,250	12-1-10	12-1-12
\$4,250	1-1-11	1-1-13
\$4,250	2-1-11	2-1-13
\$4,250	3-1-11	3-1-13
\$4,250	4-1-11	4-1-13
\$4,250	5-1-11	5-1-13

These notes bear interest at a rate of 5% per annum, with all principal and accrued interest payable on demand by the holder on or after the maturity date. Principal and unpaid accrued interest due under these notes shall be converted, at the option of the holder, into our equity securities at the closing of our next equity financing in which the gross proceeds exceed \$1,000,000 (the Next Equity Financing”), based on a conversion price equal to the price per share of the stock sold to outside investors in the Next Equity Financing. If the Next Equity Financing does not occur on or before the maturity date, the principal and unpaid accrued interest can be converted at our option into a new class of equity securities to be designated Series A Preferred Stock,” with the conversion price per share to be based upon a pre-money” valuation of the company at that time of \$2,000,000. These notes also include 20% warrant coverage which expire seven years from the date of the note.

We are currently party to a Sponsored Research Agreement with MMRI under which we are provided office and laboratory space, use of research equipment, and other items within MMRI’s research facility in exchange for a monthly Sponsor Research Fee. The notes detailed above, in conjunction with certain warrants to purchase stock, were issued in payment of 50% of the respective monthly fees due under this agreement..

We also owe the principal sum of \$500,000 to a total of ten (10) investors who were issued Secured Convertible Promissory Notes under the terms of a Senior Secured Convertible Promissory Note Agreement dated December 28, 2010, as amended May 20, 2011 as follows:



Principal Amount	Issue Date	Maturity Date
\$ 125,000	12-28-10	12-6-11
\$ 62,500	12-28-10	12-6-11
\$ 100,000	4-15-11	12-6-11
\$ 25,000	4-18-11	12-6-11
\$ 25,000	5-13-11	12-6-11
\$ 50,000	5-19-11	12-6-11
\$ 25,000	5-24-11	12-6-11
\$ 25,000	5-24-11	12-6-11
\$ 31,250	6-7-11	12-6-11
\$ 31,250	6-9-11	12-6-11

Table of Contents

Principal and interest, accrued at the rate of 5% per annum, are due and payable on December 6, 2011, unless earlier converted into equity securities of the company. Principal and unpaid accrued interest shall be converted, at the option of the holder, into equity securities of the company at the closing of our next equity financing in which gross aggregate proceeds to the Company exceed \$1,750,000 and the Company registers its stock for sale pursuant to the Securities and Exchange Act of 1934. The conversion price shall be equal to one-third of the price per share of this financing. If this financing does not occur on or before the maturity date, the principal and unpaid accrued interest can be converted, at the option of the holders of a majority of the aggregate principal amount of the senior secured convertible promissory notes, into common stock of the Company. These notes were formerly secured by collateral consisting of substantially all assets of the company. Under the May 20, 2011 amendment to the Senior Secured Convertible Promissory Note Agreement, this security interest was terminated. Under the terms of the agreement as amended, we may not incur any indebtedness for borrowed money except pursuant to an agreement that provides that repayment of such indebtedness will be subordinated to repayment of the Notes. In addition, we may not encumber any of our property during such time as the Notes remain due and owing. As provided in the amendment the note holders have warrant coverage equal to 100% of the note principal at an exercise price equal to 100% of that to outside investors in the closing of the next equity financing of \$1,175,000, but not to be less than \$0.60 per share. The warrants expire five years from the date of the next equity financing closing. We are currently in default on these notes.

In addition, we owe the principal sum of \$12,240 to The Parkinson's Institute, which was issued a Convertible Promissory Note under the terms of a Note and Warrant Purchase Agreement dated August 25, 2010. This note bears interest at a rate of 5% per annum, with all principal and accrued interest payable on demand by the holder on or after the maturity date of August 25, 2012. Principal and unpaid accrued interest due under this note shall be automatically converted into our equity securities at the closing of our next equity financing in which the gross proceeds exceed \$1,000,000 (the Next Equity Financing"), based on a conversion price equal to the price per share of the stock sold to outside investors in the Next Equity Financing. If the Next Equity Financing does not occur on or before the maturity date, the principal and unpaid accrued interest can be converted at our option into a new class of equity securities to be designated Series A Preferred Stock," with the conversion price per share to be based upon a pre-money" valuation of the company at that time of \$2,000,000. In addition the note holder has warrant coverage equal to 5% of the note principal with an warrant exercise price equal to in the next equity financing per share price, and expiration seven years from the date of the note.

During the twelve months ended December 31, 2011, the Company issued convertible promissory notes to various investors for aggregate proceeds of \$90,000. Principal and interest on these convertible notes, accrued at the rate of 6% per annum, are due and payable 180 days from the issuance date, unless earlier converted into equity securities of the Company, at the option of the Holder of the promissory note. Conversion of the principal and interest will be at either \$0.10 or \$0.20 per share. In addition, the Company issued warrants to the note holders to purchase a number of shares of capital stock issued to investors at the equivalent to 100% of the principal amount of the notes divided by the respective price per share of the stock which the principal of the note converts at. The warrants expire one year from the date of the note. During the three months ended March 31, 2012, \$67,000 of these convertible notes converted to Company Common shares.

Principal Amount	Issue Date	Maturity Date	Converted to Equity	Conversion Date
\$21,000	7-28-11	1-24-12	\$21,000	February 2012
\$21,000	7-28-11	1-24-12	\$21,000	February 2012

Edgar Filing: Amarantus BioSciences, Inc. - Form 10-Q

\$10,000	8-16-11	2-12-12	\$10,000	February 2012
\$20,000	8-18-11	2-14-12		
\$5,000	9-6-11	3-4-12	\$5,000	February 2012
\$5,000	9-9-11	3-7-12	\$5,000	February 2012
\$3,000	9-26-11	3-24-12		
\$5,000	11-2-11	4-30-12	\$5,000	February 2012

Table of Contents

During the period October, 2011 through March 31, 2012, the Company issued convertible promissory notes to various investors for aggregate proceeds of \$168,750. Principal and interest on these convertible notes, accrue at the rate of 6% per annum, are due and payable 180 days from the issuance date, unless earlier converted into equity securities of the Company, at the option of the Holder of the promissory note. Conversion of the principal and interest will be at either \$0.03 or \$0.05 per share.

Principal Amount	Issue Date	Maturity Date	Converted to Equity	Conversion Date
\$5,000	10-27-11	4-24-12	\$5,000	February 2012
\$10,000	11-23-11	5-21-12		
\$30,000	11-30-11	5-28-12	\$30,000	February 2012
\$10,000	12-8-11	6-5-12	\$10,000	February 2012
\$5,000	12-14-11	6-11-12	\$5,000	February 2012
\$5,000	12-30-11	6-27-12	\$5,000	February 2012
\$100,000	1-17-12	7-15-12		
\$3,750	2-21-12	8-19-12	\$3,750	February 2012

During the three months ended March 31, 2012, the Company issued two convertible promissory notes to one investor totaling \$54,500. Principal and interest on these convertible notes accrue at the rate of 8% per annum. The holder of the note can convert the note to common shares of the Company any time after the initial 180 days of the note at a conversion price that is a percentage of an average of the market low over for a certain number days over a greater number of prior number of trading days from the date of notice to convert.

Principal Amount	Issue Date	Maturity Date
\$37,500	2-7-12	10-27-12
\$17,000	11-23-11	5-21-12

In January, 2012, a vendor converted their trade account to convertible promissory notes for the amount due them at the time of the note plus future billings, amounting to \$244,988. These notes accrue interest at 8.5% and have the option to convert to common stock at any time by the note holder, at a conversion price of \$0.11 per share. These notes are payable upon demand.

In March, 2012, a third party acquired some older Company trade payables in exchange for a convertible promissory note in the amount of \$15,000, bearing an interest rate of 12% per annum, due September 9, 2012 and convertible at any time by the Holder. Simultaneous with the convertible promissory note transaction the note Holder elected to convert the full note into common shares of the Company at a conversion price of \$0.031 per share.

Also, in March, 2012, the Company issued a unit debt instrument which consisted of a return on investment or "ROI" agreement and a convertible promissory note in return for \$10,000. The unit has a redemption value of \$10,500 due on demand and the convertible promissory note is for \$9,500, non-interest bearing, due September 20, 2012, and is

convertible to Company commons shares after six months from the date of the note at conversion price that is a percentage of the lowest trading price over a specified number of prior trading dates from the date of conversion notice.

In April, 2012, the Company issued a convertible promissory note in return for \$25,000, bearing an interest rate of 6%, due September 29, 2012, and convertible at any time by the Holder with a conversion price of \$0.02 per common share.. Later in April, 2012, the Holder elected to convert the convertible promissory note into 1,250,000 common shares.

In May, 2012, a third party acquired some older Company trade payables in exchange for a convertible promissory note in the amount of \$24,325, bearing an interest rate of 12% per annum, due November 4, 2012 and convertible at any time by the Holder. Simultaneous with the convertible promissory note transaction, the note Holder elected to convert the full note into common shares of the Company at a conversion price of \$0.0165 per share.

Table of Contents

In connection with certain liabilities incurred in connection with our March 5, 2008 acquisition of the intellectual property rights to the MANF protein compound, we have an outstanding Promissory Note issued as follows:

Note Payable To:	Amount	Due Date
Neurotrophics, Inc.	\$222,083	3-5-15

This note bears interest at the rate of 2% per annum.

On October 4, 2011 we received short-term financing in the amount of \$150,000 under a Promissory Note issued to Dr. Samuel Herschkowitz as follows:

Note Payable To:	Amount	Due Date
Samuel Herschkowitz	\$150,000	4-1-12

The balance due under the Note bears interest at the rate of twenty percent (20%) per year. In addition, in conjunction with the Promissory Note, Dr. Herschkowitz received an equity bonus of 2,054,794 shares of common stock. As security for our obligations under the note, we have pledged in favor of the note holder 8,219,178 shares of common stock. We are currently in default under this note. In April 2012, a third party acquired the note becoming the new note holder. As part of this transaction the 8,219,178 shares of common stock were returned to the company. Other terms of the new note are being negotiated.

Currently, we have material commitments to complete certain animal studies related to a contract executed with the Michael J. Fox Foundation for Parkinson's Research in April 2010. We have received grant funding from the Michael J. Fox Foundation to complete such animal studies.

We will need to raise significant financing in order to continue to operate and execute our business plan. It will cost roughly \$1,000,000 to complete our next major milestone. Additionally, we will need ongoing operating capital to retain employees, pay creditors and ongoing expenses, as well as execute non-core aspects of our business plan, which management believes will yield significant value to its shareholders.

The success of our business plan during the next 12 months and beyond is contingent upon us generating sufficient revenue to cover our costs of operations, or upon us obtaining additional financing. Should our revenues be less than anticipated, or should our expenses be greater than anticipated, then we may seek to obtain business capital through the use of private equity fundraising or shareholders loans. We do not have any formal commitments or arrangements for the sales of stock or the advancement or loan of funds at this time. There can be no assurance that such additional financing will be available to us on acceptable terms, or at all. Similarly, there can be no assurance that we will be

able to generate sufficient revenue to cover the costs of our business operations. We will use all commercially-reasonable efforts at its disposal to raise sufficient capital to run its operations on a go forward basis.

We were founded in 2008 to advance novel therapies for human disease. We were seeking to raise capital from new investors when the financial-collapse of 2008 resulted in a prolonged depression. This financial collapse dramatically altered the financing environment for biotechnology companies seeking to access the capital markets to obtain financing to advance their research and development activities. The trend of difficult access to the capital markets has continued through to the current fundraising environment and has been evidenced by reduced pricing and lower capital raises in many biotechnology-related initial public offerings.



### Table of Contents

We have been successful in raising convertible note financing from various individual investors over the last several months. This is an encouraging trend that we expect to continue as we continue operations. We will use commercially-reasonable efforts going forward to raise equity financing and other financing instruments to raise sufficient capital to continue operations and meet our major milestones.

### **Off Balance Sheet Arrangements**

Pursuant to the terms of certain contractual agreements, we have agreed to compensate certain vendors for services rendered contingent upon the occurrence of future financings. These transactions are described more fully under Liquidity and Capital Resources, below, and in Note 9 to our financial statements. These obligations are not reflected in our accounts and represent an off balance sheet liability contingent upon achieving the respective funding levels specified in the relevant agreements.

### **Going Concern**

We are a development stage company engaged in biotechnology research and development. We have suffered recurring losses from operations since inception, have a working capital deficit, and have generated negative cash flow from operations. For these reasons, our auditors have raised a substantial doubt about our ability to continue as a going concern.

### **Critical Accounting Policies**

**Use of Estimates** - The preparation of financial statements in conformity with GAAP 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 financial statements and reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

**Certain Significant Risks and Uncertainties** - The Company participates in a global dynamic highly competitive industry and believes that changes in any of the following areas could have a material adverse effect on the Company's future financial position, results of operations, or cash flows: ability to obtain future financing; advances and trends in new technologies and industry standards; regulatory approval and market acceptance of the Company's products; development of the necessary manufacturing capabilities and to obtain adequate resources of necessary materials; development of sales channels; certain strategic relationships; litigation or claims against the Company based on intellectual property, patent, product, regulatory, or other factors; and the Company's ability to attract and retain employees necessary to support its growth.

**Concentration of Credit Risk** - Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents. The Company places its cash and cash equivalents with domestic financial institutions that are federally insured within statutory limits.

**Cash and Cash Equivalents** - The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**Property and Equipment** - Property and equipment are stated at cost and are depreciated on a straight-line basis over their estimated useful lives as follows:

Equipment	3 years
Computer equipment	2 years
Furniture and fixtures	3 years

The Company reviews the carrying value of long-lived assets, including property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. There have been no such impairments.

Table of Contents

**Revenue Recognition** - The Company recognizes revenue when the earnings process is complete, which under SEC Staff Accounting Bulletin No. 104, Topic No. 13, "Revenue Recognition" ("SAB 104"), is when revenue is realized or realizable and earned, there is persuasive evidence a revenue arrangement exists, delivery of goods or services has occurred, the sales price is fixed or determinable, and collectability is reasonably assured.

The Company accounts for milestones related to research and development activities in accordance with the milestone method of revenue recognition of Accounting Standards Codification Topic 605-28, under which consideration contingent on the achievement of a substantive milestone is recognized in its entirety in the period when the milestone is achieved. A milestone is considered to be substantive when it meets all of the following criteria: the milestone is commensurate with either the performance required to achieve the milestone or the enhancement of the value of the delivered items resulting from the performance required to achieve the milestone; the milestone relates solely to past performance; and, the milestone is reasonable relative to all of the deliverables and payment terms within the agreement.

**Research and Development Expenditures** - Research and development expenses consist of personnel costs, including salaries, benefits and stock-based compensation, materials and supplies, licenses and fees, and overhead allocations consisting of various administrative and facilities related costs. Research and development activities are also separated into three main categories: research, clinical development, and biotechnology development. Research costs typically consist of preclinical and toxicology costs. Clinical development costs include costs for Phase 1 and 2 clinical studies. Biotechnology development costs consist of expenses incurred in connection with product formulation and analysis. The Company charges research and development costs, including clinical study costs, to expense when incurred, consistent with the guidance of FASB ASC 730, Research and Development.

**Stock-Based Compensation** - Stock-based compensation is measured at the grant date based on the fair value of the award. The fair value of the award that is ultimately expected to vest is recognized as expense on a straight-line basis over the requisite service period, which is generally the vesting period. The expense recognized for the portion of the award that is expected to vest has been reduced by an estimated forfeiture rate. The forfeiture rate is determined at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

*Expected Term* — The expected term of options represents the period that the Company's stock-based awards are expected to be outstanding based on the simplified method provided in Staff Accounting Bulletin No. 110, *Certain Assumptions Used in Valuation Methods*.

*Expected Volatility* — As the Company has limited stock price history, expected volatility has been estimated based on the volatilities of similar companies that are publicly traded.

*Risk-Free Interest Rate* — The Company bases the risk-free interest rate on the implied yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term.

*Expected Dividend* — The Company has never declared or paid any cash dividends and does not plan to pay cash dividends in the foreseeable future, and, therefore, used an expected dividend yield of zero in the valuation model.

The Company recognizes fair value of stock options granted to nonemployees as stock-based compensation expense over the period in which the related services are received.

**Stock Warrants** - Certain warrants to purchase the Company's stock are classified as liabilities in the balance sheets. These warrants are subject to remeasurement at each balance sheet date, and any change in fair value is recognized as a component of other income (expense). Other warrants to purchase the Company's convertible preferred stock are classified as equity in the balance sheet and are not subject to remeasurement.

**Derivative Liability** - Certain derivatives embedded within convertible promissory notes have been bifurcated and recorded as derivatives in the balance sheets because they are not clearly and closely related. These derivatives are subject to remeasurement at each balance sheet date, and any change in fair value is recognized as a component of other income (expense).

## Table of Contents

**Income Taxes** - The Company accounts for income taxes using the liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

In evaluating the ability to recover its deferred income tax assets, the Company considers all available positive and negative evidence, including its operating results, ongoing tax planning, and forecasts of future taxable income on a jurisdiction-by-jurisdiction basis. In the event the Company determines that it would be able to realize its deferred income tax assets in the future in excess of their net recorded amount, it would make an adjustment to the valuation allowance that would reduce the provision for income taxes. Conversely, in the event that all or part of the net deferred tax assets are determined not to be realizable in the future, an adjustment to the valuation allowance would be charged to earnings in the period such determination is made.

The Company recognizes the tax benefit from uncertain tax positions in accordance with GAAP, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of uncertain tax positions taken or expected to be taken in a company's tax return.

**Fair Value of Financial Instruments** -The carrying amount reported in the balance sheets for cash and cash equivalents, accounts payable, and accrued liabilities approximates their value due to the short-term maturities of such instruments.

## **Net income (loss) per share attributable to Amaratus common stockholders**

Basic net income (loss) per share attributable to Amarantus common stockholders is calculated by dividing net income (loss) attributable to common stockholders by the weighted average number of shares outstanding for the period. In accordance with FASB ASC 260, because there was a net loss for the period, zero incremental shares were included for diluted earnings per share because the effect would be antidilutive .

## **Recently Issued Accounting Pronouncements**

Our management has considered all recent accounting pronouncements issued since the last audit of our financial statements. Our management believes that these recent pronouncements will not have a material effect on our financial statements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

A smaller reporting company is not required to provide the information required by this Item.

**Item 4. Controls and Procedures**

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of March 31, 2012. This evaluation was carried out under the supervision and with the participation of Gerald Commissiong, our Chief Executive Officer, and Marc E. Faerber, our Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2012, our disclosure controls and procedures were ineffective as of the end of the period covered, due to the following material weaknesses which are indicative of many small companies with small staff: (i) inadequate segregation of duties and effective risk assessment; and (ii) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both United States generally accepted accounting principles and Securities and Exchange Commission guidelines. Management anticipates that such disclosure controls and procedures will not be effective until the material weaknesses are remediated. We will be unable to remediate the material weakness in our disclosure controls and procedures until we can hire additional employees. As of March 31, 2012, we did not have sufficient funds to hire another employee. There have been no changes in our internal controls over financial reporting during the quarter ended March 31, 2012.

## Table of Contents

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

## Limitations on the Effectiveness of Internal Controls

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

On January 6, 2012 the Company was served a summons regarding the filing of a lawsuit (Complaint for Breach of Contract, Specific Performance and Common Counts) against the Company by a former consultant to the Company, Peter Freeman v. Amarantus Therapeutics, Inc. The Company intends to defend ourselves vigorously. The Company is unable to predict the likelihood of an unfavorable outcome or estimate its potential liability, if any, and no provision has been made in its financial statements for this matter.

In addition the Company is in default on payment of certain Convertible Notes that were due as of December 6, 2011 and is also late with regard to making payments to various trade account vendors for goods and services received, of which some accounts are currently with collection agencies and could possibly result in lawsuits with the Company.

Power3 Medical Products, Inc. ("Power3") entered into a License Agreement with Amarantus BioSciences, Inc. ("our", "us", or "we") on January 16, 2012 to, among other things, license the NuroPro diagnostic test for Parkinson's disease to us

(the "Agreement"). As part of the Agreement, we were granted an option to acquire certain intellectual property, and a right of first refusal to acquire certain intellectual property (collectively the "IP"). We recently found out the Agreement was entered into at a time when Power3 may not have had the authority to enter into the Agreement.

On March 26th, 2012, we became aware of a previously undisclosed legal dispute between Power3 and NeoGenomics, Inc. ("NeoGenomics") where certain intellectual property assets of Power3 were placed into receivership in September 2011 in the State of Texas as a result of an unpaid note to NeoGenomics. On March 15, 2012 Power3 filed for Chapter 7 bankruptcy. However, on March 7th, 2012, the receiver sold, among other things, Power3's IP to NeoGenomics. Although this sale may be considered a preference in the Power3 Bankruptcy, at this time NeoGenomics may have title to certain intellectual property of Power3.

On April 12, 2012 our representatives appeared at bankruptcy related meeting of creditors of Power3. Ira Goldknopf, the President of Power3, testified for Power3. In the meeting it was discussed, among other things, that (i) Power3 had not transferred any of our stock, other than providing \$25,000 worth of our stock to its attorney; (ii) that another entity may own a portion of the IP; (iii) NeoGenomics was not a secured creditor when they credit bid their claim in the receivership; and (iv) the status of the license and ownership of the IP is still in question.



Table of Contents

We are continuing to review our legal options with respect to the material misrepresentations made by the officers of Power3 and our rights in the IP.

**Item 1A: Risk Factors**

A smaller reporting company is not required to provide the information required by this Item.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Item 3. Defaults upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

None

**Item 5. Other Information**

None

**Item 6. Exhibits**

Description of Exhibit

Exhibit  
Number

- 31.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 16

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Amarantus BioSciences, Inc.

Date: May 21, 2012

By: /s/ Gerald E. Commissiong

Gerald E. Commissiong

Title: **Chief Executive Officer and Director**

By: /s/ Marc E. Faerber

Marc E. Faerber

Title: **Chief Financial Officer**

