HEPALIFE TECHNOLOGIES INC
Form 10-Q
August 20, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

X QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended June 30, 2007

___ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

000-29819

(Commission File Number)

HEPALIFE TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Florida

(State or other jurisdiction of incorporation)

58-2349413

(I.R.S. Employer Identification No.)

60 State Street, Suite 700, Boston, MA 02109

(Address of principal executive offices)

(800) 518-4879

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

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

Large Accelerated Filer

[ ]

Accelerated Filer

[ ]

Non-accelerated Filer

[X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 73,926,276 shares of Common Stock, par value $0.001, were outstanding on August 15, 2007.

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HEPALIFE TECHNOLOGIES, INC.

(A Development Stage Company)

CONSOLIDATED BALANCE SHEETS

June 30, 2007 and December 31, 2006

(Unaudited)

(Expressed in U.S. Dollars)	**June 30, 2007**	**December 31, 2006**
ASSETS		
Current assets		
Cash	$1,639,044	$252,887
Prepaid expenses	2,304	3,775
Total current assets	1,641,348	256,662
Equipment, net (Note 7)	19,236	23,259
Deferred financing costs (Note 9)	284,710	-
Total assets	$1,945,294	$279,921
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$107,670	$170,077
Accounts payable - related parties (Note 4)	170,717	158,535
Notes payable - related party (Note 4)	877,800	1,010,000
Total current liabilities	1,156,187	1,338,612
Convertible promissory note, at face value (Note 9)	2,500,000	-
Discount on convertible promissory notes	(2,030,306)	-
	469,694	
Total liabilities	1,625,881	1,338,612
STOCKHOLDERS' EQUITY (DEFICIENCY)		
Stockholders' Equity (Deficiency)		

Preferred stock: $0.10 par value; Authorized: 1,000,000		
Issued and outstanding: none	-	-
Common stock: $0.001 par value; Authorized: 300,000,000		
Issued and outstanding: 73,659,863 (2006: 72,768,844)	73,660	72,769
Additional paid-in capital	13,002,976	10,084,412
Accumulated other comprehensive income	(3)	-
Loss accumulated during the development stage	(12,757,220)	(11,215,872)
Total stockholders' equity (deficiency)	319,413	(1,058,691)
Total liabilities and stockholders' equity	$1,945,294	$279,921

(The accompanying notes are an integral part of these financial statements)

HEPALIFE TECHNOLOGIES, INC.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS

For the three months and six months ended June 30, 2007 and 2006

and from inception (October 21, 1997) to June 30, 2007

(Unaudited)

	Three months ended		Six months ended		From inception (October 21, 1997)
(Expressed in U.S. Dollars)	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006	to June 30, 2007
Revenue	$-	$-	$-	$-	$-
Expenses					
Administrative and general	60,381	22,331	102,515	28,851	524,287
Depreciation	4,090	740	7,901	1,480	19,235
Interest on promissory note	21,649	24,358	42,818	48,461	275,884
Interest, bank charges and foreign exchange loss	2,851	2,321	5,143	3,753	21,128
Professional fees- accounting and legal	65,762	30,137	75,465	117,005	483,093
Management and consulting fees (Note 4)	11,355	4,095	23,442	12,620	998,847
Research and development (Notes 5 and 6)	34,969	66,423	64,590	131,846	913,345
Salary and benefits	143,279	52,231	266,714	81,506	622,860
Shareholder and investor relations	201,976	67,981	211,381	71,106	3,455,455
Stock offering costs	-	-	-	505,917	1,926,713
Transfer agent and filing	4,008	768	4,468	973	15,857
Travel	21,532	22,143	38,177	23,526	244,317
Stock based compensation expenses (Note 11)	171,603	1,147,530	641,365	1,147,530	3,248,667
	743,455	1,441,058	1,483,979	2,174,574	12,749,688
Operating Loss	(743,455)	1,441,058)	(1,483,979)	(2,174,574)	(12,749,688)
Other income and expenses					

Interest income	12,685	3,662	14,229	4,739	64,066
Amortization of discount on issuance of convertible promissory notes	(62,793)	-	(62,793)	-	(62,793)
Deferred financing costs	(8,805)	-	(8,805)	-	(8,805)
	(58,913)	3,662	(57,369)	4,739	(7,532)
Net loss available to common shareholders	$(802,368)	$(1,437,396)	$(1,541,348)	$(2,169,835)	$(12,757,220)
Loss per share - basic and diluted	$(0.01)	$(0.02)	$(0.02)	$(0.03)	
Weighted average number of common shares outstanding - basic and diluted	73,563,727	71,026,187	73,225,292	70,735,292	

(The accompanying notes are an integral part of these financial statements)

HEPALIFE TECHNOLOGIES, INC.

(A Development Stage Company)

CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY

from inception (October 31, 1997) to June 30, 2007

(Unaudited)

(Expressed in U.S. Dollars)	Common Stock Shares	Amount	Additional paid-in capital	Loss accumulated during development stage	Comprehensive loss	Accumulated other comprehensive income	Total stockholders' equity (deficiency)
Common stock issued for service rendered at $0.00025 per share, October 21, 1997	12,000,000	$12,000	$(9,000)	$-			$3,000
Common stock issued for cash at $0.0625 per share during 1997	1,200,000	1,200	73,800	-			75,000
Comprehensive income							
Income from inception (October 21, 1997) to December 31, 1997	-	-	-	42			42
Balance, December 31, 1997	13,200,000	13,200	64,800	42		-	78,042
Common stock issued for service rendered at $0.025 per share, December 15, 1998	16,000,000	16,000	384,000	-			400,000
Comprehensive income (loss)							

Loss, year ended December 31, 1998	-	-	-	(471,988)		(471,988)
Balance, December 31, 1998	29,200,000	29,200	448,800	(471,946)	-	6,054
Common stock issued for cash at $0.025 per share, March 1999	12,000,000	12,000	288,000	-		300,000
Comprehensive income (loss)						
Loss, year ended December 31, 1999	-	-	-	(121,045)		(121,045)
Balance, December 31, 1999	41,200,000	41,200	736,800	(592,991)	-	185,009
Comprehensive income (loss)						
Loss, year ended December 31, 2000	-	-	-	(80,608)		(80,608)
Balance, December 31, 2000	41,200,000	41,200	36,800	(673,599)	-	104,401
Conversion of debt to equity at $0.015						

per share, July 31, 2001	8,933,332	8,933	125,067	-		134,000
Comprehensive income (loss)						
Loss, year ended December 31, 2001	-	-	-	(160,364)		(160,364)
Balance, December 31, 2001	50,133,332	50,133	861,867	(833,963)	-	78,037
Common stock issued for services						
at $0.06 per share, April 23, 2002	10,000	10	590	-		600
Conversion of debt to equity at $0.05						
per share, April 26, 2002	2,160,000	2,160	105,840	-		108,000
Common stock issued for investor						
relations services at $0.05 per share,						
July 25, 2002	2,390,000	2,390	117,110	-		119,500
Conversion of debt to equity at $0.05 per						
share, December 18, 2002	1,920,000	1,920	94,080	-		96,000
Comprehensive income (loss)						
Loss, year ended December 31, 2002	-	-	-	(375,472)		(375,472)
Balance, December 31, 2002	56,613,332	56,613	1,179,487	(1,209,435)	-	26,665
Common stock issued pursuant to						
exercise of stock options during the						
	282,500	283	398,317	-		398,600

year at between $0.07 to $2.11 per share						
Common stock issued pursuant to exercise of share purchase warrants in November 2003 at $0.025 per share	7,300,000	7,300	175,200	-		182,500
Comprehensive income (loss)						
Loss, year ended December 31, 2003	-	-	-	(1,102,723)		(1,102,723)
Balance, December 31, 2003	64,195,832	64,196	1,753,004	(2,312,158)	-	(494,958)
Common stock issued pursuant to exercise of stock options during the year between $0.07 to $2.11 per share	1,622,000	1,622	1,339,998	-		1,341,620
Common stock issued pursuant to exercise of share purchase warrants in December 2004 at $0.025 per share	2,000,000	2,000	48,000	-		50,000
Comprehensive income (loss)						
Loss, year ended December 31, 2004	-	-	-	(1,435,613)		(1,435,613)

Balance, December 31, 2004	67,817,832	67,818	3,141,002	(3,747,771)	-	(538,951)
Common stock issued pursuant to exercise of stock options in March 2005 at $3.10 per share	50,000	50	154,950	-		155,000
Common stock issued pursuant to exercise of stock options in May 2005 at $2.11 per share	45,000	45	94,905	-		94,950
Common stock issued pursuant to exercise of stock options in June 2005 at $2.11 per share	100,000	100	210,900	-		211,000
Common stock issued pursuant to exercise of stock options in October 2005 at $2.11 per share	40,000	40	84,360	-		84,400
Common stock issued pursuant to exercise of stock options in March 2005 at $2.11 per share	50,000	50	105,450	-		105,500
Common stock issued pursuant to exercise of share purchase warrants in March 2005 at $0.025 per share	1,250,000	1,250	30,000	-		31,250

Restricted common stock issued in June 2005 pursuant to share purchase agreement	20,000	20	37,580	-		37,600
Restricted common stock issued in July 2005 pursuant to share purchase agreement	691,598	692	1,382,504	-		1,383,196
Comprehensive income (loss)						
Loss, year ended December 31, 2005				(2,813,602)		(2,813,602)
Balance, December 31, 2005	70,064,430	70,065	5,241,651	(6,561,373)	-	(1,249,657)
Restricted common stock issued in January 2006 pursuant to share purchase agreement	374,753	375	505,542	-	-	505,917
Common stock issued in the first quarter of 2006 to Fusion Capital for cash	431,381	431	449,569	-	-	450,000
Common stock issued in the second quarter of 2006 to Fusion Capital for cash	416,303	416	329,584	-	-	330,000
Common stock issued in the third quarter of 2006 to Fusion Capital for cash	758,606	759	584,234	-	-	584,993

Common stock issued in the fourth quarter of 2006 to Fusion Capital for cash	548,371	548	354,455	-	-	355,003
Exercise of stock options	175,000	175	12,075	-	-	12,250
Stock based compensation expenses	-	-	2,607,302	-	-	2,607,302
Comprehensive income (loss)						
Loss, year ended December 31, 2006				(4,654,499)		(4,654,499)
Balance, December 31, 2006	72,768,844	72,769	10,084,412	(11,215,872)	-	(1,058,691)
Common stock issued in the first quarter of 2007 to Fusion Capital for cash	382,000	382	204,619			205,001
Common stock issued in the second quarter of 2007 to Fusion Capital for cash	509,019	509	289,491			290,000
Stock based compensation expenses			641,365			641,365
Proceeds allocated to the warrants issued with the convertible notes			497,689			497,689
Warrants issued for the payment of broker's fees			64,990			64,990

Intrinsic value of the beneficial conversion feature of the notes			1,220,410				1,220,410
Foreign currency translation adjustment					(3)	(3)	-
Comprehensive income (loss)							
Loss, period ended June 30, 2007				(1,541,348)	(1,541,351)		(3,082,699)
					$(1,541,354)		
Balance, June 30, 2007	73,659,863	$73,660	$13,002,976	$(12,757,220)		$(3)	$(1,221,938)

(The accompanying notes are an integral part of these financial statements)

HEPALIFE TECHNOLOGIES, INC.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the six months ended June, 2007 and 2006
and from inception (October 21, 1997) to June 30, 2007

(Unaudited)

(Expressed in U.S. Dollars)	June 30, 2007	June 30, 2006	From inception (October 21, 1997) to June 30, 2007
Cash flows from operating activities			
Net Loss	$(1,541,348)	$(2,169,835)	$(12,757,220)
Adjustments for items not involving cash:			
Depreciation	7,901	1,480	19,235
Common stock issued for services	-	-	861,100
Common stock issued as stock offering costs	-	505,917	1,926,713
Stock compensation expenses	641,365	1,147,530	3,248,667
Amortization of discount on issuance of convertible promissory notes	62,793	-	62,793
Deferred financing costs	8,805	-	8,805
Change in assets and liabilities:			
Increase in prepaid expenses	1,471	-	(2,304)
Increase (decrease) in accounts payable	(62,407)	(18,602)	107,670
Increase in accounts payable - related party	12,182	17,623	170,717
Net cash used in operating activities	(869,238)	(515,887)	(6,353,824)
Cash flows from investing activities			
Purchase of property and equipment	(3,878)	-	(38,471)
Net cash used in investing activities	(3,878)	-	(38,471)
Cash flows from financing activities			
Proceeds from issuance of common stock, net	495,001	729,999	5,257,067

Proceeds from issuance of convertible notes, net	2,125,000	-	2,125,000
Net proceeds from (Repayment of) promissory notes	(132,200)	(25,000)	877,800
Deferred financing cost payments	(228,525)	-	(228,525)
Net cash provided by financing activities	2,259,276	704,999	8,031,342
Increase in cash and cash equivalents	1,386,160	189,112	1,639,047
Effect of foreign exchange rate	(3)	-	(3)
Cash and cash equivalents, beginning of period	252,887	107,263	-
Cash and cash equivalents, end of period	$1,639,044	$296,375	$1,639,044
Supplemental disclosure of cash flow information:			
Interest paid in cash	$25,930	$107	$97,575
Income tax paid in cash	$-	$-	$-
Non-cash Investing and Financing Activities:			
Common stock issued for services	$-	$-	$861,000
Issuance of common stock as stock offering costs	$-	$505,917	$1,926,713
Issuance of warrants for deferred financing costs	$64,990	$ -	$64,990

(The accompanying notes are an integral part of these financial statements)

HEPALIFE TECHNOLOGIES, INC. AND SUBSIDIARY

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007

(Expressed in US Dollars)

NOTE 1 BASIS OF PRESENTATION GOING CONCERN UNCERTAINITIES

HepaLife Technologies, Inc. (formerly Zeta Corporation) (the Company) was incorporated under the laws of the State of Florida on October 21, 1997, with an authorized capital of 100,000,000 shares of common stock, par value of $0.001 per share, and 1,000,000 shares of $0.10 par value preferred stock, which may be divided into series with the rights and preferences of the preferred stock to be determined by the Board of Directors. On August 10, 2001, Articles of Amendment to the Articles of Incorporation were filed in the State of Florida to increase the authorized capital stock of the Company to 300,000,000 shares of $0.001 par value common stock.

The Company is a development stage biotechnology company focused on the identification, development and eventual commercialization of cell-based technologies and products. Current cell-based technologies under development by the Company include 1) the first-of-its-kind artificial liver device, 2) proprietary in-vitro toxicology and pre-clinical drug testing platforms, and 3) cell-culture based vaccines to protect against the spread of influenza viruses among humans, including potentially the high pathogenicity H5N1 virus.

The Company has incurred net operating losses since inception. The Company faces all the risks common to companies in their early stages of development, including under capitalization and uncertainty of funding sources, high initial expenditure levels, uncertain revenue streams, and difficulties in managing growth. The Company s recurring losses raise substantial doubt about its ability to continue as a going concern. The Company s financial statements do not reflect any adjustments that might result from the outcome of this uncertainty. The Company expects to incur losses from its business operations and will require additional funding during 2007. The future of the Company hereafter will depend in large part on the Company s ability to successfully raise capital from external sources to pay for planned expenditures and to fund operations.

To meet these objectives, the Company issued a Convertible Note and warrants to GCA Strategic Investment Limited for a gross proceeds of $2,125,000 on May 11, 2007 (Note 9). Management believes that its current and future plans enable it to continue as a going concern. The Company's ability to achieve these objectives cannot be determined at

this time. These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

Principles of Consolidation

The accompanying consolidated financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States, and include the accounts of HepaLife Technologies, Inc. and its subsidiaries, Phoenix BioSystems, Inc., HepaLife Technologies Ltd. and HepaLife Biosystems Inc.. Phoenix BioSystems, Inc. was incorporated under the laws of the State of Nevada on June 6, 2006. HepaLife Technologies Ltd. was incorporated on April 11, 2007 in British Columbia, Canada, for the purpose of streamlining business operations in Canada. HepaLife Biosystems Inc., was incorporated in State of Nevada on April 17, 2007 for the purpose of categorizing operations and accounting associated with the Company s ongoing research and development efforts associated with its patented PICM-19 cell line, artificial liver technologies, and in vitro toxicology testing systems. All significant inter-company transactions and accounts have been eliminated in consolidation.

NOTE 2 STATEMENT OF INFORMATION FURNISHED

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with Form 10-Q instructions and in the opinion of management contains all adjustments (which are of a normal recurring nature) necessary to present fairly the financial position as of June 30, 2007 and December 31, 2006, and the results of operations for three and six months ended June 30, 2007 and 2006 and cash flows for the six months ended June 30, 2007 and 2006. These results have

been determined on the basis of generally accepted accounting principles and practices in the United States and applied consistently with those used in the preparation of the Company's 2006 Annual Report on Form 10-K.

In June 2007, the Emerging Issues Task Force of the FASB issued EITF Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services to be Used in Future Research and Development Activities*, (EITF 07-3) which is effective for fiscal years beginning after December 15, 2007. EITF 07-3 requires that nonrefundable advance payments for future research and development activities be deferred and capitalized. Such amounts will be recognized as an expense as the goods are delivered or the related services are performed. The Company does not expect the adoption of EITF 07-3 to have a material impact on the financial results of the Company.

NOTE 3 - LOSS PER SHARE

Basic earnings or loss per share is based on the weighted average number of common shares outstanding. Diluted earnings or loss per share is based on the weighted average number of common shares outstanding and dilutive common stock equivalents. The computation of earnings (loss) per share is net loss available to common stockholders (numerator) divided by the weighted average number of common shares outstanding (denominator) during the periods presented. All earnings or loss per share amounts in the financial statements are basic earnings or loss per share, as defined by SFAS No. 128, Earnings Per Share. Diluted loss per share does not differ materially from basic loss per share for all periods presented. Convertible securities that could potentially dilute basic loss per share in the future are not included in the computation of diluted loss per share because to do so would be anti-dilutive. All per share and per share information are adjusted retroactively to reflect stock splits and changes in par value, when applicable.

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Numerator - net loss available to common stockholders	$ (802,368)	$ (1,437,396)	$ (1,541,348)	$ (2,169,835)
Denominator - weighted average number of common shares outstanding	73,563,727	71,026,187	73,225,292	70,735,292
Basic and diluted loss per common share	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.03)

NOTE 4 RELATED PARTY TRANSACTIONS

Management Fees: During the three-month and six-month periods ended June 30, 2007, the Company paid management fees of $3,465 (2006: $nil) and $3,465 (2006: $3,800) to the directors, respectively. There is no management or consulting agreement in effect nor is there an agreement in place to convert debt to equity.

Notes Payable and Accrued Interest: As of June 30, 2007, notes payable of $877,800 was made up from unsecured loans of $677,800 and $200,000, all bearing interest at the rate of 8.50%, due to a director and major shareholder of the Company. The entire amounts of principal and interest accrued are due and payable on demand. Accrued and unpaid interest on these notes at June 30, 2007, amounted to $170,717 (December 31, 2006: $158,535).

Rent: The Company s administrative office is located at 1628 West 1st Avenue, Suite 216, Vancouver, British Columbia, Canada, V6J 1G1. These premises are owned by a private corporation controlled by a director and majority shareholder. The Company pays a monthly rent of C$3,200 effective from April 1, 2006. The Company paid rent of $8,666 (2006: $8,634) and $16,856 (2006: $8,634) for the three-month and six-month periods ended June 30, 2007.

Mr. Harmel S. Rayat is an officer, director and majority stockholder of the Company. He is also an officer, director and stockholder of each of PhytoMedical Technologies, Inc., Entheos Technologies, Inc., Octillion Corp. and International Energy, Inc.

All related party transactions are recorded at the exchange amount established and agreed to between related parties and are in the normal course of business.

NOTE 5 COOPERATIVE AGREEMENT

On November 1, 2002, the Company entered into a Cooperative Research and Development Agreement (the Agreement) with the United States Department of Agriculture s (USDA) Agricultural Research Service (ARS), a committed a total payment of $292,727 to ARS over the two year period, ending February 19, 2005.

On May 24, 2004, the Agreement was extended to September 30, 2007, and the required total payments to ARS were amended to $807,828, of which $153,600 had already been paid under the original agreement.

As of June 30, 2007, total payments of $807,828 have been paid.

As amended, the Company, instead of ARS as in the original agreement, has the first option to prepare and prosecute patent or Plant Variety Protection Certificate applications, foreign and domestic, on subject invention owned or co-owned by the U.S Government, subject to certain conditions.

The Agreement is for the purpose of funding salaries, equipment, travel and other indirect costs of one post-doctoral researcher, one support scientist, and one technician. The terms of the agreement require the interaction of the Company with ARS personnel on the technical details involved with pig liver cell culture development, providing the necessary funds for the purpose above, preparing and filing any patent applications, and reviewing reports and implementing procedures for the development of an artificial liver device utilizing the pig liver cell line. ARS s responsibilities include hiring the post-doctoral research associate for a two-year period, providing laboratory and office space for the research associate, providing experimental animals (pigs) and slaughter facilities, conducting the research, preparing progress reports on project objectives, and preparing and submitting technical reports for publication.

All rights, title, and interest in any subject invention made solely by ARS employees are owned by ARS, solely by the Company are owned by the Company, and owned jointly between the Company and ARS if made jointly by ARS and the Company. The Company is granted an option to negotiate an exclusive license in each subject invention owned or co-owned by ARS for one or more field (s) of use encompassed by the Agreement. The option terminates when the Company fails to (1) submit a complete application for an exclusive license within sixty days of being notified by ARS of an invention availability for licensing or (2) submit a good faith written response to a written proposal of licensing terms within forty five days of such proposal.

The Agreement, or parts thereof, is subject to termination at any time by mutual consent. Either party may unilaterally terminate the entire Agreement at any time by giving the other party written notice not less than sixty

calendar days prior to the desired termination date.

NOTE 6 LICENSE AGREEMENT

On June 15, 2006, the Company, through its subsidiary, Phoenix BioSystems, Inc. (PBS), entered into an exclusive worldwide license agreement with Michigan State University (MSU) for the development of new cell-culture based flu vaccines to protect against the spread of influenza viruses among humans, including potentially the high pathogenicity H5N1 virus.

The license agreement gives the Company exclusive rights to five issued patents. Under the terms of the license agreement, the Company agreed to pay MSU an initial fee of $1,000 (paid) upon execution of the license agreement. A 2.5% annual royalty based on future sales is payable, with an annual minimum payment of $10,000 from 2010 to 2014 and $20,000 from 2015 onwards.

The Company also has to make milestone payments of $1,000, $2,000, $2,000 and $10,000 to MSU when MSU achieves each of the 4 different developmental steps, respectively.

As part of the license agreement, the Company issued 17,650 common shares or 15% of the total issued and outstanding shares of PBS, a subsidiary of the Company, to Dr. Paul Coussens at par value on October 2, 2006. After issuance of the shares, the Company holds 85% of the total issued and outstanding shares of PBS. The Company recorded the fair value of the shares of PBS issued to Dr. Paul Coussens at a nominal value.

As of June 30, 2007, total payment of $73,352 has been paid in relation to the project, including the reimbursement of research expenses of $64,851 to MSU.

NOTE 7 EQUIPMENT

	June 30, 2007	December 31, 2006
Computer equipment	$37,382	$33,504
Furniture and fixtures	1,089	1,089
	38,471	34,593
Less: accumulated depreciation	(19,235)	(11,334)
	$19,236	$23,259

Depreciation expenses charged to operations for the three-month and six-month periods ended June 30, 2007 were $4,090 (2006: $740) and $7,901 (2006: $1,480).

NOTE 8 SHARE CAPITAL

(A) Fusion Capital Fund II

Under the New Purchase Agreement with Fusion Capital Fund II (Fusion Capital) dated January 20, 2006, Fusion Capital had agreed to purchase from the Company up to $15,000,000 of the Company s share of common stock over a thirty month period. On May 11, 2007, the Company and Fusion Capital mutually terminated the Common Stock Purchase Agreement. The Company did not incur any termination costs as a result of mutually terminating this agreement.

During the three month and six-month periods ended June 30, 2007, Fusion Capital has purchased 509,019 (2006: 416,303) and 891,019 (2006: 847,684) shares of common stock of the Company for total proceeds of $290,000 (2006: $330,000) and $495,001 (2006: $780,000) respectively.

As of June 30, 2007, Fusion Capital has purchased 2,918,661 shares of common stock of the Company for total proceeds of $2,214,997.

NOTE 9 CONVERTIBLE PROMISSORY NOTE

(i) The Agreement

On May 11, 2007, the Company entered into a Securities Purchase Agreement (the Agreement) with GCA Strategic Investment Limited (the Purchaser). The Agreement provided for the sale of $2,500,000 aggregate principal amount of Company's Convertible Note due May 11, 2009 (the Convertible Note). The Convertible Note was issued on May 11, 2007 and the purchase price of the Convertible Note was $2,125,000 (eighty-five per cent of the principal amount of the Convertible Note). The Convertible Note does not bear interest except upon an event of default, at which time interest shall accrue at the rate of 18% per annum. Under the terms of the Agreement, the Purchaser agreed not to effect, or cause any affiliate or associate to effect a short sale of Company's common stock.

In connection therewith, the Company also issued to the Purchaser warrants to purchase up to an aggregate of 670,000 shares of the Company s common stock at a price of $1.50 per share (the Warrants). The Warrants have a term of five years.

The Company also agreed to pay:

- Global Capital Advisors, LLC (Adviser), the Purchaser's adviser, out of pocket fees of $15,000; and

- Equinox Securities, Inc., an NASD registered broker/dealer, pursuant to an agreement dated April 19, 2007 10% of the amount funded plus a warrant to purchase a number of shares of the Company s common stock equal to 10% (in this case, 67,000 shares) of the number of shares subject to the Warrants at the same exercise price as set forth in the

Warrants ($1.50 per share) in consideration of its efforts in securing, on behalf of the Company, the financing with the Purchaser.

(ii) Conversion of the Convertible Note

The Convertible Note (and any accrued and unpaid interest or liquidated damages amount) may be converted into shares of the Company's common stock at a conversion price will be 95% of the trading volume weighted average price, as reported by Bloomberg LP (the VWAP), for the five trading days immediately prior to the date of notice of conversion.

(iii) Prepayment of the Convertible Note

For so long as Company is not in default and Company is not in receipt of a notice of conversion from the holder of the Note, the Company may, at its option, prepay, in whole or in part, this Convertible Note for a pre-payment price (the Prepayment Price) equal to the greater of (A) the outstanding principal amount of the Note plus all accrued and unpaid interest if any, and any outstanding liquidated damages, if any, and (B)(x) the number of shares of Common Stock into which this Convertible Note is then convertible, times (y) the VWAP, as reported by Bloomberg L.P., of the Company s Common Stock for the five Trading Days immediately preceding the date that this Convertible Note is noticed for prepayment, plus accrued and unpaid interest.

(iv) Redemption of the Convertible Note

The Company may be required under certain circumstances to redeem any outstanding balance of the Convertible Note. In such an event, the redemption price will be equal to the then outstanding principal amount of the Notes plus all accrued and unpaid interest, including default interest, if any, and any outstanding liquidated damages (the Redemption Price).

(v) Registration

The Company is required to file, within 45 days (the "Filing Date") of the May 11, 2007 (the Closing Date), a Registration Statement (the "Registration Statement") to register the resale of the Common Shares issuable under the conversion of the Convertible Note by the Purchaser and the Common Shares issuable upon exercise of the Warrants. The Company will use its best efforts to cause the Registration Statement to become effective (the "Effective Date") no later than 120 days following the Closing Date. If the registration statement is not timely filed, the Company will pay Purchaser liquidated damages in the amount of 1% of the principal amount of the then outstanding balance due

under the Convertible Note for each 30-day period, prorated, until the registration statement is filed If the registration statement is not declared effective within such 120 day period, the Company will pay Purchaser liquidated damages in the amount of 2% of the principal amount of the then outstanding balance of the Convertible Note for each 30-day period, prorated until the registration statement is declared effective. In the event the Company fails to obtain an effective registration Statement by the 180th day following the Closing Date, the Purchaser shall have the right to require the Company to redeem the Convertible Note and Warrants at the Redemption Price. The Registration Statement was declared effective on July 5, 2007.

(vi) Bifurcation of the Warrants from the Convertible Note and the Intrinsic Value of the Beneficial Conversion Feature of the Note

The Note contains a conversion feature that allows the holder to convert the debt into equity shares at any time within a specified period at a price equal to 95% of the volume weighted average price of the Company s common shares for the five trading days prior to the conversion date. As the host contract itself does not embody a claim to the residual interest in the Company and thus the economic characteristics and risks of the host contract should be considered that of a debt instrument and classified under the liability section of the balance sheet.

The Company has determined that the embedded conversion option does not meet the definition of a derivative as described under Statement of Financial Accounting Standards No. 133: *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133) paragraph 12(a) and 12(c) as the conversion option results in a fixed monetary benefit, known at the measurement date, to the holder if they chose to convert.

The Convertible Note is a complex hybrid instrument bearing an option, the alternative choices of which cannot exist independently of one another. Thus the beneficial conversion feature cannot be separated from the debt according to paragraph 7 and 12 of Accounting Principal Board Opinion 14: *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants* (APB 14). The embedded beneficial conversion feature is recognized and measured in accordance with paragraph 5 of Emerging Issues Task Force 98-5: *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios* (EITF 98-5) and paragraph 5 of Emerging Issues Task Force 00-27:

Application of Issue No. 98-5 to Certain Convertible Instruments (EITF 00-27), whereby the intrinsic value of the beneficial conversion feature is calculated at the commitment date as the difference between the effective conversion price of the Note and the fair value of the common stock which the Note is convertible, multiplied by the number of shares into which the Note is convertible. The intrinsic value of the beneficial conversion feature, $1,220,410, is treated as a discount on issuance of the Convertible Note and is amortized over the life of the Note (paragraph 10 of EITF 98-5 and paragraph 19 of EITF 00-27).

The warrants are detached from the Convertible Notes with no put option feature. There is no liquidated damage or cash penalty payable to the warrant holder if the Company cannot register the shares underlying the warrants. According to paragraph 16 of APB 14, the portion of the proceeds of the Convertible Notes issued with the detachable warrants which is allocable to the warrants is accounted for as paid-in capital. The allocation is based on the relative fair values of the two securities at the time of issuance. The portions of the proceeds allocated to the Convertible Notes and warrants were $1,627,311 and $497,689 (See Note 10) respectively. The resultant discount is amortized over the life of the Convertible Note (paragraph 16 of APB14).

During the period ended June 30, 2007, $62,793 of the discount on issuance of Convertible Note was recorded in the statement of operations, leaving $2,030,306 unamortized as at June 30, 2007.

NOTE 10 WARRANTS

As of June 30, 2007, there were 737,000 warrants outstanding (Note 9). Each warrant entitles the holder to purchase one share of the common stock of the Company at an exercise price of $1.50 per share until May 11, 2012. The fair value of the 737,000 warrants issued on May 11, 2007 were $714,890 and was estimated using the Black-Scholes option pricing model with assumptions as follows:

Risk free interest rate	4.58%
Expected life	5.0 years
Expected volatility	96.2%
Dividend per share	$0.00

NOTE 11 - STOCK OPTIONS

As of June 30, 2007, the Company had an active stock option plan that provides shares available for options granted to employees, directors and others. Options granted to employees under the Company s option plans generally vest over two to five years or as otherwise determined by the plan administrator. Options to purchase shares expire no later than ten years after the date of grant.

The movement of stock options can be summarized as follows:

	Number of options	Weighted average exercise price	Remaining contractual term	Aggregate intrinsic value
Outstanding at December 31, 2004	11,133,000	$0.48		
Granted	6,000,000	2.86		
Exercised	(285,000)	2.28		
Outstanding at December 31, 2005	16,848,000	1.29		
Granted	8,250,000	0.82		
Exercised	(175,000)	0.07		
Cancelled	(14,573,000)	1.49		
Outstanding at December 31, 2006	10,350,000	0.67		
Granted	2,000,000	0.52		
Cancelled	(10,350,000)	0.67		
Outstanding at June 30, 2007	2,000,000	0.52	9.58 years	$480,000
Exercisable at June 30, 2007	-	$0.52		
Available for grant at June 30, 2007	35,798,000			

The aggregate intrinsic value in the table above represents the total pretax intrinsic value for all in-the-money options (i.e. the difference between the Company s closing stock price on the last trading day of the period ended June 30, 2007 and the exercise price, multiplied by the number of shares) that would have been received by the option holders had all option holders exercised their options on June 30, 2007. This amount change is based on the fair market value of the Company s stock. Total intrinsic value of options exercised was $nil (2006: $nil) for the six months ended June 30, 2007. Weighted average fair value of options granted during the six months ended June 30, 2007 was $0.43 (2006: $nil) per share.

A summary of the Company s unvested stock options and changes during the periods is as follows:

	Number of options	Fair value per share

Outstanding, December 31, 2005	-	-
Granted during 2006	8,250,000	0.49
Vested during 2006	(3,600,000)	0.47
Outstanding, December 31, 2006	4,650,000	0.51
Granted during 2007	2,000,000	0.43
Cancelled during 2007	(4,650,000)	0.51
Outstanding, June 30, 2007	2,000,000	0.43

On March 3, 2007, the Company cancelled 8,100,000 stock options previously granted to employees, comprising of 2,100,000 and 6,000,000 options at an exercise price of $0.07 and $0.85 each, respectively.

On October 2, 2006, the Company granted options to purchase up to 2,250,000 shares of the Company s common stock at an exercise price of $0.73. The options vest as follows: (a) 1,750,000 options shall vest if and when the Company or a wholly owned subsidiary, or any one current or future medical technology, approved by the Board of Directors is acquired, in whole or in part, or when either the Company or a subsidiary, enters into a strategic collaborative agreement for any one current or future medical technology, approved by the Board of Directors, provided that the Company s Board of Directors has approved, by written resolution, any such acquisition, sale or agreement; (b) 250,000 stock options shall vest upon the filing of human safety trials for the Company s artificial liver device (or such other Board approved medical technology) in Europe

or the equivalent filing in the US; and (c) 250,000 stock options shall vest upon the successful completion of human safety trials for the Company s artificial liver device (or such other Board approved medical technology) in Europe or the equivalent safety trial approval in the US (completion of phase 1).

As the 2,250,000 stock options will vest based on certain performance conditions, the Company expects that the first 1,750,000 stock options will vest at around 24 months from the date of grant, the second 250,000 stock options will vest at around 36 months from the date of grant and the remaining 250,000 stock options will vest at around 60 months from the date of grant. The fair value of each batch of stock options will be amortized over their expected service periods. The Company will periodically reassess the probability of the performance conditions being met and the estimated service period of each batch of stock options.

The 2,250,000 employee stock options issued on October 1, 2006 were cancelled effective January 25, 2007 and simultaneously, the Company granted options to purchase up to 2,000,000 shares of the Company s common stock at an exercise price of $0.52. The options vest as follows: (a) 1,500,000 options shall vest if and when the Company or a wholly owned subsidiary, or any one current or future medical device or other technology, approved by the Board of Directors is acquired, in whole or in part, or when either the Company or a subsidiary, enters into a strategic collaborative agreement for any one current or future medical device or other technology, approved by the Board of Directors, provided that the Company s Board of Directors has approved, by written resolution, any such acquisition, sale or agreement; (b) 250,000 stock options shall vest upon the filing of human safety trials for the Company s artificial liver device (or such other Board approved medical device or other technology) in Europe or the equivalent filing in the US; and (c) 250,000 stock options shall vest upon the successful completion of human safety trials for the Company s artificial liver device (or such other Board approved medical device or other technology) in Europe or the equivalent safety trial approval in the US (completion of phase 1).

The fair value of the 2,000,000 options granted was estimated at $0.38 each, for a total of amount of $760,000, by using the Black-Scholes Option Pricing Model with the following weighted average assumptions: dividend yield of 0%, expected volatility of 93.95%, risk-free interest rates of 4.85%, and expected lives of 4.7 years.

No additional stock-based compensation expense was recognized as a result of the cancellation and re-issuance of stock options as the fair value of the replacement options is lower than the fair value of the options cancelled.

During the three-month and six-month periods ended June 30, 2007, compensation expense of $171,603 (2006: $1,147,530) and $641,365 (2006: $1,147,530) was recognized for options previously granted and vesting over time. As of June 30, 2007, the Company had $1,028,774 of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a period of 5 years.

The options outstanding and exercisable as of June 30, 2007 can be summarized as follows:

	Outstanding			Exercisable	
Range of Exercise Prices	Number Outstanding at June 30, 2007	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at June 30, 2007	Weighted Average Exercise Price
$0.52	2,000,000	9.58	$0.52	-	$0.52

The Company does not repurchase shares to fulfill the requirements of options that are exercised. Further, the Company issues new shares when options are exercised.

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

Forward-Looking Statements

Except for the historical information presented in this document, the matters discussed in this Form 10-Q for the three and six months ending June 30, 2007, this report contains forward-looking statements. Such forward-looking statements include statements regarding, among other things, (a) our projected sales and profitability, (b) our growth strategies, (c) anticipated trends in our industry, (d) our future financing plans, and (e) our anticipated needs for working capital. Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words may, will, should, expect, anticipate, estimate, intend, or project or the negative of these words or other variations on these words or comparable terminology. This information may involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from the future results, performance, or achievements expressed or implied by any forward-looking statements. These statements may be found under Management's Discussion and Analysis of Financial Condition and Results of Operations, Business, Properties, as well as in this report generally. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under Risk Factors and matters described in this report generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this filing will in fact occur.

Overview

We are a development stage biotechnology company focused on the identification and development of cell-based technologies and products. We currently do not directly conduct any of our research and development activities. Rather, once a technology has been identified, we fund the research and development activities relating to the technology with the intention of ultimately, if warranted, licensing, commercializing and marketing the subject technology. We do not have, and may never develop, any commercialized products. We have not generated any revenue from our current operations and do not expect to do so for the foreseeable future.

Our sponsored research is being conducted pursuant to a Cooperative Research and Development Agreement (CRADA) with the United States Department of Agriculture s Agricultural Research Service (the USDA) and a sponsored research agreement with Michigan State University (MSU). Currently, we are concentrating our sponsored research and development efforts on developing a cell-supported artificial liver device, in-vitro toxicology and pre-clinical drug testing platforms, and a cell-based vaccine production system.

Artificial Liver Device

We are working towards optimizing the hepatic functionality of a porcine cell line, and subclones thereof, which we refer to as the PICM-19 Cell Line. The PICM-19 Cell Line was developed and patented by USDA Agricultural Research Service scientists. The hepatic characteristics of the PICM-19 Cell Line have been demonstrated to have potential application in the production of an artificial liver device for potential use by human patients with liver failure.

In-Vitro Toxicology Testing

The PICM-19 Cell Line, grown in-vitro, can synthesize liver specific proteins such as albumin and transferrin, and display enhanced liver-specific functions, such as ureagenesis (conversion of ammonia to urea) and cytochrome P450 (a family of over 60 enzymes the body uses to break down toxins and make blood) activity. The P-450 enzyme systems are key components in the overall hepatic detoxification pathway of drugs and other xenobiotics (toxic foreign chemicals which can be both man-made and natural chemicals, such as pesticides and pollutants). Likewise, ureagenesis is another important hepatic function since urea production is required for the detoxification of ammonia derived from the catabolism (breakdown of complex organic molecules into simpler components) of a number of nitrogen containing compounds. As a result, we believe the PICM-19 Cell Line could be an important element in developing in-vitro toxicological and pre-clinical drug testing platforms that could more accurately determine the potential toxicity and metabolism of new pharmacological compounds in the liver.

Cell-Based Vaccine Production

We are working towards optimizing the functionality of a chicken cell line, and subclones thereof, which we refer to as the PBS-1 Cell Line. The PBS-1 Cell Line was developed for use in cell-based vaccine production and was exclusively licensed from the Michigan State University in June 2006. The license agreement gives HepaLife exclusive rights to five

issued patents. Successful cell-culture based vaccine production has the potential to reduce manufacturing time compared to traditional influenza vaccine manufacturing methods and could allow for rapid expansion of vaccine production in the face of an influenza pandemic.

Currently, vaccine production involves injecting a small amount of a targeted virus into fertilized chicken eggs. Over time, the virus is harvested from the eggs, eventually inactivated and purified, and finally blended into a vaccine and bottled in vials. This egg-based production method takes at least six months, and in the event of a flu pandemic, it is unlikely to produce vaccines fast enough to meet expected demand.

Third-party analysis has confirmed that PBS-1 cells are free from exogenous agents, fungi, bacteria, diseases, and potentially harmful viruses. In addition, PBS-1 cell have grown and replicated several human influenza virus types, including H1N1, H3N2 and type B. The most important step towards the production of a cell-culture based vaccine against a targeted virus is the ability to efficiently grow the same virus in a cell substrate.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and related disclosures. We review our estimates on an ongoing basis.

We consider an accounting estimate to be critical if it requires assumptions to be made that were uncertain at the time the estimate was made; and changes in the estimate or different estimates that could have been made could have a material impact on our results of operations or financial condition. While our significant accounting policies are described in more detail in the notes to our financial statements included in this prospectus, we believe the following accounting policies to be critical to the judgments and estimates used in the preparation of our financial statements.

General and Administrative Expenses

Our general and administrative expenses consist primarily of personnel related costs, legal costs, including intellectual property, investor relations, accounting costs, and other professional and administrative costs.

Research and Development Costs

Research and development costs represent costs incurred to develop our technology incurred pursuant to our CRADA with the USDA s Agricultural Research Service and pursuant to our sponsored research agreement with MSU. The agreements include salaries and benefits for research and development personnel, allocated overhead and facility occupancy costs, contract services and other costs. We charge all research and development expenses to operations as they are incurred. We do not track research and development expenses by project. In addition costs for third party laboratory work might occur.

Sponsored Research Agreements

USDA Agricultural Research Service

On November 1, 2002, we entered into a CRADA with the USDA s Agricultural Research Service and committed to pay a total of $292,727 to USDA s Agricultural Research Service over a two-year period ending February 19, 2005.

Effective on November 28, 2002, we amended our CRADA, in writing, to provide for the addition of Dr. Thomas Caperna as a co-authorized departmental officer s designated representative.

Effective on July 12, 2003, we amended our CRADA, in writing, to reflect the change of our name from Zeta Corporation to HepaLife Technologies, Inc.

In February 2004, we orally amended our CRADA to modify the payment schedule so as to delay payment of installments due in August and November of 2004 and thereafter until and unless funds are actually required.

On May 24, 2004, we amended the CRADA, and agreed to pay a total of $807,828 through September 30, 2007, of which $153,600 had already been paid under the original agreement.

On June 26, 2007, we amended the CRADA, in writing, to extend the duration of the Agreement through December 1, 2007.

Ownership of Developed Technologies Under the CRADA

Under the terms of the CRADA all rights, title and interest in any subject invention made solely by USDA s Agricultural Research Service employees are owned by USDA s Agricultural Research Service, solely by us are owned by us, and any such inventions are owned jointly by us and USDA s Agricultural Research Service if made jointly by USDA s Agricultural Research Service and us. Under the CRADA, we have an option to negotiate an exclusive license in each subject invention owned or co-owned by USDA s Agricultural Research Service for one or more field (s) of use encompassed by the CRADA. The option terminates when and if we fail to:

- submit a complete application for an exclusive license within sixty days of being notified by USDA s Agricultural Research Service of an invention being available for licensing; or

- submit a good faith written response to a written proposal of licensing terms within forty five days of such proposal.

The Company has the first option to prepare and prosecute patent or Plant Variety Protection Certificate applications, foreign and domestic, on subject inventions owned or co-owned by the U.S. Government, subject to certain conditions.

Although the termination date of the CRADA is December 1, 2007, the CRADA is subject to earlier termination at any time by mutual consent. Moreover, either party may unilaterally terminate the entire agreement at any time by giving the other party written notice not less than sixty calendar days prior to the desired termination date. To date, we have neither given nor received any such written notice.

Michigan State University

On July 15, 2006, we entered into a sponsored research agreement with the Michigan State University and committed to pay up to a total of $70,000 to MSU over a one-year period ending July 14, 2007.

As of June 30, 2007, total payment of $73,352 has been paid in relation to the project, including the reimbursement of research expenses of $64,851 to MSU.

Ownership of Developed Technologies under the Sponsored Research Agreement

In consideration for research support and patent expenses received hereunder, the MSU grants HepaLife a right of first refusal applicable to any exclusive option or exclusive license that MSU elects to offer with respect to any University or joint invention, including any patent application and patents resulting from. In addition, any commercial non-exclusive option or license that the MSU elects to offer with respect to such University invention shall be offered to us simultaneously and under identical terms with the offer to any third party.

Results of Operation

The Company has yet to establish any history of profitable operations. The Company has incurred operating losses of $743,455 and $1,441,058 for the three months ended June 30, 2007 and June 30, 2006, respectively. As a result, at June 30, 2007, the Company has an accumulated deficit of $12,757,220.

We expect that our future revenues will not be sufficient to sustain our operations for the foreseeable future. Our profitability will require the successful completion of our research and development programs, and the subsequent commercialization of the results or of products derived from such research and development efforts. No assurances can be given when this will occur or that we will ever be profitable.

Three and Six Months Ended June 30, 2007 and 2006

The Company had no revenues in the three and six months ended June 30, 2007 and June 30, 2006. Our expenses decreased 48% to $743,455 in the three months ended June 30, 2007, from $1,441,058 in the same period in 2006. This decrease of $697,603 for the three months ended June 30, 2007 compared to the same period in 2006 was primarily attributable to a decrease in stock based compensation expenses.

Our expenses decreased 32% to $1,483,979 in the six months ended June 30, 2007, from $2,174,574 in the same period in 2005. This decrease of $690,595 from the six months ended June 30, 2007 compared to the same period in 2006 was primarily attributable a decrease in stock based compensation expenses.

Interest income increased 246% to $12,685 in the three months ended June 30, 2007, from $3,662 during the same period in 2006, reflecting higher than average cash balances maintained during most of the second quarterly period in 2007. For the six months ended June 30, 2007 and in the same period in 2006, interest income has increased 200% to $14,229 from $4,739, reflecting higher than average cash balances maintained during most of the first two fiscal quarterly periods in 2007.

We incurred net losses of $802,368 and $1,437,396 during the three months ended June 30, 2007 and in the same period in 2006, respectively, and we also incurred net losses of $1,541,348 and $2,169,835 for the six months ended June 30, 2007 and June 30, 2006.

Liquidity and Capital Resources

As at June 30, 2007, the Company had a cash balance of $1,639,044. The Company has financed its operations primarily from cash on hand, through loans from shareholders, proceeds from stock option and warrant exercises, and through the common stock purchase agreement with Fusion Capital and through the securities purchase agreement with GCA Strategic Investment Limited, during the six month period ending June 30, 2007.

Net cash flows used in operating activities was $869,238 for the six month period ending June 30, 2007, compared to net cash flows used of $515,887 for the same period in 2006.

Net cash provided by financing activities was $2,259,276 for the six months period ending June 30, 2007 compared to $704,999 for the same period in 2006. The Company has financed its operations primarily from cash on hand, through loans from shareholders, proceeds from stock option and warrant exercises, and through the common stock purchase agreement with Fusion Capital and through the securities purchase agreement with GCA Strategic Investment Limited.

During the three month and six-month periods ended June 30, 2007, Fusion Capital has purchased 509,019 (2006: 416,303) and 891,019 (2006: 847,684) shares of common stock of the Company for total proceeds of $290,000 (2006: $330,000) and $495,001 (2006: $780,000) respectively.

At this time, except for our agreement with GCA Strategic Investment Limited, we have no agreements or understandings with any third party regarding any financings.

Related Party Transactions

Management Fees: During the three-month and six-month periods ended June 30, 2007, the Company paid management fees of $3,465 (2006: $nil) and $3,465 (2006: $3,800) to the directors, respectively. There is no management or consulting agreement in effect nor is there an agreement in place to convert debt to equity.

Notes Payable and Accrued Interest: As of June 30, 2007, notes payable of $877,800 was made up from unsecured loans of $677,800 and $200,000, all bearing interest at the rate of 8.50%, due to a director and major shareholder of the Company. The entire amounts of principal and interest accrued are due and payable on demand. Accrued and unpaid interest on these notes at June 30, 2007, amounted to $170,717 (December 31, 2006: $158,535).

Rent: The Company s administrative office is located at 1628 West 1st Avenue, Suite 216, Vancouver, British Columbia, Canada, V6J 1G1. These premises are owned by a private corporation controlled by a director and majority shareholder. The Company pays a monthly rent of C$3,200 effective from April 1, 2006. The Company paid rent of $8,666 (2006: $8,634) and $16,856 (2006: $8,634) for the three-month and six-month periods ended June 30, 2007.

Mr. Harmel S. Rayat is an officer, director and majority stockholder of the Company. He is also an officer, director and stockholder of each of PhytoMedical Technologies, Inc., Entheos Technologies, Inc., Octillion Corp. and International Energy, Inc.

All related party transactions are recorded at the exchange amount established and agreed to between related parties and are in the normal course of business.

Off Balance Sheet Arrangements

We do not currently have, nor have we ever had, any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

Recent Accounting Pronouncements

In June 2007, the Emerging Issues Task Force of the FASB issued EITF Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services to be Used in Future Research and Development Activities*, (EITF 07-3) which is effective for fiscal years beginning after December 15, 2007. EITF 07-3 requires that nonrefundable advance payments for future research and development activities be deferred and capitalized. Such amounts will be recognized as an expense as the goods are delivered or the related services are performed. The Company does not expect the adoption of EITF 07-3 to have a material impact on the financial results of the Company.

Risk Factors

We have sought to identify what we believe to be the most significant risks to our business. However, we cannot predict whether, or to what extent, any of such risks may be realized nor can we guarantee that we have identified all possible risks that might arise. Investors should carefully consider all of such risk factors before making an investment decision with respect to our Common Stock. We provide the following cautionary discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here could adversely affect us.

Risks Associated With Our Business

We Have Experienced Significant Losses And Expect Losses To Continue For The Foreseeable Future.

We have yet to establish any history of profitable operations. We have incurred annual operating losses of $4,654,499, $2,813,602, and $1,435,613 respectively, during the past three fiscal years of operation. As a result, at June 30, 2007, we had an accumulated deficit of $12,757,220. We had no revenues during the last five fiscal years and we do not expect to generate revenues from our operations for the foreseeable future. Our profitability will require the successful completion of our sponsored research, development efforts and the subsequent commercialization of our products, if any, derived from our sponsored research and development activities regarding our cell based influenza vaccine production technology, artificial liver device, and in-vitro toxicology testing methodologies. No assurances can be given when this will occur or that we will ever be profitable.

To Date Most Of Our Operating Losses Have Been Related To Expenditures Related To Our Advertising And Investor Relations Program Rather Than To Our Sponsored Research And Development Programs.

Since inception through June 30, 2007, we have expended a total of $3,455,455 in connection with our advertising and investor relations representing approximately 27% of our total expenses for the period as compared to total research and development expenditures of $913,345 or approximately 7% of our total expenses for the period. If we continue to expend funds in such a disproportionate manner, we may not have sufficient capital for the completion of our obligations under the sponsored research agreement with MSU or the CRADA with the USDA, or for the acquisition and development of new technologies. This would have an adverse affect on our operations and potential profitability, in which case we may need to substantially curtail or cease our research and development activities.

We Currently Do Not Have, And May Never Develop, Any Commercialized Products.

We currently do not have any commercialized products or any significant source of revenue. We have invested substantially all of our time and resources over the last three years in identification, research and development of technologies and cell based products vaccine production, and for liver toxicity detection and the treatment of various forms of liver dysfunction and disease. The technologies, which are the subject of our ongoing sponsored research programs, will require additional development, clinical evaluation, regulatory approval, significant marketing efforts and substantial additional investment before they can provide us with any revenue. We cannot currently estimate with any accuracy the amount of these funds because it may vary significantly depending on the results of our current sponsored research and development activities,

product testing, costs of acquiring licenses, changes in the focus and direction of our research and development programs, competitive and technological advances, the cost of filing, prosecuting, defending and enforcing patent claims, the regulatory process, manufacturing, marketing and other costs associated with the commercialization of products following receipt of approval from regulatory bodies and other factors.

Our efforts may not lead to commercially successful products for a number of reasons, including:

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we may not be able to obtain regulatory approvals or the approved indication may be narrower than we seek;

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our technologies or products, if any, derived from our research and development efforts may not prove to be safe and effective in clinical trials;

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physicians may not receive any reimbursement from third-party payors, or the level of reimbursement may be insufficient to support widespread adoption of any products derived from our research and development efforts;

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any products that may be approved may not be accepted in the marketplace by physicians or patients;

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we may not have adequate financial or other resources to complete the development and commercialization of products derived from our research and development efforts;

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we may not be able to manufacture our products in commercial quantities or at an acceptable cost; and

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rapid technological change may make our technologies and products derived from those technologies obsolete.

We Will Require Additional Financing To Sustain Our Operations And Without It We Will Not Be Able To Continue Operations.

Our independent auditors have added an explanatory paragraph to their audit opinion issued in connection with the financial statements for the years ended December 31, 2006 and 2005, relative to our ability to continue as a going

concern. Our ability to obtain additional funding will determine our ability to continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

At June 30, 2007, we had a working capital surplus of $485,161. We have an operating cash flow deficit of $1,422,509 in 2006 and $1,332,440 in 2005. Although we believe that we have sufficient financial resources and commitments to sustain our current level of research and development activities, any expansion, acceleration or continuation of such activities will require additional capital which may not be available to us, if at all, on terms and conditions that we find acceptable.

We May Not Be Able To Repay Loans We Have Received From Mr. Harmel S. Rayat, Our Secretary, Treasurer, Chief Financial Officer, Chairman, Director And Majority Stockholder, To Fund Our Operation.

We have borrowed an aggregate of $877,800 from Mr. Harmel S. Rayat, our secretary, treasurer, chief financial officer, chairman, director and majority stockholder, pursuant to his $1,600,000 loan commitment to us. The loans are due upon the receipt of the written demand from Mr. Rayat. The loans bear interest at the rate of 8.50% per annum. We do not currently have sufficient capital on hand to repay these loans. We may prepay these loans, at any time, without penalty.

The Success Of Our Sponsored Research And Development Programs Is Uncertain And We Expect To Be Engaged In Research And Development Efforts For A Considerable Period Of Time Before We Will Be In A Position, If Ever, To Develop And Commercialize Products Derived From Our Sponsored Research Programs.

Unless extended, we expect to continue our current sponsored research and development programs through at least 2007. Research and development activities, by their nature, preclude definitive statements as to the time required and costs involved in reaching certain objectives. Actual costs may exceed the amounts we have budgeted and actual time may exceed our expectations. If our research and development requires more funding or time than we anticipate, then we may have to reduce technological development efforts or seek additional financing. There can be no assurance that we will be able to secure any necessary additional financing or that such financing would be available to us on favorable terms. Additional financings could result in substantial dilution to existing stockholders. Even if we are able to fully fund our research and development program, there is no assurance that, even upon successful completion of our program, we will ever be able to commercialize products if any, derived from our research efforts or that we will be able to generate any revenues from operations.

Our Sponsored Research and Development Programs Are In The Preliminary Development Stage And The Results We Attain May Not Prove To Be Adequate For Purposes of Developing and Commercializing Any Products Or Otherwise To Support A Profitable Business Venture.

Our sponsored research and development programs are in the preliminary development stage. Our programs are targeting specifically, cell based influenza vaccine production, in-vitro toxicology and drug testing platforms, and the development of an artificial liver device. We will require significant further research, development, testing and regulatory approvals and

significant additional investment before we will be in a position to attempt to commercialize products derived from our research and development programs. We cannot currently estimate with any accuracy the amount of these funds because it may vary significantly depending on the results of our current sponsored research and development activities, product testing, costs of acquiring licenses, changes in the focus and direction of our research and development programs, competitive and technological advances, the cost of filing, prosecuting, defending and enforcing patent claims, the regulatory process, manufacturing, marketing and other costs associated with commercialization of products following receipt of approval from regulatory bodies and other factors.

There can be no assurances that our early stage sponsored research will be successful. The ultimate results of our ongoing research programs may demonstrate that the technologies being researched by us may be ineffective, unsafe or unlikely to receive necessary regulatory approvals, if ever. If such results are obtained, we will be unable to create marketable products or generate revenues and we may have to cease operations.

We have not submitted any products or any technologies that are the subject of, or result from, our research and development activities for regulatory approval or clearance. Even if our research is successful, the process of obtaining necessary U.S. Food and Drug Administration (FDA) approvals or clearances can take years and is expensive and full of uncertainties. Additionally, approved products are subject to continuing FDA requirements relating to quality control and quality assurance, maintenance of records, reporting of adverse events and product recalls, documentation, labeling and promotion of medical products. Compliance with such continued regulatory oversight may prove to be costly and may limit our ability to attain profitable operations.

We May Not Be Granted An Exclusive License Under Our CRADA With The USDA s Agricultural Research Service.

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We are a party to a CRADA with the USDA s Agricultural Research Service which grants us an option to negotiate an exclusive license to any invention or other intellectual property conceived or reduced to practice under the CRADA which is patentable or otherwise protectable under Title 35 of the United States Code or under the patent laws of a foreign country. There can be no assurance that such a license will be granted to us or that we can obtain a license on terms favorable to us. If we do not obtain an exclusive license, our ability to generate revenue would be materially adversely affected.

We expect to enter into additional research agreements and licenses in the future that relate to important technologies that may be necessary for the development and commercialization of related and unrelated products. These agreements and licenses may impose various commercialization, indemnification, royalty, insurance and other obligations on us, which, if we fail to comply, may result in the termination of these agreements and licenses or make the agreements and licenses non-exclusive, which could affect our ability to exploit important technologies that are required for successful development of products, if any, derived from our ongoing sponsored research and development programs.

Our CRADA With The USDA s Agricultural Research Service May Be Terminated By Either Party At Any Time By Giving Written Notice Of Not Less Than Sixty Calendar Days Prior To The Desired Termination Date.

Our current sponsored research and development program targeting liver disease and in vitro toxicology testing platforms is based entirely on our CRADA with the USDA s Agricultural Research Service. The termination date of the CRADA is December 1, 2007. However, the CRADA provides that it may be terminated unilaterally by either us or the USDA s Agricultural Research Service upon written notice of not less than sixty calendar days prior to the desired termination date. This means that the USDA s Agricultural Research Service could terminate the CRADA even if we are not in default under the terms of the Agreement. If the USDA s Agricultural Research Service were to do so, our business and future prospects would be materially adversely affected.

Currently, We Do Not Directly Conduct Any Of Our Research And Development Activities And Therefore We Will Have Minimal Control Over Such Research.

We rely primarily on the USDA s Agricultural Research Service and MSU to conduct, monitor and assess our sponsored research. We will have no control over the specifics of and possible direction that the research may take. Accordingly, there can be no assurance that the USDA s Agricultural Research Service or MSU will conduct our sponsored research in a manner that will lead to the commercial development of any products.

We are also dependent upon the services of certain key scientific personnel who are not employed by us, including the principal investigators with respect to our ongoing research regarding both the development of cell based influenza vaccine production technologies and the treatment of liver disease (and related conditions), including the development of an artificial liver device, and in-vitro toxicology testing technologies. The loss of the services provided by such persons could have a materially adverse effect on us, unless qualified replacements could be found. We have no control over whether our principal

investigators or other scientific personnel will choose to remain involved with our projects. Since these individuals are not bound by contract to us nor employed by us directly, they might move on to other research or positions.

We Are Subject To Substantial Government Regulation Which Could Materially Adversely Affect Our Business.

We have yet to develop any products for submission for regulatory approval. If any such products are submitted for approval, they must undergo rigorous preclinical and clinical testing and an extensive regulatory approval process before they can be marketed. This process makes it longer, harder and more costly to bring any products to market; moreover, we cannot guarantee that approval will be granted. The pre-marketing approval process can be particularly expensive, uncertain and lengthy. Many products for which FDA have never been approved for marketing. In addition to testing and approval procedures, extensive regulations also govern marketing, manufacturing, distribution, labeling and record-keeping procedures. If we do not comply with applicable regulatory requirements, such violations could result in warning letters, non-approval, suspensions of regulatory approvals, civil penalties and criminal fines, product seizures and recalls, operating restrictions, injunctions and criminal prosecution.

Delays in, or rejection of, FDA or other government entity approval may also adversely affect our business. Such delays or rejection may be encountered due to, among other reasons, government or regulatory delays, lack of efficacy during clinical trials, unforeseen safety issues, slower than expected rate of patient recruitment for clinical trials, inability to follow patients after treatment in clinical trials, inconsistencies between early clinical trial results and results obtained in later clinical trials, varying interpretations of data generated by clinical trials, or changes in regulatory policy during the period of product development in the United States. In the United States more stringent FDA oversight in product clearance and enforcement activities could result in our experiencing longer approval cycles, more uncertainty, greater risk and significantly higher expenses. Even if regulatory approval for any product is granted, this approval may entail limitations on uses for which any such product may be labeled and promoted. It is possible, for example, that we may not receive FDA approval to market products based on our sponsored research and development efforts for broader or different applications or to market updated products that represent extensions of any such product. In addition, we may not receive FDA approval to export any such product in the future, and countries to which products are to be exported may not approve them for import.

Any manufacturing facilities would also be subject to continual review and inspection. The FDA has stated publicly that compliance with manufacturing regulations will be scrutinized more strictly. A governmental authority may challenge our compliance with applicable federal, state and foreign regulations. In addition, any discovery of previously unknown problems with any of our sponsored research and development efforts or products derived from such research and development, or facilities may result in marketing, sales and manufacturing restrictions, being imposed, as well as possible enforcement actions.

From time to time, legislative or regulatory proposals are introduced that could alter the review and approval process relating to our research and development programs and products, if any, derived from such research. It is possible that the FDA will issue additional regulations further restricting the sale of our products, if any, derived from our research and development efforts. Any change in legislation or regulations that govern the review and approval process relating to could make it more difficult and costly to obtain approval, or to produce, market, and distribute such products, if

any, derived from our research and development efforts, even if approved.

We May Be Required To Comply With Rules Regarding Animal Testing and This May Limit the Success of Our Research and Development Programs.

Our sponsored research and development efforts involve laboratory animals. We may be adversely affected by changes in laws, regulations or accepted procedures applicable to animal testing or by social pressures that would restrict the use of animals in testing or by actions against our collaborators or us by groups or individuals opposed to such testing.

Our Sponsored Research and Development Program With the USDA Uses Cells Derived From Pigs, Which Could Prevent The FDA Or Other Health Regulatory Agencies From Approving Products, If Any, Derived From Our Research and Development Efforts.

Because pigs carry genetic material of the porcine endogenous retrovirus (PERV), our use of cells derived from pigs carries a risk of transmitting viruses harmless to pigs, but deadly to humans. This may result in the FDA or other health regulatory agencies not approving products, if any, derived from our sponsored research and development efforts or subsequently banning any further use of any such products should health concerns arise after any such product was approved. At this time, it is unclear whether we will be able to obtain clinical and product liability insurance that covers the PERV risk.

We May Be Liable For Contamination Or Other Harm Caused By Materials That We Handle, And Changes In Environmental Regulations Could Cause Us To Incur Additional Expense.

Our sponsored research and development programs involve the handling of potentially harmful biological materials, viruses, and hazardous materials. The USDA s Agricultural Research Service and MSU are subject to federal, state and local laws and regulations governing the use, handling, storage and disposal of hazardous and biological materials. If violations of environmental, health and safety laws occur, we could be held liable for damages, penalties and costs of remedial actions. These expenses or this liability could have a significant negative impact on our business, financial condition and results of operations. We may violate environmental, health and safety laws in the future as a result of human error, equipment failure or other causes. Environmental laws could become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with violations. We may be subject to potentially conflicting and changing regulatory agendas of political, business and environmental groups. Changes to or restrictions on permitting requirements or processes, hazardous or biological material storage or handling might require an unplanned capital investment or relocation. Failure to comply with new or existing laws or regulations could harm our business, financial condition and results of operations.

Even If We Were To Secure Regulatory Approval In The Future For Any Product Derived From Our Sponsored Ongoing Research Efforts, We Lack Sales and Marketing Experience and Will Likely Rely On Third Parties For Such Services.

Our ability to achieve profitability is dependent in part on ultimately obtaining regulatory approvals for products, if any, which are derived from our sponsored research and development efforts, and then entering into agreements for the commercialization of any such products. There can be no assurance that such regulatory approvals will be obtained or such agreements will be entered into. The failure to obtain any such necessary regulatory approvals or to enter into any such necessary agreements could delay or prevent us from achieving profitability and would have a material adverse effect on the business, financial position and results of our operations. Further, there can be no assurance that our operations will become profitable even if products, if any, which are derived from our sponsored research and development efforts, are commercialized.

If FDA and other approvals are ultimately obtained with respect to any product submitted by us in the future for approval, we expect to market and sell any such product through distribution, co-marketing, co-promotion or sublicensing arrangements with third parties. We have no experience in sales, marketing or distribution of biotechnology products and our current management and staff is not trained in these areas. To date, we have no such agreements. To the extent that we enter into distribution, co-marketing, co-promotion or sublicensing arrangements for the marketing and sale of any such products, any revenues received by us will be dependent on the efforts of third parties. If any of such parties were to breach or terminate their agreement with us or otherwise fail to conduct marketing activities successfully, and in a timely manner, the commercialization of products, if any, derived from our research and development efforts would be delayed or terminated.

We May Not Be Able To Attract And Retain Qualified Personnel Either As Employees Or As Consultants; Without Such Personnel, We May Not Be Successful In Commercializing The Results Of Our Ongoing Research And

Development Efforts.

Competition for qualified employees among companies in the biotechnology industry is intense. Our future success depends upon our ability to attract, retain and motivate highly skilled employees. Attracting desirable employees will require us to offer competitive compensation packages, including possible stock options. In order to successfully commercialize the results of our ongoing research and development efforts or products, if any, derived from our research program we must substantially expand our personnel, particularly in the areas of clinical trial management, regulatory affairs, business development and marketing. There can be no assurance that we will be successful in hiring or retaining qualified personnel. Managing the integration of new personnel and our growth generally could pose significant risks to our development and progress. The addition of such personnel may result in significant changes in our utilization of cash resources and our development schedule.

We Expect To Operate In Highly Competitive Markets; We May Face Competition From Large, Well-Established Companies With Significant Resources; And, We May Not Be Able To Compete Effectively.

Our commercial success will depend on our ability and the ability of our sublicensees, if any, to compete effectively in product development areas such as, but not limited to, safety, efficacy, ease of use, patient or customer compliance, price, and marketing and distribution. There can be no assurance that competitors will not succeed in developing products that are more effective than any products derived from our research and development efforts or that would render such products obsolete and non-competitive.

The biotechnology industry is characterized by intense competition, rapid product development and technological change. Most of the competition that we encounter will come from companies, research institutions and universities who are researching and developing technologies and potential products similar to or competitive with our own.

These companies enjoy numerous competitive advantages over us, including:

- significantly greater name recognition;

- established relations with healthcare professionals, customers and third-party payors;

- established distribution networks;

- additional lines of products, and the ability to offer rebates, higher discounts or incentives to gain a competitive advantage;

- greater experience in conducting research and development, manufacturing, clinical trials, obtaining regulatory approval for products, and marketing approved products; and

- greater financial and human resources for product development, sales and marketing, and patent litigation.

As a result, we may not be able to compete effectively against these companies or their products.

We May Become Subject To Claims Of Infringement Or Misappropriation Of The Intellectual Property Rights Of Others, Which Could Prohibit Us From Commercializing Products Based On Our Sponsored Research And Development Programs, Require Us To Obtain Licenses From Third Parties Or To Develop Non-Infringing Alternatives, And Subject Us To Substantial Monetary Damages And Injunctive Relief.

We do not have any patents regarding any of our sponsored research and development activities. We may not be able to assert any rights, under our CRADA, to any patents held by the USDA s Agriculture Research Service. Third parties could, in the future, assert infringement or misappropriation claims against us with respect to our current sponsored research and development program or future products, if any, derived from our sponsored research and development program. Whether a product infringes a patent involves complex legal and factual issues, the determination of which is often uncertain. Therefore, we cannot be certain that we have not infringed the intellectual property rights of such third parties.

Any infringement or misappropriation claim could cause us to incur significant costs, could place significant strain on our financial resources, divert management s attention from our business and harm our reputation. If the relevant patents were upheld as valid and enforceable and we were found to infringe, we could be prohibited from continuing our research and development activities and from marketing or selling products, if any, derived from our sponsored

research and development efforts unless we could obtain licenses to use the technology covered by the patent or are able to design around the patent. We may be unable to obtain a license on terms acceptable to us, if at all, and we may not be able to commercialize any products. A court could also order us to pay compensatory damages for such infringement, plus prejudgment interest and could, in addition, treble the compensatory damages and award attorney fees. These damages could be substantial and could harm our reputation, business, financial condition and operating results. Depending on the nature of the relief ordered by the court, we could become liable for additional damages to third parties.

We May Be Exposed To Product Liability Claims For Which We Do Not Have Any Insurance Coverage.

Because our activities involve the researching, developing and testing of new technologies; and in the future we may be involved either directly or indirectly in the manufacturing and distribution of products, if any, derived from our sponsored research and development efforts, we may be exposed to the financial risk of liability claims in the event that the use of any such product results in personal injury, misdiagnosis or death. We may be subject to claims against us even if the apparent injury is due to the actions of others. There can be no assurance that we will not experience losses due to product liability claims in the future, or that adequate insurance will be available in sufficient amounts, at an acceptable cost, or at all. A product liability claim, product recall or other claim, or claims for uninsured liabilities or in excess of insured liabilities, may have a material adverse effect on our business, financial condition and results of operations. These liabilities could prevent or interfere with our product commercialization efforts. Defending a suit, regardless of merit, could be costly, could divert management attention and might result in adverse publicity, which could result in the withdrawal of, or inability to recruit, clinical trial volunteers, or result in reduced acceptance of products derived from our sponsored research and development activities in the market.

We do not currently carry any insurance. If a claim against us results in a large monetary judgment, which we cannot pay, we may have to cease operations.

Failure To Obtain Third Party Reimbursement For Products Derived From Our Sponsored Research and Development Efforts Could Limit Our Revenue.

In the United States, success in obtaining payment for a new product from third parties, such as insurers, depends greatly on the ability to present data which demonstrates positive outcomes and reduced utilization of other products or services, as well as cost data which shows that treatment costs using the new product are equal to or less than what is currently covered for other products. If we are unable to obtain favorable third party reimbursement and patients are unwilling or unable to pay for such products or services out-of-pocket, it could limit our revenue and harm our business.

Mr. Harmel S. Rayat, Our Secretary, Treasurer, Chief Financial Officer, Chairman, And Director, Is Able To Substantially Influence All Matters Requiring Approval By Our Stockholders, Including The Election Of Directors.

As of August 15, 2007, Mr. Rayat beneficially owned approximately 61% of our outstanding common stock. Accordingly, he is able to substantially influence virtually all matters requiring approval by our stockholders, including the election of directors. Our Articles of Incorporation do not provide for cumulative voting in the election of directors and, therefore, although they are able to vote, our other stockholders should not expect to be able to elect any directors to our board of directors.

We Rely On Our Management, The Loss Of Whose Services Could Have A Material Adverse Affect On Our Business.

We rely upon the services of our board of directors and management, in particular those of Mr. Frank Menzler, the loss of which could have a material adverse affect on our business and prospects. Competition for qualified personnel to serve in a senior management position is intense. If we are not able to retain our directors and management, or attract other qualified personnel, we may not be able to fully implement our business strategy; failure to do so would have a materially adverse impact on our future prospects.

Other than our employment agreement with our president, Mr. Frank Menzler, we currently have no employment agreements with any of our officers and directors imposing any specific condition on our officers and directors regarding their continued employment by us. Our officers and directors are also officers, directors and employees of other companies, and we may have to compete with such other companies for their time, attention and efforts. Except for Mr. Menzler, none of our officers and directors is expected to spend more than approximately five (5%) of their time on our business affairs. We do not maintain key man insurance on any of our directors or officers.

Future Sales Of Our Common Stock May Decrease Our Stock Price.

We have previously issued a total of 73,926,276, shares of common stock, of which 51,453,332 are eligible for resale under Rule 144 of the Securities Act. In addition, we have also registered a substantial number of shares of common stock that are issuable upon the exercise of options. If holders of options choose to exercise their purchase rights and sell shares of common stock in the public market all at once or in a short time period, the prevailing market price for our common stock may decline. Future public sales of shares of common stock may adversely affect the market price of our common stock or our future ability to raise capital by offering equity securities.

Our Stock Price Historically Has Been Volatile And May Continue To Be Volatile.

The market price of our common stock has been and is expected to continue to be highly volatile. Factors, many of which are beyond our control, include, in addition to other risk factors described in this section, the announcements of technological innovations by us or other companies, regulatory matters, new or existing products or procedures, concerns about our financial position, operating results, litigation, government regulation, developments or disputes relating to agreements, patents or proprietary rights, and general economic, industry and market conditions may have a significant impact on the market price of our stock. In addition, potential dilutive effects of future sales of shares of common stock by our stockholders and by us, including Fusion Capital and subsequent sale of common stock by the holders options could have an adverse effect on the market price of our shares.

Volatility in the market price for particular companies has often been unrelated or disproportionate to the operating performance of those companies. Broad market factors may seriously harm the market price of our common stock, regardless of our operating performance. In addition, securities class action litigation has often been initiated following periods of volatility in the market price of a company's securities. A securities class action suit against us could result in substantial costs, potential liabilities, and the diversion of management's attention and resources. To the extent our stock price fluctuates and/or remains low, it could cause you to lose some or all of your investment and impair our ability to raise capital through the offering of additional equity securities.

Our Common Stock Is A "Penny Stock" And Because "Penny Stock" Rules Will Apply, You May Find It Difficult To Sell The Shares Of Our Common Stock You Acquired In This Offering.

Our common stock is a penny stock as that term is defined under Rule 3a51-1 of the Securities Exchange Act of 1934. Generally, a "penny stock" is a common stock that is not listed on a securities exchange and trades for less than $5.00 a share. Prices often are not available to buyers and sellers and the market may be very limited. Penny stocks in start-up companies are among the riskiest equity investments. Broker-dealers who sell penny stocks must provide purchasers of these stocks with a standardized risk-disclosure document prepared by the U.S. Securities & Exchange Commission. The document provides information about penny stocks and the nature and level of risks involved in investing in the penny stock market. A broker must also give a purchaser, orally or in writing, bid and offer quotations and information regarding broker and salesperson compensation, make a written determination that the penny stock is a suitable investment for the purchaser, and obtain the purchaser's written agreement to the purchase. Many brokers choose not to participate in penny stock transactions. Because of the penny stock rules, there is less trading activity in penny stock and you are likely to have difficulty selling your shares.

Our Common Shares Are 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" on the OTCBB, 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. As of August 14, 2007, our average trading volume per day for the past three months was approximately 100,996 shares a day with a high of 379,052 shares traded and a low of 6,981 shares traded. 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 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 an adverse effect on 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.

Compliance With Changing Regulation Of Corporate Governance And Public Disclosure May Result In Additional Expenses.

Keeping abreast of, and in compliance with, changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and, in the event we are ever approved for listing on either NASDAQ or a registered exchange, NASDAQ and stock exchange rules, will require an increased amount of management attention and external resources. We intend to continue to invest all reasonably

necessary resources to comply with evolving standards, which may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

We Do Not Intend To Pay Dividends For The Foreseeable Future.

We currently intend to retain future earnings, if any, to support the development and expansion of our business and do not anticipate paying cash dividends in the foreseeable future. Our payment of any future dividends will be at the discretion of our board of directors after taking into account various factors, including but not limited to our financial condition, operating results, cash needs, growth plans and the terms of any credit agreements that we may be a party to at the time. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize their investment. Investors seeking cash dividends should not purchase the units offered by us pursuant to this prospectus.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk is confined to our cash equivalents and short-term investments. We invest in high-quality financial instruments; primarily money market funds, federal agency notes, and US Treasury obligations, with the effective duration of the portfolio within one year which we believe are subject to limited credit risk. We currently do not hedge interest rate exposure. Due to the short-term nature of our investments, we do not believe that we have any material exposure to interest rate risk arising from our investments.

ITEM 4. Controls and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. A company s internal control over financial reporting is a process designed to 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. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the company; (ii) 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 (iii) 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.

An evaluation was performed under the supervision of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Securities Exchange Act of 1934 (the Exchange Act) Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Notwithstanding the foregoing, there can be no assurance that our disclosure controls and procedures will detect or uncover all failures of persons associated with us to disclose material information otherwise required to be set forth in our periodic reports. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, even effective disclosure controls and procedures can only provide reasonable, not absolute, assurance of achieving their control objectives.

There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date that management, including the Chief Executive Officer and the Chief Financial Officer, completed their evaluation.

PART II Other Information

Item 1. Legal Proceedings

None

Item 1A.

Risk Factors

None

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

31.1

Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)

31.2

Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)

32.1

Certification by the Chief Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2

Certification by the Chief Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

April 13, 2007: On March 28, 2007, HepaLife Technologies, Inc. issued a news release to announce that the Company s patented PBS-1 cells, under development for influenza vaccine production, have successfully replicated numerous human influenza virus strains received from the Centers for Disease Control (CDC) at substantially higher levels than the research community s widely-used current model, primary chick kidney cells. On April 10, 2007, HepaLife Technologies, Inc. issued a news release to announce that the Company s patented PICM-19 cells, under development for use in artificial liver support and in-vitro toxicology testing, have significantly outperformed the world s most widely used human liver cell line in important tests of liver-specific metabolic functions

May 3, 2007: On April 30, 2007, HepaLife Technologies, Inc. issued a news release to announce favorable early test results of the Company's proprietary bioreactor system, the main mechanical component of an artificial liver device, which successfully replicated the human liver's key function - removal of toxic ammonia and synthesis of urea.

May 14, 2007: On May 8, 2007, HepaLife Technologies, Inc. issued a news release to announce the addition of Dr. Robert Tuttle as Vice President of Research and Development.

May 16, 2007: On May 11, 2007 HepaLife Technologies, Inc. entered into a Securities Purchase Agreement with GCA Strategic Investment Limited.

June 1, 2007: On May 29, 2007, HepaLife Technologies, Inc. issued a news release to announce a scientific presentation of its cell based PBS-1 technology for potential influenza vaccine production at the "Options for the Control of Influenza VI Conference."

June 29, 2007: On June 25, 2007, HepaLife Technologies, Inc. issued a news release to announce that new data presented at an international influenza research conference demonstrates that HepaLife s patented PBS-1 cell line outperforms current cell technologies at replicating human influenza virus inside its cells.

SIGNATURES

Pursuant to the requirements of Sections 13 or 15 (d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 15th day of August, 2007.

HepaLife Technologies, Inc.

(Registrant)

Date

Signature

Title

August 15, 2007

/s/ Frank Menzler

Director, President, CEO

Frank Menzler

August 15, 2007

/s/ Harmel S. Rayat

Director, Secretary, Treasurer,

Harmel S. Rayat

Chief Financial Officer,

Principal Accounting Officer

August 15, 2007

/s/ Javier Jimenez

Director

Javier Jimenez