

Unaudited Financial Statements

**illumiCell Corporation**

March 31, 2007 and 2006

The Company's auditors have not reviewed the financial statements nor the accompanying notes for the three months period ended March 31, 2007.

# illumiCell Corporation

## Balance Sheets

(Unaudited)

| As at                                       | March 31, 2007<br>\$ | December 31, 2006<br>\$ |
|---|----------------------|-------------------------|
| <b>ASSETS</b>                               |                      |                         |
| <b>Current</b>                              |                      |                         |
| Cash  | -                    | 361,060                 |
| Short term investments                      | 1,100,700            | 2,102,301               |
| Accounts receivable                         | 17,857               | 31,424                  |
| Goods and services taxes recoverable        | 203,962              | 152,651                 |
| Prepaid expenses and deposits               | 28,421               | 22,186                  |
|   | <b>1,350,940</b>     | <b>2,669,622</b>        |
| Property and equipment <i>[note 2]</i>      | 122,099              | 90,579                  |
| Deferred development costs <i>[note 3]</i>  | 1,658,483            | 1,485,266               |
| Intangible assets <i>[note 4]</i>           | 58,192               | 44,828                  |
|   | <b>3,189,714</b>     | <b>4,290,295</b>        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                      |                         |
| <b>Current</b>                              |                      |                         |
| Bank overdraft                              | 81,463               | -                       |
| Accounts payable <i>[note 10]</i>           | 484,384              | 547,538                 |
|   | <b>565,847</b>       | <b>547,538</b>          |
| Commitments <i>[note 9]</i>                 |                      |                         |
| <b>Shareholders' deficiency</b>             |                      |                         |
| Share capital <i>[note 5]</i>               | 6,573,687            | 6,595,563               |
| Contributed surplus <i>[notes 7]</i>        | 41,631               | -                       |
| Deficit                                     | (3,991,451)          | (2,852,806)             |
|   | <b>2,623,867</b>     | <b>3,742,757</b>        |
|   | <b>3,189,714</b>     | <b>4,290,295</b>        |

See accompanying notes

**illumiCell Corporation**  
**Statements of Loss and Comprehensive Loss and Deficit**

Three month period ended March 31  
(Unaudited)

|   | 2007               | 2006               |
|---|--------------------|--------------------|
|   | \$                 | \$                 |
| <b>REVENUE</b>  |                    |                    |
| Sales   | 3,469              | 108                |
| Interest income                                       | 16,444             | -                  |
| <b>Total Revenue</b>                                  | <b>19,913</b>      | <b>-</b>           |
| <b>EXPENSES</b>                                       |                    |                    |
| Salaries and consulting fees                          | 455,025            | 144,891            |
| Stock based compensation <i>[note 6]</i>              | 41,631             | 11,687             |
| Travel, conferences, and conventions                  | 66,521             | 49,673             |
| Occupancy   | 48,385             | 7,588              |
| Office  | 50,240             | 11,172             |
| Investor relations & securities commissions filings   | 25,070             | -                  |
| Advertising and promotion                             | 337,529            | -                  |
| Interest and bank charges                             | 236                | 72                 |
| Accounting and legal                                  | 24,706             | 3,000              |
| Amortization of tangible assets                       | 8,662              | 656                |
| Amortization of intangible assets                     | 67,179             | 22,194             |
|   | <b>1,125,184</b>   | <b>250,933</b>     |
| <b>Net loss and comprehensive loss for the period</b> | <b>(1,105,271)</b> | <b>(250,825)</b>   |
| Deficit, beginning of period                          | (2,852,806)        | (908,360)          |
| Share repurchase adjustment <i>[note 5]</i>           | (33,374)           | -                  |
| <b>Deficit, end of period</b>                         | <b>(3,991,451)</b> | <b>(1,159,185)</b> |

*See accompanying notes*

**illumiCell Corporation**  
**Statements of Cash Flow**

Three month period ended March 31  
(Unaudited)

|   | 2007<br>\$       | 2006<br>\$       |
|---|------------------|------------------|
| <b>OPERATING ACTIVITIES</b>                 |                  |                  |
| Net loss for the period                     | (1,105,271)      | (250,825)        |
| Items not requiring cash                    |                  |                  |
| Amortization                                | 75,841           | 22,850           |
| Stock based compensation <i>[note 6]</i>    | 41,631           | 11,687           |
|   | <b>(987,799)</b> | <b>(216,288)</b> |
| Changes in non-cash working capital         |                  |                  |
| Short term investments                      | 1,001,601        | -                |
| Accounts receivable                         | 13,567           | (116)            |
| Goods and services tax recoverable          | (51,311)         | (38,153)         |
| Loan receivable                             | -                | (24,506)         |
| Prepaid expenses and deposits               | (6,235)          | (6,792)          |
| Accounts payable                            | (115,860)        | (5,335)          |
|   | <b>841,762</b>   | <b>(74,902)</b>  |
| Cash flows used by operating activities     | <b>(146,037)</b> | <b>(291,190)</b> |
| <b>INVESTING ACTIVITIES</b>                 |                  |                  |
| Purchase of property and equipment          | (40,182)         | (2,180)          |
| Expenditures on trademark and patents       | (14,363)         | (5,750)          |
| Expenditures on deferred development costs  | (186,691)        | (195,019)        |
| Cash flows used by investing activities     | <b>(241,236)</b> | <b>(202,949)</b> |
| <b>FINANCING ACTIVITIES</b>                 |                  |                  |
| Issuance of common shares                   | -                | 265,000          |
| Repurchase of common shares <i>[note 5]</i> | (55,250)         | -                |
| Cash flows from financing activities        | <b>(55,250)</b>  | <b>265,000</b>   |
| <b>Decrease in cash</b>                     | <b>(442,523)</b> | <b>(229,139)</b> |
| Cash, beginning of year                     | <b>361,060</b>   | <b>282,851</b>   |
| <b>Cash/(Bank overdraft), end of period</b> | <b>(81,463)</b>  | <b>53,712</b>    |

*See accompanying notes*

# illumiCell Corporation

## Notes to Financial Statements

Three month periods ended March 31, 2007 and 2006  
(Unaudited)

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### 1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) on the 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.

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.

# illumiCell Corporation

## Notes to Financial Statements

Three month periods ended March 31, 2007 and 2006  
(Unaudited)

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Accounts receivable is designated as “loans and receivables”. Account 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

**illumiCell Corporation**  
**Notes to Financial Statements**

Three month periods ended March 31, 2007 and 2006  
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**2. PROPERTY AND EQUIPMENT**

|                                | 2007           |                                   |                      |
|--------------------------------|----------------|-----------------------------------|----------------------|
|                                | Cost<br>\$     | Accumulated<br>amortization<br>\$ | Net Book Value<br>\$ |
| Computer equipment             | 82,640         | (14,104)                          | 68,536               |
| Leasehold improvement          | 16,262         | (2,728)                           | 13,534               |
| Office furniture and equipment | 43,436         | (3,407)                           | 40,029               |
|                                | <b>142,338</b> | <b>(20,239)</b>                   | <b>122,099</b>       |

**3. DEFERRED DEVELOPMENT COSTS**

The Company has certain projects that meet the criteria for deferral and amortization of development costs. 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 month ended March 31, 2007, \$66,180 (2006 – 22,060) was expensed as amortization of deferred development costs. Amounts incurred and amortized for deferred development costs are as follows:

|                                  | 2007<br>\$       |
|----------------------------------|------------------|
| Balance, beginning of the period | 1,485,266        |
| Additions                        | 239,397          |
| Amortization                     | (66,180)         |
| Balance, end of the period       | <b>1,658,483</b> |

**4. INTANGIBLE ASSETS**

|            | 2007          |                                   |                      |
|------------|---------------|-----------------------------------|----------------------|
|            | Cost<br>\$    | Accumulated<br>amortization<br>\$ | Net Book Value<br>\$ |
| Patents    | 31,392        | (1,568)                           | 29,824               |
| Trademarks | 30,023        | (1,655)                           | 28,368               |
|            | <b>61,415</b> | <b>(3,223)</b>                    | <b>58,192</b>        |

**illumiCell Corporation**  
**Notes to Financial Statements**

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**5. SHARE CAPITAL**

**Authorized**

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

**Issued and Outstanding**

|   | March 31, 2007    |                  | December 31, 2006 |                  |
|---|-------------------|------------------|-------------------|------------------|
|   | Shares<br>#       | Amount<br>\$     | Shares<br>#       | Amount<br>\$     |
| <b>Common share:</b>  |                   |                  |                   |                  |
| <b>Balance, beginning of period</b>                                   | <b>45,776,480</b> | <b>6,502,236</b> | <b>5,895,770</b>  | <b>2,199,705</b> |
| Repurchase of common shares (iii)                                     | (154,021)         | (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           |
| <b>Balance, end of period</b>   | <b>45,622,459</b> | <b>6,480,360</b> | <b>45,776,480</b> | <b>6,502,236</b> |
| Compensation warrants   | 662,500           | 93,327           | 662,500           | 93,327           |
| <b>Total share capital</b>  | <b>46,284,959</b> | <b>6,573,687</b> | <b>46,438,980</b> | <b>6,595,563</b> |

- (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 154,021 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.

**illumiCell Corporation**  
**Notes to Financial Statements**

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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 period ended March 31, 2007, the Company granted stock options to employees and directors of the Company to purchase 2,720,000 common shares at \$0.40 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 period ended March 31 2007, the Company recognized stock based compensation expense of \$41,631 (2006 – \$11,687), assuming that no common share dividend will be paid, an expected volatility of 75% (2006 – 50%), and a risk-free interest rate 4.17% (2006 – 4.00%), equal to the interest rate of a 1 year treasury bill.

As at March 31, 2007, there were 3,078,696 (2006 – 612,167) stock options outstanding. A summary of the status of the Company’s stock options during the period presented are as follows:

|                                     | Three months ended   |   |                      |   |
|-------------------------------------|----------------------|---|----------------------|---|
|                                     | March 31, 2007       |   | March 31, 2006       |   |
|                                     | Number of<br>Options | Weighted<br>Average<br>Exercise Price<br>\$ | Number of<br>Options | Weighted<br>Average<br>Exercise Price<br>\$ |
| <b>Balance, beginning of period</b> | <b>373,696</b>       | <b>0.3165</b>                               | <b>571,667</b>       | <b>0.2500</b>                               |
| Granted                             | 2,720,000            | 0.4000                                      | 40,500               | 0.3333                                      |
| Forfeited/cancelled                 | (15,000)             | 0.4000                                      | -                    | -   |
| <b>Balance, end of period</b>       | <b>3,078,696</b>     | <b>0.3900</b>                               | <b>612,167</b>       | <b>0.2555</b>                               |
| <b>Exercisable, end of period</b>   | <b>373,696</b>       | <b>0.3165</b>                               | <b>390,000</b>       | <b>0.2077</b>                               |

**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 March 31, 2007, the Compensation Warrants remained outstanding and will expire between February 29, 2008 and April 4, 2008.

**illumiCell Corporation**  
**Notes to Financial Statements**

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(Unaudited)

**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:

|   | Three months<br>ended<br>March 31, 2007 | Year ended<br>December 31,<br>2006 |
|---|---|------------------------------------|
| <b>Balance, beginning of period</b>   | -                                       | <b>110,960</b>                     |
| Stock-based compensation recognition of fair value of stock options granted <i>[note 6]</i> | 41,631                                  | 63,444                             |
| Transfer from contributed surplus for stock options exercised                               | -                                       | (174,404)                          |
| <b>Balance, end of period</b>   | <b>41,631</b>                           | <b>-</b>                           |

**8. LOSS PER SHARE**

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

|  | Three months ended |                   |
|--|--------------------|-------------------|
|  | March 31,<br>2007  | March 31,<br>2006 |
| Numerator for basic loss per share       | \$ (1,105,271)     | \$ (250,825)      |
| Denominator for basic loss per share:    |                    |                   |
| Weighted average number of common shares | 46,284,959         | 29,598,017        |
| Loss per share                           |                    |                   |
| Basic                                    | \$ (0.02)          | \$ (0.01)         |

Diluted earning per share is not presented as the stock options 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.

**illumiCell Corporation**  
**Notes to Financial Statements**

Three month periods ended March 31, 2007 and 2006  
(Unaudited)

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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:

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

**10. RELATED PARTY TRANSACTIONS**

During the three month period ended March 31, 2007, the officers and directors of the Company received management fees totalling \$80,000 (2006 - 48,000). As at March 31, 2006, \$20,000 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.