HEPALIFE TECHNOLOGIES INC
Form 10-Q
May 15, 2008

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 March 31, 2008

___ 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, a non-accelerated filer or a smaller reporting company.

Large Accelerated Filer

[ ]

Accelerated Filer

[ ]

Non-accelerated Filer

[ ]

Smaller Reporting Company

[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: 78,606,999 shares of Common Stock, par value $0.001, were outstanding on May 14, 2008.

TABLE OF CONTENTS

HEPALIFE TECHNOLOGIES, INC.

FORM 10-Q, QUARTER ENDED MARCH 31, 2008

HEPALIFE TECHNOLOGIES, INC.

(A Development Stage Company)

CONSOLIDATED BALANCE SHEETS
March 31, 2008 and December 31, 2007
(Unaudited)

(Expressed in U.S. Dollars)		**March 31, 2008**		**December 31, 2007**
ASSETS				
Current assets				
Cash	$	154,149	$	534,113
Prepaid expenses		3,066		4,338
Total current assets		157,215		538,451
Equipment, net (Note 7)		8,275		10,882
Licence fee (Note 5)		75,000		75,000
Deferred financing costs (Note 9)		-		210,728
Total assets	$	240,490	$	835,061
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	7,471	$	4,800
Accounts payable - related parties (Note 4)		231,260		208,330
Notes payable - related party (Note 4)		877,800		877,800
Total current liabilities		1,116,531		1,090,930
Convertible promissory note, at face value (Note 9)		-		755,000
Discount on convertible promissory note (Note 9)		-		(468,343)
		-		286,657
Total liabilities		1,116,531		1,377,587
Commitments and Contingencies (Note 5, 6)				

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: 78,606,999 (2007: 76,264,584)		78,608		76,265
Additional paid-in capital		15,942,455		15,039,050
Accumulated other comprehensive income (loss)		2,243		(3,772)
Loss accumulated during the development stage		(16,899,347)		(15,654,069)
Total stockholders' equity (deficiency)		(876,041)		(542,526)
Total liabilities and stockholders' equity	$	240,490	$	835,061

(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 ended March 31, 2008 and 2007
and from inception (October 21, 1997) to March 31, 2008

(Expressed in U.S. Dollars)	March 31, 2008	March 31, 2007	From inception (October 21, 1997) to March 31, 2008
Revenue	$ -	$ -	$ -
Expenses			
Administrative and general	38,982	42,134	680,330
Depreciation	2,607	3,811	30,196
Professional fees- accounting and legal	22,545	9,703	530,066
Management and consulting fees (Note 4)	750	12,087	1,003,087
Research and development (Notes 5 and 6)	127,463	29,621	1,148,751
Salary and benefits	332,083	593,197	4,809,053
Shareholder and investor relations	3,300	9,405	3,787,689
Stock offering costs	-	-	1,926,713
Transfer agent and filing	655	460	16,672
Travel	8,612	16,645	302,211
	536,997	717,063	14,234,768
Operating Loss	(536,997)	(717,063)	(14,234,768)
Other income (expenses)			
Interest on promissory note	(22,930)	(21,169)	(336,427)
Interest, bank charges and foreign exchange loss	(9,177)	(2,292)	(33,723)
Interest income	2,897	1,544	92,185
Amortization of discount on issuance of convertible promissory notes (Note 9)	(468,343)	-	(2,093,099)

Amortization of deferred financing costs (Note 9)		(210,728)		-	(293,515)
		(708,281)	-	(21,917)	- (2,664,579)
Net loss available to common shareholders	$	(1,245,278)	$	(738,980)	$ (16,899,347)
Loss per share - basic and diluted	$	(0.02)	$	(0.01)	
Weighted average number of common shares outstanding - basic and diluted		78,370,004		72,883,097	

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

HEPALIFE TECHNOLOGIES, INC.

(A Development Stage Company)

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIENCY)

from inception (October 31, 1997) to March 31, 2008

(Expressed in U.S. Dollars)	Common Stock Shares	Amount	Additional paid-in capital	Accumulated other comprehensive income	Loss accumulated during development stage	Comprehensive income (loss)	T sto (de
Common stock issued for service rendered at $0.00025 per share, October 21, 1997	12,000,000	$ 12,000	$(9,000)	$-	$-	$-	
Common stock issued for cash at $0.0625 per share during 1997	1,200,000	1,200	73,800	-	-		
Comprehensive income							
Income from inception (October 21, 1997) to December 31, 1997	-	-	-	-	42	42	
Total comprehensive income						42	
	13,200,000	13,200	64,800	-	42		

Balance, December 31, 1997						
Common stock issued for service rendered at $0.025 per share, December 15, 1998	16,000,000	16,000	384,000		-	
Comprehensive income (loss)						
Loss, year ended December 31, 1998	-	-	-		(471,988)	(471,988)
Total comprehensive income						(471,988)
Balance, December 31, 1998	29,200,000	29,200	448,800	-	(471,946)	
Common stock issued for cash at $0.025 per share, March 1999	12,000,000	12,000	288,000		-	
Comprehensive income (loss)						
Loss, year ended December 31, 1999	-	-	-		(121,045)	(121,045)
Total comprehensive income						(121,045)
	41,200,000	41,200	736,800	-	(592,991)	

Balance, December 31, 1999					
Comprehensive income (loss)					
Loss, year ended December 31, 2000	-	-	-	(80,608)	(80,608)

Total comprehensive income						(80,608)	
Balance, December 31, 2000	41,200,000	41,200	736,800	-	(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)	(160,364)
Total comprehensive income						(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	1,920,000	1,920	94,080		-		96,000

share, December 18, 2002						
Comprehensive income (loss)						
Loss, year ended December 31, 2002	-	-	-	(375,472)	(375,472)	(375,472)
Total comprehensive income					(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 year at between $0.07 to $2.11 per share	282,500	283	398,317	-		398,600
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)	(1,102,723)
Total comprehensive income					(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)	(1,435,613)
Total comprehensive income						(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)	(2,813,602)
Total comprehensive income						(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)	(4,654,499)
Total comprehensive income						(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
Common stock converted from convertible							
promissory notes	2,604,721	2,605	1,742,395				1,745,000
Stock based compensation expenses			935,044				935,044
Proceeds allocated to the warrants issued with							
the convertible notes			497,689				497,689

8

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
Comprehensive income (loss)							
Foreign currency translation adjustment				(3,772)		(3,772)	(3,772)
Loss, year ended December 31, 2007					(4,438,197)	(4,438,197)	(4,438,197)
Total comprehensive income						$(4,441,969)	
Balance, December 31, 2007	76,264,584	76,265	15,039,050	(3,772)	(15,654,069)		$(542,526)
Common stock converted from convertible promissory notes	2,342,415	2,343	752,657				755,000
Stock based compensation expenses			150,748				150,748
Comprehensive income (loss)							
Foreign currency translation adjustment				6,015		6,015	6,015
Loss, three months ended March 31,					(1,245,278)	(1,245,278)	(1,245,278)

2008

Total comprehensive income						$(1,239,263)	
Balance, March 31, 2008	78,606,999	$78,608	$ 15,942,455	$2,243	$(16,899,347)		$4(876,041)

(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 three months ended March 31, 2008 and 2007
and from inception (October 21, 1997) to March 31, 2008

(Expressed in U.S. Dollars)	March 31, 2008	March 31, 2007	From inception (October 21, 1997) to March 31, 2008
Cash flows from operating activities			
Net Loss	$ (1,245,278)	$ (738,980)	$ (16,899,347)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	2,607	3,811	30,196
Common stock issued for services	-	-	861,100
Common stock issued as stock offering costs	-	-	1,926,713
Stock based compensation expenses	150,748	469,762	3,693,094
Amortization of discount on issuance of convertible promissory notes	468,343	-	2,093,099
Amortization of deferred financing costs	210,728	-	293,515
Change in assets and liabilities:			
Decrease (Increase) in prepaid expenses	1,272	(175)	(3,066)
Increase (decrease) in accounts payable	2,671	(72,907)	7,471
Increase in accounts payable - related party	22,930	16,462	231,260
Net cash used in operating activities	(385,979)	(322,027)	(7,765,965)
Cash flows from investing activities			
Purchase of property and equipment	-	(2,834)	(38,471)

Increase in Licence fees		-		-		(75,000)
Net cash used in investing activities		-		(2,834)		(113,471)
Cash flows from financing activities						
Proceeds from issuance of common stock, net		-		160,001		5,257,067
Proceeds from issuance of convertible notes		-		-		2,125,000
Repayment of promissory notes				-		877,800
Cash paid for finders fee		-		-		(228,525)
Net cash provided by financing activities		-		160,001		8,031,342
Increase (decrease) in cash and cash equivalents		(385,979)		(164,860)		151,906
Effect of foreign exchange rate		6,015		-		2,243
Cash and cash equivalents, beginning of period		534,113		252,887		
Cash and cash equivalents, end of period	$	154,149	$	88,027	$	154,149
Supplemental disclosure of cash flow information:						
Interest paid in cash	$	106	$	-	$	97,681
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	$	-	$	-	$	1,926,713
Issuance of warrants for deferred financing costs	$		$	-	$	64,990
Conversion of debt to equity	$	755,000	$	-	$	2,500,000

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

HEPALIFE TECHNOLOGIES, INC. AND SUBSIDIARIES

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

(Expressed in US Dollars)

NOTE 1 - BASIS OF PRESENTATION - GOING CONCERN UNCERTAINITIES

HepaLife Technologies, Inc. (the Company) was incorporated in 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 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.

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 and may cause it to cease operations. 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 2008. 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 for gross proceeds of $2,125,000 on May 11, 2007 (Note 9). Management believes that its current and future plans enable it to continue operations through March 31, 2008. 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 March 31, 2008 and December 31, 2007, and the results of operations for three months ended March 31, 2008 and 2007 and cash flows for the three months ended March 31, 2008 and 2007. 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 2007 Annual Report on Form 10-K.

Recent Accounting Pronouncements

In December 2007, the FASB ratified EITF No. 07-1, *Accounting for Collaborative Arrangements,* that discusses how parties to a collaborative arrangement (which does not establish a legal entity within such arrangement) should account for various activities. The consensus indicates that costs incurred and revenues generated from transactions with third parties (i.e. parties outside of the collaborative arrangement) should be reported by the collaborators on the respective line items in their income statements pursuant to EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent.,* Additionally, the consensus provides that income statement characterization of payments between the participants in a collaborative arrangement should be based upon existing authoritative pronouncements; analogy to such pronouncements if not within their scope; or a reasonable, rational, and consistently applied accounting policy election. EITF Issue No. 07-1 is effective for financial statements beginning after December 15, 2008 and is to be applied retrospectively to all periods presented for collaborative arrangements existing as of the date of adoption. The Company is evaluating the impact, if any, the adoption of this consensus will have on the results of operations, financial position or cash flows.

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 March 31,	
	2008	2007
Numerator - net loss available to common stockholders	$(1,245,278)	$(738,980)
Denominator - weighted average number of common shares outstanding	78,370,004	72,883,097
Basic and diluted loss per common share	$(0.02)	$(0.01)

NOTE 4 - RELATED PARTY TRANSACTIONS

Management Fees: During the three months ended March 31, 2008, the Company paid management fees of $750 (2007: $nil) to the directors. 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 March 31, 2008, 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 March 31, 2008, amounted to $231,260 (December 31, 2007: $208,330).

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 paid rent of $9,644 (2007: $8,190) for the three months ended March 31, 2008.

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., MicroChannel Technologies Corporation 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 AGREEMENTS

(i) Cooperative Research and Development Agreement

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

On May 24, 2004, the CRADA was extended to September 30, 2007 and later to December 1, 2007 and the required total payments to ARS were amended to $807,828; of which the entire amount was paid as of December 31, 2007.

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

to the desired termination date.

(ii) New Cooperative Research and Development Agreement

On November 20, 2007, HepaLife Technologies, Inc. entered into a new Cooperative Research and Development Agreement with the U.S. Department of Agriculture, Agricultural Research Service pertaining to the continued development and use of patented liver cell lines in artificial liver devices and in-vitro toxicological testing platforms, and committed a total payment of $519,130 to USDA-ARS over the two year period, ending November 19, 2009.

As of March 31, 2008, total payments of $263,819 have been paid, including $50,613 for purchase of equipment.

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 until the expiration of the last to expire of the patents, or until fifteen (15) years after the effective date of June 15, 2006, whichever is longer.

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, 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 PBS had no assets or liabilities no value allocated to the minority interest. As PBS has no assets or liabilities, no value was allocated to the minority interest.

The termination date of the sponsored research agreement was July 14, 2007.

On February 2, 2008, the Company, through its subsidiary, Phoenix BioSystems, Inc., entered into an amendment of the above mentioned exclusive worldwide license agreement with Michigan State University 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.

As of March 31, 2008, total payment of $73,352 has been paid in relation to the project, including the reimbursement of research expenses of $68,353 to MSU.

On November 2, 2007, HepaLife Technologies, Inc. entered into an exclusive license agreement with the U.S. Department of Agriculture, Agricultural Research Service for the use of patented liver cell lines in bioartificial liver devices and in-vitro toxicological testing platforms.

NOTE 7 EQUIPMENT

	March 31, 2008	December 31, 2007
Computer equipment	$37,382	$37,382
furniture and fixtures	1,089	1,089

	38,471	38,471
Less: accumulated depreciation	(30,196)	(27,589)
	$8,275	$10,882

Depreciation expenses charged to operations for the three months ended March 31, 2008 were $2,607 (2007: $3,811).

NOTE 8 - SHARE CAPITAL

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 year ended December 31, 2007, Fusion Capital has purchased 891,019 shares of common stock of the Company for total proceeds of $495,001.

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 ($212,500) 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) 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.

The warrants are detached from the 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 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 Notes and warrants were $1,627,311 and $497,689 (See Note 10) respectively. The resultant discount is amortized over the life of the Note.

During the three months ended March 31, 2008, Notes in the amount of $755,000 were converted into 2,342,415 shares.

During the three months ended March 31, 2008, $468,343 of the discount on issuance of Note was recorded in the Statement of Operations. At March 31, 2008, all discounts on issuance of Note were amortized.

NOTE 10 - WARRANTS

As of March 31, 2008, 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 was $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 March 31, 2008, 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 (years)	Aggregate intrinsic value
Outstanding at December 31, 2006	10,350,000	$0.67		
Granted	2,026,750	0.52		
Cancelled	(10,350,000)	0.67		
Outstanding at December 31, 2007	2,026,750	0.52		
Granted	75,000	0.37		
Outstanding at March 31, 2008	2,101,750	0.51	8.87	$-
Exercisable at March 31, 2008	-	$0.52		
Available for grant at March 31, 2008	35,696,250			

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 March 31, 2008 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 March 31, 2008. This amount change is based on the fair market value of the Company s

stock. Total intrinsic value of options exercised was $nil (2007: $nil) for the three months ended March 31, 2008. Weighted average fair value of options granted during the three months ended March 31, 2008 was $0.27 (2007: $0.52) 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, 2006	4,650,000	$0.51
Granted during 2007	2,026,750	0.43
Cancelled during 2007	(4,650,000)	0.51
Outstanding, December 31, 2007	2,026,750	0.43
Granted during 2008	75,000	0.27
Outstanding, March 31, 2008	2,101,750	0.42

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.

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.

Additional stock-based compensation expense of $58,337 will be recognized over the remaining requisite service

period as a result of the cancellation and re-issuance of stock options.

On December 1, 2007, the Company granted options to two employees to purchase up to 17,000 shares of the Company s common stock at an exercise price of $0.58. The options are vested in 4,250 options each upon achieving each of the four goals set by the Company. The four goals are expected to be achieved on or before March 31, 2008, June 30, 2008, September 30, 2008 and December 31, 2008 respectively.

On December 1, 2007, the Company granted options to an employee to purchase up to 9,750 shares of the Company s common stock at an exercise price of $0.58. Of the total options, 750 options vest upon achieving the first goal of the Company. The remaining options are vested in 2,250 options each upon achieving each of the four goals set by the Company. The four goals are expected to be achieved on or before March 31, 2008, June 30, 2008, September 30, 2008 and December 31, 2008 respectively.

The fair value of the 26,750 options granted was estimated at $0.25 each, for a total of amount of $6,688, by using the Black-Scholes Option Pricing Model with the following weighted average assumptions: dividend yield of 0%, expected volatility of 94.73%, risk-free interest rates of 3.41%, and expected lives of 5 years.

On February 1, 2008, the Company granted options to an employee to purchase up to 75,000 shares of the Company s common stock at an exercise price of $0.37. Of the total options, 25,000 options vest upon achieving the first goal of the Company. The remaining options are vested in another 25,000 options each upon achieving each of the three goals set by the Company. The three goals are expected to be achieved on or before July 31, 2009, January 31, 2010 and January 31, 2011 respectively.

The fair value of the 75,000 options granted was estimated at $0.27 each, for a total of amount of $20,250, by using the Black-Scholes Option Pricing Model with the following weighted average assumptions: dividend yield of 0%, expected volatility of 90.53%, risk-free interest rates of 2.75%, and expected lives of 5 years.

During the three months ended March 31, 2008, compensation expense of $150,748 (2007: $469,762) was recognized for options previously granted and vesting over time and is recorded in Salaries and Benefits on the Consolidated Statements of Operations. As of March 31, 2008, the Company had $449,681 of total unrecognized compensation cost related to unvested stock options.

The options outstanding and exercisable as of March 31, 2008 can be summarized as follows:

	Outstanding			Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$ 0.52	2,000,000	8.83	$0.52	-	$ 0.52
0.58	26,750	9.68	0.58	-	0.58
0.37	75,000	9.85	0.37	-	0.37
0.51	2,101,750	8.88	0.51	-	0.51

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 ending March 31, 2008, 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, believe, inte 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.

Our sponsored research is being conducted pursuant to a Cooperative Research and Development Agreement with the United States Department of Agriculture s Agricultural Research Service and a sponsored research agreement with Michigan State University. 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 (liver) 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, which application was also developed and patented by USDA Agricultural Research Service scientists 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 commercializing 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

Michigan State University in June 2006. 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 (from outside the system) agents, fungi, bacteria, diseases, and potentially harmful viruses. In addition, PBS-1 cells 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.

General and Administrative Expenses

Our general and administrative expenses consist primarily of personnel related costs, legal costs, including intellectual property, investor relations costs, stock based compensation costs, 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, except for prepayments, which are capitalized and amortized over the applicable period. We do not track research and development expenses by project. In addition costs for third party laboratory work might occur.

Sponsored Research Agreements

Cooperative Research and Development Agreement

On November 20, 2007, HepaLife Technologies, Inc. entered into a new Cooperative Research and Development Agreement with the U.S. Department of Agriculture, Agricultural Research Service pertaining to the continued development and use of patented liver cell lines in artificial liver devices and in-vitro toxicological testing platforms, and committed to pay a total of $519,130 to USDA s Agricultural Research Service over a two-year period ending November 19, 2009

As of March 31, 2008, total payments of $263,819 been paid, including $50,613 for purchase of equipment.

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 ended July 14, 2007.

As of March 31, 2008, total payment of $73,352 has been paid in relation to the sponsored research agreement 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.

License Agreement

(i)USDA Agricultural Research Service

On November 2, 2007, HepaLife Technologies, Inc. entered into an exclusive license agreement with the U.S. Department of Agriculture, Agricultural Research Service for the use of patented liver cell lines in bioartificial liver devices and in-vitro toxicological testing platforms.

The terms of the agreement cover specific patents and the PICM-19 hepatocyte cell lines. Financial details were not disclosed.

(ii) Michigan State University

On June 15, 2006, the Company, through its subsidiary, Phoenix BioSystems, Inc., entered into an exclusive worldwide license agreement with Michigan State University 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 until the expiration of the last to expire of the patents, or until fifteen (15) years after the effective date of June 15, 2006, whichever is longer.

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, 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 PBS had no assets or liabilities no value allocated to the minority interest. As PBS has no assets or liabilities, no value was allocated to the minority interest.

On February 2, 2008, the Company, through its subsidiary, Phoenix BioSystems, Inc., entered into an amendment of the above mentioned exclusive worldwide license agreement with Michigan State University 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.

Results of Operation

The Company has yet to establish any history of profitable operations. The Company has incurred operating losses of $536,997 and $717,063 for the three months ended March 31, 2008 and March 31, 2007, respectively. As a result, at March 31, 2008, the Company has an accumulated deficit of $16,899,347.

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 Ended March 31, 2008 and 2007

The Company had no revenues in the three months ended March 31, 2008 and March 31, 2007. Our expenses decreased 40% to $409,534 in the three months ended March 31, 2008, from $687,442 in the same period in 2007. This decrease of $277,908 for the three months ended March 31, 2008 compared to the same period in 2007 was primarily attributable to a decrease in salary and benefits.

Interest income increased 88% to $2,897 in the three months ended March 31, 2008, from $1,544 during the same period in 2007, reflecting higher than average cash balances maintained during most of the first quarterly period in 2008.

We incurred net losses of $1,245,278 and $738,980 during the three months ended March 31, 2008 and in the same period in 2007, respectively.

Liquidity and Capital Resources

As at March 31, 2008, the Company had a cash balance of $154,149. The Company has financed its operations primarily from cash on hand during the three month period ending March 31, 2008.

Net cash flows used in operating activities was $385,979 for the three month period ending March 31, 2008, compared to net cash flows used of $322,027 for the same period in 2007.

Net cash provided by financing activities was $0 for the three months period ending March 31, 2008 compared to $160,001 for the same period in 2007. The Company has financed its operations primarily from cash on hand.

At this time, we have no agreements or understandings with any third party regarding any financings.

Related Party Transactions

Management Fees: During the three months ended March 31, 2008, the Company paid management fees of $750 (2007: $nil) to the directors. 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 March 31, 2008, 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 March 31, 2008, amounted to $231,260 (December 31, 2007: $208,330).

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 paid rent of $9,644 (2007: $8,190) for the three months ended March 31, 2008.

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., MicroChannel Technologies Corporation 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 December 2007, the FASB ratified EITF No. 07-1, *Accounting for Collaborative Arrangements,* that discusses how parties to a collaborative arrangement (which does not establish a legal entity within such arrangement) should account for various activities. The consensus indicates that costs incurred and revenues generated from transactions with third parties (i.e. parties outside of the collaborative arrangement) should be reported by the collaborators on the respective line items in their income statements pursuant to EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal Versus Net as an Agent.,* Additionally, the consensus provides that income statement characterization of payments between the participants in a collaborative arrangement should be based upon existing authoritative pronouncements; analogy to such pronouncements if not within their scope; or a reasonable, rational, and consistently applied accounting policy election. EITF Issue No. 07-1 is effective for financial statements beginning after December 15, 2008 and is to be applied retrospectively to all periods presented for collaborative arrangements existing as of the date of adoption. The Company is evaluating the impact, if any, the adoption of this consensus will have on the results of operations, financial position or cash flows.

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

Disclosure controls and procedures.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this quarterly report. Based on this evaluation, our chief executive officer and chief financial officer concluded as of March 31, 2008 that our disclosure controls and procedures were effective such that the information required to be disclosed in our United States Securities and Exchange Commission reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Internal control over financial reporting.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2008 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II Other Information

Item 1. Legal Proceedings

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

January 9, 2008: On November 8, 2007, HepaLife Technologies, Inc. issued a news release to that the Company has entered into an exclusive license agreement with the U.S. Department of Agriculture, Agricultural Research Service (USDA, ARS) for the use of patented liver cell lines in artificial liver devices and in-vitro toxicological testing platforms.

January 9, 2008: On November 20, 2007, HepaLife Technologies, Inc. entered into a Cooperative Research and Development Agreement (the CRADA) with the U.S. Department of Agriculture, Agricultural Research Service (USDA-ARS) pertaining to the continued development and use of patented liver cell lines in artificial liver devices and in-vitro toxicological testing platforms.

January 25, 2008: On January 22, 2008, HepaLife Technologies, Inc. issued a news release to announce the appointment of its Vice President, Research & Development, Dr. Christopher W. Kemp.

February 15, 2008: On February 11, 2008, HepaLife Technologies, Inc. issued a news release to announce important, positive results from new in-vitro studies in which the Company s patented PICM-19 liver stem cells were placed

inside its proprietary bioartificial liver device and were able to successfully and quickly remove high levels of toxic ammonia within a very short period of time.

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 14th day of May, 2008.

HepaLife Technologies, Inc.

(Registrant)

Date

Signature

Title

May 14, 2008

/s/ Frank Menzler

Director, President, CEO

Frank Menzler

May 14, 2008

/s/ Harmel S. Rayat

Director, Secretary, Treasurer,

Harmel S. Rayat

Chief Financial Officer,

Principal Accounting Officer