

Cobalis Corp  
Form 10QSB  
August 18, 2006

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-QSB**

(Mark One)

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

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

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**000-49620**

(Commission file number)

**COBALIS CORP.**

(Exact name of small business issuer as specified in its charter)

**Nevada**

(State or other jurisdiction  
of incorporation or organization)

**91-1868007**

(IRS Employer  
Identification No.)

**2445 McCabe Way, Suite 150, Irvine, California 92614**

(Address of principal executive offices)

**(949) 757-0001**

(Issuer's telephone number)

**N/A**

(Former name, former address and former fiscal year, 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  No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of July 31, 2006 - 28,523,625 shares of common stock

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

Transitional Small Business Disclosure Format (check one): Yes [ ] No [X]

**COBALIS CORP.**  
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**PART I. FINANCIAL INFORMATION****Item 1.****Financial Statements**

**Cobalis Corp. and Subsidiary  
(formerly Biogentech Corp.)  
(A Development Stage Company)  
Consolidated Balance Sheet**

|  |           | <b>June 30,<br/>2006</b> |
|--|-----------|--------------------------|
|  |           | (unaudited)              |
| <b>ASSETS</b>  |           |                          |
| <b>CURRENT ASSETS</b>  |           |                          |
| Cash and cash equivalents  | \$        | 50,037                   |
| <b>TOTAL CURRENT ASSETS</b>  |           | <b>50,037</b>            |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$110,022   |           | 5,301                    |
| WEBSITE DEVELOPMENT COSTS, net of accumulated amortization of \$33,192 |           | 1,415                    |
| PATENTS, net of accumulated amortization of \$292,183                  |           | 613,132                  |
| DEPOSIT  |           | 12,546                   |
| <b>TOTAL ASSETS</b>  | <b>\$</b> | <b>682,431</b>           |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>                           |           |                          |
| <b>CURRENT LIABILITIES</b>   |           |                          |
| Accounts payable   | \$        | 301,989                  |
| Accrued expenses   |           | 520,169                  |
| Accrued legal settlements  |           | 1,725,000                |
| Due to related parties   |           | 5,460,669                |
| Promissory notes   |           | 46,813                   |
| Convertible notes payable  |           | 700,000                  |
| <b>TOTAL CURRENT LIABILITIES</b>                                       |           | <b>8,754,640</b>         |
| SENIOR DEBENTURE, net of discount of \$86,917                          |           | 163,083                  |
| <b>TOTAL LIABILITIES</b>   |           | <b>8,917,723</b>         |
| CONVERTIBLE PREFERRED STOCK  |           | 885,000                  |
| COMMITMENTS AND CONTINGENCIES  |           | -                        |
| STOCKHOLDERS' DEFICIT  |           |                          |

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|  |                    |
|--|--------------------|
| Common stock; \$0.001 par value; 50,000,000 shares<br>authorized; 27,963,000 shares issued and outstanding | 27,963             |
| Additional paid-in capital   | 17,493,362         |
| Prepaid expenses   | (230,485)          |
| Deficit accumulated during the development stage   | (26,411,132)       |
| <b>TOTAL STOCKHOLDERS' DEFICIT</b>   | <b>(9,120,292)</b> |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   | <b>\$ 682,431</b>  |

**The accompanying notes are an integral part of these consolidated financial statements.**

**Cobalis Corp. and Subsidiary**  
**(formerly Biogentech Corp.)**  
**(A Development Stage Company)**  
**Consolidated Statements of Operations**

|   | Three Months Ended              |                                 | Cumulative<br>from<br>November 21,<br>2000 (inception)<br>to<br>June 30, 2006 |
|---|---------------------------------|---------------------------------|---|
|   | June 30,<br>2006<br>(unaudited) | June 30,<br>2005<br>(unaudited) | (unaudited)   |
| NET SALES                                 | \$ -                            | \$ -                            | \$ 5,589  |
| COST OF SALES                             | -                               | -                               | 31,342  |
| GROSS PROFIT (LOSS)                       | -                               | -                               | (25,753)  |
| <b>OPERATING EXPENSES:</b>                |                                 |                                 |   |
| Professional fees                         | 916,905                         | 511,178                         | 10,092,432  |
| Salary and wages                          | 185,302                         | 82,567                          | 3,222,600   |
| Rent expense                              | 63,076                          | 34,436                          | 632,135   |
| Marketing and research                    | 25,809                          | 26,273                          | 1,945,244   |
| Depreciation and amortization             | 16,762                          | 24,882                          | 544,026   |
| Impairment expense                        | -                               | -                               | 2,331,522   |
| Stock option expense                      | 128,908                         |                                 | 128,908   |
| Other operating expenses                  | 133,795                         | 105,877                         | 1,760,725   |
| Legal settlements                         | -                               | -                               | 812,718   |
| TOTAL OPERATING EXPENSES                  | 1,470,557                       | 785,213                         | 21,470,310  |
| LOSS FROM OPERATIONS                      | (1,470,557)                     | (785,213)                       | (21,496,063)  |
| <b>OTHER INCOME (EXPENSE)</b>             |                                 |                                 |   |
| Interest expense and financing costs      | (131,795)                       | (182,732)                       | (4,333,769)   |
| Change in fair value of warrant liability | -                               | 25,565                          | 303,700   |
| TOTAL OTHER INCOME (EXPENSE)              | (131,795)                       | (157,167)                       | (4,030,069)   |
| LOSS BEFORE PROVISION FOR INCOME TAXES    | (1,602,352)                     | (942,380)                       | (25,526,132)  |
| PROVISION FOR INCOME TAXES                | -                               | -                               | -   |
| NET LOSS                                  | (1,602,352)                     | (942,380)                       | (25,526,132)  |
| PREFERRED STOCK DIVIDENDS                 |                                 | 18,750                          | 1,072,500   |
|   | \$ (1,602,352)                  | \$ (961,130)                    | \$ (26,598,632)   |

NET LOSS ATTRIBUTED TO COMMON  
STOCKHOLDERS

NET LOSS PER SHARE:

|                   |    |        |    |        |    |        |
|-------------------|----|--------|----|--------|----|--------|
| BASIC AND DILUTED | \$ | (0.06) | \$ | (0.04) | \$ | (1.28) |
|-------------------|----|--------|----|--------|----|--------|

WEIGHTED AVERAGE SHARES

OUTSTANDING:

|                   |            |            |            |
|-------------------|------------|------------|------------|
| BASIC AND DILUTED | 27,755,567 | 24,836,808 | 20,720,945 |
|-------------------|------------|------------|------------|

**The accompanying notes are an integral part of these consolidated financial statements.**

**Cobalis Corp. and Subsidiary**  
**(formerly Biogentech Corp.)**  
**(A Development Stage Company)**  
**Consolidated Statements of Stockholders' Deficit**  
**For the Period From November 21, 2000 (inception) to June 30, 2006**

|   | Common stock<br>Shares | Common stock<br>Amount | Additional<br>paid-in<br>capital | Prepaid<br>Expenses | Deficit<br>accumulated<br>during the<br>development<br>stage | Total<br>stockholders'<br>equity<br>(deficit) |
|---|------------------------|------------------------|----------------------------------|---------------------|--|---|
| Balance at inception<br>(November 21, 2000)   | -                      | \$ -                   | \$ -                             | \$ -                | \$ -   | \$ -  |
| Issuance of founder's shares<br>in exchange<br>for property and equipment             | 16,300,000             | 16,300                 | -                                | -                   | -  | 16,300  |
| Issuance of common stock<br>for cash - November 2000 @<br>\$1.00                      | 30,000                 | 30                     | 29,970                           | -                   | -  | 30,000  |
| Issuance of common stock<br>for cash - December 2000 @<br>\$1.00                      | 15,000                 | 15                     | 14,985                           | -                   | -  | 15,000  |
| Issuance of common stock<br>for cash - February 2001 @<br>\$1.00                      | 12,000                 | 12                     | 11,988                           | -                   | -  | 12,000  |
| Issuance of common stock<br>for cash - March 2001 @<br>\$1.00                         | 125,000                | 125                    | 124,875                          | -                   | -  | 125,000                                       |
| Issuance of common stock<br>for services - March 2001 @<br>\$1.00                     | 10,000                 | 10                     | 9,990                            | -                   | -  | 10,000  |
| Contributed capital   | -                      | -                      | 62,681                           | -                   | -  | 62,681  |
| Net loss for the period from<br>inception<br>(November 21, 2000) to<br>March 31, 2001 | -                      | -                      | -                                | -                   | (223,416)  | (223,416)                                     |
| Balance at March 31, 2001,<br>as restated   | 16,492,000             | 16,492                 | 254,489                          | -                   | (223,416)  | 47,565  |
| Issuance of common stock<br>for cash - April 2001 @<br>\$1.00                         | 10,000                 | 10                     | 9,990                            | -                   | -  | 10,000  |
| Issuance of common stock<br>for telephone equipment -<br>April 2001 @ \$1.00          | 6,750                  | 7                      | 6,743                            | -                   | -  | 6,750   |
| Issuance of common stock<br>for cash - May 2001 @ \$1.00                              | 11,000                 | 11                     | 10,989                           | -                   | -  | 11,000  |



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|  |         |     |         |   |   |         |
|--|---------|-----|---------|---|---|---------|
| Issuance of common stock for website development - May 2001 @ \$1.00           | 17,000  | 17  | 16,983  | - | - | 17,000  |
| Issuance of common stock for legal services - May 2001 @ \$1.00                | 1,000   | 1   | 999     | - | - | 1,000   |
| Issuance of common stock for cash - June 2001 @ \$1.00                         | 23,500  | 24  | 23,476  | - | - | 23,500  |
| Issuance of common stock for cash - July 2001 @ \$1.00                         | 20,000  | 20  | 19,980  | - | - | 20,000  |
| Issuance of common stock for cash - August 2001 @ \$1.00                       | 25,000  | 25  | 24,975  | - | - | 25,000  |
| Issuance of common stock for services, related party - September 2001 @ \$1.00 | 65,858  | 66  | 65,792  | - | - | 65,858  |
| Issuance of common stock for cash - September 2001 @ \$1.00                    | 15,000  | 15  | 14,985  | - | - | 15,000  |
| Issuance of common stock for services - September 2001 @ \$1.00                | 11,000  | 11  | 10,989  | - | - | 11,000  |
| Issuance of stock options for services - September 2001                        | -       | -   | 32,000  | - | - | 32,000  |
| Issuance of common stock for cash - October 2001 @ \$1.00                      | 5,000   | 5   | 4,995   | - | - | 5,000   |
| Issuance of common stock for cash - December 2001 @ \$1.00                     | 30,000  | 30  | 29,970  | - | - | 30,000  |
| Issuance of common stock for services - December 31, 2001 @ \$1.00             | 33,000  | 33  | 32,967  | - | - | 33,000  |
| Issuance of common stock for services, related party - December 2001 @ \$1.00  | 117,500 | 118 | 117,382 | - | - | 117,500 |
| Issuance of common stock for prepaid advertising - December 2001 @ \$1.00      | 15,600  | 15  | 15,585  | - | - | 15,600  |
| Issuance of common stock for property and equipment - January 2002 @ \$3.00    | 1,000   | 1   | 2,999   | - | - | 3,000   |
| Issuance of common stock for services, related party - January 2002 @ \$1.00   | 33,000  | 33  | 32,967  | - | - | 33,000  |
| Issuance of common stock for cash - February 2002 @ \$2.00                     | 20,000  | 20  | 39,980  | - | - | 40,000  |
| Issuance of common stock for cash - March 2002 @ \$2.00                        | 12,500  | 12  | 24,988  | - | - | 25,000  |

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|   |            |        |           |          |             |             |
|---|------------|--------|-----------|----------|-------------|-------------|
| Contributed capital                       | -          | -      | 211,269   | -        | -           | 211,269     |
| Deferred compensation                     | -          | -      | -         | (60,108) | -           | (60,108)    |
| Net loss                                  | -          | -      | -         | -        | (1,144,249) | (1,144,249) |
| Balance at March 31, 2002,<br>as restated | 16,965,708 | 16,966 | 1,005,492 | (60,108) | (1,367,665) | (405,315)   |

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**Cobalis Corp. and Subsidiary**  
**(formerly Biogentech Corp.)**  
**(A Development Stage Company)**  
**Consolidated Statements of Stockholders' Deficit**  
**For the Period From November 21, 2000 (inception) to June 30, 2006**

|  |           |       |                   |   |   |           |
|--|-----------|-------|-------------------|---|---|-----------|
| Issuance of common stock for services - April 2002 @ \$2.00            | 3,000     | 3     | 5,997             | - | - | 6,000     |
| Issuance of common stock for cash - April 2002 @ \$1.00                | 10,000    | 10    | 9,990             | - | - | 10,000    |
| Issuance of common stock for cash - April 2002 @ \$2.00                | 17,500    | 17    | 34,983            | - | - | 35,000    |
| Issuance of common stock for cash - May 2002 @ \$1.00                  | 10,000    | 10    | 9,990             | - | - | 10,000    |
| Issuance of common stock for cash - May 2002 @ \$2.00                  | 16,000    | 16    | 31,984            | - | - | 32,000    |
| Issuance of stock options for services - May 2002                      | -         | -     | 350,000           | - | - | 350,000   |
| Contributed capital - bonus expense                                    | -         | -     | 50,000            | - | - | 50,000    |
| Issuance of common stock for cash - June 2002 @ \$1.00                 | 5,000     | 5     | 4,995             | - | - | 5,000     |
| Issuance of common stock for cash - June 2002 @ \$2.00                 | 5,000     | 5     | 9,995             | - | - | 10,000    |
| Issuance of common stock for cash - July 2002 @ \$1.00                 | 5,000     | 5     | 4,995             | - | - | 5,000     |
| Issuance of common stock for cash - August 2002 @ \$2.00               | 10,000    | 10    | 19,990            | - | - | 20,000    |
| Issuance of common stock for cash - September 2002 @ \$2.00            | 10,000    | 10    | 19,990            | - | - | 20,000    |
| Issuance of stock options below fair market value - November 2002      | -         | -     | 250,000 (250,000) | - | - | -         |
| Issuance of common stock for conversion of note - December 2002 @ 2.00 | 50,000    | 50    | 99,950            | - | - | 100,000   |
| Issuance of common stock for cash - December 2002 @ \$2.00             | 20,000    | 20    | 39,980            | - | - | 40,000    |
| Issuance of common stock for services - December 2002 @ \$2.00         | 15,000    | 15    | 29,985            | - | - | 30,000    |
| Issuance of common stock for patents - December 2002 @ \$2.00          | 2,000,000 | 2,000 | 1,285,917         | - | - | 1,287,917 |

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|  |         |     |         |   |             |             |
|--|---------|-----|---------|---|-------------|-------------|
| Contributed capital  |         |     | 292,718 | - | -           | 292,718     |
| Issuance of common stock for exercise of options - December 2002 | 574,000 | 574 | 574,028 | - | -           | 574,602     |
| Deferred compensation  |         |     | 60,108  |   |             | 60,108      |
| Contributed capital  |         |     | 5,000   | - | -           | 5,000       |
| Issuance of common stock for services - January 2003             |         |     | 25,000  | - | -           | 25,000      |
| Issuance of common stock for cash February 2003 @ \$2.00         | 11,500  | 12  | 22,988  | - | -           | 23,000      |
| Issuance of common stock for cash March 2003 @ \$2.00            | 5,000   | 5   | 9,995   | - | -           | 10,000      |
| Deferred compensation  |         |     | 54,000  |   | -           | 54,000      |
| Net loss   |         |     |         | - | (2,148,008) | (2,148,008) |

|  |            |        |           |           |             |         |
|--|------------|--------|-----------|-----------|-------------|---------|
| Balance at March 31, 2003, as restated | 19,732,708 | 19,733 | 4,193,962 | (196,000) | (3,515,673) | 502,022 |
|--|------------|--------|-----------|-----------|-------------|---------|

|  |           |       |           |         |             |             |
|--|-----------|-------|-----------|---------|-------------|-------------|
| Issuance of common stock for cash April 2003 @ \$2.00        | 70,000    | 70    | 139,930   | -       | -           | 140,000     |
| Issuance of common stock for cash May 2003 @ \$2.00          | 30,000    | 30    | 59,970    | -       | -           | 60,000      |
| Acquisition by Biogentech Corp of ("Togs for Tykes")         | 1,032,000 | 1,032 | (101,032) | -       | -           | (100,000)   |
| Issuance of common stock for penalties January 2004 @ \$2.80 | 135,000   | 135   | 377,865   | -       | -           | 378,000     |
| Issuance of common stock for services February 2004 @ \$2.20 | 100,000   | 100   | 219,900   | -       | -           | 220,000     |
| Issuance of common stock for services February 2004 @ \$1.85 | 20,000    | 20    | 36,980    | -       | -           | 37,000      |
| Value of beneficial conversion feature of convertible        |           |       |           |         |             |             |
| debenture issued in September 2003                           |           |       | 346,870   | -       | -           | 346,870     |
| Fair value allocated to warrant liability for detachable     |           |       |           |         |             |             |
| warrants issued with preferred stock                         |           |       | (181,849) | -       | -           | (181,849)   |
| Dividend on preferred stock                                  |           |       | 885,000   | -       | (885,000)   | -           |
| Deferred compensation  |           |       |           | 196,000 | -           | 196,000     |
| Net loss   |           |       |           | -       | (5,703,639) | (5,703,639) |

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|  |            |        |           |   |              |             |
|--|------------|--------|-----------|---|--------------|-------------|
| Balance at March 31, 2004  | 21,119,708 | 21,120 | 5,977,596 | - | (10,104,312) | (4,105,596) |
| Issuance of common stock for penalties May 2004 @ \$1.85           | 170,000    | 170    | 314,330   | - | -            | 314,500     |
| Issuance of common stock for services June 2004 @ \$1.75           | 10,000     | 10     | 17,490    | - | -            | 17,500      |
| Issuance of common stock for conversion of debt June 2004 @ \$1.60 | 371,317    | 371    | 593,736   | - | -            | 594,107     |
| Issuance of common stock for services July 2004 @ \$1.35           | 7,489      | 8      | 10,101    |   |              | 10,109      |
| Issuance of common stock for services July 2004 @ \$1.10           | 75,000     | 75     | 82,425    |   |              | 82,500      |
| Issuance of common stock for services August 2004 @ \$0.75         | 100,000    | 100    | 74,900    |   |              | 75,000      |
| Conversion of debt to common stock September 2004 @ 2.22           | 857,143    | 857    | 1,902,000 |   |              | 1,902,857   |

**The accompanying notes are an integral part of these consolidated financial statements.**

**Cobalis Corp. and Subsidiary**  
**(formerly Biogentech Corp.)**  
**(A Development Stage Company)**  
**Consolidated Statements of Stockholders' Deficit**  
**For the Period From November 21, 2000 (inception) to June 30, 2006**

|  |         |     |         |         |
|--|---------|-----|---------|---------|
| Issuance of common stock for services October 2004 @ \$2.20      | 4,758   | 5   | 10,463  | 10,468  |
| Issuance of common stock for services October 2004 @ \$2.55      | 375,000 | 375 | 955,875 | 956,250 |
| Issuance of common stock for services December 2004 @ \$1.45     | 5,000   | 5   | 7,245   | 7,250   |
| Issuance of common stock for services December 2004 @ \$1.30     | 63,676  | 63  | 82,715  | 82,778  |
| Issuance of common stock for services January 2005 @ \$1.05      | 1,250   | 1   | 1,312   | 1,313   |
| Issuance of common stock for services January 2005 @ \$1.18      | 75,000  | 75  | 88,425  | 88,500  |
| Issuance of common stock for services February 2005 @ \$1.10     | 155,000 | 155 | 170,345 | 170,500 |
| Issuance of common stock for services February 2005 @ \$1.06     | 100,000 | 100 | 105,900 | 106,000 |
| Issuance of common stock for services February 2005 @ \$0.95     | 30,000  | 30  | 28,470  | 28,500  |
| Issuance of common stock for services February 2005 @ \$1.05     | 80,628  | 81  | 84,578  | 84,659  |
| Issuance of common stock for services February 2005 @ \$1.00     | 467,159 | 467 | 466,692 | 467,159 |
| Issuance of common stock for services February 2005 @ \$0.96     | 350,000 | 350 | 335,650 | 336,000 |
| Issuance of common stock for financing costs March 2005 @ \$0.81 | 50,000  | 50  | 40,450  | 40,500  |
| Issuance of common stock for services March 2005 @ \$0.80        | 5,000   | 5   | 3,995   | 4,000   |
| Issuance of common stock for services March 2005 @               | 120,000 | 120 | 89,880  | 90,000  |

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|   |            |        |            |                |             |
|---|------------|--------|------------|----------------|-------------|
| \$0.75  |            |        |            |                |             |
| Issuance of common stock for services March 2005 @ \$0.68     | 37,500     | 38     | 25,462     |                | 25,500      |
| Fair value of warrants issued to consultants                  |            |        |            |                |             |
|   |            |        | 553,715    |                | 553,715     |
| -   |            |        |            |                |             |
| Net loss  |            |        |            | (8,101,014)    | (8,101,014) |
| Balance at March 31, 2005                                     |            |        |            |                |             |
|   | 24,630,628 | 24,631 | 12,023,750 | - (18,205,326) | (6,156,945) |
| Cancelation of common stock previously issued                 | (105,000)  | (105)  | (113,895)  |                | (114,000)   |
| Issuance of common stock for services April 2005 @ \$0.59     | 100,000    | 100    | 58,900     |                | 59,000      |
| Issuance of common stock for services April 2005 @ \$0.62     | 162,500    | 162    | 100,587    |                | 100,749     |
| Issuance of common stock for services May 2005 @ \$0.60       | 39,836     | 40     | 23,862     |                | 23,902      |
| Issuance of common stock for services June 2005 @ \$0.65      | 110,000    | 110    | 71,390     |                | 71,500      |
| Issuance of common stock for services June 2005 @ \$0.45      | 200,000    | 200    | 89,800     |                | 90,000      |
| Issuance of common stock for services July 2005 @ \$0.60      | 10,000     | 10     | 5,990      |                | 6,000       |
| Issuance of common stock for services July 2005 @ \$0.61      | 125,000    | 125    | 76,125     |                | 76,250      |
| Issuance of common stock for interest July 2005 @ \$0.61      | 50,000     | 50     | 30,450     |                | 30,500      |
| Cancelation of common stock previously issued                 | (150,000)  | (150)  | (143,850)  |                | (144,000)   |
| Issuance of common stock for services August 2005 @ \$0.48    | 100,000    | 100    | 47,900     |                | 48,000      |
| Issuance of common stock for services September 2005 @ \$0.50 | 30,000     | 30     | 14,970     |                | 15,000      |
| Issuance of common stock for services September 2005 @ \$0.42 | 50,000     | 50     | 20,950     |                | 21,000      |
|   | 75,000     | 75     | 37,425     |                | 37,500      |

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|   |         |     |         |          |         |
|---|---------|-----|---------|----------|---------|
| Issuance of common stock<br>for services September 2005<br>@ \$0.50         |         |     |         |          |         |
| Issuance of common stock<br>for services October 2005 @<br>\$0.53           | 220,000 | 220 | 115,280 | (58,750) | 56,750  |
| Issuance of common stock<br>for prepaid interest October<br>2005 @ \$0.58   | 125,000 | 125 | 72,375  | (72,500) | -       |
| Issuance of common stock<br>for conversion of debt<br>October 2005 @ \$1.75 | 150,000 | 150 | 262,350 |          | 262,500 |

**The accompanying notes are an integral part of these consolidated financial statements.**



**Cobalis Corp. and Subsidiary**  
**(formerly Biogentech Corp.)**  
**(A Development Stage Company)**  
**Consolidated Statements of Stockholders' Deficit**  
**For the Period From November 21, 2000 (inception) to June 30, 2006**

|  |            |        |            |             |              |             |
|--|------------|--------|------------|-------------|--------------|-------------|
| Issuance of common stock for services November 2005 @ \$0.78                             | 822,706    | 823    | 644,847    | (26,700)    |              | 618,970     |
| Issuance of common stock for services January 2006 @ \$1.54                              | 335,000    | 335    | 515,165    | (119,500)   |              | 396,000     |
| Issuance of common stock for services February 2006 @ \$1.42                             | 62,000     | 62     | 87,738     |             |              | 87,800      |
| Issuance of common stock for services March 2006 @ \$1.58                                | 121,467    | 121    | 192,237    |             |              | 192,358     |
| Issuance of common stock for conversion of notes payable and accrued interest March 2006 | 105,250    | 105    | 173,557    |             |              | 173,662     |
| Cancellation of common stock previously issued   | (3,000)    | (3)    | (4,797)    |             |              | (4,800)     |
| Amortization of prepaid expenses   |            |        |            | 112,025     |              | 112,025     |
| Value of warrants issued with debt   |            |        | 131,365    |             |              | 131,365     |
| Repricing of warrants  |            |        | 301,155    |             |              | 301,155     |
| Amortization of fair value of warrants issued to consultants                             |            |        | 1,541,628  |             |              | 1,541,628   |
| Net loss   |            |        |            | (6,603,454) | (6,603,454)  |             |
| Balance at March 31, 2006  | 27,366,387 | 27,366 | 16,377,254 | (165,425)   | (24,808,780) | (8,569,585) |
| Issuance of common stock for conversion of note payable and accrued interest April 2006  | 27,200     | 27     | 51,109     |             |              | 51,136      |
| Issuance of common stock for services April 2006 @ \$1.46                                | 115,000    | 115    | 167,835    |             |              | 167,950     |
| Issuance of common stock for cashless exercise of warrants                               | 192,997    | 193    | (193)      |             |              | -           |
|  | 150,000    | 150    | 204,450    | (165,600)   |              | 39,000      |

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|  |            |        |            |             |                |
|--|------------|--------|------------|-------------|----------------|
| Issuance of common stock for services May 2006 @ \$1.37      |            |        |            |             |                |
| Issuance of common stock for conversion of accounts payable  | 111,416    | 112    | 142,501    |             | 142,613        |
| Amortization of prepaid expenses                             |            |        |            | 100,540     | 100,540        |
| Fair value of vested stock options issued to employees       |            |        | 128,908    |             | 128,908        |
| Amortization of fair value of warrants issued to consultants |            |        | 421,498    |             | 421,498        |
| Net loss   |            |        |            | (1,602,352) | (1,602,352)    |
| Balance at June 30,2006 (unaudited)                          | 27,963,000 | \$     | \$         | \$          | \$(26,411,132) |
|  |            | 27,963 | 17,493,362 | (230,485)   | \$(9,120,292)  |

**The accompanying notes are an integral part of these consolidated financial statements.**

**Cobalis Corp. and Subsidiary**  
**(formerly Biogentech Corp.)**  
**(A Development Stage Company)**  
**Consolidated Statements of Cash Flows**

|  | <b>Three Months Ended</b> |                          | <b>Cumulative<br/>from<br/>November 21,<br/>2000 (inception)<br/>to<br/>June 30, 2006</b> |
|--|---------------------------|--------------------------|---|
|  | <b>June 30,<br/>2006</b>  | <b>June 30,<br/>2005</b> |   |
|  | (unaudited)               | (unaudited)              | (unaudited)   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                           |                          |   |
| Net loss   | \$ (1,602,352)            | \$ (942,380)             | \$ (25,526,132)   |
| Adjustment to reconcile net loss to net cash provided by (used in) operating activities: |                           |                          |   |
| Depreciation and amortization expense  | 16,762                    | 24,882                   | 544,026   |
| Common stock issued for services   | 206,950                   | 231,151                  | 5,053,273   |
| Common stock issued for penalty  | -                         | -                        | 692,500   |
| Common stock issued for financing costs  | -                         | -                        | 71,000  |
| Change in value of warrant liability   | -                         | (25,565)                 | (303,700)   |
| Amortization of debt issue costs   | 16,376                    | -                        | 127,948   |
| Exercise of stock options for services   | -                         | -                        | 26,960  |
| Amortization of discounts on notes   | -                         | -                        | 790,128   |
| Issuance of stock options/warrants for services  | 421,498                   | 201,990                  | 2,923,841   |
| Capital contribution - bonus (related party)   | -                         | -                        | 50,000  |
| Amortization of prepaid expenses   | 100,540                   | -                        | 228,165   |
| Amortization of deferred compensation  | -                         | -                        | 250,000   |
| Discount on common stock issued for settlement of debt                                   | -                         | -                        | 50,000  |
| Impairment expense   | -                         | -                        | 2,331,522   |
| Re-pricing of warrants   | -                         | -                        | 301,155   |
| Value of vested stock options issued to employees  | 128,908                   | -                        | 128,908   |
| Changes in assets and liabilities:   |                           |                          |   |
| Prepaid expenses and other assets  | 4,680                     | (475,000)                | -   |
| Inventory  | -                         | -                        | 6,250   |
| Deposits   | -                         | -                        | 27,454  |
| Accounts payable   | 4,853                     | (17,155)                 | 852,992   |
| Accrued expenses   | 19,557                    | 67,207                   | 1,434,358   |
| Accrued legal settlement   | -                         | -                        | 1,725,000   |
| Amounts due to related parties   | 215,574                   | 129,806                  | 2,043,481   |
| <b>Net cash used in operating activities</b>   | <b>(466,654)</b>          | <b>(805,064)</b>         | <b>(6,170,871)</b>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                           |                          |   |
| Purchase of property and equipment   | -                         | -                        | (89,272)  |
| Increase in patent costs   | -                         | -                        | (24,711)  |
| Change in restricted cash  | -                         | -                        | -   |
| Merger fees and costs  | -                         | -                        | -   |
| Increase in acquisition deposits   | -                         | -                        | (2,220,000)   |

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|   |           |            |             |
|---|-----------|------------|-------------|
| Increase in other deposits                                  | -         | -          | (40,000)    |
| Increase in capitalized website                             | -         | -          | (18,097)    |
| Net cash used in investing activities                       | -         | -          | (2,392,080) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                |           |            |             |
| Change in cash overdraft                                    | -         | (11,941)   | -           |
| Payment on contract   | -         | -          | (161,000)   |
| Proceeds from advances - related party                      | -         | 614,500    | 4,581,449   |
| Proceeds from advances from stockholders                    | -         | 260,000    | 310,000     |
| Proceeds from issuance of notes payable                     | -         | -          | 1,465,000   |
| Proceeds from sale of common stock                          | -         | -          | 806,500     |
| Proceeds from sale of preferred stock                       | -         | -          | 885,000     |
| Proceeds from convertible debenture                         | -         | 100,000    | 700,000     |
| Capital contribution  | -         | -          | 571,668     |
| Payment of debt issue costs                                 | -         | -          | (83,500)    |
| Payments on advances from stockholders                      | (10,000)  | (55,200)   | (60,000)    |
| Payments on advances - related party                        | -         | -          | (402,129)   |
| Net cash provided by financing activities                   | (10,000)  | 907,359    | 8,612,988   |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> |           |            |             |
|   | (476,654) | 102,295    | 50,037      |
| <b>CASH AND CASH EQUIVALENTS, Beginning of year</b>         |           |            |             |
|   | 526,691   | 1,169      | -           |
| <b>CASH AND CASH EQUIVALENTS, End of year</b>               |           |            |             |
|   | \$ 50,037 | \$ 103,464 | \$ 50,037   |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>   |           |            |             |
| Interest paid   | \$ -      | \$ -       | \$ -        |
| Income taxes paid   | \$ -      | \$ -       | \$ -        |

**The accompanying notes are an integral part of these consolidated financial statements.**

**COBALIS CORP. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2006 AND 2005**  
**(UNAUDITED)**

**NOTE 1 - BASIS OF PRESENTATION**

The unaudited consolidated financial statements have been prepared by Cobalis Corp. (the "Company"), pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes for the year ended March 31, 2006 included in the Company's Annual Report on Form 10-KSB. The results of the three months ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year ending March 31, 2007.

Going Concern

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has incurred a net loss of \$1,602,352 for the three months ended June 30, 2006 and as of June 30, 2006, the Company had a working capital deficit of \$8,704,603 and a stockholder deficit of \$9,120,292. In addition, as of June 30, 2006, the Company has not developed a substantial source of revenue.

These conditions raise substantial doubt as to the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company is currently attempting to raise additional financing for operating purposes. The Company is also attempting to partner with a large pharmaceutical company for research and development, marketing and distribution of its product.

The Company requires substantial capital to pursue its operating strategy and currently has limited cash for operations. Until the Company can obtain revenues or obtain funding through debt and equity financing sufficient to fund working capital needs and additional research and development costs necessary to obtain the regulatory approvals for commercialization, the Company will be dependent upon external sources of financing.

There can be no assurances that sufficient financing will be available on terms acceptable to the Company, or at all. If the Company is unable to obtain such financing, the Company will be forced to scale back operations, which could have an adverse effect on the Company's financial condition and results of operations. These factors raise substantial doubt about the Company's ability to continue as a going concern.

Management believes that actions presently being taken to revise the Company's operating and financial requirements provide the opportunity for the Company to continue as a going concern.



**COBALIS CORP. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2006 AND 2005**  
**(UNAUDITED)**

Stock Options

The Company adopted SFAS No. 123 (Revised 2004), *Share Based Payment* ("SFAS No. 123R"), under the modified-prospective transition method on January 1, 2006. SFAS No. 123R requires companies to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value. Share-based compensation recognized under the modified-prospective transition method of SFAS No. 123R includes share-based compensation based on the grant-date fair value determined in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, for all share-based payments granted prior to and not yet vested as of January 1, 2006 and share-based compensation based on the grant-date fair-value determined in accordance with SFAS No. 123R for all share-based payments granted after January 1, 2006. SFAS No. 123R eliminates the ability to account for the award of these instruments under the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and allowed under the original provisions of SFAS No. 123. Prior to the adoption of SFAS No. 123R, the Company accounted for our stock option plans using the intrinsic value method in accordance with the provisions of APB Opinion No. 25 and related interpretations.

As a result of adopting SFAS No. 123R, the Company recognized \$128,908 in share-based compensation expense for the three months ended June 30, 2006 related to options granted to employees in May 2006. The impact of this share-based compensation expense on the Company's basic and diluted earnings per share was \$0.00 per share. The fair value of our stock options was estimated using the Black-Scholes option pricing model.

For periods presented prior to the adoption of SFAS No. 123R, pro forma information regarding net income and earnings per share as required by SFAS No. 123R has been determined as if we had accounted for our employee stock options under the original provisions of SFAS No. 123. The fair value of these options was estimated using the Black-Scholes option pricing model. There was no pro forma expense to recognize during the three months ended June 30, 2006.

Patent Costs

Patent costs are carried at cost less accumulated amortization, which is calculated on a straight-line basis, over the estimated economic life of the patent. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," the Company evaluates intangible assets and other long-lived assets (including patent costs) for impairment, at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Recoverability of intangible assets and other long-lived assets is measured by comparing their net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss. During the year ended March 31, 2004, the Company recognized an impairment expense of \$111,522 related to one of its patents as it determined that this patent had no future value based on its assessment of expected future cash flows to be generated by this patent and the results of an independent appraisal done in April 2004. Amortization expense related to these patents for the three months ended June 30, 2006 and 2005 was \$13,467 and \$13,467, respectively. Projected amortization expense approximates \$52,000, \$49,000, \$49,000, \$49,000 and \$49,000, respectively, for each of the five years ended March 31, 2011. The weighted-average life of the remaining patents is approximately 15.2 years.





**COBALIS CORP. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2006 AND 2005**  
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Recently Issued Accounting Pronouncements

In February 2006, FASB issued SFAS No. 155, "*Accounting for Certain Hybrid Financial Instruments*". SFAS No. 155 amends SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*", and SFAS No. 140, "*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*". SFAS No. 155, permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interest in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on the qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of the Company's first fiscal year that begins after September 15, 2006. Management believes that this statement will not have a significant impact on the consolidated financial statements.

In March 2006 FASB issued SFAS 156 "*Accounting for Servicing of Financial Assets*". SFAS No. 156 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. This 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, (2) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; (3) permits an entity to choose the 'amortization method' or 'fair value measurement method' for each class of separately recognized servicing assets and servicing liabilities; (4) at its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value; and (5) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. SFAS 156 is effective as of the beginning of the Company's first fiscal year that begins after September 15, 2006. Management believes that this statement will not have a significant impact on the consolidated financial statements.

**NOTE 2 - LOSS PER SHARE**

The Company reports loss per share in accordance with SFAS No. 128, "Earnings per Share." Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares available. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Diluted loss per share has not been presented since the effect of the assumed exercise of options and warrants to purchase common shares would have an anti-dilutive effect. There were 10,467,600 and 5,844,167 common equivalent shares outstanding related to the options and warrants at June 30, 2006 and 2005, respectively. In addition, as of June 30, 2006, 716,667 shares of common stock are issuable upon the conversion of the convertible note payable and convertible preferred stock.



**COBALIS CORP. AND SUBSIDIARY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED JUNE 30, 2006 AND 2005  
(UNAUDITED)**

**NOTE 3 - PROPERTY AND EQUIPMENT**

The cost of property and equipment at June 30, 2006 consisted of the following:

|  |           |
|--|-----------|
| Furniture and fixtures                         | \$ 73,203 |
| Office equipment                               | 42,120    |
|  | 115,323   |
| Less accumulated depreciation and amortization | (110,022) |
|  | \$ 5,301  |

Depreciation expense for the three months ended June 30, 2006 and 2005 was \$3,118 and \$11,239, respectively.

**NOTE 4 - ACCRUED LEGAL SETTLEMENTS**

Former Landlord

In March 2003, the Company vacated its office space. The landlord then filed suit against the Company in the County of Orange, Superior Court of California, for unpaid rent. In January 2006, this matter was settled and the Company is to pay a total of \$200,000 over the next year. As of June 30, 2006, the balance due under this settlement was \$125,000.

Gryphon Master Fund LP

On March 31, 2006, the Company reached a settlement with Gryphon Master Fund LP related to two investments (See Notes 7 and 9) in the Company by Gryphon in September 2003 totaling \$1,600,000. The settlement agreement requires the Company to pay a maximum of \$1,600,000 which will be reduced to \$1,400,000 if the Company is able to pay the judgment on or before October 1, 2006. Full repayment is due under the settlement agreement on or before April 1, 2007. The settlement agreement also provides for Gryphon to convert its two investments (convertible debenture and convertible preferred stock) in the Company totaling \$1,600,000 into 716,667 shares of the Company common stock as per the terms of the original investment agreements. In addition the settlement agreement provides for a reduction of the exercise price to \$0.01 for the 194,167 warrants currently held by Gryphon. During the three months ended June 30, 2006, Gryphon did a cashless exercise of these warrants and received a total of 192,997 shares of the Company's common stock.

As of June 30, 2006, the full \$1,600,000 was still due under the settlement agreement.

**NOTE 5 - DUE TO RELATED PARTIES**

Due to related parties at June 30, 2006 consists of the following:

|                                     |              |
|-------------------------------------|--------------|
| R&R Holdings, Inc. and affiliate a) | \$ 5,194,553 |
| Chaslav Radovich b)                 | 98,958       |

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|                              |              |
|------------------------------|--------------|
| Other officers/executives c) | 167,158      |
|                              | \$ 5,460,669 |

**COBALIS CORP. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2006 AND 2005**  
**(UNAUDITED)**

a) On January 1, 2001, the Company entered into a consulting contract with R&R Holdings, Inc. and its affiliate, Silver Mountain Promotions, Inc. ("R&R") whereby they would provide managerial consulting services to the Company at the rate of \$125,000 per year and the rate was increased to \$135,000 per year. R&R is also a shareholder of the Company and the controlling shareholder of R&R is Mr. Radul "Rudy" Radovich, the Company's Chairman. As of June 30, 2006, the Company had accrued \$512,392 of consulting fees relating to this agreement.

R&R advances the Company cash from time to time. As of June 30, 2006, the Company owed R&R \$2,520,221 related to these advances. The St. Petka Trust, which is controlled by Mr. Radul Radovich, also advances the Company cash from time to time. As of June 30, 2006, the Company owed St. Petka Trust \$1,585,500 related to these advances. The Company has accrued interest on these advances at a rate of 10% per annum. Accrued interest at June 30, 2006 related to these advances totaled \$576,440. See Note 12.

b) The Company currently owes its President, a total of \$98,958 in past due compensation.

c) The Company currently owes two current and one former executives \$54,033 and \$113,125, respectively, in past due compensation.

**NOTE 6 - PROMISSORY NOTES**

In June 2005, the Company converted a total of \$205,174 of amounts due for clinical trials into nine promissory notes that accrued interest at a rate of 10% per annum and were due on December 27, 2005. During the three months ended March 31, 2006 and June 30, 2006, respectively, the Company converted \$131,042 and \$27,319 of these promissory notes plus accrued interest into 105,250 and 27,200 shares of the Company's common stock. At June 30, 2006, \$46,813 of these notes was still outstanding.

**NOTE 7 - CONVERTIBLE NOTES PAYABLE**

Gryphon Master Fund, LP (See Note 4)

In September 2003, the Company sold a \$600,000, three-year, 8% convertible note payable to Gryphon Master Fund, LP, which is convertible into shares of the Company's common stock at the initial conversion price of \$2.00 per share. This price is subject to adjustment should the Company issue shares of its common stock at a price less than \$1.75 per share. The convertible note payable was sold with detachable three-year warrants to purchase 90,000 shares of the Company's common stock at \$2.88 per share. The warrant exercise price is also subject to adjustment based on sales of the Company's common stock below the current fair market value on the contract date.

**COBALIS CORP. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**(UNAUDITED)**

The fair value of these warrants totaling \$169,630 was computed using the Black-Scholes model under the following assumptions: (1) expected life of 3 years; (2) volatility of 104%, (3) risk free interest of 4.39% and (4) dividend rate of 0%. In addition, since this debt is convertible into equity at the option of the note holder at beneficial conversion rates, an embedded beneficial conversion feature was recorded as a debt discount and amortized using the effective interest method over the life of the debt in accordance with Emerging Issues Task Force No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments." Since the intrinsic value of the beneficial conversion feature and relative fair value of the warrants exceeds the proceeds of the convertible debt, the amount of the discount assigned to the beneficial conversion feature and warrants is limited to the amount of the net proceeds of the convertible debt. Therefore, the Company recorded a discount of \$516,500 (consisting of relative fair value of the warrants of \$169,630 and beneficial conversion features of \$346,870), the net proceeds received by the Company after the debt discount of \$83,500. During the year ended March 31, 2005, the Company fully amortized the debt discount associated with the \$600,000 convertible note payable due to the lawsuit filed by the holder of the convertible note payable.

On March 31, 2006, the Company reached a settlement with Gryphon Master Lund LP related to two investments in the Company by Gryphon in September 2003 totaling \$1,600,000 (See Notes 4 and 9). The settlement agreement requires the Company to pay a maximum of \$1,600,000 which will be reduced to \$1,400,000 if the Company is able to pay the judgment on or before October 1, 2006. Full repayment is due under the settlement agreement on or before April 1, 2007. The settlement agreement also provides for Gryphon to convert its two investments (convertible debenture and convertible preferred stock) in the Company totaling \$1,600,000 into 716,667 shares of the Company common stock as per the terms of the original investment agreements. In addition the settlement agreement provides for a reduction of the exercise price to \$0.01 for the 194,167 warrants currently held by Gryphon.

During the three months ended June 30, 2006, Gryphon did a cashless exercise of these warrants and received a total of 192,997 shares of the Company's common stock.

Tejeda and Tejeda, Inc.

On June 13, 2005, the Company entered into a loan agreement with Tejeda and Tejeda, Inc. in the amount of \$100,000. The loan is due on or before the 12-month anniversary and accrues interest at the rate of 10% per annum. The note is personally guaranteed by Mr. Radul Radovich, the Company's Chairman, and Mr. Chaslav Radovich the Company's CEO. On the 12-month anniversary, the holder of the note may elect to convert the loan into shares of the Company's common stock at \$1.75 per shares or at a price equal to a 25% discount to the closing bid price on the day of conversion at maturity. If such conversion is elected, the loan shall be considered paid in full. The loan is convertible at the maturity, which is the date at which the conversion feature will become beneficial; therefore the intrinsic value of the beneficial conversion feature of approximately \$25,000 has been calculated at the commitment date using the stock price as of that date. The amount will be recorded as interest expense at the date of conversion, if the loan is converted to shares of common stock.

**NOTE 8 - SENIOR DEBENTURE**

On October 26, 2005, the Company issued a senior debenture to the Brad Chisick Trust in the amount of \$250,000 that accrues interest at 10% per annum and is due on October 26, 2007. In addition, the Company also issued to the Brad Chisick Trust a warrant to purchase 500,000 shares of the Company's common stock for \$1.75 per shares.



**COBALIS CORP. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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The fair value of these warrants totaling \$276,827 was computed using the Black-Scholes model under the following assumptions: (1) expected life of 5 years; (2) volatility of 194%, (3) risk free interest of 4.50% and (4) dividend rate of 0%. The face amount of the senior debenture of \$250,000 was proportionately allocated to the senior debenture and the warrants in the amount of \$118,635 and \$131,365, respectively. The amount allocated to the warrants of \$131,365 was recorded as a discount on the senior debenture and is being amortized over the term of the debenture. During the three months ended June 30, 2006, the Company amortized \$16,376 of the discount to interest expense. The balance of the debenture is shown net of unamortized discount of \$86,917 in the balance sheet. In addition, on October 26, 2005, the Company issued to the Brad Chisick Trust 125,000 shares of its common stock valued at \$72,500 as pre-payment of the accrued interest on this senior debenture. The prepaid interest will be amortized to interest expense over the two year term of the senior debenture.

**NOTE 9 - CONVERTIBLE PREFERRED STOCK**

In September 2003, the Company sold 1,000 shares of its 7.5% convertible preferred stock (the "Convertible Preferred Stock") to Gryphon Master Fund, LP, for \$1,000,000, less direct issuance costs of \$115,000, which were netted against the proceeds of the offering. The Convertible Preferred Stock carries voting rights equivalent to the number of shares of common stock into which it can be converted, and has liquidation preference of \$1,000 per share. The Convertible Preferred Stock is convertible into shares of the Company's common stock at the initial conversion price of \$2.40 per share. This price is subject to change should the Company issue shares of its common stock at a price less than \$1.75 per share. Included with the Convertible Preferred Stock were detachable three-year warrants to purchase 104,167 shares of the Company's common stock at the price of \$2.88 per share (the "Preferred Warrants"). The warrant exercise price is also subject to adjustment based on sales of the Company's common stock below the current fair market value on the contract date.

The fair value of these warrants totaling \$181,849 was computed using the Black-Scholes model under the following assumptions: (1) expected life of 3 years; (2) volatility of 112%, (3) risk free interest of 4.1% and (4) dividend rate of 0%. In addition, since this convertible preferred stock is convertible into equity at the option of the stockholder at beneficial conversion rates, an embedded beneficial conversion feature was recorded as a discount to additional paid in capital in accordance with Emerging Issues Task Force No. 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments." Since the intrinsic value of the beneficial conversion feature and relative fair value of the warrants exceeds the proceeds of the convertible debt, the amount of the discount assigned to the beneficial conversion feature and warrants is limited to the amount of the proceeds of the convertible preferred stock. The discount was recorded as a preferred stock dividend at the date of issuance. The Company recognized \$885,000 of preferred dividends related to the discount.

On March 31, 2006, the Company reached a settlement with Gryphon Master Lund LP related to two investments in the Company by Gryphon in September 2003 totaling \$1,600,000 (See Notes 4 and 7). The settlement agreement requires the Company to pay a maximum of \$1,600,000 which will be reduced to \$1,400,000 if the Company is able to pay the judgment on or before October 1, 2006. Full repayment is due under the settlement agreement on or before April 1, 2007. The settlement agreement also provides for Gryphon to convert its two investments (convertible debenture and convertible preferred stock) in the Company totaling \$1,600,000 into 716,667 shares of the Company common stock as per the terms of the original investment agreements. In addition the settlement agreement provides for a reduction of the exercise price to \$0.01 for the 194,167 warrants currently held by Gryphon.





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During the three months ended June 30, 2006, Gryphon did a cashless exercise of these warrants and received a total of 192,997 shares of the Company's common stock.

**NOTE 10 - STOCKHOLDERS' DEFICIT**

Preferred Stock

The Company has authorized 5,000,000 shares of \$0.001 par value preferred stock of which 1,000 have been designated as Convertible Preferred Stock (see Note 9).

Common Stock

The Company has authorized 50,000,000 shares of \$0.001 par value common stock.

Stock Options

The following table summarizes the options outstanding:

|                             | <b>Options<br/>outstanding</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|-----------------------------|--------------------------------|--|--|
| Outstanding, March 31, 2006 | 1,625,000                      | \$ 1.74  | \$ 374,000                               |
| Granted                     | 2,500,000                      | \$ 1.40  |  |
| Forfeited/Canceled          | (100,000)                      | \$ 1.00  |  |
| Exercised                   | -                              | -  |  |
| Outstanding, June 30, 2006  | 4,025,000                      | \$ 1.55  | \$ 16,250                                |

The weighted average remaining contractual life of options outstanding is 3.44 years at June 30, 2006. The exercise prices for the options outstanding at June 30, 2006 are as follows:

| <b>Number<br/>of<br/>Options</b> | <b>Exercise<br/>Price</b> |
|----------------------------------|---------------------------|
| 325,000                          | \$1.00                    |
| 2,500,000                        | \$1.40                    |
| 1,200,000                        | \$2.00                    |
| 4,025,000                        |                           |

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The fair value for the options issued during the three months ended June 30, 2006 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate of 4.50%; dividend yields of 0%; volatility factors of the expected market price of the Company's common shares of 188%; and a weighted average expected life of the option of 5 years.

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The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of employee stock options.

Warrants

The following table summarizes the warrants outstanding:

|                             | <b>Warrants<br/>outstanding</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|-----------------------------|---------------------------------|--|--|
| Outstanding, March 31, 2006 | 6,636,767                       | \$ 1.67  | \$ 1,435,630                             |
| Granted                     | -                               | -  |  |
| Forfeited/Canceled          | -                               | -  |  |
| Exercised                   | (194,167)                       | \$ 0.01  |  |
| Outstanding, June 30, 2006  | 6,442,600                       | \$ 1.72  | \$ 156,000                               |

The weighted average remaining contractual life of warrants outstanding is 3.65 years at June 30, 2006. The exercise prices for the warrants outstanding at June 30, 2006 are as follows:

| <b>Number<br/>of<br/>Warrants</b> | <b>Exercise<br/>Price</b> |
|-----------------------------------|---------------------------|
| 150,000                           | \$.01                     |
| 6,092,600                         | \$1.75                    |
| 200,000                           | \$2.00                    |
| 6,442,600                         |                           |

**NOTE 11 - LITIGATION**

*Former Leased Office Space:* The Company a defendant in a suit brought by its former landlord for breach of lease agreement and alleged unpaid rent in the County of Orange, Superior Court of California, Case #03CC02904. In January 2006, this matter was settled and the Company is to pay a total of \$200,000 over the next year, of which the Company paid the first \$75,000 on January 31, 2006. This leaves a total of \$125,000 owing, of which \$75,000 is due on July 31, 2006, and \$50,000 is due on December 31, 2006 pursuant to a forbearance agreement. Subsequent to the period covered by this report, and as of July 31, 2006, the Company did not make the \$75,000 payment due on that date. On August 8, 2006, the Company received a notice that it breached the forbearance agreement.



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*Marinko Vekovic*: On March 9, 2006, Marinko Vekovic, a former consultant, filed a Complaint against the Company alleging a breach of a written consulting agreement, specific performance of common stock warrants and the “reasonable value of work and labor performed,” seeking damages in excess of \$700,000, and specific performance of an alleged obligation to issue 600,000 free trading warrants at a \$1.75 share price. The lawsuit, entitled Vekovic vs. Cobalis, is pending in Orange County Superior Court, Central Justice Center, Case No. 06CC03923.

On April 18, 2006, the Company filed an Answer to the Complaint, denying the allegations by Mr. Vekovic. On the same date, the Company also filed a Cross-Complaint for rescission of the consulting agreement, on grounds that Mr. Vekovic made numerous material misrepresentations intended to fraudulently induce the Company to enter the consulting agreement and to issue to Vekovic 112,500 shares of the Company’s S-8 common stock. Through the Company’s Cross-Complaint, the Company seeks to rescind the consulting agreement and seeks restitution from Mr. Vekovic in an amount no less than the price for which Mr. Vekovic sold the 112,500 shares of the Company’s S-8 common stock, plus all or some portion of the compensation paid to Mr. Vekovic, given that Mr. Vekovic substantially failed to perform the consulting services which were the subject of the consulting agreement. The Company also seeks to recover attorneys’ fees incurred in the defense of the Complaint and the prosecution of the Company’s Cross-Complaint, pursuant to the attorneys’ fee provision in the consulting agreement.

The Company believes that it will prevail in defending Mr. Vekovic’s Complaint and that its liability to Mr. Vekovic, if any, would not be material. Furthermore, the Company believes that it has a good chance of prevailing on its Cross-Complaint, such that the Company would recover a monetary award from Mr. Vekovic. However, as is the case with any litigation, the Company cannot guarantee the outcome of the case.

*Europacific Consulting, Inc.* This action was filed on May 23, 2006 in the Supreme Court of New York, County of New York, Case No. 601830/06. Europacific Consulting, Inc. (“Europacific”) is a New York corporation whose sole shareholder and director is Antonio Treminio, who are suing for alleged breach of oral contract and damages of \$250,000. Europacific alleges that Cobalis orally engaged Europacific to perform certain services for the Company, including introductions to potential board members, qualified investors and strategic alliances for the Company’s product line. The Company issued 20,000 shares to Europacific in January 2005, and canceled those shares in May 2005, after what it contends is Europacific’s fraudulent inducement and failure to perform. The Company intends to vigorously contest this case and consider this a frivolous claim. The Company believes the claim for \$250,000 is without basis since the consideration for Europacific’s services was 20,000 shares, which at a current market value of \$1.10 per share, would equal approximately only \$22,000.

In the ordinary course of business, the Company is generally subject to claims, complaints, and legal actions. At June 30, 2006, management believes that the Company is not a party to any action which would have a material impact on its financial condition, operations, or cash flows.

**NOTE 12 - SUBSEQUENT EVENTS**

On July 18, 2006, the Company entered into an Accord and Satisfaction Agreement (“Agreement”) with several related party creditors, arranging to settle debt of \$5,194,553 including interest accrued through June 30, 2006, in exchange for the issuance of 3,995,809 shares of the Company’s \$.001 par value common stock. This debt was incurred in the form of related party advances and services rendered to the Company over recent months. The conversion rate is \$1.30 per share, representing a premium on the market price of the Company’s closing share price on Monday, July 17, 2006

of \$1.00 per share.

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The related parties that are owed funds include Radul Radovich, the Company's Chairman of the Board of Directors, and several entities owned and controlled by Mr. Radovich. The amounts owed were as follows: Mr. Radovich was owed \$952,611 principal along with interest of \$127,509, for a total of \$1,084,120, which is to be converted to 833,938 restricted shares of the Company's common stock; St. Petka Trust, a majority shareholder of the Company, and of which Mr. Radovich is the beneficiary and trustor, was owed \$1,585,500 principal, along with interest of \$211,335, for a total of \$1,796,835, which is to be converted to 1,382,180 restricted shares of the Company's common stock; R and R Holdings, Inc. a Nevada corporation owned by Mr. Radovich, was owed \$471,507 principal, along with interest of \$62,848, for a total of \$534,355, which is to be converted to 411,042 restricted shares of the Company's common stock; Silver Mountain Promotions, Inc., a Nevada corporation, owned by Mr. Radovich, was owed \$922,103 principal, along with interest of \$122,909, for a total of \$1,045,012, which is to be converted to 803,855 restricted shares of the Company's common stock; R R Development, Inc., a California corporation, owned by Mr. Radovich, was owed \$170,000 principal, along with interest of \$51,838, for a total of \$221,838, which is to be converted to restricted 170,644 shares of the Company's common stock. In addition, Mr. Radovich was owed \$512,392 for consulting fees, pursuant to a consulting contract with the Company. This amount is to be converted to 394,147 restricted shares of the Company's common stock.

The shares will not be issued until and unless the Company is able to increase its authorized common stock, which must be approved by shareholder vote at the Company's next shareholder meeting. The 3,995,809 shares would represent approximately 12.4% of the Company's currently issued and outstanding common stock, though the shares will not be issued until after a future shareholder vote. The issuance would also increase Mr. Radovich's aggregate beneficial ownership to approximately 36.2%, assuming current outstanding common stock levels. The agreement was approved by a majority of the Company's disinterested board members.

In addition, subsequent to June 30, 2006, the Company:

- issued 208,333 shares of common stock to Gryphon Master Fund upon the conversion of 500 shares of convertible preferred stock;
- issued 200,000 shares of common stock to Tejada & Tejada upon the conversion of \$100,000 of convertible debentures;
- issued a total of \$250,000 in convertible debentures that are due on September 14, 2006; and
- received a notice on August 8, 2006, that the Company is in breach of the forbearance agreement with regard to the litigation pertaining to its former landlord.



## Item 2. Management's Discussion and Analysis or Plan of Operations

**This following information specifies certain forward-looking statements of management of the company. Forward-looking statements are statements that estimate the happening of future events and are not based on historical fact. Forward-looking statements may be identified by the use of forward-looking terminology, such as “may”, “shall”, “could”, “expect”, “estimate”, “anticipate”, “predict”, “probable”, “possible”, “should”, “continue”, variations of those terms or the negative of those terms. The forward-looking statements specified in the following information have been compiled by our management on the basis of assumptions made by management and considered by management to be reasonable. Our future operating results, however, are impossible to predict and no representation, guaranty, or warranty is to be inferred from those forward-looking statements.**

**The assumptions used for purposes of the forward-looking statements specified in the following information represent estimates of future events and are subject to uncertainty as to possible changes in economic, legislative, industry, and other circumstances. As a result, the identification and interpretation of data and other information and their use in developing and selecting assumptions from and among reasonable alternatives require the exercise of judgment. To the extent that the assumed events do not occur, the outcome may vary substantially from anticipated or projected results, and, accordingly, no opinion is expressed on the achievability of those forward-looking statements. No assurance can be given that any of the assumptions relating to the forward-looking statements specified in the following information are accurate, and we assume no obligation to update any such forward-looking statements.**

Our Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, accrued expenses, financing operations, and contingencies and litigation. We base our estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of our financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources, primarily valuation of patent costs and stock-based compensation. The methods, estimates and judgments we use in applying these most critical accounting policies have a significant impact on the results we report in our consolidated financial statements.

## **OVERVIEW**

As discussed above, we were incorporated in 1997 and on July 6, 2004 changed our name to Cobalis Corp., having previously used the BioGentech Corp. In 2003, we acquired our operational subsidiary, BioGentech Incorporated, (BioGentec). To distinguish between parent and subsidiary, a slight spelling difference was utilized. BioGentec, a private Nevada corporation, was incorporated on November 21, 2000 according to the laws of Nevada, under the name St Petka, Inc. On May 4, 2001, St. Petka, Inc. changed its name to BioGentec Incorporated. On July 2, 2003, BioGentec was merged into Togs for Tykes Acquisition Corp., a wholly owned subsidiary formed for the purpose of acquiring BioGentec. As allowed under SFAS 141, "Business Combinations" ("SFAS 141"), we designated a date of convenience of the closing for accounting purposes as June 30, 2003. Under the terms of the merger agreement, all of BioGentec's outstanding common stock (19,732,705 shares of \$0.001 par value stock) was exchanged for 19,732,705 shares newly issued shares of \$0.001 par value stock of Cobalis Corp. common stock. This transaction was consummated with the filing of the Articles of Merger with the State of Nevada on July 2, 2003. BioGentec shareholders then effectively controlled approximately 95% of the issued and outstanding common stock of Cobalis. Since the shareholders of BioGentec obtained control of Cobalis, according to SFAS 141, this acquisition was treated as a recapitalization for accounting purposes, in a manner similar to reverse acquisition accounting.

## **GOING CONCERN**

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation as a going concern. We incurred a net loss of \$1,602,352 for the three months ended June 30, 2006 and as of June 30, 2006; we had a working capital deficit of \$8,704,603 and a stockholder deficit of \$9,120,292. In addition, as of June 30, 2006, we have not developed a substantial source of revenue. These conditions raise substantial doubt as to our ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

We are currently attempting to raise additional debt and equity financing for operating purposes. We require substantial capital to pursue our operating strategy, which includes commercialization of our products, and we currently have limited cash for operations. Until we can obtain revenues sufficient to fund working capital needs and additional research and development costs necessary to obtain the regulatory approvals for commercialization, we will be dependent upon external sources of financing.

We believe that actions presently being taken to revise our operating and financial requirements provide the opportunity for us to continue as a going concern. There can be no assurances that sufficient financing will be available on terms acceptable to us, or at all. If we are unable to obtain such financing, we will be forced to scale back operations, which could have an adverse effect on our financial condition and results of operations.

## **CRITICAL ACCOUNTING POLICY AND ESTIMATES**

Our Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to revenue recognition, accrued expenses, financing operations, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the

circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of our consolidated financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources, primarily valuation of patent costs and stock-based compensation. The methods, estimates and judgments we use in applying these most critical accounting policies have a significant impact on the results we report in our consolidated financial statements.

**Patent Cost Valuation.** The determination of the fair value of certain acquired assets and liabilities is subjective in nature and often involves the use of significant estimates and assumptions. Determining the fair values and useful lives of intangible assets requires the exercise of judgment. While there are a number of different generally accepted valuation methods to estimate the value of intangible assets acquired, we primarily use the weighted-average probability method outlined in SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This method requires significant management judgment to forecast the future operating results used in the analysis. In addition, other significant estimates are required such as residual growth rates and discount factors. The estimates we have used are consistent with the plans and estimates that we use to manage our business, based on available historical information and industry averages. The judgments made in determining the estimated useful lives assigned to each class of assets acquired can also significantly affect our net operating results.

**Stock-based Compensation.** We adopted SFAS No. 123 (Revised 2004), *Share Based Payment* ("SFAS No. 123R"), under the modified-prospective transition method on January 1, 2006. SFAS No. 123R requires companies to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value. Share-based compensation recognized under the modified-prospective transition method of SFAS No. 123R includes share-based compensation based on the grant-date fair value determined in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, for all share-based payments granted prior to and not yet vested as of January 1, 2006 and share-based compensation based on the grant-date fair-value determined in accordance with SFAS No. 123R for all share-based payments granted after January 1, 2006. SFAS No. 123R eliminates the ability to account for the award of these instruments under the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and allowed under the original provisions of SFAS No. 123. Prior to the adoption of SFAS No. 123R, we accounted for our stock option plans using the intrinsic value method in accordance with the provisions of APB Opinion No. 25 and related interpretations.

**Estimate of Litigation-based Liability.** We are a defendant in certain claims and litigation in the ordinary course of business. We accrue liabilities relating to these lawsuits on a case-by-case basis. We generally accrue attorney fees and interest in addition to the liability being sought. Liabilities are adjusted on a regular basis as new information becomes available. We consult with our attorneys to determine the viability of an expected outcome. The actual amount paid to settle a case could differ materially from the amount accrued.

## LIQUIDITY AND CAPITAL RESOURCES

We had cash and cash equivalents of \$50,037 at June 30, 2006. Our total current assets at June 30, 2006 were \$50,037. We also had the following long term assets: \$5,301 in property and equipment, net; \$1,415 in net website development costs; \$613,132 represented by net value of our patents; and \$12,546 in deposits. Our total assets as of June 30, 2006 were \$682,431.

Our total current liabilities were \$8,754,640 at June 30, 2006, which was represented by accounts payable of \$301,989 and accrued expenses of \$520,169; accrued legal settlements of \$1,725,000; due to related parties of \$5,460,669; promissory notes of \$46,813; and convertible notes payable of \$700,000.

In June 2005, we converted a total of \$205,174 of amounts due for clinical trials into nine promissory notes that accrued interest at a rate of 10% per annum and were due on December 27, 2005. During the three months ended March 31, 2006 and June 30, 2006, respectively, we converted \$131,042 and \$27,319 of these promissory notes plus accrued interest into 105,250 and 27,200 shares of our common stock. At June 30, 2006, \$46,813 of these notes was still outstanding.

We also had \$163,083 represented by a senior debenture, making our total liabilities \$8,917,723, and a convertible preferred stock liability of \$885,000. Our liabilities exceeded our assets by \$8,235,292.

We have financed our operations primarily through cash generated from related party debt financing as well as issuing a convertible debenture.

Our net cash used in financing activities was \$10,000 for the three months ended June 30, 2006 compared to net cash provided by financing activities or \$907,359 for the three months ended June 30, 2005. The decrease of \$917,359 is primarily due to a reduction in related party advances.

In June 2005, we entered into a loan agreement with Tejada and Tejada, Inc. in the amount of \$100,000. The loan is due in one year. The note is personally guaranteed by Mr. Radul Radovich, the chairman of our board of directors, and Mr. Chas Radovich, our President, Secretary and one of our directors. When the loan is due, the holder of the note has the option to convert the loan into shares of our common stock at \$0.50 per share or at a price equal to a 25% discount to the closing bid price on the day of conversion at maturity. Subsequent to the period covered by this report, the holder of the note elected to convert the note to 200,000 shares of our common stock.

In October 2005, we issued a senior debenture to the Brad Chisick Trust for \$250,000 that accrues interest at 10% per annum, and is due in two years. We also issued the holder of this debenture a warrant to purchase 500,000 shares of our common stock at \$1.75 per share.

During the three months ended June 30, 2006, we issued 111,416 shares of our common stock that were registered on or about May 11, 2006 on Form S-8 as payment for certain accounts payable, past due salaries to certain related parties and amounts due to consultants.

Subsequent to the period covered by this report, we issued a total of \$250,000 in convertible debentures that are due on September 14, 2006.

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2006 AS COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2005**

**Revenues and Cost of Sales.** We had no significant revenues for the three months ended June 30, 2006 and June 30, 2005 as we are undertaking a Phase III clinical trial in order to obtain FDA approval of PreHistin™ as an over the counter drug. Our net sales were \$0, as were our cost of sales and gross loss for the three months ended June 30, 2006, as compared net sales of \$0 as were our cost of sales and gross loss for the three months ended June 30, 2005.

**Operating Expenses.** Our operating expenses for the three months ended June 30, 2006 were \$1,470,557 compared to \$785,213 for the three months ended June 30, 2005. For both periods, we incurred expenses for two major purposes: i) ongoing development of our PreHistin™ product and related product management and ii) general management and fund raising efforts. For the three months ended June 30, 2006, this amount was represented by \$16,762 in depreciation and amortization; \$916,905 in professional fees; \$185,302 in salary and wages; \$63,076 in rent expense; \$25,809 in marketing and research; \$128,908 in stock option expense; and \$133,795 in other operating expenses. This is compared to the three months ended June 30, 2005, where we had \$24,882 in depreciation and amortization; \$511,178 in professional fees; \$82,567 in salary and wages; \$34,436 in rent expense; \$26,273 in marketing and research; and \$105,877 in other operating expenses. Our operating expenses increased during the three months ended June 30, 2006 as compared to the three months ended June 30, 2005 principally as a result of an increase in professional fees, which include payments for accounting, legal and shareholder relations and amortization of the value of warrants issued to consultants over the terms of the related consulting agreements, and an increase in stock option expense related to the adoption of SFAS No. 123R. A significant portion of the professional fees were paid by issuing shares of our stock. The value of these services was based on the market value of our stock at the measurement date.

Interest expense and financing costs for the three months ended June 30, 2006 were \$131,795 compared to \$182,732 for the three months ended June 30, 2005. The decrease is due to no non-registration penalties being accrued during the three months ended June 30, 2006 as compared to penalties of \$96,000 during the three months ended June 30, 2005, offset by higher interest charges due to more debt outstanding.

The change in the fair value in the warrant liability relates to the decrease in the value of the detachable warrants issued in connection with the convertible note payable and convertible preferred stock. Due to the decrease of our stock price, the fair value of these warrants has decreased resulting in the decrease of the warrant liability.

**OUR PLAN OF OPERATION FOR THE NEXT TWELVE MONTHS.**

Over the next 12 months, we plan to continue moving forward with the completion of the Phase III clinical trials of our allergy prevention product, PreHistin™, followed by submission of a new drug application ("NDA") to the FDA for marketing approval of PreHistin™ as an over the counter ("OTC") allergy medication. Once the NDA is filed, we hope to receive approval from the FDA enabling our marketing launch in the United States of the product or licensing to a potential pharmaceutical partner. We estimate the cost to complete the Phase III clinical trials and the submission of the NDA to the FDA for marketing approval will be approximately \$5,000,000.

In addition to seeking approval from the FDA for the primary indication of seasonal allergic rhinitis (hay fever) for PreHistin™, we may conduct additional studies to validate the viability of approval for supplemental indications and alternative delivery mechanisms. The tests will be a combination of clinical trials and laboratory analyses.

As of June 30, 2006, we had cash and equivalents of \$50,037. To fully execute our business plan for the next 12 months, we will need to raise additional funds in order to complete the Phase III clinical trials, submit the PreHistin™ application to the United States FDA, and execute a licensing agreement or otherwise launch the PreHistin™ product. There is no assurance that these funds will be raised.

In October 2005, we reported results of an initial six-week 714 patient Phase III trial designed to study various PreHistin™ dose regimens for reducing seasonal allergy symptoms when compared to placebo. As reported, the statistical analysis utilized a modified intent to treat and an ANOVA (ANalysis Of VARIation) model to determine the treatment effects for the four arm study and certain assumptions used were not specified in the statistical analysis plan (SAP). Although the data resulting from the prior Phase III clinical trial demonstrated that patients who were administered PreHistin™ showed a statistically significant reduction of allergy symptoms when the modified analysis was applied, the data most likely will be viewed by the FDA as supportive data and not as pivotal Phase III results required to secure approval.

In June 2006, we announced that we intend to initiate two identical, Phase III clinical trials of our anti-allergy medication PreHistin™ in patients with seasonal allergic rhinitis. The randomized, double blind, placebo-controlled studies are intended to assess the efficacy, overall safety and tolerability of our flagship drug PreHistin™ to prevent the onset and reduce the severity of allergy symptoms.

The new study design calls for two simultaneously conducted Phase III clinical trials, each comprised of one placebo arm and one active arm receiving 3.3 mg of sublingual PreHistin™ administered twice daily for the six weeks of the study. We anticipate that the double blind, placebo-controlled trials will be conducted at approximately 23 sites throughout the United States during the Ragweed allergy season. The trials are expected to commence in August 2006 and will utilize electronic diary records to assess improvement in the severity of nasal allergy symptoms. We expect that approximately 1,500 to 2,000 patients will be randomized into the twin studies to receive either placebo or PreHistin™ for three weeks prior to the onset of the allergy season, and for an additional three weeks into the season.

We estimate these costs to be approximately \$5,000,000 over the coming year. We will need to raise funds to execute studies for the further development of the PreHistin™ product line and to complete the acquisition of additional products. We plan to raise these funds through private or other equity offerings. We may attempt to secure loans from lending institutions or other sources. There is no guarantee that we will be able to raise additional funds through offerings or other sources. If we are unable to raise funds, our ability to continue with product development will be hindered.

Other than the research and development related to our PreHistin™ product, we do not plan to engage in any other research and development unless we are able to raise additional funds. We do not anticipate any significant hiring over the next 12 months.

**Off-balance sheet arrangements.** There are no off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

### **Item 3. Controls and Procedures**

As required by SEC rules, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures at the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer. Based on this evaluation, these officers have concluded that the design and operation of our disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting or in other factors that

have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

## **Part II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

*Former Leased Office Space:* We are a defendant in a suit brought by our former landlord for breach of lease agreement and alleged unpaid rent in the County of Orange, Superior Court of California, Case #03CC02904. In January 2006, this matter was settled and we are to pay a total of \$200,000 over the next year, of which we paid the first \$75,000 on January 31, 2006. This leaves a total of \$125,000 owing, of which \$75,000 is due on July 31, 2006, and \$50,000 is due on December 31, 2006 pursuant to a forbearance agreement. Subsequent to the period covered by this report, and as of July 31, 2006, we did not make the \$75,000 payment due on that date. On August 8, 2006, we have received a notice that we have breached the forbearance agreement.

*Marinko Vekovic:* On March 9, 2006, Marinko Vekovic, a former consultant, filed a Complaint against the Company alleging a breach of a written consulting agreement, specific performance of common stock warrants and the "reasonable value of work and labor performed," seeking damages in excess of \$700,000, and specific performance of an alleged obligation to issue 600,000 free trading warrants at a \$1.75 share price. The lawsuit, entitled Vekovic vs. Cobalis, is pending in Orange County Superior Court, Central Justice Center, Case No. 06CC03923.

On April 18, 2006, we filed an Answer to the Complaint, denying the allegations by Mr. Vekovic. On the same date, the Company also filed a Cross-Complaint for rescission of the consulting agreement, on grounds that Mr. Vekovic made numerous material misrepresentations intended to fraudulently induce us to enter the consulting agreement and to issue to Vekovic 112,500 shares of our S-8 common stock. Through our Cross-Complaint, we seek to rescind the consulting agreement and seeks restitution from Mr. Vekovic in an amount no less than the price for which Mr. Vekovic sold the 112,500 shares of our S-8 common stock, plus all or some portion of the compensation paid to Mr. Vekovic, given that Mr. Vekovic substantially failed to perform the consulting services which were the subject of the consulting agreement. We also seek to recover attorneys' fees incurred in the defense of the Complaint and the prosecution of our Cross-Complaint, pursuant to the attorneys' fee provision in the consulting agreement.

We believe that we will prevail in defending Mr. Vekovic's Complaint and that our liability to Mr. Vekovic, if any, would not be material. Furthermore, we believe that we have a good chance of prevailing on our Cross-Complaint, such that we would recover a monetary award from Mr. Vekovic. However, as is the case with any litigation, we cannot guarantee the outcome of the case.

*Europacific Consulting, Inc.* This action was filed on May 23, 2006 in the Supreme Court of New York, County of New York, Case No. 601830/06. *Europacific Consulting, Inc.* (“*Europacific*”) is a New York corporation whose sole shareholder and director is Antonio Treminio, who are suing for alleged breach of oral contract and damages of \$250,000. *Europacific* alleges that we orally engaged *Europacific* to perform certain services for us, including introductions to potential board members, qualified investors and strategic alliances for our product line. We issued 20,000 shares to *Europacific* in January 2005, and canceled those shares in May 2005, after what we contend is *Europacific*’s fraudulent inducement and failure to perform. We intend to vigorously contest this case and consider this a frivolous claim. We believe the claim for \$250,000 is without basis since the consideration for *Europacific*’s services was 20,000 shares, which at a current market value of \$1.10 per share, would equal approximately only \$22,000.

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

During the three months ended June 30, 2006, we issued the following shares of our unregistered common stock:

- 27,200 shares to Frank Hampel for conversion of a note payable and accrued interest valued at \$51,136;
- 15,000 shares to Jaffoni & Collins for services valued at \$22,950;
- 192,997 shares to Gryphon Master Fund for the cashless exercise of 194,167 warrants;
- 100,000 shares to the Wells Group for services valued at \$145,000;
- 120,000 shares to Adam Barnett for services valued at \$165,600;
- 20,000 shares to Norman Rest for services valued at \$26,800; and
- 10,000 shares to Elmer Carlson for services valued at \$12,200.

Subsequent to the period covered by this report, we issued the following restricted common stock:

- 208,333 shares to Gryphon Master Fund upon the conversion of 500 shares of convertible preferred stock; and
- 200,000 shares to Tejada & Tejada upon the conversion of \$100,000 of convertible debentures.

We did not receive any proceeds from the issuance of these shares; these shares were all issued in lieu of repaying our employees, consultants, advisors, and as the case may be, creditors in cash.

These transactions were not registered under the Act in reliance on the exemption from registration in Section 4(2) of the Act, as transactions not involving any public offering. The securities were issued to our employees, officers, directors, consultants, advisors, who by virtue of those relationships, we believe were familiar with our business, and were able to assess the risks and merits of the investment.

## **Item 3. Defaults Upon Senior Securities**

Not applicable



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

Not applicable

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

**Regulation**

**S-B**

**Number**

**Exhibit**

|       |  |
|-------|--|
| 3.1   | Articles of Incorporation (1)  |
| 3.1.1 | Certificate of Amendment to Articles of Incorporation (1)  |
| 3.1.2 | Certificate of Amendment to Articles of Incorporation (2)  |
| 3.1.3 | Certificate of Amendment to Articles of Incorporation (3)  |
| 3.2   | Bylaws (1)   |
| 4.1   | Convertible Note with Gryphon Master Fund LP (4)   |
| 10.1  | Asset Purchase Agreement between BioGentec Inc., (fka St. Petka, Inc.) and Gene Pharmaceuticals, LLC, (fka Allergy Limited, LLC,) as amended (4) |
| 10.2  | Employment Agreement with Thomas Stankovich (5)  |
| 10.3  | Employment Agreement with Gerald Yakatan (6)   |
| 10.4  | Employment Agreement with Chaslav Radovich (6)   |
| 31.1  | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of the Company (7)   |
| 31.2  | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of the Company (7)   |
| 32.1  | Section 906 Certification by Chief Executive Officer (7)   |
| 32.2  | Section 906 Certification by Chief Financial Officer (7)   |

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(1) Incorporated by reference to the exhibits to the registrant's registration statement on Form 10-SB filed on February 8, 2002.

(2) Incorporated by reference to the exhibits to the registrant's information statement on schedule 14C filed on June 10, 2003.

(3) Incorporated by reference to the exhibits to the registrant's current report on Form 8-K, filed July 8, 2004.

(4) Incorporated by reference to the exhibits to the registrant's annual report on Form 10-KSB for the fiscal year ended March 31, 2004.

(5) Incorporated by reference to the exhibits to the registrant's quarterly report on Form 10-QSB for the period ended December 31, 2005

(6) Incorporated by reference to the exhibits to the registrant's annual report on Form 10-KSB for the fiscal year ended March 31, 2006

(7) Included herein.

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**COBALIS CORP.**

Date: August 18, 2006

By: /s/ Gerald Yakatan

\_\_\_\_\_  
Gerald Yakatan  
Title: Principal Executive Officer, Director

**COBALIS CORP.**

Date: August 18, 2006

By: /s/ Chaslav Radovich

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Chaslav Radovich  
Title: President, Secretary, Director

**COBALIS CORP.**

Date: August 18, 2006

By: /s/ Thomas Stankovich

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Thomas Stankovich  
Title: Treasurer and Chief Financial Officer