PEOPLES FINANCIAL CORP /MS/
Form 10-Q
August 12, 2016

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2016

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 001-12103

PEOPLES FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Mississippi	**64-0709834**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**Identification No.)**
Lameuse and Howard Avenues, Biloxi, Mississippi	**39533**
(Address of principal executive offices)	**(Zip Code)**

(228) 435-5511

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the last practicable date. Peoples Financial Corporation has only one class of common stock authorized. At July 29, 2016, there were 15,000,000 shares of $1 par value common stock authorized, with 5,123,186 shares issued and outstanding.

Part 1 Financial Information

Item 1: Financial Statements

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition

(in thousands except share data)

	June 30, 2016 (unaudited)	December 31, 2015 (audited)
Assets		
Cash and due from banks	$ 65,711	$ 31,396
Available for sale securities	202,178	202,807
Held to maturity securities, fair value of $24,403 at June 30, 2016; $19,220 at December 31, 2015	23,862	19,025
Other investments	2,732	2,744
Federal Home Loan Bank Stock, at cost	1,642	1,637
Loans	326,425	337,557
Less: Allowance for loan losses	7,109	8,070
Loans, net	319,316	329,487
Bank premises and equipment, net of accumulated depreciation	22,281	22,446
Other real estate	8,737	9,916
Accrued interest receivable	1,663	1,832
Cash surrender value of life insurance	19,005	18,735
Other assets	1,332	979
Total assets	$ 668,459	$ 641,004

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Condition (continued)

(in thousands except share data)

	June 30, 2016 (unaudited)	December 31, 2015 (audited)
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$ 124,553	$ 122,743
Savings and demand, interest bearing	343,588	315,141
Time, $100,000 or more	40,858	35,389
Other time deposits	38,524	39,434
Total deposits	547,523	512,707
Borrowings from Federal Home Loan Bank	8,257	18,409
Employee and director benefit plans liabilities	16,465	16,283
Other liabilities	1,599	1,766
Total liabilities	573,844	549,165
Shareholders Equity:		
Common stock, $1 par value, 15,000,000 shares authorized, 5,123,186 shares issued and outstanding at June 30, 2016 and December 31, 2015	5,123	5,123
Surplus	65,780	65,780
Undivided profits	19,288	19,151
Accumulated other comprehensive income, net of tax	4,424	1,785
Total shareholders equity	94,615	91,839
Total liabilities and shareholders equity	$ 668,459	$ 641,004

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Operations

(in thousands except per share data)(unaudited)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Interest income:				
Interest and fees on loans	$ 3,568	$ 3,613	$ 7,265	$ 7,366
Interest and dividends on securities:				
U.S. Treasuries	250	163	457	274
U.S. Government agencies	218	500	567	1,059
Mortgage-backed securities	134	153	277	307
States and political subdivisions	316	354	621	725
Corporate bonds	8		16	
Other investments	2	3	10	7
Interest on balances due from depository institutions	54	22	117	35
Total interest income	4,550	4,808	9,330	9,773
Interest expense:				
Deposits	224	165	424	329
Borrowings from Federal Home Loan Bank	43	49	85	95
Total interest expense	267	214	509	424
Net interest income	4,283	4,594	8,821	9,349
Provision for allowance for loan losses	24	1,536	137	2,522
Net interest income after provision for allowance for loan losses	$ 4,259	$ 3,058	$ 8,684	$ 6,827

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Operations (continued)

(in thousands except per share data)(unaudited)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Non-interest income:				
Trust department income and fees	$ 367	$ 394	$ 763	$ 800
Service charges on deposit accounts	918	1,164	1,850	2,388
Gain on liquidation, sales and calls of securities	11		91	
Income (loss) from other investments	18	(13)	(13)	(71)
Increase in cash surrender value of life insurance	91	120	193	242
Other income	123	140	287	387
Total non-interest income	1,528	1,805	3,171	3,746
Non-interest expense:				
Salaries and employee benefits	2,755	2,936	5,529	5,975
Net occupancy	592	648	1,239	1,315
Equipment rentals, depreciation and maintenance	752	702	1,466	1,419
FDIC and state banking assessments	203	215	429	461
Data processing	332	333	672	692
ATM expense	167	482	275	825
Other real estate expense	123	291	474	742
Other expense	724	861	1,556	1,900
Total non-interest expense	5,648	6,468	11,640	13,329
Income (loss) before income taxes	139	(1,605)	215	(2,756)
Income tax expense	78		78	
Net income (loss)	$ 61	$ (1,605)	$ 137	$ (2,756)
Basic and diluted earnings (loss) per share	$ .01	$ (.32)	$ .02	$ (.54)
Dividends declared per share	$	$	$	$

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	**2015**	**2016**	**2015**
Net income (loss)	$ 61	$ (1,605)	$ 137	$ (2,756)
Other comprehensive income (loss):				
Net unrealized gain (loss) on available for sale securities	1,409	(2,473)	2,730	129
Reclassification adjustment for realized gain on available for sale securities called or sold	(11)		(91)	
Total other comprehensive income (loss)	1,398	(2,473)	2,639	129
Total comprehensive income (loss)	$ 1,459	$ (4,078)	$ 2,776	$ (2,627)

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statement of Changes in Shareholders Equity

(in thousands except share data)

	Number of Common Shares	Common Stock	Surplus	Undivided Profits	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2016	5,123,186	$ 5,123	$ 65,780	$ 19,151	$ 1,785	$ 91,839
Net income				137		137
Other comprehensive income					2,639	2,639
Balance, June 30, 2016	5,123,186	$ 5,123	$ 65,780	$ 19,288	$ 4,424	$ 94,615

Note: Balances as of January 1, 2016 were audited.

See notes to consolidated financial statements.

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows

(in thousands)(unaudited)

	Six Months Ended June 30, 2016	2015
Cash flows from operating activities:		
Net income (loss)	$ 137	$ (2,756)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	894	888
Provision for allowance for loan losses	137	2,522
Writedown of other real estate	420	411
(Gains) losses on sales of other real estate	(130)	55
Loss from other investments	13	71
Amortization of held to maturity securities	63	34
Amortization of available for sale securities	11	120
Gain on sales and calls of securities	(91)	
Change in accrued interest receivable	169	62
Increase in cash surrender value of life insurance	(193)	(242)
Change in other assets	(354)	291
Change in other liabilities	15	474
Net cash provided by operating activities	$ 1,091	$ 1,930

Peoples Financial Corporation and Subsidiaries

Consolidated Statements of Cash Flows (continued)

(in thousands) (unaudited)

	Six Months Ended June 30, 2016	2015
Cash flows from investing activities:		
Proceeds from maturities, sales and calls of available for sale securities	$ 103,198	$ 35,550
Proceeds from maturities of held to maturity securities	410	210
Purchases of available for sale securities	(99,850)	(35,258)
Purchases of held to maturity securities	(5,310)	
Redemption of Federal Home Loan Bank stock	(5)	246
Proceeds from sales of other real estate	1,743	1,755
Loans, net change	9,180	(7,970)
Acquisition of bank premises and equipment	(729)	(44)
Investment in cash surrender value of life insurance	(77)	(75)
Net cash provided by (used in) investing activities	8,560	(5,586)
Cash flows from financing activities:		
Demand and savings deposits, net change	30,257	21,254
Time deposits, net change	4,559	(629)
Borrowings from Federal Home Loan Bank	98,900	456,045
Repayments to Federal Home Loan Bank	(109,052)	(463,178)
Net cash provided by financing activities	24,664	13,492
Net increase in cash and cash equivalents	34,315	9,836
Cash and cash equivalents, beginning of period	31,396	23,556
Cash and cash equivalents, end of period	$ 65,711	$ 33,392

See notes to consolidated financial statements.

PEOPLES FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 2016 and 2015

1. Basis of Presentation:

Peoples Financial Corporation (the Company) is a one-bank holding company headquartered in Biloxi, Mississippi. It has two operating subsidiaries, PFC Service Corp., an inactive company, and The Peoples Bank, Biloxi, Mississippi (the Bank). The Bank provides a full range of banking, financial and trust services to state, county and local government entities and individuals and small and commercial businesses operating in those portions of Mississippi, Louisiana and Alabama which are within a fifty mile radius of the Waveland, Wiggins and Gautier branches, the Bank s three most outlying locations (the trade area).

The accompanying unaudited consolidated financial statements and notes thereto contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly, in accordance with accounting principles generally accepted in the United States of America (GAAP), the financial position of the Company and its subsidiaries as of June 30, 2016 and the results of their operations and their cash flows for the periods presented. The interim financial information should be read in conjunction with the annual consolidated financial statements and the notes thereto included in the Company s 2015 Annual Report and Form 10-K.

The results of operations for the quarter or six months ended June 30, 2016, are not necessarily indicative of the results to be expected for the full year.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan losses, the valuation of other real estate acquired in connection with foreclosure or in satisfaction of loans and valuation allowances associated with the realization of deferred tax assets, which are based on future taxable income.

Summary of Significant Accounting Policies - The accounting and reporting policies of the Company conform to GAAP and general practices within the banking industry. There have been no material changes or developments in the application of principles or in our evaluation of the accounting estimates and the underlying assumptions or methodologies that we believe to be Critical Accounting Policies as disclosed in our Form 10-K for the year ended December 31, 2015.

New Accounting Pronouncements In February 2016, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 82)*. ASU 2016-02 provides certain targeted improvements to align lessor accounting with the lessee accounting model. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after January 1, 2019. The adoption of this ASU is not expected to have a material effect on the Company s financial position, results of operations or cash flows.

In March 2016, FASB issued ASU 2016-03, *Intangibles Goodwill and Other (Topic 350); Business Combinations (Topic 805); Consolidation (Topic 810); Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance.* ASU 2016-03 amends the guidance in ASUs 2014-02, 2014-03, 2014-07 and 2014-18 to remove their effective dates and render them effective immediately. The adoption of this ASU is not expected to have a material effect on the Company s financial position, results of operations or cash flows.

In March 2016, FASB issued ASU 2016-07, *Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*. ASU 2016-07 eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations and retained earnings retroactively on a step by step basis. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after January 1, 2016. The adoption of this ASU is not expected to have a material effect on the Company s financial position, results of operations or cash flows.

In June 2016, FASB issued ASU 2016-13, *Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Adoption of ASU 2016-13 will require financial institutions and other organizations to use forward-looking information to better inform their credit loss estimates. In addition, the ASU amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration. This update will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is in the process of determining the effect of ASU 2016-13 on its financial position, results of operations and cash flows.

2. Earnings Per Share:

Per share data is based on the weighted average shares of common stock outstanding of 5,123,186 for the quarters and six months ended June 30, 2016 and 2015.

3. Statements of Cash Flows:

The Company has defined cash and cash equivalents as cash and due from banks. The Company paid $507,061 and $426,168 for the six months ended June 30, 2016 and 2015, respectively, for interest on deposits and borrowings. Income tax payments of $78,435 were made during the six months ended June 30, 2016. Loans transferred to other real estate amounted to $853,758 and $6,337,091 during the six months ended June 30, 2016 and 2015, respectively.

4. Investments:

The amortized cost and fair value of securities at June 30, 2016 and December 31, 2015, are as follows (in thousands):

June 30, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 112,774	$ 1,108	$	$ 113,882
U.S. Government agencies	37,955	485		38,440
Mortgage-backed securities	27,535	719		28,254
States and political subdivisions	20,293	851		21,144
Total debt securities	198,557	3,163		201,720
Equity securities	458			458
Total available for sale securities	$ 199,015	$ 3,163	$	$ 202,178
Held to maturity securities:				
States and political subdivisions	$ 22,371	$ 549	$ (2)	$ 22,918
Corporate bond	1,491		(6)	1,485
Total held to maturity securities	$ 23,862	$ 549	$ (8)	$ 24,403

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Debt securities:				
U.S. Treasuries	$ 63,845	$ 20	$ (111)	$ 63,754
U.S. Government agencies	84,849	176	(479)	84,546
Mortgage-backed securities	30,106	155	(131)	30,130
States and political subdivisions	22,833	894		23,727
Total debt securities	201,633	1,245	(721)	202,157
Equity securities	650			650
Total available for sale securities	$ 202,283	$ 1,245	$ (721)	$ 202,807
Held to maturity securities:				
States and political subdivisions	$ 17,507	$ 222	$ (16)	$ 17,713
Corporate bond	1,518		(11)	1,507
Total held to maturity securities	$ 19,025	$ 222	$ (27)	$ 19,220

The amortized cost and fair value of debt securities at June 30, 2016 (in thousands), by contractual maturity, are shown on the following page. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available for sale securities:		
Due in one year or less	$ 57,012	$ 57,116
Due after one year through five years	88,774	90,368
Due after five years through ten years	24,903	25,617
Due after ten years	333	365
Mortgage-backed securities	27,535	28,254
Totals	$ 198,557	$ 201,720
Held to maturity securities:		
Due in one year or less	$ 2,623	$ 2,617
Due after one year through five years	7,346	7,462
Due after five years through ten years	7,588	7,843
Due after ten years	6,305	6,481
Totals	$ 23,862	$ 24,403

Available for sale and held to maturity securities with gross unrealized losses at June 30, 2016 and December 31, 2015, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows (in thousands):

	Less Than Twelve Months		Over Twelve Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2016:						
States and political subdivisions	$ 904	$ 1	$ 594	$ 1	$ 1,498	$ 2
Corporate bond	1,485	6			1,485	6
TOTAL	$ 2,389	$ 7	$ 594	$ 1	$ 2,983	$ 8
December 31, 2015:						
U.S. Treasuries	$ 39,889	$ 111	$	$	$ 39,889	$ 111
U.S. Government agencies	14,894	87	12,581	392	27,475	479
Mortgage-backed securities	16,557	131			16,557	131
States and political subdivisions	2,225	8	1,362	8	3,587	16
Corporate bond	1,507	11			1,507	11
TOTAL	$ 75,072	$ 348	$ 13,943	$ 400	$ 89,015	$ 748

At June 30, 2016, 7 of the 143 securities issued by states and political subdivisions and the corporate bond contained unrealized losses.

Management evaluates securities for other-than-temporary impairment on a monthly basis. In performing this evaluation, the length of time and the extent to which the fair value has been less than cost, the fact that the Company s securities are primarily issued by U.S. Treasury and U.S. Government Agencies and the cause of the decline in value are considered. In addition, the Company does not intend to sell and it is not more likely than not that it will be required to sell these securities before maturity. While some available for sale securities have been sold for liquidity purposes or for gains, the Company has traditionally held its securities, including those classified as available for sale, until maturity. As a result of the evaluation of these securities, the Company has determined that the unrealized losses summarized in the tables above are not deemed to be other-than-temporary.

Proceeds from sales and calls of available for sale securities were $21,250,806 during the six months ended June 30, 2016. Available for sale debt securities were sold or called for a realized gain of $90,738 for the six months ended June 30, 2016. There were no sales or calls of available for sale debt securities for the six months ended June 30, 2015.

Securities with a fair value of $181,526,145 and $168,724,920 at June 30, 2016 and December 31, 2015, respectively, were pledged to secure public deposits, federal funds purchased and other balances required by law.

5. Loans:

The composition of the loan portfolio at June 30, 2016 and December 31, 2015, is as follows (in thousands):

	June 30, 2016	December 31, 2015
Gaming	$ 30,421	$ 31,655
Residential and land development	910	933
Real estate, construction	39,281	35,414
Real estate, mortgage	207,649	219,925
Commercial and industrial	41,045	42,480
Other	7,119	7,150
Total	$ 326,425	$ 337,557

The age analysis of the loan portfolio, segregated by class of loans, as of June 30, 2016 and December 31, 2015, is as follows (in thousands):

	Number of Days Past Due						Loans Past Due Greater Than 90 Days &
	30 - 59	60 - 89	Greater Than 90	Total Past Due	Current	Total Loans	Still Accruing
June 30, 2016:							
Gaming	$	$	$	$	$ 30,421	$ 30,421	$
Residential and land development			300	300	610	910	
Real estate, construction	516		1,095	1,611	37,670	39,281	
Real estate, mortgage	4,885	1,886	3,187	9,958	197,691	207,649	287
Commercial and industrial	580		16	596	40,449	41,045	
Other	6		76	82	7,037	7,119	
Total	$ 5,987	$ 1,886	$ 4,674	$ 12,547	$ 313,878	$ 326,425	$ 287
December 31, 2015:							
Gaming	$	$	$	$	$ 31,655	$ 31,655	$
Residential and land development			323	323	610	933	
Real estate, construction	851	448	1,346	2,645	32,769	35,414	
Real estate, mortgage	7,094	3,673	1,352	12,119	207,806	219,925	146
Commercial and industrial	1,206	31	237	1,474	41,006	42,480	
Other	67			67	7,083	7,150	
Total	$ 9,218	$ 4,152	$ 3,258	$ 16,628	$ 320,929	$ 337,557	$ 146

The Company monitors the credit quality of its loan portfolio through the use of a loan grading system. A score of 1 5 is assigned to the loan on factors including repayment ability, trends in net worth and/or financial condition of the borrower and guarantors, employment stability, management ability, loan to value fluctuations, the type and structure of the loan, conformity of the loan to bank policy and payment performance. Based on the total score, a loan grade of A, B, C, S, D, E or F is applied. A grade of A will generally be applied to loans for customers that are well known to the Company and that have excellent sources of repayment. A grade of B will generally be applied to loans for customers that have excellent sources of repayment which have no identifiable risk of collection. A grade of C will generally be applied to loans for customers that have adequate sources of repayment which have little identifiable risk of collection. A grade of S will generally be applied to loans for customers who meet the criteria for a grade of C but also warrant additional monitoring by placement on the watch list. A grade of D will generally be applied to loans for customers that are inadequately protected by current sound net worth, paying capacity of the borrower, or pledged collateral. Loans with a grade of D have unsatisfactory characteristics such as cash flow deficiencies, bankruptcy filing by the borrower or dependence on the sale of collateral for the primary source of repayment, causing more than acceptable levels of risk. Loans 60 to 89 days past due receive a grade of D. A grade of E will generally be applied to loans for customers with weaknesses inherent in the D classification and in which collection or liquidation in full is questionable. In addition, on a monthly basis the Company determines which loans are 90 days or more past due and assigns a grade of E to them. A grade of F is applied to loans which are considered uncollectible and of such little value that their continuance in an active bank is not warranted. Loans with this grade are charged off, even though partial or full recovery may be possible in the future.

An analysis of the loan portfolio by loan grade, segregated by class of loans, as of June 30, 2016 and December 31, 2015, is as follows (in thousands):

	Loans With A Grade Of:					
	A, B or C	S	D	E	F	Total
June 30, 2016:						
Gaming	$ 30,421	$	$	$	$	$ 30,421
Residential and land development	610			300		910
Real estate, construction	36,549		531	2,201		39,281
Real estate, mortgage	155,236	15,807	23,903	12,703		207,649
Commercial and industrial	24,002	15,000	1,447	596		41,045
Other	7,099	1	19			7,119
Total	$ 253,917	$ 30,808	$ 25,900	$ 15,800	$	$ 326,425
December 31, 2015:						
Gaming	$ 31,655	$	$	$	$	$ 31,655
Residential and land development	610			323		933
Real estate, construction	31,935		883	2,596		35,414
Real estate, mortgage	167,286	16,678	23,686	12,275		219,925
Commercial and industrial	24,466	15,007	2,368	639		42,480
Other	7,114	1	35			7,150
Total	$ 263,066	$ 31,686	$ 26,972	$ 15,833	$	$ 337,557

A loan may be impaired but not on nonaccrual status when the loan is well secured and in the process of collection. Total loans on nonaccrual as of June 30, 2016 and December 31, 2015, are as follows (in thousands):

	June 30, 2016	December 31, 2015
Residential and land development	$ 300	$ 323
Real estate, construction	2,201	2,523
Real estate, mortgage	11,706	11,759
Commercial and industrial	548	581
Total	$ 14,755	$ 15,186

The Company has modified certain loans by granting interest rate concessions to these customers. These loans are in compliance with their modified terms, are currently accruing and the Company has classified them as troubled debt restructurings. Troubled debt restructurings as of June 30, 2016 and December 31, 2015 were as follows (in thousands except for number of contracts):

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Related Allowance
June 30, 2016:				
Real estate, mortgage	3	$ 1,204	$ 1,204	$ 107
Total	3	$ 1,204	$ 1,204	$ 107
December 31, 2015:				
Real estate, mortgage	3	$ 1,232	$ 1,232	$ 107
Total	3	$ 1,232	$ 1,232	$ 107

Impaired loans, which include loans classified as nonaccrual and troubled debt restructurings, segregated by class of loans, as of June 30, 2016 and December 31, 2015, are as follows (in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2016:					
With no related allowance recorded:					
Real estate, construction	$ 2,521	$ 1,916	$	$ 1,820	$
Real estate, mortgage	10,291	9,337		9,312	14
Commercial and industrial	336	336		334	
Total	13,148	11,589		11,466	14
With a related allowance recorded:					
Residential and land development	300	300	109	312	
Real estate, construction	285	285	166	292	
Real estate, mortgage	3,573	3,573	1,127	2,859	15
Commercial and industrial	251	212	6	210	
Total	4,409	4,370	1,408	3,673	15
Total by class of loans:					
Residential and land development	300	300	109	312	
Real estate, construction	2,806	2,201	166	2,112	
Real estate, mortgage	13,864	12,910	1,127	12,171	29
Commercial and industrial	587	548	6	544	
Total	$ 17,557	$ 15,959	$ 1,408	$ 15,139	$ 29

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2015:					
With no related allowance recorded:					
Real estate, construction	$ 2,228	$ 1,842	$	$ 1,878	$
Real estate, mortgage	9,771	9,014		9,175	21
Commercial and industrial	619	581		653	
Total	12,618	11,437		11,706	21
With a related allowance recorded:					
Residential and land development	323	323	109	343	
Real estate, construction	814	681	252	780	
Real estate, mortgage	3,977	3,977	1,443	3,920	18
Total	5,114	4,981	1,804	5,043	18
Total by class of loans:					
Residential and land development	323	323	109	343	
Real estate, construction	3,042	2,523	252	2,658	
Real estate, mortgage	13,748	12,991	1,443	13,095	39
Commercial and industrial	619	581		653	
Total	$ 17,732	$ 16,418	$ 1,804	$ 16,749	$ 39

6. Allowance for Loan Losses:

Transactions in the allowance for loan losses for the quarters and six months ended June 30, 2016 and 2015, and the balances of loans, individually and collectively evaluated for impairment, as of June 30, 2016 and 2015, are as follows (in thousands):

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
For the Six Months Ended June 30, 2016:							
Allowance for Loan Losses:							
Beginning balance	$ 582	$ 189	$ 589	$ 5,382	$ 1,075	$ 253	$ 8,070
Charge-offs			(173)	(553)	(509)	(94)	(1,329)
Recoveries			38	99	60	34	231
Provision		13	(79)	48	92	63	137
Ending Balance	$ 582	$ 202	$ 375	$ 4,976	$ 718	$ 256	$ 7,109
For the Quarter Ended June 30, 2016:							
Allowance for Loan Losses:							
Beginning Balance	$ 567	$ 195	$ 452	$ 5,414	$ 686	$ 250	$ 7,564
Charge-offs			(84)	(538)		(44)	(666)
Recoveries			37	92	45	13	187
Provision	15	7	(30)	8	(13)	37	24
Ending Balance	$ 582	$ 202	$ 375	$ 4,976	$ 718	$ 256	$ 7,109
Allowance for Loan Losses, June 30, 2016:							
Ending balance: individually evaluated for impairment	$	$ 109	$ 243	$ 1,364	$ 147	$ 3	$ 1,866
Ending balance: collectively evaluated for impairment	$ 582	$ 93	$ 132	$ 3,612	$ 571	$ 253	$ 5,243
Total Loans, June 30, 2016:							
Ending balance: individually evaluated for impairment	$	$ 300	$ 2,732	$ 36,606	$ 2,043	$ 19	$ 41,700
Ending balance: collectively evaluated for impairment	$ 30,421	$ 610	$ 36,549	$ 171,043	$ 39,002	$ 7,100	$ 284,725

	Gaming	Residential and Land Development	Real Estate, Construction	Real Estate, Mortgage	Commercial and Industrial	Other	Total
For the Six Months Ended June 30, 2015:							
Allowance for Loan Losses:							
Beginning Balance	$ 573	$ 251	$ 860	$ 6,609	$ 587	$ 326	$ 9,206
Charge-offs		(1,504)	(409)	(219)	(24)	(97)	(2,253)
Recoveries				13	13	49	75
Provision	(3)	1,479	653	236	79	78	2,522
Ending Balance	$ 570	$ 226	$ 1,104	$ 6,639	$ 655	$ 356	$ 9,550
For the Quarter Ended June 30, 2015:							
Allowance for Loan Losses:							
Beginning Balance	$ 537	$ 1,068	$ 746	$ 6,667	$ 641	$ 326	$ 9,985
Charge-offs		(1,504)	(312)	(137)		(36)	(1,989)
Recoveries				7	3	8	18
Provision	33	662	670	102	11	58	1,536
Ending Balance	$ 570	$ 226	$ 1,104	$ 6,639	$ 655	$ 356	$ 9,550
Allowance for Loan Losses, June 30, 2015:							
Ending balance: individually evaluated for impairment	$	$ 127	$ 1,023	$ 2,913	$ 309	$ 4	$ 4,376
Ending balance: collectively evaluated for impairment	$ 570	$ 99	$ 81	$ 3,726	$ 346	$ 352	$ 5,174
Total Loans, June 30, 2015:							
Ending balance: individually evaluated for impairment	$	$ 3,117	$ 5,704	$ 39,340	$ 3,750	$ 20	$ 51,931
Ending balance: collectively evaluated for impairment	$ 30,102	$ 650	$ 31,507	$ 187,868	$ 45,841	$ 13,963	$ 309,931

7. Deposits:

Time deposits of $100,000 or more at June 30, 2016 and December 31, 2015 included brokered deposits of $5,000,000, which mature in 2017.

Time deposits of $250,000 or more totaled approximately $29,019,000 and $24,090,000 at June 30, 2016 and December 31, 2015, respectively.

8. Fair Value Measurements and Disclosures:

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available for sale securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record other assets at fair value on a non-recurring basis, such as impaired loans and ORE. These non-recurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets. Additionally, the Company is required to disclose, but not record, the fair value of other financial instruments.

Fair Value Hierarchy

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used to determine the fair value of financial assets and liabilities.

Cash and Due from Banks

The carrying amount shown as cash and due from banks approximates fair value.

Available for Sale Securities

The fair value of available for sale securities is based on quoted market prices. The Company s available for sale securities are reported at their estimated fair value, which is determined utilizing several sources. The primary source is Interactive Data Corporation, which utilizes pricing models that vary based on asset class and include available trade, bid and other market information and whose methodology includes broker quotes, proprietary models and vast descriptive databases. Another source for determining fair value is matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark securities. The Company s available for sale securities for which fair value is determined through the use of such pricing models and matrix pricing are classified as Level 2 assets. If the fair value of available for sale securities is generated through model-based techniques, including the discounting of estimated cash flows, such securities are classified as Level 3 assets.

Held to Maturity Securities

The fair value of held to maturity securities is based on quoted market prices.

Other Investments

The carrying amount shown as other investments approximates fair value.

Federal Home Loan Bank Stock

The carrying amount shown as Federal Home Loan Bank Stock approximates fair value.

Loans

The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings for the remaining maturities. The cash flows considered in computing the fair value of such loans are segmented into categories relating to the nature of the contract and collateral based on contractual principal maturities. Appropriate adjustments are made to reflect probable credit losses. Cash flows have not been adjusted for such factors as prepayment risk or the effect of the maturity of balloon notes. The fair value of floating rate loans is estimated to be its carrying value. At each reporting period, the Company determines which loans are impaired. Accordingly, the Company s impaired loans are reported at their estimated fair value on a non-recurring basis. An allowance for each impaired loan, which are generally collateral-dependent, is calculated based on the fair value of its collateral. The fair value of the collateral is based on appraisals performed by third-party valuation specialists. Factors including the assumptions and techniques utilized by the appraiser are considered by Management. If the recorded investment in the impaired loan exceeds the measure of fair value of the collateral, a valuation allowance is recorded as a component of the allowance for loan losses. Impaired loans are non-recurring Level 3 assets.

Other Real Estate

In the course of lending operations, Management may determine that it is necessary to foreclose on the related collateral. Other real estate acquired through foreclosure is carried at fair value, less estimated costs to sell. The fair value of the collateral is based on appraisals performed by third-party valuation specialists. Factors including the assumptions and techniques utilized by the appraiser are considered by Management. If the current appraisal is more than one year old and/or the loan balance is more than $200,000, a new appraisal is obtained. Otherwise, the Bank s in-house property evaluator and Management will determine the fair value of the collateral, based on comparable sales, market conditions, Management s plans for disposition and other estimates of fair value obtained from principally independent sources, adjusted for estimated selling costs. Other real estate is a non-recurring Level 3 asset.

Cash Surrender Value of Life Insurance

The carrying amount of cash surrender value of bank-owned life insurance approximates fair value.

Deposits

The fair value of non-interest bearing demand and interest bearing savings and demand deposits is the amount reported in the financial statements. The fair value of time deposits is estimated by discounting the cash flows using current rates of time deposits with similar remaining maturities. The cash flows considered in computing the fair value of such deposits are based on contractual maturities, since approximately 98% of time deposits provide for automatic renewal at current interest rates.

Borrowings from Federal Home Loan Bank

The fair value of Federal Home Loan Bank (FHLB) fixed rate borrowings is estimated using discounted cash flows based on current incremental borrowing rates for similar types of borrowing arrangements. The fair value of FHLB variable rate borrowings is estimated to be its carrying value.

The balances of available for sale securities, which are the only assets measured at fair value on a recurring basis, by level within the fair value hierarchy and by investment type, as of June 30, 2016 and December 31, 2015 are as follows (in thousands):

		Fair Value Measurements Using		
	Total	Level 1	Level 2	Level 3
June 30, 2016:				
U.S. Treasuries	$ 113,882	$	$ 113,882	$
U.S. Government agencies	38,440		38,440	
Mortgage-backed securities	28,254		28,254	
States and political subdivisions	21,144		21,107	37
Equity securities	458		458	
Total	$ 202,178	$	$ 202,141	$ 37
December 31, 2015:				
U.S. Treasuries	$ 63,754	$	$ 63,754	$
U.S. Government agencies	84,546		84,546	
Mortgage-backed securities	30,130		30,130	
States and political subdivisions	23,727		23,547	180
Equity securities	650		650	
Total	$ 202,807	$	$ 202,627	$ 180

		tyle="DISPLAY: block; MARGIN-LEFT: 0pt; TEXT-INDENT: 0pt; LINE-HEIGHT: 1.25; MARGIN-RIGHT: 0pt" align="right">774,464		*	Up to 467,852 shares of common stock	7,164,908 (2)	4.99%	0
86,505	0		86,505	86,505	0	0		

Alan Gelband Co. Defined Contribution Pension Plan & Trust (7)						
Armadillo Partners (8)	432,525	0	432,525	432,525	0	0
Thomas J. Axon (9)	432,525	0	432,525	432,525	0	0
Shekhar K. Basu and Sita Basu (10)	432,525	0	432,525	432,525	0	0
BIP Partners (11)	77,855	0	77,855	77,855	0	0
Marie Bono (12)	43,253	0	43,253	43,253	0	0
Mike Cassidy (13)	86,505	0	86,505	86,505	0	0
Peter L. Coker and Susan H. Coker (14)	86,505	0	86,505	86,505	0	0
Thomas Doyle (15)	43,253	0	43,253	43,253	0	0
Blair Eddins (16)	19,464	0	19,464	19,464	0	0
John A. Fahlberg (17)	86,505	0	86,505	86,505	0	0
Bruce A. Falbaum (18)	43,253	0	43,253	43,253	0	0
Anthony Falcone (19)	86,505	0	86,505	86,505	0	0
Richard Gillings (20)	216,263	0	216,263	216,263	0	0
Francesco Gozzo (21)	216,263	0	216,263	216,263	0	0
Steven T. Hague (22)	43,253	0	43,253	43,253	0	0
Roberta B. Hardy (23)	43,253	0	43,253	43,253	0	0
Frank L. Hoffecker (24)	198,421	0	198,421	198,421	0	0
HT Ardinger & Sons, Inc. (25)	216,263	0	216,263	216,263	0	0
Ira A. Hunt Jr. (26)	86,505	0	86,505	86,505	0	0
Horace Mann Johnson III (27)	64,879	0	64,879	64,879	0	0
David P. Kalm (28)	43,253	0	43,253	43,253	0	0
Steven W. Lefkowitz (29)	865,050	1.79%	865,050	865,050	1. 79%	0
	1,051,059	0	387,500	1,051,059	0	663,559

Jack Levine (30)						
Timothy McNamee (31)	216,263	0	216,263	216,263	0	0
Pottahils for AccuDx	206,667	0	206,667	206,667	0	0
Christina Recchia (32)	43,253	0	43,253	43,253	0	0
Peter Reichard (33)	43,253	0	43,253	43,253	0	0
Michael Rosenbaum (34)	216,263	0	216,263	216,263	0	0
David Ruggieri (35)	324,394	0	324,394	324,394	0	0
Peter Siraslian (36)	216,263	0	216,263	216,263	0	0
SilverDeer LLC (37)	43,253	0	43,253	43,253	0	0
Trahan & Assoc.	453,127	0	453,127	453,127	0	0
Carl B. Turner and Alison M. Turner (38)	43,253	0	43,253	43,253	0	0
John F. Turner and Emily F. Turner (39)	86,505	0	86,505	86,505	0	0
Donna Viemeister (40)	43,253	0	43,253	43,253	0	0

* Except as set forth below, we have been notified by the selling stockholders that they are not broker-dealers or affiliates of broker-dealers and that they believe they are not required to be broker-dealers.

** This column represents an estimated number based on a current conversion price of $.039, divided into the principal amount.

*** These columns represent the aggregate maximum number and percentage of shares that the selling stockholders can own at one time (and therefore, offer for resale at any one time) due to their 4.99% limitation.

**** Assumes that all securities registered will be sold.

The number and percentage of shares beneficially owned is determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, as amended, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rule, beneficial ownership includes any shares as to which the selling stockholders has sole or shared voting power or investment power and also any shares, which the selling stockholders has the right to acquire within 60 days. The actual number of shares of common stock issuable upon the conversion of the secured convertible notes is subject to adjustment depending on, among other factors, the future market price of the common stock, and could be materially less or more than the number estimated in the table.

(1) Some of the selling stockholders are affiliates of each other because they are under common control. AJW Partners, LLC is a private investment fund that is owned by its investors and managed by SMS Group, LLC. SMS Group, LLC, of which Mr. Corey S. Ribotsky is the fund manager, has voting and investment control over the shares listed below owned by AJW Partners, LLC. AJW Offshore, Ltd., formerly known as AJW/New Millennium Offshore, Ltd., is a private investment fund that is owned by its investors and managed by First Street Manager II, LLC. First Street Manager II, LLC, of which Corey S. Ribotsky is the fund manager, has voting and investment control over the shares owned by AJW Offshore, Ltd. AJW Qualified Partners, LLC, formerly known as Pegasus Capital Partners, LLC, is a private investment fund that is owned by its investors and managed by AJW Manager, LLC, of which Corey S. Ribotsky and Lloyd A. Groveman are the fund managers, have voting and investment control over the shares listed below owned by AJW Qualified Partners, LLC. New Millennium Capital Partners II, LLC, is a private investment fund that is owned by its investors and managed by First Street Manager II, LLC. First Street Manager II, LLC, of which Corey S. Ribotsky is the fund manager, has voting and investment control over the shares owned by New Millennium Capital Partners II, LLC.

(2) The actual number of shares of common stock offered in this prospectus, and included in the registration statement of which this prospectus is a part, includes such additional number of shares of common stock as may be issued or issuable upon conversion of the secured convertible notes, in accordance with Rule 416 under the Securities Act of 1933, as amended. However the selling stockholders have contractually agreed to restrict their ability to convert their secured convertible notes and receive shares of our common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion does not exceed 4.99% of the then issued and outstanding shares of common stock as determined in accordance with Section 13(d) of the Exchange Act. Accordingly, the number of shares of common stock set forth in the table for the selling stockholders exceeds the number of shares of common stock that the selling stockholders could own beneficially at any given time through their ownership of the secured convertible notes. In that regard, the beneficial ownership of the common stock by the selling stockholder set forth in the table is not determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended.

(3) Represents 40,326 units, at a price of $0.9175 per unit, which consist of (i) 201,634 shares of common stock and (ii) 40,326 warrants exercisable at $0.1835 per share purchased for cash in a private placement transaction with accredited investors in July 2004 in connection with the Merger and $766,472.67 in callable secured convertible notes, currently convertible at conversion price of $.031, and 3,853,846 warrants exercisable at $0.45 per share purchased in a Securities Purchase Agreement on June 14, 2005.

(4) AJW Partners, LLC is a private investment fund that is owned by its investors and managed by SMS Group, LLC. SMS Group, LLC, of which Corey S. Ribotsky is the fund manager, has voting and investment control over the shares listed below owned by AJW Partners, LLC. Represents 17,438 units, at a price of $0.9175 per unit, which consist of (i) 87,193 shares of common stock and (ii) 17,438 warrants exercisable at $0.1835 per share purchased for cash in a private placement transaction with accredited investors in July 2004 in connection with the Merger and $220,303.61 in callable secured convertible notes, currently convertible at conversion price of $.031, and 1,107,691 warrants exercisable at $0.45 per share purchased in a Securities Purchase Agreement on June 14, 2005.

(5) AJW Qualified Partners, LLC, formerly known as Pegasus Capital Partners, LLC, is a private investment fund that is owned by its investors and managed by AJW Manager, LLC, of which Corey S. Ribotsky and Lloyd A. Groveman are the fund managers, have voting and investment control over the shares listed below owned by AJW Qualified Partners, LLC. Represents 47,956 units, at a price of $0.9175 per unit, which consist of (i) 239,782 shares of common stock and (ii) 47,956 warrants exercisable at $0.1835 per share purchased for cash in a private placement transaction with accredited investors in July 2004 in connection with the Merger and $517,101.37 in callable secured convertible notes, currently convertible at conversion price of $.031, and 2,600,000 warrants exercisable at $0.45 per share purchased in a Securities Purchase Agreement on June 14, 2005.

(6) New Millennium Capital Partners II, LLC is a private investment fund that is owned by its investors and managed by First Street Manager II, LLC. First Street Manager II, LLC, of which Corey S. Ribotsky is the fund manager, has voting and investment control over the shares listed below owned by New Millennium Capital Partners II, LLC. Represents 3,269 units, at a price of $0.9175 per unit, which consist of (i) 16,348 shares of common stock and (ii) 3,269 warrants exercisable at $0.1835 per share purchased for cash in a private placement transaction with accredited investors in July 2004 in connection with the Merger and $25,809.33 in callable secured convertible notes, currently convertible at conversion price of $.031, and 130,769 warrants exercisable at $0.45 per share purchased in a Securities Purchase Agreement on June 14, 2005.

(7) Alan Gelband has voting and dispositive rights over the shares held by Alan Gelband Co. Defined Contribution and Pension Plan & Trust. Represents 86,505 shares issued in connection with the settlement of a lawsuit in June 2006.

(8) Michael Weprin has the voting and dispositive rights over the shares held by Armadillo Partners. Represents 432,525 shares issued in connection with the settlement of a lawsuit in June 2006.

(9) Represents 432,525 shares issued in connection with the settlement of a lawsuit in June 2006.

(10) Represents 432,525 shares issued in connection with the settlement of a lawsuit in June 2006.

(11) Bobby Stanley, Ike Lewis and Peter Coker hold the voting and dispositive rights over the shares held by BIP Partners. Represents 77,855 shares issued in connection with the settlement of a lawsuit in June 2006.

(12) Represents 43,253 shares issued in connection with the settlement of a lawsuit in June 2006.

(13) Represents 86,505 shares issued in connection with the settlement of a lawsuit in June 2006.

(14) Represents 86,505 shares issued in connection with the settlement of a lawsuit in June 2006.

(15) Represents 43,253 shares issued in connection with the settlement of a lawsuit in June 2006.

(16) Represents 4,904 units, at a price of $0.9175 per unit, which consist of (i) 24,523 shares of common stock and (ii) 4,904 warrants exercisable at $0.1835 per share purchased for cash in a private placement transaction with accredited investors in July 2004 in connection with the Merger. Also includes 19,464 shares issued in connection with the settlement of a lawsuit in June 2006.

(17) Represents 86,505 shares issued in connection with the settlement of a lawsuit in June 2006.

(18) Represents 43,253 shares issued in connection with the settlement of a lawsuit in June 2006.

(19) Represents 86,505 shares issued in connection with the settlement of a lawsuit in June 2006.

(20) Represents 216,263 shares issued in connection with the settlement of a lawsuit in June 2006.

(21) Represents 216,263 shares issued in connection with the settlement of a lawsuit in June 2006.

(22) Represents 43,253 shares issued in connection with the settlement of a lawsuit in June 2006.

(23) Represents 43,253 shares issued in connection with the settlement of a lawsuit in June 2006.

(24) Represents 198,421 shares issued in connection with the settlement of a lawsuit in June 2006.

(25) Horace Ardinger holds the voting and dispositive rights over the shares held by HT Ardinger & Sons, Inc. Represents 216,263 shares issued in connection with the settlement of a lawsuit in June 2006.

(26) Represents 86,505 shares issued in connection with the settlement of a lawsuit in June 2006.

(27) Represents 64,879 shares issued in connection with the settlement of a lawsuit in June 2006.

(28) Represents 43,253 shares issued in connection with the settlement of a lawsuit in June 2006.

(29) Represents 865,050 shares issued in connection with the settlement of a lawsuit in June 2006.

(30) Jack Levine has served as a director of Grant Life Sciences and chairman of our Audit Committee since August 2004. Represents (i) 490,463 shares of common stock and (ii) 98,092 warrants exercisable at $0.1835 per share purchased for cash in a private placement in July 2004.

(31) Represents 216,263 shares issued in connection with the settlement of a lawsuit in June 2006.

(32) Represents 43,253 shares issued in connection with the settlement of a lawsuit in June 2006.

(33) Represents 43,253 shares issued in connection with the settlement of a lawsuit in June 2006.

(34) Represents 216,263 shares issued in connection with the settlement of a lawsuit in June 2006.

(35) Represents 324,394 shares issued in connection with the settlement of a lawsuit in June 2006.

(36) Represents 216,263 shares issued in connection with the settlement of a lawsuit in June 2006.

(37) Howard Jacobson holds the voting and dispositive rights over the shares held by SilverDeer LLC. Represents 43,253 shares issued in connection with the settlement of a lawsuit in June 2006.

(38) Represents 43,253 shares issued in connection with the settlement of a lawsuit in June 2006.

(39) Represents 86,505 shares issued in connection with the settlement of a lawsuit in June 2006.

(40) Represents 43,253 shares issued in connection with the settlement of a lawsuit in June 2006.

PLAN OF DISTRIBUTION

The common stock offered by this prospectus is being offered by the selling stockholders. The common stock may be sold or distributed from time to time by the selling stockholders directly to one or more purchasers or through brokers, dealers or underwriters who may act solely as agents at market prices prevailing at the time of sale, at prices related to the prevailing market prices, at negotiated prices, or at fixed prices, which may be changed. The sale of the common stock offered by this prospectus may be effected in one or more of the following methods:

- ordinary brokers' transactions,
- through brokers, dealers, or underwriters who may act solely as agents,
- "at the market" into an existing market for the common stock,
- in other ways not involving market makers or established trading markets, including direct sales to purchasers or sales effected through agents,
- in privately negotiated transactions, and
- any combination of the foregoing.

In order to comply with the securities laws of certain states, if applicable, the shares may be sold only through registered or licensed brokers or dealers. In addition, in certain states, the shares may not be sold unless they have been registered or qualified for sale in the state or an exemption from the registration or qualification requirement is available and complied with.

The selling stockholders may pledge their shares to their brokers under the margin provisions of customer agreements. If a selling stockholder defaults on a margin loan, the broker may, from time to time, offer and sell the pledged shares. Broker-dealers engaged by a selling stockholder may arrange for other broker-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated.

The selling stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, as amended, in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act of 1933, as amended.

We will pay all of the expenses incident to the registration, offering, and sale of the shares to the public other than commissions or discounts of underwriters, broker-dealers, or agents. We have also agreed to indemnify the selling stockholders and related persons against specified liabilities, including liabilities under the Securities Act.

While they are engaged in a distribution of the shares included in this prospectus the selling stockholders are required to comply with Regulation M promulgated under the Securities Exchange Act of 1934, as amended. With certain exceptions, Regulation M precludes the selling stockholders, any affiliated purchasers, and any broker-dealer or other person who participates in the distribution, from bidding for or purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of the distribution until the entire distribution is complete. Regulation M also prohibits any bids or purchases made in order to stabilize the price of a security in connection with the distribution of that security. All of the foregoing may affect the marketability of the shares offered by this prospectus.

The selling stockholders may also sell shares under Rule 144 promulgated under the Securities Act of 1933, as amended, rather than selling under this prospectus. This offering will terminate on the date that all shares offered by this prospectus have been sold by the selling stockholders or are eligible for sale under Rule 144(k). In general, under Rule 144 as currently in effect, a person (or persons whose shares are required to be aggregated) who has owned shares for at least one year would be entitled to sell within any three-month period a number of shares that does not exceed the greater of (i) 1% of the number of shares of our common stock then outstanding (which, after our increase in authorized capital is effective, will equal approximately 583,891 shares of common stock) or (ii) the average weekly trading volume of our shares of common stock during the four calendar weeks preceding the filing of a Form 144 with respect to such sale. Under Rule 144(k), a person who is not deemed to have been our affiliate at any time during the three months preceding a sale, and who has owned the shares proposed to be sold for at least two years, is entitled to sell his shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

DESCRIPTION OF SECURITIES

Our authorized capital stock currently consists of 750,000,000 shares of common stock and 20,000,000 shares of preferred stock. Each share of common stock is entitled to one vote on all matters voted upon by our stockholders. Holders of our common stock have no preemptive or other rights to subscribe for additional shares or other securities. There are no cumulative voting rights.

Holders of our common stock are entitled to dividends in such amounts as may be declared by our board of directors from time to time from funds legally available therefore. We have not declared or paid cash dividends or made distributions in the past on our common stock, and we do not anticipate that we will pay cash dividends or make distributions in the foreseeable future. We currently intend to retain and invest future earnings to finance operations.

Our Amended and Restated Articles of Incorporation allow our Board of Directors the authorization, without further stockholder approval, to issue up to 20,000,000 shares of preferred stock from time to time in one or more series and to fix the number of shares and the relative dividend rights, conversion rights, voting rights and other rights and qualifications of any such series. The Board has not fixed any series of preferred stock and no shares of preferred stock are issued and outstanding.

LEGAL MATTERS

Sichenzia Ross Friedman Ference LLP, New York, New York will issue an opinion with respect to the validity of the shares of common stock being offered hereby.

EXPERTS

Our audited financial statements for the fiscal years ended December 31, 2005 and 2004 have been audited by Singer, Lewak, Greenbaum and Goldstein, LLP, and Russell Bedford Stefanou Mirchandani LLP, independent public accountants, respectively. The reports of these registered public accounting firms, which appear elsewhere herein, include an explanatory paragraph as to our ability to continue as a going concern. Our financial statements are included in reliance upon such reports and upon the authority of such firms as experts in auditing and accounting.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On January 24, 2005, the Audit Committee of Grant Life Sciences, Inc. (the “Company”) engaged Russell Bedford Stefanou Mirchandani LLP (“RBSM”) as our independent registered public accounting firm to audit its financial statements for the year ending December 31, 2004. Prior to engaging RBSM, neither the Company, nor anyone on our behalf, consulted with RBSM regarding the application of accounting principles to a specific completed or contemplated transaction, or the type of audit opinion that might be rendered on the Company’s consolidated financial statements, or any other matters.

On January 24, 2006, Grant Life Sciences, Inc. dismissed Russell Bedford Stefanou Mirchandani LLP as its principal independent accountant. Effective January 24, 2006, we engaged Singer, Lewak, Greenbaum & Goldstein LLP as our new principal independent accountant. Our board of directors has approved the dismissal of Russell Bedford Stefanou Mirchandani LLP and the appointment of Singer, Lewak, Greenbaum & Goldstein LLP as our new principal independent accountants.

From the date of Russell Bedford Stefanou Mirchandani LLP's appointment through the date of their dismissal on January 24, 2006, there were no disagreements between our company and Russell Bedford Stefanou Mirchandani LLP on any matter listed under Item 304 Section (a)(1)(iv) A to E of Regulation S-B, including accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of

Russell Bedford Stefanou Mirchandani LLP would have caused Russell Bedford Stefanou Mirchandani LLP to make reference to the matter in its reports on our financial statements.. The report on the financial statements prepared by Russell Bedford Stefanou Mirchandani LLP for the fiscal period ending December 31, 2004 contained a paragraph with respect to our ability to continue as a going concern.

Prior to engaging Singer, Lewak, Greenbaum & Goldstein LLP, we did not consult Singer, Lewak, Greenbaum & Goldstein LLP regarding either:

1. the application of accounting principles to any specified transaction, either completed or proposed, or the type of audit opinion that might be rendered our financial statements, and neither a written report was provided to our company nor oral advice was provided that PricewaterhouseCoopers concluded was an important factor considered by our company in reaching a decision as to the accounting, auditing or financial reporting issue; or
2. any matter that was either subject of disagreement or event, as defined in Item 304(a)(1)(iv)(A) of Regulation S-B and the related instruction to Item 304 of Regulation S-B, or a reportable event, as that term is explained in Item 304(a)(1)(iv)(A) of Regulation S-B.

Prior to engaging Singer, Lewak, Greenbaum & Goldstein LLP, Singer, Lewak, Greenbaum & Goldstein LLP has not provided our company with either written or oral advice that was an important factor considered by our company in reaching a decision to change our company's new principal independent accountant from Russell Bedford Stefanou Mirchandani LLP to Singer Lewak Greenbaum & Goldstein LLP.

FURTHER INFORMATION

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, and file reports, proxy statements and other information with the Securities and Exchange Commission. These reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Securities and Exchange Commission’s regional offices. You can obtain copies of these materials from the Public Reference Section of the Securities an Exchange Commission upon payment of fees prescribed by the Securities and Exchange Commission. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission’s Web site contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. The address of that site is http://www.sec.gov.

INDEX TO FINANCIAL STATEMENTS

GRANT LIFE SCIENCES, INC.
(A development stage company)

SINGER LEWAK GREENBAUM & GOLDSTEIN LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Grant Life Sciences, Inc.
Los Angeles, California

We have audited the consolidated balance sheet of Grant Life Sciences, Inc. and subsidiary (a development stage company) as of December 31, 2005 and the related consolidated statements of losses, deficiency in stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Grant Life Sciences, Inc. and subsidiary (a development stage company) as of December 31, 2005, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note B to the consolidated financial statements, the Company is in the development stage and has not established a significant source of revenues. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note B. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ SINGER LEWAK GREENBAUM &
GOLDSTEIN LLP.

Singer Lewak Greenbaum & Goldstein LLP.
Los Angeles, California
February 28, 2006

F-1

RUSSELL BEDFORD STEFANOU MIRCHANDANI LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

Board of Directors
Grant Life Sciences, Inc.
Los Angeles

We have audited the accompanying consolidated balance sheet of Grant Life Sciences, Inc., (a development stage company) as of December 31, 2004 and the related consolidated statements of losses, deficiency in stockholders equity, and cash flows for the year ended December 31, 2004. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on the financial statements based upon our audit.

We have conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Grant Life Sciences, Inc. (a development stage company) at December 31, 2004 and the results of its operations and its cash flows for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the company will continue as a going concern. As discussed in the Note B to the accompanying financial statements, the company is in the development stage and has not established a source of revenues. This raises substantial doubt about the company's ability to continue as a going concern. Management's plan in regard to these matters is also described in Note B. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ RUSSELL BEDFORD STEFANOU MIRCHANDANI LLP
Russell Bedford Stefanou Mirchandani LLP

Certified Public Accountants

New York, New York
March 18, 2005

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

	December 31, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 800,472	$ 365,958
Accounts receivable	72,675	-
Miscellaneous receivables	-	3,000
Prepaid expenses	69,125	5,213
Due from employees (Note E)	-	334
Deposits & other assets	45,209	3,263
Total current assets	987,481	377,768
Property and equipment, net of accumulated depreciation of $5,857 and $8,186 at December 31, 2004 and 2003, respectively (Note D)	14,321	15,240
Deferred financing fees, net of accumulated amortization of $13,542 and $0, at December 31, 2005 and December 31, 2004, respectively	61,458	-
Total assets	$ 1,063,260	$ 393,008
LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 124,847	$ 95,841
Accrued liabilities	130,555	37,000
Accrued interest payable	106,637	7,005
Accrued payroll liabilities	94,680	13,159
Notes payable, current portion (Note F)	21,875	122,500
Total current liabilities	478,594	275,505
Long-term liabilities:		
Notes payable - long term (Note F)	350,000	350,000
Convertible notes payable (Note F)	240,491	-
Derivative liability related to convertible notes	2,606,377	-
Warrant liability related to convertible notes	161,472	-
Total Liabilities	3,836,934	625,505
Commitments and contingencies (Note J)	-	- -
Deficiency in stockholders' equity:		
Preferred stock, par value: $.001, authorized 20,000,000 shares; no shares issued and outstanding at December 31, 2004 and 2003 (Note G)	-	-
Common stock, par value; $.001, authorized 150,000,000 shares at December 31, 2005 and 2004, 126,486,518 and 56,243,791 shares issued and outstanding at December 31, 2005 and 2004, respectively (Note G)	126,487	56,244
Additional paid in capital	5,400,819	4,190,485
Deferred compensation	(285,308)	(1,097,886)
Deficit accumulated during development stage	(8,015,672)	(3,381,340)

Total deficiency in stockholders' equity:		(2,773,674)		(232,496)
Total liabilities and deficiency in stockholders' equity:	$	1,063,260	$	393,008

The accompanying notes to consolidated financial statements

GRANT LIFE SCIENCES, INC.
(A development stage company)
CONSOLIDATED STATEMENT OF LOSSES

	For the Year Ended December 31, 2005	For the Year Ended December 31, 2004	For the Period July 9, 1998 (date of inception) through December 31, 2005
Sales	$ 72,675	-	$ 72,675
Cost of Sales	62,805	-	62,805
Gross Margin	9,870	-	9,870
Operating Expenses:			
General and administrative	2,385,740	$ 1,542,388	4,724,728
Depreciation (Note D)	6,662	4,555	19,403
Acquisition cost (Note C)	-	65,812	65,812
Research and development	502,325	450,540	1,468,505
Total Operating Expenses	2,894,727	2,063,295	6,278,448
Loss from Operations	(2,884,857)	(2,063,295)	(6,266,578)
Other income (expenses):			
Gain on extinguishment of debt (Note F)	-	411,597	510,104
Change in fair value related to adjustment of derivative and warrant liability to fair value of underlying securities	(887,117)		(887,117)
Interest expense	(862,257)	(258,652)	(1,369,979)
Loss before income taxes	(4,634,231)	(1,910,350)	(8,015,570)
Income tax benefit (expense)	(100)	-	(100)
Net loss	$ (4,634,331)	$ (1,910,350)	$ (8,015,670)
Net loss per common share - basic and diluted (Note G)	$ (0.07)	$ (0.04)	n/a
Weighted average shares - basic and diluted	67,803,070	42,751,142	n/a

See accompanying notes to consolidated financial statements

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

	Common Shares	Common Shares Amount	Subscription Receivable	Deferred Compensation	Additional Paid In Capital	Accumulated Deficit	Total (Deficiency) In Stockholders Equity
Balance, July 9, 1998 (date of inception)	9,272,200	$ 9,272	$ -	$ -	$ (9,272)	$ -	$ -
Issued stock for subscription receivable at $0.005 per share	18,795,000	18,795	(100,000)	-	81,205	-	-
Balance, December 31, 1998	28,067,200	28,067	(100,000)	-	71,933	-	-
Issued stock for cash at $0.004 per share	1,253,000	1,253	-	-	3,747	-	5,000
Net loss	-	-	-	-	-	(5,053)	(5,053)
Balance, December 31, 1999	29,320,200	29,320	(100,000)	-	75,680	(5,053)	(53)
Payment of subscriptions receivable	-	-	100,000	-	-	-	100,000
Net loss	-	-	-	-	-	(43,641)	(43,641)
Balance, December 31, 2000	29,320,200	29,320	-	-	75,680	(48,694)	56,306
Issued stock for cash at $0.004 per share	250,600	251	-	-	749	-	1,000
Net loss	-	-	-	-	-	(522,213)	(522,213)
Balance, December 31, 2001	29,570,800	29,571	-	-	76,429	(570,907)	(464,907)
Beneficial conversion feature on issuance of debt	-	-	-	-	98,507	-	98,507
Gain on extinguishment of debt	-	-	-	-	(98,507)	-	(98,507)
Issued stock for cash at $0.13 per share	689,150	689	-	-	91,811	-	92,500
Issued stock for services at $0.06 per share	1,591,310	1,591	-	-	101,659	-	103,250
Issued stock in satisfaction of debt at $0.14 per share	1,790,000	1,790	-	-	248,210	-	250,000
Net loss	-	-	-	-	-	(646,201)	(646,201)
Balance, December 31, 2002	33,641,260	33,641	-	-	518,109	(1,217,108)	(665,358)
Issued stock for cash at $0.13 per share	930,800	931	-	-	119,069	-	120,000
Net loss	-	-	-	-	-	(253,881)	(253,881)
	34,572,060	34,572	-	-	637,178	(1,470,989)	(799,239)

Balance, December 31, 2003							
Issued stock for cash at $0.0838 per share	238,660	239	-	-	19,761	-	20,000
Issued stock for services at $0.08 per share	500,000	500	-	-	39,500	-	40,000
Issued stock for cash at $0.1835 per share	9,560,596	9,561	-	-	1,485,376	-	1,494,937
Reverse merger with Grant Ventures, Inc.	6,000,000	6,000	-	-	-	-	6,000

F-5

Warrants issued as part of restructuring of debt (89,500 valued at $0.03779)	-	-	-	-	3,382	-	3,382
Recognition of beneficial conversion feature on issuance of note payable	-	-	-	-	200,000	-	200,000
Conversion of note payable and accrued interest at $0.07569 per share	2,720,000	2,720	-	-	203,165	-	205,885
Issued stock in satisfaction of debt at $0.1835 per share	249,475	249	-	-	45,530	-	45,779
Exercise of $0.01 warrants	2,403,000	2,403	-	-	21,627	-	24,030
Issued 250,000 warrants for services	-	-	-	-	11,000	-	11,000
Stock options issued to employees, directors, consultants	-	-	-	(1,523,966)	1,523,966	-	-
Vesting of deferred compensation	-	-	-	426,081	-	-	426,081
Net loss	-	-	-	-	-	(1,910,350)	(1,910,350)
Balance, December 31, 2004	56,243,791	56,244	-	(1,097,886)	4,190,485	(3,381,340)	(232,496)
Conversion of notes payable and accrued interest at $0.092178 per share on 3/31/05	1,395,322	1,395	-	-	127,225	-	128,620
Stock options issued to new director on 2/21/05	-	-	-	(26,725)	26,725	-	-
Value of 250,000warrants issued as part of bridge loan on 3/15/05	-	-	-	-	65,540	-	65,540
Shares issued 4/28/05 for services at $0.40	500,000	500	-	-	199,500		200,000
Stock options granted to employee 4/1/05	-	-	-	(327,197)	327,197	-	-
Stock options exercised 6/2/05	50,000	50	-	-	8,950	-	9,000
Shares issued 9/28 for legal services at $0.22	200,000	200	-	-	43,800		44,000
Partial conversion of Senior note payable at $0.0105 per share on 9/8	2,800,000	2,800	-	-	26,600	-	29,400
Partial conversion of Senior note payable at $0.0068 per share on 9/23	2,980,000	2,980	-	-	17,284	-	20,264
Partial conversion of Senior note payable at $0.00423 per share on 9/28	2,980,000	2,980	-	-	9,625	-	12,605
Stock options issued to interim CEO 9/28	-	-	-	(3,762)	3,762	-	-
Partial conversion of Senior note payable at $0.00423 per share on 10/3/05	2,980,000	2,980	-	-	9,625	-	12,605
shares issued on exercise of warrant CAMFO II	250,000	250	-	-	2,500	-	2,750
Partial conversion of Senior note payable at $0.00423/share per	2,400,000	2,400	-	-	7,752	-	10,152

share on 10/6/05							
Partial conversion of Senior note payable at $0.00423 per share on 10/7/05	500,000	500	-	-	1,615	-	2,115
Partial conversion of Senior note payable at $0.00423 per share on 10/12/05	2,980,000	2,980	-	-	9,625	-	12,605
Partial conversion of Senior note payable at $0.00423 per share on 10/17/05	2,980,000	2,980	-	-	9,625	-	12,605

Partial conversion of Senior note payable at $0.00776 per share on 10/21/05	3,570,000	3,570	-	-	24,205	-	27,775
Partial conversion of Senior note payable at $0.00776 per share on 10/26/05	3,570,000	3,570	-	-	23,562	-	27,132
Partial conversion of Senior note payable at $0.00776 per share on 11/3/05	3,570,000	3,570	-	-	23,562	-	27,132
Partial conversion of Senior note payable at $0.0057 per share on 11/8/05	4,230,000	4,230	-	-	19,881	-	24,111
Partial conversion of Senior note payable at $0.0057 per share on 11/11/05	4,230,000	4,230	-	-	19,881	-	24,111
Partial conversion of Senior note payable at $0.0059 per share on 11/15/05	4,230,000	4,230	-	-	20,727	-	24,957
Partial conversion of Senior note payable at $0.0063 per share on 11/18/05	4,230,000	4,230	-	-	22,419	-	26,649
Partial conversion of Senior note payable at $0.0080 per share on 11/23/05	4,230,000	4,230	-	-	29,610	-	33,840
Partial conversion of Senior note payable at $0.01016 per share on 11/30/05	4,230,000	4,230	-	-	38,747	-	42,977
Partial conversion of Senior note payable at $0.0093 per share on 12/6/05	4,230,000	4,230	-	-	35,096	-	39,326
Partial conversion of Senior note payable at $0.00908 per share on 12/9/05	5,650,000	5,650	-	-	45,652	-	51,302
Partial conversion of Senior note payable at $0.00856 per share on 12/16/05	1,010,405	1,010	-	-	7,639	-	8,649
Shares issued at $0.09 on exercise of warrant	267,000	267	-	-	2,403	-	2,670
Vesting of deferred compensation	-	-	-	976,987	-	-	976,987
Cancellation of stock options	-	-	-	193,275			193,275
Net loss for the year	-	-	-	-	-	(4,634,331)	(4,,634,331)
Balance, December 31, 2005	126,486,518	$ 126,487	$ -	$ (285,308)	$ 5,400,819	$ (8,015,670)	$ (2,773,674)

See accompanying notes to consolidated financial statements

F-7

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

	For the Year Ended December 31, 2005	2004	For the Period July 9, 1998 (date of inception) through December 31, 2005
Cash flows from operating activities:			
Net (loss)	$ (4,634,331)	$ (1,910,350)	$ (8,015,671)
Adjustments to reconcile net (loss) to cash (used in) operations:			
Depreciation (Note D)	6,662	4,555	19,403
Amortization	26,667	-	26,667
Change in fair value related to adjustment of derivative and warrant liability to fair value of underlying securities	887,117	-	887,117
Loss on abandonment of assets (Note D)	-	3,790	3,790
Deferred compensation (Note J)	976,986	426,081	1,403,067
Common stock issued in exchange for services rendered (Note G)	244,000	40,000	388,250
Cancellation of stock options	193,275	-	193,275
Interest on convertible notes payable	591,534	-	591,534
Warrants issued in connection with bridge loan	65,540	-	65,540
Warrants issued in exchange for services rendered (Note I)	-	11,000	11,000
Beneficial conversion feature discount (Note F)	-	200,000	298,507
Gain on extinguishment of debt (Note F)	-	(411,597)	(510,104)
Write off of accounts payable due to stockholders	(1,230)	(878)	(2,108)
Acquisition cost (Note C)	-	65,812	65,812
Decrease (increase) in:			
Accounts receivable	(69,675)	(3,000)	(72,675) -
Related party receivables	-	14,050	-
Employee receivables	334	33,009	-
Prepaid expense	(63,912)	(5,213)	(69,124)
Deposits & other	(55,070)	(2,563)	(56,335)
(Decrease) increase in:			
Accounts payable	29,007	59,882	122,320
Notes payable	21,875	-	21,875
Accounts payable - assumed liabilities	-	(17,506)	(17,506)
Accounts payable - stockholders	-	(38,900)	(38,900)
Accrued expenses	93,556	36,900	128,556
Accrued payroll liabilities	81,521	(38,035)	94,680
Accrued interest payable	106,981	48,030	297,098
Net cash (used in) operating activities	(1,499,163)	(1,484,933)	(4,163,932)
Cash flows from investing activities:			

Payments for property and equipment	(5,743)	(16,873)	(37,515)
Net cash used in investing activities	(5,743)	(16,873)	(37,515)
Cash flows from financing activities:			
Proceeds from sale of common stock, net of costs and fees (Note G)	14,420	1,538,967	1,770,887
Net proceeds from notes payable (Note F)	1,925,000	322,500	3,105,253
Proceeds from related party notes payable	-	-	60,000
Payments for related party notes payable	-	(5,000)	(34,221)
Proceeds from stock subscriptions receivable	-	-	100,000
Net cash provided by financing activities	1,939,420	1,856,467	5,001,919
Net increase (decrease) in cash and cash equivalents	434,514	354,659	800,472
Cash and cash equivalents at beginning of the period	365,958	11,299	-
Cash and cash equivalents at end of the period	$ 800,472	$ 365,958	$ 800,472

See accompanying notes to consolidated financial statements

Supplemental cash flow information for the years ended December 31, 2005 and 2004 and July 9, 1998 (date of inception) through December 31, 2005 is as follows:

	2005	2004	July 9, 1998 (date of inception) through December 31, 2005
Cash paid for interest	$ 48,114	$ 10,622	$ 60,711
Cash paid for income taxes	-	-	0
Non Cash Investing and Financing Transactions:			
Loss on abandonment of assets	-	3,790	3,790
Deferred compensation	976,987	426,081	426,081
Common stock issued in exchange for services rendered(G)	244,000	40,000	144,250
Warrants issued in exchange for services rendered(1)	-	11,000	11,000
Gain on extinguishment of debt	-	(411,597)	(510,104)
Write off of accounts payable due to stockholders	(1,230)	(878)	(2,108)
Merger with Impact:			
Common stock retained	-	6,000	6,000
Liabilities assumed in excess of assets acquired	-	59,812	59,812
Acquisition cost recognized	-	65,812	65,812

(1)During the year ended December 31, 2004, the Company issued 500,000 shares of stock and one 5-year warrant to purchase 250,000 shares of stock for services provided by consultants prior to the merger.

GRANT LIFE SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE A - SUMMARY OF ACCOUNTING POLICIES

Business and Basis or Presentation

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

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

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

Development Stage Company

Effective July 9, 1998 (date of inception), the Company is considered a development stage Company as defined in SFAS No. 7. The Company's development stage activities consist of the development of medical diagnostic kits. Sources of financing for these development stage activities have been primarily debt and equity financing. The Company has, at the present time, not paid any dividends and any dividends that may be paid in the future will depend upon the financial requirements of the Company and other relevant factors.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments and related items, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents. The Company places its cash and temporary cash investments with credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit.

Property and Equipment

Furniture and equipment is stated at cost less accumulated depreciation. Depreciation is computed using a straight-line basis based on the estimated useful lives of the assets. Equipment is depreciated over 3 to 5 years and furniture over 7 years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed and any resulting gain or loss is recognized.

Long-Lived Assets

The Company has adopted Statement of Financial Accounting Standards No. 144 (“SFAS No. 144”). The Statement requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undiscounted cash flows. Should impairment in value be indicated, the carrying value of intangible assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. SFAS No. 144 also requires assets to be disposed of, be reported at the lower of the carrying amount or the fair value less costs to sell.

GRANT LIFE SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments," requires disclosure of the fair value of certain financial instruments. The carrying value of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings, as reflected in the balance sheets, approximate fair value because of the short-term maturity of these instruments.

Revenue Recognition

Revenues are recognized in the period that services are provided. For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, “Revenue Recognition” ("SAB No. 104"), which superseded Staff Accounting Bulletin No. 101, “Revenue Recognition In Financial Statements” ("SAB No. 101"). SAB No. 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectibility of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required.

SAB No. 104 incorporates Emerging Issues Task Force No. 00-21, “Multiple-Deliverable Revenue Arrangements” ("EITF 00-21"). EITF 00-21 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The effect of implementing EITF 00-21 on the Company's consolidated financial position and results of operations was not significant.

Research and Development Costs

Research and development costs are expensed as incurred. These costs include direct expenditures for goods and services, as well as indirect expenditures such as salaries and various allocated costs.

Liquidity

As shown in the accompanying consolidated financial statements, the Company has incurred a net loss of $4,634,331 and $1,910,350 during the years ended December 31, 2005 and 2004, respectively. Consequently, its operations are subject to all risks inherent in the establishment of a new business enterprise.

Income Taxes

Income taxes are provided based on the liability method for financial reporting purposes in accordance with the provisions of Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes.” Under this method deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be removed or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statements of operations in the period that includes the enactment date.

GRANT LIFE SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

Net Loss Per Common Share

The computation of net loss per common share is based on the weighted average number of shares outstanding during each period. The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the period plus the common stock equivalents which would arise from the exercise of stock options and warrants outstanding using the treasury stock method and the average market price per share during the period. At year end December 31, 2005, there were 10,405,010 warrants, 3,187,618 vested stock options and 983.334 unvested options outstanding. These options and warrants were not included in the diluted loss per share calculation because the effect would have been anti dilutive. At year end December 31, 2004, there were 2,979,704 warrants, 613,650 vested stock options and 4,629,604 unvested options outstanding. These options and warrants were not included in the diluted loss per share calculation because the effect would have been anti dilutive.

Stock-Based Compensation

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

The Company began granting options to its employees, directors, and consultants in the 3rd quarter of 2004 under the Company's Stock Incentive Plan. In 2005 a total of 950,000 options and in 2004 a total of 5,243,254 options were granted, all of which vest over time periods ranging from 0 to 3 years. Fair value at the date of grant was estimated using the Black-Scholes pricing model with the following assumptions: 2005: dividend yield of 0%, expected volatility of 107%, risk-free interest rate of 3.6% and an expected life of 3 years, and 2004: dividend yield of 0%, expected volatility of 114%, risk-free interest rate of 3.69% and an expected life of 3 years. The exercise price for all but 100,000 options was $0.18. 100,000 options granted in 2005 had an exercise price of $0.40 The weighted average grant date fair value for the options granted in 2005 was $0.43 and the weighted average grant date fair value for the options granted in 2004 was $0.29.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the end of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

In April 2003, the FASB issued SFAS No. 149, “Amendment Of Statement 133 On Derivative Instruments And Hedging Activities” (“SFAS No. 149”). SFAS No. 149 amends SFAS No. 133 to provide clarification on the financial accounting and reporting of derivative instruments and hedging activities and requires that contracts with similar characteristics be accounted for on a comparable basis. The provisions of SFAS No. 149 are effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 will not have a material impact on the Company's results of operations or financial position.

GRANT LIFE SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

In November 2004, the FASB issued SFAS No. 151, “Inventory Costs” -- an amendment of ARB No. 43, Chapter 4. This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . ." This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not yet have any inventory.

In December 2004, the FASB issued SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions”--an amendment of FASB Statements No. 66 and 67("SFAS No. 152”). This Statement amends FASB Statement No. 66, “Accounting for Sales of Real Estate”, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position No. 04-2, “Accounting for Real Estate Time-Sharing Transactions” (“SOP No. 04-2”). This Statement also amends FASB Statement No.67, “Accounting for Costs and Initial Rental Operations of Real Estate Projects”, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP No. 04-2. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005 with earlier application encouraged. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

On December 16, 2004, the FASB issued SFAS No. 153, “Exchanges of Nonmonetary Assets”, an amendment of APB Opinion No. 29, “Accounting for Nonmonetary Transactions” (" SFAS No. 153"). This statement amends APB Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Under SFAS No. 153, if a nonmonetary exchange of similar productive assets meets a commercial-substance criterion and fair value is determinable, the transaction must be accounted for at fair value resulting in recognition of any gain or loss. SFAS No. 153 is effective for nonmonetary transactions in fiscal periods that begin after June 15, 2005. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

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

In February 2006, the FASB issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments”, which amends SFAS No. 133, “Accounting for Derivatives Instruments and Hedging Activities” and SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities”.

GRANT LIFE SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE A - SUMMARY OF ACCOUNTING POLICIES (Continued)

SFAS No. 155 amends SFAS No. 133 to narrow the scope exception for interest-only and principal-only strips on debt instruments to include only such strips representing rights to receive a specified portion of the contractual interest or principle cash flows. SFAS No. 155 also amends SFAS No. 140 to allow qualifying special-purpose entities to hold a passive derivative financial instrument pertaining to beneficial interests that itself is a derivative instrument. The Company is currently evaluating the impact this new Standard but believes that it will not have a material impact on the Company's financial position, results of operations, or cash flows.

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

NOTE B - GOING CONCERN

The accompanying statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the consolidated financial statements during the years ended December 31, 2005 and 2004, the Company incurred losses from operations of $4,634,331 and $1,910,350, respectively, and has a deficit accumulated during the development stage of $8,015,671 as of December 31, 2005. In addition, the Company has had negative cash flow from operating activities since inception. These factors among others may indicate that the Company will be unable to continue as a going concern for a reasonable period of time.

The Company's existence is dependent upon management's ability to develop profitable operations and resolve its liquidity problems. Management anticipates the Company will attain profitable status and improve its liquidity through the continued development and sale of its products and additional equity investment in the Company. The accompanying financial statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

In order to improve the Company's liquidity, the Company is actively pursing additional debt and equity financing through discussions with investment bankers and private investors. There can be no assurance the Company will be successful in its effort to secure additional equity financing.

NOTE C - BUSINESS COMBINATION AND CORPORATE RESTRUCTURE

On July 30, 2004, the Company completed a merger transaction with Impact Diagnostics, Inc. (“Impact”), a privately held Utah company, pursuant to an agreement dated July 6, 2004. As a result of the merger, there was a change in control of the public entity. Impact Diagnostics is a wholly owned subsidiary of the Company.

GRANT LIFE SCIENCES, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE C - BUSINESS COMBINATION AND CORPORATE RESTRUCTURE (Continued)

In accordance with SFAS No. 141, Impact was the acquiring entity. While the transaction is accounted for using the purchase method of accounting, in substance the Agreement is a recapitalization of the Impact's capital structure.

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

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

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

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

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

In accordance with SOP No. 98-5, the Company expensed $65,812 as organization costs.

NOTE D - PROPERTY AND EQUIPMENT

Major classes of property and equipment at December 31, 2005 and 2004 consist of the followings:

	2005	2004
Furniture and fixtures	$ 23,501	$ 17,758
Equipment	3,339	3,339
	26,840	21,097
Less: Accumulated Depreciation	(12,519)	(5,857)
Net Property and Equipment	$ 14,321	$ 15,240

Depreciation expense was $6,662 and $4,555 for the years ended December 31, 2005 and 2004, respectively.

During the year ended December 31, 2004, furniture and fixtures costing $ 10,674 and accumulated depreciation of $ 6,884 were abandoned, resulting in loss of $3,790.

NOTE E - RELATED PARTY TRANSACTIONS

In August 2004, the Company paid $100,000 and issued warrants to purchase 2,670,000 shares, at an exercise price of $0.01 per share, of its common stock to Duncan Capital Group LLC as compensation for acting as the Company's financial advisor in connection with the Merger. In August 2004, the Company paid $77,000 and issued warrants to purchase 411,104 shares of its common stock to Duncan Capital LLC as compensation for acting as its placement agent in connection with the sale of its units in a private financing. The warrants have an exercise price of $0.1835 per share. Both Duncan Capital LLC and Duncan Capital Group LLC are affiliates of Bridges & Pipes LLC, which is one of the Company's stockholders. Michael Crow, the brother of Kevin Crow, who was one of our directors, is Chairman and Chief Executive Officer of Duncan Capital Group LLC, which is our financial advisor, and a manager of Bridges &Pipes LLC. In November 2004, 2,403,000 warrants were exercised by Duncan Capital Group.

In 2003, Impact Diagnostics advanced $3,000, to Michael Ahlin, a director and Vice President of Grant Life Sciences, and $6,500, respectively, to Dr. Mark Rosenfeld, a former director and Vice President. At year-end 2003, Mr. Ahlin owed the Company $9,000 and Dr. Rosenfeld owed the Company $21,032. At the time of the advances, Mr. Ahlin was Chairman of the Board, President and Chief Executive Officer of Impact Diagnostics, and Dr. Rosenfeld was Secretary and Chief Technical Officer of Impact Diagnostics. The cumulative total advances were repaid in full on June 30, 2004 by Mr. Ahlin and Dr. Rosenfeld.

In 2003, Impact Diagnostics advanced $6,229, respectively, to Seroctin Research & Technology. Michael Ahlin, a director and Vice President, owned 20%, and Dr. Mark Rosenfeld, a former director and former Vice President, owned 18.4% of Seroctin Research & Technology. Seroctin advanced funds to Impact Diagnostics during 2004, such that the receivable became a small payable. In December 2004, Impact made a payment of $1,220 to Seroctin, so that at year-end 2004 neither company owed the other.

In 2003, Impact Diagnostics advanced $7,820 to WetCor, Inc. Michael Ahlin, a director and Vice President, is the President of WetCor, Inc. The $7,820 of advances receivable on the balance sheet as of December 31, 2003 was written off by Impact Diagnostics in January 2004. After June 2004, there were no further transactions between the two companies and neither company owed the other.

In 2003, Impact Diagnostics received advances of $20,000 from Blaine Taylor, pursuant to a non-interest bearing demand note, which brought the totaled advanced by Mr. Taylor to $21,500 at year-end 2003. Mr. Taylor beneficially currently owns 6.4% of our outstanding capital stock. As of July 30, 2004, the amount outstanding under the note was approximately $16,500. Effective July 30, 2004, this note was converted to 89,918 shares of our common stock.

In 2001, Mitchell Godfrey loaned Impact Diagnostics $50,000, pursuant to a 5% unsecured promissory note. Mr. Godfrey beneficially owned 6.6% of our outstanding capital stock. As of December 31, 2003, the amount outstanding under the note was $29,279. Effective July 30, 2004, this note, excluding accrued interest which was forgiven by Mr. Godfrey, was converted into 159,557 shares of our common stock, such that the balance due to Mr. Godfrey was zero at year-end 2004.

During the year ended December 31, 2004, the Company shared office space with a related entity. Reimbursement of overhead from the related party totaled $12,000. The Company moved into separate space in September 2004. Prior to July 31, 2004, the Company and the related entities would, on occasion, pay invoices on behalf of the other and track the net receivable/payable in the related party receivable account.

Messrs. Seth Yakatan and Clifford Mintz have been contracted as consultants to us in the business development area since November 1, 2004 and August 1, 2004, respectively. They were paid $5,000 each month for their services which were terminated December 31, 2005 and March 31, 2005 respectively. Mr. Yakatan is the son of Stan Yakatan, our Board Chairman. Mr. Mintz is an affiliate of Katan Associates, of which Stan Yakatan is the Chairman.

As of December 31, 2005 and 2004, the Company had receivables from employees of $0 and $334, respectively.

NOTE F - NOTES PAYABLE

Notes payable at December 31, 2005 and December 31, 2004 are as follows:

	December 31, 2005	December 31, 2004
6% convertible note payable, unsecured, due on 1/2/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of $0.092178	$ -	$ 10,000
6% convertible note payable, unsecured, due on 1/5/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	10,000
6% convertible note payable, unsecured, due on 1/5/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	10,000
6% convertible note payable, unsecured, due on 1/5/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	5,000
6% convertible note payable, unsecured, due on 1/5/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	8,000
6% convertible note payable, unsecured, due on 1/5/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	5,000
6% convertible note payable, unsecured, due on 1/9/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	14,000
6% convertible note payable, unsecured, due on 1/13/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	10,000
6% convertible note payable, unsecured, due on 1/13/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	5,000
6% convertible note payable, unsecured, due on 1/21/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	5,000
6% convertible note payable, unsecured, due on 1/21/2005, principal and interest is convertible at any time before maturity into common shares of the	-	10,500

company at the price per share of 0.092178		
6% convertible note payable, unsecured, due on 2/4/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	10,000
6% convertible note payable, unsecured, due on 2/5/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	10,000
6% convertible note payable, unsecured, due on 2/25/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	10,000

10% note payable, unsecured, originally due on 11/30/2002. The note payable was in default as of December 31, 2002. The venture capital firm that issued the loan has since been placed in receivership. As of December 31, 2003 the note balance was $587,753 with accrued interest payable of $141,501. In August 2004, this note for $587,753 and accrued interest of $175,787 was restructured into a 3-year convertible note of $350,000 plus 89,500 5-year warrants to purchase additional shares at $0.01 per share. The note is convertible into shares of common stock at a conversion price of $0.83798 per share. Interest is payable quarterly at 6% per year. The 89,500 warrants have an option value of $0.0378 per share. The conversion resulted in a $411,597 gain on extinguishment of debt in 2004.		350,000		350,000
10% convertible debenture with interest due quarterly subject to certain conditions, due three years from the date of the note. The holder has the option to convert unpaid principal to the Company's common stock at the lower of (i) $0.40 or (ii) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for the twenty trading days before, but not including, conversion date. The Company granted the note holder a security interest in substantially all of the Company's assets and intellectual property and registration rights. (see below) In 2005 $470,313 of note principal was converted into 67,580,405 shares at an average conversion rate of $0.007 per share.		240,491		-
6% note payable, unsecured, interest and principal to be paid in eight equal quarterly payments beginning 6/07/05. Final payment is due 3/7/2007.		21,875		-
Total notes payable		612,366		472,500
Less: current portion		(21,875)		(122,500)
Balance notes payable (long term portion)	$	590,491	$	350,000

In March 2005, convertible notes totaling $122,500 plus accrued interest of $7,350 converted into 1,395,322 shares of stock, per the terms of the notes. $1,230 of interest was forgiven.

On March 15, 2005, the Company obtained bridge financing of $200,000 from a shareholder who owns 5.2% of the Company's outstanding shares. The Company signed a $200,000 note, secured by the Company's assets, with an interest rate of 8% due June 15, 2005 or when the Company receives proceeds of $2,000,000 from the sale of stock or debt securities, whichever is sooner. Interest is payable in cash at the end of each month. The Company issued 250,000 5-year warrants, with an exercise price of $0.40, to the lender. The exercise price of the warrants is adjustable downward if equity is issued in the future for a price less than the exercise price of these warrants. The note was paid off on the due date of June 15, 2005 with the proceeds from the sale of convertible debt on June 14, 2005.

The Company entered into a Securities Purchase Agreement with four accredited investors on June 14, 2005 for the issuance of an aggregate of $2,000,000 of convertible notes ("Convertible Notes"), and attached to the Convertible Notes were warrants to purchase 7,692,308 shares of the Company's common stock. The Convertible Notes accrue interest at 10% per annum, payable quarterly, and are due three years from the date of the note. The note holder has the option to convert any unpaid note principal to the Company's common stock at a rate of the lower of (i) $0.45 or (ii) 50% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before but not including conversion date.

As of December 31, 2005, the Company issued to the investors Convertible Notes in a total amount of $2,000,000 in exchange for net proceeds of $1,761,670. The proceeds that the Company received were net of prepaid interest of $133,330 representing the first eight month's interest calculated at 10% per annum for the aggregate of $2,000,000 of convertible notes, $30,000 that was placed into an escrow fund to purchase key man life insurance, and related costs of $75,000. Prepaid interest is amortized over the first eight months of the note and capitalized financing costs are amortized over the maturity period (three years) of the convertible notes.

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

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

- The Company recorded the convertible debt and the detachable warrants based upon the relative fair market values on the dates the proceeds were received.
- Subsequent to the initial recording, the change in the fair value of the detachable warrants, determined under the Black-Scholes option pricing formula, and the change in the fair value of the embedded derivative in the conversion feature of the convertible debentures are recorded as adjustments to the liabilities at December 31, 2005.
- The expense relating to the change in the fair value of the Company's stock reflected in the change in the fair value of the warrants and derivatives (noted above) is included as other income (expense).
- Accreted interest of $240,491 as of December 31, 2005.

During 2005, $470,311 of the June 14th convertible note was converted into 67,580,405 shares at an average conversion rate of $0.007 according to the terms of the note.

The following table summarizes the various components of the convertible notes as of December 31, 2005:

Convertible notes:	$ 240,491
Warrant Liability	161,472
Derivative liability	2,606,377
	3,008,340
Change in fair value of convertible notes	(887,117)
Accretion of interest related to convertible debenture	(591,534)
Converted to common shares	470,311
Total convertible notes:	$ 2,000,000

NOTE G - COMMON STOCK

The Company is authorized to issue 150,000,000 shares of common stock with $0.001 par value per share. As of December 31, 2005, the Company has issued and outstanding 126,486,518 shares of common stock. Also, the Company is authorized to issue 20,000,000 shares of preferred stock with $0.001 par value per share. No shares of preferred stock have been issued to date.

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

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

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

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

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

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

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

In July 2004, per the Agreement and Plan of Merger with Impact Diagnostics, Inc. all previously outstanding 35,060,720 shares of common stock owned by the Impact's stockholders were exchanged for the same number of shares of the Company's common stock. The value of the stock that was issued was the historical cost of the Company's net tangible assets, which did not differ materially from their fair value.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE H - INCOME TAXES

The Company has adopted Financial Accounting Standard No. 109 which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Temporary differences between taxable income reported for financial reporting purposes and income tax purposes are insignificant.

For income tax reporting purposes, the Company’s aggregate unused net operating losses approximate $4,833,000 which expire through 2025, subject to limitations of Section 382 of the Internal Revenue Code, as amended. The deferred tax asset related to the carryforward is approximately $2,832,000. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, because in the opinion of management based upon the earning history of the Company, it is more likely than not that the benefits will not be realized.

Components of deferred tax assets as of December 31, 2005 and 2004 are as follows:

Non current		2005		2004
Net Operating Loss Carryforwards	$	1,883,717	$	1,122,000
Accrued Interest		38,610		-
R&D Credit		43,200		-
Stock Options		595,899		-
Unrealized Loss		345,976		-
Amortization		10,400		-
Contribution Carryover		156		-
Less Valuation Allowance		(2,831,731)		1,122,000
Total Deferred Tax Assets	$	86,227	$	-
Deferred Tax Liability				
State Taxes	$	(86,227)	$	-
Total Deferred Tax Liabilities	$	(86,227)	$	-
Net Deferred Tax Assets	$	0	$	-

The following table presents the current and deferred income tax provision for (benefit from) federal and state income taxes for the years ended December 31, 2005 and December 31, 2004:

Provision for income tax	Federal	Utah	Other	Total
Current provision	$ -	$ 100		$ 100
Deferred provision				
Deferred tax- beginning of year	-	-		
Deferred tax - end of year	-	-		
Change in deferred tax provision	-	-	-	-
Total provision	$ -	$ 100	$ -	$ 100

The provision for income taxes differs from the amount that would result from applying the federal statutory rate for the year ended December 31, 2005, as follows:

Calculation of rate of taxes on income	
Tax @ statutory rate	34%
Permanent differences:	1%
R&D credit	
State tax (net of fed benefit)	3%
Change in valuation allowance- federal	-33%
Change in valuation allowance - state	-5%
Total	0%

R&D credit for the year 2005 is $21,054

NOTE I - STOCK OPTIONS AND WARRANTS

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

Stock Options

Transactions involving stock options issued to employees, directors and consultants under the company's 2004 Stock Incentive Plan are summarized below. Options issued under the plan have a maximum life of 10 years. The following table summarizes the options outstanding and the related exercise prices for the shares of the Company's common stock issued under the 2004 Stock Incentive plan and as of December 31, 2005:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighed Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.18	4,170,952	8.7	$ 0.18	3,187,618	$ 0.18

	Number of options	Weighted average exercise price
Outstanding at December 31, 2003	-	-
Granted (weighted average fair value $ 0.29)	5,243,254	$ 0.18
Outstanding at December 31, 2004 (613,150 options exerciseable at weighted average exercise price of $ 0.18)	5,243,254	$ 0.18
Granted (weighted average fair value $ 0.38)	950,000	$ 0.19
Exercised (total fair value $6,264)	(50,000)	$ 0.18
Cancelled	(1,972,302)	$ 0.18
Outstanding at December 31, 2005 (3,187,618 options exerciseable at weighted average exercise price of $ 0.18). The options outstanding and exercisable at December 31, 2005 had an intrinsic value of $0.	4,170,952	$ 0.18

A summary of the status of the Company's nonvested options as of December 31, 2004 and changes during the year ended December 31, 2005 is as follows:

Nonvested Shares	Number of options	Weighted average grant date fair value
Nonvested at December 31, 2004	4,629,604	$ 0.31
Granted	950,000	$ 0.38
Vested	(2,918,968)	$ 0.27
Forfeited	(1,677,302)	$ 0.20
Nonvested at December 31, 2005	983,334	$ 0.66

As at December 31, 2005, the total compensation cost not yet recognized related to nonvested option awards is $285,308 which is expected to be realized over a weighted average period of 0.9 years.

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

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

(a)The expected option life is based on management’s estimate.

The Company elected early adoption of SFAS No. 123R effective for 2004, in advance of the Company's required adoption date of December 15, 2005. This Statement requires public entities to measure the cost of equity awards to employees based on the grant-date value of the award. During the years ended December 31, 2005 and 2004, the Company recognized $976,986 and $426,081 respectively as expense relating to vested stock options.

Warrants

The following tables summarize the warrants outstanding and the related exercise prices for the shares of the Company’s common stock issued by the Company as of December 31, 2005:

	Warrants Outstanding & Exercisable		
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighed Average Exercise Price
$ 0.01	89,500	3.6	$ 0.01
$ 0.18	411,104	3.6	$ 0.18
$ 0.18	1,912,100	3.6	$ 0.18
$ 0.18	50,000	3.6	$ 0.18
$ 0.18	250,000	3.8	$ 0.18
$ 0.45	2,692,307	4.5	$ 0.45
$0.45	2,307,692	4.6	$ 0.45
$0.45	2,692,307	4.7	$ 0.45
	10,405,010		$ 0.38

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2003	-	-
Granted	5,382,704	$ 0.09
Exercised	(2,403,000)	$ 0.01
Canceled or expired	-	-
Outstanding at December 31, 2004	2,979,704	$ 0.16

Granted	7,942,306	$	0.45
Exercised	(517,000)	$	0.01
Canceled or expired	-		-
Outstanding at December 31, 2005	10,405,010	$	0.38

All warrants were exercisable at the date of grant. All of the warrants, except 250,000 warrants, were issued in connection with financings. The exercise price of the warrants issued in 2005 can be adjusted downward if stock is issued below the market price. The Company granted a warrant to purchase 250,000 shares at $0.18 per share to a non-employee for past consulting services in June 2004. The warrant was valued at the fair market value of services performed. The Company recognized $11,000 as R&D expense relating to this warrant for the year ended December 31, 2004. The Black-Scholes option pricing model was used to value the 89,500 warrants with an exercise price of $0.01 which were issued in connection with a restructure of a note payable immediately prior to the merger. The $3,382 value of these warrants was recorded as additional paid-in capital. The following assumptions were used.

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

(a)The expected option life is based on management’s estimate.

NOTE J - COMMITMENTS

On July 20, 2004, the Company entered into an exclusive license agreement to use certain technologies in its cervical cancer tests. The term of the license agreement is 17 years, and requires the Company to make annual royalty payments ranging from 1% to 3% of net sales, with annual minimum royalty payments of $48,000 to be paid monthly in $4,000 installments. The license agreement can be terminated with 90 days notice.

Minimum payments due under this license agreement are as follows:

Year	Amount
2006	$ 48,000
2007	48,000
2008	48,000
2009	48,000
2010	48,000
2011 and after	552,000
	$ 792,000

On March 7, 2005, the Company signed a 10-year licensing agreement for rapid test technologies. Under the terms of the agreement, the Company made an initial payment of $15,000, executed a note for $35,000 payable over two years, and pay 3% royalties on net sales of licensed products. The license can be terminated with 90 days notice by the Company. On March 7, 2005, the Company also entered into a 27-month consulting Agreement with Ravi Pottahil and Indira Pottahil in support of the License, pursuant to which these Consultants will receive 310,000 shares of common stock of the Company, to be issued as follows: one-third on September 7, 2005, one-third on March 7, 2006 and one-third on September 7, 2006. The September 7, 2005 shares had not yet been issued as of December 31, 2005.

On March 1, 2005, the Company signed a 1-yr financial advisory agreement which obligates the company to payments of $5,000/month for each month effective January 2005 thru December 2005. No payments have yet been made. This commitment is included in accrued liabilities on the balance sheet.

NOTE K- SUBSEQUENT EVENTS

In January 2006, the Company was served with a default notice by the holders of the $2,000,000 convertible notes. The default was the result of the Company's not having maintained an effective registration statement for sufficient shares to permit the noteholders to continue conversion of the notes to common shares. In February 2006, the notice of default was withdrawn in exchange for an agreement with the Company whereby the rate at which the notes could be converted was reduced from 50% to 43% of the average of the three lowest intraday trading prices for the common stock on a principal market for the 20 trading days before but not including conversion date.

In April 2006, the Company announced that it had entered into a Memo of Understanding (MOU) with Israel-based Diagnostic Technologies Ltd. (DTL) related to Grant's cervical cancer-diagnostic technology. Under the MOU, Grant would receive an upfront licensing fee of $250,000. In addition, the MOU calls for DTL to conduct all development at its own cost, including clinical trials, associated with the commercialization of the products developed from Grant's cervical cancer-diagnostic technology. Upon commercialization, DTL will pay Grant an ongoing royalty on sales of the products developed, according to the MOU. A definitive licensing agreement would be signed following appropriate due diligence and a feasibility test. Upon signing, DTL would immediately assume all of the costs associated with turning Grant's core technology related to cervical-cancer diagnostics into a commercially viable product.

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

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

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

The accompanying notes to consolidated financial statements

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

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

See accompanying notes to the unaudited condensed consolidated financial statements

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

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

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

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

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

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

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

See accompanying notes to consolidated financial statements

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

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

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

Supplementary disclosure for non-cash investing and financing activities:

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

See accompanying notes to consolidated financial statements

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

NOTE A - SUMMARY OF ACCOUNTING POLICIES

Interim Financial Information

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

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

Business and Basis or Presentation

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

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

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

Development Stage Company

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

Going Concern

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

Income Taxes

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

Net Income (Loss) per Common Share

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

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

Stock-Based Compensation

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

New Accounting Pronouncements

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

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

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

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

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

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

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

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

NOTE B - BUSINESS COMBINATION AND CORPORATE RESTRUCTURE

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

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

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

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

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

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

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

NOTE C - NOTES PAYABLE

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

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

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

NOTE D - CONVERTIBLE NOTES PAYABLE

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

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

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

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

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

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

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

NOTE E - RESTATEMENT

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

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

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

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

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

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

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

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

NOTE F - COMMON STOCK

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE G - STOCK OPTIONS AND WARRANTS

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

Stock Options

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

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

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

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

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

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

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

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

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

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

<u>Warrants</u>

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

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

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

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

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

NOTE H - SUBSEQUENT EVENT

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

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

Forward-Looking and Cautionary Statements

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

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

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

Overview

We are considered a development stage company engaged primarily in the development of protein-based screening tests that are used to screen women for cervical cancer and pre-cancerous conditions that typically result in cervical cancer. We believe our tests detect the presence of certain antibodies that appear only when cervical cancer or certain pre-cancerous conditions are present in the body. Our tests are performed by analyzing a small amount of blood taken from the patient. In one version of our test, the blood sample is analyzed in a clinical testing laboratory using standard laboratory equipment and analytic software, which generally can produce test results in about two hours. Our rapid test is designed to be administered at the point of care by a health professional in a doctor’s office, hospital, and clinic or even at home, and provides easy-to-read results in approximately 15 minutes. Our planned cervical cancer test uses proprietary technology to detect the presence of antibodies. We believe that in the future we may be able to use that technology to develop rapid tests for other diseases and cancers.

In conjunction with the primary diagnostic cervical cancer blood tests that we are developing, we have also acquired the exclusive worldwide rights to diagnostic devices for HIV-1, HIV-2 and dengue fever and a proprietary diagnostic reagent a key ingredient commonly used by leading manufacturers of rapid tests as a detectable label. We acquired these rights from AccuDx Corporation in March 2005 for a period of ten years. Pursuant to the license agreement AccuDx will assist us in arranging to use an FDA/GMP-compliant contract manufacturing facility in Tijuana, Mexico to manufacture our diagnostic test devices.

We had no revenues and a net loss of $7,415,840 in the three months ended September 30, 2006 compared with a net loss of $11,033,602 during the same three months in 2005. During the nine months ended September 30 we incurred a net loss of $7,480,568 in 2006 compared to a net loss of $13,238,083 in the same period in 2005. These losses are materially affected by non-cash changes in fair value related to adjustment of derivative and warrant liability to fair value of underlying securities, as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2006	2005 Restated	2006	2005 Restated
Change in fair value related to adjustment of derivative and warrant liability to fair value of underlying securities	$ (6,948,491)	$ (10,293,048)	$ (5,931,257)	$ (10,452,987)
Net loss	$ (7,415,840)	$ (11,033,602)	$ (7,480,568)	$ (13,238,083)

For the three months ended September 30, 2006 compared to the three months ended September 30, 2005 the $260,000 reduction in operating expense results from: $67,000 lower consulting expenses, $115,000 lower stock option expense and $40,000 in lower salaries, $36,000 lower interest and $58,000 lower legal fees partially offset by an increase of $35,000 in audit fees

For the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005 the $1.3 million reduction in operating expense results from: $659,000 lower stock option expense and $157,000 in lower salaries, $281,000 lower consulting, $47,000 lower royalties and licenses and $122,000 lower legal fees partially offset by an increase of $69,000 in audit fees, and interest cost which increased by $68,000. Since inception in July 1998, we have incurred cumulative losses of $15,496,242.

In June and August, 2005 we sold $2,000,000 of convertible debt in a private placement as part of an agreement to sell $2,000,000 of convertible debt. In order to meet the number of shares that may be required on conversion of the $2 million of convertible notes, based on latest conversion rates, we requested and received shareholder approval at our annual meeting held May 23, 2006 to increase our authorized shares of common stock from 150 million shares to 750 million shares.

Application of Critical Accounting Policies

Our consolidated financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. We believe that understanding the basis and nature of the estimates and assumptions involved with the following aspects of our consolidated financial statements is critical to an understanding of our financials.

Stock-Based Compensation

On December 16, 2004, the FASB published Statement No. 123 (Revised 2004), “Share-Based Payment” (“SFAS No. 123R”). SFAS No. 123R requires that compensation cost related to share-based payment transactions be recognized in the financial statements. Share-based payment transactions within the scope of SFAS No. 123R include stock options, restricted stock plans, performance-based equity awards, stock appreciation rights, and employee share purchase plans. The provisions of SFAS No. 123R are effective as of the first interim period that begins after December 15, 2005. The Company adopted this Statement early, for the year 2004. The company incurred expense of $976,986 in 2005 and $426,081 in 2004 for the stock options granted under its 2004 Stock Incentive Plan. The Company anticipates continuing to incur such costs in order to conserve its limited financial resources. The determination of the volatility, expected term and other assumptions used to determine the fair value of equity based compensation issued to non-employees under SFAS No. 123 involves subjective judgment and the consideration of a variety of factors, including our historical stock price, option exercise activity to date and the review of assumptions used by comparable enterprises.

Accounting for Derivatives

In June 1998, FASB issued SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities.” The Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

In June 2005, the Company obtained a commitment from accredited investors to purchase convertible debt with warrants. The Company evaluated the transaction as a derivative transaction in accordance with SFAS No. 133. The transactions, to the extent that it is to be satisfied with common stock of the Company, would normally be included as equity obligations. However, in the instant case, due to the indeterminate number of shares which might be issued under the embedded convertible host debt conversion feature, the Company is required to record a liability for the fair value of the detachable warrants and the embedded convertible feature of the note payable (included in the liabilities as a "derivative liability").

The Company accounts for warrants and embedded conversion features as described in SFAS 133, EITF 98-5, 00-19, and 00-27, and APB 14 as follows:

- The Company allocated the proceeds received between the convertible debt and the detachable warrants based upon the relative fair market values on the dates the proceeds were received.
- Subsequent to the initial recording, the change in the fair value of the detachable warrants, determined under the Black-Scholes option pricing formula, and the change in the fair value of the embedded derivative in the conversion feature of the convertible debentures at each reporting date are recorded as adjustments to the liabilities.
- The expense relating to the change in the fair value of the Company's stock reflected in the change in the fair value of the warrants and derivatives is included as other income (expense).

Plan of Operations

Grant Life Sciences, Inc. (GLIF.OB), a development stage company, engages in the research, development, marketing, and sale of diagnostic kits for the screening, monitoring, and diagnosis of diseases with emphasis on women’s health, infectious diseases, and cancers.

During the next year, we expect we may acquire laboratory assets to augment our clinical research and development efforts, which are presently outsourced, and may continue to be outsourced. We have relocated our offices to California where our chairman, president and chief financial officer reside.

During the next 12 months, we plan to expand on our broadened business strategy of in- and out-licensing technologies and products. To this end, we have recently established OEM agreements to manufacture and distribute more than two-dozen immunoassay tests for the India and other South East Asia markets. These newly added tests are additions to the AccuDx rapid test line (HIV1/2, Dengue fever IgG and IgM), and include trimarkers (Toxoplasma, Rubella, and CMV IgG and IgM antibodies), HSV (IgG and IgM), HBVsAg, HCV, Troponin-I, TB rapid test, hemoglobin A1c, cancer markers, thyroid hormone panel (T3, T4, TSH), and others. In addition, we have signed a Letter of Intent (LOI) to exclusively represent Response Biomedical Corp. of Burnaby, B.C. to distribute its RAMP cardiac products in India.

We plan to take advantage of our established sales channel to provide important diagnostic tests to the vast India market and we intend to continue adding new products in the area of infectious diseases, hormones, and cancer biomarkers, for sales in the future. We are also actively expanding our sales channel to other South East Asia countries. Starting in the third quarter of 2006 we plan to increase revenue from the sales of immunoassay kits and RAMP cardiac products significantly.

As part of our in- and out-licensing strategy, we signed a Memorandum of Understanding (MOU) with Diagnostic Technology Ltd. (Haifa, Israel) in April 2006 related to Grant's cervical cancer-diagnostic technology (U.S. Patent No. 6,743,593). The MOU, initially for a 90 day due diligence period was extended an additional 60 days in order to complete the evaluation of human papillomavirus antibody test. The Company and DTL are exploring an expanded partnership related to the Company's cervical cancer-diagnostic technology.

As a development stage company, we plan to acquiring new products through our in-licensing activities, optimizing the technologies and products, and out-licensing to our partners for further development or sales through our own marketing channels. In addition to the human papillomavirus antibody test, we are actively evaluating a human papillomavirus antigen test and other new technologies.

During the next 12 months, we anticipate that we may add employees, including scientists and other professionals in the research and development, product development, business development, regulatory, manufacturing, marketing and clinical studies areas.

We do not anticipate investing in real estate or interests in real estate, real estate mortgages, or securities of or interests in persons primarily engaged in real estate activities during the next 12 months. We do not intend to undertake investments in real estate as a part of our normal operations.

Liquidity and Capital Resources

As of September 30, 2006, we had total current assets of $130,202 and total current liabilities of $544,989.

Our continuation as a going concern is dependent on our ability to generate sufficient cash flows to meet our obligations on a timely basis and to obtain additional financing as may be required.

Auditor's Opinion Expressed Doubt About The Company's Ability to Continue as a "Going Concern"

The independent auditors report on our December 31, 2005 financial statements included in the Company's Annual Report states that the Company is in the development stage and has not established a significant source of revenues. This raises substantial doubt about the Company's ability to continue as a going concern. If we are unable to develop our business, we have to discontinue operations or cease to exist, which would be detrimental to the value of the Company's common stock. We can make no assurances that our business operations will develop and provide us with significant cash to continue operations.

Recent Accounting Pronouncements

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

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

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

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

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

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

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

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

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as of September 30, 2006 or as of the date of this report.

Inflation

In the opinion of management, inflation has not had a material effect on the operations of the Company.

Item 3. Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2006. Based on such evaluation, our principal executive officer and principal financial officer have concluded, as of the end of such period, that our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934.

During the third quarter of fiscal 2006, there were no changes to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II – INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 24. INDEMNIFICATION OF OFFICERS AND DIRECTORS

Under the Nevada Revised Statutes and our Amended and Restated Articles of Incorporation, our directors and officers will have no individual liability to us or our stockholders or creditors for any damages resulting from the officer's or director’s act or failure to act in his or her capacity as an officer or director unless it is proven that (i) the officer's or director’s act or failure to act constituted a breach of his or her fiduciary duties as an officer or director; and (ii) the officer's or director’s breach of those duties involved intentional misconduct, fraud or a knowing violation of law. The effect of this statute and our Amended and Restated Articles of Incorporation is to eliminate the individual liability of our officers and directors to the corporation or its stockholders or creditors, unless any act or failure to act of an officer or director meets both situations listed in (i) and (ii) above.

Our Amended and Restated Articles of Incorporation provide for the indemnification of our officers and directors to the maximum extent permitted by Nevada law. The Nevada Revised Statutes also provide that a corporation may indemnify any officer or director who is a party or is threatened to be made a party to a litigation by reason of the fact that he or she is or was an officer or director of the corporation, or is or was serving at the request of the corporation as an officer or director of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys’ fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by such officer or director if (i) there was no breach by the officer or director of his or her fiduciary duties to the corporation involving intentional misconduct, fraud or knowing violation of law; or (ii) the officer or director acted in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

These provisions of our Amended and Restated Articles of Incorporation become effective 20 days after the Information Statement is first mailed to our stockholders.

ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the fees and expenses we expect to incur in connection with the issuance and distribution of the securities being registered. With the exception of the SEC registration fee, all amounts are estimates.

Securities and Exchange Commission Registration Fee	$ 832.88
Printing Fees and Expenses	$ 1,000
Legal Fees and Expenses	$ 20,000
Accounting Fees and Expenses	$ 10,000
Miscellaneous	$ 5,000

ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES

On July 30, 2004, in connection with the Merger, we issued 30,565,246 shares of our common stock, and options and warrants to purchase 6,972,754 shares of our common stock to the holders of common stock, convertible notes and options to purchase common stock of Impact Diagnostics Upon effectiveness of the increase in our authorized common stock on November 12, 2004, we issued 7,464,950 shares of our common stock to certain stockholders of Impact Diagnostics who were entitled to receive shares of our common stock in the Merger.

On July 30, 2004, we issued 2,270,000 shares of our common stock to Bridges & Pipes LLC pursuant to the conversion of a $200,000 convertible promissory note dated April 14, 2004.

Between July 30 and August 19, 2004, we sold a total of 1,912,125 units, at a purchase price of $0.9175 per unit ($0.1835 per share), resulting in gross proceeds to us of $1,754,375. Each unit is comprised of five (5) shares of our common stock and a warrant to purchase one (1) share of our common stock at an exercise price of $0.1835 per share. The units were sold to individuals and institutional investors, all of whom were "accredited investors", as defined by Rule 501 of Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act"). Each of the investors represented to us that the investor was an accredited investor and represented to us the investor's intention to acquire our securities for investment purposes only and not with a view to or for sale in connection with any distribution thereof.

In August 2004, we issued 2,670,000 warrants to Duncan Capital Group LLC as compensation for acting as our financial advisor in connection with the Merger. These warrants have an exercise price of $0.01 per share. In August 2004, we issued 411,104 warrants to Duncan Capital LLC as compensation for acting as our placement agent in connection with the sale of our units in a private financing. The warrants have an exercise price of $0.1835 per share. In November 2004, 2,403,000 of the warrants with the $0.01 exercise price were exercised, resulting in $24,030 of proceeds to us.

In August 2004, we issued 89,918 shares of our common stock to Blaine Taylor in consideration for the conversion of $16,500 owned to him by us pursuant to a convertible promissory note.

In August 2004, we issued 159,557 shares of our common stock to Mitchell Godfrey in consideration for the conversion of $29,278 owned to him by us pursuant to a convertible promissory note.

In November 2004, we issued 250,000 shares of our common stock to David Bolick in connection with consulting services performed on our behalf prior to the merger.

In March 2005, we issued 1,395,322 shares of our common stock to convertible note holders in exchange for the cancellation of $122,500 of notes, plus accrued interest of $7,350, pursuant to the original terms of the notes.

In March 2005, we issued a an 8% Senior Secured Note due June 15, 2005 in the principal amount of $200,000 and a warrant to purchase up to an aggregate of 250,000 shares of our common stock to DCOFI Master LDC in connection with bridge financing of $200,000.

In September 2005, we issued 200,000 shares of our common stock to Sichenzia Ross Friedman Ference LLP, in consideration for legal services provided.

In September 2006, we issued 5,226,524 shares of our common stock to various investors in connection with the settlement of a lawsuit.

* All of the above offerings and sales were deemed to be exempt under rule 506 of Regulation D and Section 4(2) of the Securities Act of 1933, as amended. No advertising or general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors, business associates of Grant Life Sciences or executive officers of Grant Life Sciences, and transfer was restricted by Grant Life Sciences in accordance with the requirements of the Securities Act of 1933. In addition to representations by the above-referenced persons, we have made independent determinations that all of the above-referenced persons were accredited or sophisticated investors, and that they were capable of analyzing the merits and risks of their investment, and that they understood the speculative nature of their investment. Furthermore, all of the above-referenced persons were provided with access to our Securities and Exchange Commission filings.

ITEM 27. EXHIBITS

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of July 6, 2004, by and among Grant Ventures, Inc., Impact Acquisition Corporation and Impact Diagnostics, Inc. (1)
3.1	Articles of Incorporation of North Ridge Corporation, filed with the Secretary of State of Nevada on January 31, 2000. (1)
3.2	Certificate of Amendment to Articles of Incorporation of North Ridge Corporation, changing its name to Grant Ventures, Inc. and changing its authorized capital to 50,000,000 shares, par value $0.001 per share, filed with the Secretary of State of Nevada on May 30, 2001. (1)
3.3	Form of Amended and Restated Articles of Incorporation of Grant Ventures, Inc. (1)
3.4	Articles of Merger for the merger of Impact Diagnostics, Inc. (Utah) and Impact Acquisitions Corporation (Utah), filed with the Secretary of State of Utah on July 30, 2004. (1)
3.5	Bylaws of Grant Life Sciences, Inc. (Incorporated by reference to form SB-2/A filed with the SEC on January 25, 2005)
4.1	Securities Purchase Agreement between Grant Ventures, Inc. and the purchasers party thereto. (1)
4.2	Registration Rights Agreement between Grant Ventures, Inc. and the purchasers party thereto. (1)
4.3	Form of Common Stock Purchase Warrant. (1)
5.1	Opinion of Sichenzia Ross Friedman Ference LLP (Filed herewith)
10.1	6% Convertible Promissory Note in the amount of $350,000, dated as of July 23, 2004, between Impact Diagnostics, Inc. and James H. Donell, as receiver of Citadel Capital Management, Inc. (1)
10.2	Warrant, dated July 23, 2004, of James H. Donell, as receiver of Citadel Capital Management, Inc., to purchase 89,500 shares of common stock of Impact Diagnostics, Inc. (1)
10.3	Letter Agreement, dated July 1, 2004, between Impact Diagnostics, Inc. and Duncan Capital LLC. (1)
10.4	Letter Agreement, dated July 1, 2004, between Impact Diagnostics, Inc. and Michael Ahlin. (1)
10.5	Letter Agreement, dated July 1, 2004, between Impact Diagnostics, Inc. and Dr. Mark Rosenfeld. (1)
10.6	2004 Stock Incentive Plan of Grant Ventures, Inc. (1)
10.7	Incentive Stock Option Agreement, dated as of July 6, 2004, between Impact Diagnostics, Inc. and Stan Yakatan. (1)
10.8	Incentive Stock Option Agreement, dated as of July 6, 2004, between Impact Diagnostics, Inc. and John C. Wilson.(1)
10.9	Employment Agreement between Michael L. Ahlin and Impact Diagnostics, Inc., dated January 1, 2004, as amended by the Amendment of Employment Agreement, dated July 1, 2004. (1)
10.10	Employment Agreement between Mark J. Rosenfeld and Impact Diagnostics, Inc., dated January 1, 2004, as amended by the Amendment of Employment Agreement, dated July 1, 2004. (1)
10.11	Exclusive License Agreement between Impact Diagnostics Incorporation and Dr. Yao Xiong Hu, M.D., dated July 20, 2004 (incorporated by reference to Form 10-QSB filed with SEC on November 19, 2004).
10.12	Exclusive License Agreement dated March 7, 2005 by and between Grant Life Sciences, Inc. and AccuDx Corporation (incorporated by reference to Form 8-K filed with SEC on March 11, 2005).
10.13	Consulting Agreement dated March 7, 2005 by and between Grant Life Sciences, Inc. and Ravi and Dr. Indira Pottahil (incorporated by reference to Form 8-K filed with SEC on March 11, 2005).
10.14	Promissory Note in the name of AccuDx Corporation dated March 7, 2005 (incorporated by reference to Form 8-K filed with SEC on March 11, 2005).
10.15	Securities Purchase Agreement dated as of March 15, 2005 among Grant Life Sciences, Inc. and the purchasers signatory thereto (incorporated by reference to Form 8-K filed with SEC on March 21, 2005).
10.16	Security Agreement dated as of March 15, 2005 among Grant Life Sciences, Inc. and the holders of the Notes (incorporated by reference to Form 8-K filed with SEC on March 21, 2005).
10.17	

	Registration Rights Agreement dated as of March 15, 2005 among Grant Life Sciences, Inc. and the purchasers signatory thereto (incorporated by reference to Form 8-K filed with SEC on March 21, 2005).
10.18	8% Senior Secured Note dated March 15, 2005 in the name of DCOFI Master LDC (incorporated by reference to Form 8-K filed with SEC on March 21, 2005).
10.19	Securities Purchase Agreement dated as of March 15, 2005 among Grant Life Sciences, Inc. and the purchasers signatory thereto (incorporated by reference to Form 8-K filed with SEC on March 21, 2005).
10.20	Employment Agreement dated April 6, 2005 between Don Rutherford and Grant Life Sciences, Inc. (incorporated by reference herein to From 8-K filed with the SEC on April 12, 2005).
10.21	Securities Purchase Agreement dated June 14, 2005 by and among the Company and New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (incorporated by reference to Form 8-K filed with SEC on June 20, 2005).
10.22	Form of Callable Secured Convertible Note dated June 14, 2005 (incorporated by reference to Form 8-K filed with SEC on June 20, 2005).
10.23	Form of Stock Purchase Warrant dated June 14, 2005 (incorporated by reference to Form 8-K filed with SEC on June 20, 2005).
10.24	Registration Rights Agreement dated June 14, 2005 by and among the Company and New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (incorporated by reference to Form 8-K filed with SEC on June 20, 2005).
10.25	Security Agreement dated June 14, 2005 by and among the Company and New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (incorporated by reference to Form 8-K filed with SEC on June 20, 2005).
10.26	Intellectual Property Security Agreement dated June 14, 2005 by and among the Company and New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC (incorporated by reference to Form 8-K filed with SEC on June 20, 2005).
10.27	Amendment to 10% Secured Convertible Notes by and between the Registrant and the Note Holders indicated on the signature page thereto. (incorporated by reference to Form SB-2/A filed with SEC on July 1, 2005).
21.1	Subsidiaries of Grant Life Sciences, Inc. (1)
23.1	Singer Lewak Greenbaum & Goldstein LLP (Filed herewith)
23.2	Russell Bedford Stefanou Mirchandani LLP (Filed herewith)
23.3	Consent of Sichenzia Ross Friedman Ference LLP (see exhibit 5.1).

(1) Previously filed as an exhibit to registration statement on Form SB-2, file number 333-119425**,** filed September 30, 2004

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned, in the city of Los Angeles, state of California on December 27, 2006.

GRANT LIFE SCIENCES, INC.

By: /s/ Dr. Hun-Chi Lin
Dr. Hun-Chi Lin
President and Director (principal executive officer)

POWER OF ATTORNEY

In accordance with the requirements of the Securities Act of 1933, this registration statement was signed by the following persons in the capacities and on the dates stated:

Signature	Title	Date
* Stan Yakatan	Chairman of the Board	December 27, 2006
/s/ Dr. Hun-Chi Lin Dr. Hun-Chi Lin	President, Chief Scientific Officer and Director (principal executive officer)	December 27, 2006
* Don Rutherford	Chief Financial Officer (principal financial officer and chief accounting officer)	December 27, 2006
* Michael Ahlin	Vice President and Director	December 27, 2006
* Jack Levine	Director	December 27, 2006

* By Dr. Hun-Chi Lin, authorized under Power of Attorney filed with Form SB-2 (File No. 333-137774), filed with the Securities and Exchange Commission on October 3, 2006.