Cobalis Corp
Form 10KSB
July 16, 2007

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

FORM 10-KSB

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended March 31, 2007

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 000-49620

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

Nevada	91-1868007
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2445 McCabe Way, Suite 150, Irvine, California 92614
(Address of principal executive offices)

(949) 757-0001
(Issuer's Telephone Number)

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practical date. As of June 14, 2007 there were 40,372,555 shares of the issuer's $.001 par value common stock issued and outstanding.

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 o

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. o

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

State issuer's revenues for its most recent fiscal year: $0.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.) As of July 13, 2007, approximately $5,072,156.51.

Documents incorporated by reference. There are no annual reports to security holders, proxy information statements, or any prospectus filed pursuant to Rule 424 of the Securities Act of 1933 incorporated herein by reference.

Transitional Small Business Disclosure format (check one): o Yes x No

PART I

Item 1. Description of Business.

Cobalis Corp. ("We", "Cobalis" or the "Company") is a development stage company. We are a specialty pharmaceutical company that has been focused on the development and FDA approval of PreHistin™, a patented, over-the-counter drug product candidate intended to treat seasonal allergy suffers. Our recently completed twin Phase III trials were inconclusive. If these trials had been successful, we had intended to file an NDA in the second half of 2007 with the FDA for marketing over-the-counter to seasonal allergy suffers.

We are currently reviewing our PreHistin™ clinical trial data and are considering marketing strategies for PreHistin™ to determine if we will pursue additional clinical trials in seasonal allergies, investigate PreHistin™ for other indications, or undertake alternative strategies, including a national and global marketing strategy. PreHistin™ has indications for other atopic allergic diseases including atopic migraine, atopic dermatitis, food allergies and atopic asthma. However, we have not studied any other applications beyond seasonal allergies.

Our Corporate Background. We were incorporated in Nevada in 1997 as Aztec Ventures, Inc., and later changed our name to Togs for Tykes, Inc., while pursuing our former business plans. In 2003, we took the name Biogentech Corp. when we acquired BioGentec Inc. ("BioGentec") as our wholly-owned operating subsidiary and adopted BioGentec's business at that time. BioGentec was incorporated in Nevada on November 21, 2000. We took our current name, Cobalis Corp., in 2004. From 1989 through 2000, Gene Pharmaceuticals, LLC ("Gene Pharmaceuticals") sponsored the initial clinical research and wrote the patents that we own. In November 2000, BioGentec purchased those patents from Gene Pharmaceuticals, though the patents could revert to Gene Pharmaceuticals' ownership if any future royalty payments that may come due are defaulted on. Mr. Armstrong, our chief scientific officer and formerly one of our directors was the managing member and controlling owner of Gene Pharmaceuticals until January 2007. We subsequently adopted all of BioGentec's activities, operations, liabilities and assets, and BioGentec was dissolved in 2006.

Our Product Candidate. PreHistin™ is intended to become the first medication aimed specifically at rectifying imbalances in the immune system that trigger the over-production of allergy symptom-causing substances, including histamine. By preventing or reducing the over-production of histamine before it is released, we believe PreHistin™ represents a novel and compelling alternative to the standard "antihistamine" approach to treating allergic disease. PreHistin™ is in Phase III development for its initial indication for seasonal allergies.

PreHistin™ is a sublingual lozenge containing 3.3 mg of cyanocobalamin that is absorbed through the buccal membrane, allowing direct introduction of the active ingredient into the bloodstream. In this manner, we believe that PreHistin™ is distinguished from orally-ingested cyanocobalamin which first passes through the digestive tract before the active ingredient is systemically available. As described below, the active ingredient in PreHistin™ has been shown to reduce nasal symptoms without the drowsy, sedating side-effects associated with many other allergy medications.

As an easy-to-use sublingual lozenge, we believe that PreHistin™ provides a patient-friendly alternative to unwelcome injections as well as to powerful antihistamines that can often cause unwanted drowsiness and other uncomfortable effects. We have formulated the PreHistin™ lozenge to be dissolved under the tongue twice daily prior to the beginning of the allergy season.

We completed a clinical study in October 2005 with 714 patients. The results of this clinical trial showed that pre-seasonal treatment with PreHistin™ reduced Mt. Cedar allergy symptoms compared with a placebo. In July 2006, we commenced twin pivotal Phase III clinical trials required by the FDA. These studies were conducted as a placebo-controlled, double-blind study with 1,551 seasonal ragweed allergy sufferers. On July 6, 2007, we reported preliminary top-line results which showed that PreHistin™ did not achieve statistically significant results versus

placebo in either trial, and that low ragweed pollen counts may have been the cause for lack of symptomology expressed by placebo patients, rendering the trials inconclusive as to the effect, or lack of effect, of PreHistin™ compared to placebo. We are planning to continue the regulatory quest for FDA approval for allergic rhinitis, but will also consider alternative marketing and partnering strategies.

PreHistin™ is patented in the United States, the European Union and Australia; and has pending patents in other countries. The patents we rely on were purchased from Gene Pharmaceuticals and cover the use of cobalamins for atopic (allergic) diseases, such as seasonal and year-round allergies, asthma, dermatitis, and atopic migraine. Mr. Armstrong, our chief scientific officer and formerly one of our directors, was the managing member and controlling owner of Gene Pharmaceuticals until January 2007. Ownership of the patents could revert to Gene Pharmaceuticals if future royalty payments are not made when they come due.

Scientific Rationale of PreHistin™. The human immune system, if working properly, can attack invading viruses, bacteria and other potentially harmful organisms arriving in the body. To launch this attack, the immune system recognizes the invader, and starts a cascade of events that increase the levels of chemicals, including histamine, that are intended to fight off the organisms. This process is exceedingly complicated and sometimes problems arise. Allergic (atopic) individuals - including, but not limited to, people with seasonal allergies, year-round allergies, food allergies, dermatitis, and certain types of migraine and asthma - generally have an immune system that is over-sensitive to even a small trigger and therefore over-produces histamine.

The over production of histamine can result when the ratio of aggressor cells (which help launch the immune response) is high relative to suppressor cells (which prevent the immune system from over-reacting). When such a ratio exists, the production of the antibody immunoglobulin E (IgE) is favored. Generally allergic individuals have higher levels of IgE than non-allergic individuals. There are specific types of IgE, such as cat-IgE or ragweed-IgE. When these specific types of IgE come in contact with cat or ragweed proteins, they connect to a mast cell in a way that causes the mast cell to break apart and spill histamine out into the blood. Finding ways to reduce IgE has been a much-sought-after focus of many pharmaceutical companies in search of new allergy and asthma drugs.

Current modes of over-the counter allergy treatments focus on blocking the action of histamine after it is released. It is believed that PreHistin™ may rebalance certain cells in the immune system so that their ratio is similar to that of a non-allergic individual. This intervention in the immune system comes at a point in the cascade before the release of histamine, hence we have coined the term “prehistamine”, use the phrase “The World’s First Prehistamine”, and call the product “PreHistin™.”

Our Suppliers. We believe that the active ingredients needed to produce our developmental product are readily available through several manufacturers, domestically and internationally, including major pharmaceutical corporations. Aventis Pharma is a primary source for us. We do not have a written agreement with Aventis Pharma, however, we believe we would be able to obtain the ingredients needed to produce our product from other sources should Aventis Pharma cease to be a source of ingredients for us.

Our Manufacturing. We engaged Advanced Botanicals Ltd., a certified good manufacturing practices ("GMP") manufacturer, to produce the Phase III trial medications. We believe that the manufacturer selected is FDA approved and able to accommodate the anticipated demand. There is no guarantee that the manufacturer will continue to meet our requirements, but we believe we could identify and engage alternate sources of manufacturing capacity in the event we needed to do so. Each active lozenge contains 3300 mcg (3.3 mg) of pharmaceutical grade cyanocobalamin.

Our Patent Purchase Agreement. In 2000, we purchased the patents underlying our principal product (formerly known as "Immun-Eeze"), along with pending international patent applications, and certain other tangible assets and related trademarks, copyrights and customer lists (“operating assets”) from Gene Pharmaceuticals for $150,000 plus royalties, including royalties tied to future sales. Ernest Armstrong, our chief scientific officer and, from 2004 to 2007, one of our directors, was the managing member of Gene Pharmaceuticals.

In August 2002, the parties agreed to postpone the payment of royalties in exchange for 250,000 options to purchase shares of our common stock at $1.10 per share. These options were never granted; in December 2002, the parties agreed to supersede the terms of the August 2002 addendum by amending the original agreement to include an additional issuance of 2,000,000 shares of our common stock to Gene Pharmaceuticals of BioGentec's (i.e. Cobalis’)

common stock at $2.00 per share, plus royalties of 1.5% of gross sales of products.

In February 2004, the parties agreed that a "Revised Asset Purchase Agreement" would provide for the following: we would grant Mr. Armstrong 1,000,000 options to purchase shares of our common stock at $2.00 per share, expiring seven years from the date of the revised agreement; the grant by St. Petka Trust to Mr. Armstrong the option to purchase 1,200,000 shares of our common stock held by St. Petka at $2.00 per share, expiring seven years from the date of the revised agreement; Gene Pharmaceuticals LLC's agreement to remove the antidilution clause from the Memorandum of Agreement in exchange for the issuance of 20,000 shares; the 1.5% royalty shall be amended to include a survivability clause; Mr. Armstrong is to be employed by us at an annual salary of $100,000, and annual bonuses. The specific terms have been finalized and in that regard, the Revised Asset Purchase Agreement is currently being drafted. However, in the event that we do not pay royalties accruing pursuant to these agreements, then ownership of the patents could revert to Gene Pharmaceuticals.

In November 2006, and pursuant to the requirements of our funding arrangement with Cornell Capital, as described herein, Gene Pharmaceuticals affirmed our right to assign our operating assets to Cornell Capital to secure our agreements with Cornell Capital, as memorialized in an asset pledge statement executed by Gene Pharmaceuticals. If we default on our agreements with Cornell Capital, ownership of all our assets, including these operating assets, is subject to transfer to Cornell Capital.

Our Channels of Distribution. We may license PreHistin™ to a large pharmaceutical company or, alternatively, we may retain the rights to PreHistin™ and collaborate with a large pharmaceutical distributor or pursue other marketing alternatives, partnerships or channels. There are a number of established distributors in the U.S. healthcare market with the capability to distribute over-the-counter drugs. There are also other marketing, manufacturing and distribution strategies and marketing channels with potential for distributing PreHistin™. We currently do not have an agreement with a pharmaceutical company or any distributor, or other marketing partner.

Our Intellectual Property. Our success depends in part upon our ability to preserve our current intellectual property rights and those we may acquire in the future. Our success will also depend in part on our ability to operate without infringing the proprietary rights of other parties. However, we may rely on certain proprietary technologies, trade secrets, and know-how that are not patentable or protectable by other means.

Our patents cover the use of cobalamins for allergic diseases, referred to as atopic, such as seasonal and year-round allergies, asthma, dermatitis, and atopic migraine. The patents are:

Granted Patents:

Country	Patent No.	Title	Exp. Date
United States	6,255,294	"Cyanocobalamin Treatment in Allergic Disease"	12/28/19
United States	5,135,918	"Method for Reducing Reagenic Antibody Levels (IgE)"	08/04/09
Australia	771,728	"Cyanocobalamin Treatment in Allergic Disease"	12/28/19
European Union	1128835	"Cyanocobalamin Treatment in Allergic Disease"	12/28/19
Mexico	Allowed	"Cyanocobalamin Treatment in Allergic Disease"	12/28/19

Pending Patents:

Country	Application No.	Title
Canada	2,358,054	"Cyanocobalamin Treatment in Allergic Disease"
Japan	P2002-533399A	"Cyanocobalamin Treatment in Allergic Disease"

Although we believe that the subject matter covered by our patents and pending patent applications purchased from Gene Pharmaceuticals, LLC has been developed independently and does not infringe on the patents of others, there can be no assurance that the technology does not and will not infringe on the patents of others. In the event of infringement, we could, under certain circumstances, be required to modify the infringing product or process or obtain

a license. There can be no assurance that we would be able to do either of those things in a timely manner or at all, and failure to do so could harm us and our business. In addition, there can be no assurance that we will have the financial or other resources necessary to enforce a patent infringement or proprietary rights violation action or to defend ourselves against such actions brought by others. If any of the products or processes we developed infringe upon the patent or proprietary rights of others, we could, under certain circumstances, be enjoined or become liable for damages, which would harm our business.

Trademarks. We currently use or propose to use the trademarks or trade names “Cobalis,” “PreHistin,” “Pre-Histamine,” “The World’s First PreHistamine” and “Prevahist” to distinguish our brands from others. We hope to obtain registration for our trademarks for our product candidates in the future. Current status of trademark applications:

Country	Trademark	Appl./ Reg. No.	Granted/Allowed	Note
United States	COBALIS	78378186	07/19/05	Notice of Allowance
United States	PREHISTIN	78378191	03/15/05	Notice of Allowance
Australia	PREHISTIN	10588099	05/31/05	Registered
South Korea	PREHISTIN	624573	07/12/05	Registered

Obtaining a trademark will grant us the exclusive right to use or license such trademarks and will substantially assist us in the protection of our brand name and image. Once obtained, we will regard the license to use any trademarks we acquire and any other proprietary rights in and to the trademarks as assets in the marketing of our products and we will actively seek to protect them against infringement. If we establish our brand, we may also create an enforcement program to control the sale of counterfeit products in the United States and in major markets abroad. We believe that any trade names and trademarks developed can be helpful in garnering broad market awareness of our products and will be significant in marketing our products. Therefore, we propose to adopt a policy of vigorous defense of our trademarks against infringement under the laws of the United States and other countries.

Our Websites. We have developed a corporate site, www.cobalis.com, targeted to the corporate and health professional community that describes the science behind our flagship allergy prevention product, PreHistin™. In addition, the site contains information that we believe is of value to the consumer, the allergy sufferer. We intend to update the site to include the latest news and information about PreHistin™.

Under current domain name registration practices, no one else can obtain a domain name identical to ours, but someone might obtain a similar name, or the identical name with a different suffix, such as ".org", or with a country designation. The regulation of domain names in the United States and in foreign countries is subject to change, and we could be unable to prevent third parties from acquiring domain names that infringe or otherwise decrease the value of our domain names.

We currently own the following domain names: cobalis.com, cobalis.net, prehistin.com, prehistin.net, prevahist.com, prevahist.net, alleratin.com, biogentec.com and prehistin.com.au.

FDA Approval. Government regulation in the United States is a significant factor in the production and marketing of new drugs. The FDA must approve all new over-the-counter and prescription drugs, which includes any new use for a substance even if previously used safely for a different purpose. In the U.S., companies are subject to rigorous requirements in order to engage in the human clinical testing that must be conducted to gain approval for a drug. To begin clinical testing, a company must comply with mandatory procedures and safety standards established by the FDA and apply to the FDA for consent. The application requires a summary of previous work carried out on drug characterization, toxicity and safety, as well as an in-depth description of the proposed clinical trials, which occur in following three phases:

- Phase I trials are designed to measure the early safety profile and the pattern of drug distribution and metabolism.
- Phase II trials are aimed at determining preliminary efficacy and optimal dosage, and to expand the evidence regarding safety.
- Phase III trials are conducted to provide enough data for statistical evaluation of efficacy and safety.

Our primary goal has been to obtain regulatory marketing approval for PreHistin™ as an over-the-counter drug for seasonal and year-round allergies in the United States and abroad. The FDA has indicated that there is no distinction

in the over-the-counter environment between seasonal allergies and year-round allergies. However, our clinical trials have been conducted with seasonal allergy sufferers, so even if our trials were successful, and PreHistin™ subsequently received marketing approval, there would be no assurance that we would be able to market for an indication in perennial allergies.

We have correspondence from the FDA that suggests that our molecule can be used chronically and that there is no differentiation between perennial and seasonal allergies in the OTC category. In addition, FDA has written to us that they have no safety concerns with systemic use of cyanocobalamin, and the USDA has indicted that there are no upper dosage limits for cyanocobalamin.

In 2004, we sponsored a 714-patient double-blind, placebo-controlled, multi-center randomized study on allergy sufferers sensitive to Mt. Cedar in Central Texas to test various PreHistin™ regimens of 3.3 mg cyanocobalamin lozenges BID for reducing the severity of allergy symptoms (Protocol SP1027). In October 2005, we reported results of this trial. The statistical analysis employed to evaluate the results utilized a modified intent to treat and an ANOVA (ANalysis Of VAriance) model to determine the treatment effects for the four arm study, and certain assumptions used were not specified in the statistical analysis plan (SAP). Although we believe that the data resulting from this clinical trial demonstrated that patients who were administered PreHistin™ showed a statistically significant reduction of allergy symptoms when the modified analysis was applied, the data most likely will be viewed by the FDA as supportive data and not as pivotal Phase III results required to secure approval.

In January 2006, we were notified by the FDA that the marketing approval process for PreHistin™ would be conducted within the FDA by the Office of Nonprescription Products, the branch of the FDA which handles over-the-counter drug products. Previously the Division of Pulmonary and Allergy Drug Products had handled our approval process (IND number 68,994). We believe this is a positive development since, as an FDA-approved over-the-counter drug, PreHistin™ would not require a doctor's prescription, thus making consumer purchases easier, faster and more convenient.

In April 2006, we submitted a protocol to the FDA (Protocol DF0107) for a Phase III study on ragweed sensitive seasonal allergy patients in the central and eastern United States. In June 2006 the FDA notified us by letter regarding that protocol stating that our two proposed study designs were “acceptable”. From the time we had submitted Protocol DF0107 for review by the FDA in early April 2006, until June 2006, the protocol had changed with the following notable exceptions:

- There are two study arms in two studies (Protocol RA3333 and Protocol RA5555), one with a placebo lozenge BID and one with a 3.3mg cyanocobalamin lozenge BID. Each arm in each study is between 312 and 500 patient-volunteers.

- Patients are to keep symptom diaries for 10 consecutive weeks. Patients are to receive a bottle of nasal saline, ocular saline and a supply of loratadine 10 mg sufficient for them to take, if required, from Week 7 to Week 10. (As with the prior protocol, the patients are to use the study medication from Week 1 to Week 6, with Weeks 4, 5 and 6 being the primary endpoint.)

In June 2006, we announced that we intended to initiate two identical, Phase III clinical trials of our anti-allergy medication PreHistin™ in patients with seasonal allergic rhinitis. The randomized, double blind, placebo-controlled studies are intended to assess the efficacy, overall safety and tolerability of our flagship drug PreHistin™ to prevent the onset and reduce the severity of ragweed allergy symptoms. We commenced these studies in July 2006 with the intention of using them in conjunction with our Mt. Cedar study as the primary basis for submitting an application to FDA for marketing approval

The new study design called for two simultaneously conducted Phase III clinical trials, each comprised of one placebo arm and one active arm receiving 3.3 mg of sublingual PreHistin™ administered twice daily for the six weeks of the study. In July 2006, we conducted the double-blind, placebo-controlled trials will be conducted at 23 sites throughout the United States during the Ragweed allergy season. The trials utilized electronic diary records to assess improvement in the severity of nasal allergy symptoms. A total of 1,551 patients were randomized into the twin studies to receive either placebo or PreHistin™ for three weeks prior to the onset of the allergy season, and for an additional three weeks into the season. The patients' dosing regimens were completed in October 2006.

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Human clinical trials are very expensive and difficult to design and implement, in part because they are subject to rigorous regulatory requirements. The clinical trial process is also time-consuming. Failure of the trials can occur as a result of cost overruns or other financial considerations. Furthermore, failure can occur at any stage of the trials, and we could encounter problems that cause us to abandon or repeat clinical trials.

In late May 2007 we delayed reporting preliminary top-line analyses from the ragweed trials due to observed data inconsistencies. To evaluate whether these inconsistencies were sufficient to represent a systematic error that could affect the outcome of the analyses, we engaged an expert external consultant to conduct an audit of the electronic diary database. The study audit found that the electronic diary system functioned correctly and the diary data entered by the patients were correct. The inconsistencies noted earlier proved to be primarily human errors that were corrected and did not alter the study outcomes.

On July 6, 2007 we reported that the preliminary top-line results showed PreHistin™ did not achieve statistically significant differences from placebo in the primary measure of efficacy, the reduction in total nasal symptom score (TNSS). Importantly, the data showed that the TNSS for placebo-treated patients was far lower than would be expected for the moderate to moderately severe patient population called for in the protocol. Low pollen counts in many of the regions during the time PreHistin™ was being tested may have resulted in low mean placebo scores for the overall study population, leaving no room to demonstrate a meaningful drug effect, or lack thereof, between those patients receiving PreHistin™ and those receiving placebo.

Although efficacy results were inconclusive, the trials showed that PreHistin™ was well tolerated and thus contributed positively to the safety record of PreHistin™'s active ingredient, cyanocobalamin. Also, a comparison of pre- and post-treatment blood serum levels of cobalamin demonstrated for the first time in large study populations that delivery of cyanocobalamin via sublingual lozenges resulted in average blood serum cobalamin levels being significantly increased.

Going forward, we will continue pursuing FDA approval of PreHistin™ as an OTC drug if we assess the prospects for such approval to be favorable, but we will also evaluate other potential marketing channels.

Our Research and Development. During each of the last two fiscal years, we have had expenditures for research and development activities of $3,822,047 for the year ended March 31, 2007 and ($352,937) for the year ended March 31, 2006. These include expenses for our Phase III clinical trials. Because our product is not yet in production, there are no costs borne by customers.

Our Marketing Strategy. We are currently evaluating our marketing alternatives. If the Company continues to develop PreHistin™ and receives FDA approval in allergic rhinitis, we would look to partner with a pharmaceutical manufacturer/distributor that already has the extensive infrastructure and relationships to fulfill the logistics of a nationally distributed over-the-counter product. Pursuing this strategy, we would out-license either the manufacturing/packaging and distribution rights together or separately to one or more marketing partners. We could pursue such licensing opportunities in the United States as well as various international markets where we have patent protection and where we believe we would find either significant sales potential and/or significant strategic value. Additionally, we would have the option to bring PreHistin™ to market ourselves or through a contract distributor as an alternative to pharmaceutical partner. Similarly, we could determine that other potential marketing channels would best leverage the PreHistin™ franchise. In that case, we would look to identify strategic partners to assist in the manufacturing/packaging, media and fulfillment in the United States as well as various international markets. While we have had initial conversations with a number of pharmaceutical, contract distributors and other potential marketing channel prospects, there is no guarantee that we will be able to secure profitable marketing channels for PreHistin™, and such strategies would require additional capital.

Our Competition. The market for allergy relief preparations, which we intend to enter, is characterized by intense competition. We will be competing against well-capitalized, established pharmaceutical companies which currently

market products similar to what we intend to market. We estimate that prices of drug products are significantly affected by competitive factors and tend to decline as competition increases. In addition, we believe that numerous companies are developing or may, in the future, engage in the development of products that could be competitive with our product candidates. We expect that technological developments will occur at a rapid rate and that competition is likely to intensify as the demand for over the counter and cost-competitive allergy relief preparations grows. We seek to enhance our competitive position by distinguishing our product as a preventative allergy treatment from those that mitigate symptoms once they occur. It is difficult to estimate our position with regard to competitors in this market before obtaining FDA approval with regard to selling our product candidate, and there is no guarantee that the FDA will approve our product candidate at the end of our regulatory process.

Government Regulation. We believe that we will experience minimal direct costs and effects of compliance with environmental laws and other such federal, state and local regulations, in that we intend to outsource all manufacturing and distribution operations to companies that comply with Good Manufacturing Practice ("GMP") regulations and other applicable laws and regulations. We believe we are otherwise in compliance with governmental regulations on our business, which include regulations relative to the approval of our products for sale as a nutritional supplement, over-the-counter medications or prescription medications. Also refer to “FDA APPROVAL” section above.

Our Clinical Development Contracts. As we advance through the marketing approval process for PreHistin™, there are several organizations and individuals we rely on to help us with the clinical research and related regulatory affairs. Recently, we have made the following contracts:

- Data Med Devices of Lake Forest, California, is serving as our clinical research organization (CRO) by providing such services as study guidance, clinical study monitoring and data management.

- United BioSource Corp. of San Francisco, California, is providing the patient diaries, in which study subjects call in or log on to record their daily allergy symptoms throughout the study.

- Advanced Botanicals Ltd. of Richmond, British Columbia, Canada, is manufacturing the study drug.

- MedTox Labs of St. Paul, Minnesota, is providing lab services which assay the subjects’ blood and urine samples for safety and other blood samples for changes in IgE concentrations.

We also have contracts with each of the 23 study sites and investigators to conduct our twin pivotal clinical trial studies in their clinics.

Future Products. In addition to, or as an alternative to PreHistin™ for allergic rhinitis, we could develop and market additional indications in atopic disease for PreHistin™, such as migraines, dermatitis and asthma. We also intend to consider other product opportunities that could broaden our portfolio of product candidates. However, our current focus and development efforts are on PreHistin™ for the treatment of seasonal allergies.

Employees. We currently have five full-time employees. We believe that our relations with our current employees are good. We are not party to any collective bargaining arrangements.

Item 2. Description of Property.

Property Held. As of the date specified in the following table, we held the following cash and property:

Property	March 31, 2007	March 31, 2006
Cash and Equivalents	$389,263	$526,691
Property and Equipment, net	$2,679	$8,419

Our property and equipment consists of computers and office furniture.

Facilities. Our executive, administrative and operating offices are located at 2445 McCabe Way, Suite 150, Irvine, California, 92614. Our facilities measure 5,455 square feet. At March 31, 2006, our lease had been renewed through March 31, 2008, with rental payments due at a rate of $12,001 per month for the first year, and $12,546.50 per month for the subsequent year of the term, plus the issuance of shares of our common stock to the principals of the company serving as our landlord. We believe these facilities are adequate for our current and projected requirements as we intend to outsource all manufacturing and distribution.

Item 3. Legal Proceedings.

The following are legal actions pending against us and those we contemplate entering into at this time:

Former Leased Office Space: We were a defendant in a suit brought by our former landlord for breach of lease agreement and alleged unpaid rent in the County of Orange, Superior Court of California, Case No. 03CC02904. This lawsuit was settled in January 2007 pursuant to a settlement agreement and a payment of $185,000.

InnoFood/Modofood: On July 28, 2003, we entered into a Stock Exchange Agreement ("InnoFood Agreement") with InnoFood Inc. ("InnoFood") wherein we agreed, among other things, to provide InnoFood with funding totaling $5,000,000 in exchange for, among other things, 100% interest in InnoFood. The completed purchase of InnoFood was not to occur until the $5,000,000 funding was delivered. Under the InnoFood Agreement, we were obligated to provide InnoFood with the funding on or before December 31, 2003. We did provide InnoFood with $2,220,000. We have confirmation that $1,850,000 of the funds provided to InnoFood was sent to Modofood S.P.A., an Italian company ("Modofood"). InnoFood originally entered into a licensing agreement with Modofood to market and distribute Modofood's food processing technology. On October 17, 2003, we entered into a Letter of Understanding ("LOU") with InnoFood to restructure the relationship between ourselves and InnoFood. We believe that InnoFood and certain related individuals may have intentionally misled our management regarding certain material matters.

On January 8, 2004, InnoFood sent us a letter attempting to terminate the original InnoFood Agreement and the October 17, 2003 LOU. InnoFood claimed that we breached both the InnoFood Agreement and the LOU by failing to provide the funding called for under those agreements. With the letter of termination, InnoFood delivered a signed promissory note agreeing to pay back $2,160,000 (net of $60,000 interest InnoFood charged to us for non-payments). The promissory note accrues interest at 10% and is due and payable on or before January 15, 2009. Though we did not accept that note, we believe that this promissory note represents an acknowledgment of InnoFood's debt to us.

In late 2006, we filed a complaint entitled Cobalis Corp. v. InnoFood, Reynato Giordano, James Luce, Robert Dietrich, Randal Lanham, in Orange County Superior Court, California, Case No. 06CC10355, to attempt to recapture the funds transferred to InnoFood and acquire any intellectual property related to the food preservation process at issue. On March 3, 2007 Randal Lanham filed a cross complaint which was amended on May 28, 2007. Cobalis and cross-defendant Chaslav Radovich filed a Demurrer to the Lanham cross complaint for which a hearing date has been set for August 17, 2007. We intend to vigorously prosecute this matter, though as with any litigation, there is no guarantee of a favorable outcome.

Gryphon Master Fund, LP. On November 8, 2004, Gryphon Master Fund, LP, (“Gryphon”) filed a lawsuit against us in United States District Court, Northern District of Texas, Dallas Division, Case No. 3:04-CV-2405-L. The lawsuit sought repayment of a $600,000 convertible note payable, accrued interest on the convertible note payable within the prescribed period, penalties for failing to register shares underlying the conversion of the convertible note payable, attorneys fees and court costs. In March 2006, we entered into settlement agreement with Gryphon where both parties agreed to dismiss any and all current and future claims, legal proceedings and litigation upon full satisfaction of the settlement agreement.

The settlement, which relates to two investments in us totaling $1.6 million made by Gryphon in September 2003, includes an agreed judgment totaling $1.6 million. Of the remaining unconverted instruments, Gryphon is also eligible to convert its convertible note and convertible preferred stock it holds to 508,334 shares of our common stock. Under the settlement agreement, full repayment of the $1.6 million was due on or before April 1, 2007. We do not make the payment by April 1, 2007; therefore, the stipulated judgment into which we entered with Gryphon provides that Gryphon has the right to enter a judgment of $1,600,000 against us with the court upon our default.

On April 2, 2007, we filed a motion to vacate an agreed judgment (the “Motion to Vacate”) in the U.S. District Court for the Northern District of Texas, Dallas Division with regard to case #3:04-CV- 2405 between Gryphon Master Fund,

L.P. (“Gryphon”) and us. We based the Motion to Vacate on several grounds including that allegation that Gryphon breached the “no shorting” provision contained in the settlement agreement. We believe, and so allege in the Motion to Vacate, that despite Gryphon’s agreement, Gryphon engaged in shorting of our stock. Since June 2007, Gryphon has aggressively been moving forward with judgment collection activities, including, but not limited to, conducting a debtor’s exam, levying our bank accounts and attaching our assets to the extent such assets are not already encumbered.

On April 23, 2007, Gryphon sued us for breach of contract in the same U.S. District Court as above, Case #3:07-cv-00701B. This new lawsuit alleges that we breached a settlement agreement with Gryphon. Gryphon is also seeking a declaratory judgment that it did not breach the same settlement agreement. Gryphon's alleged breach of the settlement agreement is the subject of our Motion to Vacate. In addition to the declaratory relief, Gryphon's complaint seeks unspecified damages and attorneys' fees. On April 23, 2007, Gryphon also filed an opposition to our Motion to Vacate repeating the same allegations. A trial date is scheduled for the September 2007 docket.

There is no guarantee that we will be successful in vacating the judgment or in defending the new lawsuit. If we are unsuccessful in vacating the judgment or in defending the subsequent lawsuit, and, if we are unable to subsequently timely resolve the Gryphon matter or raise capital to satisfy the judgment, our ability to move our business forward could be adversely affected.

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

On April 18, 2006, we filed an answer to the complaint, denying the allegations by Mr. Vekovic. On the same date, we also filed a cross-complaint for rescission of the consulting agreement, on the grounds that Mr. Vekovic made numerous material misrepresentations intended to fraudulently induce us to enter the consulting agreement and to issue to Vekovic 112,500 shares of our S-8 common stock. Through our cross-complaint, we sought to rescind the consulting agreement and seek restitution from Mr. Vekovic in an amount no less than the price for which Mr. Vekovic sold the 112,500 shares of our S-8 common stock, plus all or some portion of the compensation paid to Mr. Vekovic, given that we believe Mr. Vekovic substantially failed to perform the consulting services which were the subject of the consulting agreement. We also sought to recover attorneys' fees incurred in the defense of the complaint and the prosecution of our cross-complaint, pursuant to the attorneys' fee provision in the consulting agreement. On March 5, 2007, we entered into a settlement agreement with Mr. Vekovic with regard to this case, whereby we agreed to register on a future Form S-8 and issue 50,000 shares to Mr. Vekovic in addition to a grant of 25,000 warrants to purchase shares of our common stock at $1.75 per share, expiring December 31, 2009.

Europacific Consulting, Inc. This action was filed on May 23, 2006 in the Supreme Court of New York, County of New York, Case No. 601830/06. Europacific Consulting, Inc. ("Europacific") is a New York corporation whose sole shareholder and director is Antonio Treminio. Europacific is suing for alleged breach of oral contract and damages of $250,000. Europacific alleges that Cobalis orally engaged Europacific to perform certain services for us, including introductions to potential board members, qualified investors and strategic alliances for our product line. We issued 20,000 shares to Europacific in January 2005, and canceled those shares in May 2005. In October 2006, we settled this case by rescinding our stop order on those 20,000 shares.

Cappello Capital Corp. In March 2005, we entered into an agreement with Cappello Capital Corp. ("Cappello") for investment banking and related financial services. Pursuant to a financing agreement, we issued 100,000 shares as an initial retainer. We believe that Cappello did not perform per the agreement, but no settlement can be guaranteed.

Noel Marshall. On March 1, 2007, we became aware for the first time of the complaint for damages, Case # 07CC03208 filed in Superior Court Orange County California, entitled Noel Marshall v. Cobalis Corp. Chas Radovich, Radul Radovich, Dragica (Beba) Radovich, R.R. Holdings, Biogentec, Silver Mountain Productions and St. Petka Trust, alleging breach of contract, fraud, constructive trust, money had and received, and account stated (the "Marshall Action"). In the Marshall Action, plaintiff is alleging, among other things, that certain misrepresentations were made with the intent of inducing plaintiff to purchase shares of our common stock. We believe this lawsuit is frivolous and without merit. We intend to vigorously defend this matter. As with any litigation, there is no guarantee of a favorable outcome.

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Item 4. Submission of Matters to Vote of Security Holders

Reference is made to the Form 8-K filed on March 1, 2007 with regard to the meeting of special shareholders held on that same date.

PART II

Item 5. Market Price for Common Equity and Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities.

Reports to Security Holders. We are a reporting company with the Securities and Exchange Commission, or SEC. The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E, Washington, D.C. 20549. The public may also obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-551-8090. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is http://www.sec.gov.

Prices of Common Stock. We participate in the OTC Bulletin Board, an electronic quotation medium for securities traded outside of the Nasdaq Stock Market, and prices for our common stock are published on the OTC Bulletin Board under the trading symbol "CLSC". This market is extremely limited and the prices quoted are not a reliable indication of the value of our common stock.

Following is information about the range of high and low bid prices for our common stock for each fiscal quarter since our stock commenced trading. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

Quarter Ended	High Bid Quotation	Low Bid Quotation
03/31/05	$ 0.62	$ 0.57
06/30/05	$ 0.57	$ 0.54
09/30/05	$ 0.58	$ 0.55
12/31/05	$ 1.76	$ 1.64
03/31/06	$ 1.88	$ 1.79
06/30/06	$ 1.10	$ 1.02
09/30/06	$ 1.10	$ 1.02
12/31/06	$ 1.00	$ 0.85
03/31/07	$ 0.77	$ 0.71
06/30/07	$ 0.37	$ 0.33

Common Stock. We are authorized to issue 100,000,000 shares of $.001 par value common stock and 5,000,000 shares of $.001 par value preferred stock. As of June 29, 2007, there were 276 record holders of our common stock and there were 40,372,555 shares of our common stock issued and outstanding. There are no other outstanding options or warrants to purchase securities convertible into, shares of our common stock, except for the following:

Preferred Stock. In March 2007, the 500 shares of our preferred stock that were previously issued and outstanding were converted into 208,334 shares of our common stock, in accordance with the preferences and designations of that class of preferred stock.

Options. We have 6,141,667 options to purchase shares of our common stock currently outstanding; of these 3,390,442 are currently vested and exercisable.

Warrants. There are 12,955,446 warrants to purchase shares of our common stock currently outstanding; of these all are currently exercisable.

Dividends. There have been no cash dividends declared on our common stock. Dividends are declared at the sole discretion of our Board of Directors.

Equity Compensation Plans.

Stock Option and Award Plan. On October 17, 2006, our board of directors adopted our 2006 Stock Option and Award Plan ("2006 Plan). The 2006 Plan is administered by the Board. The 2006 Plan will allow us to continue to grant stock options and other equity awards at levels determined appropriate by the Board. The 2006 Plan will also provide us with continued flexibility in designing equity incentives in an environment where a number of companies have moved from traditional option grants to other stock or stock-based awards, including stock appreciation rights, restricted stock awards, restricted stock unit awards, performance stock awards, and performance cash awards. Accordingly, the 2006 Plan will allow us to utilize a broad array of equity incentives in order to secure and retain the services of our employees, consultants and directors, and to provide incentives for such persons to exert maximum efforts for our success and the success of our affiliates.

The table below reflects the options covered by our 2006 Plan and by our 2002 Stock Option Plan, which was never formally memorialized.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights(b)	Number of securities remaining available for future issuance under equity compensation (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	N/A	N/A	N/A
Equity compensation plans not approved by security holders	6,141,667	$1.58	N/A
Total	6,141,667	$1.58	N/A

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities.

Sale of Common Stock:

For the year ended March 31, 2005:

During the three months ended June 30, 2004 we issued common stock for the following:

- 170,000 shares valued at $314,500 related to a forbearance agreement related to the convertible note payable;
- 10,000 shares valued at $17,500 for consulting services; and

- 371,317 shares valued at $594,107 for the conversion of certain accounts payable and amount payable to related parties.

During the three months ended September 30, 2004, we issued the following shares of our restricted common stock:

- 100,000 shares to Marinko Vekovic for services valued at $75,000;
- 75,000 shares to Equity Media Ltd. for services valued at $82,500; and
- 857,143 shares to James Hammer for the conversion of notes payable and accrued interest valued at $1,500,000 or $1.75 per share and additional warrants to be determined.

During the three months ended December 31, 2004, we issued the following shares of our restricted common stock:

- 100,000 shares to Tejeda & Tejeda, Inc. for services valued at $255,000;
- 200,000 shares to Basic Investors for services valued at $573,750;
- 50,000 shares to Sima Zivic for services valued at $127,500;
- 5,000 shares to David Myering for services valued at $7,250;
- 55,186 shares to Research Works, Inc. for services valued at $71,742; and
- 8,490 shares to Omni Capital Corp. for services valued at $11,037.

During the three months ended March 31, 2005 we issued the following shares of our restricted common stock:

- 1,250 shares to Catherine Posey for consulting services related to clinical trials;
- 75,000 shares to Jason Lyons for consulting services;
- 30,000 shares to Tejeda & Tejeda, Inc. for consulting services;
- 25,000 shares to Ibis Consulting Group for consulting services;
- 100,000 shares to Lawrence May, our board member at the time, for related consulting services;
- 15,000 shares to Sean Mulhearn and 15,000 shares to Melinda Mulhearn for consulting services related to the manufacture of our product;
- 200,000 shares to the Wells Group for consulting services related to financial public relations;
- 150,000 shares to Cyndel & Co, Inc. for consulting services, which we subsequently cancelled; we are in the process of having these shares rescinded.
- 48,000 shares to Seth Shaw for consulting services;
- 12,000 shares to David Hovey, Jr. for consulting services;
- 60,000 shares to Sean Mulhearn for consulting services; and
- 37,500 to Tejeda & Tejeda Inc. for consulting services.

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

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

For the year ended March 31, 2006:

During the three months ended June 30, 2005, we issued the following shares of our restricted common stock:

- 100,000 shares to Cappello Group for finance advisory services valued at $59,000;
- 112,500 shares to Tejeda & Tejeda, Inc. for services valued at $69,750;
- 25,000 shares to Lawrence Wolfe for product manufacturing services valued at $15,500;
- 25,000 shares to Matthew Clayton for product manufacturing services valued at $15,500;
- 100,000 shares to Robert Lanthier for services valued at $65,000;
- 10,000 shares to Karin Carter for general corporate legal services valued at $6,500;
- 160,000 shares to Noel Marshall for services valued at $72,000; and
- 40,000 shares to Tracy Hatland for services valued at $18,000.

During the three months ended September 30, 2005, we issued the following shares of our restricted common stock:

- 10,000 shares to Kathryn Tsang for data entry clinical trial services valued at $6,000;
- 125,000 shares to B.J.S. Consulting LLC for services valued at $76,250;
- 50,000 shares to Tejeda & Tejeda, Inc. for financing costs valued at $30,500;
- 100,000 shares to Steve Barnes for services valued at $48,000;
- 30,000 shares to Kevin Pickard for accounting services valued at $15,000;
- 50,000 shares to Tejeda and Tejeda, Inc. for services valued at $21,000;
- 50,000 shares to Jorge Tise for services valued at $25,000; and
- 25,000 shares to Melany Shivelman for services valued at $12,500.

During the three months ended December 31, 2005, we issued the following shares of our restricted common stock:

- 50,000 shares to William Lareese for services valued at $23,500;
- 100,000 shares to Kevin Prendiville for services valued at $53,000;
- 20,000 shares to Andre Baillargeon for services valued at $10,000;
- 125,000 shares to the Brad Chisick Trust for pre-paid interest valued at $72,500;
- 50,000 shares to Steve Barnes for finance advisory services valued at $29,000;
- 150,000 shares to James Hammer for the conversion of $262,500 of debt;
- 50,000 shares to Deron Colby for general corporate legal services valued at $35,000;
- 50,000 shares to Mark Stewart for services valued at $26,000;
- 30,000 shares to Brian Strickel for services valued at $26,700;
- 55,000 shares to Lyndon Mansfield for clinical trials services valued at $48,950; and
- 125,000 shares to Marlin Financial Group for services valued at $58,750.

During the three months ended March 31, 2006, we issued the following shares of our restricted common stock:

- 150,000 shares to Thomas Stankovich, our chief financial officer and treasurer, at the time, as an employee signing bonus;
- 50,000 shares to Tejeda and Tejeda for finance advisory services;
- 50,000 shares to Gerald Yakatan, our director at the time and subsequently our Chief Executive Officer, for clinical trials advisory services;
- 50,000 shares to Stephen Lanthier for consulting services valued at $70,000;
- 35,000 shares to Steven Barnes for finance advisory consulting services valued at $49,000;
- 5,000 shares to Robert Stillwagon for corporate property lease valued at $7,400; and
- 5,000 shares to David Mileski for corporate property lease valued at $7,400.
- 80,000 shares to Dr. Robert Fishman for consulting services valued at $119,200;
- 20,000 shares to Elmer Carlson for consulting services valued at $32,800;
- 21,467 shares to Steven Barnes for finance advisory consulting services valued at $40,358; and
- 132,450 shares for services related to our clinical trials as follows:
    - 22,000 shares to Dr. Julius Henry van Bavel for services valued at $27,319;
    - 27,200 shares for Dr. Frank C. Hampel for services valued at $34,000;
    - 22,500 shares to Dr. Bruce G. Martin for services valued at $28,154;
    - 17,600 shares to Dr. Robert Lee Jacobs, for services valued at 21,889;
    - 21,100 shares to Dr. Dale E. Mohar for services valued at $26,361; and
    - 22,000 shares to Dr. Paul Ratner for services valued at $27,319.

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

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

For the year ended March 31, 2007:

During the three months ended June 30, 2006, we issued the following restricted common stock:

- 15,000 shares to Jaffoni & Collins, Inc., for public relations and investor relations consulting services valued at $24,750;
- 100,000 shares to the Wells Group, Inc., for consulting services valued at $135,000; and
- 120,000 shares Adam Barnett for consulting services valued at $176,400.

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

- 208,333 shares to Gryphon Master Fund for the conversion of $500,000 worth of preferred stock, i.e., 500 shares;
- 15,000 shares to Steve Barnes for services valued at $14,850;
- 15,000 shares to Jaffoni & Collins for services valued at $15,000;
- 200,000 shares to Tejeda and Tejeda, Inc. for the conversion of a note payable and accrued interest valued at $202,000;
- 20,000 shares to Richard Fishman for services valued at $19,400;
- 56,000 shares to Steve Barnes for services valued at $49,840; and
- 100,000 shares to Adam Barnett for services valued at $94,000.

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

We also sold the following shares for cash:

- 300,000 shares to MDC Enterprises, Ltd. for cash of $150,000; and
- 100,000 shares to Dane Bjelopetrovich for cash of $50,000.

The shares issuable to MDC Enterprises, Ltd. are pending issuance. The proceeds of these sales were used for working capital.

During the three months ended December 31, 2006, we issued the following shares of our unregistered common stock:

- 833,938 shares to Radul Radovich for conversion of related party debt and accrued interest valued at $1,084,120;
- 1,382,180 shares to St. Petka Trust for conversion of related party debt and accrued interest valued at $1,796,835;
- 411,042 shares to RR Holdings for conversion of related party debt and accrued interest valued at $534,355;
- 803,855 shares to Silver Mountain, Inc. for conversion of related party debt and accrued interest valued at $1,045,013;
- 170,644 shares to RR Development for conversion of related party debt and accrued interest valued at $221,839; and
- 394,147 shares to Radul Radovich for consulting services valued at $512,392.

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

We also issued these shares for cash:

- 1,000,000 shares with registration rights issued to Chaim Stern for cash of $500,000; and
- 150,000 shares with registration rights issued to Irina Aronson and Yuly Aronson Irrevocable Trust for cash of $75,000.
- 50,000 shares issued to John Bridle for cash of $25,000; and
- 50,000 shares issued to Robert Stillwagon for cash of $25,000.

The proceeds were used for working capital and for funding our clinical trials.

We also issued these shares:

- 20,000 shares issued to Norman Rest for rent value at $19,600;
- 100,000 shares issued to Chaslav Radovich for compensation valued at $99,000;
- 200,000 shares issued to Gerald Yakatan for compensation value at $198,000;
- 20,000 shares issued to Jaffoni & Collins for services valued at $20,200;

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

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

During the three months ended March 31, 2007, we issued the following shares of our restricted common stock:

We issued 127,838 shares of our common stock to Anthony Brent as part of our conversion of the principal and interest due under a previous financing agreement. We issued these shares and 44,744 warrants in settlement of the $50,000 principal and $13,918.62 interest owing at the time of conversion. The warrants have an exercise price of $1.00 per share and expire after five years.

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

Options. As of March 31, 2007, we had 6,141,667 options outstanding, of which 3,390,442 are currently exercisable and 2,751,225 remain unvested.

- On May 1, 2002, we granted 100,000 options to purchase shares of our common stock at $1.00 per share to each of these former employees: Max Fried, Stan Goldstein, Louis Liben; these options expire May 1, 2007.

- On November 5, 2002, we granted Jim Luce, a former employee and former officer, 500,000 options to purchase shares of our common stock at $1.50 per share. These options were to expire on November 5, 2007, but were cancelled upon his termination for cause.

- On December 27, 2002, we granted Gary Gordon Dean, a former employee, 25,000 options to purchase shares of our common stock at $1.00 per share, and which expire December 27, 2007.

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- On February 20, 2004, we granted Ernest Armstrong 1,200,000 options to purchase shares of our common stock at $2.00 per share; these options seven years from the date of the revised underlying agreement.

- We cancelled 225,000 options during the year ended March 31, 2006 because they expired: 200,000 were issued to our former employee, Lance Musicant, on November 22, 2000 and expired on November 22, 2005; 25,000 options were issued to our former employee, Bill Gay III, on March 1, 2001 and expired on March 1, 2006. Also during the year ended March 31, 2006, we cancelled the 500,000 options that were held by Jim Luce, a former employee, since those options were not exercised within the specified time period after his departure from our service.

For the year ended March 31, 2007, we granted 4,800,000 options to our employees and consultants.

- In May 2006, we granted to Chaslav Radovich, our president, options to purchase 1,500,000 shares at $1.40 per share, which vest over 3 years and expire after ten years from the date of grant. We granted to Gerald Yakatan, our chief executive officer, options to purchase 1,000,000 shares at $1.40 per share, which vest over 3 years and expire ten years from the date of grant.

- In August 2006, we granted 1,000,000 options to purchase shares of our common stock at $1.75 per share to Bojan Cosic, also an employee, in place of similar warrants previously granted and 300,000 options to purchase shares of our common stock at $1.40 per share to Brian Connelly, a consultant. These options vest over 3 years and expire ten years from the date of grant.

- In November 2006, we granted 1,000,000 options to purchase shares of our common stock at $1.75 per share to Thomas Stankovich during his service as our chief financial officer and employee (of which 666,667 vested during his term of employment with us).

Warrants.

During the year ended March 31, 2005, we granted these warrants:

- In July 2004, we issued 1,000,000 warrants to purchase shares of our common stock at $1.75 per share to Martin Marion and 1,000,000 warrants to purchase shares of our common stock at $1.75 per share to Bojan Cosic, both of whom were our consultants at the time. These warrants expire in July 2009. Mr. Cosic’s warrants were subsequently replaced with an equal number of options with similar terms.

- In August 2004, we issued 1,000,000 warrants to purchase shares of our common stock at $1.75 per share to DLZ for consulting services. These warrants expire in August 2009.

- In August 2004, we granted 200,000 warrants to purchase shares of our common stock at $2.00 to Lyndon Mansfield, a member of our advisory board, for clinical trials and advisory services. These warrants expire in August 2011.

- In September 2004, we issued 50,000 warrants to purchase shares of our common stock at $1.75 per share to Kevin Pickard for accounting services rendered to us. These warrants expire in September 2009. Mr. Pickard was our consultant at the time and currently serves as our interim chief financial officer and treasurer.

- In January 2005, we issued 250,000 warrants to purchase shares of our common stock at $1.75 per share to Lawrence May, one of our directors from 2004 to February 2007. These warrants were to

expire in January 2007, but have been extended as described herein.

During the year ended March 31, 2006, we granted these warrants:

- In July 2005, we granted 50,000 warrants to purchase shares of our common stock at $1.75 to Kevin Pickard for accounting services rendered to us. These warrants expire in July 2010.

- In August 2005, we granted 100,000 warrants to purchase shares of our common stock at $1.75 to Steven Barnes for finance advisory services rendered to us. These warrants expire in August 2010.

- In August 2005, we granted 150,000 warrants to purchase shares of our common stock at $1.75 to Marlin Financial for finance advisory services rendered to us. These warrants expire in August 2010.

- In September 2005, we granted 100,000 warrants to purchase shares of our common stock at $1.75 to Tejeda & Tejeda for finance advisory services rendered to us. These warrants expire in September 2010.

- In October 2005, we granted the following warrants to purchase shares of our common stock at $1.75 per share and expiring in five years:

    - 40,000 warrants to Craig and Robyn Lewis for finance and advisory services rendered to us;
    - 500,000 warrants to the Brad Chisick Trust which accompanied a senior debenture for $250,000;
    - 50,000 warrants to Steven Barnes for finance advisory services rendered to us;
    - 16,000 warrants to CSX2 LLC for finance advisory services rendered to us;
    - 8,000 warrants to Eric Burns for finance advisory services rendered to us;
    - 9,600 warrants to Leslie Eichbaum for finance advisory services rendered to us;
    - 16,000 warrants to Scott Elstein;
    - 20,000 warrants to STDT LLC for finance advisory services rendered to us;
    - 300,000 warrants to Kevin Prendiville, one of our directors, for clinical trials advisory services rendered to us, and 33,000 warrants to the Prendiville Trust, owned by Dr. Prendiville.

- In November 2005, we granted 100,000 warrants to purchase shares of our common stock at $1.75 to Lyndon Mansfield, one of our medical advisory board members, for clinical trials advisory services rendered to us. These warrants expire in November 2012.

- In November 2005, we also granted 100,000 warrants to purchase shares of our common stock at $1.75 to Brian James Stickel, for finance advisory services rendered to us. These warrants expire in November 2010.

- In December 2005, we issued 1,000,000 warrants to Thomas Stankovich, our chief financial officer and treasurer, to purchase shares of our common stock at $1.75 per share and which expire after 10 years. These warrants were subsequently cancelled in December 2006 and replaced with options with similar terms.

- In March 2006, we issued 60,000 warrants to purchase shares of our common stock at $1.75 per share to Larry Pawl, for clinical trials advisory services; those warrants expire in March 2011.

- In March 2006 we also issued 140,000 warrants to purchase shares of our common stock at $1.75 per share to Mark Gostine, for clinical trials advisory services; those warrants expire in March 2011.

- In March 2006 we issued 150,000 warrants to purchase shares of our common stock at $0.01 per share to Robert Lanthier, for finance advisory services; those warrants expire in March 2011. These warrants were exercised in November 2006, and the shares of common stock are pending issuance pursuant to an agreement with the warrantholder.

For the year ended March 31, 2007, we issued the following warrants:

- In July 2006, we issued 25,000 warrants to SCG Capital, LLC as part of financing for $100,000. These warrants had an exercise price of $1.50 per share and expire after 5 years. In January 2007, the warrantholder agreed to repricing these warrants at $1.00 per share.

·In July 2006, we also issued 25,000 warrants to the Irwin Geduld Revocable Trust DTD June 2002, LLC as part of a financing agreement for $100,000. These warrants had an exercise price of $1.50 per share and expire after 5 years. In January 2007, the warrantholder agreed to repricing these warrants at $1.00 per share.

·In July 2006, we also issued 12,500 warrants to Anthony Brent part of a financing agreement for $50,000. These warrants had an exercise price of $1.50 per share and expire after 5 years. In January 2007, the warrantholder agreed to reprice these warrants at $1.00 per share. The principal of $50,000 borrowed under this financing agreement and interest owing at the time of conversion of $13,918.62 was repaid in February 2007 with the issuance of 127,838 shares of our common stock and the grant of an additional 44,744 warrants to purchase shares of our common stock at $1.00 per share. These additional warrants expire five years from the date of grant.

·In August 2006, we issued 20,000 warrants to Steve Barnes as part of a consulting agreement. These warrants have an exercise price of $0.75 per share and expire after 5 years.

·In August 2006, as part of bridge financing from MDC Enterprises Ltd., as described herein, we agreed to grant warrants attached to a note, to purchase 150,000 shares of our common stock at $0.75 per share, expiring after five years. As part of this same transaction, and in conjunction with the sale of common stock, as described herein, we agreed to grant additional warrants to purchase 150,000 shares of our common stock for $0.75 per share, expiring after five years.

·In September 2006, we issued 100,000 warrants to Lyndon Mansfield, one of our medical advisory board members, in exchange for services rendered. These warrants have an exercise price of $1.75 per share and expire after 7 years.

·In October 2006, we issued 600,000 warrants to Chaim Stern as part of a financing agreement for $500,000. These warrants have an exercise price of $0.75 per share and expire after 5 years. As part of the same agreement, we also issued Chaim Stern 600,000 warrants to purchase shares of our common stock at $1.00 per share, also expiring after 5 years. The shares underlying these warrants have registration rights.

·In October 2006, we also issued 150,000 warrants to the Irina Aronson and Yuly Aronson Irrevocable Trust. These warrants have an exercise price of $1.00 and expire after 5 years. The shares underlying these warrants have registration rights.

·In October 2006, we also issued Dane Bjelopetrovich 100,000 warrants to purchase shares of our common stock at $1.00 per share as part of a financing agreement for $50,000. These warrants expire after 5 years.

·In October 2006, we issued an additional 10,000 warrants to SCG Capital, LLC as a penalty pursuant to the financing for $100,000 entered into in July 2006. These warrants have an exercise price of $1.00 per share and expire after 5 years.

·In October 2006, we issued an additional 10,000 warrants to Irwin Geduld Revocable Trust DTD June 2002, as a penalty pursuant to the financing for $100,000 entered into in July 2006. These warrants have an exercise price of $1.00 per share and expire after 5 years.

·In October 2006, we issued an additional 5,000 warrants to Anthony Brent as a penalty pursuant to the financing for $50,000 entered into in July 2006. These warrants have an exercise price of $1.50 per share and expire after 5 years. The principal of $50,000 and interest owing at the time of

conversion of $13,918.62 for this financing agreement was repaid in February 2007 with the issuance of 127,838 shares of our common stock and the grant of 44,744 warrants to purchase shares of our common stock at $1.00 per share. The 44,744 warrants expire five years from the date of grant.

- In November 2006, we issued Robert Stillwagon 50,000 warrants to purchase shares of our common stock at $1.00 as part of a financing agreement for $25,000. These warrants expire after 5 years.

- In November 2006, we issued John Bridle 50,000 warrants to purchase shares of our common stock at $1.00 as part of a financing agreement for $25,000. These warrants expire after 5 years.

- In December 2006, we also issued to Cornell Capital an aggregate total of 6,640,602 warrants, exercisable on a cash basis provided we are not in default with regard to our agreements with Cornell Capital, with the aggregate exercise price of $5,500,000 in four classes:

    - 1,333,333 A Warrants at $0.75 per share, expiring six months after any effective date of the registration statement referenced above;
    - 1,205,400 B Warrants at $0.8296 per share, expiring six months after any effective date of the registration statement referenced above;
    - 2,343,959 C Warrants at $0.7466, expiring five years after the agreement date; and
    - 1,757,901 D Warrants at $0.9955, expiring five years after the agreement date.

The A and B Warrants carry forced exercise provisions. The C and D Warrants are non-callable. The exercise price of the warrants is subject to adjustment as provided for in Section 8 of each of the respective four Warrant Agreements.

- In February 2007, we granted 44,744 warrants to purchase shares of our common stock at $1.00 per share to Anthony Brent as part of our conversion of the principal and interest due under a financing agreement, wherein we also issued 127,838 shares of our common stock in settlement of the $50,000 principal and $13,918.62 interest owing at the time of conversion. These warrants expire five years from the date of grant.

Other Instruments Convertible to Shares of Our Common Stock.

Convertible Notes Payable. In September 2003, we sold a $600,000, three-year, 8% convertible debenture (the "Convertible Debenture") to Gryphon, as described herein, which is convertible into shares of our common stock at the initial conversion price of $2.00 per share. This price was subject to adjustment in the event we issued shares of our common stock at a price less than $1.75 per share. The Convertible Debenture was sold with detachable three-year warrants to purchase 90,000 shares of our common stock at $2.90 per share. The warrant exercise price is also subject to adjustment based on sales of our common stock below the current fair market value on the contract date. Repayment of these instruments is subject to the settlement agreement entered into with Gryphon, as described herein.

On March 31, 2006, we reached a settlement with Gryphon related to two investments by Gryphon in September 2003 totaling $1,600,000. The settlement agreement required us to pay a maximum of $1,600,000 on or before April 1, 2007. The settlement agreement also provides for Gryphon to convert its two investments (convertible debenture and convertible preferred stock) in us totaling $1,600,000 into 716,667 shares of the Company common stock as per the terms of the original investment agreements. In addition the settlement agreement provides for a reduction of the exercise price to $0.01 for the 194,167 warrants then held by Gryphon. During the year ended March 31, 2007, Gryphon did a cashless exercise of these warrants and received a total of 192,997 shares of the Company’s common stock and converted a total of $885,000 worth of preferred stock into 416,667 shares of the Company’s common stock. Subsequent to the year end, we and Gryphon have been litigating these issues, which include, but are not limited to, Gryphon pursuing various collections methods against us (refer to “Legal Proceedings” above).

On June 13, 2005, we entered into a loan agreement with Tejeda and Tejeda, Inc. in the amount of $100,000. The loan was due on or before the 12-month anniversary and accrues interest at the rate of 10% per annum. The note is personally guaranteed by Mr. Radul Radovich, our Chairman, and by Mr. Chaslav Radovich, our President. On the

12-month anniversary, the holder of the note was eligible to elect to convert the loan into shares of our common stock at $1.75 per shares or at a price equal to a 25% discount to the closing bid price on the day of conversion at maturity. If such conversion were to be elected, the loan shall be considered paid in full. In July 2006, Tejeda and Tejeda, Inc. elected to convert the note plus accrued interest into 200,000 shares of our common stock. We recognized an additional expense of $91,583 related to the conversion of this note and accrued interest into shares of common stock.

Convertible Bridge Debentures. In July 2006, we issued debentures payable in the aggregate amount of $250,000 to three investors. The debentures bear interest at 5% per month and were due on September 14, 2006. The debentures and any accrued interest were convertible to shares of our common stock at the rate of $1.00 per share, or the price at which shares of our common stock were sold in a minimum equity financing, provided the minimum equity financing was completed within 60 days from the execution of the debentures, or 90 days if we elected to extend the debentures to October 14, 2006. We exercised our option to extend the due date to October 14, 2006, issued the investors an aggregate total of 25,000 warrants as compensation for the extension, and did not complete the minimum equity financing within the 90 day optional conversion period. As of March 6, 2007, these debentures have been repaid.

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

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

During the year ended March 31, 2007, Gryphon did a cashless exercise of these warrants and received a total of 192,997 shares of our common stock and converted a total of $885,000 worth of preferred stock into 416,667 shares of our common stock.

Senior Debenture. On October 26, 2005, we issued a senior debenture to the Brad Chisick Trust in the amount of $250,000 that accrues interest at 10% per annum and is due on October 26, 2007. In addition, we also issued to the Brad Chisick Trust a warrant to purchase 500,000 shares of our common stock for $1.75 per shares. In addition, on October 26, 2005, we issued to the Brad Chisick Trust 125,000 shares of our common stock valued at $72,500 as pre-payment of the accrued interest on this senior debenture.

Senior Secured Convertible Debentures. In December 2006, we entered into a Securities Purchase Agreement with Cornell Capital pursuant to which we agreed to issue up to an aggregate principal amount of $3,850,000 of convertible debentures, of which $2,500,000 was funded on December 20, 2006. Two additional closings of $675,000 occurred as follows: the first upon our filing of a registration statement with the SEC, and the second upon that registration statement being declared effective by the SEC. The two additional closing took place on February 22, 2007 and March 16, 2007, respectively.

The convertible debenture is convertible into shares of our common stock determined by dividing the dollar amount being converted by the lower of the fixed conversion price of $0.9955 or the market conversion price, defined as 90% of the average of the lowest three daily volume weighted average trading prices per share of our common stock for the fifteen trading days immediately preceding the conversion date. The convertible debenture is secured by our assets and shares of common stock pledged by certain founding shareholders. We may, at our option, redeem the convertible debenture beginning four months after the registration statement has been declared effective by the SEC.

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Issuance of the securities sold was exempt from registration pursuant to Rule 506 of Regulation D promulgated under Section 4(2) of the Securities Act. The securities were sold to an accredited investor in a private transaction without the use of any form of general solicitation or advertising. The underlying securities are “restricted securities” subject to applicable limitations on resale.

We made no purchases of shares or other units of any other class of our registered equity securities during the period covered by this report.

Penny stock regulation. Shares of our common stock will probably be subject to rules adopted by the Securities and Exchange Commission that regulate broker-dealer practices in connection with transactions in "penny stocks". Penny stocks are generally equity securities with a price of less than $5.00, except for securities registered on certain national securities exchanges or quoted on the Nasdaq system, provided that current price and volume information with respect to transactions in those securities is provided by the exchange or system. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, deliver a standardized risk
disclosure document prepared by the Securities and Exchange Commission, which contains the following:

- a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading;
- a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to violation to such duties or other requirements of securities' laws;
- a brief, clear, narrative description of a dealer market, including "bid" and "ask" prices for penny stocks and the significance of the spread between the "bid" and "ask" price;
- a toll-free telephone number for inquiries on disciplinary actions;
- definitions of significant terms in the disclosure document or in the conduct of trading in penny stocks; and
- such other information and is in such form, including language, type, size and format, as the Securities and Exchange Commission shall require by rule or regulation.

Prior to effecting any transaction in penny stock, the broker-dealer also must provide the customer the following:

- the bid and offer quotations for the penny stock;
- the compensation of the broker-dealer and its salesperson in the transaction;
- the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and
- monthly account statements showing the market value of each penny stock held in the customer's account.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a written suitably statement. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for a stock that becomes subject to the penny stock rules. Holders of shares of our common stock may have difficulty selling those shares because our common stock will probably be subject to the penny stock rules.

Item 6. Management’s Discussion and Analysis of Financial Condition or Plan of Operation.

This following information specifies certain forward-looking statements of management of the company. Forward-looking statements are statements that estimate the happening of future events and are not based on historical fact. Forward-looking statements may be identified by the use of forward-looking terminology, such as “may”, “shall”, “could”, “expect”, “estimate”, “anticipate”, “predict”, “probable”, “possible”, “should”, “continue”, variations of those terms or the negative of those terms. The forward-looking statements specified in the

following information have been compiled by our management on the basis of assumptions made by management and considered by management to be reasonable. Our future operating results, however, are impossible to predict and no representation, guaranty, or warranty is to be inferred from those forward-looking statements.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview. As discussed above, we were incorporated in 1997. In 2003 we changed our name to BioGentech Corp. and in 2004, changed our name to Cobalis Corp. In 2003, we acquired our operational subsidiary, BioGentech Incorporated, (BioGentec). To distinguish between parent and subsidiary, a slight spelling difference was utilized. BioGentec, a private Nevada corporation, was incorporated on November 21, 2000 in Nevada, under the name St Petka, Inc. On May 4, 2001, St. Petka, Inc. changed its name to BioGentec Incorporated. On July 2, 2003, BioGentec was merged into Togs for Tykes Acquisition Corp., a wholly owned subsidiary formed for the purpose of acquiring BioGentec. As allowed under SFAS 141, “Business Combinations” (“SFAS 141”), we designated a date of convenience of the closing for accounting purposes as June 30, 2003. Under the terms of the merger agreement, all of BioGentec's outstanding common stock (19,732,705 shares of $0.001 par value stock) was exchanged for 19,732,705 shares of newly issued common stock of Cobalis Corp. This transaction was consummated with the filing of the Articles of Merger with the State of Nevada on July 2, 2003. BioGentec shareholders then effectively controlled approximately 95% of the issued and outstanding common stock of Cobalis. Since the shareholders of BioGentec obtained control of Cobalis, according to SFAS 141, this acquisition was treated as a recapitalization for accounting purposes, in a manner similar to reverse acquisition accounting. In 2005, BioGentec was dissolved after we adopted its operations and assets.

Going Concern. The accompanying consolidated financial statements have been prepared in conformity with GAAP, which contemplate continuation as a going concern. We incurred a net loss of $15,710,602 for the year ended March 31, 2007 and as of that date we had a working capital deficit of $15,975,556 and a stockholder deficit of $40,519,382. In addition, as of March 31, 2007, we have not developed a source of revenue. These conditions raise substantial doubt as to our ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and

classification of liabilities that might be necessary should we be unable to continue as a going concern.

In December 2006, we entered into a financing agreement with Cornell Capital pursuant to which we issued $3,800,000 in secured convertible debentures. This agreement also includes the issuance of warrants to purchase up to approximately 6,600,000 shares of our common stock for $5,500,000. In late April 2007, Cornell Capital exercised its A Warrants for 1,333,333 shares of our common stock on a cash basis of $0.75 per share. Unless Cornell Capital exercises a significant portion of their remaining warrants on a cash basis, we will likely have to raise additional debt and equity financing for operating purposes. We are currently attempting to raise additional financing for operating purposes.

We require substantial capital to pursue our operating strategy, which includes commercialization of our product candidate, and we currently have limited cash for operations. Until we can obtain revenues sufficient to fund working capital needs or additional research and development costs necessary to obtain the regulatory approvals for commercialization, we will be dependent upon external sources of financing. There can be no assurances that sufficient financing will be available on terms acceptable to us, or at all. If we are unable to obtain such financing, we will be forced to scale back operations and cease product development efforts, which could have an adverse effect on our financial condition and results of operations.

Critical Accounting Policy and Estimates.

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

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

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

Liquidity and Capital Resources

We had cash and cash equivalents of $389,263 and prepaid expenses and other current assets of $24,585 as of March 31, 2007. Our total current assets at March 31, 2007 were $413,848. We also had the following long term assets: $2,679 in property and equipment, net; $885 in net website development costs; $619,029 represented by net value of our patents; and debt issue cost of $368,878. Our total assets as of March 31, 2007 were $1,405,319.

Our total current liabilities were $16,389,404 at March 31, 2007, which was represented by accounts payable of $612,366; accrued expenses of $729,928; accrued clinical trials costs of $1,244,731; accrued legal settlements of $1,600,000; accrued salaries of $265,792; warrant liability of $7,676,190; accrued derivative liability of $3,251,194;

promissory notes of $46,813; notes payable of $150,000; convertible notes payable of $600,000 and senior debenture, net of $212,390.

In June 2005, we converted a total of $205,174 of amounts due for clinical trials into nine promissory notes that accrued interest at a rate of 10% per annum and were due on December 27, 2005. During the three months ended March 31, 2006 and June 30, 2006, respectively, we converted $131,042 and $27,319 of these promissory notes plus accrued interest into 105,250 and 27,200 shares of our common stock, respectively. At March 31, 2007, $46,813 of these notes was still outstanding.

We also had $501,563 represented by a convertible debenture, making our total liabilities $16,890,967. We had no other long term commitments or contingencies. Our liabilities exceeded our assets by $15,485,648.

On July 18, 2006, we entered into an Accord and Satisfaction Agreement ("Agreement") with several related party creditors, arranging to settle debt of $5,194,553 including interest accrued through June 30, 2006, in exchange for the issuance of 3,995,809 shares of our $.001 par value common stock. This debt was incurred in the form of related party advances and services rendered to the company over recent months. The conversion rate was $1.30 per share, representing a premium on the market price of our closing share price on Monday, July 17, 2006 of $1.00 per share.

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

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

Our net cash used by investing activities was $48,124 for the year ended March 31, 2007 compared to $1,703 for the year ended March 31, 2006. The increase is primarily due to a payment for our patent.

Our net cash provided by financing activities was $4,367,500 for the year ended March 31, 2007 compared to net cash provided by financing activities of $2,600,730 for the year ended March 31, 2006. The increase is primarily due to the issuance of the convertible debenture and the sale of our common stock offset by a reduction in related party advances.

In June 2005, we entered into a loan agreement with Tejeda and Tejeda, Inc. in the amount of $100,000. The loan was due in one year. The note was personally guaranteed by Mr. Radul Radovich, the chairman of our board of directors, and Mr. Chas Radovich, our President, Secretary and formerly one of our directors. When the loan was to come due, the holder of the note had the option to convert the loan into shares of our common stock at $0.50 per share or at a price equal to a 25% discount to the closing bid price on the day of conversion at maturity. In July 2006, the holder of the note elected to convert the note to 200,000 shares of our common stock. We recognized an additional expense of $91,583 related to the conversion of this note and accrued interest into shares of common stock.

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

our common stock at $1.75 per share.

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

In July 2006, we issued notes payable in the aggregate amount of $250,000 to three investors. The notes bear interest at 5% per month and were due on September 14, 2006. We exercised our option to extend the due date to October 14, 2006 and issued to the investors a total of 25,000 warrants. These notes were repaid subsequent to the quarter ended December 31, 2006.

In August 2006, we issued a note payable to MDC Enterprises Ltd. in the amount of $250,000 that accrues interest at 40% per annum and is due on December 29, 2006. In addition, we also issued to MDC Enterprises Ltd. a warrant to purchase 150,000 shares of our common stock for $0.75 per shares.

In September 2006, we issued a note payable in the amount of $50,000 to an investor. The note bears interest at 10% per annum and is payable upon demand.

On December 20, 2006, we entered into a Securities Purchase Agreement with Cornell Capital Partners, L.P. ("Cornell Capital") pursuant to which we agreed to issue up to an aggregate principal amount of $3,850,000 of convertible debentures. Of that amount, $2,500,000 was funded on December 20, 2006. Two additional closings of $675,000 occurred as follows: the first upon the Company’s filing of a registration statement with the Securities and Exchange Commission (“SEC”), and the second upon that registration statement being declared effective by the SEC and Shareholder approval of additional authorized shares.

The convertible debenture is convertible into shares of our common stock determined by dividing the dollar amount being converted by the lower of the fixed conversion price of $0.99 or the market conversion price, defined as 90% of the average of the lowest three daily volume weighted average trading prices per share of our common stock for the fifteen trading days immediately preceding the conversion date. The convertible debenture is secured by our assets and shares of common stock pledged by certain founding shareholders. At our option, we may redeem the convertible debenture beginning four months after the registration statement has been declared effective by the SEC.

As part of the funding commitment, we issued four classes of warrants exercisable on a cash basis that enable Cornell Capital to purchase up to 6,640,602 shares of common stock for an additional $5,500,000: an A Warrant to purchase 1,333,333 shares at $0.75 per share; B Warrant to purchase 1,205,400 shares at $0.8296 per share; C Warrant to purchase 2,343,959 shares at $0.7466 per share; and D Warrant to purchase 1,757,910 shares at $0.9955 per share. The A and B Warrants expire six months following the effective date of the registration and carry forced exercise provisions. The C and D Warrants are non-callable and have a five-year term. The warrants and convertible debenture are subject to certain anti-dilution rights.

Per EITF 00-19, paragraph 4, these convertible debentures do not meet the definition of a “conventional convertible debt instrument” since the debt is not convertible into a fixed number of shares. The debt can be converted into common stock at a conversions price that is a percentage of the market price; therefore the number of shares that could be required to be delivered upon “net-share settlement” is essentially indeterminate. Therefore, the convertible debenture is considered “non-conventional,” which means that the conversion feature must be bifurcated from the debt and shown as a separate derivative liability. This beneficial conversion liability has been calculated to be $1,897,735 on December 20, 2006. In addition, since the convertible debenture is convertible into an indeterminate number of shares of common stock, it is assumed that the Company could never have enough authorized and unissued shares to settle the conversion of the warrants into common stock. Therefore, the warrants issued in connection with this transaction have a fair value of $3,667,558 at December 20, 2006. The value of the warrant was calculated using the Black-Scholes model using the following assumptions: Discount rate of 4.5%, volatility of 137% and expected term of 1 to 5 years. The fair value of the beneficial conversion feature and the warrant liability will be adjusted to fair value each balance sheet date with the change being shown as a component of net loss.

The fair value of the beneficial conversion feature and the warrants at the inception of these convertible debentures were $1,897,735 and $3,667,558, respectively. The first $2,500,000 of these discounts has been shown as a discount to the convertible debentures which will be amortized over the term of the convertible debenture and the excess of $3,065,293 has been shown as financing costs in the accompanying statement of operations.

As a result of the issuance of the convertible debenture to Cornell Capital the fair value of all warrant issued to non-employees have been removed from stockholders' equity and shown as a liability. On December 20, 2006, the fair value of such warrants was $3,545,880. The fair value of these warrants and those issued to Cornell Capital will be adjusted to fair value at each balance sheet date.

The fair value of the derivative liability and the warrants at the inception of these convertible debentures were shown as a debt discount with any discount greater than the face amount of the debt being as financing costs in the accompanying statement of operations as follows.

Funding Date	Amount of Debt	Fair Value of Warrants	Fair Value of Derivative Liability	Amount Applied to Debt Discount	Recorded as Financing Cost
December 20, 2006	$2,500,000	$3,667,558	$1,897,735	$2,500,000	3,065,293
February 22, 2007	675,000	-	745,921	675,000	70,921
March 16, 2007	675,000	-	561,774	561,774	-
	$3,850,000	$3,667,558	$3,205,430	$3,736,774	$3,136,214

At March 31, 2007, the fair value of the warrant and derivative liabilities were $7,676,190 and $3,251,194, respectively. During the year ended March 31, 2007, we took a charge to earnings of $461,221 as a result of adjusting the warrant and derivative liabilities to fair value.

Results of Operations for the Year Ended March 31, 2007 as Compared to the Year Ended March 31, 2006.

Revenues and Cost of Sales. We had no significant revenues for the years ended March 31, 2007 or March 31, 2006, as we were undertaking Phase III clinical trials in order to obtain FDA approval of PreHistin™ as an over the counter drug. The twin Phase III ragweed trials were completed during the year ended March 31, 2007 and the data analyzed subsequent to the year end. After completing an independent review of electronic diary entry system, on July 6, 2007 we reported the preliminary top-line results which showed that PreHistin™ has not yet been able to demonstrate a statistically significance versus placebo. This was attributed to the low levels of symptomology observed in patients receiving placebo, which rendered the studies inconclusive. As of the date of this report, we are determining our next steps in light of those results. As of the date of this report, we are continuing to evaluate and audit the Phase III trial data in light of these results. Our net sales were $0, as were our cost of sales and gross loss for both the year ended March 31, 2007 and the year ended March 31, 2006.

Operating Expenses. Our operating expenses for the year ended March 31, 2007 were $10,957,374 as compared to $5,890,255 for the year ended March 31, 2006. For both periods, we incurred expenses for two major purposes: i) ongoing development of our PreHistin™ product and related product management and ii) general management and fund raising efforts. For the year ended March 31, 2007, this amount was represented by $62,141 in depreciation and amortization; $2,785,332 in professional fees; $1,936,800 in salary and wages; $173,185 in rent expense; $3,634,081 in marketing and research; $1,567,579 in stock option expense; $691,256 in other operating expenses; and $107,000 in legal settlements. This is compared to the year ended March 31, 2006, this amount was represented by the following: $92,899 in depreciation and amortization; $3,590,741 in professional fees; $1,061,520 in salary and wages; $152,696 in rent expense; ($325,937) in marketing and research; $505,618 in other operating expenses; and $812,718 in legal settlements. Our operating expenses increased during the year ended March 31, 2007 as compared to the year ended March 31, 2006 principally as a result of the increase in salary and wages, marketing and research from our Phase III clinical trials and an expense for stock option grants, offset by a decrease in professional fees and legal settlements. A significant portion of the professional fees were paid by issuing shares of our stock. The value of these services was based on the market value of our stock at the measurement date.

Interest expense and financing costs for the year ended March 31, 2007 were $1,066,954 compared to $697,139 for the year ended March 31, 2006. The increase is due to the interest on the convertible note payable, the demand note payable and the advances from related parties. Interest expense and financing costs also include the amortization of debt issue costs and debt discounts and penalties for not registering shares underlying the conversion of the convertible note payable and convertible preferred stock. During the year March 31, 2006, we fully amortized the debt discount and debt issue costs associated with the $600,000 convertible note payable due to the lawsuit filed by Gryphon, the holder of the convertible note payable.

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

Our Plan of Operation for the Next Twelve Months

Over the next twelve months, our strategy will include moving forward with the completion of Phase III clinical trials of our planned allergy prevention product, PreHistin™. Alternatively, we also may elect to pursue development of PreHistin™ for other atopic and allergic conditions; or to pursue a national and global marketing and licensing strategy for PreHistin™. We anticipate generating revenues from product sales in the next twelve months. We estimate the cost to complete the Phase III clinical trials and the submission of an NDA to the FDA for marketing approval will be significant. We are determining the costs for alternative strategies as of the date of this filing. However, we will need to raise funds to execute studies for the further development of our proposed PreHistin™ product line, to complete the development of additional products, or to pursue alternative strategies. We are in the process of raising additional funds to execute further studies. We also plan to raise funds through the exercise of Cornell Capital's warrants, entering into a partnership agreement or private or other equity offerings. We may attempt to secure loans from lending institutions or other sources. There is no guarantee we will be able to raise additional funds through offerings or other sources. If we are unable to raise funds, our ability to continue with product development will be hindered.

Cornell Capital Funding. As detailed above, on December 20, 2006, we entered into a Securities Purchase Agreement with Cornell Capital pursuant to which we agreed to issue an aggregate principal amount of $3,850,000 of convertible secured debentures, which was fully funded by March 17, 2007. We used the proceeds for general corporate purposes and for working capital.

Also as described herein, we issued to Cornell Capital an aggregate total of 6,640,602 warrants, exercisable on a cash basis provided we are not in default, with the aggregate exercise price of $5,500,000 in four classes. If these warrants are exercised on a cashless basis, we would receive no proceeds from their exercise by Cornell Capital.

On April 23, 2007 Cornell Capital exercised all of its A warrants on a cash basis for 1,333,333 shares of our common stock at $0.75. Additionally, on March 23, 2007 and April 10, 2007, Cornell Capital converted $25,000 of its debentures into 33,025 and 33,539 common stock shares, respectively. On April 12, 2007, Cornell Capital converted $500,000 of its debentures into 730,780 shares of our common stock.

At March 31, 2007, the fair value of the warrant and derivative liabilities were $7,676,190 and $3,251,194, respectively. During the year ended March 31, 2007, we took a charge to earnings of $461,221 as a result of adjusting the warrant and derivative liabilities to fair value.

As of March 31, 2007, we had cash and equivalents of $ 389,263. To fully execute our business plan for the next twelve months, we will need to raise additional funds in order to continue our operations. There is no assurance that these funds will be raised. Other than the funds already received from Cornell Capital, we have no ongoing source of working capital.

Other than the research and development related to our PreHistin™ product, we are currently evaluating research for other molecules. For that activity we will need to raise additional funds; we do or not plan to engage in any other research and development unless we are able to raise additional funds. However, in the event that we are able to move forward with these plans, we would anticipate additional hiring over the next twelve months.

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

Item 7. Financial Statements

The financial statements required by Item 7 are presented in the following order:

Cobalis Corp. and Subsidiary
Consolidated Financial Statements
Years Ended March 31, 2007 and 2006
And from November 21, 2000 (inception) to March 31, 2007

Contents

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders of
Cobalis Corp.
Irvine, California

We have audited the accompanying consolidated balance sheet of Cobalis Corp. and subsidiary as of March 31, 2007, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years ended March 31, 2007 and 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 consolidated 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 consolidated financial statement presentation. We believe that our audits provide 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 Cobalis and subsidiary as of March 31, 2007, and the results of its operations and its cash flows for the years ended March 31, 2007 and 2006, 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 1 to the consolidated financial statements, the Company has losses from operations, has not generated significant revenue, and has a working capital deficiency. Also, a judgement has been entered against the Company for a debt on which the Company defaulted. These factors raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Kabani & Company, Inc.
Certified Public Accountants

Los Angeles, California
July 10, 2007

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

	March 31, 2007
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 389,263
Prepaid expenses and other current assets	24,585
TOTAL CURRENT ASSETS	413,848
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $112,644	2,679
WEBSITE DEVELOPMENT COSTS, net of accumulated amortization of $33,722	885
PATENTS, net of accumulated amortization of $334,410	619,029
DEBT ISSUANCE COSTS	368,878
TOTAL ASSETS	$ 1,405,319
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES	
Accounts payable	$ 612,366
Accrued expenses	729,928
Accrued clinical trial costs	1,244,731
Accrued legal settlements	1,600,000
Accrued salaries	265,792
Warrant liability	7,676,190
Accrued derivative liabililty	3,251,194
Promissory notes	46,813
Notes payable	150,000
Convertible notes payable	600,000
Senior Debenture, net of discount of $37,610	212,390
TOTAL CURRENT LIABILITIES	16,389,404
CONVERTIBLE DEBENTURE, net of discounts of $3,323,437	501,563
TOTAL LIABILITIES	16,890,967
COMMITMENTS AND CONTINGENCIES	-
STOCKHOLDERS' DEFICIT	
Common stock; $0.001 par value; 100,000,000 shares	
authorized; 36,291,031 shares issued and outstanding	36,291
Additional paid-in capital	25,018,200
Prepaid expenses	(20,757)

Deficit accumulated during the development stage	(40,519,382)
TOTAL STOCKHOLDERS' DEFICIT	(15,485,648)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 1,405,319

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

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

	Year Ended		Cumulative from November 21, 2000 (inception) to March 31,2007
	March 31, 2007	March 31, 2006	
NET SALES	$ -	$ -	$ 5,589
COST OF SALES	-	-	31,342
GROSS LOSS	-	-	(25,753)
OPERATING EXPENSES:			
Professional fees	2,785,332	3,590,741	11,960,859
Salary and wages	1,936,800	1,061,520	4,974,098
Rent expense	173,185	152,696	742,244
Marketing and research	3,634,081	(325,937)	5,553,516
Depreciation and amortization	62,141	92,899	589,405
Impairment expense	-	-	2,331,522
Stock option expense	1,567,579	-	1,567,579
Other operating expenses	691,256	505,618	2,318,186
Legal settlements	107,000	812,718	919,718
TOTAL OPERATING EXPENSES	10,957,374	5,890,255	30,957,127
LOSS FROM OPERATIONS	(10,957,374)	(5,890,255)	(30,982,880)
OTHER EXPENSE			
Interest expense and financing costs	(1,066,954)	(697,139)	(5,268,928)
Convertible debenture financing cost	(3,136,214)	-	(3,136,214)
Loss on conversion of debt	(88,839)		(88,839)
Change in fair value of warrant and accrued derivative liabilities	(461,221)	(16,060)	(157,521)
TOTAL OTHER EXPENSE	(4,753,228)	(713,199)	(8,651,502)
NET LOSS	(15,710,602)	(6,603,454)	(39,634,382)
PREFERRED STOCK DIVIDENDS	37,500	75,000	1,110,000
NET LOSS ATTRIBUTED TO COMMON STOCKHOLDERS	$ (15,748,102)	$ (6,678,454)	$ (40,744,382)
NET LOSS PER SHARE:			
BASIC AND DILUTED	$ (0.48)	$ (0.26)	$ (1.83)

WEIGHTED AVERAGE SHARES OUTSTANDING:			
BASIC AND DILUTED	32,508,089	25,816,344	22,299,461

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

Cobalis Corp. and Subsidiary
(formerly Biogentech Corp.)
(A Development Stage Company)
Consolidated Statement of Stockholders' Deficit

	Common stock Shares	Amount	Additional paid-in capital	Prepaid Expenses	Deficit accumulated during the development stage	Total stockholders' equity (deficit)
Balance at inception (November 21, 2000)	-	$ -	$ -	$ -	$ -	$ -
Issuance of founder's shares in exchange for property and equipment	16,300,000	16,300	-	-	-	16,300
Issuance of common stock for cash - November 2000 @ $1.00	30,000	30	29,970	-	-	30,000
Issuance of common stock for cash - December 2000 @ $1.00	15,000	15	14,985	-	-	15,000
Issuance of common stock for cash - February 2001 @ $1.00	12,000	12	11,988	-	-	12,000
Issuance of common stock for cash - March 2001 @ $1.00	125,000	125	124,875	-	-	125,000
Issuance of common stock for services - March 2001 @ $1.00	10,000	10	9,990	-	-	10,000
Contributed capital	-	-	62,681	-	-	62,681
Net loss for the period from inception (November 21, 2000) to March 31, 2001	-	-	-	-	(223,416)	- (223,416)
Balance at March 31, 2001, as restated	16,492,000	16,492	254,489	-	(223,416)	47,565
Issuance of common stock for cash - April 2001 @ $1.00	10,000	10	9,990	-	-	10,000
Issuance of common stock for telephone equipment - April 2001 @ $1.00	6,750	7	6,743	-	-	6,750
Issuance of common stock for cash - May 2001 @ $1.00	11,000	11	10,989	-	-	11,000
Issuance of common stock for website development - May 2001 @ $1.00	17,000	17	16,983	-	-	17,000
Issuance of common stock for legal services - May 2001 @ $1.00	1,000	1	999	-	-	1,000
Issuance of common stock for cash - June 2001 @ $1.00	23,500	24	23,476	-	-	23,500
	20,000	20	19,980	-	-	20,000

Issuance of common stock for cash - July 2001 @ $1.00						
Issuance of common stock for cash - August 2001 @ $1.00	25,000	25	24,975	-	-	25,000
Issuance of common stock for services, related party - September 2001 @ $1.00	65,858	66	65,792	-	-	65,858
Issuance of common stock for cash - September 2001 @ $1.00	15,000	15	14,985	-	-	15,000
Issuance of common stock for services - September 2001 @ $1.00	11,000	11	10,989	-	-	11,000
Issuance of stock options for services - September 2001	-	-	32,000	-	-	32,000
Issuance of common stock for cash - October 2001 @ $1.00	5,000	5	4,995	-	-	5,000
Issuance of common stock for cash - December 2001 @ $1.00	30,000	30	29,970	-	-	30,000
Issuance of common stock for services - December 31, 2001 @ $1.00	33,000	33	32,967	-	-	33,000
Issuance of common stock for services, related party - December 2001 @ $1.00	117,500	118	117,382	-	-	117,500
Issuance of common stock for prepaid advertising - December 2001 @ $1.00	15,600	15	15,585	-	-	15,600
Issuance of common stock for property and equipment - January 2002 @ $3.00	1,000	1	2,999	-	-	3,000
Issuance of common stock for services, related party - January 2002 @ $1.00	33,000	33	32,967	-	-	33,000
Issuance of common stock for cash - February 2002 @ $2.00	20,000	20	39,980	-	-	40,000
Issuance of common stock for cash - March 2002 @ $2.00	12,500	12	24,988	-	-	25,000
Contributed capital	-	-	211,269	-	-	211,269
Deferred compensation	-	-	-	(60,108)	-	(60,108)
Net loss	-	-	-	-	(1,144,249)	(1,144,249)
Balance at March 31, 2002, as restated	16,965,708	16,966	1,005,492	(60,108)	(1,367,665)	(405,315)
Issuance of common stock for services - April 2002 @ $2.00	3,000	3	5,997	-	-	6,000
Issuance of common stock for cash - April 2002 @ $1.00	10,000	10	9,990	-	-	10,000
Issuance of common stock for cash - April 2002 @ $2.00	17,500	17	34,983	-	-	35,000
	10,000	10	9,990	-	-	10,000

Issuance of common stock for cash - May 2002 @ $1.00						
Issuance of common stock for cash - May 2002 @ $2.00	16,000	16	31,984	-	-	32,000
Issuance of stock options for services - May 2002	-	-	350,000	-	-	350,000
Contributed capital - bonus expense	-	-	50,000	-	-	50,000
Issuance of common stock for cash - June 2002 @ $1.00	5,000	5	4,995	-	-	5,000
Issuance of common stock for cash - June 2002 @ $2.00	5,000	5	9,995	-	-	10,000
Issuance of common stock for cash - July 2002 @ $1.00	5,000	5	4,995	-	-	5,000
Issuance of common stock for cash - August 2002 @ $2.00	10,000	10	19,990	-	-	20,000
Issuance of common stock for cash - September 2002 @ $2.00	10,000	10	19,990	-	-	20,000
Issuance of stock options below fair market value - November 2002	-	-	250,000	(250,000)	-	-
Issuance of common stock for conversion of note - December 2002 @ 2.00	50,000	50	99,950	-	-	100,000
Issuance of common stock for cash - December 2002 @ $2.00	20,000	20	39,980	-	-	40,000
Issuance of common stock for services - December 2002 @ $2.00	15,000	15	29,985	-	-	30,000
Issuance of common stock for patents - December 2002 @ $2.00	2,000,000	2,000	1,285,917	-	-	1,287,917
Contributed capital			292,718	-	-	292,718
Issuance of common stock for exercise of options - December 2002	574,000	574	574,028	-	-	574,602
Deferred compensation				60,108		60,108
Contributed capital			5,000	-	-	5,000
Issuance of common stock for services - January 2003			25,000	-	-	25,000
Issuance of common stock for cash February 2003 @ $2.00	11,500	12	22,988	-	-	23,000
Issuance of common stock for cash March 2003 @ $2.00	5,000	5	9,995	-	-	10,000
Deferred compensation				54,000	-	54,000
Net loss				-	(2,148,008)	(2,148,008)
Balance at March 31, 2003, as restated	19,732,708	19,733	4,193,962	(196,000)	(3,515,673)	502,022

Issuance of common stock for cash April 2003 @ $2.00	70,000	70	139,930	-	-	140,000
Issuance of common stock for cash May 2003 @ $2.00	30,000	30	59,970	-	-	60,000
Acquisition by Biogentech Corp of ("Togs for Tykes")	1,032,000	1,032	(101,032)	-	-	(100,000)
Issuance of common stock for penalties January 2004 @ $2.80	135,000	135	377,865	-	-	378,000
Issuance of common stock for services February 2004 @ $2.20	100,000	100	219,900	-	-	220,000
Issuance of common stock for services February 2004 @ $1.85	20,000	20	36,980	-	-	37,000
Value of beneficial converstion feature of convertible debenture issued in September 2003			346,870	-	-	346,870
Fair value allocated to warrant liability for detachable warrants issued with preferred stock			(181,849)	-	-	(181,849)
Dividend on preferred stock			885,000	-	(885,000)	-
Deferred compensation				196,000	-	196,000
Net loss				-	(5,703,639)	(5,703,639)
Balance at March 31, 2004	21,119,708	21,120	5,977,596	-	(10,104,312)	(4,105,596)
Issuance of common stock for penalties May 2004 @ $1.85	170,000	170	314,330	-	-	314,500
Issuance of common stock for services June 2004 @ $1.75	10,000	10	17,490	-	-	17,500
Issuance of common stock for conversion of debt June 2004 @ $1.60	371,317	371	593,736	-	-	594,107
Issuance of common stock for services July 2004 @ $1.35	7,489	8	10,101			10,109
Issuance of common stock for services July 2004 @ $1.10	75,000	75	82,425			82,500
Issuance of common stock for services August 2004 @ $0.75	100,000	100	74,900			75,000
Conversion of debt to common stock September 2004 @ 2.22	857,143	857	1,902,000			1,902,857
Issuance of common stock for services October 2004 @ $2.20	4,758	5	10,463			10,468
Issuance of common stock for services October 2004 @ $2.55	375,000	375	955,875			956,250
Issuance of common stock for services December 2004 @ $1.45	5,000	5	7,245			7,250
Issuance of common stock for services December 2004 @	63,676	63	82,715			82,778

$1.30						
Issuance of common stock for services January 2005 @ $1.05	1,250	1	1,312			1,313
Issuance of common stock for services January 2005 @ $1.18	75,000	75	88,425			88,500
Issuance of common stock for services February 2005 @ $1.10	155,000	155	170,345			170,500
Issuance of common stock for services February 2005 @ $1.06	100,000	100	105,900			106,000
Issuance of common stock for services February 2005 @ $0.95	30,000	30	28,470			28,500
Issuance of common stock for services February 2005 @ $1.05	80,628	81	84,578			84,659
Issuance of common stock for services February 2005 @ $1.00	467,159	467	466,692			467,159
Issuance of common stock for services February 2005 @ $0.96	350,000	350	335,650			336,000
Issuance of common stock for financing costs March 2005 @ $0.81	50,000	50	40,450			40,500
Issuance of common stock for services March 2005 @ $0.80	5,000	5	3,995			4,000
Issuance of common stock for services March 2005 @ $0.75	120,000	120	89,880			90,000
Issuance of common stock for services March 2005 @ $0.68	37,500	38	25,462			25,500
Fair value of warrants issued to consultants			553,715			553,715
						-
Net loss					(8,101,014)	(8,101,014)
Balance at March 31, 2005	24,630,628	24,631	12,023,750	-	(18,205,326)	(6,156,945)
Cancelation of common stock previously issued	(105,000)	(105)	(113,895)			(114,000)
Issuance of common stock for services April 2005 @ $0.59	100,000	100	58,900			59,000
Issuance of common stock for services April 2005 @ $0.62	162,500	162	100,587			100,749
Issuance of common stock for services May 2005 @ $0.60	39,836	40	23,862			23,902
Issuance of common stock for services June 2005 @ $0.65	110,000	110	71,390			71,500
Issuance of common stock for services June 2005 @ $0.45	200,000	200	89,800			90,000
Issuance of common stock for services July 2005 @ $0.60	10,000	10	5,990			6,000
Issuance of common stock for services July 2005 @ $0.61	125,000	125	76,125			76,250

Issuance of common stock for interest July 2005 @ $0.61	50,000	50	30,450			30,500
Cancelation of common stock previously issued	(150,000)	(150)	(143,850)			(144,000)
Issuance of common stock for services August 2005 @ $0.48	100,000	100	47,900			48,000
Issuance of common stock for services September 2005 @ $0.50	30,000	30	14,970			15,000
Issuance of common stock for services September 2005 @ $0.42	50,000	50	20,950			21,000
Issuance of common stock for services September 2005 @ $0.50	75,000	75	37,425			37,500
Issuance of common stock for services October 2005 @ $0.53	220,000	220	115,280	(58,750)		56,750
Issuance of common stock for prepaid interest October 2005 @ $0.58	125,000	125	72,375	(72,500)		-
Issuance of common stock for conversion of debt October 2005 @ $1.75	150,000	150	262,350			262,500
Issuance of common stock for services November 2005 @ $0.78	822,706	823	644,847	(26,700)		618,970
Issuance of common stock for services January 2006 @ $1.54	335,000	335	515,165	(119,500)		396,000
Issuance of common stock for services February 2006 @ $1.42	62,000	62	87,738			87,800
Issuance of common stock for services March 2006 @ $1.58	121,467	121	192,237			192,358
Issuance of common stock for conversion of notes payable and accrued interest March 2006	105,250	105	173,557			173,662
Cancelation of common stock previously issued	(3,000)	(3)	(4,797)			(4,800)
Amortization of prepaid expenses				112,025		112,025
Value of warrants issued with debt			131,365			131,365
Repricing of warrants			301,155			301,155
Amortization of fair value of warrants issued to consultants			1,541,628			1,541,628
						-
Net loss					(6,603,454)	(6,603,454)
Balance at March 31, 2006	27,366,387	27,366	16,377,254	(165,425)	(24,808,780)	(8,569,585)

Issuance of common stock for converstion of note payable and accrued interest April 2006	27,200	27	51,109		51,136
Issuance of common stock for services April 2006 @ $1.46	115,000	115	167,835		167,950
Issuance of common stock for cashless exercise of warrants	192,997	193	(193)		-
Issuance of common stock for services May 2006 @ $1.37	150,000	150	204,450	(165,600)	39,000
Issuance of common stock for conversion of accounts payable May 2006 @ $1.28	111,416	112	142,501		142,613
Issuance of common stock for conversion of preferred stock July 2006 @ $2.12	208,333	208	442,292		442,500
Issuance of common stock for conversion of related party debt July 2006 @ $1.30	3,995,806	3,996	5,190,558		5,194,554
Issuance of common stock for services July 2006 @ $0.99	30,000	30	29,820	(14,850)	15,000
Issuance of common stock for conversion of convertible note debt July 2006 @ $1.01	200,000	200	201,800		202,000
Issuance of common stock for services August 2006 @ $0.97	20,000	20	19,380		19,400
Issuance of common stock for services September 2006 @ $0.92	156,000	156	143,684	(94,000)	49,840
Issuance of common stock for cash September 2006 @ $0.50	400,000	400	199,600		200,000
Issuance of common stock for services October 2006 @ $0.99	360,000	360	356,440		356,800
Issuance of common stock for cash October 2006 @ $0.50	1,150,000	1,150	573,850		575,000
Issuance of common stock for services November 2006 @ $0.93	1,163,695	1,164	1,081,846		1,083,010
Issuance of common stock for cash December 2006 @ $0.50	50,000	50	24,950		25,000
Issuance of common stock for converion of note payable and accrued interest February 2007 @ $0.85	127,838	128	108,534		108,662
Issuance of common stock for conversion of preferred stock March 2007 @ $2.12	208,334	208	442,292		442,500
Issuance of common stock for conversion of convertible debenture March 2007 @ $0.76	33,025	33	24,967		25,000
Issuance of common stock for services March 2007 @ $0.80	225,000	225	179,775		180,000

Payment of equity offering costs			(57,500)			(57,500)
Amortization of prepaid expenses				419,118		419,118
Value of warrants issued with debt			112,533			112,533
Fair value of vested stock options issued to employees			1,567,579			1,567,579
Fair value of warrants issued for extension of debt			15,307			15,307
Amortization of fair value of warrants issued to consultants			961,818			961,818
Value of re-priced warrants			1,599			1,599
Value of warrants transferred to liability			(3,545,880)			(3,545,880)
						-
Net loss					(15,710,602)	(15,710,602)
Balance at March 31,2007	**36,291,031**	**$ 36,291**	**$ 25,018,200**	**$ (20,757)**	**$ (40,519,382)**	**$ (15,485,648)**

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

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

	Year Ended		Cumulative from November 21, 2000 (inception) to March 31, 2007
	March 31, 2007	March 31, 2006	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (15,710,602)	$ (6,603,454)	$ (39,634,382)
Adjustment to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization expense	62,141	92,899	589,405
Common stock issued for services	1,911,000	1,637,979	6,757,323
Common stock issued for penalty	-	-	692,500
Common stock issued for financing costs	44,743	30,500	115,743
Change in value of warrant and accrued derivative liabilities	461,221	16,060	157,521
Amortization of debt issue costs	46,122	28,072	157,694
Exercise of stock options for services		-	26,960
Amortization of discounts on notes	479,020	-	1,269,148
Issuance of stock options/warrants for services/debt extension	1,136,953	1,541,628	3,639,296
Capital contribution - bonus (related party)		-	50,000
Amortization of prepaid expenses	419,118	112,025	546,743
Amortization of deferred compensation	-	-	250,000
Discount on common stock issued for settlement of debt	-	-	50,000
Impairment expense	-	-	2,331,522