

Grant Life Sciences, Inc.  
Form 10QSB  
November 14, 2005

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

**FORM 10-QSB**

**(Mark One)**

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

**For the quarterly period ended September 30, 2005**

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

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

**Commission File Number: 000-50133**

**GRANT LIFE SCIENCES, INC.**

(Exact Name of Small Business Issuer as Specified in Charter)

**Nevada**

(State or Other Jurisdiction of  
Incorporation or Organization)

**82-0490737**

(I.R.S. Employer Identification Number)

**64 East Winchester, Suite 205, Murray, UT 84107**

(Address of Principal Executive Offices)

**(801) 261-8736**

(Issuer's Telephone Number, Including Area Code)

(Former Address, if Changed Since Last Report)

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date: As of November 8, 2005, there were 94,179,113 shares of Common Stock, par value \$0.001 per share, issued and outstanding.

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

---

GRANT LIFE SCIENCES, INC.  
FORM 10-QSB  
INDEX

PART I FINANCIAL INFORMATION

Item 1	Condensed Consolidated Financial Statements (unaudited)	
	Condensed Consolidated Balance Sheets -September 30, 2005 and December 31, 2004	3
	Condensed Consolidated Statement of Losses - three months ended September 30, 2005 and 2004, nine months ended September 30, 2005 and 2004, and July 9, 1998 (date of inception) through September 30, 2005	4
	Condensed Consolidated Statement of Deficiency in Stockholder's Equity- July 9, 1998 (date of inception) through September 30, 2005	5
	Condensed Consolidated Statement of Cash Flows - nine months ended September 30, 2005 and 2004 and July 9, 1998 (date of inception) through September 30, 2005	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3	Controls and Procedures	19

PART II OTHER INFORMATION

Item 1	Legal Proceedings	20
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	20
Item 3	Defaults upon Senior Securities	21
Item 4	Submission of Matters to a Vote of Security Holders	21
Item 5	Other Information	21
Item 6	Exhibits	21
	Signatures	21

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

	(Unaudited) September 30, 2005	December 31, 2004
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,103,597	\$ 365,958
Miscellaneous receivables	-	3,000
Prepaid expenses	184,631	5,213
Due from employees	-	334
Deposits	3,263	3,263
Total current assets	1,291,491	377,768
Property and equipment, net of accumulated depreciation of \$10,806 and 5,857 at September 30, 2005 and December 31, 2004, respectively	16,034	15,240
Deferred financing fees, net of accumulated amortization of \$7,292 and \$0, at September 30, 2005 and December 31, 2004, respectively	67,708	-
Total assets	\$ 1,375,233	\$ 393,008
<b>LIABILITIES AND (DEFICIENCY IN) STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 210,417	\$ 95,841
Accrued liabilities	100,889	37,000
Accrued interest payable	106,237	7,005
Accrued payroll liabilities	94,075	13,159
Notes payable, current portion (Note C)	26,250	122,500
Total current liabilities	537,868	275,505
Long-term liabilities:		
Note payable - long term (Note C)	464,480	350,000
Commitments and contingencies (Note F)	-	-
(Deficiency in) stockholders' equity:		
Preferred stock, par value: \$.001, authorized 20,000,000 shares; no shares issued and outstanding at September 30, 2005 and December 31, 2004	-	-
Common stock, par value; \$.001, authorized 150,000,000 shares; 67,149,113 and 56,243,791 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively (Note D)	67,149	56,244
Additional paid in capital	7,078,639	4,190,485
Deferred compensation	(584,095)	(1,097,886)
Deficit accumulated during development stage	(6,188,808)	(3,381,340)
Total (deficiency in) stockholders' equity:	372,885	(232,497)
Total liabilities and (deficiency in) stockholders' equity:	\$ 1,375,233	\$ 393,008

See accompanying notes to the unaudited condensed consolidated financial statements



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

	For the three months ended September 30,		For the nine months ended September 30,		For the period July 9, 1998 (date of inception) through September 30, 2005
	2005	2004	2005	2004	
<b>Operating Expenses:</b>					
General and administrative	\$ 466,905	\$ 547,144	\$ 1,901,830	\$ 817,386	\$ 4,365,068
Depreciation	1,713	927	4,949	2,780	17,690
Acquisition cost	-	-	-		65,812
Research and development	90,091	112,365	480,220	265,752	1,322,150
<b>Total Operating Expenses</b>	<b>558,709</b>	<b>660,436</b>	<b>2,386,999</b>	<b>1,085,918</b>	<b>5,770,722</b>
<b>Loss from Operations</b>	<b>(558,709)</b>	<b>(660,436)</b>	<b>(2,386,999)</b>	<b>(1,085,918)</b>	<b>(5,770,722)</b>
<b>Other income (expenses):</b>					
Gain on extinguishment of debt	-	411,597	-	411,597	510,104
Interest expense	(204,723)	(211,512)	(420,470)	(250,277)	(928,191)
<b>Loss before income taxes</b>	<b>(763,432)</b>	<b>(460,351)</b>	<b>(2,807,469)</b>	<b>(924,598)</b>	<b>(6,188,809)</b>
Income tax benefit	-	-	-	-	-
<b>Net loss</b>	<b>\$ (763,432)</b>	<b>\$ (460,351)</b>	<b>\$ (2,807,469)</b>	<b>\$ (924,598)</b>	<b>\$ (6,188,809)</b>
<b>Net loss per common share -</b>					
basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.05)	\$ (0.02)	n/a
<b>Weighted average shares -</b>					
basic and diluted	59,219,548	46,525,848	57,837,341	38,687,469	n/a

See accompanying notes to the unaudited condensed consolidated financial statements

**GRANT LIFE SCIENCES, INC.**  
**(A development stage company)**  
**CONDENSED CONSOLIDATED STATEMENT OF DEFICIENCY IN STOCKHOLDERS' EQUITY**  
**FOR THE PERIOD JULY 9, 1998 (Date of Inception) THROUGH**  
**September 30, 2005**  
**(unaudited)**

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

Edgar Filing: Grant Life Sciences, Inc. - Form 10QSB

of debt

Issued stock for cash at \$0.13 per share	689,150	689	-	-	91,811	-	92,500
Issued stock for services at \$0.06 per share	1,591,310	1,591	-	-	101,659	-	103,250
Issued stock in satisfaction of debt at \$0.14 per share	1,790,000	1,790	-	-	248,210	-	250,000
Net loss	-	-	-	-	-	(646,201)	(646,201)
Balance, December 31, 2002	33,641,260	33,641	-	-	518,109	(1,217,108)	(665,358)
Issued stock for cash at \$0.13 per share, in Sep'03 & Dec'03	930,800	931	-	-	119,069	-	120,000
Net loss	-	-	-	-	-	(253,881)	(253,881)
Balance, December 31, 2003	34,572,060	34,572	-	-	637,178	(1,470,989)	(799,239)
Issued stock for cash at \$0.0838 per share on 3/11/04, 3/25/04 & 4/8/04	238,660	239	-	-	19,761	-	20,000
Issued stock for services at \$0.08 per share on 5/7/04 & 6/30/04	500,000	500	-	-	39,500	-	40,000
Issued stock for cash at \$0.1835 per share on 8/3/04 & 8/19/04	9,560,596	9,561	-	-	1,485,376	-	1,494,937
Reverse merger with Grant Ventures, Inc. on 7/31/04	6,000,000	6,000	-	-	-	-	6,000
Warrants issued as part of restructuring of debt (89,500 valued at \$0.03779) on 7/31/04	-	-	-	-	3,382	-	3,382
Recognition of beneficial conversion feature	-	-	-	-	200,000	-	200,000

Edgar Filing: Grant Life Sciences, Inc. - Form 10QSB

on issuance of note payable								
Conversion of note payable and accrued interest at \$0.07569 per share on 8/1/04	2,720,000	2,720	-	-	203,165	-	205,885	
Issued stock in satisfaction of debt at \$0.1835 per share on 8/18/04 & 8/20/04	249,475	249	-	-	45,530	-	45,779	
Exercise of \$0.01 warrants on 11/17/04	2,403,000	2,403	-	-	21,627	-	24,030	
Issued 250,000 warrants for services on 5/7/04	-	-	-	-	11,000	-	11,000	
Stock options issued to employees, directors, consultants on 7/31/04 and 11/1/04	-	-	-	(1,523,966)	1,523,966	-	-	
Vesting of deferred compensation	-	-	-	426,081	-	-	426,081	
Net loss	-	-	-	-	-	(1,910,350)	(1,910,350)	
Balance, December 31, 2004	56,243,791 \$	56,244 \$	- \$	(1,097,886)	\$ 4,190,485 \$	(3,381,340)	\$ (232,496)	
Conversion of notes payable and accrued interest at \$0.092178 per share on 3/31/05	1,395,322	1,395	-	-	127,225	-	128,620	
Stock options issued to new director on 2/21/05	-	-	-	(26,725)	26,725	-	-	
Vesting of deferred compensation	-	-	-	292,474	-	-	292,474	
Value of 250,000 warrants issued as part of bridge loan on	-	-	-	-	97,486	-	97,486	



Edgar Filing: Grant Life Sciences, Inc. - Form 10QSB

3/15/05								
Net loss	-	-	-	-	-	(890,573)	(890,573)	
Balance, March 31, 2005	57,639,113 \$	57,639 \$	- \$	(832,137)	4,441,921 \$	(4,271,913)	\$	(604,490)
Shares issued 4/28/05 for services at \$0.40	500,000	500	-	-	199,500	-	-	200,000
Stock options granted to employee 4/1/05	-	-	-	(327,197)	327,197	-	-	-
Stock options exercised 6/2/05	50,000	50	-	-	8,950	-	-	9,000
Vesting of deferred compensation	-	-	-	428,859	-	-	-	428,859
Value of 2,692,307 warrants issued as part of financing on 6/14/05	-	-	-	-	174,542	-	-	174,542
Value of beneficial conversion feature associated with convertible debt on 6/14/05	-	-	-	-	525,458	-	-	525,458
Net loss	-	-	-	-	-	(1,153,463)	(1,153,463)	
Balance, June 30, 2005	58,189,113 \$	58,189 \$	- \$	(730,475)	5,677,568 \$	(5,425,377)	\$	(420,094)
Shares issued 9/28 for legal services at \$0.22	200,000	200	-	-	43,800	-	-	44,000
Value of 2,307,692 warrants issued as part of financing on 8/18	-	-	-	-	21,948	-	-	21,948
Value of beneficial conversion feature associated with debt on 8/18	-	-	-	-	578,052	-	-	578,052
Value of 2,692,307 warrants issued as part of financing on	-	-	-	-	36,309	-	-	36,309

Edgar Filing: Grant Life Sciences, Inc. - Form 10QSB

8/30								
Value of beneficial conversion feature associated with debt on 8/30	-	-	-	-	663,691	-	663,691	
Partial conversion of Senior note payable at \$0.0105 per share on 9/8	2,800,000	2,800	-	-	26,600	-	29,400	
Partial conversion of Senior note payable at \$0.0068 per share on 9/23	2,980,000	2,980	-	-	17,284	-	20,264	
Partial conversion of Senior note payable at \$0.00423 per share on 9/28	2,980,000	2,980	-	-	9,625	-	12,605	
Stock options issued to interim CEO 9/28	-	-	-	(3,762)	3,762	-	-	
Vesting of deferred compensation	-	-	-	150,142	-	-	150,142	
Net loss	-	-	-	-	-	(763,432)	(763,432)	
Balance, Sept. 30, 2005	67,149,113 \$	67,149 \$	- \$	(584,095)	7,078,639 \$	(6,188,808)	372,885	

See accompanying notes to unaudited condensed consolidated financial statements

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

	For the nine months ended September 30,		For the period July 9, 1998 (date of inception) through September 30, 2005
	2005	2004	
<b>Cash flows from operating activities:</b>			
Net loss	\$ (2,807,468)	\$ (924,598)	\$ (6,188,809)
<b>Adjustments to reconcile net (loss) to cash (used in) operations:</b>			
Depreciation	4,949	2,780	17,690
Loss on abandonment of assets	-	-	3,790
Deferred compensation (Note E)	871,475	13,204	1,297,555
Common stock issued in exchange for services rendered	194,000	12,570	338,250
Warrants issued in exchange for services rendered	-	-	11,000
Amortization of deferred financing expenses (Note C)	7,292	-	7,292
Amortization of debt discounted due to warrant issue (Note C)	130,379	-	130,379
Beneficial conversion feature discount (Note C)	135,106	200,000	433,613
Gain on extinguishment of debt	-	(411,597)	(510,104)
Write off of payable due to stockholders	(1,230)	(878)	(2,108)
Acquisition cost (Note B)	-	-	65,812
<b>Decrease (increase) in:</b>			
Related party receivables	-	15,269	-
Employee receivables	334	32,119	-
Prepaid expenses	(129,418)	(1,600)	(234,631)
Miscellaneous current assets	3,000	(5,563)	(3,263)
<b>(Decrease) increase in:</b>			
Accounts payable	114,577	64,339	210,417
Accounts payable - assumed liabilities	-	(17,506)	(17,506)
Accounts payable - stockholders	-	(38,900)	(38,900)
Notes payable (Note C)	35,000	-	35,000
Accrued expenses	63,889	175,687	100,889
Accrued payroll liabilities	80,916	27,159	94,075
Accrued interest payable	106,582	44,968	394,172
Net cash (used in) operating activities	(1,190,619)	(812,549)	(3,855,387)
<b>Cash flows from investing activities:</b>			
Payments for property and equipment	(5,743)	(2,852)	(37,515)
Net cash used in investing activities	(5,743)	(2,852)	(37,515)
<b>Cash flows from financing activities:</b>			

Edgar Filing: Grant Life Sciences, Inc. - Form 10QSB

Proceeds from sale of common stock, net of costs and fees	9,000	1,514,937	1,765,467
Net proceeds from note payable (Note C)	1,925,000	322,500	3,105,253
Proceeds from related party notes payable	-	-	60,000
Payments for related party notes payable	-	(5,000)	(34,221)
Proceeds from stock subscriptions receivable	-	-	100,000
Net cash provided by financing activities	1,934,000	1,832,437	4,996,499
Net increase (decrease) in cash and cash equivalents	737,638	1,017,036	1,103,597
Cash and cash equivalents at beginning of the period	365,958	11,299	-
Cash and cash equivalents at end of the period	\$ 1,103,597	\$ 1,028,335	\$ 1,103,597
Cash paid for interest	48,114	5,310	\$ 104,458
Cash paid for taxes	\$ -	\$ -	\$ -

See accompanying notes to unaudited condensed consolidated financial statements

**GRANT LIFE SCIENCES, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2005**  
**(Unaudited)**

**NOTE A - SUMMARY OF ACCOUNTING POLICIES**

Interim Financial Information

The interim financial information as of September 30, 2005 and for the nine months ended September 30, 2005 is unaudited. The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The accompanying condensed consolidated financial statements and notes should be read in conjunction with the consolidated financial statements and notes included in the Company's Form 10-KSB for the year ended December 31, 2004.

In the opinion of management, all adjustments that are necessary for a fair presentation of the financial information for the interim periods reported have been made. The results of operations for the nine month period ended September 30, 2005 is not necessarily indicative of the results that can be expected for the entire year ending December 31, 2005.

Business and Basis of Presentation

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

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

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

Development Stage Company

Effective July 9, 1998 (date of inception), the Company is considered a development stage Company as defined in SFAS No. 7. The Company's development stage activities consist of the development of medical diagnostic kits. Sources of financing for these development stage activities have been primarily debt and equity financing. The Company has not yet established a source of revenue. The accompanying financial statements have been prepared assuming the Company will continue as a going concern. Continuing as a going concern is dependent upon successfully obtaining additional working capital through debt and equity financing.

Net Loss per Common Share

The computation of net loss per common share is based on the weighted average number of shares outstanding during each period. The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the period plus the common stock equivalents which would arise from the exercise of stock

## Edgar Filing: Grant Life Sciences, Inc. - Form 10QSB

options and warrants outstanding using the treasury stock method and the average market price per share during the period. The following table sets forth potential shares of common stock that are not included in the diluted net loss per share because to do so would be antidilutive:

	As of September 30,	
	2005	2004
Options to purchase common stock - vested	4,695,953	573,650
Options to purchase common stock - unvested	1,314,166	3,394,602
Warrants	10,922,010	5,132,704
Shares from potential note conversions	79,508,727	1,762,792
Total	96,440,856	10,863,748

### Stock-Based Compensation

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

The Company began granting options to its employees, directors, and consultants in the 3rd quarter of 2004 under the Company's Stock Incentive Plan. Fair value at the date of grant was estimated using the Black-Scholes pricing model. The fair value for each option is expensed over the term of the vesting period. In 2004, a total of 5,243,254 options were granted which vest over time periods ranging from 0 to 3 years. During the quarter ended March 31, 2005, 100,000 options were granted. During the quarter ending June 30, 2005 an additional 750,000 options were granted, 100,000 options were forfeited and 50,000 options were exercised. During the quarter ended September 30, 2005, an additional 100,000 options were granted and 1,347,301 options were forfeited, bringing the total options outstanding under the Stock Incentive Plan to 4,695,953 as of September 30, 2005.

### Reclassifications

Certain reclassifications have been made in prior period financial statements to conform to classifications used in the current period.

### New Accounting Pronouncements

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143," which requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The Company is required to adopt the provisions of FIN 47 no later than the first quarter of fiscal 2006. The Company does not expect the adoption of this Interpretation to have a material impact on its consolidated financial position, results of operations or cash flows.

In May 2005 the FASB issued Statement of Financial Accounting Standards (SFAS) No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle, such as a change in non-discretionary profit-sharing payments resulting from an accounting change, should be recognized in the period of the accounting change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 is effective

for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this Statement is issued. The Company does not expect the adoption of this SFAS to have a material impact on its consolidated financial position, results of operations or cash flows.

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

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

For accounting purposes, the Company accounted for the transaction as a reverse acquisition and is presented as a recapitalization of Impact Diagnostics, Inc.

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

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

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

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

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

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

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

**NOTE C - NOTES PAYABLE**

Notes payable at September 30, 2005 and December 31, 2004 are as follows:

	September 30, 2005	December 31, 2004
6% convertible note payable, unsecured, due on 1/2/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of \$0.092178	\$ -	\$ 10,000
	-	10,000



6% convertible note payable, unsecured, due on 1/5/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178

8

---

6% convertible note payable, unsecured, due on 1/5/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	10,000
6% convertible note payable, unsecured, due on 1/5/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	5,000
6% convertible note payable, unsecured, due on 1/5/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	8,000
6% convertible note payable, unsecured, due on 1/5/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	5,000
6% convertible note payable, unsecured, due on 1/9/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	14,000
6% convertible note payable, unsecured, due on 1/13/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	10,000
6% convertible note payable, unsecured, due on 1/13/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	5,000
6% convertible note payable, unsecured, due on 1/21/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	5,000
6% convertible note payable, unsecured, due on 1/21/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	10,500
6% convertible note payable, unsecured, due on 2/4/2005, principal and interest is convertible at any time before maturity into common shares of the company at the price per share of 0.092178	-	10,000

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

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

10% note payable, unsecured, originally due on 11/30/2002. The note payable was in default as of December 31, 2002. The venture capital firm that issued the loan has since been placed in receivership. As of December 31, 2003 the note balance was \$587,753 with accrued interest payable of \$141,501. In August 2004, this note for \$587,753 and accrued interest of \$175,787 was restructured into a 3-year convertible note of \$350,000 plus 89,500 5-year warrants to purchase additional shares at \$0.01 per share. The note is convertible into shares of common stock at a conversion price of \$0.83798 per share. Interest is payable quarterly at 6% per year. The 89,500 warrants have an option value of \$0.0378 per share. The conversion resulted in a \$411,597 gain on extinguishment of debt in 2004.	350,000	350,000
--	---------	---------

10% Senior, secured note payable, due on 6/14/2008. Secured by the assets of the company. Interest has been prepaid for the first 8 months. In connection with the loan of \$700,000, the Company issued warrants granting the holders the right to acquire 2,692,307 shares of the Company's common stock at \$0.45 per share. The note is convertible into shares of common stock at a conversion price the lower of \$0.40 or 50% of the three lowest intraday prices during the preceding 20 trading days, subject to restrictions limiting the note holder's % ownership in the company. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments ("EITF - 0027"), the Company recognized the value attributable to the warrants and the beneficial conversion feature in the amount to additional paid-in capital and a discount against the loan. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 4.0%, a dividend yield of 0%, and volatility of 123%. The value of the warrants and the value of the beneficial conversion feature was greater than the amount of the gross proceeds. The debt discount attributed to the value of the warrants and the beneficial conversion feature is \$700,000 and is amortized over the loan's maturity period (three years) as interest expense. In September 2005 \$62,269 of note principal was converted into 8,760,000 shares at an average conversion rate of \$0.007 per share.

637,731

-

10% Senior, secured note payable, due on 8/18/2008. Secured by the assets of the company. Interest has been prepaid for the first 8 months. In connection with the loan of \$600,000, the Company issued warrants granting the holders the right to acquire 2,307,692 shares of the Company's common stock at \$0.45 per share. The note is convertible into shares of common stock at a conversion price the lower of \$0.40 or 50% of the three lowest intraday prices during the preceding 20 trading days, subject to restrictions limiting the note holder's % ownership in the company. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments ("EITF - 0027"), the Company recognized the value attributable to the warrants and the beneficial conversion feature in the amount to additional paid-in capital and a discount against the loan. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 4.0%, a dividend yield of 0%, and volatility of 124%. The value of the warrants and the value of the beneficial conversion feature was greater than the amount of the gross proceeds. The debt discount attributed to the value of the warrants and the beneficial conversion feature is \$600,000 and is amortized over the loan's maturity period (three years) as interest expense.

600,000

-

10% Senior, secured note payable, due on 8/29/2008. Secured by the assets of the company. Interest has been prepaid for the first 8 months. In connection with the loan of \$700,000, the Company issued warrants granting the holders the right to acquire 2,692,307 shares of the Company's common stock at \$0.45 per share. The note is convertible into shares of common stock at a conversion price the lower of \$0.40 or 50% of the three lowest intraday prices during the preceding 20 trading days, subject to restrictions limiting the note holder's % ownership in the company. In accordance with Emerging Issues Task Force Issue 00-27, Application of Issue

700,000

-

No. 98-5 to Certain Convertible Instruments (“EITF - 0027”), the Company recognized the value attributable to the warrants and the beneficial conversion feature in the amount to additional paid-in capital and a discount against the loan. The Company valued the warrants in accordance with EITF 00-27 using the Black-Scholes pricing model and the following assumptions: contractual terms of 5 years, an average risk free interest rate of 4.0%, a dividend yield of 0%, and volatility of 124%. The value of the warrants and the value of the beneficial conversion feature was greater than the amount of the gross proceeds. The debt discount attributed to the value of the warrants and the beneficial conversion feature is \$700,000 and is amortized over the loan’s maturity period (three years) as interest expense.

Debt Discount - value attributable to warrants issued with the three 10% notes and the beneficial conversion features, net of accumulated amortization of \$167,999 and \$0 at September 30, 2005 and December 31, 2004, respectively.	(1,832,001)	-
Net 10% senior secured notes payable	105,730	-
6% note payable, unsecured, interest and principal to be paid in eight equal quarterly payments beginning 6/07/05. Final payment is due 3/7/2007.	35,000	-
Total notes payable	490,730	472,500
Less: current portion	(26,250)	(122,500)
Balance notes payable (long term portion)	\$ 464,480	\$ 350,000

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

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

On June 14, 2005, the Company entered into a Securities Purchase Agreement whereby the Company obtained a commitment from accredited investors to purchase \$2 million of convertible debt. The Company sold an initial \$700,000 of convertible notes and issued 2,692,307 5-year warrants with an exercise price of \$0.45 to the lender. The note has a three year term and bears interest at 10%. Eight months of interest was prepaid at funding and \$30,000 was placed into an escrow fund to purchase key man life insurance. Legal and funding fees incurred in connection with the sale of the convertible debentures amounted to \$75,000. These expenses are being amortized to expense over the term of the note.

The note is convertible into shares of common stock, at the investor's option, at a conversion price equal to the lower of \$0.40 or 50% of the average of the three lowest intraday trading prices during the preceding 20 trading day period. At June 14, 2005 the conversion price would have been \$0.11. Had the purchaser converted the note on June 14, 2005, the buyers would have received 6,363,636 shares of common stock. In accordance with Emerging Issues Task Force (EITF) 00-27, "Application of EITF No. 98-5 to Certain Convertible Instruments", the Company recorded a beneficial conversion feature in the amount of \$525,458 which will be amortized over the period of the loan maturity. The intrinsic value of the beneficial conversion feature is allocated to additional paid-in capital with the resulting discount on the debt resulting in a non-cash interest expense charge to earnings (loss) over the term of the note. The investors have agreed to restrict their ability to convert the notes and exercise warrants such that the number of shares held by them does not exceed 4.99% of the Company's issued and outstanding shares.

In connection with the Agreement, the Company also issued 5-year warrants to the buyers to purchase 2,692,307 shares of common stock at \$0.45 per share. The price of the warrants is adjusted if the Company issues common stock at a price below market. The fair value of the warrants granted is estimated to be \$465,039 using the Black-Scholes option model. The amount of proceeds allocated to the warrants is adjusted downward to \$174,542, since the value of

the warrants plus the value of the beneficial conversion feature can not equal more than the note proceeds. The debt discount will be amortized as additional interest expense during the three year term of the note.

On August 18, 2005, the Investors purchased an additional \$600,000 in Notes and received warrants to purchase 2,307,692 shares of the Company's common stock. On August 30, 2005, the Investors purchased \$700,000 in Notes and received warrants to purchase 2,692,307 shares of the Company's common stock, fulfilling the commitment made on June 14, 2005 to purchase a total of 2 million of convertible debt. Eight months of interest was prepaid at the fundings. The terms of the two additional notes are the same as the June 14<sup>th</sup> note. The Company recorded a beneficial conversion feature in the amount of \$578,052 on the August 18<sup>th</sup> note and a beneficial conversion feature in the amount of \$663,691 on the August 30<sup>th</sup> note. The beneficial conversion features will be amortized over the period of the loans' maturity. The intrinsic value of the beneficial conversion feature is allocated to additional paid-in capital with the resulting discount on the debt causing a non-cash interest expense charge to earnings (loss) over the term of the note. Using the Black-Scholes option pricing model, the fair value of the warrants granted with the August 18<sup>th</sup> note is estimated to be \$45,563 and the fair value of the warrants granted with the August 30<sup>th</sup> note is estimated to be \$76,591. The amount of proceeds allocated to the warrants is adjusted downward to \$21,948 in the case of the August 18<sup>th</sup> note and \$36,309 in the case of the August 30<sup>th</sup> note, since the value of the warrants plus the value of the beneficial conversion feature can not equal more than the note proceeds. The debt discount will be amortized as additional interest expense during the three year term of the note.

On September 8, 2005, \$29,400 of the June 14<sup>th</sup> convertible note was converted into 2,800,000 shares at a conversion rate of \$0.0105 according to the terms of the note. On September 23, 2005, an additional \$20,264 of note principal was converted into 2,980,000 shares at a conversion rate of \$0.0068. On September 28, 2005, an additional \$12,605 of note principal was converted into 2,980,000 shares at 0.00423/share.

Amortization of \$158,276 has been charged to interest expense during the quarter ending September 30, 2005. This amortization includes \$61,405 of debt discount related to the \$62,269 of note principal converted to shares in September.

#### **NOTE D - COMMON STOCK**

The Company is authorized to issue 150,000,000 shares of common stock with \$0.001 par value per share. As of September 30, 2005 and December 31, 2004, the Company has 67,149,113 and 56,243,791 shares of common stock issued and outstanding, respectively. The Company is authorized to issue 20,000,000 shares of preferred stock with \$0.001 par value per share. No shares of preferred stock have been issued to date.

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

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

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

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



In June 2004, the Company issued 500,000 shares of common stock in exchange for services valued at \$40,000 to consultants. The stock issued was valued at \$.08 per share, which represents the fair value of the stock issued, which did not differ materially from the value of the services rendered.

On August 19, 2004, the Company completed a private placement of 9,560,596 shares to accredited investors at a price of \$0.1835 per share. As an additional enticement to purchase the shares, one 5-year warrant to purchase stock at \$0.1835 was issued for each 5 shares of stock purchased. The private placement resulted in net proceeds to the company of approximately \$1,494,937. The Company also issued warrants to purchase 2,670,000 shares at an exercise price of \$0.01 per warrant and warrants to purchase 411,104 shares at an exercise price of \$0.185 per warrant to its placement agent in connection with the Merger and private placement. The Company has accrued liquidated damages due to these investors totaling \$90,058 through, because the Registration Statement, on SEC form SB2, was not declared effective by the SEC within the time frame specified in the Registration Rights Agreement associated with this private placement. The Registration Statement was declared effective in July 2005.

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

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

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

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

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

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

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

In September 2005, \$62,269 of principal of the Senior 10% convertible notes converted into 8,760,000 shares. The average conversion price per share was \$0.0071.

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

#### **NOTE E - STOCK OPTIONS AND WARRANTS**

The Company has a Stock Incentive Plan. Stockholders approved the plan effective November 12, 2004. The options granted under the Plan may be either qualified or non-qualified options. Up to 8,645,867 options may be granted to employees, directors and consultants under the plan. Options may be granted with different vesting terms and expire no later than 10 years from the date of grant. As of December 31, 2004, 5,243,254 options had been granted under the plan. Through September 30, 2005, an additional 950,000 of options were granted, 1,447,301 options were forfeited, and 50,000 options were exercised. At September 30, 2005 there were 4,695,953 options outstanding under the plan.



Stock Options

Transactions involving stock options issued to employees, directors and consultants under the company's 2004 Stock Incentive Plan are summarized below. The following table summarizes the options outstanding and the related exercise prices for the shares of the Company's common stock issued under the 2004 Stock Incentive Plan and as of September 30, 2005 :

Exercise Prices	Options Outstanding		Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable	
	Number Outstanding				Number Exercisable	Weighted Average Exercise Price
\$ 0.18	4,595,953		8.9	\$0.18	3,331,787	\$0.18
0.04	100,000		10	0.04	100,000	\$0.04
	4,695,953				3,431,787	

	Number of Shares	Weighted Average Price Per Share
Outstanding at January 1, 2003	-	\$ -
Granted	-	-
Exercised	-	-
Canceled or expired	-	-
Outstanding at December 31, 2003	-	-
Granted	5,243,254	0.18
Exercised	-	-
Canceled or expired	-	-
Outstanding at December 31, 2004	5,243,254	\$ 0.18
Granted	950,000	0.188
Exercised	(50,000)	0.18
Canceled or expired	(1,447,301)	0.195
Outstanding at September 30, 2005	4,695,953	\$ 0.175

Fair value was estimated at the date of grant using the Black-Scholes pricing model with the following assumptions:

	Nine months ended September 30, 2005	2004
Significant assumptions (weighted-average):		
Risk-free interest rate at grant date	3.6%	3.7%
Expected stock price volatility	107%	114%
Expected dividend payout	0%	0%
Expected option life-years based on management's estimate	3yrs	3yrs

Edgar Filing: Grant Life Sciences, Inc. - Form 10QSB

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS123R). This Statement requires public entities to measure the cost of equity awards to employees based on the grant-date value of the award. The Company elected early adoption of this Statement, effective for 2004, in advance of the Company's required adoption date of December 15, 2005. During the year ended December 31, 2004, the Company recognized \$426,081 as expense relating to vested stock options. In the first three quarters of 2005, the Company recognized \$871,475 as expenses; \$331,808 of this expense is included in the Consolidated Statement of Losses as R&D expense and the remainder is included in General and Administrative expense.

Warrants

The following tables summarize changes in warrants outstanding and the related exercise prices for the shares of the Company's common stock issued by the Company as of September 30, 2005:

<u>Warrants Outstanding &amp; Exercisable</u>				
<u>Exercise Prices</u>	<u>Number Outstanding</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Weighted Average Exercise Price</u>	
\$ 0.01	267,000	3.8	\$ 0.01	
\$ 0.01	89,500	3.8	\$ 0.01	
\$ 0.1835	411,104	3.8	\$ 0.1835	
\$ 0.1835	1,912,100	3.8	\$ 0.1835	
\$ 0.1835	50,000	3.8	\$ 0.1835	
\$ 0.18	250,000	4.1	\$ 0.18	
\$ 0.40	250,000	4.5	\$ 0.40	
\$ 0.45	2,692,307	4.7	\$ 0.45	
\$ 0.45	2,307,692	4.9	\$ 0.45	
\$ 0.45	2,692,307	4.9	\$ 0.45	
	10,922,010		\$ 0.37	

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2003	-	\$ -
Granted	-	-
Exercised	-	-
Canceled or expired	-	-
Outstanding at December 31, 2003	-	-
Granted	5,382,704	0.09
Exercised	(2,403,000)	0.01
Canceled or expired	-	-
Outstanding at December 31, 2004	2,979,704	0.16
Granted	7,942,306	0.448

Exercised	-	-
Canceled or expired	-	-
Outstanding at September 30, 2005	10,922,010	\$ 0.30

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

#### NOTE F - COMMITMENTS

On March 7, 2005, the Company signed a 10-year licensing agreement for rapid test technologies. Under the terms of the agreement, the Company made an initial payment of \$15,000, executed a note for \$35,000 payable over two years, and pay 3% royalties on net sales of licensed products. The license can be terminated with 90 days notice by the Company. On March 7, 2005, the Company also entered into a 27-month consulting Agreement with Ravi Pottahil and Indira Pottahil in support of the License, pursuant to which these Consultants will receive 310,000 shares of common stock of the Company, to be issued as follows: one-third on September 7, 2005, one-third on March 7, 2006 and one-third on September 7, 2006. The September 7, 2005 shares had not yet been issued as of September 30, 2005.

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

#### **NOTE G - SIGNIFICANT NON-CASH TRANSACTIONS**

In the quarter ending March 31, 2005 convertible notes totaling \$122,500 plus accrued interest of \$7,350 converted into 1,395,322 shares of stock, per the terms of the notes. \$1,230 of interest was forgiven.

The Company issued 250,000 warrants during the quarter ending March 31, 2005 in connection with a \$200,000 bridge loan. The Company valued the warrants at \$97,486 and recognized this amount as additional paid-in capital and as a discount against the bridge loan. The discount amortized as interest expense for the six months ended June 30, 2005 was \$97,486.

The Company issued 500,000 shares of stock to its financial advisor in April 2005 in exchange for services. In September 2005, the Company issued 200,000 shares of stock to its legal advisor in exchange for services.

The Company issued 2,692,307 warrants on June 14, 2005 in connection with financing. The Company recognized the proceeds allocated to warrants and beneficial conversion feature \$174,541 and \$525,459, respectively as additional paid-in capital and as a discount against the note. On August 18, 2005, the Company issued 2,307,692 warrants in connection with financing. The Company recognized the proceeds allocated to warrants and beneficial conversion feature \$21,948 and \$578,052, respectively as additional paid-in capital and as a discount against the note. On August 30, 2005, the Company issued 2,692,307 warrants in connection with financing. The Company recognized the proceeds allocated to warrants and beneficial conversion feature \$36,309 and \$663,691, respectively as additional paid-in capital and as a discount against the note. The discount amortized as interest expense in the third quarter was \$158,276.

#### **NOTE H- SUBSEQUENT EVENTS**

During October 2005 and through Nov 8, 2005, \$156,233 of principal of the Senior 10% convertible notes converted into 26,780,000 shares. The average conversion price per share was \$0.0055.

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

#### **Forward-Looking and Cautionary Statements**

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

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

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

achievements.

15

---



## Overview

We are considered a development stage company engaged primarily in the development of protein-based screening tests that are used to screen woman for cervical cancer and pre-cancerous conditions that typically result in cervical cancer. We believe our tests detect the presence of certain antibodies that appear only when cervical cancer or certain pre-cancerous conditions are present in the body. Our tests are performed by analyzing a small amount of blood taken from the patient. In one version of our test, the blood sample is analyzed in a clinical testing laboratory using standard laboratory equipment and analytic software, which generally can produce test results in about 2 hours. Our rapid test is designed to be administered at the point of care by a health professional in a doctor's office, hospital, and clinic or even at home, and provides easy-to-read results in approximately 15 minutes. Our planned cervical cancer test uses proprietary technology to detect the presence of antibodies. We believe that in the future we may be able to use that technology to develop rapid tests for other diseases and cancers.

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

On July 30, 2004, we acquired Impact Diagnostics through the merger of our wholly owned subsidiary, Impact Acquisition Corporation, into Impact Diagnostics. At the time of the merger, we were an inactive publicly traded shell corporation with no significant assets or operations. In accordance with SFAS No. 141, Impact Diagnostics was the acquiring entity. While the transaction is accounted for using the purchase method of accounting, in substance the merger is a recapitalization of Impact Diagnostic's capital structure. As a result of the Merger, each issued and outstanding share of common stock of Impact Diagnostics was converted into one share of our common stock, and Impact Diagnostics became a wholly owned subsidiary of our company. We now own, indirectly though Impact Diagnostics, all of the assets of Impact Diagnostics.

For accounting purposes, Impact Diagnostics has accounted for the transaction as a reverse acquisition and shall be the surviving entity. Impact Diagnostics did not recognize goodwill or any intangible assets in connection with the transaction and there have been no adjustments to the historical carrying values of the assets and liabilities.

The accompanying financial statements present the historical financial condition, results of operations and cash flows of the Impact Diagnostics prior to the merger with us.

We are considered a development stage company. In 2003 and 2004, we had no revenues and incurred net losses of \$253,881 and \$1,910,350, respectively. For the nine months ended September 30, 2005 and 2004, we had no revenues and incurred net losses of \$2,807,469 and \$924,598, respectively. Since inception in July 1998, we have incurred cumulative losses of \$6,188,808.

In connection with the Merger, between July 30, 2004 and August 19, 2004, we sold 1,912,125 units in a private placement, at a purchase price of \$0.9175 per unit (\$0.1835 per share), resulting in gross proceeds to our Company of \$1,754,375. Net proceeds after legal, accounting, printing, and filing fees was approximately \$1,494,937. Each unit was comprised of five shares of our common stock and a warrant to purchase one share of our common stock at an exercise price of \$0.18 per share.

On June 14, 2005 we sold \$700,000 of convertible debt in a private placement as part of an agreement to sell \$2,000,000 of convertible debt which will be funded as certain milestones are met as described in Part II, item 2. On August 18<sup>th</sup> and August 30<sup>th</sup>, the remainder of the convertible debt was sold per the agreement.

Currently the number of authorized shares is insufficient based on the current conversion rates of the \$2 million of convertible notes. The Company intends to seek shareholder approval for an increase in authorized common shares at an annual meeting tentatively planned to be held in early 2006.

#### Application of Critical Accounting Policies

Our consolidated financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. These estimates and assumptions are affected by management's application of accounting policies. We believe that understanding the basis and nature of the estimates and assumptions involved with the following aspects of our consolidated financial statements is critical to an understanding of our financials. While there are a number of significant accounting policies affecting our consolidated financial statements; we believe the following critical accounting policy involves the most complex and subjective estimates and judgments:

#### Stock-Based Compensation

On December 16, 2004, the Financial Accounting Standards Board published Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment ("SFAS 123R"). SFAS 123R requires that compensation cost related to share-based payment transactions be recognized in the financial statements. Share-based payment transactions within the scope of SFAS 123R include stock options, restricted stock plans, performance-based equity awards, stock appreciation rights, and employee share purchase plans. The provisions of SFAS 123R are effective as of the first interim period that begins after December 15, 2005. The Company is adopting this Statement early, beginning in the year 2004. The company incurred expense of \$871,475 for the nine months ending September 30, 2005 for the stock options granted under its 2004 Stock Incentive Plan. \$331,808 of this expense was for options granted to R&D personnel and is included as R&D expense on the Statement of Losses. The Company anticipates continuing to incur such costs in order to conserve its limited financial resources. The determination of the volatility, expected term and other assumptions used to determine the fair value of equity based compensation issued to non-employees under SFAS 123 involves subjective judgment and the consideration of a variety of factors, including our historical stock price, option exercise activity to date and the review of assumptions used by comparable enterprises.

#### Plan of Operations

We expect to acquire laboratory assets to augment our clinical research and development efforts and computer equipment and peripherals used in our day-to-day operations. Currently our only office is the office in Murray, UT, however the Company plans to consolidate its operations in Southern California during the fourth quarter of 2005.

In addition to 3 officers, the Company currently has one full-time employee and relies on a number of part-time scientific and business development consultants. During the next 12 months, we anticipate that we will add employees, including scientists and other professionals in the research and development, product development, business development, regulatory, manufacturing, marketing and clinical studies areas.

During the next 12 months, we plan to complete the development of our cervical cancer screening tests. We intend to continue to validate the effectiveness of the processes that we currently use in the tests we are developing through trials which will be conducted for us by third party testing laboratories. In the near term, we plan to meet with

regulatory agencies in the United States and in other countries to determine the clinical trials and studies we will have to undertake and the data and other information we will be required to submit to them to support our future applications for authority to market and sell our planned cervical cancer tests in those countries. We also plan to begin studies and clinical trials in the United States and other countries that will be required in connection with our regulatory applications.

17

---

Under the licensing agreement with Accudx we are beginning to take orders for rapid tests for Malaria and Dengue Fever, and should have sales revenue commencing in the fourth quarter of 2005. The establishment of sales and marketing channels positions the Company for the eventual manufacturing and distribution of our core product, the immunological serum-based test for detecting Cervical Cancer.

We plan to invest any excess cash we have in investment grade interest bearing securities. We do not anticipate the acquisition of any material property, plant or equipment during the next 12 months, other than laboratory assets and computer equipment and peripherals used in our day-to-day operations. We believe we have sufficient resources available to meet these acquisition needs. We do not anticipate investing in real estate or interests in real estate, real estate mortgages, or securities of or interests in persons primarily engaged in real estate activities. We do not anticipate the disposition of any material property, plant or equipment during the next 12 months.

#### Liquidity and Capital Resources

As of September 30, 2005, we had total current assets of \$1,291,490 and total current liabilities of \$537,868. These current liabilities include \$99,999 of accrued liquidated damages owed to investors who purchased shares in July and August of 2004, under the terms of the Registration Rights Agreement associated with this financing. The registration agreement covering the shares was filed on time, but was not effective by the due date. This form SB-2 Registration Statement was declared effective by the Securities and Exchange Commission on July 9, 2005.

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

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

The independent auditors report on our December 31, 2004 financial statements included in the Company's Annual Report states that the Company's historical losses and the lack of revenues raise substantial doubts about the Company's ability to continue as a going concern, due to the Company's status as a development stage company and its lack of significant operations. If we are unable to develop our business, we have to discontinue operations or cease to exist, which would be detrimental to the value of the Company's common stock. We can make no assurances that our business operations will develop and provide us with significant cash to continue operations.

#### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as of September 30, 2005 or as of the date of this report.

#### Inflation

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

**Item 3. Controls and Procedures**

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2005. Based on such evaluation, our principal executive officer and principal financial officer have concluded, as of the end of such period, that our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934.

During the third quarter of fiscal 2005, there were no changes to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**PART II**  
**OTHER INFORMATION**

**Item 1. Legal Proceedings**

None.

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

To obtain funding for its ongoing operations, the Company entered into a Securities Purchase Agreement with New Millennium Capital Partners II, LLC, AJW Qualified Partners, LLC, AJW Offshore, Ltd. and AJW Partners, LLC on June 14, 2005 for the sale of (i) \$2,000,000 in callable secured convertible notes and (ii) stock purchase warrants to buy 7,692,308 shares of our common stock.

On June 14, 2005, the Investors purchased \$700,000 in Notes and received Warrants to purchase 2,692,307 shares of the Company's common stock. On August 18, 2005, an additional \$600,000 of notes were sold and on August 30, 2005, the remaining \$700,000 of notes were sold. Eight months of prepaid interest were deducted from the funds received.

The Notes bear interest at 10%, mature three years from the date of issuance, and are convertible into our common stock, at the Investors' option, at a conversion price equal to the lower of (i) \$0.40 or (ii) 50% of the average of the three lowest intraday trading prices for our common stock during the 20 trading days before, but not including, the conversion date. In September 2005, \$62,269 of note principal was converted into shares at an average rate of \$0.007 per share. In October and through November 8, 2005, an additional \$156,233 of note principal was converted into shares at an average rate of \$0.0055 per share.

We may prepay the Notes in the event that no event of default exists, there are a sufficient number of shares available for conversion of the callable secured convertible notes, and the market price is at or below \$.40 per share. The full principal amount of the Notes is due upon default under the terms of Notes. In addition, we have granted the Investors a security interest in substantially all of our assets and intellectual property as well as registration rights.

The Warrants are exercisable until five years from the date of issuance at a purchase price of \$.45 per share. In addition, the exercise price of the Warrants is adjusted in the event we issue common stock at a price below market.

The Investors have contractually agreed to restrict their ability to convert the Notes and exercise the Warrants and receive shares of our common stock such that the number of shares of the Company common stock held by them and their affiliates after such conversion or exercise does not exceed 4.99% of the Company's then issued and outstanding shares of common stock.

The Notes and Warrants were offered and sold to the Investors in a private placement transaction made in reliance upon exemptions from registration pursuant to Section 4(2) under the Securities Act of 1933 and Rule 506. Each of the Investors is an accredited investor as defined in Rule 501 of Regulation D promulgated under the Securities Act of 1933

The proceeds of the financing will be used to further the development of the diagnostic cervical cancer blood test and fund the general and administrative expenses of the company.

**Item 3. Defaults upon Senior Securities**

None.

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

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Signatures**

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

GRANT LIFE SCIENCES, INC.

Date: November 14, 2005

/s/ Stan Yakatan  
Stan Yakatan  
Chairman

Date: November 14, 2005

/s/ Don Rutherford  
Don Rutherford  
Chief Financial Officer