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Cobalis Corp  
Form 10QSB  
February 22, 2005

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended December 31, 2004

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT For the transition period from \_\_\_\_\_ to \_\_\_\_\_

000-49620  
(Commission file number)

COBALIS CORP.  
-----

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

Nevada  
(State or other jurisdiction  
of incorporation or organization)

91-1868007  
(IRS Employer  
Identification No.)

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

(Address of principal executive offices)

(949) 757-0001  
-----

(Issuer's telephone number)

N/A

(Former name, former address and former fiscal year,  
if changed since last report)

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of February 9, 2005 - 23,410,341 shares of common stock

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

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PART I. FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS	

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

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## Consolidated Balance Sheet (Unaudited)

	DECEMBER 31, 2004
-----	
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 17,532
-----	
TOTAL CURRENT ASSETS	17,532
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$63,481	50,138
WEBSITE DEVELOPMENT COSTS, net of accumulated amortization of \$32,133	2,475
PATENTS, net of accumulated amortization of \$211,385	693,930
DEPOSIT	40,000
-----	
TOTAL ASSETS	\$ 804,075
=====	
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES	
Accounts payable	\$ 577,497
Accrued expenses	1,912,860
Due to related parties	2,218,006
Warrant liability	55,271
Convertible note payable	600,000
-----	
TOTAL CURRENT LIABILITIES	5,363,634
CONVERTIBLE PREFERRED STOCK (dividends on arrears of \$93,750)	885,000
COMMITMENTS AND CONTINGENCIES	-
STOCKHOLDERS' DEFICIT	
Common stock; \$0.001 par value; 50,000,000 shares authorized; 23,159,091 shares issued and outstanding	23,159
Additional paid-in capital	9,977,744
Deficit accumulated during the development stage	(15,445,462)
-----	
TOTAL STOCKHOLDERS' DEFICIT	(5,444,559)
-----	
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 804,075
=====	

See accompanying notes to the consolidated financial statements.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	DECEMBER 31, 2004	DECEMBER 31, 2003	DECEMBER 31, 2004	DEC 20
		(as restated)		(as r
NET SALES	\$ -	\$ 181	\$ 479	\$
COST OF SALES	-	-	2,930	
GROSS PROFIT (LOSS)	-	181	(2,451)	
OPERATING EXPENSES:				
Professional fees	1,662,139	66,844	2,605,599	2
Salary and wages	55,136	317,128	178,031	7
Rent expense	32,729	41,728	100,373	
Marketing and research	974,128	24,600	985,921	2
Depreciation and amortization	21,018	26,606	62,965	
Impairment expense	-	-	-	
Other operating expenses	119,741	36,794	256,364	2
TOTAL OPERATING EXPENSES	2,864,891	513,700	4,189,253	1,5
LOSS FROM OPERATIONS	(2,864,891)	(513,519)	(4,191,704)	(1,5
OTHER INCOME (EXPENSE)				
Interest expense and financing costs	(208,725)	(176,356)	(1,236,313)	(2
Change in fair value of warrant liability	141,786	-	86,867	
TOTAL OTHER INCOME (EXPENSE)	(66,939)	(176,356)	(1,149,446)	(2
LOSS BEFORE PROVISION FOR INCOME TAXES	(2,931,830)	(689,875)	(5,341,150)	(1,8
PROVISION FOR INCOME TAXES	-	-	-	
NET LOSS	(2,931,830)	(689,875)	(5,341,150)	(1,8
PREFERRED STOCK DIVIDENDS	18,750	18,750	56,250	9
NET LOSS ATTRIBUTED TO COMMON STOCKHOLDERS	\$ (2,950,580)	\$ (708,625)	\$ (5,397,400)	\$ (2,7

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NET LOSS PER SHARE:				
BASIC AND DILUTED	\$ (0.13)	\$ (0.03)	\$ (0.25)	\$
	=====	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING:				
BASIC AND DILUTED	23,012,243	20,811,708	22,025,432	20,45
	=====	=====	=====	=====

See accompanying notes to the consolidated financial statements.

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Cobalis Corp. and Subsidiary  
(formerly Biogentech Corp.)  
(A Development Stage Company)  
Consolidated Statements of Stockholders' Deficit  
For the Period From November 21, 2000 (inception) to December 31, 2004

	Common stock Shares	Common stock Amount	Additional paid-in capital	co
	-----	-----	-----	-----
Balance at inception (November 21, 2000)	-	\$ -	\$ -	-
Issuance of founder's shares in exchange for property and equipment	16,300,000	16,300	-	-
Issuance of common stock for cash - November 2000 @ \$1.00	30,000	30	29,970	-
Issuance of common stock for cash - December 2000 @ \$1.00	15,000	15	14,985	-
Issuance of common stock for cash - February 2001 @ \$1.00	12,000	12	11,988	-
Issuance of common stock for cash - March 2001 @ \$1.00	125,000	125	124,875	-
Issuance of common stock for services - March 2001 @ \$1.00	10,000	10	9,990	-
Contributed capital	-	-	62,681	-
Net loss for the period from inception (November 21, 2000) to March 31, 2001	-	-	-	-
	-----	-----	-----	-----
Balance at March 31, 2001, as restated	16,492,000	16,492	254,489	-
Issuance of common stock for cash - April 2001 @ \$1.00	10,000	10	9,990	-
Issuance of common stock for telephone equipment - April 2001 @ \$1.00	6,750	7	6,743	-
Issuance of common stock for cash - May 2001 @ \$1.00	11,000	11	10,989	-
Issuance of common stock for website development - May 2001 @ \$1.00	17,000	17	16,983	-
Issuance of common stock for legal services - May 2001 @ \$1.00	1,000	1	999	-
Issuance of common stock for cash - June 2001 @ \$1.00	23,500	24	23,476	-
Issuance of common stock for cash - July 2001 @ \$1.00	20,000	20	19,980	-
Issuance of common stock for cash - August 2001 @ \$1.00	25,000	25	24,975	-

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Issuance of common stock for services, related party - September 2001 @ \$1.00	65,858	66	65,792
Issuance of common stock for cash - September 2001 @ \$1.00	15,000	15	14,985
Issuance of common stock for services - September 2001 @1.00	11,000	11	10,989
Issuance of stock options for services - September 2001	-	-	32,000
Issuance of common stock for cash - October 2001 @ \$1.00	5,000	5	4,995
Issuance of common stock for cash - December 2001 @ \$1.00	30,000	30	29,970
Issuance of common stock for services - December 31, 2001 @ \$1.00	33,000	33	32,967
Issuance of common stock for services, related party - December 2001 @ \$1.00	117,500	118	117,382
Issuance of common stock for prepaid advertising - December 2001 @ \$1.00	15,600	15	15,585
Issuance of common stock for property and equipment - January 2002 @ \$3.00	1,000	1	2,999
Issuance of common stock for services, related party - January 2002 @ \$1.00	33,000	33	32,967
Issuance of common stock for cash - February 2002 @ \$2.00	20,000	20	39,980
Issuance of common stock for cash - March 2002 @ \$2.00	12,500	12	24,988
Contributed capital	-	-	211,269
Deferred compensation	-	-	-
Net loss	-	-	-
	-----	-----	-----
Balance at March 31, 2002, as restated	16,965,708	16,966	1,005,492
Issuance of common stock for services - April 2002 @ \$2.00	3,000	3	5,997
Issuance of common stock for cash - April 2002 @ \$1.00	10,000	10	9,990
Issuance of common stock for cash - April 2002 @ \$2.00	17,500	17	34,983
Issuance of common stock for cash - May 2002 @ \$1.00	10,000	10	9,990
Issuance of common stock for cash - May 2002 @ \$2.00	16,000	16	31,984
Issuance of stock options for services - May 2002	-	-	350,000
Contributed capital - bonus expense	-	-	50,000
Issuance of common stock for cash - June 2002 @ \$1.00	5,000	5	4,995
Issuance of common stock for cash - June 2002 @ \$2.00	5,000	5	9,995
Issuance of common stock for cash - July 2002 @ \$1.00	5,000	5	4,995
Issuance of common stock for cash - August 2002 @ \$2.00	10,000	10	19,990
Issuance of common stock for cash - September 2002 @ \$2.00	10,000	10	19,990
Issuance of stock options below fair market value - November 2002	-	-	250,000
Issuance of common stock for conversion of note - December 2002 @ 2.00	50,000	50	99,950
Issuance of common stock for cash - December 2002 @ \$2.00	20,000	20	39,980
Issuance of common stock for services - December 2002 @ 2.00	15,000	15	29,985
Issuance of common stock for patents - December 2002 \$2.00	2,000,000	2,000	1,285,917
Contributed capital			292,718
Issuance of common stock for exercise of options - December 2002	574,000	574	574,000
Deferred compensation			
Contributed capital			5,000
Issuance of common stock for services - January 2003			25,000
Issuance of common stock for cash February 2003 @ \$2.00	11,500	12	22,988
Issuance of common stock for cash March 2003 @ \$2.00	5,000	5	9,995
Deferred compensation			
Net loss			
	-----	-----	-----
Balance at March 31, 2003, as restated	19,732,708	19,733	4,193,962
Issuance of common stock for cash April 2003 @ \$2.00	70,000	70	139,930
Issuance of common stock for cash May 2003 @ \$2.00	30,000	30	59,970
Acquisition by Biogenetech Corp of ("Togs for Tykes")	1,032,000	1,032	(101,032)

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Issuance of common stock for penalties January 2004 @ \$2.80	135,000	135	377,865
Issuance of common stock for services February 2004 @ \$2.20	100,000	100	219,900
Issuance of common stock for services February 2004 @ \$1.85	20,000	20	36,980
Value of beneficial conversion feature of convertible debenture issued in September 2003			346,870
Fair value allocated to warrant liability for detachable warrants issued with preferred stock			(181,849)
Dividend on preferred stock			885,000
Deferred compensation			-
Net loss			-
	-----	-----	-----
Balance at March 31, 2004	21,119,708	21,120	5,977,596
Issuance of common stock for penalties May 2004 @ \$1.85 (unaudited)	170,000	170	314,330
Issuance of common stock for services June 2004 @ \$1.75 (unaudited)	10,000	10	17,490
Issuance of common stock for conversion of debt June 2004 @1.60 (unaudited)	371,317	371	593,736
Issuance of common stock for services July 2004 @ \$1.35 (unaudited)	7,489	8	10,101
Issuance of common stock for services July 2004 @ \$1.10 (unaudited)	75,000	75	82,425
Issuance of common stock for services August 2004 @ \$0.75 (unaudited)	100,000	100	74,900
Conversion of debt to common stock September 2004 @ \$1.75 (unaudited)	857,143	857	1,499,143
Issuance of common stock for services October 2004 @ \$2.20 (unaudited)	4,758	5	10,463
Issuance of common stock for services October 2004 @ \$2.55 (unaudited)	375,000	375	955,875
Issuance of common stock for services December 2004 @ \$1.45 (unaudited)	5,000	5	7,245
Issuance of common stock for services December 2004 @ 1.30 (unaudited)	63,676	63	82,715
Fair value of warrants issued to consultants (unaudited)			351,725
Net loss (unaudited)			-
	-----	-----	-----
Balance at December 31, 2004 (unaudited)	23,159,091	\$ 23,159	\$ 9,977,744
	=====	=====	=====

See accompanying notes to the consolidated financial statements.

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## Consolidated Statements of Cash Flows (Unaudited)

	NINE MONTHS ENDED		CUMULA
	DECEMBER 31, 2004	DECEMBER 31, 2003	NOVEM 2000 (SEPT
		(as restated)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (5,341,150)	\$ (1,823,943)	\$ (
Adjustment to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization expense	62,964	80,757	
Common stock issued for services	1,241,855	-	
Common stock issued for penalty	314,500	-	
Change in value of warrant liability	(86,867)	(452)	
Amortization of debt issue costs	67,882	9,278	
Exercise of stock options for services	-	-	
Amortization of discounts on notes	492,137	130,198	
Issuance of stock options for services	351,725	-	
Capital contribution - bonus (related party)	-	-	
Amortization of prepaid advertising	-	-	
Amortization of deferred compensation	-	196,000	
Discount on common stock issued for settlement of debt	-	-	
Impairment expense	-	-	
Changes in assets and liabilities:			
Prepaid expenses and other assets	11,619	1,697	
Inventory	5,903	97	
Accounts payable	465,542	362,704	
Accrued expenses	1,250,776	-	
Amounts due to related parties	372,226	204,907	
	(790,888)	(838,757)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	(1,561)	(19,550)	
Increase in patent costs	-	-	
Increase in acquisition deposits	-	(2,220,000)	
Increase in other deposits	-	-	
Increase in capitalized website	(3,532)	(450)	
	(5,093)	(2,240,000)	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Payment on contract	-	-	
Proceeds from advances - related party	752,832	525,400	
Proceeds from issuance of notes payable	-	1,576,500	
Proceeds from sale of common stock	-	200,000	
Proceeds from sale of preferred stock	-	885,000	
Proceeds from convertible debenture	-	-	
Capital contribution	-	-	
Payment of debt issue costs	-	-	
Payments on advances - related party	(15,500)	(82,300)	
	737,332	3,104,600	-



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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(58,649)	25,843	
CASH AND CASH EQUIVALENTS, Beginning of period	76,181	2,290	
	-----	-----	-----
CASH AND CASH EQUIVALENTS, End of period	\$ 17,532	\$ 28,133	\$
	=====	=====	=====
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid	\$ -	\$ -	\$
	=====	=====	=====
Income taxes paid	\$ -	\$ -	\$
	=====	=====	=====

See accompanying notes to the consolidated financial statements.

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COBALIS CORP. AND SUBSIDIARY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE NINE MONTHS ENDED DECEMBER 31, 2004 AND 2003  
 (UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The unaudited consolidated financial statements have been prepared by Cobalis Corp. (the "Company"), pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes for the year ended March 31, 2004 included in the Company's Annual Report on Form 10-KSB. The results of the nine months ended December 31, 2004 are not necessarily indicative of the results to be expected for the full year ending March 31, 2005.

Going Concern

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The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has incurred a net loss of \$5,341,150 for the nine months ended December 31, 2004 and as of December 31, 2004, the Company had a working capital deficit

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of \$5,346,102 and a stockholder deficit of \$5,444,559. In addition, as of December 31, 2004, the Company has not developed a substantial source of revenue. These conditions raise substantial doubt as to the Company's ability to continue as a going concern. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company is currently attempting to raise additional debt and equity financing for operating purposes.

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

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

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

### Stock Options

SFAS No. 123, "Accounting for Stock-Based Compensation," establishes and encourages the use of the fair value based method of accounting for stock-based compensation arrangements under which compensation cost is determined using the fair value of stock-based compensation determined as of the date of grant and is recognized over the periods in which the related services are rendered. The statement also permits companies to elect to continue using the current intrinsic value accounting method specified in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," to account for stock-based compensation. The Company has elected to use the intrinsic value

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based method and has disclosed the pro forma effect of using the fair value based method to account for its stock-based compensation issued to employees. For options granted to employees where the exercise price is less than the fair value of the stock at the date of grant, the Company recognizes an expense in accordance with APB 25. For non-employee stock based compensation the Company recognizes an expense in accordance with SFAS No. 123 and values the equity securities based on the fair value of the security on the date of grant. For stock-based awards the value is based on the market value for the stock on the date of grant and if the stock has restrictions as to transferability a discount is provided for lack of tradability. Stock option awards are valued using the Black-Scholes option-pricing model.

The pro forma information regarding the effects on operations that is required by SFAS 123 and SFAS 148 are not presented since there is no pro forma expense

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to be shown for the three months and nine months ended December 31, 2004 and 2003.

### NOTE 2 - LOSS PER SHARE

The Company reports loss per share in accordance with SFAS No. 128, "Earnings per Share." Basic loss per share is computed by dividing loss available to common shareholders by the weighted average number of common shares available. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Diluted loss per share has not been presented since the effect of the assumed exercise of options and warrants to purchase common shares would have an anti-dilutive effect. There were 5,594,167 and 1,150,000 common equivalent shares outstanding related to the options and warrants at December 31, 2004 and 2003, respectively. In addition, as of December 31, 2004, 716,667 shares of common stock are issuable upon the conversion of the convertible note payable and convertible preferred stock.

### NOTE 3 - PROPERTY AND EQUIPMENT

The cost of property and equipment at December 31, 2004 consisted of the following:

Furniture and fixtures	\$	71,500
Office equipment		42,119
		-----
		113,619
Less accumulated depreciation and amortization		(63,481)
		-----
	\$	50,138

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### NOTE 4 - DUE TO RELATED PARTIES

Due to related parties at December 31, 2004 consists of the following:

R&R Holdings, Inc. and affiliate a)	\$	1,952,797
Chaslav Radovich b)		93,750
Other officers/executives c)		171,459
		-----
	\$	2,218,006

a) On January 1, 2001, the Company entered into a consulting contract with R&R Development, Inc. DBA R&R Holdings, Inc. and its affiliate, Silver Mountain Promotions, Inc. ("R&R") whereby they would provide managerial consulting services to the Company at the rate of \$125,000 per year and the rate was increased to \$135,000 per year. R&R is also a shareholder of the Company and the controlling shareholder of R&R is Mr. Radul "Rudy" Radovich, the Company's Chairman. As of December 31, 2004, the Company had accrued \$309,892 of consulting fees relating to this agreement.

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R&R advances the Company cash from time to time. As of December 31, 2004, the Company owed R&R \$1,340,011 related to these advances. The Company has accrued interest on these advances at a rate of 10% per annum. Accrued interest at December 31, 2004 related to these advances totaled \$106,439.

In September 2003, R&R advanced the Company an additional amount of \$170,000 at the rate of 10% per annum. These funds were specifically to provide the Company with additional financing with regard to the InnoFood transaction. Accrued interest at December 31, 2004 related to this advance was \$26,455.

b) The Company currently owes its Chief Executive Officer \$93,750 in past due compensation. During the three months ended June 30, 2004, the Company's Chief Executive Officer was issued 107,901 shares of the Company's common stock in satisfaction of \$154,500 of past due compensation plus interest. The Company is accruing salary to its CEO at an annual rate of \$125,000.

c) The Company currently owes other current and former executives \$58,334 and \$113,125, respectively, in past due compensation.

### NOTE 5 - CONVERTIBLE NOTE PAYABLE

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

The Company also entered into a registration rights agreement whereby the Company agreed to file a valid registration statement with the Securities and Exchange Commission to register the shares of common stock underlying the Convertible Debentures and Debenture Warrants. Pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the relative fair value of the warrants has been recorded as a short-term liability until the Company has obtained an effective registration statement for these shares. If the Company does not file such an effective registration statement within 30 days of the closing date, or October 8, 2003, the Company is subject to penalties as follows: 1% of the principal amount of the funding for the first 30 day period in which the Company fails to file such registration statement, and 2% for each 30 day period thereafter. At December 31, 2004, the Company had not filed such a registration statement and accordingly is currently subject to a penalty of approximately \$174,000.

Per the terms of the note agreement, in the event of default, the Company is subject to accrue interest at a default rate of 18% from the date of the default. In addition, the Company is obligated to remit 125% of the outstanding note balance upon the acceleration of repayment by the holder. As of December 31, 2004, Company had accrued interest of \$142,027 related to this convertible note payable.

In addition, the Company is required to report a value of the warrant as a fair value and record the fluctuation to the fair value of the warrant liability to current operations. During the nine months ended December 31, the decrease of

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the relative fair value of the warrants was \$44,844. The relative fair value of the warrants was \$37,527 as of December 31, 2004.

This convertible debenture is presented in the accompanying balance sheet as a current liability as the Company has not made required interest payment on this convertible debenture which is an event of default that give the holder the right to call the convertible debenture.

A rollforward of the convertible note payable is as follows:

Balance, March 31, 2004	\$	107,863
Conversions into equity		-
Amortization of discounts		492,137
		-----
Balance, December 31, 2004	\$	600,000
		=====

During the three months ended September 30, 2004, the Company fully amortized the debt discount associated with the \$600,000 convertible note payable due to the lawsuit filed by the holder of the convertible note payable. See Note 10.

### NOTE 6 - CONVERTIBLE PREFERRED STOCK

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

Since the intrinsic value of the beneficial conversion feature and relative fair value of the warrants exceeds the proceeds of the convertible preferred stock, the amount of the discount assigned to the beneficial conversion feature and warrants is limited to the amount of the proceeds of the convertible preferred stock. The discount was recorded as a preferred stock dividend at the date of issuance. The Company recognized \$885,000 of preferred dividends related to the discount.

Pursuant to EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the relative fair value of the warrants, has been recorded as a short-term liability until the Company has obtained an effective registration statement for these shares.

If the Company does not file such an effective registration statement within 30 days of the closing date, or October 25, 2003, the Company is subject to penalties as follows: 1% of the value of the shares and the warrants paid by the purchaser for the first 30 day period in which the Company fails to file such registration statement, and 2% for each 30 day period thereafter. At December 31, 2004, the Company has not filed such a registration statement and accordingly is currently subject to a penalty of \$290,000.

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In addition, the Company is required to report a value of the warrant as a fair value and record the fluctuation to the fair value of the warrant liability to current operations. During the nine months ended December 31, 2004, the decrease of the relative fair value of the warrants was \$42,023. The relative fair value of the warrants was \$17,744 as of December 31, 2004.

As of December 31, 2004, there was \$93,750 of dividends in arrears related to the 1,000 share of convertible preferred stock.

### NOTE 7 - COMMON STOCK

During the nine months ended December 31, 2004 the Company issued common stock for the following:

- o 170,000 shares valued at \$314,500 related to a Forbearance Agreement related to the convertible note payable;
- o 640,923 shares valued at \$1,241,855 for consulting services;
- o 371,317 shares valued at \$594,107 for the conversion of certain accounts payable and amount payable to related parties and;
- o 857,143 shares valued at \$1,500,000 for the conversion of notes payable and accrued interest.

During the three months ended September 30, 2004, the Company issued 3,050,000 warrants to consultants with a weighted average exercise price of \$1.74. The warrants vest over a period ranging from immediately to three years. The fair value of these warrants amounted to \$1,364,037 which is being amortized to expense over the terms of the consulting agreements. During the nine months ended December 31, 2004, the Company recognized an expense of \$351,725 related to these warrants.

In addition, the Company entered into a consulting agreement and agreed to issue to the consultant 100,000 share on each of the following dates: August 1, 2004 (included in the 640,923 above), February 1, 2005 and July 31, 2005. The Company also agreed to issue to this consultant 200,000 warrants with an exercise price of \$1.75 per share on each of the following dates: November 1, 2004, May 1, 2005 and July 31, 2005. At December 31, 2004, the Company has recognized a liability of \$188,873 related to these unissued shares and warrants.

### NOTE 8 - RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

The Company entered into agreements with Gene Pharmaceuticals, LLC ("GP LLC") to purchase certain patents and other assets. The Company previously had valued the patents based on the present value of the minimum contractual obligations using a 6% discount rate. Per the December 19, 2002 agreement, the Company issued to GP LLC 2,000,000 shares of the Company's common stock in exchange for the minimum contractual payments. At this time the Company valued the transaction based on the deemed current value of the Company's common stock, which resulted in the Company increasing the carrying value of the patents by \$1,658,378. At the time the Company's stock was not publicly traded so the Company valued its stock at \$2.00 per share which was the most recent price that the Company had sold shares for cash. After this increase in the value of patents, the patents carrying value was \$3,905,832. At March 31, 2003, the patents were appraised at \$3,850,000 which resulted in the Company writing down the value of the patents by \$55,832.

The Company has restated its previously issued financial statements to reflect using a discount rate of 15.5% rather than 6% to value the minimum contractual

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obligations and to value the 2,000,000 shares of common stock issued in the December 19, 2002 transaction at the carrying value of the contractual obligation that was exchanged for the shares rather than at the deemed current value of the shares at the date of issuance.

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In addition, the Company did not amortize the value of its patents prior to January 1, 2004. The consolidated financial statements have been restated to reflect the amortization of the Company's patents over the estimated useful life of the patents using the straight line method.

The effects of the restatement as of December 31, 2003 and the three and nine months ended December 31, 2003 are as follows:

	AS PREVIOUSLY FILED	AS RESTATED
Patents	\$ 3,850,000	\$ 1,125,466
Accumulated amortization of patents	\$ -	\$ 257,789
Total Stockholders' equity (deficit)	\$ 2,102,673	\$ (879,650)
Net loss for the three months ended December 31, 2003	\$ (686,798)	\$ (708,625)
Net loss for the nine months ended December 31, 2003	\$ (2,662,213)	\$ (2,727,693)

### NOTE 9 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued SFAS No. 151, entitled Inventory Costs -- An Amendment of ARB No. 43, Chapter 4. SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, entitled Inventory Pricing [June 1953], to clarify the accounting for "abnormal amounts" of idle facility expense, freight, handling costs, and wasted material [spoilage]. Before revision by SFAS No. 151, the guidance that existed in ARB No. 43 stipulated that these type items may be "so abnormal" that the appropriate accounting treatment would be to expense these costs as incurred [i.e., these costs would be current-period charges]. SFAS No. 151 requires that these type items be recognized as current-period charges without regard to whether the "so abnormal" criterion has been met. Additionally, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The adoption of SFAS 151 did not impact the consolidated financial statements.

In December 2004, the FASB issued SFAS No. 152, entitled Accounting for Real Estate Time-Sharing Transactions -- An Amendment of FASB Statements No. 66 and 67. SFAS No. 152 amends SFAS No. 66 to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position 04-2. SFAS No. 152 also amends SFAS No. 67 to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance of SOP 04-2. This statement is effective for financial statements for fiscal years beginning after June 15, 2005. The adoption of SFAS 152 did not impact the consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, entitled Exchanges of Nonmonetary Assets -- An Amendment of APB Opinion No.29. SFAS No. 153 amends Opinion 29 to eliminate the exception for nonmonetary exchanges of nonmonetary

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assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The adoption of SFAS 153 did not impact the consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (Revised), entitled Share-Based Payment. This revised Statement eliminates the alternative to use APB Opinion No. 25's intrinsic value method of accounting that was provided in SFAS No. 123 as originally issued. Under Opinion 25, issuing stock options to employees generally resulted in recognition of no compensation cost. This Statement requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. For public companies that file as a small business issuer, this Statement is effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The adoption of SFAS 123 (Revised) will not impact the consolidated financial statements as the Company has not granted any equity instruments to employees.

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### NOTE 10 - LITIGATION

Gryphon Master Fund, LP v. Cobalis Corp.  
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On November 8, 2004, the Gryphon Master Fund, LP filed a lawsuit against the Company in United States District Court, Northern District of Texas, Dallas Division. The lawsuit seeks repayment of the \$600,000 convertible note payable, accrued interest on the convertible note payable, penalties for failing to register the shares underlying the conversion of the convertible note payable, attorney fees and court costs. As of December 31, 2004, the Company has accrued \$1,381,027 related to this matter.

Burkett v. Cobalis, et al.  
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On January 5, 2005, Linda Burkett filed a complaint in the Superior Court of Orange County, California against, among others, Cobalis Corp. and Innofood. Cobalis Corp. was included as a defendant in the following causes of action: Breach of Contract; Money Lent; Money Had and Received; Conversion; Fraud; and Negligent Misrepresentation. In essence, Ms. Burkett is claiming that she "loaned" all named defendants \$200,000 and that the funds were never paid back. It appears that the funds were sent directly to Innofood and that Cobalis Corp. was added as a defendant under the theory that Cobalis Corp. somehow allegedly benefited from the funds. Ms. Burkett is claiming various damages, including, but not limited to, repayment of funds, interest and related economic damages. Cobalis Corp. intends to vigorously defend the lawsuit if it is not able to favorably resolve this matter. Cobalis Corp. is currently attempting to negotiate a favorable resolution.

Gemini Partners, Inc. v. Cobalis Corp.  
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On or about December 8, 2004, Gemini Partners, Inc., filed a complaint in the Superior Court of Orange County, California, against Cobalis Corp. for Breach of Contract, Promissory Estoppel, Common Counts and Quantum Meruit. Gemini Partners, Inc., is claiming that Cobalis Corp. failed and refused to pay for services related to Cobalis Corp.'s patent valuation. On or about January 27,



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2005, Gemini Partners, Inc., filed a Request for Default claiming that Cobalis Corp. had not responded to the complaint within the statutorily allotted period. It is unclear whether the default was entered. Gemini Partners is claiming damages in an amount less than \$25,000. Cobalis Corp. intends to take appropriate action to protect its rights. The Company has accrued \$25,000 in the accompanying consolidated balance sheet related to this matter.

### Lease Dispute

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In March 2003, the Company vacated its office space. The landlord then filed suit against the Company in the County of Orange, Superior Court of California, for unpaid rent. The Company believes that the landlord breached the agreement and, as such, the Company does not believe it owes any unpaid rent. The landlord holds a sufficient security deposit to cover the disputed amount. The landlord also recently obtained a writ of attachment in the amount of \$58,840. The Company has accrued a liability of \$60,000 for potential unfavorable outcome.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

THIS FOLLOWING INFORMATION SPECIFIES CERTAIN FORWARD-LOOKING STATEMENTS OF MANAGEMENT OF THE COMPANY. FORWARD-LOOKING STATEMENTS ARE STATEMENTS THAT ESTIMATE THE HAPPENING OF FUTURE EVENTS 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", OR SIMILAR TERMS, 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.

### OVERVIEW

BioGentec Incorporated ("BG"), a private Nevada corporation, was incorporated on November 21, 2000 according to the laws of Nevada, under the name St Petka, Inc. On May 4, 2001, St Petka, Inc. formally changed its name to BioGentec

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Incorporated. On July 2, 2003, BG was merged into Togs for Tykes Acquisition Corp. ("TTAC"), a wholly owned subsidiary formed for the purpose of acquiring BG. On July 6, 2004, BioGentech Corp. changed its name to Cobalis Corp. 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 BG's outstanding common stock (19,732,705 shares of \$0.001 par value stock) were exchanged for 19,732,705 shares newly issued shares of \$0.001 par value stock of Cobalis Corp. common stock. This transaction was consummated with the filing of the Articles of Merger with the State of Nevada on July 2, 2003. BG shareholders then effectively controlled approximately 95% of the issued and outstanding common stock of Cobalis. Since the shareholders of BG 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.

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### GOING CONCERN

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation as a going concern. We incurred a net loss of \$5,341,150 for the nine months ended December 31, 2004 and as of December 31, 2004, we had a working capital deficit of \$5,346,102 and a stockholder deficit of \$5,444,559. In addition, as of December 31, 2004, we have not developed a substantial source of revenue. These conditions raise substantial doubt as to our ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

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

There can be no assurances that sufficient financing will be available on terms acceptable to us, or at all. If we are unable to obtain such financing, we will be forced to scale back operations, which could have an adverse effect on our financial condition and results of operations.

### CRITICAL ACCOUNTING POLICY AND ESTIMATES

Our Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates

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and judgments, including those related to revenue recognition, accrued expenses, financing operations, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of our consolidated financial statements include estimates as to the appropriate carrying value of certain assets and liabilities which are not readily apparent from other sources, primarily valuation of patent costs and stock-based compensation. The methods, estimates and judgments we use in applying these most critical accounting policies have a significant impact on the results we report in our consolidated financial statements.

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**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 especially 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 record stock-based compensation to outside consultants at fair market value in general and administrative expense. We do not record expense relating to stock options granted to employees with an exercise price greater than or equal to market price at the time of grant. We report pro-forma net loss and loss per share in accordance with the requirements of SFAS 123 and 148. This disclosure shows net loss and loss per share as if we had accounted for our employee stock options under the fair value method of those statements. Pro-forma information is calculated using the Black-Scholes pricing method at the date of grant. This option valuation model requires input of highly subjective assumptions. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing model does not necessarily provide a reliable single measure of fair value of our employee stock options.

**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 \$17,532 at December 31, 2004. Our total

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current assets at December 31, 2004 were equal to \$17,532. We also had the following long term assets: \$50,138 in property and equipment, net, \$2,475 in net website development costs, and \$693,930 represented by net value of our patents, \$40,000 in deposits. Our total assets as of December 31, 2004 were \$804,075.

Our total current liabilities were \$5,363,634 at December 31, 2004, which was represented by accounts payable of \$577,497 and accrued expenses of \$1,912,860, due to related parties of \$2,218,006, warrant liability of \$55,271, and convertible note payable of \$600,000. Our liabilities exceeded our assets by \$4,559,559 as of December 31, 2004.

We have financed our operations primarily through cash generated from related party debt financing and from the private placement sales of equity securities, as well as issuing a convertible debenture. During the nine months ended December 31, 2004, we received an additional \$752,832 from a related party and issued 371,317 shares of our common stock as payment for certain accounts payable and past due salaries to certain related parties.

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Our cash used in investing activities was \$5,093 for the nine months ended December 31, 2004, as compared to \$2,240,000 for the same period ended in 2003, a decrease of \$2,234,907. In 2003, we made an acquisition deposit of \$2,220,000 related to our InnoFood acquisition.

Our net cash provided by financing activities was \$737,332 for the nine months ended December 31, 2004 compared to \$3,104,600 for the same period in 2003. The decrease of \$2,367,268 is primarily due to the proceeds received in 2003 from the sale a preferred stock, convertible debentures and notes payable. There were no such issuances in 2004.

### RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

We entered into agreements with Gene Pharmaceuticals, LLC, ("GP LLC") to purchase certain patents and other assets. We previously had valued the patents based on the present value of the minimum contractual obligations using a 6% discount rate. Per the December 19, 2002 agreement, we issued to GP LLC 2,000,000 shares of our common stock in exchange for the minimum contractual payments. At that time we valued the transaction based on the deemed current value of our common stock, which resulted in us increasing the carrying value of the patents by \$1,658,378. At the time our stock was not publicly traded so we valued our stock at \$2.00 per share which was the most recent price that we sold shares for cash. After this increase in the value of patents, the patents carrying value was \$3,905,832. At March 31, 2003, the patents were appraised at \$3,850,000 which resulted in us writing down the value of the patents by \$55,832.

We have restated our previously issued financial statements to reflect using a discount rate of 15.5% rather than 6% to value the minimum contractual obligations and to value the 2,000,000 shares of common stock issued in the December 19, 2002 transaction at the carrying value of the contractual obligation that was exchanged for the shares rather than at the deemed current value of the shares at the date of issuance.

In addition, we did not amortize the value of our patents prior to January 1, 2004. The consolidated financial statements have been restated to reflect the amortization of our patents over the estimated useful life of the patents using the straight line method.

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The effects of the restatement as of December 31, 2003 and the three and nine months ended December 31, 2003 are as follows:

	As previously filed	As rest
Patents	\$ 3,850,000	\$ 1,1
Accumulated amortization of patents	\$ -	\$ 2
Total Stockholders' equity (deficit)	\$ 2,761,471	\$ (19
Net loss for the three months ended December 31, 2003	\$ (437,289)	\$ (45
Net loss for the nine months ended December 31, 2003	\$ (1,090,415)	\$ (1,13

### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2004 AS COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2003

#### Revenues and Cost of Sales

We had no significant revenues for the three months ended December 31, 2004 and December 31, 2003 as we are undertaking a Phase III clinical trial in order to obtain FDA approval of PreHistin (TM) as an over the counter drug. Our net revenues were \$0 less \$0 for cost of sales for a gross loss of \$0 for the three months ended December 31, 2004 as compared net sales of \$181 less \$0 for cost of sales for a gross profit of \$181 for the restated three months ended December 31, 2003.

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#### Operating Expenses

Our operating expenses for the three months ended December 31, 2004 were \$2,864,891 compared to \$513,700 for the three months ended December 31, 2003. For both periods, we incurred expenses for two major purposes: i) ongoing development of our PreHistin (TM) product and related product management and ii) general management and fund raising efforts. For the three months ended December 31, 2004, this amount was represented by \$21,018 in depreciation and amortization, \$1,662,139 in professional fees, \$55,136 in salary and wages, \$32,729 in rent expense, \$974,128 in marketing and research, and \$119,741 in other operating expenses, as compared to the three months ended December 31, 2003, where we had \$26,606 in depreciation and amortization, \$66,844 in professional fees, \$317,128 in salary and wages, \$41,728 in rent expense, \$24,600 in marketing and promotions, and \$36,794 in other operating expenses. Our operating expenses increased during the three months ended December 31, 2004 as compared to the three months ended December 31, 2003 principally as a result of the increase in professional fees, which include payments for accounting, legal and shareholder relations and the increase in marketing and research from our Phase III clinical trials. 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 date of issuance.

Interest expense and financing costs for the three months ended December 31, 2004 were \$208,725 compared to \$176,356 for the three months ended December 31, 2003. The increase is due to the interest on the convertible note payable, the demand note payable and the advances from related parties.

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

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price, the fair value of these warrants has decreased resulting in the decrease of the warrant liability.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED DECEMBER 31, 2004 AS COMPARED TO THE NINE MONTHS ENDED DECEMBER 31, 2003

### Revenues and Cost of Sales

We had no significant revenues for the nine months ended December 31, 2004 and December 31, 2003 as we are undertaking a Phase III clinical trial in order to obtain FDA approval of PreHistin (TM) as an over the counter drug. Our net revenues were \$479 less \$2,930 for cost of sales for a gross loss of \$2,451 for the nine months ended December 31, 2004 as compared net sales of \$3,334 less \$478 for cost of sales for a gross profit of \$2,866 for the restated nine months ended December 31, 2003.

### Operating Expenses

Our operating expenses for the nine months ended December 31, 2004 were \$4,189,253 compared to \$1,594,935 for the nine months ended December 31, 2003. For both periods, we incurred expenses for two major purposes: i) ongoing development of our PreHistin (TM) product and related product management and ii) general management and fund raising efforts. For the nine months ended December 31, 2004, this amount was represented by \$62,965 in depreciation and amortization, \$2,605,599 in professional fees, \$178,031 in salary and wages, \$100,373 in rent expense, \$985,921 in marketing and promotions, and \$256,364 in other operating expenses, as compared to the nine months ended December 31, 2003, where we had \$80,757 in depreciation and amortization, \$257,165 in professional fees, \$702,548 in salary and wages, \$93,551 in rent expense, \$216,954 in marketing and promotions, and \$243,960 in other operating expenses. Our operating expenses increased during the nine months ended December 31, 2004 as compared to the nine months ended December 31, 2003 principally as a result of the increase in professional fees, which include payments for accounting, legal and shareholder relations and the increase in marketing and research from our Phase III clinical trials. 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 date of issuance.

Interest expense and financing costs for the nine months ended December 31, 2004 were \$1,236,313 compared to \$231,874 for the nine months ended December 31, 2003. The significant increase is due to the interest on the convertible note payable, the demand note payable and the advances from related parties. In addition, 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. Also, during the three months ended September 30, 2004, we fully amortized the debt discount associated with the \$600,000 convertible note payable due to the lawsuit filed by the holder of the convertible note payable.

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.

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Over the next 12 months, we plan to continue moving forward with the Phase III clinical trials of our allergy prevention product, PreHistin (TM), followed immediately by submission of an application to the FDA for marketing approval of PreHistin (TM) as an over the counter ("OTC") allergy medication. We hope to receive approval from the FDA in early 2006, enabling our US marketing launch of the product for the spring 2006 allergy season. We estimate the cost to complete the Phase III clinical trials and the submission of the application to the FDA for marketing approval will be approximately \$5 million.

While continuing with the US FDA approval process, we are working to finalize the international launch strategy in the primary global markets. Discussions are progressing with potential joint venture partners for marketing, manufacturing, regulatory approval and distribution throughout the world, the most advanced of which are with companies in Japan and Canada.

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

We are also actively pursuing the acquisition and development of products that we hope will enable us to leverage our resources. Areas of focus are OTC pharmaceutical products and nutritional supplements.

As of December 31, 2004, we had a cash of \$17,532. To fully execute our business plan for the next 12 months, we will need to raise additional funds in order to complete the Phase III clinical trials, submit the PreHistin (TM) application to the United States FDA and execute a marketing launch of the PreHistin (TM) product. We will also need to raise funds to execute studies for the further development of the PreHistin (TM) product line and to complete the acquisition of additional products. Along with our investment bankers, we plan to raise these funds through private and institution or other equity offerings. We may attempt to secure other loans from lending institutions or other sources. There is no guarantee that we will be able to raise additional funds through offerings or other sources. If we are unable to raise funds, our ability to continue with product development will be hindered.

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

### Off-balance sheet arrangements

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

### ITEM 3. CONTROLS AND PROCEDURES

As required by SEC rules, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures at the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of our management, including our principal executive officer and principal financial officer. Based on this evaluation, these

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officers have concluded that the design and operation of our disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

### Part II. OTHER INFORMATION

#### ITEM 1. LEGAL PROCEEDINGS

On November 8, 2004, the Gryphon Master Fund, LP filed a lawsuit against us in United States District Court, Northern District of Texas, Dallas Division. The lawsuit seeks repayment of the \$600,000 convertible note payable, accrued interest on the convertible note payable, penalties for failing to register the shares underlying the conversion of the convertible note payable, attorney fees and court costs. As of December 31, 2004, we have accrued \$1,381,027 related to this matter.

On January 5, 2005, Linda Burkett filed a complaint in the Superior Court of Orange County, California against, among others, Cobalis Corp. and Innofood. Cobalis Corp. was included as a defendant in the following causes of action: Breach of Contract; Money Lent; Money Had and Received; Conversion; Fraud; and Negligent Misrepresentation. In essence, Ms. Burkett is claiming that she "loaned" all named defendants \$250,000 and that the funds were never paid back. It appears that the funds were sent directly to Innofood and that Cobalis Corp. was added as a defendant under the theory that Cobalis Corp. somehow allegedly benefited from the funds. Ms. Burkett is claiming various damages, including, but not limited to, repayment of funds, interest and related economic damages. Cobalis Corp. intends to vigorously defend the lawsuit if it is not able to favorably resolve this matter. Cobalis Corp. is currently attempting to negotiate a favorable resolution.

On or about December 8, 2004, Gemini Partners, Inc., filed a complaint in the Superior Court of Orange County, California, against Cobalis Corp. for Breach of Contract, Promissory Estoppel, Common Counts and Quantum Meruit. Gemini Partners, Inc., is claiming that Cobalis Corp. failed and refused to pay for services related to Cobalis Corp.'s patent valuation. On or about January 27, 2005, Gemini Partners, Inc., filed a Request for Default claiming that Cobalis Corp. had not responded to the complaint within the statutorily allotted period. It is unclear whether the default was entered. Gemini Partners is claiming damages in an amount less than \$25,000. Cobalis Corp. intends to take appropriate action to protect its rights.



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### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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

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

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

We are currently in default on terms of our \$600,000 convertible note payable to Gryphon Master Fund LP, dated September 8, 2003, for failing to register the shares underlying the conversion.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

### ITEM 5. OTHER INFORMATION

Not applicable

### ITEM 6. EXHIBITS

REGULATION S-B NUMBER	EXHIBIT
3.1	Articles of Incorporation (1)
3.1.1	Certificate of Amendment to Articles of Incorporation (1)
3.1.2	Certificate of Amendment to Articles of Incorporation (2)
3.1.3	Certificate of Amendment to Articles of Incorporation (3)
3.2	Bylaws (1)
4.1	Convertible Note with Gryphon Master Fund LP (4)
10.1	Asset Purchase Agreement between BioGentec Inc., (fka St. Petka, Inc.) and Gene Pharmaceuticals, LLC, (fka Allergy Limited, LLC,) as amended (4)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer and Chief Financial Officer of the Company (5)

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32.1 Section 906 Certification by Chief Executive Officer and  
Chief Financial Officer (5)

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(1) Incorporated by reference to the exhibits to the registrant's registration statement on Form 10-SB filed on February 8, 2002. (2) Incorporated by reference to the exhibits to the registrant's information statement on schedule 14C filed on June 10, 2003. (3) Incorporated by reference to the exhibits to the registrant's current report on Form 8-K, filed July 8, 2004. (4) Incorporated by reference to the exhibits to the registrant's annual report on Form 10-KSB for the fiscal year ended March 31, 2004. (5) Included herein.

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SIGNATURES

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

COBALIS CORP.

February 21, 2005

By: / s/ Chaslav Radovich

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Chaslav Radovich  
Principal Executive Officer, President,  
Treasurer, Secretary, Director