

Unaudited Financial Statements

illumiCell Corporation

June 30, 2007

The Company's auditors have not reviewed the financial statements nor the accompanying notes.

illumiCell Corporation

Balance Sheets

(Unaudited)

As at	June 30, 2007	December 31, 2006
	\$	\$
ASSETS		
Current		
Cash	32,981	361,060
Short term investments	21,700	2,102,301
Accounts receivable	6,673	31,424
Goods and services taxes recoverable	62,291	152,651
Prepaid expenses and deposits	74,328	22,186
	197,973	2,669,622
Property and equipment <i>[note 2]</i>	130,268	90,579
Deferred development costs <i>[note 3]</i>	1,875,597	1,485,266
Intangible assets <i>[note 4]</i>	63,819	44,828
	2,267,657	4,290,295
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable <i>[note 10]</i>	753,607	547,538
Commitments <i>[note 9]</i>		
Shareholders' deficiency		
Share capital <i>[note 5]</i>	6,573,687	6,595,563
Contributed surplus <i>[note 7]</i>	104,231	-
Deficit	(5,163,868)	(2,852,806)
	1,514,050	3,742,757
	2,267,657	4,290,295

See accompanying notes

illumiCell Corporation
Statements of Loss and Comprehensive Loss and Deficit
(Unaudited)

	Three month period ended June 30		Six month period ended June 30	
	2007	2006	2007	2006
REVENUE				
Sales	1,680	117,863	5,149	117,971
Interest income	4,324	275	20,768	275
Total Revenue	6,004	118,138	25,917	118,246
EXPENSES				
Salary and consulting fees	520,924	167,958	975,949	312,849
Stock based compensation <i>[note 6]</i>	62,600	11,687	104,231	23,374
Administration, occupancy and insurance	146,031	48,356	311,413	116,861
Advertising and marketing	293,690	10,000	631,219	10,000
Professional fees	75,958	3,866	125,734	6,866
Amortization of tangible assets	11,950	942	20,612	1,598
Amortization of intangible assets	67,268	66,362	134,447	88,556
	1,178,421	309,171	2,303,605	560,104
Net loss and comprehensive loss for the period <i>[note 8]</i>	(1,172,417)	(191,033)	(2,277,688)	(441,858)
Share repurchase adjustment <i>[note 5]</i>	-	-	(33,374)	-
Deficit, beginning of period	(3,991,451)	(1,682,126)	(2,852,806)	(1,431,301)
Deficit, end of period	(5,163,868)	(1,873,159)	(5,163,868)	(1,873,159)

See accompanying notes

illumiCell Corporation
Statements of Cash Flow
(Unaudited)

	Three month period ended June 30		Six month period ended June 30	
	2007	2006	2007	2006
OPERATING ACTIVITIES				
Net loss for the period	(1,172,417)	(191,033)	(2,277,688)	(441,858)
Items not requiring cash				
Amortization	79,218	67,304	155,059	90,154
Stock based compensation <i>[note 6]</i>	62,600	11,687	104,231	23,374
	(1,030,599)	(112,042)	(2,018,398)	(328,330)
Changes in non-cash working capital				
Short term investments	1,079,000	-	2,080,601	-
Accounts receivable	11,184	(117,691)	24,751	(117,807)
Goods and services tax receivable	141,671	35,932	90,360	(2,221)
Loan receivable	-	46,149	-	21,643
Prepaid expenses	(45,907)	2,982	(52,142)	(3,810)
Accounts payable	101,481	(14,633)	38,327	(19,968)
	1,287,429	(47,261)	2,181,897	(122,163)
Cash flows provided (used) by operating activities	256,830	(159,303)	163,499	(450,493)
INVESTING ACTIVITIES				
Purchase of equipment	(20,119)	(5,206)	(60,301)	(7,386)
Expenditures on trademark and patents	(6,715)	(18,026)	(21,078)	(23,776)
Expenditures on deferred development costs	(115,552)	(369,215)	(354,949)	(564,234)
Cash flows used by investing activities	(142,386)	(392,447)	(436,328)	(595,396)
FINANCING ACTIVITIES				
Issuance of common shares	-	620,000	-	885,000
Repurchase of common shares <i>[Note 5]</i>	-	-	(55,250)	-
Cash flows from financing activities	-	620,000	(55,250)	885,000
Increase (Decrease) in cash	114,444	68,250	(328,079)	(160,889)
Cash (Overdraft), beginning of period	(81,463)	53,712	361,060	282,851
Cash, end of period	32,981	121,962	32,981	121,962

See accompanying notes

illumiCell Corporation

Notes to Financial Statements

June 30, 2007
(Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles on a basis consistent with those followed in the most recent audited financial statements, except as noted below. These unaudited interim financial statements do not include all of the disclosures required in annual financial statements. Accordingly, these unaudited interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2006.

Changes in accounting policies

On January 1, 2007, the Corporation adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1530 “Comprehensive Income”, Section 3251 “Equity”, Section 3855 - “Financial Instruments - Recognition and Measurement”, Section 3861 “Financial Instruments - Disclosure and Presentation”, and Section 3865 “Hedges”. As required by the new standards, prior periods have not been restated.

The adoption of these standards has had no material impact on the Corporation’s net earnings or cash flows. The other effects of the implementation of the new standards are discussed below.

Comprehensive income

The new standards introduce comprehensive income, which consists of net earnings and other comprehensive income (“OCI”). Upon adoption of Section 1530, the Corporation revised its “Statements of Loss and Comprehensive Loss and Deficit” to include the newly required statement of comprehensive income by creating a combined statement.

The adoption of comprehensive income has been made in accordance with the applicable transitional provisions and no amounts have been reclassified to accumulated other comprehensive income. Currently, the Corporation has no OCI.

Financial instruments

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as “held-for-trading”, “available-for-sale”, “held-to-maturity”, “loans and receivables” or “other financial liabilities”, as defined by the standard.

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Notes to Financial Statements

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1. Significant Accounting Policies (Cont'd)

Financial assets and financial liabilities “held-for-trading” are measured at fair value with changes in those fair values recognized in net earnings. Financial assets “available-for-sale” are measured at fair value, with changes in those fair values recognized in OCI. Financial assets “held-to-maturity”, “loans and receivables” and “other financial liabilities” are measured at amortized cost using the effective interest method of amortization. The methods used by the Corporation in determining fair value of financial instruments are unchanged as a result of implementing the new standard.

Accounts receivable is designated as “loans and receivables”. Accounts payable are designated as “other liabilities”.

The adoption of the financial instruments standard had no impact on opening retained earnings.

Accounting change

As of January 1, 2007, the Corporation adopted revised CICA Section 1506 “Accounting Changes”, which provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted, or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP, or when the change results in more relevant and reliable information. There is no material impact to the Corporation’s financial statement as a result of implementing this new standard.

In addition, the Corporation has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact on the Corporation:

As of January 1, 2008, the Corporation will be required to adopt two new CICA standards, Section 3862 “Financial Instruments - Disclosures” and Section 3863 “Financial Instruments - Presentation”, which will replace Section 3861 “Financial Instruments - Disclosure and Presentation”. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The new financial instruments presentation and disclosure requirements were issued in December 2006 and the Corporation is assessing the impact on its financial statements.

As of January 1, 2008, the Corporation will be required to adopt the new CICA Section 1535 “Capital Disclosures”, which will require companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. The new capital disclosure requirements were issued in December 2006 and the Corporation is assessing the impact on its financial statements.

In January 2006, the CICA Accounting Standards Board (“AcSB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards (“IFRS”) by the end of 2011. The Corporation continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

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Notes to Financial Statements

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1. Significant Accounting Policies (Cont'd)

Financial instruments

a) Interest rate risk

As at June 30, 2007, the Company was exposed to changes in interest rates with respect to the short term investment. Short term investments consist of a cashable GIC which matures on December 24, 2007 at an annual interest rate of 3.25% per annum. The full amount of GIC was redeemed in July 2007.

b) Fair value

The Company's financial instruments include cash, short term investments, accounts receivable, and accounts payable. The fair values of all financial instruments approximate their carrying values.

c) Credit risk

The Company's exposure to credit risk relates to accounts receivable and arises from the possibility that a counterparty does not fulfill its obligations. This is minimized through continuous evaluation of accounts receivable and recording an allowance for doubtful accounts as required.

2. PROPERTY AND EQUIPMENT

	June 30, 2007		
	Cost	Accumulated	Net Book
	\$	amortization	Value
	\$	\$	\$
Computer equipment	92,776	(21,275)	71,501
Leasehold improvement	16,264	(4,308)	11,955
Office furniture and equipment	53,418	(6,607)	46,811
	162,458	(32,190)	130,268
	Dec 31, 2006		
	Cost	Accumulated	Net Book
	\$	amortization	Value
	\$	\$	\$
Computer equipment	74,125	(8,312)	65,813
Leasehold improvement	8,185	(1,559)	6,626
Office furniture and equipment	19,847	(1,707)	18,140
	102,157	(11,578)	90,579

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3. DEFERRED DEVELOPMENT COSTS

The Company has certain projects that meet the criteria for deferral and amortization of development costs. Development costs are capitalized for clearly defined, technically feasible technologies which management intends to produce and promote to an identified future market, and resources exist or are expected to be available to complete the project. During the three and six months periods ended June 30, 2007, development costs of \$283,294 and \$522,691, respectively, were deferred. The costs deferred are related to development of new systems for identified future markets. The Company records amortization in arriving at the carrying value of deferred development costs once a project is completed and sales of the related product have commenced. During the three and six month periods ended June 30, 2007, \$66,180 and \$132,360, respectively (2006 – \$66,180 and \$88,240) was expensed as amortization of deferred development costs. Amounts incurred and amortized for deferred development costs are as follows:

	June 30, 2007	Dec 31, 2006
	\$	\$
Balance, beginning of the period	1,485,266	646,729
Additions	522,691	1,059,137
Amortization	(132,360)	(220,600)
Balance, end of the period	1,875,597	1,485,266

Breakdown of deferred development cost additions are as follows:

	June 30, 2007	Dec 31, 2006
	\$	\$
Consulting	388,946	1,059,137
Salaries directly related to development	133,745	-
Total	522,691	1,059,137

The recoverability of unamortized deferred development costs are evaluated based on projected future revenues net of associated costs. When such review indicates that estimated future cash flows associated with these deferred costs would not be sufficient to recover their carrying value, the excess of the carrying value over estimated recoverable amount will be recognized as an impairment loss and charged to expense in the period that impairment has been determined.

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4. INTANGIBLE ASSETS

	June 30, 2007		
	Cost	Accumulated	Net Book
	\$	amortization	Value
		\$	\$
Patents	30,654	(1,855)	28,799
Trademarks	37,476	(2,456)	35,020
	68,130	(4,311)	63,819

	Dec 31, 2006		
	Cost	Accumulated	Net Book
	\$	amortization	Value
		\$	\$
Patents	25,989	(1,206)	24,783
Trademarks	21,063	(1,018)	20,045
	47,052	(2,224)	44,828

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5. SHARE CAPITAL

Authorized

Unlimited Common voting shares	No par value
Unlimited Preferred shares	No par value

Issued and Outstanding

	June 30, 2007		December 31, 2006	
	Shares #	Amount \$	Shares #	Amount \$
Common shares:				
Balance, beginning of period	45,776,480	6,502,236	5,895,770	2,199,705
Repurchase of common shares (iii)	(154,029)	(21,876)		
Issuance for cash	-	-	540,000	1,015,000
Options exercised	-	-	612,167	182,416
Transfer from contributed surplus for options exercised	-	-	-	174,404
Conversion in connection with reverse takeover	-	-	(7,047,937)	-
Conversion in connection with reverse takeover	-	-	35,239,685	-
Issuance in connection with reverse takeover, net of transaction cost	-	-	3,849,295	596,461
Issuance for cash, net (i)	-	-	6,625,000	2,309,250
Issuance to sponsor (ii)	-	-	62,500	25,000
Balance, end of period	45,622,451	6,480,360	45,776,480	6,502,236
Compensation warrants	662,500	93,327	662,500	93,327
Total share capital	46,284,951	6,573,687	46,438,980	6,595,563

- (i) During October 2006, pursuant to a Subscription Receipt Agreement, the Company completed the issuance of 6,625,000 Common Shares at a price of \$0.40 each for gross proceeds of \$2,650,000 less total issuance costs of \$247,423 and fair value of Compensation Warrants of \$93,327.
- (ii) In connection with reverse takeover in 2006, the Company issued 62,500 common shares to Versant Partners Inc. As a result, share issue cost of \$25,000 was recognized in 2006.
- (iii) During January 2007, in connection with the reverse takeover in 2006, the Company repurchased 154,029 common shares for total cost of \$55,250. As a result, the average carrying value of \$21,876 was allocated as a reduction to share capital; and \$33,374 was charged to the deficit in 2007.

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6. STOCK OPTIONS & WARRANTS

Stock Options

The Company has a stock option plan that permits the Board of Directors to grant to employees, officers, and directors options to purchase common shares from Treasury. Under the plan, the Board of Directors sets the exercise price and expiry date for each option grant. The options vest in 3 years and expire in 5 years from the date of grant. During the three month and six month periods ended June 30, 2007, the Company granted stock options to employees and directors of the Company to purchase 1,327,000 and 4,047,000 common shares, respectively, for prices ranging between \$0.40 and \$0.69 per share.

The fair value of stock options has been estimated on the date of grant by reference to the Black-Scholes option-pricing model. During the three month and six month periods ended June 30, 2007, the Company recognized stock based compensation expense of \$62,600 and \$104,231 respectively (2006 – \$11,687 and \$23,374), assuming that no common share dividend will be paid, an expected volatility of between 75% and 85% (2006 – 50%), and a risk-free interest rate between 4.17% and 4.34% (2006 – 4.00%), equal to the interest rate of a 1 year treasury bill.

As at June 30, 2007, there were 4,355,696 stock options outstanding. A summary of the status of the Company's stock options during the period presented are as follows:

	June 30, 2007		June 30, 2006	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Balance, beginning of period	373,696	0.32	571,667	0.25
Granted	4,047,000	0.42	40,500	0.33
Forfeited/cancelled	(65,000)	0.40	-	-
Balance, end of period	4,355,696	0.41	612,167	0.26
Exercisable, end of period	373,696	0.32	390,000	0.21

Warrants

Pursuant to a Subscription Receipt Agreement completed in 2006, the Company granted 662,500 compensation warrants (the "Compensation Warrants") to agents at an exercise price of \$0.40 each. The Compensation Warrants are convertible into Common Voting Shares on a one-for-one basis. As at June 30, 2007, the Compensation Warrants remained outstanding and will expire between February 29, 2008 and April 4, 2008.

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7. CONTRIBUTED SURPLUS

For stock options granted, the Company records compensation expense using the fair value method. Fair values are determined using the Black-Scholes option pricing model. Compensation costs are recognized over 3 years from the date of grant as an increase to stock based compensation expense and contributed surplus. When options are subsequently exercised, the fair value of such options in contributed surplus is credited to share capital. A summary of changes of contributed surplus is:

	Six months ended June 30, 2007	Year ended December 31, 2006
Balance, beginning of period	-	110,960
Stock-based compensation recognition of fair value of stock options granted <i>[note 6]</i>	104,231	63,444
Transfer from contributed surplus for stock options exercised	-	(174,404)
Balance, end of period	104,231	-

8. LOSS PER SHARE

The following table sets forth the computation of basic loss per share:

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Numerator for basic loss per share	\$ (1,172,417)	\$ (191,033)	\$ (2,277,688)	\$ (441,858)
Denominator for basic loss per share:				
Weighted average number of common shares	45,622,451	31,422,365	45,642,024	30,554,650
Loss per share				
Basic	\$ (0.03)	\$ (0.01)	\$ (0.05)	\$ (0.01)

Diluted earning per share is not presented as the stock options and compensation warrants are anti-dilutive.

The weighted average number of common shares was adjusted to reflect share conversion in connection with the reverse takeover in December 2006.

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9. COMMITMENTS

The Company has entered into an agreement to lease premises in Calgary, Alberta, Canada. The lease expires in May, 2008 with remaining total minimum lease payments of \$76,344.

During 2007, the Company has entered into an agreement to lease premises in Barrie, Ontario. The lease expires in February, 2012 with total minimum lease payments of \$125,635.

The following is a schedule by fiscal year of future minimum lease payments:

2007	66,621
2008	51,542
2009	25,340
2010	26,403
2011 & 2012	32,073
<u>Total</u>	<u>201,979</u>

10. RELATED PARTY TRANSACTIONS

During the three month period ended June 30, 2007, the officers and directors of the Company received management fees totalling \$90,000 (2006 – 48,000). As at June 30, 2007, \$30,000 remained outstanding in accounts payable.

These transactions have been measured at the exchange amounts, which is the consideration established and agreed to by the related parties.

11. COMPARATIVE FIGURES

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the current year financial statements.

12. SUBSEQUENT EVENTS

On July 24, 2007, the Company completed a short form prospectus financing (the “offering”) to issue 14,355,845 Common Shares at a price of \$0.55 each for gross proceeds of \$7,895,715 less agents fee of \$552,700 plus estimated issuance cost of \$200,000. In connection with the short form prospectus financing, the Company granted 1,435,585 compensation options to agents at an exercise price of \$0.55 each. The Compensation Options are convertible into Common Shares on a one-for-one basis and expire in 18 months following the closing date.