Grant Life Sciences, Inc.
Form 10QSB
November 20, 2006

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, DC 20549**

**FORM 10-QSB**

**(Mark One)**

**ý Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934.**

**For the quarterly period ended September 30, 2006**

**o Transition report under Section 13 or 15(d) of the Exchange Act**

**For the transition period from _________ to ___________**

**Commission File Number: 000-50133**

**GRANT LIFE SCIENCES, INC.**
(Exact Name of Small Business Issuer as Specified in Charter)

| | |
|---|---|
| **Nevada** | **82-0490737** |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification Number) |

**3550 Wilshire Blvd., Suite 1700, Los Angeles, CA 90010**
(Address of Principal Executive Offices)

**(213) 637-5692**
(Issuer's Telephone Number, Including Area Code)

(Former Address, if Changed Since Last Report)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date: As of November 14, 2006, there were 136,338,605 shares of Common Stock, par value $0.001 per share, issued and outstanding.

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

GRANT LIFE SCIENCES, INC.
FORM 10-QSB
INDEX

**GRANT LIFE SCIENCES, INC.**
**(A development stage company)**
**CONSOLIDATED BALANCE SHEETS**

| ASSETS | September 30, 2006 (unaudited) | December 31, 2005 (audited) |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 41,456 | $ 800,472 |
| Accounts receivable | 21,338 | 72,675 |
| Prepaid expenses | 33,125 | 69,125 |
| Deposits & other assets | 34,283 | 45,209 |
| Total current assets | 130,202 | 987,481 |
| | | |
| Property and equipment, net of accumulated depreciation of $18,071 and $12,519 at September 30, 2006 and December 31, 2005, respectively | 12,622 | 14,321 |
| Deferred financing fees, net of accumulated amortization of $32,292 and $13,542, at September 30, 2006 and December 31, 2005, respectively | 42,708 | 61,458 |
| | | |
| Total assets | $ 185,532 | $ 1,063,260 |
| | | |
| LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 154,968 | $ 124,847 |
| Accrued liabilities | 189,888 | 130,555 |
| Accrued interest payable | 111,148 | 106,637 |
| Accrued payroll liabilities | 81,305 | 94,680 |
| Notes payable, current portion (Note C) | 15,680 | 21,875 |
| Total current liabilities | 552,989 | 478,594 |
| | | |
| Long-term liabilities: | | |
| Notes payable - long term (Note C) | 350,000 | 350,000 |
| Convertible notes payable (Note C) | 565,104 | 240,491 |
| Derivative liability related to convertible notes | 8,137,682 | 2,606,377 |
| Warrant liability related to convertible notes | 561,423 | 161,472 |
| Total Liabilities | 10,167,198 | 3,836,934 |
| Commitments and contingencies | - | - |
| Deficiency in stockholders' equity: | | |
| Preferred stock, par value: $.001, authorized 20,000,000 shares; no shares issued and outstanding at September 30, 2006 and at December 31, 2005. (Note F) | - | - |
| Common stock, par value; $.001, authorized 750,000,000 shares at September 30, 2006 and 150,000,000 shares at December 31, 2005,132,977,917 and 126,486,518 shares issued and outstanding at September 30, 2006 and at December 31, 2005 respectively. (Note F) | 132,979 | 126,487 |
| Additional paid in capital | 5,381,597 | 5,400,819 |
| Deferred compensation | - | (285,308) |
| | | |
| Deficit accumulated during development stage | (15,496,242) | (8,015,672) |

| | | | | |
|---|---|---|---|---|
| Total deficiency in stockholders' equity: | | (9,981,666) | | (2,773,674) |
| Total liabilities and deficiency in stockholders' equity: | $ | 185,532 | $ | 1,063,260 |

The accompanying notes to consolidated financial statements

**GRANT LIFE SCIENCES, INC.**
**(A development stage company)**
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**
**(Unaudited)**

| | For the three months ended September 30, 2006 | For the three months ended September 30, 2005 (Restated - Note E) | For the nine months ended September 30, 2006 | For the nine months ended September 30, 2005 (Restated - Note E) | For the period July 9, 1998 (date of inception) through September 30, 2006 |
|---|---|---|---|---|---|
| Sales | | | | | $ 72,675 |
| Cost of Sales | | | | | 62,805 |
| Gross Margin | | | | | 9,870 |
| | | | | | |
| Operating Expenses: | | | | | |
| General and administrative | $ 196,861 | $ 466,906 | $ 851,244 | $ 1,901,830 | 5,575,976 |
| Depreciation | 1,851 | 1,713 | 5,552 | 4,949 | 24,955 |
| Acquisition cost | - | - | - | - | 65,812 |
| Research and development | 99,966 | 90,091 | 227,576 | 480,220 | 1,696,081 |
| Total Operating Expenses | 298,678 | 558,710 | 1,084,372 | 2,386,999 | 7,362,824 |
| | - | | | | |
| Loss from Operations | (298,678) | (558,710) | (1,084,372) | (2,386,999) | (7,362,954) |
| | | | | | |
| Other income (expenses): | | | | | |
| Gain on extinguishment of debt | - | - | - | - | 510,104 |
| Change in fair value related to adjustment of derivative and warrant liability to fair value of underlying securities | (6,948,491) | (10,293,048) | ,(5,931,257) | (10,452,987) | (6,818,374) |
| Interest expense | (168,671) | (181,844) | (464,939) | (398,097) | (1,834,918) |
| | | | | | |
| Loss before income taxes | (7,415,840) | (11,033,602) | (7,480,568) | (13,238,083) | (15,496,142) |
| Income tax expense | - | - | - | - | (100) |
| Net loss | $ (7,415,840) | $ (11,033,602) | $ (7,480,568) | $ (13,238,083) | $ (15,496,242) |
| | | | | | |
| Net loss per common share - Basic and Fully diluted (Note A) | $ (0.058) | $ (0.19) | $ (0.059) | $ (0.23) | n/a |
| | | - | - | - | n/a |
| Weighted average shares - Basic and Fully diluted (Note A) | 127,685,236 | 59,219,548 | 126,890,482 | 57,837,341 | n/a |

See accompanying notes to the unaudited condensed consolidated financial statements

4

**GRANT LIFE SCIENCES, INC.**
**(A development stage company)**
**CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY**
**FOR THE PERIOD JULY 9, 1998 (Date of Inception) THROUGH**
**DECEMBER 31, 2005**

| | Common Shares | Common Shares Amount | Subscription Receivable | Deferred Compensation | Additional Paid In Capital | Accumulated Deficit | Total (Deficiency) In Stockholders Equity |
|---|---|---|---|---|---|---|---|
| Balance, July 9, 1998 (date of inception) | 9,272,200 | $ 9,272 | $ - | $ - | $ (9,272) | $ - | $ - |
| Issued stock for subscription receivable at $0.005 per share | 18,795,000 | 18,795 | (100,000) | - | 81,205 | - | - |
| Balance, December 31, 1998 | 28,067,200 | 28,067 | (100,000) | - | 71,933 | - | - |
| Issued stock for cash at $0.004 per share | 1,253,000 | 1,253 | - | - | 3,747 | - | 5,000 |
| Net loss | - | - | - | - | - | (5,053) | (5,053) |
| Balance, December 31, 1999 | 29,320,200 | 29,320 | (100,000) | - | 75,680 | (5,053) | (53) |
| Payment of subscriptions receivable | - | - | 100,000 | - | - | - | 100,000 |
| Net loss | - | - | - | - | - | (43,641) | (43,641) |
| Balance, December 31, 2000 | 29,320,200 | 29,320 | - | - | 75,680 | (48,694) | 56,306 |
| Issued stock for cash at $0.004 per share | 250,600 | 251 | - | - | 749 | - | 1,000 |
| Net loss | - | - | - | - | - | (522,213) | (522,213) |
| Balance, December 31, 2001 | 29,570,800 | 29,571 | - | - | 76,429 | (570,907) | (464,907) |
| Beneficial conversion feature on issuance of debt | - | - | - | - | 98,507 | - | 98,507 |
| Gain on extinguishment of debt | - | - | - | - | (98,507) | - | (98,507) |
| Issued stock for cash at $0.13 per share | 689,150 | 689 | - | - | 91,811 | - | 92,500 |
| Issued stock for services at $0.06 per share | 1,591,310 | 1,591 | - | - | 101,659 | - | 103,250 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Issued stock in satisfaction of debt at $0.14 per share | 1,790,000 | 1,790 | - | - | 248,210 | - | 250,000 |
| Net loss | - | - | - | - | - | (646,201) | (646,201) |
| Balance, December 31, 2002 | 33,641,260 | 33,641 | - | - | 518,109 | (1,217,108) | (665,358) |
| Issued stock for cash at $0.13 per share | 930,800 | 931 | - | - | 119,069 | - | 120,000 |
| Net loss | - | - | - | - | - | (253,881) | (253,881) |
| Balance, December 31, 2003 | 34,572,060 | 34,572 | - | - | 637,178 | (1,470,989) | (799,239) |
| Issued stock for cash at $0.0838 per share | 238,660 | 239 | - | - | 19,761 | - | 20,000 |
| Issued stock for services at $0.08 per share | 500,000 | 500 | - | - | 39,500 | - | 40,000 |
| Issued stock for cash at $0.1835 per share | 9,560,596 | 9,561 | - | - | 1,485,376 | - | 1,494,937 |
| Reverse merger with Grant Ventures, Inc. | 6,000,000 | 6,000 | - | - | - | - | 6,000 |
| Warrants issued as part of restructuring of debt (89,500 valued at $0.03779) | - | - | - | - | 3,382 | - | 3,382 |
| Recognition of beneficial conversion feature on issuance of note payable | - | - | - | - | 200,000 | - | 200,000 |
| Conversion of note payable and accrued interest at $0.07569 per share | 2,720,000 | 2,720 | - | - | 203,165 | - | 205,885 |
| Issued stock in satisfaction of debt at $0.1835 per share | 249,475 | 249 | - | - | 45,530 | - | 45,779 |
| Exercise of $0.01 warrants | 2,403,000 | 2,403 | - | - | 21,627 | - | 24,030 |
| Issued 250,000 warrants for services | - | - | - | - | 11,000 | - | 11,000 |
| Stock options issued to employees, directors, consultants | - | - | - | (1,523,966) | 1,523,966 | - | - |
| Vesting of deferred compensation | - | - | - | 426,081 | - | - | 426,081 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Net loss | - | - | - | - | - | (1,910,350) | (1,910,350) |
| Balance, December 31, 2004 | 56,243,791 | 56,244 | - | (1,097,886) | 4,190,485 | (3,381,340) | (232,496) |
| Conversion of notes payable and accrued interest at $0.092178 per share on 3/31/05 | 1,395,322 | 1,395 | - | - | 127,225 | - | 128,620 |
| Stock options issued to new director on 2/21/05 | - | - | - | (26,725) | 26,725 | - | - |
| Value of 250,000warrants issued as part of bridge loan on 3/15/05 | - | - | - | - | 65,540 | - | 65,540 |
| Shares issued 4/28/05 for services at $0.40 | 500,000 | 500 | - | - | 199,500 | | 200,000 |
| Stock options granted to employee 4/1/05 | - | - | - | (327,197) | 327,197 | - | - |
| Stock options exercised 6/2/05 | 50,000 | 50 | - | - | 8,950 | - | 9,000 |
| Shares issued 9/28 for legal services at $0.22 | 200,000 | 200 | - | - | 43,800 | | 44,000 |
| Partial conversion of Senior note payable at $0.0105 per share on 9/8 | 2,800,000 | 2,800 | - | - | 26,600 | - | 29,400 |
| Partial conversion of Senior note payable at $0.0068 per share on 9/23 | 2,980,000 | 2,980 | - | - | 17,284 | - | 20,264 |
| Partial conversion of Senior note payable at $0.00423 per share on 9/28 | 2,980,000 | 2,980 | - | - | 9,625 | - | 12,605 |
| Stock options issued to interim CEO 9/28 | - | - | - | (3,762) | 3,762 | - | - |
| Partial conversion of Senior note payable at $0.00423 per share on 10/3/05 | 2,980,000 | 2,980 | - | - | 9,625 | - | 12,605 |
| shares issued on exercise of warrant CAMFO II | 250,000 | 250 | - | - | 2,500 | - | 2,750 |
| Partial conversion of Senior note payable at | 2,400,000 | 2,400 | - | - | 7,752 | - | 10,152 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| $0.00423/share per share on 10/6/05 | | | | | | | |
| Partial conversion of Senior note payable at $0.00423 per share on 10/7/05 | 500,000 | 500 | - | - | 1,615 | - | 2,115 |
| Partial conversion of Senior note payable at $0.00423 per share on 10/12/05 | 2,980,000 | 2,980 | - | - | 9,625 | - | 12,605 |
| Partial conversion of Senior note payable at $0.00423 per share on 10/17/05 | 2,980,000 | 2,980 | - | - | 9,625 | - | 12,605 |
| Partial conversion of Senior note payable at $0.00776 per share on 10/21/05 | 3,570,000 | 3,570 | - | - | 24,205 | - | 27,775 |
| Partial conversion of Senior note payable at $0.00776 per share on 10/26/05 | 3,570,000 | 3,570 | - | - | 23,562 | - | 27,132 |
| Partial conversion of Senior note payable at $0.00776 per share on 11/3/05 | 3,570,000 | 3,570 | - | - | 23,562 | - | 27,132 |
| Partial conversion of Senior note payable at $0.0057 per share on 11/8/05 | 4,230,000 | 4,230 | - | - | 19,881 | - | 24,111 |
| Partial conversion of Senior note payable at $0.0057 per share on 11/11/05 | 4,230,000 | 4,230 | - | - | 19,881 | - | 24,111 |
| Partial conversion of Senior note payable at $0.0059 per share on 11/15/05 | 4,230,000 | 4,230 | - | - | 20,727 | - | 24,957 |
| Partial conversion of Senior note payable at $0.0063 per share on 11/18/05 | 4,230,000 | 4,230 | - | - | 22,419 | - | 26,649 |
| Partial conversion of Senior note | 4,230,000 | 4,230 | - | - | 29,610 | - | 33,840 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| payable at $0.0080 per share on 11/23/05 | | | | | | | |
| Partial conversion of Senior note payable at $0.01016 per share on 11/30/05 | 4,230,000 | 4,230 | - | - | 38,747 | - | 42,977 |
| Partial conversion of Senior note payable at $0.0093 per share on 12/6/05 | 4,230,000 | 4,230 | - | - | 35,096 | - | 39,326 |
| Partial conversion of Senior note payable at $0.00908 per share on 12/9/05 | 5,650,000 | 5,650 | - | - | 45,652 | - | 51,302 |
| Partial conversion of Senior note payable at $0.00856 per share on 12/16/05 | 1,010,405 | 1,010 | - | - | 7,639 | - | 8,649 |
| Shares issued at $0.09 on exercise of warrant | 267,000 | 267 | - | - | 2,403 | - | 2,670 |
| Vesting of deferred compensation | - | - | - | 976,987 | - | - | 976,987 |
| Cancellation of stock options | - | - | - | 193,275 | - | - | 193,275 |
| Net loss for the year | - | - | - | - | - | (4,634,331) | (4,634,331) |
| Balance, December 31, 2005 | 126,486,518 | 126,487 | - | (285,308) | 5,400,818 | (8,015,670) | (2,773,672) |
| Vesting of deferred compensation | - | - | - | 84,972 | - | - | 84,972 |
| Adjustment of presentation of Deferred Compensation | - | - | - | 200,336 | (200,336) | - | - |
| Net loss for the quarter ended March 31, 2006 | - | - | - | - | - | (207,044) | (207,044) |
| Balance, March 31, 2006 | 126,486,518 | 126,487 | - | - | 5,200,482 | (8,222,714) | (2,895,745) |
| Vesting of stock options | - | - | - | - | 91,413 | - | 91,413 |
| Net income for the quarter ended June 30, 2006 | - | - | - | - | - | 142,312 | 142,312 |
| Balance, June 30, 2006 | 126,486,518 | $ 126,487 | - | - | $ 5,291,895 | ($8,080,402) | ($2,662,020) |
| Vesting of stock options | - | - | - | - | 35,921 | - | 35,921 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Partial conversion of Senior note payable at $0.00633 per share | 1,264,865 | 1,264 | - | - | 6,742 | - | 8007 |
| Issued stock in satisfaction of debt | 5,226,534 | 5,227 | - | - | 47,039 | - | 52,266 |
| Net loss for the quarter ended September 30, 2006 | - | - | - | - | - | (7,415,840) | (7,415,840) |
| Balance, September 30, 2006 | 132,977,917 | $ 132,979 | - | - | $ 5,381,597 | ($15,496,242) | ($9,981,666) |

See accompanying notes to consolidated financial statements

5

**GRANT LIFE SCIENCES, INC.**
**(A development stage company)**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**(Unaudited)**

| | For the Nine Months Ended September 30, 2006 | For the Nine Months Ended September 30, 2005 (Restated - Note E) | For the Period July 9, 1998 (date of inception) through September 30, 2006 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net (loss) | $ (7,480,568) | $ (13,238,083) | $ (15,496,242) |
| Adjustments to reconcile net (loss) to cash (used in) operations: | | | |
| Depreciation | 5,552 | 4,949 | 24,955 |
| Amortization | 25,852 | 137,671 | 52,519 |
| Change in fair value related to adjustment of derivative and warrant liability to fair value of underlying securities | 5,931,257 | 10,452,987 | 6,818,374 |
| Loss on abandonment of assets | - | - | 3,790 |
| Vesting of stock options (Note F) | 212,305 | 871,475 | 1,615,372 |
| Common stock issued in exchange for services rendered | - | 194,000 | 388,250 |
| Cancellation of stock options | - | - | 193,275 |
| Interest on convertible notes payable | 332,619 | 112,732 | 989,693 |
| Warrants issued in exchange for services rendered | - | - | 11,000 |
| Beneficial conversion feature discount | - | - | 298,507 |
| Gain on extinguishment of debt | - | - | (510,104) |
| Write off of accounts payable due to stockholders | - | (1,230) | (2,108) |
| Acquisition cost | - | - | 65,812 |
| Decrease (increase) in: | | | |
| Accounts receivable | 51,337 | - | (21,338) |
| Employee receivables | - | 334 | - |
| Prepaid expense | 36,000 | (129,418) | (33,125) |
| Deposits & other | 3,822 | 3,000 | (52,513) |
| (Decrease) increase in: | | | |
| Accounts payable | 30,122 | 114,577 | 152,442 |
| Notes payable & long-term debt | (6,195) | 35,000- | 15,680 |
| Accounts payable - assumed liabilities | - | - | (17,506) |
| Accounts payable - stockholders | - | - | (38,900) |
| Accrued expenses | 59,333 | 63,889 | 187,889 |
| Accrued payroll liabilities | (13,375) | 80,916 | 81,305 |
| Accrued interest payable | 56,777 | 106,582 | 353,876 |
| Net cash (used in) operating activities | (755,162) | (1,190,620) | (4,919,097) |
| | | | |
| Cash flows from investing activities: | | | |
| Payments for property and equipment | (3,854) | (5,743) | (41,368) |

| | | | |
|---|---|---|---|
| Net cash used in investing activities | (3,854) | (5,743) | (41,368) |
| | | | |
| Cash flows from financing activities: | | | |
| Proceeds from sale of common stock, net of costs and fees | - | 9,000 | 1,770,887 |
| Net proceeds from notes payable | - | 1,925,000 | 3,105,255 |
| Proceeds from related party notes payable | - | - | 60,000 |
| Payments for related party notes payable | - | (34,221) | |
| Proceeds from stock subscriptions receivable | - | - | 100,000 |
| Net cash provided by financing activities | - | 1,934,000 | 5,001,921 |
| | | | |
| Net increase (decrease) in cash and cash equivalents | (759,016) | 737,639 | 41,456 |
| Cash and cash equivalents at beginning of the period | 800,472 | 365,958 | - |
| Cash and cash equivalents at end of the period | $ 41,456 | $ 1,103,597 | $ 41,456 |

Supplementary disclosure for non-cash investing and financing activities:

During the three months ended September 30,2006 the Company issued 1,264,865 shares of its Common Stock upon conversion of $8,007 of secured convertible notes payable, and 5,226,534 shares of its common stock in satisfaction of $52,268 of indebtedness.

See accompanying notes to consolidated financial statements

6

**GRANT LIFE SCIENCES, INC.**
**(A DEVELOPMENT STAGE COMPANY)**
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**September 30, 2006**
**(Unaudited)**

**NOTE A - SUMMARY OF ACCOUNTING POLICIES**

Interim Financial Information

The interim financial information as of September 30, 2006 and for the three and nine months ended September 30, 2006 is unaudited. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The accompanying condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes included in the Company's Form 10-KSB for the year ended December 31, 2005.

In the opinion of management, all adjustments that are necessary for a fair presentation of the financial information for the interim periods reported have been made. The results of operations for the three and nine month period ended September 30, 2006 is not necessarily indicative of the results that can be expected for the entire year ending December 31, 2006.

Business and Basis or Presentation

Grant Life Sciences, Inc. (formerly Impact Diagnostics, Inc.) (the “Company”) was organized under the laws of the State of Utah on July 9, 1998. The Company’s purpose is to research, develop, market and sell diagnostic kits for detecting disease with emphasis on the detection of low-grade cervical disease.

On July 30, 2004, the Company became a wholly owned subsidiary of Grant Ventures, Inc., a Nevada Corporation, by merging with Impact Acquisition Corporation, a Utah corporation and wholly owned subsidiary of Grant Ventures, Inc. Grant Ventures, Inc. was an inactive publicly registered shell corporation with no significant assets or operations. For accounting purposes the merger was treated as a recapitalization of the Company. Grant Ventures, Inc. changed its name to Grant Life Sciences, Inc. in November 2004.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Impact Diagnostics. All intercompany transactions and balances have been eliminated in consolidation.

Development Stage Company

Effective July 9, 1998 (date of inception), the Company is considered a development stage Company as defined in Statement of Financial Accounting Standards No. 7 “Accounting and Reporting by Development Stage Companies”, SFAS No. 7. The Company’s development stage activities consist of the development of medical diagnostic kits. Sources of financing for these development stage activities have been primarily debt and equity financing. The Company has not yet established a significant source of revenue.

Going Concern

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. Continuing as a going concern is dependent upon successfully obtaining additional working capital through debt and equity financing.

Income Taxes

The Company follows Statement of Financial Accounting Standard No. 109 “Accounting for Income Taxes”, which requires the recognition of deferred tax assets and liabilities for expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are based on the differences between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Net Income (Loss) per Common Share

The computation of net loss per common share is based on the weighted average number of shares outstanding during each period. The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the period plus the common stock equivalents which would arise from the exercise of stock options and warrants, and the conversion of notes payable outstanding using the treasury stock method and the average market price per share during the period. The following table sets forth potential shares of common stock that are not included in the diluted net loss per share because to do so would be antidilutive:

| | As of September 30, | |
|---|---|---|
| | 2006 | 2005 |
| Options to purchase common stock - vested | 4,025,118 | 4,695,953 |
| Options to purchase common stock - unvested | 745,834 | 1,314,166 |
| Warrants | 10,405,010 | 10,922,010 |
| Shares from potential note conversions | 141,969,294 | 79,508,727 |
| Total | 157,145,256 | 96,440,856 |

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS123R). This Statement requires public entities to measure the cost of equity awards to employees based on the grant-date value of the award. The Company elected early adoption of this Statement, effective for 2004, in advance of the Company's required adoption date of December 15, 2005.

New Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections” (“SFAS No. 154”), an amendment to Accounting Principles Bulletin Opinion No. 20, “Accounting Changes” (“APB No. 20”), and SFAS No. 3, “Reporting Accounting Changes in Interim Financial Statements”. Though SFAS No. 154 carries forward the guidance in APB No.20 and SFAS No.3 with respect to accounting for changes in estimates, changes in reporting entity, and the correction of errors, SFAS No. 154 establishes new standards on accounting for changes in accounting principles, whereby all such changes must be accounted for by retrospective application to the financial statements of prior periods unless it is impracticable to do so. SFAS No. 154 is effective for accounting changes and error corrections made in fiscal years beginning after December 15, 2005, with early adoption permitted for changes and corrections made in years beginning after May 2005. The Company will implement SFAS No. 154 in its fiscal year beginning January 1, 2006. We are currently evaluating the impact of this new standard but believe that it will not have a material impact on the Company’s financial position, results of operations, or cash flows.

In February 2006, the FASB issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments”, which amends SFAS No. 133, “Accounting for Derivatives Instruments and Hedging Activities” and SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities”. SFAS No. 155 amends SFAS No. 133 to narrow the scope exception for interest-only and principal-only strips on debt instruments to include only such strips representing rights to receive a specified portion of the contractual interest or principle cash flows. SFAS No. 155 also amends SFAS No. 140 to allow qualifying special-purpose entities to hold a passive derivative financial instrument pertaining to beneficial interests that itself is a derivative instrument. The Company is currently evaluating the impact this new Standard but believes that it will not have a material impact on the Company’s financial position, results of operations, or cash flows.

In March 2006, the FASB issued SFAS No. 156, “Accounting for Servicing of Financial Assets” (“SFAS NO. 156”), which provides an approach to simplify efforts to obtain hedge-like (offset) accounting. This Statement amends FASB Statement No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities”, with respect to the accounting for separately recognized servicing assets and servicing liabilities. The Statement (1) requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain situations; (2) requires that a separately recognized servicing asset or servicing liability be initially measured at fair value, if practicable; (3) permits an entity to choose either the amortization method or the fair value method for subsequent measurement for each class of separately recognized servicing assets or servicing liabilities; (4) permits at initial adoption a one-time reclassification of available-for-sale securities to trading securities by an entity with recognized servicing rights, provided the securities reclassified offset the entity’s exposure to changes in the fair value of the servicing assets or liabilities; and (5) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the balance sheet and additional disclosures for all separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective for all separately recognized servicing assets and liabilities as of the beginning of an entity’s fiscal year that begins after September 15, 2006, with earlier adoption permitted in certain circumstances. The Statement also describes the manner in which it should be initially applied. The Company does not believe that SFAS No. 156 will have a material impact on its financial position, results of operations or cash flows.

In July 2006, the FASB released FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. This interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. This statement is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact FIN 48 may have on its financial condition or results of operations.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Issues No. 157, “Fair Value Measurements” (“SFAS 157”), which defines the fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is encouraged, provided that the Company has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year. The Company is currently evaluating the impact SFAS 157 may have on its financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 158, “Employer’s accounting for Defined Benefit Pension and Other Post Retirement Plans”. SFAS No. 158 requires employers to recognize in its statement of financial position an asset or liability based on the retirement plan’s over or under funded status. SFAS No. 158 is effective for fiscal years ending after December 15, 2006. The Company is currently evaluating the effect that the application of SFAS No. 158 will have on its results of operations and financial condition.

In September 2006, the United States Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements” (“SAB 108”). This SAB provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 establishes an approach that requires quantification of financial statement errors based on the effects on each of the company’s balance sheets, statements of operations and related financial statement disclosures. The SAB permits existing public companies to record the cumulative effect of initially applying this approach in the first year ending after November 15, 2006 by recording the necessary correcting adjustments to the carrying values of assets and liabilities as of the beginning of that year with the offsetting adjustment recorded to the opening balance of retained earnings. Additionally, the use of the cumulative effect transition method requires detailed disclosure of the nature and amount of each individual error being corrected through the cumulative adjustment and how and when it arose. The Company is currently evaluating the impact SAB 108 may have on its results of operations and financial condition.

In October 2006, the Emerging Issues Task Force (“EITF”) issued EITF 06-3, “How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation)” to clarify diversity in practice on the presentation of different types of taxes in the financial statements. The Task Force concluded that, for taxes within the scope of the issue, a company may adopt a policy of presenting taxes either gross within revenue or net. That is, it may include charges to customers for taxes within revenues and the charge for the taxes from the taxing authority within cost of sales, or, alternatively, it may net the charge to the customer and the charge from the taxing authority. If taxes subject to EITF 06-3 are significant, a company is required to disclose its accounting policy for presenting taxes and the amounts of such taxes that are recognized on a gross basis. The guidance in this consensus is effective for the first interim reporting period beginning after December 15, 2006 (the first quarter of our fiscal year 2007). We do not expect the adoption of EITF 06-3 will have a material impact on our results of operations, financial position or cash flow.

**NOTE B - BUSINESS COMBINATION AND CORPORATE RESTRUCTURE**

On July 30, 2004, the Company entered into a merger transaction with Impact Diagnostics, Inc. ("Impact”). In accordance with SFAS No. 141, Impact was the acquiring entity. While the transaction is accounted for using the purchase method of accounting, in substance the Agreement is a recapitalization of the Impact's capital structure.

9

For accounting purposes, the Company accounted for the transaction as a reverse acquisition and Impact is the surviving entity. The total purchase price and carrying value of net assets acquired was $65,812. The Company did not recognize goodwill or any intangible assets in connection with the transaction. From 1999 until the date of the Agreement, Grant was an inactive corporation with no significant assets and liabilities.

Effective with the Agreement, all 35,060,720 previously outstanding shares owned by the Impact's members were exchanged on a share for share basis with shares of the Company's common stock.

The total consideration was $65,812 and the significant components of the transaction are as follows:

| | |
|---|---|
| Common stock retained | $ 6,000 |
| Assets acquired | - |
| Liabilities assumed - accounts payable | 20,034 |
| Liabilities assumed - accounts payable - stockholder | 39,778 |
| Cash paid | - |
| Total consideration paid/organization cost | $ 65,812 |

On September 20, 2004, the Company's Board of Directors approved a change in the Company's name to Grant Life Sciences, Inc. The accompanying financial statements have been changed to reflect the change as if it had happened at the beginning of the periods presented. Stockholders approved this change effective November 12, 2004.

In accordance with SOP 98-5, the Company expensed $65,812 as organization costs in 2004.

**NOTE C - NOTES PAYABLE**

Notes payable at September 30, 2006 and December 31, 2005 are as follows:

| | September 30, 2006 | December 31, 2005 |
|---|---|---|
| 10% note payable, unsecured, originally due on 11/30/2002. The note payable was in default as of December 31, 2002. The venture capital firm that issued the loan has since been placed in receivership. As of December 31, 2003 the note balance was $587,753 with accrued interest payable of $141,501. In August 2004, this note for $587,753 and accrued interest of $175,787 was restructured into a 3-year convertible note of $350,000 plus 89,500 5-year warrants to purchase additional shares at $0.01 per share. The note is convertible into shares of common stock at a conversion price of $0.83798 per share. Interest is payable quarterly at 6% per year. The 89,500 warrants have a value of $0.0378 per share. The conversion resulted in a $411,597 gain on extinguishment of debt in 2004. | 350,000 | 350,000 |
| 10% convertible notes with interest due quarterly subject to certain conditions, due three years from the date of the notes, June 14, 2008, August 18, 2008, and August 29, 2008. The holder has the option to convert unpaid principal to the Company's common stock at the lower of (i) $0.40 or (ii) 43% of the average of the three lowest intraday trading prices for the common stock on a principal market for the twenty trading days before, but not including, | 565,104 | 240,491 |

| | | |
|---|---|---|
| conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (see below) In 2005 $470,313 of note principal was converted into 67,580,405 shares at an average conversion rate of $0.007 per share. In 2006, $8,007 of note principal was converted into 1,264,865 shares at an average conversion rate of $0.0063 per share. | | |
| 6% note payable, unsecured, interest and principal to be paid in eight equal quarterly payments beginning 6/07/05. Final payment is due 3/7/2007. | 15,680 | 21,875 |
| Total notes payable | 930,784 | 612,366 |
| Less: current portion | (15,680) | (21,875) |
| Balance notes payable (long term portion) | $ 915,104 | $ 590,491 |

10

NOTE D - CONVERTIBLE NOTES PAYABLE

During 2005, the Company issued to qualified investors Convertible Notes in a total amount of $2,000,000 in exchange for net proceeds of $1,761,670. The proceeds that the Company received were net of prepaid interest of $133,330 representing the first eight month's interest calculated at 10% per annum for the aggregate of $2,000,000 of convertible notes, $30,000 that was placed into an escrow fund to purchase key man life insurance, and related costs of $75,000. Prepaid interest is amortized over the first eight months of the note and capitalized financing costs are amortized over the maturity period (three years) of the convertible notes.

The transactions, to the extent that it is to be satisfied with common stock of the Company, would normally be included as equity obligations. However, in the instant case, due to the indeterminate number of shares which might be issued under the embedded convertible host debt conversion feature, the Company is required to record a liability for the fair value of the detachable warrants and the embedded convertible feature of the note payable (included in the liabilities as a "derivative liability").

The accompanying financial statements comply with current requirements relating to warrants and embedded conversion features as described in FAS 133, EITF 98-5, EITF 00-19, EITF 00-27, and APB 14 as follows:

- The Company allocated the proceeds received between convertible debt and the detachable warrants based upon the relative fair values on the dates the proceeds were received.
  - Subsequent to the initial recording, the change in the fair value of the detachable warrants, determined under the Black-Scholes option pricing formula, and the change in the fair value of the embedded derivative in the conversion feature of the convertible debentures are recorded as adjustments to the liabilities at September 30, 2006.
- The expense relating to the change in the fair value of the Company's stock reflected in the change in the fair value of the warrants and derivatives (noted above) is included as other income (expense).
- Accreted interest of $322,619 during the nine months ended September 30, 2006 and $10,228 during the same peiod in 2005.

During 2005, $470,311 of the June 14th convertible note was converted into 67,580,405 shares at an average conversion rate of $0.007 according to the terms of the note. As at September 30, 2006, $8,007 of the June 14th convertible note was converted into 1,264,865 shares at an average conversion rate of $0.006 according to the terms of the note.

The following table summarizes the various components of the convertible notes as of September 30, 2006:

| | |
|---|---|
| Convertible notes: | $ 565,104 |
| Warrant liability . | 561,423 |
| Derivative liability . | 8,137,682 |
| | 9,264,209 |
| | |
| Adjustment of note and warrant liability to fair value | (6,691,100) |
| Accretion of interest related to convertible debenture . | (573,109) |
| Converted to common shares . | (478,320) |
| Total convertible notes: | $ 1,521,680 |

**NOTE E - RESTATEMENT**

During the year ended December 31, 2005, it was determined the correct application of accounting principles had not been applied in the 2005 accounting for convertible debentures and detachable warrants (see Note C).

In its original accounting for the debentures and detachable warrants, the Company recognized an embedded beneficial conversion feature present in the convertible note and allocated a portion of the proceeds equal to the intrinsic value of that feature to additional paid in capital. The Company has determined that the embedded conversion feature should have been accounted for in accordance with FAS 133, EITF 98-5, EITF 00-19, EITF 00-27, and APB 14. Accordingly, the proceeds attributed to the common stock, convertible debt and warrants have been restated to reflect the relative fair value method.

In accordance with SFAS 154 the necessary corrections to apply the accounting principles on the aforementioned transactions are currently reflected in the reported Consolidated Statements of Losses for the three and nine months ended September 30, 2005 and the Consolidated Statement of Cash Flows for the nine months ended September 30, 2005. The impact on the previously issued September 30, 2005 financial statements is as follows:

| Balance Sheets as at September 30, 2005 | | | |
|---|---|---|---|
| | September 30, 2005 balance sheets prior to restatement | September 30, 2005 balance sheets post restatement | Amount increase (decrease) in September 30, 2005 balance sheets |
| Total Assets | $1,375,233 | $1,375,233 | $ - |
| | | | |
| Derivative liability related to convertible notes | - | $11,957,218 | $11,957,218 |
| Warrant liability related to convertible notes | - | $376,500 | $376,500 |
| Long term debt | $464,480 | $561,376 | $96,896 |
| Total Liabilities | $1,002,348 | $13,432,962 | $12,430,614 |
| | | | |
| Additional paid in capital | $7,078,639 | $5,078,639 | $(2,000,000) |
| Accumulated deficit | $(6,188,808) | $(16,619,422) | $(10,430,614) |
| Deficiency in Stockholders' Equity | $(372,885) | $(12,057,729) | $(11,684,844) |

| Condensed Consolidated Statement of Losses for Three Months Ended September 30, 2005 | | | |
|---|---|---|---|
| | Three Months ended September 30, 2005 financial statement balance prior to restatement | Three Months ended September 30, 2005 financial statement post restatement | Amount increase (decrease) in September 30, 2005 financial statements |
| Change in fair value related to adjustment of derivative and warrant liability to fair value of underlying securities | - | $(10,293,048) | $(10,293,048) |
| Interest expense | $(204,723) | $(181,844) | $ 22,876 |
| Net loss | $(763,432) | $(11,033,602) | $(10,270,170) |
| | | | |
| Loss per share-basic and fully diluted | $(0.01) | $(0.19) | $(0.18) |
| | | | |

| Condensed Consolidated Statement of Losses for Nine Months Ended September 30, 2005 | | | |
|---|---|---|---|
| | Nine Months ended September 30, 2005 financial statement balance prior to restatement | Nine Months ended September 30, 2005 financial statement post restatement | Amount increase (decrease) in September 30, 2005 financial statements |
| | - | $(10,452,987) | $(10,452,987) |

| | | | |
|---|---|---|---|
| Change in fair value related to adjustment of derivative and warrant liability to fair value of underlying securities | | | |
| Interest expense | $(420,470) | $(398,097) | $22,373 |
| Net loss | $(2,807,469) | $(13,238,083) | $(10,430,614) |
| | | | |
| Loss per share basic and fully diluted | $(0.05) | $(0.24) | $ (0.19) |
| | | | |

12

| Consolidated Statement of Cash Flows | | | |
|---|---|---|---|
| | September 30, 2005 financial statement balance prior to restatement | September 30, 2005 financial statement post restatement | Change in September 30, 2005 financial statements |
| Net loss | $(2,807,468) | $(13,238,083) | $(10,430,615) |
| Change in fair value related to adjustment of derivative and warrant liability to fair value of underlying securities | - | $10,452,987 | $10,452,987 |
| Beneficial conversion feature discount | $135,106 | $ - | $(135,106) |
| Interest on convertible notes payable | $ - | $(112,732) | $112,732 |
| Net cash used in operating activities | $(1,190,619) | $(1,190,619) | $ - |
| | | | |
| Net cash used in by investing activities | $(5,743) | $(5,743) | $ - |
| | | | |
| Net cash provided by financing activities | $1,934,000 | $1,934,000 | $ - |

**NOTE F - COMMON STOCK**

At the 2006 Annual Meeting of Stockholders of Grant Life Sciences, Inc. the stockholders of the Company, by an affirmative vote of 64% of its outstanding shares of common stock, agreed to the filing of a Certificate of Amendment to the Articles of Incorporation of the Company pursuant to which the Company's authorized shares of common stock would be increased from 150,000,000 shares to 750,000,000 shares of common stock with $0.001 par value per share. As of September 30, 2006 the Company had 132,977,917 shares of common stock issued and outstanding. As of December 31, 2005, the Company had 126,486,518 shares of common stock issued and outstanding. The Company is authorized to issue 20,000,000 shares of preferred stock with $0.001 par value per share. No shares of preferred stock have been issued to date.

In 1998, the Company issued 18,795,000 shares of its common stock at $0.005 per share for $100,000 which is shown as subscription receivable until it was settled in the year 2000.

In 1999 the Company issued 1,253,000 shares of its common stock at $0.004 per share for $5,000 in cash.

In 2001 the Company issued 250,600 shares of its common stock at $0.004 per share for $1,000 in cash.

In 2002 the Company issued 689,150 shares of its common stock at $0.13 per share for $92,500 in cash.

In 2002 the Company issued 1,591,310 shares of its common stock at $0.06 per share in return for services valued at $103,250.

In 2002 the Company issued 1,790,000 shares of its common stock at $0.14 per share in satisfaction of $250,000 of debt.

In 2003 the Company issued 930,800 shares of its common stock at $0.13 per share for $120,000 in cash.

In July 2004, per the Agreement and Plan of Merger with Impact Diagnostics, Inc. all previously outstanding 35,060,720 shares of common stock owned by the Impact's stockholders were exchanged for the same number of shares of the Company's common stock. The value of the stock that was issued was the historical cost of the

Company's net tangible assets, which did not differ materially from their fair value.

In connection with the Merger, on July 5, 2004, the board of directors of Impact Diagnostics, Inc. approved a stock split of 3.58 shares to 1. As a result of the split, the outstanding common stock of Impact Diagnostics, Inc. increased from 9,793,497 to 35,060,720 shares. Pursuant to the Merger Agreement, each share of Impact Diagnostics common stock was exchanged for one share of Grant Life Sciences common stock. All numbers, in the financial statements and notes to the financial statements have been adjusted to reflect the stock split for all periods presented.

On September 20, 2004, the Company's Board of Directors approved a change in the Company's name to Grant Life Sciences, Inc. The accompanying financial statements have been changed to reflect the change as if it had happened at the beginning of the periods presented. Stockholders approved this change effective November 12, 2004.

In March and April of 2004, the Company issued 238,660 shares of common stock for cash at $0.0838 per share for $20,000.

In June 2004, the Company issued 500,000 shares of common stock in exchange for services valued at $40,000 to consultants. The stock issued was valued at $.08 per share, which represents the fair value of the stock issued, which did not differ materially from the value of the services rendered. Expense of $20,000, related to financial consulting, is included in general administrative expense and expense of $20,000 related to R&D consulting is included in R&D expense.

On August 19, 2004, the Company completed a private placement of 9,560,596 shares to accredited investors at a price of $0.1835 per share. As an additional enticement to purchase the shares, one 5-year warrant to purchase stock at $0.1835 was issued for each 5 shares of stock purchased. The private placement resulted in net proceeds to the company of approximately $1,494,937. The Company also issued warrants to purchase 2,670,000 shares at an exercise price of $0.01 per warrant and warrants to purchase 411,104 shares at an exercise price of $0.185 per warrant to its placement agent in connection with the Merger and private placement.

A bridge loan of $50,000, made to the Company on July 6, 2004, was converted to equity on July 31, 2004 as part of the private placement. In addition to the warrants received as part of the offering, 50,000 warrants with an exercise price of $0.1835 were issued to the lender.

In July, 2004, the Company issued 2,720,000 shares of common stock for a convertible note payable and accrued interest of $205,885.

In August 2004, the Company issued 249,475 shares of common stock at $0.1835 per share in satisfaction of two related party notes payable of $45,779. Accrued interest was forgiven by the lenders.

In November 2004, the Company issued 2,403,000 shares of common stock for exercise of warrants at $0.01 strike price, for total cash proceeds of $24,030. These warrants were originally issued in connection with the Merger and private placement of common stock.

In March 2005, convertible notes, maturing in January and February 2005, were converted into 1,395,322 shares of stock. The conversion price per share was $0.092178, as stated in the notes, which originated in January and February of 2004.

In April 2005, the Company issued 500,000 shares of common stock to its financial advisory group in exchange for services rendered over the 2005 calendar year. The stock issued was valued at $0.40 per share, which represents the fair value of the stock issued, which did not differ materially from the value of the services rendered.

In June 2005, the Company issued 50,000 shares of common stock for exercise of stock options for cash $9,000.

In September 2005, 200,000 shares were issued in exchange for legal services at $.22 per share. The commitment to issue the shares was made on June 14, 2005.

From September 2005 to December 2005, $470,311 of principal of the Senior 10% convertible notes converted into 67,580,405 shares. The average conversion price per share was $0.0070.

During the fourth quarter of 2005 warrants for 517,000 shares were exercised for $5,420 in cash.

In August 2006 $8,007 of principal of the senior 10% convertible notes converted into 1,264,865 shares. The average conversion price per share was $0.0063

In September 2006, 5,226,534 shares were issued in satisfaction of indebtedness for liquidated damages at $0.01 per share for a total of $52,265. The liquidated damages arose from a 2004 Agreement from a sale of unregistered shares and warrants of the Company in July and August 2004.

**NOTE G - STOCK OPTIONS AND WARRANTS**

The Company has a Stock Incentive Plan. The options granted under the Plan may be either qualified or non-qualified options. Up to 25,000,000 options may be granted to employees, directors and consultants under the plan. Options may be granted with different vesting terms and expire no later than 10 years from the date of grant. During the nine months ended September, 2006, 600,000 options were granted, 500,000 with an exercise price of $0.05, and 100,000 with an exercise price of $0.018. No options were exercised, or terminated. In 2005, 950,000 options were granted, 850,000 with an exercise price of $0.18 and 100,000 with an exercise price of $0.40. In 2004, 5,243,254 options were granted under the plan. All of the options granted in 2004 have an exercise price of $0.18, but differing vesting terms. 50,000 of these options were exercised in June 2005. Stockholders approved the plan effective November 12, 2004.

Stock Options

Transactions involving stock options issued to employees, directors and consultants under the Company's 2004 Stock Incentive Plan are summarized below. The following table summarizes the options outstanding and the related exercise prices for the shares of the Company's common stock issued under the 2004 Stock Incentive Plan and as of September 30, 2006 :

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighed Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| $ 0.18 | 4,170,952 | 6.8 | $ 0.18 | 3,700,118 | $ 0.18 |
| $ 0.05 | 500,000 | 9.6 | $ 0.05 | 291,667 | $ 0.05 |
| $ 0.018 | 100,000 | 9.6 | $ 0.018 | 33,333 | $ 0.018 |
| Total | 4,770,952 | 7.2 | $ 0.16 | 4,025,118 | $ 0.17 |

| | Number of Shares | Weighted Average Price Per Share | Aggregate Intrinsic Value |
|---|---|---|---|
| Outstanding at December 31, 2003 | - | - | - |
| Granted | 5,243,254 | $ 0.18 | $ - |
| Exercised | - | - | - |
| Canceled or expired | - | - | - |
| Outstanding at December 31, 2004 | 5,243,254 | 0.18 | - |
| Granted | 950,000 | 0.19 | - |
| Exercised | (50,000) | 0.18 | - |
| Canceled or expired | (1,972,302) | 0.18 | - |
| Outstanding at December 31, 2005 | 4,170,952 | 0.18 | - |
| Granted | - | - | - |
| Exercised | - | - | - |
| Canceled or expired | - | - | - |
| Outstanding at March 31, 2006 | 4,170,952 | 0.18 | - |
| Granted | 600,000 | 0.045 | 17,000 |
| Exercised | - | - | - |
| Canceled or expired | - | - | - |
| Outstanding at June 30, 2006 | 4,770,952 | 0.16 | 17,000 |

| | | | | | |
|---|---|---|---|---|---|
| Granted | - | | - | | - |
| Exercised | - | | - | | - |
| Canceled or expired | - | | - | | - |
| Outstanding at September 30, 2006 | 4,770,952 | $ | 0.16 | $ | 17,000 |

A summary of the status of the Company’s nonvested options as of December 31, 2005 and changes during the nine months ended September 30, 2006 is as follows:

| **Nonvested Shares** | **Number of options** | | **Weighted average grant date fair value** |
|---|---|---|---|
| Nonvested at December 31, 2005 | 983,334 | $ | 0.66 |
| Granted | 600,000 | $ | 0.018 |
| Vested | (837,500) | $ | 0.18 |
| Forfeited | - | | - |
| Nonvested at September 30, 2006 | 745,834 | $ | 0.33 |

As at September 30, 2006, the total compensation cost not yet recognized related to nonvested option awards is $83,739 which is expected to be realized over a weighted average period of 0.45 years.

The weighted-average fair value of stock options granted during the current year and the years ended December 31, 2005 and 2004 and the weighted-average significant assumptions used to determine those fair values, using a Black-Scholes option pricing model are as follows:

| | 2006 | 2005 | 2004 |
|---|---|---|---|
| Significant assumptions (weighted-average): | | | |
| Risk-free interest rate at grant date | 4.9% | 3.6% | 3.7% |
| Expected stock price volatility | 373% | 107% | 114% |
| Expected dividend payout | 0% | 0% | 0% |
| Expected option life-years based on management’s estimate | 3 yrs | 3 yrs | 3 yrs |

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS123R). This Statement requires public entities to measure the cost of equity awards to employees based on the grant-date value of the award. The Company elected early adoption of this Statement, effective for 2004, in advance of the Company's required adoption date of December 15, 2005. During the three and nine months ended September 30, 2006, the Company recognized $35,921 ($48,521 in general and administrative and $(12,800) in research and development expenses) and $212,305 ($115,702 in general and administrative and $ 96,603 in research and development expenses) respectively as expense relating to vested stock options. During the nine months ended September 30, 2005, the Company recognized $871,475 ($539,667 in general and administrative and $331,808 in research and development expenses) as expenses relating to vested stock options.

Warrants

The following tables summarize changes in warrants outstanding and the related exercise prices for the shares of the Company’s common stock issued by the Company as of September 30, 2006:

| | Warrants Outstanding & Exercisable | | | |
|---|---|---|---|---|
| Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life (Years) | Weighed Average Exercise Price | |
| $ 0.01 | 89,500 | 2.8 | $ | 0.01 |

| | | | | |
|---|---|---|---|---|
| $ 0.1835 | 411,104 | 2.8 | $ | 0.1835 |
| $ 0.1835 | 1,912,100 | 2.8 | $ | 0.1835 |
| $ 0.1835 | 50,000 | 2.8 | $ | 0.1835 |
| $ 0.18 | 250,000 | 3.0 | $ | 0.18 |
| $ 0.45 | 2,692,307 | 3.7 | $ | 0.45 |
| $0.45 | 2,307,692 | 3.8 | $ | 0.45 |
| $0.45 | 2,692,307 | 3.9 | $ | 0.45 |
| | 10,405,010 | | $ | 0.38 |

| | Number of Shares | | Weighted Average Exercise Price |
|---|---|---|---|
| Outstanding at January 1, 2003 | - | $ | - |
| Granted | - | | - |
| Exercised | - | | - |
| Canceled or expired | - | | - |
| Outstanding at December 31, 2003 | - | | - |
| Granted | 5,382,704 | | 0.09 |
| Exercised | (2,403,000) | | 0.01 |
| Canceled or expired | - | | - |
| Outstanding at December 31, 2004 | 2,979,704 | | 0.16 |
| Granted | 7,942,306 | | 0.45 |
| Exercised | (517,000) | | 0.01 |
| Canceled or expired | - | | - |
| Outstanding at December 31, 2005 | 10,405,010 | | 0.38 |
| Granted | - | | - |
| Exercised | - | | - |
| Canceled or expired | - | | - |
| Outstanding at March 31, 2006 | 10,405,010 | | 0.38 |
| Granted | - | | - |
| Exercised | - | | - |
| Canceled or expired | - | | - |
| Outstanding at June 30, 2006 | 10,405,010 | | 0.38 |
| Granted | - | | - |
| Exercised | - | | - |
| Canceled or expired | - | | - |
| Outstanding at September 30, 2006 | 10,405,010 | $ | 0.38 |

All warrants outstanding were exercisable at the date of grant. All of the warrants, except 250,000 warrants issued in 2004 for R&D services, were issued in connection with financings. The exercise price of the warrants issued in 2005 can be adjusted downward if stock is issued below the market price.

**NOTE H - SUBSEQUENT EVENT**

On November 3, 2006 the Company issued 387,500 shares of common stock of the Corporation at $0.03 per share to the Chairman of the Audit Committee in consideration for board fees owing at September 2, 2005, 453,127 shares of common stock of the Corporation to a vendor at $0.015 per share in consideration for services provided during 2005, and 310,000 shares of common stock of the Corporation valued at $40,000 to a consultant in accordance with a March 5, 2005 Consulting Agreement.

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

Forward-Looking and Cautionary Statements

This report contains certain forward-looking statements. These statements relate to future events or our future performance and involve known and unknown risks and uncertainties. Actual results may differ substantially from such forward-looking statements, including, but not limited to, the following:

- our ability to meet our cash and working capital needs;
- our ability to maintain our corporate existence as a viable entity; and
- other risks detailed in our periodic report filings with the SEC.

In some cases, you can identify forward-looking statements by terminology such as “may”, “will”, “should”, “expects” “intends”, “plans,” “anticipates”, “believes,” “estimates,” “predicts”, “potential”, “continue”, or the negative of these term comparable terminology. These statements are only predictions. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.