

FINANCIAL STATEMENTS

DELTAGEN, INC.

CONSOLIDATED BALANCE SHEET (AUDITED)

Consolidated Balance Sheet For Year Ended 12/31/06

(Dollars In Thousands)

Audited
12/31/06
Consolidated

Assets

Current assets:

Cash and cash equivalents	6,135
Accounts receivable, net	1,660
Prepays, Deposits and Tax Assets	<u>790</u>
Total current assets	8,585

Property and equipment, net 82

Non-current portion of deferred tax assets 1,000

Total assets 9,667

Liabilities and Stockholders' Equity

Current liabilities:

Accounts payable	508
Accrued expenses	<u>332</u>
Total liabilities	840

Stockholders' equity:

Common stock	39
Treasury Stock	(867)
Additional paid-in capital	209,504
Additional paid-in capital – Stock-based compensation	21,794
Retained Earnings	(221,938)
Foreign currency translation adjustment	<u>295</u>
Total stockholders' equity	8,827

Total liabilities and stockholders' equity 9,667

The accompanying notes and those in the Independent Auditor's Report (also posted on the Company's website at www.deltagen.com) are an integral part of these consolidated financial statements.

DELTAGEN, INC.

CONSOLIDATED INCOME STATEMENT
(AUDITED)

**Consolidated Income Statement and
Statement of Retained Earnings
For Year Ended 12/31/06**

(Dollars In Thousands)	Audited 12/31/06 <u>Consolidated</u>
Revenue	9,780
Royalty and Commission Costs	2,022
Stock-Based Compensation Expense	369
Other Operating Costs	<u>3,434</u>
Income From Operations	3,955
Interest Income	<u>255</u>
Income before provision for income taxes	4,210
Provision for income taxes	
Current income tax expense	95
Deferred income tax expense	(12,665)
Adjustment for valuation allowance	<u>12,412</u>
Total income tax expense/(income)	<u>(158)</u>
Net Income (Loss)	4,368
Retained earnings at beginning of period	<u>(226,306)</u>
Retained earnings at end of period	<u><u>(221,938)</u></u>

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DELTAGEN, INC.
CONSOLIDATED CASH FLOW
(AUDITED)

Consolidated Cash Flow
For Year Ended 12/31/06
(Dollars In Thousands)

Audited
12/31/06
Consolidated

Cash flows from operating activities:

Net income	\$	4,368
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Adjustments to reconcile net income to net cash provided
by operating activities:

Depreciation		47
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Loss on disposal of fixed assets		80
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Stock based compensation		369
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(Increase)/Decrease in operating assets

Accounts receivable		827
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Prepays, deposits and tax assets		713
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Increase/(Decrease) in operating liabilities

Accounts payable		(3,788)
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Accrued expenses		(544)
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Net cash provided by operating activities		<u>2,072</u>
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Cash flows from investing activities:

Purchase of property and equipment		<u>(70)</u>
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Cash flows from financing activities:

Common stock dividends paid		<u>(7,719)</u>
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Net Increase/(Decrease) in cash		(5,717)
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Effect of foreign exchange rate changes on cash and cash equivalents		295
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Cash and cash equivalents, at beginning of year		<u>11,557</u>
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Cash and cash equivalents, at end of year	\$	<u><u>6,135</u></u>
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Supplemental cash flow data:

Cash paid during the year for:

Income taxes	\$	<u><u>95</u></u>
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DELTAGEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR FULL-YEAR 2006 December 31, 2006

1. Basis of Presentation

The accompanying consolidated financial statements of Deltagen, Inc. ("Deltagen" or the "Company") for the year ended December 31, 2006 are audited and have been prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") for annual financial information.

These consolidated financial statements have been prepared so that they present fairly, in the opinion of management, the Company's financial position and its results of operations and its cash flows for the period presented. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included.

The preparation of consolidated financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the amounts that are reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on the Company's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ materially from the estimates.

Under our revenue recognition policy, revenues are recognized when a definitive agreement with a determinable price exists, product delivery and/or invoicing (in each case where there is reasonable assurance of meeting customer-specified criteria) have occurred, and collectibility is reasonably assured.

Cash and cash equivalents include cash in banks and money market mutual funds with a maturity of three months or less when purchased.

The Company has incurred expenditures relating to the pursuit of patent rights covering certain of its products and technologies. These expenditures have not been capitalized because, in the Company's opinion, the probability of future benefits from such patent rights cannot at present be reasonably assessed and/or the useful life of such assets cannot be reasonably estimated.

Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of assets ranging from three to seven years. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expenses as incurred. When an asset is sold or retired, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss on disposition is recognized in the current year.

Property and equipment is summarized by major classification as follows:

	(Dollars in Thousands)
Computers	\$ 1,370
Other furniture and equipment	<u>169</u>
	1,539
Less: Accumulated depreciation	<u>(1,457)</u>
Net	<u>\$ 82</u>

The Company accounts for income taxes under the liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. In the calculation of the deferred tax assets, the Company established a 98% valuation allowance due to uncertainties relating to future income and the realization of such deferred tax assets. The Company currently intends to evaluate and adjust on an ongoing basis, based on expected income, the recoverability of the deferred tax assets and the level of the valuation allowance.

The provision for income taxes is as follows:

	(Dollars in Thousands)
Current:	\$
Federal	93
State	2
Deferred:	
Federal	(5,064)
State	(7,601)
Total	\$ (12,570)

The components of the net deferred tax assets as of December 31, 2006 are as follows:

	(Dollars in Thousands)
Deferred tax assets:	
Net operating loss carryforward	\$ 67,785
Unamortized research/experimental expenses carryforward	3,327
Research credit and general business credit carryforward	13,912
Stock-based compensation	158
Total deferred tax assets	85,182
Valuation Allowance	83,478
Total	1,704
Less: Current portion of deferred tax assets	704
Non-current portion of deferred tax assets	\$ 1,000

As of December 31, 2006, the Company had federal and California net operating loss carryforwards of approximately \$167,613,000 and \$122,131,000, respectively, available to reduce future federal and California taxable income. These federal and California loss carryforwards begin to expire in 2013 and 2008, respectively, if not utilized. The extent to which these loss carryforwards can be used to offset future taxable income may be limited under Section 382 of the Internal Revenue Code and applicable state law.

As of December 31, 2006, the Company had California tax credit carryforwards of approximately \$7,308,000 and federal tax credit carryforwards of approximately \$6,603,667. The federal tax credit carryforwards begin to expire in 2018, if not utilized. The California tax credit carryforwards begin to expire in 2008, if not utilized. The extent to which these tax credit carryforwards can be used to offset future taxes may be limited under Section 383 of the Internal Revenue Code and applicable state law.

For further information, refer to the Independent Auditor's Report and Management's Discussion and Analysis of Financial Conditions and Results of Operations posted on the Company's website (www.deltagen.com).

2. Treatment of Subsidiaries

The consolidated financial statements include the accounts and activities of the Company's subsidiaries, Deltagen Research Laboratories, L.L.C., Deltagen Europe, S.A. and Xenopharm, Inc. Intercompany transactions and balances are eliminated in consolidation. The Company uses the U.S. dollar as the functional currency for its foreign subsidiary. Accordingly, gains and losses from the translation of foreign currency amounts reflected on the balance sheet into U.S. dollars are included in the results of operations. The effect of foreign currency exchange rate fluctuations was not material for the year presented.

3. Stock-Based Compensation

The Company's stock awards are governed by its 2000 Stock Incentive Plan (a qualified stock option plan under Internal Revenue Code), as amended (the "Plan"). The exercise price of stock options under the Plan is determined by the Compensation Committee of the Board of Directors of the Company (the "Committee"). No incentive stock option is exercisable after 10 years from the date of grant.

Prior to January 1, 2006, the Company accounted for the Plan under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees and related Interpretations, as permitted by FASB Statement No. 123, Accounting for Stock-Based Compensation, which did not require that compensation cost be recognized for the Company's stock options provided the option exercise price was established at the common stock fair market value on the date of grant.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB Statement No. 123(R), by which the compensation cost for all stock-based payments granted subsequent to January 1, 2006 are based on the grant-date fair value estimated in accordance with the provisions of Statement 123(R). The Company adopted this statement using the modified prospective transition method, which applies to the compensation expenses recognition provision to new awards and to any awards modified, repurchased or cancelled after the January 1, 2006 adoption date. Additionally, for any unvested awards outstanding at the option date, the company will recognize the compensation expenses over the remaining vesting period. Stock-based compensation is recognized on the straight-line basis.

On March 30, 2006, the Company issued stock options to certain directors and officers of the Company. For more information on these stock option grants, please refer to Management's Discussion & Analysis for the first quarter of 2006, which is posted on the Company's website.

As a result of adopting Statement 123(R) on January 1, 2006, the Company's net income for the year ended December 31, 2006 is approximately \$369,000 lower than it would have been had the Company continued to account for stock-based compensation under APB Opinion No. 25.