Neuralstem, Inc.
Form 10KSB
March 27, 2008

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

(Mark one)

x Annual Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2007

or

o Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 000-1357459

Neuralstem, Inc.
(Name of small business issuer in its charter)

Delaware	**52-2007292**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
9700 Great Seneca Highway Rockville, Maryland	**20850**
(Address of principal executive offices)	**(Zip Code)**

Issuer's telephone number: 301-366-4841

Securities registered under Section 12(b) of the Exchange Act:

None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 x No o

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. o

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

The issuer's revenues for its most recent fiscal year is $306,057.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based upon the closing bid price of the Common Stock on February 27, 2008 was approximately $65,000,000. Shares of Common Stock held by officers and directors and their affiliated entities have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive for other purposes.

The number of shares outstanding of Registrant's common stock, $0.01 par value at March 18, 2008 was 32,075,875.

Transitional Small Business Disclosure Format (check one): Yes o No x

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Recent Development

On February 19, 2008, CJ CheilJedang Corporation (KSE: CJ CheilJedang hereafter "CJ") purchased an option to negotiate for the exclusive license to Neuralstem's stem cell-products and technology after the company completes a successful human clinical trial. As part of the agreement, CJ purchased $2.5 million worth of Neuralstem common stock at $4.063 per share. The terms of the license will be negotiated after the first successful human trial. CJ's potential exclusive markets will include: Korea, Indonesia, Philippines, Malaysia, Singapore and Vietnam, with a first right of negotiation for China and Japan. Neuralstem is planning to begin human clinical trials in 2008 with its stem cell products. Please refer to our Current Report filed on form 8-K on February 25, 2008 for a further description of the transaction.

FORWARD LOOKING STATEMENTS

In this annual report we make a number of statements, referred to as "forward-looking statements", within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), which are intended to convey our expectations or predictions regarding the occurrence of possible future events or the existence of trends and factors that may impact our future plans and operating results. These forward-looking statements are derived, in part, from various assumptions and analyses we have made in the context of our current business plan and information currently available to use and in light of our experience and perceptions of historical trends, current conditions and expected future developments and other factors we believe are appropriate in the circumstances. You can generally identify forward looking statements through words and phrases such as *"believe", "expect", "seek", "estimate", "anticipate", "intend", "plan", "budget", "project", "may likely result", "may be", "may continue"* and other similar expressions.

When reading any forward-looking statement you should remain mindful that actual results or developments may vary substantially from those expected as expressed in or implied by such statement for a number of reasons or factors, including but not limited to:

- our ability to develop a product
- whether or not a market for our product develops and, if a market develops, the rate at which it develops;
- our ability to successfully sell our products if a market develops;
- our ability to attract and retain qualified personnel to implement our growth strategies;
- our ability to develop sales, marketing, and distribution capabilities;
- our ability to obtain reimbursement from third party payers for the products that we sell;
- the accuracy of our estimates and projections;
- our ability to fund our short-term and long-term financing needs;
- changes in our business plan and corporate strategies; and
- other risks and uncertainties discussed in greater detail in the section captioned "Risk Factors"

Each forward-looking statement should be read in context with and in understanding of the various other disclosures concerning our company and our business made elsewhere in this report as well as our public filings with the

Securities and Exchange Commission. You should not place undue reliance on any forward-looking statement as a prediction of actual results or developments. We are not obligated to update or revise any forward-looking statements contained in this report or any other filing to reflect new events or circumstances unless and to the extent required by applicable law.

RISK FACTORS

An investment in Neuralstem, Inc. involves significant risks. You should read these risk factors carefully before deciding whether to invest in our company. The following is a description of what we consider our key challenges and risks.

We have described below a number of uncertainties and risks which, in addition to uncertainties and risks presented elsewhere in this annual report, may adversely affect our business, operating results and financial condition. The uncertainties and risks enumerated below as well as those presented elsewhere in this annual report should be considered carefully in evaluating our company and our business and the value of our securities.

Risks Relating to the Company's Stage of Development

Since the Company has a limited operating history and has significantly shifted its operations and strategies since inception, you cannot rely upon the Company's limited historical performance to make an investment decision.

Since inception in 1996 and through December 31, 2007, the Company has recorded accumulated losses totaling $45,655,997. On December 31, 2007, the Company had a working capital surplus of $6,517,757 and stockholders' equity of $6,809,354. Our net losses for the two most recent fiscal years have been ($7,603,272) and ($3,147,487) for 2007 and 2006 respectively. Revenues for the twelve months ended December 31, 2007 were $306,057.

The Company's ability to generate revenues and achieve profitability depends upon its ability to complete the development of its stem cell products, obtain the required regulatory approvals, manufacture, and market and sell its products. In part because of the Company’s past operating results, no assurances can be given that the Company will be able to accomplish all or any these goals.

Although the Company has generated some revenue to date, the Company has not generated any revenue from the commercial sale of its proposed stem cell products. Since inception, the Company has engaged in several related lines of business and has discontinued operations in certain areas. For example, in 2002, the Company lost a material contract with the Department of Defense and was forced to close its principal facility and lay off almost all of its employees in an attempt to focus the Company’s strategy on its stem cell technology. This limited and changing history may not be adequate to enable you to fully assess the Company's current ability to develop and commercialize its technologies and proposed products, obtain approval from the U.S. Food and Drug Administration (“FDA”), achieve market acceptance of its proposed products and respond to competition. No assurances can be given as to exactly when, if at all, the Company will be able to fully develop, commercialize market, sell and derive material revenues from its proposed products in development.

The Company will need to raise additional capital to continue operations, and failure to do so will impair the Company's ability to fund operations, develop its technologies or promote its products.

The Company has relied almost entirely on external financing to fund operations. Such financing has historically come primarily from the sale of common and preferred stock and convertible debt to third parties, the exercise of investor warrants and to a lesser degree from grants, loans and revenue from license and royalty fees. The Company anticipates, based on current proposed plans and assumptions relating to its operations (including the timetable of, and costs associated with, new product development) and financings the Company has undertaken prior to the date of this annual report, that its current working capital will be sufficient to satisfy contemplated cash requirements for approximately 12 months, assuming that the Company does not engage in an extraordinary transaction or otherwise face unexpected events or contingencies, any of which could affect cash requirements. As of December 31, 2007, the Company had cash and cash equivalents on hand of $7,403,737. Presently, the Company has a monthly cash burn rate of approximately $400,000. Accordingly, the Company will need to raise additional capital to fund anticipated operating expenses and future expansion after such period. Among other things, external financing will be required to cover the further development of the Company's technologies and products and other operating costs. The Company cannot assure you that financing whether from external sources or related parties will be available if needed or on favorable terms. If additional financing is not available when required or is not available on acceptable terms, the Company may be unable to fund operations and planned growth, develop or enhance its technologies, take advantage of business opportunities or respond to competitive market pressures. Any negative impact on the Company's operations may make capital raising more difficult and may also resulting a lower price for the Company's securities.

The Company may have difficulty raising needed capital in the future as a result of, among other factors, the Company's limited operating history and business risks associated with the Company.

The Company's business currently generates limited amounts of cash which will not be sufficient to meet its future capital requirements. The Company's management does not know when this will change. The Company has expended and will continue to expend substantial funds in the research, development and clinical and pre-clinical testing of the Company's stem cell technologies and products. The Company will require additional funds to conduct research and development, establish and conduct clinical and pre-clinical trials, commercial-scale manufacturing arrangements and to provide for the marketing and distribution. Additional funds may not be available on acceptable terms, if at all. If adequate funds are unavailable from any available source, the Company may have to delay, reduce the scope of or eliminate one or more of its research, development or commercialization programs or product launches or marketing efforts which may materially harm the Company's business, financial condition and results of operations.

The Company's long term capital requirements are expected to depend on many factors, including:

· continued progress and cost of its research and development programs;

- progress with pre-clinical studies and clinical trials;
- time and costs involved in obtaining regulatory clearance;
- costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims;
- costs of developing sales, marketing and distribution channels and its ability to sell the Company's stem cell products;
- costs involved in establishing manufacturing capabilities for commercial quantities of its products;
- competing technological and market developments;
- market acceptance of its stem cell products;
- costs for recruiting and retaining employees and consultants; and
- costs for educating and training physicians about its stem cell products.

The Company may consume available resources more rapidly than currently anticipated, resulting in the need for additional funding. The Company may seek to raise any necessary additional funds through the exercising of warrants, options, equity or debt financings, collaborative arrangements with corporate partners or other sources, which may be dilutive to existing stockholders or otherwise have a material effect on the Company's current or future business prospects. If adequate funds are not available, the Company may be required to significantly reduce or refocus its development and commercialization efforts.

The Company relies on stem cell technologies that it may not be able to commercially develop, which will prevent the Company from generating revenues, operating profitably or providing investors any return on their investment.

The Company has concentrated its research on its stem cell technologies, and the Company's ability to generate revenue and operate profitably will depend on it being able to develop these technologies for human applications. These are emerging technologies with, as yet, limited human applications. The Company cannot guarantee that it will be able to develop its stem cell technologies or that such development will result in products or services with any significant commercial utility. The Company anticipates that the commercial sale of such products or services, and royalty/licensing fees related to its technology, will be the Company’s primary sources of revenues. If the Company is unable to develop its technologies, investors will likely lose their entire investment.

Inability to complete pre-clinical and clinical testing and trials will impair the viability of the Company.

The Company is in its development stage and has not yet applied for approval by the FDA to conduct clinical trials. Even if the Company successfully files an Investigational New Drug Application (IND) and receives approval from the FDA to commence trials, the outcome of pre-clinical, clinical and product testing of the Company's products is uncertain, and if the Company is unable to satisfactorily complete such testing, or if such testing yields unsatisfactory results, the Company will be unable to commercially produce its proposed products. Before obtaining regulatory approvals for the commercial sale of any potential human products, the Company's products will be subjected to extensive pre-clinical and clinical testing to demonstrate their safety and efficacy in humans. No assurances can be given that the clinical trials of the Company's products, or those of licensees or collaborators, will demonstrate the safety and efficacy of such products at all, or to the extent necessary to obtain appropriate regulatory approvals, or that the testing of such products will be completed in a timely manner, if at all, or without significant increases in costs,

program delays or both, all of which could harm the Company's ability to generate revenues. In addition, the Company's proposed products may not prove to be more effective for treating disease or injury than current therapies. Accordingly, the Company may have to delay or abandon efforts to research, develop or obtain regulatory approval to market its proposed products. Many companies involved in biotechnology research and development have suffered significant setbacks in advanced clinical trials, even after promising results in earlier trials. The failure to adequately demonstrate the safety and efficacy of a therapeutic product under development could delay or prevent regulatory approval of the product and could harm the Company's ability to generate revenues, operate profitably or produce any return on an investment in the Company.

The Company's additional financing requirements could result in dilution to existing stockholders.

At present, the Company is not able to finance it operations through the sales of its product. Accordingly, the Company will be required to secure additional financing. If the Company is able to obtain such additional financings such financing may be dilutive to current shareholders. The Company has the authority to issue additional shares of common stock and preferred stock, as well as additional classes or series of ownership interests or debt obligations which may be convertible into any one or more classes or series of ownership interests. The Company is authorized to issue 75,000,000 shares of common stock and 7,000,000 shares of preferred stock. Such securities may be issued without the approval or other consent of the Company's stockholders.

Risks Relating to Intellectual Property and Government Regulation

The Company may not be able to withstand challenges to its intellectual property rights, such as patents, should contests be initiated in court or at the U.S Patent and Trademark Office.

The Company relies on its intellectual property, including its issued and applied for patents, as the foundation of its business. The intellectual property rights of the Company may come under challenge, and no assurances can be given that, even though issued, the Company's current and potential future patents will survive claims commencing in the court system alleging invalidity or infringement on other patents. For example, in 2005, the Company's neural stem cell technology was challenged in the U.S. Patent and Trademark Office by a competitor. Although the Company prevailed in this particular matter upon re-examination by the patent office, these cases are complex, lengthy and expensive, and could potentially be adjudicated adversely to the Company, removing the protection afforded by an issued patent. The viability of the Company's business would suffer if such patent protection were limited or eliminated. Moreover, the costs associated with defending or settling intellectual property claims would likely have a material adverse effect on the Company.

The Company may not be able to adequately protect against piracy of intellectual property in foreign jurisdictions.

Considerable research in the area of stem cell therapies is being performed in countries outside of the United States, and a number of the Company's competitors are located in those countries. The laws protecting intellectual property in some of those countries may not provide protection for the Company's trade secrets and intellectual property adequate to prevent its competitors from misappropriating the Company's trade secrets or intellectual property. If the Company's trade secrets or intellectual property are misappropriated in those countries, the Company may be without adequate remedies to address the issue.

The Company's products may not receive FDA approval, which would prevent the Company from commercially marketing its products and producing revenues.

The FDA and comparable government agencies in foreign countries impose substantial regulations on the manufacture and marketing of pharmaceutical products through lengthy and detailed laboratory, pre-clinical and clinical testing procedures, sampling activities and other costly and time-consuming procedures. Satisfaction of these regulations typically takes several years or more and varies substantially based upon the type, complexity and novelty of the proposed product. The Company cannot yet accurately predict when it might first submit any Investigational New Drug, or IND, application to the FDA, or whether any such IND application would be granted on a timely basis, if at all, nor can the Company assure you that it will successfully complete any clinical trials in connection with any such IND application. Further, the Company cannot yet predict when it might first submit any product license application for FDA approval or whether any such product license application would be granted on a timely basis, if at all. As a result, the Company cannot assure you that FDA approvals for any products developed by it will be granted on a timely basis, if at all. Any such delay in obtaining, or failure to obtain, such approvals could have a material adverse effect on the marketing of the Company's products and its ability to generate product revenue.

Because the Company or its collaborators must obtain regulatory approval to market its products in the United States and other countries, the Company cannot predict whether or when it will be permitted to commercialize its products.

Federal, state and local governments and agencies in the United States (including the FDA) and governments in other countries have significant regulations in place that govern many of the Company's activities. The Company is or may become subject to various federal, state and local laws, regulations and recommendations relating to safe working conditions, laboratory and manufacturing practices, the experimental use of animals and the use and disposal of hazardous or potentially hazardous substances used in connection with its research and development work. The

preclinical testing and clinical trials of the products that the Company or its collaborators develop are subject to extensive government regulation that may prevent the Company from creating commercially viable products from its discoveries. In addition, the sale by the Company or its collaborators of any commercially viable product will be subject to government regulation from several standpoints, including manufacturing, advertising and promoting, selling and marketing, labeling, and distributing. If, and to the extent that, the Company is unable to comply with these regulations, its ability to earn revenues will be materially and negatively impacted.

Risks Relating to Competition

The Company's competition includes both public and private organizations and collaborations among academic institutions and large pharmaceutical companies, most of which have significantly greater experience and financial resources than the Company does.

The biotechnology industry is characterized by intense competition. The Company competes against numerous companies, many of which have substantially greater financial and other resources than it has. Several such enterprises have initiated cell therapy research programs and/or efforts to treat the same diseases targeted by the Company. Companies such as Geron Corporation, Genzyme Corporation, StemCells, Inc., Advanced Cell Technology, Inc., Aastrom Biosciences, Inc. and Viacell, Inc., as well as others, have substantially greater resources and experience in the Company's fields than it does, and are well situated to compete with us effectively. Of course, any of the world's largest pharmaceutical companies represent a significant actual or potential competitor with vastly greater resources than the Company's.

Risks Relating to the Company's Reliance on Third Parties

The Company's outsource model depends on collaborators, non-employee consultants, research institutions, and scientific contractors to help it develop and test its proposed products. Our ability to develop such relationships could impair or delay our ability to develop products.

The Company's strategy for the development, clinical testing and commercialization of its proposed products is based on an outsource model. This model requires that the Company enter into collaborations with corporate partners, research institutions, scientific contractors and licensors, licensees and others in order to further develop its technology and develop products. In the event the Company is not able to enter into such relationships in the future, our: ability to develop products may be seriously hindered; or we would be required to expend considerable money and research to bring such research and development functions in house. Either outcome could result in our inability to develop a commercially feasible product or in the need for substantially more working capital to complete the research in-house. Also, we are currently dependent on collaborators for a substantial portion of our research and development. Although our collaborative agreements do not impose any duties or obligations on us other than the licensing of our technology, the failure of any of these collaborations may hinder our ability to develop products in a timely fashion. By way of example, our collaboration with John Hopkins University, School of Medicine yielded findings that contributed to our patent application entitled Transplantation of Human Cells for Treatment of Neurological Disorder. Had the collaboration not have existed, our ability to apply for such patent would have been greatly hindered. As we are under no financial obligation to provide additional funding under any of our collaborations, our primary risk is that no results are derived from the research.

We intend to rely upon the third-party FDA-approved manufacturers for our stem cells. Should these manufacturers fail to perform as expected, we will need to develop or procure other manufacturing sources, which would cause delays or interruptions in our product supply and result in the loss of significant sales and customers.

We currently have no internal manufacturing capability, and will rely extensively on FDA-approved licensees, strategic partners or third party contract manufacturers or suppliers. We current have an agreement with Charles River Laboratories for the manufacturing and storage of our cells. The agreement is a paid for services agreement and does not require us to purchase a minimum amount of cells. In the event Charles River Laboratories fails to provide suitable cells, we would be forced to either manufacture the cells ourselves or seek other third party vendors. Should we be forced to manufacture our stem cells, we cannot give you any assurance that we will be able to develop an internal manufacturing capability or procure third party suppliers. In the event we must seek alternative third party suppliers, they may require us to purchase a minimum amount of cells, could be significantly more expensive than our current supplier, or could require other unfavorable terms. Any such event would materially impact our prospects and could delay our development. Moreover, we cannot give you any assurance that any contract manufacturers or suppliers we procure will be able to supply our product in a timely or cost effective manner or in accordance with applicable regulatory requirements or our specifications

General Risks Relating to the Company's Business

The Company may be subject to litigation that will be costly to defend or pursue and uncertain in its outcome.

The Company's business may bring it into conflict with its licensees, licensors, or others with whom it has contractual or other business relationships or with its competitors or others whose interests differ from the Company's. If the Company is unable to resolve those conflicts on terms that are satisfactory to all parties, the Company may become involved in litigation brought by or against it. That litigation is likely to be expensive and may require a significant amount of management's time and attention, at the expense of other aspects of the Company's business. The outcome of litigation is always uncertain, and in some cases could include judgments against us that require the Company to pay damages, enjoin it from certain activities, or otherwise affect its legal or contractual rights, which could have a

significant adverse effect on its business.

The Company may not be able to obtain third-party patient reimbursement or favorable product pricing, which would reduce its ability to operate profitably.

The Company's ability to successfully commercialize certain of its proposed products in the human therapeutic field may depend to a significant degree on patient reimbursement of the costs of such products and related treatments at acceptable levels from government authorities, private health insurers and other organizations, such as health maintenance organizations. The Company cannot assure you that reimbursement in the United States or foreign countries will be available for any products it may develop or, if available, will not be decreased in the future, or that reimbursement amounts will not reduce the demand for, or the price of, its products with a consequent harm to the Company's business. The Company cannot predict what additional regulation or legislation relating to the health care industry or third-party coverage and reimbursement may be enacted in the future or what effect such regulation or legislation may have on the Company's business. If additional regulations are overly onerous or expensive or if health care related legislation makes its business more expensive or burdensome than originally anticipated, the Company may be forced to significantly downsize its business plans or completely abandon its business model.

The Company's products may be expensive to manufacture, and they may not be profitable if the Company is unable to control the costs to manufacture them.

The Company's products may be significantly more expensive to manufacture than most other drugs currently on the market today due to a fewer number of potential manufactures, greater level of needed expertise, and other general market conditions affecting manufacturers of stem cell based products. The Company would hope to substantially reduce manufacturing costs through process improvements, development of new science, increases in manufacturing scale and outsourcing to experienced manufacturers. If the Company is not able to make these, or other improvements, and depending on the pricing of the product, its profit margins may be significantly less than that of most drugs on the market today. In addition, the Company may not be able to charge a high enough price for any cell therapy product it develops, even if they are safe and effective, to make a profit. If the Company is unable to realize significant profits from its potential product candidates, its business would be materially harmed.

In order to secure market share and generate revenues, the Company's proposed products must be accepted by the health care community, which can be very slow to adopt or unreceptive to new technologies and products.

The Company's proposed products and those developed by its collaborative partners, if approved for marketing, may not achieve market acceptance since hospitals, physicians, patients or the medical community in general may decide not to accept and utilize these products. The products that the Company is attempting to develop represents substantial departures from established treatment methods and will compete with a number of more conventional drugs and therapies manufactured and marketed by major pharmaceutical companies. The degree of market acceptance of any of the Company's developed products will depend on a number of factors, including:

- the Company's establishment and demonstration to the medical community of the clinical efficacy and safety of its proposed products;
- the Company's ability to create products that are superior to alternatives currently on the market;
- the Company's ability to establish in the medical community the potential advantage of its treatments over alternative treatment methods; and
- reimbursement policies of government and third-party payors.

If the health care community does not accept the Company's products for any of the foregoing reasons, or for any other reason, the Company's business would be materially harmed.

We depend on two key employees for our continued operations and future success. A loss of either employee could significantly hinder our ability to move forward with our business plan.

The loss of either of our key executive officers, Richard Garr and Karl Johe, would be significantly detrimental to us.

- We currently *do not* maintain “key person” life insurance on the life of Mr. Garr. As a result, the Company will not receive any compensation upon the death or incapacity of this key individual;
- We currently *do* maintain “key person” line insurance on the life of Mr. Johe. As a result, the Company will receive approximately $1,000,000 in the event of his death or incapacity.

In addition, the Company's anticipated growth and expansion into areas and activities requiring additional expertise, such as clinical testing, regulatory compliance, manufacturing and marketing, will require the addition of new management personnel and the development of additional expertise by existing management personnel. There is

intense competition for qualified personnel in the areas of the Company's present and planned activities, and there can be no assurance that the Company will be able to continue to attract and retain the qualified personnel necessary for the development of its business. The failure to attract and retain such personnel or to develop such expertise would adversely affect the Company's business.

The Company has entered into long-term contracts with key personnel and stockholders, with significant anti-termination provisions, which could make future changes in management difficult or expensive.

Messrs. Garr and Johe have entered into seven (7) year employment agreements with the Company which expire on November 1, 2012 and which include termination provisions stating that if either employee is terminated for any reason other than a voluntary resignation, then all compensation due to such employee under the terms of the respective agreement shall become due and payable immediately. These provisions will make the replacement of either of these employees very costly to the Company, and could cause difficulty in effecting a change in control of the Company. Termination prior to full term on the contracts would cost the Company as much as $1,700,000 per contract, and immediate vesting of all outstanding options (1,200,000 shares each).

The Company has no product liability insurance, which may leave it vulnerable to future claims that the Company will be unable to satisfy.

The testing, manufacturing, marketing and sale of human therapeutic products entails an inherent risk of product liability claims, and the Company cannot assure you that substantial product liability claims will not be asserted against it. The Company has no product liability insurance. In the event the Company is forced to expend significant funds on defending product liability actions, and in the event those funds come from operating capital, the Company will be required to reduce its business activities, which could lead to significant losses.

The Company cannot assure you that adequate insurance coverage will be available in the future on acceptable terms, if at all, or that, if available, the Company will be able to maintain any such insurance at sufficient levels of coverage or that any such insurance will provide adequate protection against potential liabilities.

The Company has limited director and officer insurance and commercial insurance policies. Any significant claim would have a material adverse effect on its business, financial condition and results of operations. Insurance availability, coverage terms and pricing continue to vary with market conditions. The Company endeavors to obtain appropriate insurance coverage for insurable risks that it identifies, however, the Company may fail to correctly anticipate or quantify insurable risks, may not be able to obtain appropriate insurance coverage, and insurers may not respond as the Company intends to cover insurable events that may occur. The Company has observed rapidly changing conditions in the insurance markets relating to nearly all areas of traditional corporate insurance. Such conditions may result in higher premium costs, higher policy deductibles, and lower coverage limits. For some risks, the Company may not have or maintain insurance coverage because of cost or availability.

Risks Relating to the Company's Common Stock

Our common shares are sporadically or “thinly” traded, so you may be unable to sell at or near ask prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares

Our common shares have historically been sporadically or “thinly” traded, meaning that the number of persons interested in purchasing our common shares at or near ask prices at any given time may be relatively small or non-existent. This situation is attributable to a number of factors, including the fact that we are a small company which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community that generate or influence sales volume, and that even if we came to the attention of such persons, they tend to be risk-averse and would be reluctant to follow an unproven development stage company such as ours or purchase or recommend the purchase of our shares until such time as we became more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous sales without a material reduction in share price. We cannot give you any assurance that a broader or more active public trading market for our common shares will develop or be sustained, or that current

trading levels will be sustained. Due to these conditions, we can give you no assurance that you will be able to sell your shares at or near ask prices or at all if you need money or otherwise desire to liquidate your shares.

The market price for our common shares is particularly volatile given our status as a relatively unknown company with a small and thinly-traded public float, limited operating history and lack of revenues or profits to date could lead to wide fluctuations in our share price. The price at which you purchase our common shares may not be indicative of the price that will prevail in the trading market. You may be unable to sell your common shares at or above your purchase price, which may result in substantial losses to you. The volatility in our common share price may subject us to securities litigation.

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer. The volatility in our share price is attributable to a number of factors. First, as noted above, our common shares are sporadically or thinly traded. As a consequence of this lack of liquidity, the trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of our common shares are sold on the market without commensurate demand, as compared to a seasoned issuer which could better absorb those sales without a material reduction in share price. Secondly, we are a speculative or "risky" investment due to our limited operating history and lack of significant revenues to date, and uncertainty of future market acceptance for our products if successfully developed. As a consequence of this enhanced risk, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a seasoned issuer. Additionally, in the past, plaintiffs have often initiated securities class action litigation against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management's attention and resources.

The following factors may add to the volatility in the price of our common shares: actual or anticipated variations in our quarterly or annual operating results; government regulations, announcements of significant acquisitions, strategic partnerships or joint ventures; our capital commitments; and additions or departures of our key personnel. Many of these factors are beyond our control and may decrease the market price of our common shares, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common shares will sustain their current market prices, or as to what effect that the sale of shares or the availability of common shares for sale at any time will have on the prevailing market price.

The Company faces risks related to compliance with corporate governance laws and financial reporting standards.

The Sarbanes-Oxley Act of 2002, as well as related new rules and regulations implemented by the Securities and Exchange Commission and the Public Company Accounting Oversight Board, require changes in the corporate governance practices and financial reporting standards for public companies. These new laws, rules and regulations, including compliance with Section 404 of the Sarbanes-Oxley Act of 2002 relating to internal control over financial reporting ("Section 404"), will materially increase the Company's legal and financial compliance costs and made some activities more time-consuming and more burdensome. Starting in 2007, Section 404 of the Sarbanes-Oxley Act of 2002 will require that the Company's management assess the Company's internal control over financial reporting annually and include a report on its assessment in its filings with the SEC.

The Company has identified significant weaknesses with regard to its financial control procedures. We have not remediated material weaknesses and significant deficiencies in our internal control over financing reporting.

We have made improvements to our internal control procedures, nevertheless, we continue to have material weaknesses and significant deficiencies in our internal control over financial reporting. We have hired additional personnel and are attempting to address these weaknesses and deficiencies, but until these are resolved, there is a greater risk of material error with respect to our financial reporting. In addition, costs of compliance with Sarbanes-Oxley and the level of effort required to remediate these material weaknesses may materially impact our results of operations, as well as distract management and employees from performing their regular activities.

While we have reviewed the design effectiveness of our internal controls over the accuracy of our financial statements, we have not tested the operating effectiveness of our internal controls over financing reporting. In the event the controls are not operating as designed, the risk exists that the financial statements are materially misstated.

As further explained in the section of this report entitled "Controls and Procedures", a review of the process level controls was completed during the year, resulting in significant changes, including the outsourcing of the majority of the accounting and financial reporting functions. New controls and procedures were created and most were implemented. However there was not sufficient time to completely test these new process level controls. Management believes, assuming operational effectiveness, the existing controls provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Additionally, a review of entity-level controls was completed by management, and based on management's evaluation of the control environment; the size of the company; and the use of a third-party for the majority of financial and accounting activities; management considers the design of the entity-level controls to be sufficient, although the operational effectiveness has not been completely tested.

The Company does not intend to pay cash dividends on its common stock in the foreseeable future.

Any payment of cash dividends will depend upon the Company's financial condition, results of operations, capital requirements and other factors and will be at the discretion of the Board of Directors. The Company does not anticipate paying cash dividends on its common stock in the foreseeable future. Furthermore, the Company may incur additional indebtedness that may severely restrict or prohibit the payment of dividends.

Our issuance of additional common shares or preferred shares, or options or warrants to purchase those shares, could dilute your proportionate ownership and voting rights and negatively impact the value of your investment in our common shares as the result of preferential voting rights or veto powers, dividend rights, disproportionate rights to appoint directors to our board, conversion rights, redemption rights and liquidation provisions granted to the preferred shareholders, including the grant of rights that could discourage or prevent the distribution of dividends to you, or prevent the sale of our assets or a potential takeover of our company.

We are entitled under our certificate of incorporation to issue up to 75,000,000 common and 7,000,000 "blank check" preferred shares. As of December 31, 2007, we have issued and outstanding 31,410,566 common shares, 14,359,174 common shares reserved for issuance upon the exercise of current outstanding options and warrants, 949,371 common shares reserved for issuances of additional grants under our 2005 incentive stock plan, and 6,150,000 shares reserved for issuance of grants under our 2007 stock plan. Accordingly, we will be entitled to issue up to 22,130,919 additional common shares and 7,000,000 additional preferred shares. Our board may generally issue those common and preferred shares, or options or warrants to purchase those shares, without further approval by our shareholders based upon such factors as our board of directors may deem relevant at that time. Any preferred shares we may issue shall have such rights, preferences, privileges and restrictions as may be designated from time-to-time by our board, including preferential dividend rights, voting rights, conversion rights, redemption rights and liquidation provisions. It is likely that we will be required to issue a large amount of additional securities to raise capital to further our development and marketing plans. It is also likely that we will be required to issue a large amount of additional securities to directors, officers, employees and consultants as compensatory grants in connection with their services, both in the form of stand-alone grants or under our various stock plans. We cannot give you any assurance that we will not issue additional common or preferred shares, or options or warrants to purchase those shares, under circumstances we may deem appropriate at the time.

OUR BUSINESS

We are a biotechnology company focused on developing and commercializing human neural stem cell technology in the emerging field of regenerative medicine.

Our History

We were incorporated in 1997 in the state of Maryland and re-incorporated in the state of Delaware in 2001. From 1997 until 2003, our research focused on: *Genomics,* which is the study of genes and their functions; *Drug Discovery,* which consists of the identification of molecules with desired biological effects that have promise as new therapeutic drugs; and *Cell Therapy,* which consists of treatments in which cells are administered to patients in order to repair damaged or depleted tissues.

In 2001, we were paid a licensing fee of $7.5 million by Gene Logic, Inc., payable over three years, to create a database using our technology. Also, in 2001, the Company received a Defense Department contract to do drug screening using the cells derived from its technology in the amount of $2.5 million over 18 months. Finally, during this period, we pursued our own research into transplanting cells derived from our technology to cure disease. We reached a high of roughly 50 employees in early 2000, mostly involved in the infrastructure involved with the Gene Logic/genomics and drug discovery programs.

In late 2000 and early 2001, as a result of the decline in biotech funding markets and the accompanying devaluation of the genomics industry, our genomics program was no longer commercially viable. Additionally, in late 2002, the Department of Defense cancelled the program which funded our drug discover efforts. As a result, by the end of 2003, the Company made the strategic decision to lay off its employees involved in the genomic and drug discovery programs and focus entirely on transplantation of its neural stem cells to treat diseases in patients.

The Company spent 2004 restructuring its capitalization and creating an “outsourced” model of product development by having the research conducted at various universities and research labs and having all other functions outsourced. In November of 2004 we completed a ten-for-three reverse stock split.

In 2005, the Company continued to operate under this model, with all accounting, legal, facility, manufacturing, transplantation experimentation and regulatory functions outsourced, under the supervision of Richard Garr, the Company's President and Chief Executive Officer, and Dr. Johe, the Company's Chairman and Chief Scientific Officer.

Overview

In 2004, we refocused our research efforts to concentrate primarily in the field of Cell Therapy. Specifically, we are focused on the development and commercialization of treatments based on transplanting human neural stem cells.

We have developed and maintain a portfolio of patents and patent applications that form the proprietary base for our research and development efforts in the area of neural stem cell research, and related technologies. We believe our technology base, in combination with our know-how, and collaborative projects with major research institutions provides a competitive advantage and will facilitate the successful development and commercialization of products for use in treatment of a wide array of neurodegenerative conditions and in regenerative repair of acute disease.

This is a young and emerging field. There can be no assurances that our intellectual property portfolio will ultimately produce viable commercialized products and processes. Even if we are able to produce a commercially viable product, there are strong competitors in this field and our product may not be able to successfully compete against them.

All of our research efforts to date are at the level of basic research or in the pre-clinical stage of development. We are focused on leveraging our key assets, including our intellectual property, our scientific team, our facilities and our capital, to accelerate the advancement of our stem cell technologies. In addition, we are pursuing strategic collaborations with members of academia. We are currently headquartered in Rockville, Maryland.

The Field of Regenerative Medicine

The emerging field of treatment called "regenerative medicine" or "cell therapy" refers to treatments that are founded on the concept of producing new cells to replace malfunctioning or dead cells as a vehicle to treat disease and injury. Many significant and currently untreatable human diseases arise from the loss or malfunction of specific cell types in the body. Our focus is the development of effective methods to generate replacement cells from neural stem cells. We believe that replacing damaged or malfunctioning or dead neural cells with fully functional ones may be a useful therapeutic strategy in treating many diseases and conditions of the central nervous system (CNS) including: Alzheimer's disease, Parkinson's disease, Multiple Sclerosis, Amyotrophic Lateral Sclerosis (ALS, or Lou Gehrig's Disease), depression, and injuries to the spinal cord.

Stem Cell Therapy Background

Cells maintain normal physiological function in healthy individuals by secreting or metabolizing substances, such as sugars, amino acids, neurotransmitters and hormones, which are essential to life. When cells are damaged or destroyed, they no longer produce, metabolize or accurately regulate those substances. Cell loss or impaired cellular functions are leading causes of degenerative diseases, and some of the specific substances or proteins that are deficient in some of these diseases have been identified. Although administering these substances or proteins has some advantages over traditional pharmaceuticals, such as specificity, there is no existing technology that can deliver them precisely to the sites of action, under the appropriate physiological regulation, in the appropriate quantity, nor for the duration required to cure the degenerative condition. Cells, however, may do all this naturally. Thus, where failing cells are no longer producing needed substances or proteins or where there has been irreversible tissue damage or organ failure, transplantation of stem or progenitor cells may enable the generation of new functional cells, thus potentially restoring organ function and the patient's health.

Stem cells have two defining characteristics: (i) they produce all the kinds of mature cells making up the particular organ; and (ii) they self renew — that is, some of the cells developed from stem cells are themselves new stem cells, thus permitting the process to continue again and again. Stem cells are known to exist for a number of systems of the human body, including the blood and immune system, the central and peripheral nervous systems (including the brain), the skin, bone, and even hair. They are thought to exist for many others, including the liver and pancreas endocrine systems, gut, muscle, and heart. Stem cells are responsible for organ regeneration during normal cell replacement and, to a greater or lesser extent, after injury.

Stem cells are rare and only available in limited supply, whether from the patients themselves or from donors. Also, cells can often be obtained only through significant surgical procedures. Therefore, in order to develop stem cell

therapeutics, three key challenges must be overcome: (i) identifying the stem or progenitor cells of a particular organ and testing them for therapeutic potential; (ii) creating processes to enable use of these rare cells in clinical applications, such as expanding and banking them in sufficient quantities to transplant into multiple patients; and (iii) demonstrating the safety and efficacy of these potential therapeutics in human clinical trials.

The Potential of Our Tissue-Derived Stem Cell-Based Therapy

We believe that, if successfully developed, stem cell therapeutics have the potential to provide a broad therapeutic approach comparable in importance to traditional pharmaceuticals and genetically engineered biologics. With respect to the human neural stem cells we have developed proprietary and reproducible processes to identify, isolate, expand, purify[1] and control the cells differentiation in mature functioning human neurons[2] and glia[3] and bank human neural stem cells from brain tissue. Because the cells are purified normal human neural stem cells, they may be better suited for transplantation and may provide a safer and more effective alternative to therapies that are based on cells derived from cancer cells, animal derived cells or are an unpurified mix of many different cell types.

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[1] **Purification** of our cells is the process whereby we separate "raw" donor tissue into our cells. During the process, we monitor the division of the neural stems cells and remove or "weed out" any cells which have failed to divide after a predetermined period of time. We repeat this process 3 to 4 times until the cells remaining have been "purified" in our estimation.

[2] **Neurons** are a major class of cells in the nervous system. Neurons are sometimes called nerve cells, though this term is technically imprecise since many neurons do not form nerves. In vertebrates, they are found in the brain, the spinal cord and in the nerves and ganglia of the peripheral nervous system, and their primary role is to process and transmit neural information. One important characteristic of neurons is that they have excitable membranes which allow them to generate and propagate electrical signals.

[3] **Glia** cells, commonly called neuroglia or simply glia, are non-neuronal cells that provide support and nutrition, maintain homeostasis, form myelin, and participate in signal transmission in the nervous system. In the human brain, glia are estimated to outnumber neurons by as much as 50 to 1.

Potential Markets

We believe that, if successfully developed, neural stem cell-based therapies have the potential to treat a broad range of diseases and injuries of the CNS. We believe the potential applications of our technologies given our current research focus includes developing neural cell therapies to treat Parkinson's disease, Amyotrophic Lateral Sclerosis (ALS), and injuries to the spinal cord.

We believe the potential markets for regenerative medicine based on our neural stem cell therapies are large. The table below summarizes the potential United States patient populations which we believe may be amenable to neural cell transplantation and represent potential target markets for our products:

POTENTIAL U.S. PATIENT POPULATIONS
FOR NEURAL CELL-BASED THERAPIES

Medical Condition	**Number of Patients** *
Parkinson's Disease	1 million
Spinal-cord injuries	0.25 million
Amyotrophic Lateral Sclerosis	0.03 million

*These estimates are based on the most current patient estimates published by the following organizations as of April 2006; the Parkinson's Disease Foundation, the Parkinson's Action Network, the Foundation for Spinal Cord Injury Prevention, Care and Cure, and the Amyotrophic Lateral Sclerosis Association.

Our Technology

Our technology is the ability to isolate human neural stem cells from most areas of the developing human brain and spinal cord and our technology includes the ability to grow them into physiologically relevant human neurons of all types. Our two issued core patents entitled *Isolation, Propagation, and Directed Differentiation of Stem Cell from Embryonic and Adult Central Nervous System of Mammals* and *In Vitro Generation of Differentiated Neurons from Cultures of Mammalian Multi-potential CNS Stem Cell* contain claims which cover the process of deriving the cells and the cells created from such process.

Our technology is the ability to isolate human neural stem cells from most areas of the developing human brain and spinal cord and to grow them into physiologically relevant human neurons of all types. Our core patents entitled:

- *Isolation, Propagation, and Directed Differentiation of Stem Cell from Embryonic and Adult Central Nervous System of Mammal; and*

- *In Vitro Generation of Differentiated Neurons from Cultures of Mammalian Multi-potential CNS Stem Cell*

contain claims which cover the details of this process and the culture of cells created. What differentiates our stem cell technology from others is that our patented processes do not require us to “push” the cells towards a certain fate by adding specific growth factors. Our cells actually “become” the type of cell they are fated to be. We believe this process and the resulting cells create a technology platform that allows for the efficient isolation and ability to produce, in commercially reasonable quantities, neural stem cells from the human brain and spinal cord.

Our technology allows for cells to grow in cultured dishes, also known as *in vitro* growth, without mutations or other adverse events that would compromise their usefulness. We believe this provides for two distinct advantages:

- First, the growth or expansion of the cells in vitro occurs while the cells are still in their "stem cell" or blank state which allows for the creation of commercially reasonable quantities of neural stem cells. Once a sufficient number of blank cells have been grown, our technology allows us to program or differentiate the cells into either neurons or glia; and

- Secondly, we have the ability to sample the cells while still *in vitro* in order to confirm that the cells are differentiating in the desired cell type.

Our technology also has ancillary uses with respect to drug development. Our ability to grow and differentiate neural cells *in vitro* , gives us the ability to analyze the potential biological effects of molecules on these cells. This has resulted in the identification of a group of small molecule compounds with the potential to enhance the survival of the endogenous cells residing in the hippocampus[4] region on the brain.

Business Strategy

We are seeking to develop and commercialize stem cell therapeutics to treat, and possibly cure, a range of human diseases. Our strategy has been to be the first to identify, isolate and patent important human neural stem and progenitor cells derived from human tissue with therapeutic and commercial importance; to develop techniques which enable the expansion and banking of those cells; and then to take them into clinical development as transplantable therapeutics.

A central element of our business strategy is to obtain patent protection for the compositions, processes and uses of these multiple types of cells that would make the commercial development of neural stem cell therapeutics financially feasible. We have obtained rights to certain inventions relating to stem cells and progenitor through our own research and from academic collaborators. We expect to continue to expand our search for, and to seek to acquire rights from third parties where relevant relating to, neural stem and progenitor cells, and to further develop our intellectual property positions with respect to these cells in-house and through research at commercial and scholarly institutions.

Our Grants

In August of 2005 we were awarded a two year, $500,000 Small Business Innovation Research non competitive grant from the National Institute of Health (NIH), to further our research with regard to depression. Under the terms of the grant, we submit an annual budget of $250,000 to be used for the purpose of testing our compounds in various models of depression. Any changes or modifications to the submitted budget must be approved by case manager. After we incur expenses, we submit those expenses to the NIH for reimbursement. The grant covers salary, wages, personnel costs, supplies, travel costs, and consortium/contractual costs with regard to the research.

The only conditions to full funding of the grant are that we use the proceeds to further or research regarding depression and that we use the funds as budgeted. Notwithstanding, in the event of a budget variance, we can seek approval of such variance from the case manager and such variance would be funded provided the aggregate funding does not exceed the amount of the grant. We received an aggregate of $532,814 pursuant to this grant. All work has been completed.

Our Research and Programs

We have devoted substantial resources to our research programs to isolate and develop a series of neural stem cell banks that we believe can serve as a basis for therapeutic products. Our efforts to date have been directed at methods

to identify, isolate and culture large varieties of stem cells of the human nervous system, and to develop therapies utilizing these stem cells. This research is conducted both internally and through the use of third party laboratory consulting companies under our direct supervision.

In addition to research which we conduct internally or under our direct supervision, we conduct research and development through research collaborations. These collaborations, or programs, are undertaken with both commercial and scholarly institutes pursuant to the terms and conditions of our standard material transfer agreement.

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[4] The hippocampus region of the brain plays a part in memory and navigation. We believe that this ability to enhance the survival rate of the endogenous cells may result in the development of drugs or compounds that could be used to treat a variety of central nervous system diseases.

The material terms of our standard material transfer agreement requires us to provide our research partner or collaborator with access to our technology or "research materials," which are comprised of our neurological stem cells, for a specific pre-defined purpose. As part of the agreement, we agree to provide sufficient research materials and technical assistance to accomplish the purpose of the program. The determination of sufficiency is determined at our sole discretion. As part of these agreements, we are entitled to certain reporting rights and the right to have patentable discoveries presented to us prior to publication in order for us to file applicable patents. In the event we choose to file a patent, we will either be responsible for all filing and maintenance fees or we will split the fees with our research partner depending on the type of patent to be filed. The agreements also provide for us to receive a fully paid up, royalty free, non-exclusive license to any inventions made by our partner with respect to our technologies and their interest in any intellectual property jointly developed and first right to negotiate an exclusive license. The agreements also provide confidentiality between the parties. Generally each party is responsible for its own expense, there are no milestone payment or royalty payment requirements and the duration of these agreements is for a three year term which can be terminated by either party with 90 days written notice.

The only agreement which varies from our general terms is the agreement pertaining to our work with the University of California San Diego. In addition to the general terms, the agreement also required us to provide a grant of $13,680, which we have already paid. We have no other payment obligations under any of our current material transfer agreements unless the studies result in findings which we choose to patent. We will then incur the costs associated with the filing and maintenance of such patent.

Examples of such projects include:

University of California San Diego, San Diego, CA : In May of 2002, we initiated a research project with the University of California in San Diego for the purpose of researching the applicability of our technology to the treatment of Ischemic Spastic Paraplegia and traumatic spinal cord injury. The project is ongoing. The research yielded findings that contributed to our filing of patent entitled Transplantation of Human Cells for Treatment of Neurological Disorders.

John Hopkins University, School of Medicine, Baltimore, MD : In March of 2001 we initiated a research project with John Hopkins University, School of Medicine for the purpose of researching the applicability of our technology to the treatment of Amyotrophic Lateral Sclerosis and traumatic spinal cord injury. The project is ongoing. The research yielded findings that contributed to our filing of patent entitled Transplantation of Human Cells for Treatment of Neurological Disorders.

University of Southern Florida, Tampa, FL : In September of 2005 we initiated a research project with the University of Southern Florida for the purpose of researching the applicability of our technology to the treatment of Parkinson's Disease. The project is ongoing.

University of Central Florida, Orlando, FL : In March of 2006 we initiated a research project with the University of Central Florida for the purpose of researching the applicability of our technology to the treatment of spinal cord injuries. The project is ongoing.

University of Pennsylvania whereby we have entered into an agreement with the university to assist us in developing "A Feasibility and Safety Study of human Spinal Stem Cell Transplantation for the Treatment of Ischemic Spastic Paraplegia Due to Spinal Cord Ischemia.

Albany Molecular Research, Inc., whereby we have contracted with Albany to assist us in manufacturing small molecule neurogenises treatment using "Good Manufacturing Practice procedures.

Ricera Biosciences, LLC, whereby we have entered into an agreement whereby Ricera will assist us in performing toxicity tests on small molecule neurgenisis treatments.

The forgoing is not exhaustive and is only meant to provide a brief overview of the types of projects we are undertaking with third parties.

Manufacturing

We currently manufacture our cells both in-house and on an outsource basis. We manufacture cells in-house which are not required to meet stringent FDA requirements. We use these cells in our research grant and collaborative programs. We outsource all the manufacturing and storage of our stem cells to be used in pre-clinical works, and which are accordingly subject to the higher FDA requirements, to Charles River Laboratories, Inc., of Wilmington, Massachusetts. The Charles River facility has the capacity to be used for cell processing under the FDA determined Good Manufacturing Practices (GMP) in quantities sufficient for our current pre-trial and anticipated future clinical trial needs. We believe the facility has sufficient capacity to provide for our needs in the near to intermediate term. We have no quantity or volume commitment with Charles River Laboratories and our cells are ordered and manufactured on an as needed basis.

Products & Marketing

Because of the early stage of our programs, we have yet to identify any specific product and we have not yet addressed questions of channels of distribution and marketing of potential future products. We are however focusing our efforts on applications of our technology to diseases that affect the central nerve system.

Our Intellectual Property

Our research and development is supported by our intellectual property. We currently own or have exclusive licenses to 4 patents and 13 patent applications pending worldwide in the field of regenerative medicine and stem cell therapy.

Our success will likely depend upon our ability to preserve our proprietary technologies and operate without infringing the proprietary rights of other parties. However, we may rely on certain proprietary technologies and know-how that are not patentable. We protect our proprietary information, in part, by the use of confidentiality agreements with our employees, consultants and certain of our contractors.

When appropriate, we seek patent protection for inventions in our core technologies and in ancillary technologies that support our core technologies or which we otherwise believe will provide us with a competitive advantage. We accomplish this by filing patent applications for discoveries we make, either alone or in collaboration with scientific collaborators and strategic partners. Typically, although not always, we file patent applications both in the United States and in select international markets. In addition, we plan to obtain licenses or options to acquire licenses to patent filings from other individuals and organizations that we anticipate could be useful in advancing our research, development and commercialization initiatives and our strategic business interests.

The following table identifies the issued and pending patents we own that we believe currently support our technology platform.

Patents Pending

Number	Country	Filing Date	Issue Date	Expiration Date	Title
2257068	CA	5/7/1997	N/A	N/A	ISOLATION, PROPOGATION, AND DIRECTED DIFFERENTIATION OF STEM CELLS FROM CENTRAL NERVOUS SYSTEM OF MAMMALS
2343571	CA	9/20/1999	N/A	N/A	STABLE NEURAL STEM CELL LINES
99948396.9	EP	9/20/1999	N/A	N/A	STABLE NEURAL STEM CELL LINES
2000-574224	JP	9/20/1999	N/A	N/A	STABLE NEURAL STEM CELL LINES
10/047,352	US	1/14/2002	N/A	N/A	STABLE NEURAL STEM CELLS

3790356.4	EP	12/5/2003	N/A	N/A	METHOD FOR DISCOVERING NEUROGENIC AGENTS
10/914,460	US	8/9/2004	N/A	N/A	USE OF FUSED IMIDAZOLES, AMINOPYRIMIDINES, ISONICOTINAMIDES, AMINOMETHYL PHENOXYPIPERIDINES AND ARYLOXYPIPERIDINES TO PROMOTE AND DETECT ENDOGENOUS NEUROGENESIS
11/281,640	US	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
200580039450	CN	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
5851748.3	EP	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
2613/CHENP/2007	IN	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
183092	IL	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
2007-543219	JP	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS

10-2007-7012097	KR	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS

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Number	Country	Filing Date	Issue Date	Expiration Date	Title
1-2007-501016	PH	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
2007122507	RU	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
200703490-3	SG	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
1-2007-01216	VN	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEURODEGENERATIVE CONDITIONS
20073078	NO	11/17/2005	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS
11/852,922	US	9/10/2007	N/A	N/A	Method for Discovering Neurogenic Agents
11/932,923	US	10/31/2007	N/A	N/A	TRANSPLANTATION OF HUMAN NEURAL CELLS FOR TREATMENT OF NEUROLOGICAL DISORDERS

Patents Issued

Number	Country	Filing Date	Issue Date	Expiration Date	Title
5,753,506	US	9/25/1996	5/19/1998	9/25/2016	ISOLATION PROPAGATION AND DIRECTED DIFFERENTIATION OF STEM CELLS FROM EMBRYONIC AND ADULT CENTRAL NERVOUS SYSTEM OF MAMMALS
6,040,180	US	5/7/1997	3/21/2000	5/7/2017	IN VITRO GENERATION OF DIFFERENTIATED NEURONS FROM CULTURES OF MAMMALIAN MULTIPOTENTIAL CNS STEM CELLS
6,284,539	US	10/9/1998	9/4/2001	10/9/2018	METHOD FOR GENERATING DOPAMINERGIC CELLS DERIVED FROM NEURAL PRECURSORS
755849	AU	9/20/1999	4/3/2003	9/20/2019	STABLE NEURAL STEM CELL LINES
915968	EP	5/7/1997	7/25/2007	5/7/2017	ISOLATION, PROPOGATION, AND DIRECTED DIFFERENTIATION OF STEM CELLS FROM CENTRAL NERVOUS SYSTEM OF MAMMALS
915968	ES	5/7/1997	7/25/2007	5/7/2017	ISOLATION, PROPAGATION AND DIRECTED DIFFERENTIATION OF STEM CELLS FROM EMBRYONIC AND ADULT CENTRAL NERVOUS SYSTEM OF MAMMALS
915968	FR	5/7/1997	7/25/2007	5/7/2017	ISOLATION, PROPAGATION AND DIRECTED DIFFERENTIATION OF STEM CELLS FROM EMBRYONIC AND ADULT CENTRAL NERVOUS SYSTEM OF MAMMALS
915968	GB	5/7/1997	7/25/2007	5/7/2017	

					ISOLATION, PROPAGATION AND DIRECTED DIFFERENTIATION OF STEM CELLS FROM EMBRYONIC AND ADULT CENTRAL NERVOUS SYSTEM OF MAMMALS
915968	IE	5/7/1997	7/25/2007	5/7/2017	ISOLATION, PROPAGATION AND DIRECTED DIFFERENTIATION OF STEM CELLS FROM EMBRYONIC AND ADULT CENTRAL NERVOUS SYSTEM OF MAMMALS
915968	SE	5/7/1997	7/25/2007	5/7/2017	ISOLATION, PROPAGATION AND DIRECTED DIFFERENTIATION OF STEM CELLS FROM EMBRYONIC AND ADULT CENTRAL NERVOUS SYSTEM OF MAMMALS

We also rely upon trade-secret protection for our confidential and proprietary information and take active measures to control access to that information.

Our policy is to require our employees, consultants and significant scientific collaborators and sponsored researchers to execute confidentiality agreements upon the commencement of an employment or consulting relationship with us. These agreements generally provide that all confidential information developed or made known to the individual by us during the course of the individual's relationship with us is to be kept confidential and not disclosed to third parties except in specific circumstances. In the case of employees and consultants, the agreements generally provide that all inventions conceived by the individual in the course of rendering services to us shall be our exclusive property.

The patent positions of pharmaceutical and biotechnology companies, including ours, are uncertain and involve complex and evolving legal and factual questions. The coverage sought in a patent application can be denied or significantly reduced before or after the patent is issued. Consequently, we do not know whether any of our pending applications will result in the issuance of patents, or if any existing or future patents will provide significant protection or commercial advantage or will be circumvented by others. Since patent applications are secret until the applications are published (usually eighteen months after the earliest effective filing date), and since publication of discoveries in the scientific or patent literature often lags behind actual discoveries, we cannot be certain that we were the first to make the inventions covered by each of our pending patent applications or that we were the first to file patent applications for such inventions. There can be no assurance that patents will issue from our pending or future patent applications or, if issued, that such patents will be of commercial benefit to us, afford us adequate protection from competing products, or not be challenged or declared invalid.

In the event that a third party has also filed a patent application relating to inventions claimed in our patent applications, we may have to participate in interference proceedings declared by the United States Patent and Trademark Office to determine priority of invention, which could result in substantial uncertainties and cost for us, even if the eventual outcome is favorable to us. There can be no assurance that our patents, if issued, would be held valid by a court of competent jurisdiction.

A number of pharmaceutical, biotechnology and other companies, universities and research institutions have filed patent applications or have been issued patents relating to cell therapy, stem cells and other technologies potentially relevant to or required by our expected products. We cannot predict which, if any, of such applications will issue as patents or the claims that might be allowed.

If third party patents or patent applications contain claims infringed by our technology and such claims are ultimately determined to be valid, there can be no assurance that we would be able to obtain licenses to these patents at a reasonable cost, if at all, or be able to develop or obtain alternative non-infringing technology. If we are unable to obtain such licenses or develop or obtain alternative non-infringing technology at a reasonable cost, we may not be able to develop certain products commercially. There can be no assurance that we will not be obliged to defend ourselves in court against allegations of infringement of third party patents. Patent litigation is very expensive and could consume substantial resources and create significant uncertainties. An adverse outcome in such a suit could subject us to significant liabilities to third parties, require us to seek licenses from third parties, or require us to cease using such technology.

Competition

The biotechnology industries are characterized by rapidly evolving technology and intense competition. Our competitors include major multinational pharmaceutical companies, specialty biotechnology companies and chemical and medical products companies operating in the fields of regenerative medicine, cell therapy, tissue engineering and tissue regeneration. Many of these companies are well-established and possess technical, research and development, financial and sales and marketing resources significantly greater than ours. In addition, certain smaller biotech companies have formed strategic collaborations, partnerships and other types of joint ventures with larger, well established industry competitors that afford these companies potential research and development and commercialization advantages. Academic institutions, governmental agencies and other public and private research organizations are also conducting and financing research activities which may produce products directly competitive to those we are developing. Moreover, many of these competitors may be able to obtain patent protection, obtain FDA and other regulatory approvals and begin commercial sales of their products before we do.

In the general area of cell-based therapies, we compete with a variety of companies, most of whom are specialty biotechnology companies. Some of these, such as Geron Corporation, Genzyme Corporation, StemCells, Inc., Aastrom Biosciences, Inc. and Viacell, Inc., are well-established and have substantial technical and financial resources compared to us. However, as cell-based products are only just emerging as medical therapies, many of our direct competitors are smaller biotechnology and specialty medical products companies. These smaller companies may become significant competitors through rapid evolution of new technologies. Any of these companies could substantially strengthen their competitive position through strategic alliances or collaborative arrangements with large pharmaceutical or biotechnology companies.

The diseases and medical conditions we are targeting have no effective long-term therapies. Nevertheless, we expect that our technologies and products will compete with a variety of therapeutic products and procedures offered by major pharmaceutical companies. Many pharmaceutical and biotechnology companies are investigating new drugs and therapeutic approaches for the same purposes, which may achieve new efficacy profiles, extend the therapeutic window for such products, alter the prognosis of these diseases, or prevent their onset. We believe that our products, when and if successfully developed, will compete with these products principally on the basis of improved and extended efficacy and safety and their overall economic benefit to the health care system. Competition for any stem cell products that we may develop may be in the form of existing and new drugs, other forms of cell transplantation, surgical procedures, and gene therapy. We believe that some of our competitors are also trying to develop similar stem cell-based technologies. We expect that all of these products will compete with our potential stem cell products based on efficacy, safety, cost and intellectual property positions. We may also face competition from companies that have filed patent applications relating to the use of genetically modified cells to treat disease, disorder or injury. In the event our therapies should require the use of such genetically modified cells, we may be required to seek licenses from these competitors in order to commercialize certain of our proposed products, and such licenses may not be granted.

If we develop products that receive regulatory approval, they would then have to compete for market acceptance and market share. For certain of our potential products, an important success factor will be the timing of market introduction of competitive products. This timing will be a function of the relative speed with which we and our competitors can develop products, complete the clinical testing and approval processes, and supply commercial quantities of a product to market. These competitive products may also impact the timing of clinical testing and approval processes by limiting the number of clinical investigators and patients available to test our potential products.

Government Regulation

Regulation by governmental authorities in the United States and other countries is a significant factor in our research and development and will be a significant factor in the manufacture and marketing of our proposed products. The nature and extent to which such regulation applies to us will vary depending on the nature of any products we may

develop. We anticipate that many, if not all, of our products will require regulatory approval by governmental agencies prior to commercialization. In particular, human therapeutic products are subject to rigorous preclinical and clinical testing and other approval procedures of the U.S. Food and Drug Administration, referred to as the FDA, and similar regulatory authorities in European and other countries. Various governmental statutes and regulations also govern or influence testing, manufacturing, safety, labeling, storage and recordkeeping related to such products and their marketing. The process of obtaining these approvals and the subsequent compliance with appropriate statutes and regulations require the expenditure of substantial time and money, and there can be no guarantee that approvals will be granted.

FDA Approval The FDA requirements for our potential products to be marketed in the United States include the following five steps:

Preclinical laboratory and animal tests must be conducted. Preclinical tests include laboratory evaluation of the cells and the formulation intended for use in humans for quality and consistency. In vivo studies are performed in normal animals and specific disease models to assess the potential safety and efficacy of the cell therapy product.

An investigational new drug application, or IND, must be submitted to the FDA, and the IND must become effective before human clinical trials in the United States may commence. The IND is submitted to the FDA with the preclinical data, a proposed development plan and a proposed protocol for a study in humans. The IND becomes effective 30 days following receipt by the FDA, provided there are no questions, requests for delay or objections from the FDA. If the FDA has questions or concerns, it notifies the sponsor, and the IND will then be on clinical hold until a satisfactory response is made by the sponsor.

Adequate and well-controlled human clinical trials must be conducted to establish the safety and efficacy of the product. Clinical trials involve the evaluation of a potential product under the supervision of a qualified physician, in accordance with a protocol that details the objectives of the study, the parameters to be used to monitor safety and the efficacy criteria to be evaluated. Each protocol is submitted to the FDA as part of the IND. The protocol for each clinical study must be approved by an independent institutional review board, or IRB, of the institution at which the study is conducted, and the informed consent of all participants must be obtained. The IRB reviews the existing information on the product, considers ethical factors, the safety of human subjects, the potential benefits of the therapy and the possible liability of the institution. The IRB is responsible for ongoing safety assessment of the subjects during the clinical investigation. Clinical development is traditionally conducted in three sequential phases.

- Phase 1 studies for a cell therapy product are designed to evaluate safety in a small number of subjects in a selected patient population by assessing adverse effects, and may include multiple dose levels. This study may also gather preliminary evidence of a beneficial effect on the disease.

- Phase 2 may involve studies in a limited patient population to determine biological and clinical effects of the product and to identify possible adverse effects and safety risks of the product in the selected patient population.

- Phase 3 trials would be undertaken to conclusively demonstrate clinical benefit or effect and to test further for safety within a broader patient population, generally at multiple study sites. The FDA continually reviews the clinical trial plans and results and may suggest changes or may require discontinuance of the trials at any time if significant safety issues arise.

Marketing authorization applications must be submitted to the FDA. The results of the preclinical studies and clinical studies are submitted to the FDA in the form of marketing approval authorization applications.
The FDA must approve the applications prior to any commercial sale or practice of the technology or product. Biologic product manufacturing establishments located in certain states also may be subject to separate regulatory and licensing requirements. The testing and approval process will require substantial time, effort and expense. The time for approval is affected by a number of factors, including relative risks and benefits demonstrated in clinical trials, the availability of alternative treatments and the severity of the disease, and animal studies or clinical trials that may be requested during the FDA review period.

Our research and development is based largely on the use of human stem and progenitor cells. The FDA has initiated a risk-based approach to regulating human cell, tissue and cellular and tissue-based products and has published current Good Tissue Practice regulations. As part of this approach, the FDA has published final rules for registration of establishments that engage in the recovery, screening, testing, processing, storage or distribution of human cells, tissues, and cellular and tissue-based products, and for the listing of such products. While the Company believes that it is in compliance with all such practices and regulations; we are not required to register until we apply for licensure

from the FDA for our product, subject to successful completion of human trials. In addition, the FDA has published rules for making suitability and eligibility determinations for donors of cells and tissue and for current good tissue practice for manufacturers using them, which have recently taken effect. We cannot now determine the full effects of this regulatory initiative, including precisely how it may affect the clarity of regulatory obligations and the extent of regulatory burdens associated with our stem cell research and the manufacture and marketing of stem cell products.

European and Other Regulatory Approval Approval of a product by regulatory authorities comparable to the FDA in Europe and other countries will likely be necessary prior to commencement of marketing a product in any of these countries. The regulatory authorities in each country may impose their own requirements and may refuse to grant approval, or may require additional data before granting approval, even though the relevant product has been approved by the FDA or another authority. The regulatory authorities in the European Union, or EU, and other developed countries have lengthy approval processes for pharmaceutical products. The process for gaining approval in particular countries varies, but is generally similar to the FDA approval process. In Europe, the European Committee for Proprietary Medicinal Products provides a mechanism for EU-member states to exchange information on all aspects of product licensing. The EU has established a European agency for the evaluation of medical products, with both a centralized community procedure and a decentralized procedure, the latter being based on the principle of licensing within one member country followed by mutual recognition by the other member countries.

Other Regulations In addition to safety regulations enforced by the FDA, we are also subject to regulations under the Occupational Safety and Health Act, the Environmental Protection Act, the Toxic Substances Control Act and other present and potential future and federal, state, local, and foreign regulations.

Outside the United States, we will be subject to regulations that govern the import of drug products from the United States or other manufacturing sites and foreign regulatory requirements governing human clinical trials and marketing approval for our products. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursements vary widely from country to country.

The United States Congress, several states and foreign countries have considered legislation banning or restricting human application of stem cell-based and nuclear transfer based technologies. No assurance can be given regarding future restrictions or prohibitions that might affect our technology and business. In addition, we cannot assure you that future judicial rulings with respect to nuclear transfer technology or human stem cells will not have the effect of delaying, limiting or preventing the use of nuclear transfer technology or stem cell-based technology or delaying, limiting or preventing the sale, manufacture or use of products or services derived from nuclear transfer technology or stem cell-derived material. Any such legislative or judicial development would harm our ability to generate revenues and operate profitably.

For additional information about governmental regulations that will affect our planned and intended business operations, see "RISK FACTORS" beginning on page 2.

Employees

As of December 31, 2007, we had 7 full-time employees.. Of these employees three work on Research and development and four in administration. We also use the services of numerous outside consultants in business and scientific matters. We believe that we have good relations with our employees and consultants.

PROPERTIES

We currently lease two facilities. Our executive offices and primary research facilities are located at 9700 Great Seneca Highway, Rockville MD, 20850. We lease these facilities consisting of approximately 2,500 square feet for $7,940 per month. The term of our lease expires on January 31, 2009.

We have recently entered into a lease to secure approximately 900 square feet of research space in San Diego California at a monthly lease rate of $3,346. The lease terminates in August of 2009.

The aforesaid properties are in good condition and we believe they will be suitable for our purposes for the next 12 months. There is no affiliation between us or any of our principals or agents and our landlords or any of their principals or agents.

LEGAL PROCEEDINGS

As of the date of this annual report, there are no material pending legal or governmental proceedings relating to our company or properties to which we are a party, and to our knowledge there are no material proceedings to which any of our directors, executive officers or affiliates are a party adverse to us or which have a material interest adverse to us, other than the following:

On July 28, 2006, StemCells, Inc. and StemCells California, Inc. (collectively “Stemcells”) of Palo Alto, California, filed suit against Neuralstem, Inc. in U.S. District Court in Maryland, alleging that Neuralstem has been infringing, contributing to the infringement of, and or inducing the infringement of four patents owned by or exclusively licensed

to StemCells relating to stem cell culture compositions, genetically modified stem cell cultures, and methods of using such cultures.

In October 2006, Neuralstem filed a motion to dismiss, or in the alternative for summary judgment, arguing that its preclinical research activities are covered under the "safe harbor" provision of 35 U.S.C. § 271(e)(1) (the '"safe harbor" defense'). The parties agreed to stay substantive discovery in the case pending resolution of Neuralstem's motion to dismiss based on the "safe harbor" defense. While limited discovery was on-going on the "safe harbor" defense, in response to submissions from Neuralstem, the Patent Office ordered reexamination of all four of the patents-in-suit owned by StemCells. The Patent Office found that there were "substantial new questions of patentability" with each claim of those patents.

In view of the reexamination proceedings, both parties agreed that a stay of the entire lawsuit was warranted. On June 25, 2007, Judge Alexander Williams, Jr. entered an order staying the entire litigation pending the outcome of the reexamination proceedings. It is not known when nor on what basis this matter will be concluded.

On September 19, 2007 the Company received notice that the United States Patent and Trademark Office (USPTO) has issued its first ruling in the reexamination of the four StemCells, Inc. patents requested by Neuralstem. The Patent Office issued an official rejection of each of the claims in all four of the patents that Stem Cell, Inc. attempted to assert against Neuralstem in its law suit. The Patent Office is rejecting the Stem Cell, Inc. patents based on additional prior art references that were not the focus of the Company's reexamination request

'SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We did not submit any matters to a shareholder vote in the last quarter of 2007.

MARKET FOR REGISTRANT'S COMMON EQUITY
AND
RELATED SHAREHOLDER MATTERS

Market Information

Our common stock is traded in the American Stock Exchange under the symbol "CUR"

The following table sets forth the range of high and low prices for our common stock as reported by the NASDAQ website for the period that our stock has been trading. These prices represent reported transactions that do not include retail markups, markdowns or commissions, and may not necessarily represent actual transactions.

	Price	
Period	**High**	**Low**
2007		
Fourth Quarter	$ 3.95	$ 2.25
Third Quarter[2]	$ 3.45	$ 2.20
Second Quarter	$ 4.17	$ 2.75
First Quarter	$ 3.36	$ 2.25
2006:		
Fourth Quarter [1]	$ 3.01	$ 1.25

[1] Our Common Stock was first quoted on December 20, 2006 on the over the Counter Bulletin Board.

[2] On August 27, 2007, our Common Stock began trading on the American Stock Exchange under the ticker symbol "CUR"

As of March 18, 2008, the reported closing prices of our common stock was $2.38.

Holders

As of February 6, 2008 our common stock was held by approximately 820 record holders. Notwithstanding, we believe our actual number of shareholders may be significantly higher as 13,148,951 shares are currently being held in street name.

Dividends

We have not paid any cash dividends to date, and we have no plans to do so in the immediate future.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PLAN OF OPERATION

General

The following discussion of our financial condition and results of operations should be read in conjunction with our audited annual financial statements and explanatory notes for the year ended December 31, 2007 as filed with the SEC, and as it may be amended.

This annual report contains forward-looking statements that involve risks and uncertainties. See "Risk Factors" set forth on page 2 of this report for a more complete discussion of these factors. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date that they are made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

Neuralstem is focused on the development and commercialization of treatments based on transplanting human neural stem cells.

We have developed and maintain a portfolio of patents and patent applications that form the proprietary base for our research and development efforts in the area of neural stem cell research. We own or exclusively license four (4) issued patents and twelve (12) patent pending applications in the field of regenerative medicine and related technologies. We believe our technology base, in combination with our know-how, and collaborative projects with major research institutions provides a competitive advantage and will facilitate the successful development and commercialization of products for use in the treatment of a wide array of neurodegenerative conditions and in regenerative repair of acute disease.

This is a young and emerging field. There can be no assurances that our intellectual property portfolio will ultimately produce viable commercialized products and processes. Even if we are able to produce a commercially viable product, there are strong competitors in this field and our product may not be able to successfully compete against them.

All of our research efforts to date are at the level of basic research or in the pre-clinical stage of development. We are focused on leveraging our key assets, including our intellectual property, our scientific team, our facilities and our capital, to accelerate the advancement of our stem cell technologies. In addition, we are pursuing strategic collaborations with members of academia. We are headquartered in Rockville, Maryland.

In addition to our core tissue based technology we have begun developing a Small-Molecule compound. The company has performed preliminary *in vitro* and *in vivo* tests on the compound with regard to neurogenesis. Based on the results of these tests we have applied for a U.S. patent on the compound.

Technology

Our technology is the ability to isolate human neural stem cells from most areas of the developing human brain and spinal cord and our technology includes the ability to grow them into physiologically relevant human neurons of all types. Our two issued core patents entitled: (i) *Isolation, Propagation, and Directed Differentiation of Stem Cell from Embryonic and Adult Central Nervous System of Mammals*; and (ii) *In Vitro Generation of Differentiated Neurons from Cultures of Mammalian Multi-potential CNS Stem Cell* contain claims which cover the process of deriving the cells and the cells created from such process.

What differentiates our stem cell technology from others is that our patented processes do not require us to “push” the cells towards a certain fate by adding specific growth factors. Our cells actually “become” the type of cell they are fated to be. We believe this process and the resulting cells create a technology platform that allows for the efficient isolation and ability to produce, in commercially reasonable quantities, neural stem cells from the human brain and spinal cord.

Our technology allows for cells to grow in cultured dishes, also known as *in vitro* growth, without mutations or other adverse events that would compromise their usefulness.

Research

We have devoted substantial resources to our research programs in order to isolate and develop a series of neural stem cell banks that we believe can serve as a basis for therapeutic products. Our efforts to date have been directed at methods to identify, isolate and culture large varieties of stem cells of the human nervous system, and to develop therapies utilizing these stem cells. This research is conducted both internally and through the use of third party laboratory consulting companies under our direct supervision.

Trends & Outlook

Revenue: Our revenue is currently derived primarily from grant reimbursements and licensing fees. As our focus is now on pre-clinical work in anticipation of entering clinical trials in 2008, we are not concentrated on increasing revenue.

Long-term, we anticipate that grant revenue as a percentage of overall revenue will decrease and our revenue will be derived primarily from licensing fees and the sale of our cell therapy products. At present, we are in our pre-clinical stage of development and as a result, we can not accurately predict when or if we will be able to produce a product for commercialization. Accordingly, we cannot accurately estimate when such a change in revenue composition will occur or if it will ever occur.

Research & Development Expense: Our research and development expenses consist primarily of costs associated with basic and pre-clinical research, exclusively in the field of human neural stem cell therapies and regenerative medicine, related to our clinical cell therapy candidates. These expenses represent both pre-clinical development costs and costs associated with non-clinical support activities such as quality control and regulatory processes. The cost of our research and development personnel is the most significant category of expense. However, we also incur expenses with third parties, including license agreements, third-party contract services, sponsored research programs and consulting expenses.

We do not segregate research and development costs by project because our research is focused exclusively on human stem cell therapies as a unitary field of study. Although we have different areas of focus for our research, these areas are completely intertwined and have not yet matured to the point where they are separate and distinct projects. The intellectual property, scientists and other resources dedicated to these efforts are not separately allocated to individual projects, but rather are conducting our research on an integrated basis.

We expect that research and development expenses will continue to increase in the foreseeable future as we add personnel, expand our pre-clinical research (animal surgeries, manufacturing of cells, and in vitro characterization of cells which includes testing and cell quality control), begin clinical trial activities, increase our regulatory compliance capabilities, and ultimately begin manufacturing.

In 2006 we retained Quintiles, Inc. to assist with regulatory compliance, preparation of our first IND application, and patient enrollment for our first human trial. While recruitment for the trial cannot commence until we have received an FDA approved protocol, much of the infrastructure required must be developed and in place well in advance. For instance, we can begin to identify, contact, and educate prospective patients as well as the treatment community prior to commencing these trials.

Additionally, we anticipate hiring 2 additional senior technical personnel to assist with various grant and collaborative work. With regard to material and personnel costs, as the industry continues to mature and grow, we have seen increased demand for qualified personnel and suitable materials. Notwithstanding, we feel that our outsource model will provide us with some protection regarding fluctuating pricing.

Although we feel the above increase in personnel will be sufficient for our short term needs, the amount of monetary increases stemming from increased personnel and expenses as we move from pre-clinical to clinical state is difficult to predict due to the uncertainty inherent in the timing and extent of progress in our research programs, and initiation of clinical trials. In addition, the results from our basic research and pre-clinical trials, as well as the results of trials of similar therapeutics underdevelopment by others, will influence the number, size and duration of planned and unplanned trials. As our research efforts mature, we will continue to review the direction of our research based on an assessment of the value of possible commercial applications emerging from these efforts. Based on this continuing review, we expect to establish discrete research programs and evaluate the cost and potential for cash inflows from

commercializing products, partnering with others in the biotechnology industry, or licensing the technologies associated with these programs to third parties.

We believe that it is not possible at this stage to provide a meaningful estimate of the total cost to complete our ongoing projects and bring any proposed products to market. The use of human stem cells as a therapy is an emerging area of medicine, and it is not known what clinical trials will be required by the FDA in order to gain marketing approval. The costs to complete such clinical trials could vary substantially depending upon the projects selected for development, the number of clinical trials required and the number of patients needed for each study. At a minimum, we estimate that a trial for an individual indication such as Ischemic Spastic Paraplegia will require at least 10 to 12 patients at an estimated cost of $100,000 to $150,000 per patient. It is possible that the completion of these studies could be delayed for a variety of reasons, including difficulties in enrolling patients, delays in manufacturing, incomplete or inconsistent data from the pre-clinical or clinical trials, and difficulties evaluating the trial results. Any delay in completion of a trial would increase the cost of that trial, which would harm our operating results. Due to these uncertainties, we cannot reasonably estimate the size, nature, nor timing of the costs to complete, or the amount or timing of the net cash inflows from our current activities. Until we obtain further relevant pre-clinical and clinical data, we will not be able to estimate our future expenses related to these programs or when, if ever, and to what extent, we will receive cash inflows from resulting products.

General and Administrative Expenses: Our general and administrative expenses consist of the general costs, expenses and salaries for the operation and maintenance of our business. We anticipate that general and administrative expenses will increase as we progress from pre-clinical to a clinical phase.

On August 27, 2007, our common stock became listed on the American Stock Exchange ("AMEX") under the ticker symbol "CUR". As a result of the listing, and the additional costs associated with Sarbanes Oxley compliance, we anticipate an increase in our historical general and administrative expenses relating to professional services (legal, accounting, audit) as well as internal costs associated with such compliance.

We anticipate that General and Administrative Expense related to our core business will increase at a slower rate than that of similar companies making such transition do in large part to our outsourcing model.

Critical Accounting Policies

Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1of the Notes to Financial Statements describes the significant accounting policies used in the preparation of the financial statements. Certain of these significant accounting policies are considered to be critical accounting policies, as defined below.

A critical accounting policy is defined as one that is both material to the presentation of our financial statements and requires management to make difficult, subjective or complex judgments that could have a material effect on our financial condition and results of operations. Specifically, critical accounting estimates have the following attributes: (1) we are required to make assumptions about matters that are highly uncertain at the time of the estimate; and (2) different estimates we could reasonably have used, or changes in the estimate that are reasonably likely to occur, would have a material effect on our financial condition or results of operations.

Estimates and assumptions about future events and their effects cannot be determined with certainty. We base our estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as our operating environment changes. These changes have historically been minor and have been included in the financial statements as soon as they became known. Based on a critical assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that our financial statements are fairly stated in accordance with accounting principles generally accepted in the United States, and present a meaningful presentation of our financial condition and results of operations. We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of our financial statements:

Use of Estimates—These financial statements have been prepared in accordance with accounting principles generally accepted in the United States and, accordingly, require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, our management has estimated the expected economic life and value of our licensed technology, our net operating loss for tax purposes and our stock option and warrant expenses related to compensation to employees and directors, consultants and investment banks. Actual results could differ from those estimates.

Cash and Cash Equivalents—Cash and cash equivalents are comprised of certain highly liquid investments with maturity of three months or less when purchased. We maintain our cash in bank deposit accounts, which at times, may exceed federally insured limits. We have not experienced any losses in such account.

Revenue Recognition—Our revenues, to date, has been derived primarily from providing treated samples for gene expression data from stem cell experiments and from providing services as a subcontractor under federal grant programs. Revenue is recognized when there is persuasive evidence that an arrangement exists, delivery of goods and services has occurred, the price is fixed and determinable, and collection is reasonably assured.

Intangible and Long-Lived Assets—We follow SFAS No. 144, "Accounting for Impairment of Disposal of Long-Lived Assets," which established a "primary asset" approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long lived asset to be held and used. Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. During the period ended December 31, 2007 no impairment losses were recognized.

Research and Development Costs—Research and development costs consist of expenditures for the research and development of patents and technology, which are not capitalizable and charged to operations when incurred. Our research and development costs consist mainly of payroll and payroll related expenses, research supplies and costs incurred in connection with specific research grants.

Stock Based Compensation—The Company accounts for equity instruments issued to non-employees in accordance with EITF 96-18, *"Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services."* Accordingly, the estimated fair value of the equity instrument is recorded on the earlier of the performance commitment date or the date the services required are completed.

Beginning in 2006, we adopted SFAS No. 123R "Share Based Payment" which superseded APB Opinion No. 25. SFAS No. 123R requires compensation costs related to share-based payment transactions to be recognized in the financial statements. We recognized $1,575,120 and $359,926 in Stock-based compensation expense for the years ended December 31, 2007 and 2006, respectively.

RESULTS OF OPERATIONS

Summary Income Statement for the Years ending December 31, 2007 and 2006

	Year Ending December 31, 2007	2006
Revenues	$ 306,057	$ 265,759
Operating Expenses	6,673,629	3,427,369
Operating Loss	(6,367,572)	(3,161,610)
Non operating income	193,451	14,123
Net loss	$ (6,174,121)	$ (3,147,487)

Result of Operations for the Twelve Months ending December 31, 2007 and 2006

Revenues for the twelve months ended December 31, 2007 was $306,057 compared to $265,759 for the twelve months ended and December 31, 2006. These amounts relate primarily to grants, tissue sales and license fees. Revenue increased because there were no licensing or tissue revenues in 2006.

Research and development expenses for the twelve months ended December 31, 2007 were $3,440,129 compared to $1,660,321 for the twelve months ended December 31, 2006. The increase in expenses in the most recent twelve month period, consists mainly of payroll and payroll related expenses, research supplies and costs incurred to prepare the FDA application to begin human trials.

General, selling and administrative expenses for the twelve months ended December 31, 2007 were $3,201,443 compared to $1,715,125 for the twelve months ended December 31, 2006. The principal increase in expenses in 2007 versus 2006 is a result of the costs of patent litigation, its new listing on the American Stock Exchange, consequent costs to improve financial infrastructure, and comply with Sarbanes- Oxley regulations..

Other income for the twelve months ended December 31, 2007 was $193,451 compared to $56,320 for the twelve months ended December 31, 2006. Increased interest incomes on higher cash balances were responsible for the increase in 2007.

Net loss for the twelve months ended December 31, 2007 was $ (6,174,121) compared to $ (3,147,487) for the twelve months ended December 31, 2006. The increased loss in the current periods is the result of the foregoing factors discussed.

Significant New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards (“SFAS”) 157, *“Fair Value Measurements.”* SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. We do not expect the implementation of SFAS 157 to have a material impact on our financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes"* ("FIN 48"). FIN 48 clarifies when tax benefits should be recorded in financial statements, requires certain disclosure of uncertain tax matters and indicates how any tax reserves should be classified in a balance sheet. On January 1, 2007, the Company adopted FIN 48. We have determined that adoption of FIN 48 did not have any impact on our financial condition or results of operations. It is our policy to recognize interest and penalties related to unrecognized tax liabilities within income tax expense in the statements of operations.

In February 2007, the FASB issued SFAS 159, *"The Fair Value Option for Financial Assets and Liabilities."* SFAS 159 permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This pronouncement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. We do not expect the implementation of SFAS 159 to have a material impact on our financial position or results of operations.

In June 2007, the FASB ratified a consensus opinion reached by the Emerging Issue Task Force ("EITF") on EITF Issue 07-3, *"Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities."* The guidance in EITF Issue 07-3 requires use to defer and capitalize nonrefundable advance payments made for goods or services to be use in research and developments activities until the goods have been delivered or the related services have been performed. If the goods are no longer expected to be delivered nor the services expected to be performed, we would be required to expense the related capitalized advance payments. The consensus in EITF Issue 07-3 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2007 and is to be applied prospectively to new contracts entered into on or after December 15, 2007. Early adoption is not permitted. Retrospective application of EITF Issue 07-3 is also not permitted. We intend to adopt EITF Issue 07-3 effective January 1, 2008. The impact of applying this consensus will depend on the terms of the our future research and development contractual arrangements entered into on or after December 15, 2007.

In December 2007, the FASB ratified a consensus reached by the EITF on Issue 07-1, *"Accounting for Collaborative Arrangements."* The EITF concluded on the definition of a collaborative arrangement and that revenues and costs incurred with third parties in connection with collaborative arrangements would be presented gross or net based on the criteria in EITF 99-19 and other accounting literature. Based on the nature of the arrangement, payments to or from collaborators would be evaluated and its terms, the nature of the entity's business, and whether those payments are within the scope of other accounting literature would be presented. Companies are also required to disclose the nature and purpose of collaborative arrangements along with the accounting policies and the classification and amounts of significant financial-statement amounts related to the arrangements. Activities in the arrangement conducted in a separate legal entity should be accounted for under other accounting literature; however required disclosure under EITF 07-1 applies to the entire collaborative agreement. EITF 07-1 is effective for us January 1, 2008 and is to be applied retrospectively to all periods presented for all collaborative arrangements existing as of the effective date. We do not expect the adoption of EITF 07-1 to have a material impact on our financial statements.

In December 2007, the FASB issued SFAS 141, Revised 2007 (SFAS 141R), *"Business Combinations."* SFAS 141R's objective is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after December 15, 2008. We do not expect the implementation of SFAS 141R to have a material impact on our financial statements.

In December 2007, the FASB issued SFAS 160, *"Noncontrolling Interests in Consolidated Financial Statements."* SFAS 160's objective is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 shall be effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. We do not expect the implementation of SFAS 160 to have a material impact on our financial statements.

Liquidity and Capital Resources

We are financing our operations primarily with the proceeds from the private placement of our securities and the exercise of investor warrants. During the twelve months ended December 31, 2007, we raised $5,614,600, through the private placement offering as described in Note 2 to our Financial Statements. In addition, we raised an additional $4,567,008 as a result of warrant exercises from our current investors. To a substantially lesser degree, financing of our operations is provided through grant funding, payments received under license agreements, sales of our cells (tissue), and interest earned on cash and cash equivalents. Payments received by way of our grants, cell sales and licensing agreements were $306,057, for the twelve months ended December 31, 2007. Interest earned on cash and cash equivalents equaled $193,451.

We have incurred substantial net losses each year since inception as a result of research and development and general and administrative expenses in support of our operations. We anticipate incurring substantial net losses in the future.

Cash, cash equivalents, and cash held at February 29. 2008 was $8,792,144. Cash, cash equivalents, and cash at December 31, 2007 was $ 7,043,737. The increase in the current period is the result of the above described factors, net of amounts spent for payment of notes and accounts payable, increased legal and accounting fees, fees paid to the placement agent, and increases in other research and development and general and administrative expenses.

Our cash and cash equivalents are limited. We expect to require substantial additional funding. Our future cash requirements will depend on many factors, including the pace and scope of our research and development programs, the costs involved in filing, prosecuting, maintaining and enforcing patents and other costs associated with commercializing our potential products. We intend to seek additional funding primarily through public or private financing transactions, and, to a lesser degree, new licensing or scientific collaborations, grants from governmental or other institutions, and other related transactions. If we are unable to raise additional funds, we will be forced to either scale back our business efforts or curtail our business activities entirely. Our currently monthly cash burn rate is $400,000. We anticipate that our available cash and expected income will be sufficient to finance most of our current activities for at least the next 14 months from December 31, 2007, although certain of these activities and related personnel may need to be reduced.

Additionally, in the event we are able to file a successful Investigative New Drug Application ("IND") with the FDA, we anticipate we will enter clinical trials in the second Quarter of 2008. In the event of such trials, we would incur additional expenses associated with such trials which are estimated to exceed $1,000,000. Assuming our current monthly cash burn rate of $400,000, the increased expense from regulatory compliance and personnel required for the pre-trial and clinical trial work, as well as the estimated cost of the trial, our cash on hand is sufficient to finance our current operations, pre-clinical and clinical work for at least 12 months from December 31, 2007. We cannot assure you that public or private financing or grants will be available on acceptable terms, if at all. Several factors will affect our ability to raise additional funding, including, but not limited to, the volatility of our common shares.

MANAGEMENT

The following table sets forth the name, age and position of each of our directors, executive officers and significant employees as of March 1, 2008. Except as noted below each director will hold office until the next annual meeting of

our stockholders or until his or her successor has been elected and qualified. Our executive officers are appointed by, and serve at the discretion of, the Board of Directors.

Name	Age	Position
I. Richard Garr	55	Chief Executive Officer, President, General Counsel and Director
Karl Johe, Ph.D.	47	Chief Scientific Officer, Chairman of the Board, and Director

Scott V. Ogilvie	53	Director
William Oldaker	66	Director
John Conron	57	Chief Financial Officer

Mr. I. Richard Garr, JD has been our Chief Executive Office, President, Board Director & Co-Founder since 1996. Mr. Garr was previously an attorney with Beli, Weil & Jacobs, the B&G Companies, and Circle Management Companies. Mr. Garr is a graduate of Drew University (1976) and the Columbus School of Law, The Catholic University of America (1979). Additionally, he was a founder and current Board member of the First Star Foundation, a children's charity focused on abused children's issues; a founder of The Starlight Foundation Mid Atlantic chapter, which focuses on helping seriously ill children; and is a past Honorary Chairman of the Brain Tumor Society.

Mr. Karl Johe, Ph.D. has been our Chief Scientific Officer, Chairman & Co-Founder since 1996. Dr. Johe has over 15 years of research and laboratory experience. Dr. Johe is the sole inventor of Neuralstem's granted stem cell patents and is responsible for strategic planning and development of the Company's therapeutic products. Dr. Johe received his Bachelor of Arts Degree in Chemistry from the University of Kansas. Dr. Johe also received a Master's Degree from the University of Kansas and his doctorate was received from the Albert Einstein College of Medicine. From 1993 to January 1997, Dr. Johe served as a Staff Scientist at the Laboratory of Molecular Biology of the National Institute of Neurological Disease and Stroke in Bethesda, Maryland. While holding this position, Dr. Johe conducted research on the isolation of neural stem cells, the elucidation of mechanisms directing cell type specification of central nervous system stem cells and the establishment of an in vitro model of mammalian neurogenesis.

Mr. Scott V. Ogilvie, has served on our board of directors since April 12, 2007. Mr. Ogilvie serves as CEO and President of Gulf Enterprises International, Ltd.. Gulf Enterprises International, Ltd, through its United States and Gulf Cooperative Counsel (“GCC”) operating partners and strategic shareholders, brings GCC regional as well as U.S. and international expertise, investment capital and operating platforms to the Middle East and North Africa markets in areas such as Infrastructure, Industrial, IT, Energy, Entertainment, Health Care and Real Estate. Mr. Ogilvie is also Managing Director & COO of CIC Group. Formed in 1995, CIC Group is a privately owned international financial services and investment holding company. Mr. Ogilvie began his career as a corporate and securities lawyer with Hill, Farrer & Burrill. Mr. Ogilvie has extensive public and private corporate board experience in finance, real estate, and technology companies. He is a founding member of the board of directors of the American Kuwaiti Alliance, a U.S. non profit corporation comprised of prominent Kuwaiti and U.S. companies and institutions. Mr. Ogilvie received his BSBA-Finance degree from the University of Denver and holds his JD from the University of California, Hastings College of Law.

Mr. William Oldaker, has served on our board of directors since April 12, 2007. Mr. Oldaker is a founder and partner in the Washington, D.C. law firm of Oldaker, Biden & Belair, LLP. Prior to founding the firm in 1993, Mr. Oldaker was a partner in the Washington office of the law firm of Manatt, Phelps and Phillips from 1987 to 1993. In 2004, Mr. Oldaker was a founder of WashingtonFirstBank in Washington, D.C. and serves as a member of the board of directors. He previously served as a director of Century National Bank, from 1982 until its acquisition in 2001. Mr. Oldaker was appointed by President Clinton to serve as a commissioner on the National Bioethics Advisory Commission, a post he held until 2001. He is a member of the Colorado, D.C. and Iowa Bar Associations, the Bar Association for the Court of Appeals, D.C., and the Bar of the United States Supreme Court. He is also a partner in The National Group, a consulting firm.

Mr. John Conron has served as our Chief Financial Officer effective April 1, 2007. Mr. Conron, a Certified Public Accountant, joins the Company after 30 plus years in the field of corporate finance. Since 2003, Mr. Conron has been consulting early stage companies by providing critical outsource CFO functions such as implementation of accounting

systems, creation and monitoring of internal controls, Sarbanes Oxley compliance, audit preparation, financial modeling and strategic planning. Prior to his work as a consultant, Mr. Conron worked for Cyberstar, Inc., a wholly owned subsidiary of Loral Space & Communications, Inc., where he held the position of CFO from 2000 to 2003. Mr. Conron joined Cyberstar from Transworld Telecommunications, Inc., a Qualcom spin-off which offered telecommunication services in Russia, where he served as CFO.

Mr. Conron also served as CFO and on the board of directors of Mercury Communications in London. Mercury is a European subsidiary of Cable & Wireless.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information for our last two most recent completed fiscal year concerning the compensation of (i) the Principal Executive Officer and (ii) all other executive officers of Neuralstem, Inc. who earned over $100,000 in salary and bonus during the last two most recently completed fiscal year ended December 31, 2007 and December 31, 2006 (together the "Named Executive Officers").

Name and principal position (a)	Year (b)	Salary ($) (c)	Bonus ($) (d)	Stock Awards ($) (e)	Option Award ($) (f)(2)	Nonequity Incentive Plan compensation ($) (g)	Non-qualified deferred compensation earning ($) (h)	All other Compensation ($) (i)(1)	Total ($) (j)
I. Richard Garr *Chief Executive Officer (Principal Executive Officer)*	2007	$ 357,000	26,750	-	-	-	-	33,384	417,134
	2006	$ 336,750(3)	186,146(5)	-	-	-	-	31,614	554.510
Dr. Karl Johe *Chief Scientific Officer*	2007	$ 345,000(6)	26,750	-	570,478(8)	-	-	207,384(7)	636,612
	2006	$ 425,250(4)	186,146(5)	-	-	-	-	31,614	643,010
John Conron *Chief Financial Officer*	2007	$ 80,000	10,000	-	315,000	-	-	-	405,000
	2006	$ -	-	-	-	-	-	-	-
Merrill Solomon	2007	$ 141,000	11,750	-		-	-	26,655	179,405
	2006	$ 132,000	-	-		-	-	31,614	163,614

(1) Includes automobile allowance, perquisites and other personal benefits.

(2) For additional information regarding the valuation of Option Awards, refer to Note 2 of our financial statements in the section captioned "*Stock Options.*"

(3) Includes $312,750 paid pursuant to employment agreement and $24,000 of 1099 income for partial year service as general counsel.

(4) Includes $300,750 paid pursuant to employment agreement and $124,500 of 1099 of income for certain additional work performed in connection with our grants.

(5) Includes bonus for 2005 and 2006 in the amounts of $60,000 and $126,146 respectively.

(6) Includes $321,000 paid pursuant to employment agreement and $24,000 of 1099 income for certain additional work performed in connection with our grants.

(7) Includes $150,000 paid in connection to termination of Hi-Med Licensure Agreement and assignment of intellectual property residual rights.

(8) Includes 333,333 options awarded on September 20, 2007. This item does not include warrants granted in connection with the termination of Hi-Med Licensure Agreement and assignment of intellectual property residual rights.

EMPLOYMENT AGREEMENTS
AND CHANGE-IN-CONTROL ARRANGEMENTS

Employment Agreement with I. Richard Garr

On November 1, 2005, we entered into an amendment to the employment agreement with Richard Garr, our Chief Executive Officer and President. The agreement provides for annual compensation in the amount of $240,000 and extends his term of employment until October 31, 2012. Additionally, the agreement provides for a $500 monthly automobile allowance and the reimbursement of reasonable business expenses. The agreement also provides for an industry standard bonus upon the formation of a compensation committee by the company.

In January of 2006, we amended the terms of the agreement to include the duties of General Counsel for which Mr. Garr is paid an additional $36,000. In April of 2006, we again amended Mr. Garr's agreement to provide an additional raise to his base salary. After taking into account both amendments, Mr. Garr's annual salary is $357,000. All other terms of the agreement remained the same.

On January 16, 2008, our Compensation Committee approved the amendment of Mr. Garr’s employment agreement with the Company. Effective January 1, 2008, Mr. Garr’s annual salary was increased to $407,000. In additional, the Compensation Committee approved a bonus award of up to 85% of Mr. Johe’s base salary for the year ending on December 31, 2008 in the event certain objectives are achieved.

The agreement also provides for severance ("Termination Provisions") in an amount equal to the greater of: (i) the aggregate compensation remaining on his contract; or (ii) $1,000,000, in the event Mr. Garr is terminated for any reason. In the event of termination, the agreement also provides for the immediate vesting of 100% of stock options granted to Mr. Garr during his term of employment. These termination provisions apply whether employee is terminated for "cause" or "without cause." Additionally, in the event employee voluntarily terminates his employment following a change in control and material reassignment of duties, he will also be entitled to the termination provisions under the contract. In the event of early termination, the Termination Provisions will require us to make a substantial payment to the employee. By way of example, such payments would be approximately as follows:

Termination Date		Amount of Payment [1]
October 31, 2008	$	1,628,000
October 31, 2009	$	1,221,000
October 31, 2010 until the end of Contract	$	1,000,000

(1) Assumes payment of annual salary of $407,000 and a monthly automobile allowance of $500.00. Does not include health benefits, bonuses or increase in annual salary.

Mr. Garr's agreement contains non-solicitation, and confidentiality and non-competition covenants. The agreement may be terminated by either party with or without cause and without prior notice subject to the termination provisions as discussed.

Employment Agreement with Karl Johe, Ph.D .

On November 1, 2005, we entered into an amendment to the employment agreement with Karl Johe, Ph.D., our Chief Scientific Office and Chairman of the Board. The agreement provides for a minimum annual compensation in the amount of $240,000 and in no event less than the salary of the Chief Executive Officer. The agreement also extends his term of employment until October 31, 2012. Additionally, the agreement provides for a $500 monthly automobile allowance and the reimbursement of reasonable business expenses. The agreement also provides for an industry standard bonus upon the formation of a compensation committee by the company.

In April of 2006, we amended Dr. Johe's employment agreement to provide for a base salary of $321,000. All other terms of the agreement remained the same.

On January 16, 2008, our Compensation Committee approved the amendment of Mr. Johe's employment agreement with the Company. Effective January 1, 2008, Mr. Johe's annual salary was increased to $396,000. In additional, the Compensation Committee approved a bonus award of up to 85% of Mr. Johe's base salary for the year ending on December 31, 2008 in the event certain objectives are achieved.

The agreement also provides for severance ("Termination Provisions") in an amount equal to the greater of: (i) the aggregate compensation remaining on his contract; or (ii) $1,000,000, in the event Mr. Johe is terminated for any reason. In the event of termination, the agreement also provides for the immediate vesting of 100% of stock options granted to Mr. Johe during his term of employment. These termination provisions apply whether employee is terminated for "cause" or "without cause." Additionally, in the event employee voluntarily terminates his employment

following a change in control and material reassignment of duties, he will also be entitled to the termination provisions under the contract. In the event of early termination, the Termination Provisions will require us to make a substantial payment to the employee. By way of example, such payments would be approximately as follows:

Termination Date	Amount of Payment [1]
October 31, 2008	$ 1,584,000
October 31, 2009	$ 1,188,000
October 31, 2010 until end of Contract	$ 1,000,000

(1) Assumes payment of annual salary of $396,000 and a monthly automobile allowance of $500.00. Does not include health benefits, bonuses or increase in annual salary.

Dr. Johe's agreement contains non-solicitation, and confidentiality and non-competition covenants. The agreement may be terminated by either party with or without cause and without prior notice subject to the termination provisions as discussed.

Employment Agreement with John Conron.

On April 12, 2007, we entered into a one year part-time employment agreement with Mr. Conron. The agreement provides for a monthly compensation in the amount of $10,000. As part of the agreement, we granted Mr. Conron options to purchase 100,000 common shares. The options vest as follows: (i) 25,000 immediately; and (ii) 75,000 vest quarterly over the year. The agreement also provides for acceleration of the options in the event Mr. Conron is terminated without cause or in the event of a change in control. The agreement also contains non-solicitation, confidentiality and non-competition covenants.

On January 16, 2008, our Compensation Committee approved the amendment of Mr. Conron’s employment agreement with the Company. Effective April 1, 2008, Mr. Conron’s annual salary will increase to $225,000 and he will be entitled to a monthly automobile allowance of $500. In additional, the Compensation Committee approved a bonus award of up to 35% of Mr. Conron’s base salary for the year ending on December 31, 2008 in the event certain objectives are achieved.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table provides information concerning unexercised options; stock that has not vested; equity incentive; and awards for each Named Executive Officer outstanding as of the end of the last completed fiscal year.

Name (a)	Number of securities underlying unexercised options (#) exercisable (b)	Number of securities underlying unexercised options (#) unexercisable (c)	Equity incentive plan awards: Number of securities underlying unexercised unearned options (#) (d)	Option exercise price ($) (e)	Option expiration date (f)	Number of shares or units of stock that have not vested (#) (g)	Market value of shares or units of stock that have not vested ($) (h)	Equity incentive plan award: Number of un-earned shares, units or other rights that have not vested	Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not

						(#) (i)	vested ($) (j)
I. Richard Garr *Chief Executive & Financial Officer (Principal Executive &General Council)*	600,000	600,000(1)	$	.50	7/28/15		
Karl Johe (3) *Chief Scientific Officer*	600,000	333,333(4) 600,000(1)	$ $	3.01 .50	9/20/17 7/28/15		
John Conron *Chief Financial Officer*	81,250	18,750(2)	$	3.15	4/1/15		

(1) The Options were granted pursuant to our 2005 Stock Plan. The options vest annual at a rate of 300,000 per year. The applicable vesting dates are July 28, 2006, 2007, 2008 and 2009.

(2) The Options were granted pursuant to our 2005 Stock Plan. 25,000 options vest on April 1, 2007 and the remaining 75,000 options vest at a quarterly rate of 18,750 per quarter. The applicable vesting dates are July 1, 2007,October 1, 2007, January 1, 2008 and April 1, 2008.

(3) Outstanding equity awards for Mr. Johe do not include warrants to purchase an aggregate of 3,000,000 shares of the issuers common stock that were issued on June 5, 2007. For a further description of the warrants, please refer to the section of this report entitled "*Transactions and Business Relationships with Management and Principal Shareholders*."

(4) On September 20, 2007, our Compensation Committee granted Karl Johe, our Chairman and Chief Scientific Officer, options to purchase an aggregate of 333.333 shares of our common stock at a price per share of $3.01 pursuant to our 2005 Stock Plan. The options expire 5 years from the date when they become exercisable. Additionally, the options will become immediately exercisable upon an event which would result in an acceleration of Mr. Johe's stock options granted under his employment agreement. The options vest on October 31, 2010. The Option have a value of $570,478.

COMPENSATION OF DIRECTORS

Fiscal Year Ended December 31, 2007

For the fiscal year ended December 31, 2007, we have adopted a compensation plan for individuals serving on our board of directors. Pursuant to the plan, each eligible director shall receive:

- Options to purchase 20,000 shares of common stock upon joining the board. The options shall vest as follows: (i) 10,000 shall vest on the one month anniversary of joining the Board; and (ii) 10,000 shall vest quarterly over a one year period commencing on the date such Director joins the Board;

- Each Director will receive, starting on their first year anniversary of service and each subsequent anniversary thereafter, options to purchase 10,000 shares of common stock. These annual stock option awards will vest quarterly during the year; and

- Each Director will receive options to purchase an additional 5,000 shares for each committee on which he or she serves. These special grant options will vest quarterly during the year.

The exercise price for the options to be granted to the directors shall be the market price of the stock on each applicable grant date.

Fiscal Year Ending December 31, 2008

Commencing on January 1, 2008, the compensation committee has revised director compensation plan. Starting January 1, 2008, each eligible director shall receive:

Option Grants

First Year Grant: Upon joining the board, individual will receive options to purchase 45,000 common shares. The options shall vest as follows: (i) 25,000 shall vest on the one month anniversary of joining the Board; and (ii) 20,000 shall vest quarterly over a one year period commencing on the date such Director joins the Board. For purpose of the

First Year option grant, all current eligible directors will be considered “First Year” directors and be eligible for such grant;

Annual Grant. starting on the first year anniversary of service, and each subsequent anniversary thereafter, each eligible director will be granted options to purchase 20,000 shares of common stock. These Annual Grants will vest quarterly during the year; and

Committee Grant. Each Director will receive options to purchase an additional 5,000 shares for each committee on which he or she serves. These Committee Grants will vest quarterly during the year.

Cash Compensation

Board Retention Amount. Each director shall receive $20,000 annual as a board retainer. The retainer shall be payable quarterly commencing on January 1, 2008.

Committee Retainer. In addition to the Board Retention Amount, each director serving on a committee shall receive an additional $5,000 per committee on which he serves.

SUMMARY NON-EMPLOYEE DIRECTOR COMPENSATION TABLE

The following table summarizes the compensation for our non-employee board of directors for the fiscal year ended December 31, 2007:

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
William Oldaker							
Independent Director(1)			$ 22,756				$ 22,756
Audit Committee(2)			$ 7,174				$ 7,174
Compensation Committee(2)			$ 7,174				$ 7,174
Nomination Committee(2)			$ 7,174				$ 7,174
Scott Ogilvie							
Independent Director(1)			$ 22,756				$ 22,756
Audit Committee(2)			$ 7,174				$ 7,174
Compensation Committee(2)			$ 7,174				$ 7,174
Nomination Committee(2)			$ 7,174				$ 7,174

(1) On April 12, 2007, pursuant to our adopted director compensation plan, we issued to each of Messrs Ogilvie and Oldaker options to purchase 20,000 shares of our common stock. The options were issued pursuant to our 2005 Stock Plan. The exercise price per share is $3.30 and will expire 7 years from the date of grant. The individual grants vest as follows: (i) 10,000 options vest upon the one month anniversary of joining the board; and (ii) 10,000 options vest quarterly through the year.

(2) On May 16, 2007, pursuant to our adopted director compensation plan, we issued to each of Messrs Ogilvie and Oldaker, options to purchase 15.000 shares of our common stock (5,000 shares per each committee on which they serve). The options were issued pursuant to our 2005 Stock Plan. The exercise price per share is $3.83 and the options vest quarterly over the year.

CORPORATE GOVERNANCE

In compliance with the listing requirements of the American Stock Exchange, we have established 3 corporate governance committees comprising of the: (i) Audit Committee; (ii) Compensation Committee; and (iii) Nomination Committee.

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AUDIT COMMITTEE

The Company has established a designated standing audit committee in accordance with section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee are Messrs Ogilvie and Oldaker. The Audit Committee of the Board of Directors assists the Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing, and reporting practices of the Company, and such other duties as directed by the Board. The Committee's purpose is to oversee the accounting and financial reporting processes of the Company, the audits of the Company's financial statements, the qualifications of the public accounting firm engaged as the Company's independent auditor to prepare or issue an audit report on the financial statements of the Company, and the performance of the Company's internal audit function and independent auditor. The Committee reviews and assesses the qualitative aspects of financial reporting to shareholders, the Company's processes to manage business and financial risk, and compliance with significant applicable legal, ethical, and regulatory requirements. The Committee is directly responsible for the appointment (subject to shareholder ratification), compensation, retention, and oversight of the independent auditor.

Our board of directors has determined that Mr. Ogilvie is an “audit committee financial expert” within the meaning of SEC rules. An audit committee financial expert is a person who can demonstrate the following attributes: (1) an understanding of generally accepted accounting principles and financial statements; (2) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves; (3) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the company’s financial statements, or experience actively supervising one or more persons engaged in such activities; (4) an understanding of internal controls and procedures for financial reporting; and (5) an understanding of audit committee functions.

COMPENSATION COMMITTEE

The Compensation Committee's role is to discharge the Board's responsibilities relating to compensation of the Company's executives and to oversee and advise the Board on the adoption of policies that govern the Company's compensation and benefit programs. Messrs Ogilvie and Oldaker are the members of the Compensation Committee.

NOMINATING COMMITTEE

The Nomination and Corporate Governance Committee reviews and evaluates the effectiveness of the Company's executive development and succession planning processes, as well as providing active leadership and oversight of these processes, and oversight of the Company's corporate governance policies. The Nomination and Corporate Governance Committee also evaluates and recommends nominees for membership on the Company's board of directors and its committees. Messrs Ogilvie and Oldaker are the members of the Nomination Committee.

INDEPENDENT DIRECTORS

Our board of directors has determined that Messrs Ogilvie and Oldaker are each “independent” as that term is defined by the American Stock Exchange (“*AMEX*”). Under the AMEX definition, an independent director is a person who (1) is not currently (or whose immediate family members are not currently), and has not been over the past three years (or whose immediate family members have not been over the past three years), employed by the company; (2) has not (or whose immediate family members have not) been paid more than $60,000 by the company during the current or past three fiscal years; or (3) has not (or whose immediately family has not) been a partner in or controlling shareholder or executive officer of an organization which the company made, or from which the company received, payments in excess of the greater of $200,000 or 5% of that organizations consolidated gross revenues, in any of the most recent three fiscal years. Messrs Ogilvie and Oldaker are the sole members of our: (i) Audit Committee; (ii) Compensation

Committee; and (iii) Nomination Committee. The Company has determined that both Mr. Ogilvie and Mr. Oldaker are independent directors.

CLASSIFICATION OF DIRECTORS AND CHANGE OF CONTROL

Our Board of Directors consists of four members. On July 16, 2007, the Company amended its bylaws to provide for a staggered board. Commencing in 2008, all directors shall serve for staggered three-year terms and are elected for a new three-year term at the annual meeting of the stockholders.

Pursuant to amended bylaws, we have a classified board of directors divided into three classes with staggered three-year terms. Only one class of directors may be elected each year, while the directors in the other classes continue to hold office for the remainder of their three-year terms. Each class of the Board is required to have approximately the same number of directors. The Board may, on its own, determine the size of the exact number of directors on the Board and may fill vacancies on the Board. The procedure for electing and removing directors on a classified board of directors generally makes it more difficult for stockholders to change control of the Company by replacing a majority of the classified Board at any one time, and the classified board structure may discourage a third party tender offer or other attempt to gain control of the Company and may maintain the incumbency of directors. In addition, under our amended bylaws, directors may only be removed by from office by a vote of the majority of the shares then outstanding and eligible to vote.

The bylaws contain advance notice procedures with respect to stockholder proposals and further limit stockholder rights to nominate candidates for election as directors. These provisions may discourage stockholders from nominating directors or bringing any other business at a particular meeting if the stockholders do not follow the proper procedures. In addition, the procedures may

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our officers and directors, and stockholders owning more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange and are required by SEC regulations to furnish us with copies of all forms they file pursuant to these requirements. Based solely on our review of Form 3, 4 and 5's, the following table provides information regarding any of the reports which were filed late during the fiscal year ended December 31, 2007:

Name of Reporting Person	Type of Report Filed Late	No. of Transactions Reported Late
William Oldaker	Form 3 - Initial Statement of Beneficial Ownership	1
Karl Johe	Form 4 - Statement of Change in Beneficial Ownership	2

CODE OF ETHICS

We have adopted a "Code of Ethics for Directors, Officers and Employees" that applies to all employees, including our executive officers. A copy of our code can be viewed on our website at www.neuralstem.com.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information with respect to our 2005 & 2007 Stock Plans as of December 31, 2007.

	(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available or Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders			
2005 Stock Plan, as amended	3,200,659	$ 1.19	799,344
2007 Stock Plan	0	N/A	6,150,000
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	3,200,659	$ 2.59	6,949,344

2005 Stock Plan as amended

Our board of directors adopted the 2005 Stock Plan on July 27, 2005, and it was subsequently approved by our stockholders. The 2005 Stock Plan provides for the grant of stock options or stock to our employees, directors, and consultants of up to 4,000,000 common shares. On June 26, 2008, the Company's board of directors approved an amendment to the Company's 2005 Stock Plan. The primary effect of the amendment was to: (i) provide for the ability of the compensation committee to make stock grants; (ii) to prohibit the issuance of stock options below the market price on the date of issuance; and (iii) to clarify the procedure with regard to the exercise of options granted under the plan. On July 31, 2007 the Company's shareholders ratified the amendment. As of February 29, 2008 options to purchase a total of 3,200,659 shares of common stock were outstanding under the 2005 Stock Plan at a weighted average exercise price of $1.19 per share. At February 29, 2008, 2,749,344 shares of our common stock remained available for future issuance under our 2005 Stock Plan.

2007 Stock Plan:

On June 26, 2008, the Company's board of directors adopted the 2007 Stock Plan. The 2007 Stock Plan provides for issuances of: (i) restricted stock grants; (ii) options; (iii) stock appreciation rights; and (iv) stock bonuses to our officers, directors, employees and consultants. Pursuant to the plan, all grants must be made at no less than the fair market value on the day of grant. The Company reserved 6,150,000 common shares for issuance under the plan. On July 31, 2007, the Company's shareholders ratified the amendment.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer, who is our principal executive officer, and our Chief Financial Officer, who is our principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2007. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2007, our disclosure controls and procedures were not effective.

A review of the process level controls was completed, resulting in the identification of control design gaps. New controls and procedures were implemented by December 31, 2007 to mitigate the identified design gaps except as described below; however, there was not sufficient time to test our newly implemented process level controls. Management believes that together with the newly implemented controls, assuming operational effectiveness, the controls provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

In light of the material weaknesses described below, in preparing our financial statements at and for the fiscal year ended December 31, 2007, we performed additional procedures in an attempt to ensure that such financial statements were fairly presented in all material respects in accordance with generally accepted accounting principles. Notwithstanding the material weaknesses described below, management believes that the financial statements included in this Form 10-K fairly present, in all material respects, the Company's financial condition, results of operations and cash flows for the periods and dates presented.

1. *Wire payment transaction controls* – Based on the process design for completing wire payment transactions, it was possible that unauthorized wire transactions could have been completed without a preventative control in place. In addition, approval forms and supporting documentation were not consistently maintained during the year. Detective controls, such as bank reconciliations, were in place and we believe that no unauthorized wires were made during 2007 and the process is being redesigned in 2008.

2. *Lack of qualified personnel to separately prepare and review all journal entries* – Much effort was undertaken in 2007 to make sure appropriate segregation of duties were in place for key accounting functions, including the contracting with a third-party provider to process accounting transactions and maintain the accounting systems. However, some more complicated transactions could only be completed by the CFO as the most qualified person to prepare the journal entries. This left the CFO as both the preparer and reviewer of these transactions.

Changes in Internal Control over Financial Reporting

During the fiscal year ended December 31, 2007, management took the following actions:

- The Company instituted a number of entity level controls during the year including appointment of independent directors, establishment of Audit, Compensation and Nominating Committees (composed of independent directors), adoption of Ethics Codes, and creation of an independent Compliance Officer. In addition the Board instituted a formal Internal Control policy and Compensation Policy.
    - The company contracted with an outside service provider to process financial transactions, operate its financial systems, prepare payroll, and provide accounting support.
- The Company has implemented procedures whereby all changes to computer master files are reviewed and approved by Management.
- The Company has replaced its financial software to improve the safety and integrity of its financial information, enable control of its master files, and provide enhanced management reporting.

- The company has assessed and documented its financial reporting procedures.
- The company replaced its IT infrastructure and turned over its operation to a third party.

Management completed a review of the design effectiveness of the process control improvements that were implemented. Although the company was unable to assess, as of and prior to December 31, 2007, the operating effectiveness of these control improvements, Management believes, assuming operational effectiveness, the controls are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Other than the aforementioned changes during fiscal year 2007, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Neuralstem, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers to provide reasonable assurance to the Company's management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. A control system, no matter how well designed and operated, can provide only reasonable, but not absolute, assurance that the control system's objectives will be met. 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.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") as a guide. However, due to the timing of many of the changes to the processes and internal controls, management's assessment was limited to a risk assessment and a review of the design effectiveness of the entity level and financial reporting controls. Accordingly, while management's assessment is that the design of controls is adequate, except as noted herein, since the controls were not completely tested in accordance with the COSO standards. We have determined that our controls over financial reporting were ineffective.

Based on this assessment, management identified the following material weaknesses in the Company's internal control as of December 31, 2007:

· *Wire payment transaction controls* - Based on the process design for completing wire payment transactions, it was possible that unauthorized wire transactions could have been completed without a preventative control in place. In addition, approval forms and supporting documentation were not consistently maintained during the year. Detective controls, such as bank reconciliations, were in place and we believe that no unauthorized wires were made during 2007 and the process is being redesigned in 2008.

· *Lack of qualified personnel to separately prepare and review all journal entries* - Much effort was undertaken in 2007 to make sure appropriate segregation of duties were in place for key accounting functions, including the contracting with a third-party provider to process accounting transactions and maintain the accounting systems. However, some more complicated transactions could only be completed by the CFO as the most qualified person to

prepare the journal entries. This left the CFO as both the preparer and reviewer of these transactions.

PRINCIPAL STOCKHOLDERS

The following tables set forth certain information regarding the beneficial ownership of our common stock. Beneficial ownership is determined in accordance with the applicable rules of the Securities and Exchange Commission and includes voting or investment power with respect to shares of our common stock. The information set forth below is not necessarily indicative of beneficial ownership for any other purpose, and the inclusion of any shares deemed beneficially owned in this table does not constitute an admission of beneficial ownership of those shares. Unless otherwise indicated, to our knowledge, all persons named in the table have sole voting and investment power with respect to their shares of common stock, except, where applicable, to the extent authority is shared by spouses under applicable state community property laws.

The following table sets forth information regarding beneficial ownership of our capital stock as of February 20, 2008 by:

- each person, or group of affiliated persons, known to us to be the beneficial owner of more than 5% of the outstanding shares of our common stock;
- each of our directors and named executive officers; and
- all of our directors and executive officers as a group.

	Common Stock	
Name	**Amount[(1)]**	**%**
Karl Johe (2)	2,369,484	7.39
Stanley Westreich (3)	2,231,404	6.96
Merrill Solomon (4)	2,177,097	6.79
Richard Garr (5)	1,973,084	6.15
William Oldaker (6)	132,200	0.41
John Conron (7)	110,000	0.34
Scott Ogilvie (8)	35,000	0.11
Executives Officers and Directors as a Group	6,796,865	21.19

Pursuant to

(1) Pursuant to Rules 13d-3 and 13d-5 of the Exchange Act, beneficial ownership includes any shares as to which a shareholder has sole or shared voting power or investment power, and also any shares which the shareholder has the right to acquire within 60 days, including upon exercise of common shares purchase options or warrant. There are 32,075,875 shares of common stock issued and outstanding as of March 18, 2008.
(2) Includes 1,769,484 common shares and 600,000 vested options.
(3) Includes 2,031,404 common shares and 200,000 vested options
(4) Includes 2,057,097 common shares and 120,000 vested options.
(5) Includes1,373,084 common shares and 600,000 vested options
(6) Includes 37,200 common shares, 88,750 vested options, and 6,250 options will vest in the next 60 days
(7) Includes 10,000 common shares, 81,250 vested options and 18,750 options will vest in the next 60 days
(8) Includes 28,750 vested options, and 6,250 options will vest in the next 60 days

TRANSACTIONS AND BUSINESS RELATIONSHIPS WITH

MANAGEMENT AND PRINCIPAL SHAREHOLDERS

Summarized below are certain transactions and business relationships between Neuralstem and persons who are or were an executive officer, director or holder of more than five percent of any class of our securities since January 1, 2007 or which have been proposed since December 31, 2007:

- On April 1, 2007, in consideration for the services to be rendered by John Conron, our Chief Financial Officer, we granted Mr. Conron stock options to purchase 100,000 shares of our common stock. The exercise price per share is $3.15 and will expire on April 1, 2015. The stock options will vest as follows:

i. 25,000 options shall vest immediately; and

ii. the remaining 75,000 shall vest at the end of each quarter from the date of grant so that 100% of the options shall be vested in 12 months subject to Executive continued employment.

- On April 12, 2007, pursuant to our adopted director compensation plan, we issued to each of Messrs Ogilvie and Oldaker options to purchase 20,000 shares of our common stock. The options were issued pursuant to our 2005 Stock Plan. The exercise price per share is $3.30 and will expire 7 years from the date of grant. The individual grants vest as follows:

i. 10,000 options vest upon the one month anniversary of joining the board; and

ii. 10,000 options vest quarterly through the year.

- On May 16, 2007, pursuant to our adopted director compensation plan, we issued to each of Messrs Ogilvie and Oldaker, options to purchase 15.000 shares of our common stock (5,000 shares per each committee on which they serve). The options were issued pursuant to our 2005 Stock Plan. The exercise price per share is $3.83 and the options vest quarterly over the year.

- On June 5, 2007, in exchange for: (i) the acquisition of certain residual rights; and (ii) the cancellation of the Hi Med Technologies, Inc. licensing agreement, we issued Karl Johe, our Chairman and Chief Scientific Officer, warrants to purchase an aggregate of 3,000,000 shares of our common stock at a price per share of $3.01 and expire 5 years from the date when they become exercisable. Additionally, the warrants will become immediately exercisable upon an event which would result in an acceleration of Mr. Johe's stock options granted under his employment agreement. The warrants vest as follows:

i. 1,000,000 warrants vest on October 31, 2010; and
ii. 2,000,000 warrants vest on October 31, 2011.

In addition to the warrants, we also made a one-time cash payment to Mr. Johe in the amount of $150,000.

- On September 20, 2007, our Compensation Committee granted Karl Johe, our Chairman and Chief Scientific Officer, options to purchase an aggregate of 333.333 shares of our common stock at a price per share of $3.01 pursuant to our 2005 Stock Plan. The options expire 5 years from the date when they become exercisable. Additionally, the options will become immediately exercisable upon an event which would result in an acceleration of Mr. Johe's stock options granted under his employment agreement. The option vests on October 31, 2010.

- On January 21, 2008 the Compensation Committee approved a new board compensation plan effective January 1, 2008. Please refer to the section entitled "*Compensation of Directors*" contained herein for a description of such plan.

- On January 21, 2008, the Compensation Committee approved to amend the employment contracts of Messrs, Garr, Johe and Conron. The amendment for Messrs Garr and Johe are effective as of January 1, 2008. The amendment of Mr. Conron is effective on April 1, 2008. For a further description of such amendments, please refer to the section of this report entitled "*Employment Agreements and Change in Control Arrangements*."

- On January 21, 2008, pursuant to our 2007 Stock Plan, the Compensation Committee approved the issuance of the following:

Karl Johe, Chairman and Chief Science Officer – options to purchase 2.1 million shares of common stock at a price of $3.66 per share. The options vest over 3.5 years with the vesting period commencing on January 1, 2008 with 700,000 options vesting on each of February 28, 2009, April 30, 2010, and June 30, 2011. The option expire on January 1, 2018.

Richard Garr, Chief Executive Officer and General Council – options to purchase 2.1 million shares of common stock at a price of $3.66 per share. The options vest over 3.5 years with the vesting period commencing on January 1, 2008 with 700,000 options vesting on each of February 28, 2009, April 30, 2010, and June 30, 2011. The option expire on January 1, 2018.

John Conron, Chief Financial Officer – options to purchase 1 million shares of common stock at a price of $3.66 per share. The options vest over 3 years effective April 1, 2008 with 333,333 options vesting on each of March 31, 2009, 2010 and 2011.

FINANCIAL STATEMENTS

Our audited financial statements appear beginning on page F-1 of this report.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the past two fiscal years, we have not had any disagreements with our principal independent accountants.

RECENT SALES OF UNREGISTERED SECURITIES

The following information is given with regard to unregistered securities sold during the preceding three years, to February 19, 2008:

- In early 2005, we completed the exchange of all our outstanding preferred shares (Series A, B & C) into shares of common stock. The exchange ratio was as follows:

Series	Conversion Ratio	Common Shares Issued
Preferred A	1-for-0.3	314,276
Preferred B	1-for-0.3	215,969
Preferred C	1-for -3	13,652,154

After the exchange, there were no shares of preferred stock outstanding.

- On March 21, 2005, we issued Thomas Freeman, M.D. an option to purchase 49,000 common shares at $.05 per shares pursuant to a scientific advisory letter of agreement. These options vest as follows: (i) 25,000 options vest immediately; and (ii) 24,000 options vest monthly at a rate of 2,000 per month for so long as Mr. Freeman continues to provide us services. The option will expire if not exercised within 12 years. The advisory letter of agreement also provides that if Mr. Freeman is still proving services as of August 28, 2006 and the agreement has not been terminated, he will receive an additional 2,000 common shares per month. As of August 28, 2006, the agreement is still effective. Accordingly, Mr. Freeman has received an additional 6,000 shares pursuant thereto.

- On March 22, 2005, we converted a note payable to Stanley Westreich in the amount of $60,000, and all accrued interest thereon, into 120,000 shares of our common stock.

- On May 23, 2005, we granted Richard A. Hull, PhD warrants to purchase 100,000 common shares at $2.00 per share as consideration for services to be provided pursuant to a business advisory services contract. The warrants allow for cashless exercise and contain certain anti-dilution and price adjustment provisions for stock splits, dividends and recapitalizations. The warrants are fully vested on the grant date and expire if not exercised 10 years after the Company's securities start trading on a national exchange or over the counter.

- On July 28, 2005, we issued to Karl Johe, our Chief Scientific Officer, options to purchase 1,200,000 common shares at $.50 per share. These options vest annually at a rate of 300,000 per year and will expire if not exercised within ten years. Additionally, these options are subject to certain accelerated vesting conditions more fully described in Mr. Johe's employment agreement attached as an exhibit to this annual report.

- On July 28, 2005, we issued to I. Richard Garr, our Chief Executive Officer, options to purchase 1,200,000 common shares at $.50 per share. These options vest annually at a rate of 300,000 per year and will expire if not exercised within ten years. Additionally, these options are subject to certain accelerated vesting conditions more fully described in Mr. Garr's employment agreement attached as an exhibit to this annual report.

- On September 15, 2005, we issued Regal One Corporation, 1,845,287 shares of our common stock and a warrant to purchase an additional 1,000,000 common shares at $5.00 per share. The shares and warrant were issued in exchange for services as well as Regal One Corporation's commitment to finance certain costs and expense relating to our funding and the filing of this registration statement.

- On September 26, 2005, we completed the private placement of 1,272,000 common shares to a group of investors at a per share price of $.50. Gross proceeds from the offering totaled $636,000.

- On October 15, 2005, we granted the J.D. Group, LLC warrants to purchase 1,000,000 common shares at $.50 per share as consideration for services to be provided pursuant to a business advisory services contract. The warrants allow for cashless exercise and contain certain anti-dilution and price adjustment provisions for stock splits, dividends and recapitalizations. The warrants are fully vested on the granted date and expire 9 months after the Company's common shares begin trading on a national exchange or over the counter.

- On November 1, 2005, we issued Equity Communications, LLC a warrant to purchase 330,000 common shares at $.50 per share pursuant to an amended financial public relations service agreement. This warrant vest immediately and expire if not exercised by November 1, 2010.

- On November 7, 2005, we issued to a consultant 120,000 shares of our common stock in fully satisfaction of consulting fees earned and not paid, including interest thereon, in the amount of $60,000. As additional consideration, we also issued the consultant a warrant to purchase 120,000 shares at $.50 per share. The warrant is fully vested and expires three years from the grant date if not exercised.

- On November 7, 2005, we converted a note in the amount of $100,000 to 200,000 shares of our common stock. As additional consideration, we also issued the note holder a warrant to purchase 200,000 shares at $.50 per share. The warrant is fully vested and expires three years from the grant date if not exercised. As a result of an oversight, the shares were not physically issued until the 2 nd quarter of 2006.

- On November 14, 2005, we issued Einhorn Associates 78,000 common shares pursuant to a settlement agreement related to fees and services performed.

- On December 23, 2005, we completed the private placement of 1,000,000 common shares to a group of investors at a per share price of $.50. Gross proceeds from the offering totaled $500,000. As a result of an oversight, a portion of the shares were not physically issued until the 2 nd quarter of 2006.

- On March 3, 2006, we completed a private placement through T.R. Winston & Company pursuant to which we sold 5,000,000 units to 64 investors at a price of $1.00 per unit, for gross proceeds of $5,000,000. Each unit sold consists of:

1 common share;

½ class “A” warrant to purchase common shares; and

½ class “B” warrant to purchase common shares.

In total, we issued 5,000,000 common shares and 2,500,000 class “A” warrants and 2,500,000 class “B” warrants. The class “A” warrants are exercisable at $1.50 per share and the class “B” warrants are exercisable at $2.00 per share. Both class “A” and “B” warrants are redeemable by the company upon the occurrence of certain events.

- On March 3, 2006, under the terms of our selling agent agreement with T.R. Winston & Company, we issued a placement agent warrant to purchase 800,000 common shares at $1.10 per share.

- On February 16, 2007, issued 69,000 common shares to a Thomas Freeman in connection with the exercise of an option to purchase 69,000 common shares at an exercise price of $.05 per share.

- On March 15, 2007, we completed a private placement through T.R. Winston & Company, LLC of 2,054,000 units to 15 institutional investors. The units were priced at $2.50 each and resulted in gross proceeds to the Company of $5,135,000.00. The units consist of:

  1 common stock; and

  ½ common stock purchase warrant.

An aggregate of 2,054,000 common shares and warrants to purchase an additional 1,027,000 common shares were issued. The units were priced at $2.50 each and resulted in gross proceeds to the Company of $5,135,000.00. The investors also received certain registration rights with regard to the underlying securities. The exercise price of the warrants is $3.00.

- On March 15, 2007, in connection with the private placement of the sate date, the Company paid fees and expenses totaling $431,000.00 and issued a warrant to purchase 246,480 common shares at $3.00 to T.R. Winston & Company, LLC.

- On March 27, 2007, we sold an additional 400,000 units for $1,000,000 pursuant to our March 15, 2007 private placement in. In connection with the sale of such additional units, we paid fees and expenses totaling $80,300 and issued a warrant to purchase an additional 48,000 common shares at $3.00 to T.R. Winston & Company, LLC.

- On April 1, 2007, granted John Conron options to purchase 100,000 common shares. The options vest as follows: (i) 25,000 vest immediately; and (iii) 75,000 vest quarterly over the year. The options have an exercise price of $3.15 and expire on April 1, 2015.

- On June 5, 2007, in exchange for: (i) the acquisition of certain residual rights; and (ii) the cancellation of the Hi Med Technologies, Inc. licensing agreement, we issued Karl Johe, our Chairman and Chief Scientific Officer, warrants to purchase an aggregate of 3,000,000 shares of our common stock at a price per share of $3.01 and expire 5 years from the date when they become exercisable. Additionally, the warrants will become immediately exercisable upon an event which would result in an acceleration of Mr. Johe's stock options granted under his employment agreement. The warrants vest as follows:

  i. 1,000,000 warrants vest on October 31, 2010; and
  ii. 2,000,000 warrants vest on October 31, 2011.

- On June 28, 2007, pursuant to our adopted director compensation plan, we issued to each of Messrs Ogilvie and Oldaker, options to purchase 15.000 shares of our common stock (5,000 shares per each committee on which they serve). The options were issued pursuant to our 2005 Stock Plan. The exercise price per share is $2.77 and the options vest quarterly over the year.

- On September 20, 2007, our Compensation Committee granted Karl Johe, our Chairman and Chief Scientific Officer, options to purchase an aggregate of 333.333 shares of our common stock at a price per share of $3.01 pursuant to our 2005 Stock Plan. The options expire 5 years from the date when they become exercisable. Additionally, the options will become immediately exercisable upon an event which would result in an acceleration of Mr. Johe's stock options granted under his employment agreement. The option vests on October 31, 2010.

- On September 24, 2007, we issued 13,000 share of our common stock to Rubicon Global Holdings as partial payment for services rendered. The shares were issued in exchange for services valued at $39,000. We also granted Rubicon Global Holdings piggy back registration rights on any registration statement filed by the Company (excluding any registration statement filed on form S-8).

- On October 31, 2007, the Company issued warrant to purchase 1,227,000 shares of common stock at a per share price of $2.75 to investors who participated in the Company's March 2007 offering which was previously disclosed on the current report filed on Form 8-K with the Securities and Exchange Commission on March 16, 2007. The warrants have a term of 5 years and are substantially identical to those warrants previously issued in the March 2007 offering. The Company agreed to include the common shares underlying the warrants in the Company's next registration statement. The warrants were granted as an inducement for the investors to exercise their prior warrants as well as the waiver of certain anti-dilutive and participation rights provisions contained March 2007 stock purchase agreement and warrants. The Company hereby incorporates by reference the stock purchase agreement and form of warrant contained in the Company's current report filed on Form 8-K on March 16, 2007. The Company relied on the exception from registration provided for in section 4(2) of the Securities Act.

- On November 15, 2007, our Compensation Committee granted employee Margaret McElroy options to purchase 15,000 shares of our common stock at a price per share of $2.71 pursuant to our 2005 Stock Plan.

The options are fully vested and expire 10 years from the grant date.

- On January 21, 2008, we issued an aggregate of 5.1 million options to purchase common stock to our executive management pursuant to our 2007 Stock Plan. For a further description of the grant, please refer to the section of this report entitled "*Transactions and Business Relationships with Management and Principal Shareholders*."

- On February 19, 2008, we entered into an agreement with CJ CheilJedang Corporation (KSE: CJ CheilJedang) for the purchase of $2.5 million worth of Neuralstem common stock at $4.063 per share. Please refer to our Current Report filed on form 8-K on February 25, 2008 for a further description of the transaction.

Exhibits

The following exhibits are included as part of this Report of form 10-ksb. References to "the Company" in this Exhibit List mean Neuralstem, Inc., a Delaware corporation.

Exhibit Number		Description
3.1	[1]	Articles of Incorporation of Neuralstem, Inc., as amended
3.2	[1]	Corporate Bylaws for Neuralstem, Inc.
3.2(i)	[5]	Amended and Restated Bylaws of Neuralstem, Inc. adopted on July 16, 2007
4.1	[1]	Option & Promissory Note Agreement between Neuralstem, Inc. and Stanley Westreich, dated October 6, 2003
4.2	[1]	2005 Stock Option Plan
4.2(i)	[5]	Amended and Restated 2005 Stock Plan adopted on June 28, 2007
4.3	[1]	Form of Stock Lockup Agreement
4.4	[1]	Non-qualified Stock Option Agreement between Neuralstem, Inc. and Richard Garr, dated July 28, 2005
4.5	[1]	Non-qualified Stock Option Agreement between Neuralstem, Inc. and Karl Johe, dated July 28, 2005
4.7	[1]	Form of $5.00 Option
4.8	[1]	September 2005 Stock Subscription Agreement
4.9	[1]	Consulting Fee Conversion Agreement and Stock Option Grant between Neuralstem, Inc. and Merrill Solomon, dated November 7, 2005
4.10	[1]	Debt Conversion Agreement and Stock Option Grant between Neuralstem, Inc. and Stanley Westreich , dated November 7, 2005.
4.11	[1]	Common Stock Purchase Agreement between Neuralstem, Inc. and High Tide, LLC and Steven B. Dunn, dated December 23, 2005

4.12	[1]	March 5, 2006 Private Placement Memorandum
4.13	[1]	Form of Placement Agent Warrant
4.14	[1]	Form of $1.50 Warrant (Series “A”)
4.15	[1]	Form of $2.00 Warrant (Series “B”)
4.16	[2]	Subscription Agreement for the March 2006 Private Placement
4.17	[3]	Equity Investment and Share Purchase Agreement between Neuralstem, Inc. and Regal One Corporation, effective June 22, 2005 and amended September 15, 2005
4.18	[3]	Securities Purchase Agreement dated March 15, 2007
4.19	[3]	Common Stock Purchase Warrant dated March 15, 2007

4.20	3	Registration Rights Agreement dated March 15, 2007
4.21	5	Neuralstem, Inc. 2007 Stock Plan adopted on June 28, 2007
4.22	*	Form of Johe warrant issued on June 5, 2007
10.1	1	Employment Agreement between CNS Stem Cell Technology, Inc. and I. Richard Garr, dated January 1, 1997 and Amendment, dated November 1, 2005
10.2	1	Employment Agreement between CNS Stem Cell Technology, Inc. and Karl Johe, dated January 1, 1997 and Amendment, dated November 1, 2005
10.3	1	Material Transfer and Research Agreement between Neuralstem, Inc. and the Regents of the University of John Hopkins, dated March 2, 2001
10.4	1	Research Agreement between Neuralstem, Inc. and the Regents of the University of California, San Diego, dated May 15, 2002
10.5	1	License Agreement between Neuralstem, Inc. and the Maryland Economic Development Corporation, dated February 1, 2004, and Amendment, dated March 14, 2004
10.6	1	Non-Exclusive Limited License and Material Transfer Agreement between Neuralstem, Inc. and A-T Children's Project, dated December 22, 2004
10.7	1	Exclusive License Agreement between Neuralstem, Inc. and Biomedical Research Models, Inc., dated February 7, 2005 and Amendment, dated May 20, 2006
10.8	1	Scientific Advisory Letter & Stock Option Agreement between Neuralstem, Inc. and Thomas Freemen, dated March 21, 2005
10.9	1	Laboratory Services and Confidentiality Agreement between Neuralstem, Inc. and Biopharmaceutical Services, a division of Charles River Laboratories, dated May 11, 2005
10.10	1	Business Advisory Services and Warrant Agreement between Neuralstem, Inc. and Richard A. Hull, PhD, dated May 23, 2005
10.11	1	Limited Exclusive License Agreement between Neuralstem, Inc. and High Med Technologies, Inc., dated July 7, 2005
10.12	1	

		Consulting Agreement for Financial Public Relations Services and Non-Qualified Stock Option as Amended between Neuralstem, Inc. and Equity Communications, LLC, dated August 29, 2005 and November 1, 2005
10.13	1	Research Agreement between Neuralstem, Inc. and the Regents of the University of Southern Florida, dated September 21, 2005
10.14	1	Business Advisory Services and Warrant Agreement between Neuralstem, Inc. and the J.D. Group, LLC, dated October 15, 2005
10.15	1	Consulting Fee Conversion Agreement between Neuralstem, Inc. and Einhorn Associates, Inc., dated November 14, 2005
10.16	1	Lease of Vivarium Room between Neuralstem Inc. and Perry Scientific, dated February 14, 2006
10.17	1	Research Agreement between Neuralstem, Inc. and the Regents of the University of Central Florida, dated March 1, 2006
10.18	6	Exclusive Option Agreement dated February 19, 2008
10.19	6	Securities Purchase Agreement dated February 19, 2008
10.20	6	Registration Rights Agreement dated February 19, 2008
14.1	1	Neuralstem Code of Ethics
14.2	4	Neuralstem Financial Code of Professional Conduct adopted May 16, 2007
23 (a)	*	Consent of Stegman & Company
23 (b)	*	Consent of David Banerjee, CPA
31.1	*	Certification of the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	*	Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	*	Certification of Principal Executive Officer Pursuant to 18 U.S.C §1350
32.2	*	Certification of Principal Financial Officer Pursuant to 18 U.S.C §1350
99.1	1	

Grant Number 1 R43 MH071958-01A2 from the National Institute of Mental Health to Neuralstem, Inc., issued September 30, 2005

99.2	[1]	Grant Number 3 R43 MH071958-01A2S1 from the National Institute of Mental Health to Neuralstem, Inc., issued November 22, 2005
99.3	[1]	Award Conditions and Information for National Institute of Health Grants

Filed herewith *

1. Filed as an exhibit to Issuers SB-2/A filed on June 21, 2006
2. Filed as an exhibit to Issuers SB-2/A filed on July 26, 2006
3. Filed as an exhibit to the Current Report Filed on Form 8-K on March 16, 2007
4. Filed as an exhibit to the Current Report Filed on Form 8-K on June 6, 2007
5. Filed as an exhibit to Issuers quarterly report filed on form 10-QSB on August 18, 2007
6. Filed as an exhibit to the Current Report Filed on Form 8-K on February 25, 2008

ITEM 14. Principal Accountant Fees and Services

Summary of Fees

The following table summarizes the approximate aggregate fees billed to us or expected to be billed to us by our independent auditors for our 2007 and 2006 fiscal years:

Type of Fees	**2007**	**2006**
Audit Fees		
Stegman & Company	47,000	-
Dave Banerjee	18,152	25,000
Audit Related Fees	-	-
Tax Fees		
Stegman & Company	5,500	-
Dave Banerjee	-	4,050
All Other Fees		
Total Fee's	70,652	29,050

Pre-Approval of Independent Auditor Services and Fees

Our board of directors reviewed and pre-approved all audit and non-audit fees for services provided by Stegman & Company and has determined that the provision of such services to us during fiscal 2007 is compatible with and did not impair independence. It is the practice of the audit committee to consider and approve in advance all auditing and non-auditing services provided to us by our independent auditors in accordance with the applicable requirements of the Securities and Exchange Commission. Stegman & Company did not provide us with any services, other than those listed above.

SIGNATURES

In accordance with Section 13 or 15(d) 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.

NEURALSTEM, INC

Dated: March 27, 2008 By: /S/ I Richard Garr
I Richard Garr
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that each person whose signature appears below constitutes and appoints I. Richard Garr and John Conron and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-KSB, and to file the same with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or either of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

OFFICERS AND DIRECTORS

Name	Title	Date
/s/ I. Richard Garr I. Richard Garr	President, Chief Executive Officer and Director (Principal executive officer)	March 27, 2008
/s/ John Conron John Conron	Chief Financial Officer (Principal financial and accounting officer)	March 27, 2008
/s/ Karl Johe Karl Johe	Chairman of the Board and Director	March 27, 2008
/s/ William Oldaker William Oldaker	Director	March 27, 2008
/s/ Scott Ogilvie Scott Ogilvie	Director	March 27, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Neuralstem, Inc.
Rockville, Maryland

We have audited the accompanying balance sheet of Neuralstem, Inc. as of December 31, 2007, and the related statements of operations, stockholders' equity and cash flows the year ended December 31, 2007. Neuralstem, Inc.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Neuralstem, Inc. is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of Neuralstem, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neuralstem, Inc. as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Baltimore, Maryland
March 26, 2008

DAVE BANERJEE, CPA
An Accountancy Corporation - Member AICPA and PCAOB

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EMAIL dave@finracompliance.com l WEB www.davebanerjee.com

To the Board of Directors
Neuralstem, Inc.

We have audited the accompanying balance sheet of Neuralstem, Inc. as of December 31, 2006 and the related statements of operations, stockholders' equity (deficit), and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Neuralstem, Inc. for the year ended December 31, 2005. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included in the year ended December 31, 2005, is based solely on the report of the auditors.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that my audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neuralstem, Inc. as of December 31, 2006 and the results of its operations, stockholders' equity (deficit) and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Dave Banerjee, CPA, An Accountancy Corp.
Dave Banerjee CPA, An Accountancy Corp.
Woodland Hills, California
March 30, 2007

Neuralstem, Inc.

Balance Sheets

	December 31, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 7,403,737	$ 1,807,041
Prepaid expenses	130,719	32,848
Other assets	-	6,043
Total current assets	7,534,456	1,845,932
PROPERTY AND EQUIPMENT, NET	136,920	32,515
OTHER ASSETS	43,271	35,940
INTANGIBLE ASSETS, NET	111,406	18,239
Total assets	$ 7,826,053	$ 1,932,626
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 1,016,699	$ 351,962
Current portion of Notes payable	**-**	7,816
Total current liabilities	1,016,699	359,778
LONG-TERM LIABILITIES -		
Note payable, long-term portion	-	20,579
Total liabilities	1,016,699	380,357
STOCKHOLDERS' EQUITY		
Common stock, $0.10 par value, 75 million shares authorized, 31,410,566 and 26,011,605 shares outstanding in 2007 and 2006	314,106	260,116
Additional paid-in capital	52,151,245	39,734,878
Common stock payable	-	150,000
Accumulated deficit	(45,655,997)	(38,592,725)
Total stockholders' equity	6,809,354	1,552,269
Total liabilities and stockholders' equity	$ 7,826,053	$ 1,932,626

See notes to financial statements.

Neuralstem, Inc.

Statements of Operations

	Years nded December 31, 2007	2006
Revenues	$ 306,057	$ 265,759
Operating expenses:		
Research and development	3,440,129	1,660,321
General, selling and administrative expenses	3,201,443	1,715,125
Depreciation and amortization	32,057	51,923
	6,673,629	3,427,369
Operating loss	(6,367,572)	(3,161,610)
Nonoperating income (expense):		
Interest	194,753	79,904
Interest expense	(1,302)	(9,461)
Other income (expense)	-	(56,320)
Net loss	(6,174,121)	(3,147,487)
Deemed Dividend – Repriced Warrants	(889,151)	-
Net loss atributable to Common Shareholders	$ (7,063,272)	$ (3,147,487)
Net loss per share, basic	$ (0.24)	$ (0.13)
Average number of shares of common stock outstanding	29,012,858	24,898,448

See notes to financial statements.

Neuralstem, Inc.

Statements of Cash Flows

	Years ended December 31,	
	2007	2006
Cash Flows From Operating Activities:		
Net loss	$ (6,174,121)	$ (3,147,487)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	32,056	51,923
Stock and warrant based compensation	1,575,120	359,929
Changes in operating assets and liabilities		
Prepaid expenses	(97,871)	(32,848)
Other assets	(1,288)	(41,983)
Accounts payable and accrued expenses	664,737	(331,841)
Deferred compensation	-	(192,620)
Net cash used in operating activities	(4,001,368)	(3,334,927)
Cash Flows From Investing Activities:		
Capital outlay for intangible assets	(95,721)	(5,565)
Purchase of property and equipment	(133,906)	(53,647)
Net cash used in investing activities	(229,627)	(59,212)
Cash Flows From Financing Activities:		
Issuance of common stock	9,856,036	4,650,000
Proceeds from common stock payable	-	150,000
Payments on notes payable	(28,345)	(125,201)
Net cash provided by financing activities	9,827,691	4,674,799
Net increase in cash	5,596,696	1,280,660
Cash and cash equivalent, beginning of period	1,807,041	526,381
Cash and cash equivalent, end of period	$ 7,403,737	$ 1,807,041
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,302	$ 9,461
Cash paid for taxes	-	-
Supplemental schedule of non cash investing and financing activites:		
Issuance shares of common stock to satisfy common stock payable commitment	150,000	113,000
Conversion of 6,254,402 shares of preferred stock to 14,182,399 shares of common stock	-	62,544

See notes to financial statements.

Neuralstem, Inc.

Statements of Shareholders' Equity

For the years ended December 31, 2007 and 2006

	Common Stock Shares	Common Stock Amount	Common Stock Payable	Additional Paid-In Capital	Accum. Deficit	Total Stockholders' Equity
Balance, December 31, 2005	20,608,272	$ 206,083	$ 113,000	$ 34,665,982	$ (35,445,238)	$ (460,173)
Issuance of common stock for cash proceeds of $4,550,000 (net of offering expense of $450,000), $1.00 per share	5,000,000	50,000	-	4,500,000	-	4,550,000
Issuance of common stock related to satisfaction of stock payable	226,000	2,260	(113,000)	110,740	-	-
Issuance of common stock related to exercise of warrants, $0.50 per share	200,000	2,000	-	98,000	-	100,000
Common stock payable related to exercise of warrants for 300,000 shares of common stock, $0.50 per share	-	-	150,000	-	-	150,000
Vesting of officer stock options for 600,000 shares of common stock, $0.49 fair value per share	-	-	-	293,529	-	293,529
Vesting of warrants for 24,000 shares of common stock, $0.42 fair value per share	-	-	-	10,080	-	10,080
Penalty for late filing of registration statement related to private placement offering	28,333	283	-	56,037	-	56,320
Return of shares related to penalty assessed on placement agent for late filing of registration statements related to private placement	(51,000)	(510)	-	510	-	-

Net loss, December 31, 2006	-	-	-	-	(3,147,487)	(3,147,487)
Balance at December 31, 2006	26,011,605	$ 260,116	$ 150,000	$ 39,734,878	$ (38,592,725)	$ 1,552,269
Issuance of common stock for satisfaction of common stock payable	300,000	3,000	(150,000)	147,000		-
Issuance of common stock related to exercise of warrants, $0.05 exercise price per share	69,000	690		2,760		3,450
Issuance of common stock related to exercise of warrants, $0.50 exercise price per share	100,000	1,000		49,000		50,000
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $1.50 exercise price per share	201,500	2,015		300,235		302,250
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $2.00 exercise price per share	25,000	250		49,750		50,000
Issuance of common stock related to Private Placement Offering, net of $440,100 in offering related expenses, $2.50 per share	2,054,000	20,540		4,674,360		4,694,900
Issuance of common stock related to Private Placement Offering, net of $80,300 in offering related expenses, $2.50 per share	400,000	4,000		915,700		919,700
Vesting of officer/directors stock options for 395,128 shares of common stock, $1.08 fair value per share	-	-		427,099		427,099
Vesting of warrants for 19,789 shares of common stock, $2.33 fair value per share	-	-		46,224		46,224
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $1.50 exercise price per share	56,000	560		83,440		84,000

Issuance of common stock related to exercise of warrants related to Private Placement Offering, $0.05 exercise price per share	4,000	40	160		200
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $1.10 exercise price per share	19,245	193	20,977		21,170
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $2.20 exercise price per share	50,000	500	99,500		100,000
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $0.50 exercise price per share	330,000	3,300	161,700		165,000
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $2.00 exercise price per share	50,000	500	99,500		100,000
Issuance of common stock related to exercise of warrants related to Private Placement of warrants, net cash exercise	339,394	3,394	(3,394)		-
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $3.00 exercise price per share	13,000	130	38,870		39,000
Vesting of officer/directors stock options for Quarter III	-	-	372,238		372,238
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $1.50 exercise price per share	15,000	150	22,350		22,500
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $2.75 exercise price per share	1,227,000	12,270	3,034,778		3,047,048
On October 26, 2007, the Company agreed to reduce the exercise price of the warrants	-	-	889,151	(889,151)	-

issued in connection with the Company's March 2007 offering by $.25 per share. As a result of the discounted exercise price we recorded a a deemed divident charge of $889,151 for the warrants that were so exercised.					
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $1.50 exercise price per share	72,911	729	108,637	-	109,367
Issuance of common stock related to exercise of warrants related to Private Placement Offering, $2.00 exercise price per share	72,911	729	145,093	-	145,822
Vesting of officer/directors stock options for Quarter IV			731,239	-	731,239
Net loss	-	-	-	(6,174,121)	(6,174,121)
Balance at December 31, 2007	31,410,566	$ 314,106	$ 0	$ 52,151,245	$ (45,655,997)	6,809,354

See notes to financial statements.

NEURALSTEM, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies

Nature of business:

Neuralstem, Inc. ("Company") is a biopharmaceuticals company that is utilizing its proprietary human neural stem cell technology to create a comprehensive platform for the treatment of central nervous system diseases. The Company will commercialize this technology as a tool for use in the next generation of small-molecule drug discovery and to create cell therapy biotherapeutics to treat central nervous system diseases for which there are no cures. The Company was founded in 1997 and currently occupies lab and office space in Gaithersburg, Maryland.

Inherent in the Company's business are various risks and uncertainties, including its limited operating history, the fact that Neuralstem's technologies are new and may not allow the Company or its customers to develop commercial products, regulatory requirements associated with drug development efforts and the intense competition in the genomics industry. The Company's success depends, in part, upon successfully raising additional capital, prospective product development efforts, the acceptance of the Company's solutions by the marketplace, and approval of the Company's solutions by various governmental agencies.

A summary of the Company's significant accounting policies is as follows:

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Equivalents

For the Statements of Cash Flows, all highly liquid investments with maturity of three months or less are considered to be cash equivalents.

NEURALSTEM, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies (continued)

Property and Equipment

Property and equipment is stated at cost and depreciated on a straight-line basis over the estimated useful lives ranging from three to eight years. Expenditures for maintenance and repairs are charged to operations as incurred.

Recoverability of Long-Lived Assets and Identifiable Intangible Assets

Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. In the event that such cash flows are not expected to be sufficient to recover the carrying amount of the assets, the assets are written down to their estimated fair values. Long-lived assets and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

Fair Value of Financial Instruments

The fair values of financial instruments are estimated based on market rates based upon certain market assumptions and information available to management. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash, accounts payable and notes payable. Fair values were assumed to approximate carrying values for cash and payables due to the short-term nature or that they are payable on demand.

Revenue Recognition

To date, revenue has been derived primarily from providing treated samples for gene expression data from stem cell experiments and from providing services under a federal grant program approximating $306,057 and $265,759 in 2007 and 2006, respectively. Revenue is recognized when there is persuasive evidence that an arrangement exists, delivery of goods and services has occurred, the price is fixed and determinable, and collection is reasonably assured.

Research and Development

Research and development costs are charged to operations when incurred.

NEURALSTEM, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies (continued)

Income taxes

Income taxes are provided for using the liability method of accounting in accordance with SFAS No. 109 *"Accounting for Income Taxes."* A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

Stock - Based Compensation

We have granted stock-based compensation awards to employees and board members. Awards may consist of common stock, or stock options. Our stock options and warrants have a ten year life. The stock options or warrants vest either upon the grant date or over varying periods of time. The stock options we grant provide for option exercise prices equal to or greater than the fair market value of the common stock at the date of the grant.

During the year ended December 31, 2007 we granted 718,333 options. In the year ended December 31, 2006 we granted no options. We accrue related compensation expenses as our options vest in accordance with SFAS123(R), *Share-Based Payment.* We recognized $1,575,120 and $359,926 stock-based compensation expense during the year ended December 31, 2007 and 2006, respectively, from the vesting of stock options.

A summary of stock option activity during the year ended December 31, 2007 and related information is included in the table below:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2006	2,482,326	$ 0.66	8.5	$ -
Granted	-			
Exercised	-			
Forfeited	-			
Outstanding at December 31, 2006	2,482,326	0.66	7.5	
Granted	718,333	3.04	7.8	
Exercised	-			
Forfeited	-			
	3,200,659	$ 1.19	6.8	$ 8,256,977

Outstanding at December 31, 2007				
Exercisable at December 31, 2007	1,504,826	$ 1.12	6.6	$ 4,059,427

	Option Oustanding			Options Exercisable	
	Number Outstanding	**Weighted Average Remaining Contractural Life (in years)**	**Weighted Average Exercise Price**	**Number Outstanding**	**Weighted Average Exercise Price**
$.50 to $3.00	2,465,000	7.5	$ 0.54	1,265,000	$ 0.59
$3.01 to $4.00	668,275	7.7	$ 3.13	172,442	$ 3.27
$4.01 to $16.67	67,384	6.9	$ 5.64	67,384	$ 5.64
	3,200,659	6.8	$ 1.19	1,504,826	$ 1.12

NEURALSTEM, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies (continued)

Comprehensive Loss

Statement of Financial Accounting Standard (SFAS) No. 130*"Reporting Comprehensive Income,"* requires the presentation of comprehensive income or loss and its components as part of the financial statements. For the years ended December 31, 2005 and 2004, the Company's net loss reflects comprehensive loss and, accordingly, no additional disclosure is required.

Significant New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 157, *"Fair Value Measurements."* SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. We do not expect the implementation of SFAS 157 to have a material impact on our financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes"* ("FIN 48"). FIN 48 clarifies when tax benefits should be recorded in financial statements, requires certain disclosure of uncertain tax matters and indicates how any tax reserves should be classified in a balance sheet. On January 1, 2007, the Company adopted FIN 48. We have determined that adoption of FIN 48 did not have any impact on our financial condition or results of operations. It is our policy to recognize interest and penalties related to unrecognized tax liabilities within income tax expense in the statements of operations.

In February 2007, the FASB issued SFAS 159, *"The Fair Value Option for Financial Assets and Liabilities."* SFAS 159 permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This pronouncement is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. We do not expect the implementation of SFAS 159 to have a material impact on our financial position or results of operations.

In June 2007, the FASB ratified a consensus opinion reached by the Emerging Issue Task Force ("EITF") on EITF Issue 07-3, *"Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities."* The guidance in EITF Issue 07-3 requires use to defer and capitalize nonrefundable advance payments made for goods or services to be use in research and developments activities until the goods have been delivered or the related services have been performed. If the goods are no longer expected to be delivered nor the services expected to be performed, we would be required to expense the related capitalized advance payments. The consensus in EITF Issue 07-3 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2007 and is to be applied prospectively to new contracts entered into on or after December 15, 2007. Early adoption is not permitted. Retrospective application of EITF Issue 07-3 is also not permitted. We intend to adopt EITF Issue 07-3 effective January 1, 2008. The impact of applying this consensus will depend on the terms of the our future research and development contractual arrangements entered into on or after December 15, 2007.

In December 2007, the FASB ratified a consensus reached by the EITF on Issue 07-1, *"Accounting for Collaborative Arrangements."* The EITF concluded on the definition of a collaborative arrangement and that revenues and costs incurred with third parties in connection with collaborative arrangements would be presented gross or net based on the criteria in EITF 99-19 and other accounting literature. Based on the nature of the arrangement, payments to or from collaborators would be evaluated and its terms, the nature of the entity's business, and whether those payments are within the scope of other accounting literature would be presented. Companies are also required to disclose the nature and purpose of collaborative arrangements along with the accounting policies and the classification and amounts of significant financial-statement amounts related to the arrangements. Activities in the arrangement conducted in a separate legal entity should be accounted for under other accounting literature; however required disclosure under EITF 07-1 applies to the entire collaborative agreement. EITF 07-1 is effective for us January 1, 2008 and is to be applied retrospectively to all periods presented for all collaborative arrangements existing as of the effective date. We do not expect the adoption of EITF 07-1 to have a material impact on our financial statements.

In December 2007, the FASB issued SFAS 141, Revised 2007 (SFAS 141R), *"Business Combinations."* SFAS 141R's objective is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after December 15, 2008. We do not expect the implementation of SFAS 141R to have a material impact on our financial statements.

In December 2007, the FASB issued SFAS 160, *"Noncontrolling Interests in Consolidated Financial Statements."* SFAS 160's objective is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 shall be effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. We do not expect the implementation of SFAS 160 to have a material impact on our financial statements.

Note 2. Stockholders' Equity

Preferred and Common Stock

The authorized stock of the Company consists of 7,000,000 shares of preferred stock with a par value of $0.01 and 75,000,000 shares of common stock with par value of $0.01. The preferred stock is divided into A, B, and C Series.

NEURALSTEM, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. Stockholders' Equity (continued)

Preferred and Common Stock (continued)

During the year ended December 31, 2006, the Company sold 5,000,000 shares of common stock for a total consideration of $4,550,000 (net of offering expenses of $450,000) through a Limited Offering Memorandum. Each Unit sold consisted of one share of common stock, ½ "A" Warrant to Purchase A share of Common Stock at $1.50 per share, and ½ 'B" Warrant to Purchase A Share of Common Stock at $1.00 per share. These warrants have a life of 10 years.

During the year ended December 31, 2007, the Company sold 2,454,000 shares of common stock for a total consideration of $5,614,600 (net of offering expenses of $511,300) through a Limited Offering Memorandum. Each Unit sold consisted of one share of common stock, ½ Warrant to Purchase A share of Common Stock at $3.00 per share. In addition we gave the underwriter, T.R. Winston & Co 294,280 $3.00 warrants. These warrants have a life of 5 years.

During the year ended December 31, 2007, the Company also converted 2,644,961 warrants into common shares raising $4,245,436 net of $327,202 in expenses. In conjunction with one large conversion we issued and additional 1,227,000 $2.75 warrants with a five year life.

Stock Options

In 1997, the Company adopted a stock incentive plan (the Plan) to provide for the granting of stock awards, such as stock options and restricted common stock to employees, directors and other individuals as determined by the Board of Directors. The Company reserved 2.7 million shares of common stock for issuance under the Plan. At December 31, 2002, 816,084 options were outstanding with 216,040 options exercisable. During 2003, the Company reduced operations and terminated employment with all employees. The Plan was discontinued, terminating all options outstanding.

The Company did not issue new stock options in 2006.

- On April 1, 2007, granted John Conron options to purchase 100,000 common shares. The options vest as follows: (i) 25,000 vest immediately; and (iii) 75,000 vest quarterly over the year. The options have an exercise price of $3.15 and expire on April 1, 2015. These options have a value of $118,284.

- On June 28, 2007, pursuant to our adopted director compensation plan, we issued to each of Messrs Ogilvie and Oldaker, options to purchase 15.000 shares of our common stock (5,000 shares per each committee on which they serve). The options were issued pursuant to our 2005 Stock Plan. The exercise price per share is $2.77 and the options vest quarterly over the year.

- On September 20, 2007, our Compensation Committee granted Karl Johe, our Chairman and Chief Scientific Officer, options to purchase an aggregate of 333.333 shares of our common stock at a price per share of $3.01 pursuant to our 2005 Stock Plan. The options expire 5 years from the date when they become exercisable. Additionally, the options will become immediately exercisable upon an event which would result in an acceleration of Mr. Johe's stock options granted under his employment agreement. The options vest on October 31, 2010. The Option have a value of $570,478.

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On November 15, 2007, our Compensation Committee granted an employee options to purchase an aggregate of 14,000 shares of our common stock at a price per share of $2.71 pursuant to our 2005 Stock Plan. The options expire 10 years from the grant date. The options are fully vested and have a value of $11,509.

- On December 15, 2007, our Compensation Committee granted a consultant options to purchase an aggregate of 50,000 shares of our common stock at a price per share of $2.00 pursuant to our 2005 Stock Plan. The options expire in 2015. The options are fully vested and have a value of $54,898.

NEURALSTEM, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. Stockholders' Equity (continued)

Stock Warrants (continued)

During the year ended December 31, 2006, the Company issued warrants to a consultant for 24,000 shares of common stock with an exercise price $0.50 per share expiration commencing 2017. The warrants were issued for consulting services performed which had been valued at approximately $10,000 and expensed for the year ended December 31, 2006. The warrants were valued using the Black Scholes option pricing model based on the following assumptions: stock price of at date of issuance of $0.50; expected life of 1.5 years; volatility rate of 224%; and discount rate of 4.1%.

During the year ended December 31, 2007 the company issue the following warrants:

On March 15, 2007, we completed a private placement through T.R. Winston & Company, LLC of 2,054,000 units to 15 institutional investors. The units were priced at $2.50 each and resulted in gross proceeds to the Company of $5,135,000.00. The units consist of:

1 common stock; and

½ common stock purchase warrant.

An aggregate of 2,054,000 common shares and warrants to purchase an additional 1,027,000 common shares were issued. The units were priced at $2.50 each and resulted in gross proceeds to the Company of $5,135,000.00. The investors also received certain registration rights with regard to the underlying securities. The exercise price of the warrants is $3.00.

On March 15, 2007, in connection with the private placement of the same date, the Company paid fees and expenses totaling $431,000.00 and issued a warrant to purchase 246,480 common shares at $3.00 to T.R. Winston & Company, LLC.

On March 27, 2007, we sold an additional 400,000 warrants to purchase an additional 200,000 common shares were issued for $1,000,000 pursuant to our March 15, 2007 private placement. In connection with the sale of such additional units, we paid fees and expenses totaling $80,300 and issued a warrant to purchase an additional 48,000 common shares at $3.00 to T.R. Winston & Company, LLC.

On April 1, 2007 we issued warrants for 100,000 shares of our common stock to Richard Freeman as l payment for services rendered. The warrants have an exercise price of $3.20 and vest over 18 months. The warrants are valued $124,525.

On June 5, 2007, in exchange for: (i) the acquisition of certain residual rights; and (ii) the cancellation of the Hi Med Technologies, Inc. licensing agreement, we issued Karl Johe, our Chairman and Chief Scientific Officer, warrants to purchase an aggregate of 3,000,000 shares of our common stock at a price per share of $3.01. The

warrants expire 5 years from the date when they become exercisable. Additionally, the warrants will become immediately exercisable upon an event which would result in an acceleration of Mr. Johe's stock options granted under his employment agreement. The warrants vest as follows:

i. 1,000,000 warrants vest on October 31, 2010; and

ii. 2,000,000 warrants vest on October 31, 2011.

- On October 31, 2007, the Company issued warrants to purchase 1,227,000 shares of common stock at a per share price of $2.75 to investors who participated in the Company's March 2007 offering which was previously disclosed on the current report filed on Form 8-K with the Securities and Exchange Commission on March 16, 2007. The warrants have a term of 5 years and are substantially identical to those warrants previously issued in the March 2007 offering. The Company agreed to include the common shares underlying the warrants in the Company's next registration statement. The warrants were granted as an inducement for the investors to exercise their prior warrants as well as the waiver of certain anti-dilutive and participation rights provisions contained March 2007 stock purchase agreement and warrants. The Company hereby incorporates by reference the stock purchase agreement and form of warrant contained in the Company's current report filed on Form 8-K on March 16, 2007. The Company relied on the exception from registration provided for in section 4(2) of the Securities Act.

Warrants to purchase common stock were issued to certain officers, stockholders and consultants.

	Number of Warrants		Weighted-Average Exercise Price
Outstanding at January 1, 2006	2,899,000	$	2.77
Issued	5,849,602	$	1.66
Exercised	(500,000)	$	(.50)
Forfeited	(100,000)	$	(20.00)
Outstanding at December 31, 2006	8,148,602	$	1.90
Issued	5,752,480	$	2.95
Exercised	(2,691,567)	$	(1.61)
Forfeited	–		
Outstanding at December 31, 2007	11,208,515	$	2.44
Exercisable at December 31, 2007	8,208,515	$	2.24

The following table summarizes information about stock warrants at December 31, 2007 which all are currently exercisable:

Exercise Price	Outstanding Warrants	Expiration Date
$0.50	320,000	2007
$1.10	782,005	2011
$1.50	2,168,765	2011
$2.00	2,316,265	2011
$2.75	1,227,000	2012
$3.00	294,480	2012
$5.00	1,000,000	2016
$2.00	100,000	2016
	8,208,515	

Deemed Dividend

In October 2007 we offered the holders of 1,227,000 $3.00 warrants to purchase the Company’s common shares; the opportunity to exercise those securities for $2.75. In addition we offered the $3.00 warrant holders one new $2.75 five year warrant on terms substantially identical to the $3.00 warrants for each share purchased in the transaction. We issued an aggregate of 1,227,000 common shares and received $3,374,250 in the transaction.

As a result of the discounted exercise price we recorded a deemed dividend charge of approximately $889,151 for the warrants that were so exercised.

Valuation and Expense Information Under SFAS 123R

On January 1, 2006, we adopted SFAS 123R, which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees service providers, and directors, including employee stock options and warrant awards.

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The following table summarizes the stock-based compensation expense related to share-based payment awards under SFAS 123R for the year ended December 31, 2007 and 2006 which was allocated as follows:

	Year Ended December 31, 2007	Year Ended December 31, 2006
Research and development	$ 1,167,172	$ 147,605
General and administrative	407,948	147,605
Stock-based compensation expense included in operating expenses	$ 1,575,120	$ 195,210

The fair value of options granted in fiscal years 2007 and 2006 reported above has been estimated at the date of grant using the Black Scholes option-pricing model with the following assumptions:

	2007
Dividend yield	0%
Expected volatility range	47% to 82%
Risk-free interest rate range	3.09 to 4.73%
Expected life	2 to 6.5 yrs

We have not used the historical volatility of our stock since we began public trading in December 2006 and consequently do have sufficient trading history to forecast volatility for the expected life of our options. Instead to estimate expected volatility we use a market capitalization weighted average of the historical trading of other companies in our industry. The expected term of options is two years beyond the vesting date. This is an estimate based on management ‘s judgment and corresponds with its experience with Equity Warrants. The risk-free interest rate is based on the Daily Treasury Yield Curve Rates as published by the US Treasury for the expected term in effect on the date of grant. We grant options under our equity plans to employees, non-employee directors, and consultants for whom the vesting period is between imediate and 4.5 years.

As stock-based compensation expense recognized in the statements of operations for the year ended December 31, 2007 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures but at a minimum, reflects the grant-date fair value of those awards that actually vested in the period. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based management judgment.

Based on the Black Scholes option-pricing model, the weighted average estimated fair value of employee stock options granted during the year ended December 31, 2007 was $1.48 per share.

Earnings Per Share

Net loss per share is calculated in accordance with SFAS No. 128, “*Earnings Per Share.*” The weighted-average number of common shares outstanding during each period is used to compute basic loss per share. Diluted loss per share is computed using the weighted averaged number of shares and dilutive potential common shares outstanding. Dilutive potential common shares are additional common shares assumed to be exercised. Dilutive loss per share is excluded from the calculation because the effect would be anti-dilutive.

NEURALSTEM, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. Stockholders' Equity (continued)

Common stock payable for 300,000 unissued shares of common stock at December 31, 2006

During the year ended December 31, 2006, the Company received $150,000 related to exercise of warrants for 300,000 shares of common stock at $0.50 per share. As of December 31, 2006, the Company had not issued any of the 300,000 shares of common stock. However, the 300,000 shares of common stock have been included in the net loss per share computation in the accompanying statements of operations. The Company issued these shares in February 2007.

Note 3. Property and Equipment

The major classes of property and equipment consist of the following:

	2007	2006
Furniture and Fixtures	$ 5,289	$ 336,487
Computers and office equipment	39,181	307,778
Lab equipment	132,530	567,091
	$ 177,000	$ 1,211,356
Less accumulated depreciation and amortization	(40,080)	(1,178,841)
Property and equipment, net	$ 136,920	$ 32,515

Depreciation expense for the years ended December 31, 2007 and 2006 was $32,056 and $51,923, respectively. In 2007 we retired $1,139,411 of fully depreciated equipment that was no longer being used by the company.

NEURALSTEM, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4. Intangible Assets

The Company holds patents related to its stem cell research. Patent filing costs were capitalized and are being amortized over the life of the patents. The company has determined that the intangibles purchased have a seventeen year useful life. The provisions of SFAS No. 144 *"Accounting for the Impairment or Disposal of Long-Lived Assets"* are followed in determining if there is any impairment. The Company determined that no impairment to the assigned values had occurred. The Company's intangible assets and accumulated amortization consisted of the following at December 31, 2007 and 2006:

	2007		2006	
	Gross	Accumulated Amortization	Gross	Accumulated Amortization
Patent filing fees	$ 126,083	$ (14,677)	$ 24,796	$ (6,557)

Amortization expense for the years ended December 31, 2007 and 2006 was $8,120 and $1,653, respectively.

Note 5. Notes payable

In April 2005, the Company received a notice from the Department of Economic Development ("DED") from Montgomery County, Maryland, whereby provisions of a $40,000 grant received in 2001 were not fully satisfied. As a result, the Company is required to return the grant. In 2004, the Company recorded an accrued liability for this amount. In 2005, the Company reclassified the accrued liability as a note payable since the notice from DED provided provisions for the grant funds to be returned over a five year period, in monthly payments of both principal and interest, interest rate of 5% and maturing in May 2010. In December of 2007 the Company paid the full remaining balance of the note. As of December 31, 2007 there was no amount owed on the note compared with a December 31, 2006 balance of $28,395.

In November 2001, the Company entered into an agreement with a bank to borrow $625,000. The note was renegotiated in May 2002 to require principal payments of $25,000 per month beginning August 2002 and to accrue interest at the prime rate plus 1.5% with the balance of principal and accrued interest due on December 9, 2002. The note was renegotiated in December 2002 to require principal payments of $25,000 per month through February 2003, increasing to $40,000 per month starting March 2003, and to accrue interest at the prime rate plus 1.5% with the balance of principal and accrued interest due on June 20, 2003. Substantially all of the Company's assets provide collateral for the borrowings. The note was fully paid as of December 31, 2006.

NEURALSTEM, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Notes payable (continued)

Notes payable at December 31, 2007 and 2006 are as follows:

	2007	2006
Note payable	$ -	$ 28,395
Current portion of note payable	-	(7,816)
Long-term portion of note payable	$	$ 20,579

Note 6. Income Taxes

We did not provide any current or deferred U.S. federal income tax provision or benefit for any of the periods presented because we have experienced operating losses since inception. We provided a full valuation allowance on the net deferred tax asset, consisting of net operating loss carryforwards, because management has determined that it is more likely than not that we will not earn income sufficient to realize the deferred tax assets during the carryforward period.

The tax effects of significant temporary differences representing deferred tax assets as of December 31, 2007 and 2006:

	2007	2006
Net operating loss carry-forwards	$ 12,795,157	$ 10,749,822
Valuation allowance	(12,795,157)	(10,749,822)
Net deferred tax assests	$ -	$ -

At December 31, 2007, the Company has net operating loss carryforwards of approximately $32.4 million. The Company has also reported certain other tax credits, the benefit of which has been deferred. The Company's NOL carryforwards and credits will begin to expire in the tax year 2012. The timing and manner in which these net operating loss carryforwards and credits may be utilized in any year by the Company will be limited to the Company's ability to generate future earnings and also may be limited by certain provision of the U.S. tax code.

NEURALSTEM, INC.

NOTES TO FINANCIAL STATEMENTS

Note 7. Commitments and Contingencies

We currently lease two facilities. Our executive offices and primary research facilities are located at 9700 Great Seneca Highway, Rockville MD, 20850. We lease these facilities consisting of approximately 2,500 square feet for $7,940 per month. The term of our lease expires on January 31, 2009.

We have recently entered into a lease to secure approximately 900 square feet of research space in San Diego California at a monthly lease rate of $3,346. The lease expires in August of 2009.

On November 1, 2005, the Company amended and extended its employment agreements dated January 1, 1997 with Richard Garr and Karl Johe for an additional seven (7) years which includes a base salary of $240,000 per year for each officer. On July 28, 2005, the Company granted both Mr. Garr and Mr. Johe stock options for 1,200,000 shares of the Company’s common stock each vesting annually over a four year period with an exercise price of $0.50 per share. Termination prior to full term on the contracts would cost the Company $240,000 per year unserved, or as much as $1,680,000 per contract, and immediate vesting of all outstanding options.

Note 8. Subsequent Event

CJ CheilJedang Corporation (KSE: CJ CheilJedang hereafter "CJ") has purchased an option to negotiate for the exclusive license to Neuralstem’s stem cell-products and technology after the company completes a successful human clinical trial. As part of the agreement, CJ has purchased $2.5 million worth of Neuralstem stock at $4.063 per share. The terms of the license will be negotiated after the first successful human trial. CJ exclusive markets will include: Korea, Indonesia, Philippines, Malaysia, Singapore and Vietnam, with a first right of negotiation for China and Japan. Neuralstem is planning to begin human clinical trials this year with its stem cell products.