

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-KSB

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2006

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-15888

IGENE Biotechnology, Inc.

(Name of Small Business Issuer in Its Charter)

Maryland

(State of other jurisdiction of incorporation or organization)

52-1230461

(IRS Employer Identification No.)

9110 Red Branch Road, Columbia, Maryland

(Address of principal executive offices)

21045

(Zip Code)

(410) 997-2599

(Issuer's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class

None

Name of Each Exchange on Which Registered

None

Securities registered pursuant to Section 12(g) of the Exchange Act:

Common Stock (par value \$.01 per share)

(Title of class)

Check whether the issuer (1) has 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 ☐

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ☐

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. \$1,976,770 as of March 2, 2007
(Note: The officers and directors of the issuer are considered affiliates for purposes of this calculation.)

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 21, 2007 there were 109,337,072 shares of the issuer's common stock outstanding.

CAUTIONARY STATEMENT FOR PURPOSES OF “SAFE HARBOR PROVISIONS” OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995:

EXCEPT FOR HISTORICAL FACTS, ALL MATTERS DISCUSSED IN THIS REPORT, WHICH ARE FORWARD LOOKING, INVOLVE A HIGH DEGREE OF RISK AND UNCERTAINTY. CERTAIN STATEMENTS IN THIS REPORT SET FORTH MANAGEMENT’S INTENTIONS, PLANS, BELIEFS, EXPECTATIONS OR PREDICTIONS OF THE FUTURE BASED ON CURRENT FACTS AND ANALYSES. WHEN WE USE THE WORDS “BELIEVE,” “EXPECT,” “ANTICIPATE,” “ESTIMATE,” “INTEND” OR SIMILAR EXPRESSIONS, WE INTEND TO IDENTIFY FORWARD-LOOKING STATEMENTS. YOU SHOULD NOT PLACE UNDUE RELIANCE ON THESE FORWARD-LOOKING STATEMENTS. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE INDICATED IN SUCH STATEMENT, DUE TO A VARIETY OF FACTORS, RISKS AND UNCERTAINTIES. POTENTIAL RISKS AND UNCERTAINTIES INCLUDE, BUT ARE NOT LIMITED TO, COMPETITIVE PRESSURES FROM OTHER COMPANIES AND WITHIN THE BIOTECH INDUSTRY, ECONOMIC CONDITIONS IN THE COMPANY’S PRIMARY MARKETS, EXCHANGE RATE FLUCTUATIONS, REDUCED PRODUCT DEMAND, INCREASED COMPETITION, INABILITY TO PRODUCE REQUIRED CAPACITY, UNAVAILABILITY OF FINANCING, GOVERNMENT ACTION, WEATHER CONDITIONS AND OTHER UNCERTAINTIES, INCLUDING THOSE DETAILED IN “RISK FACTORS” THAT ARE INCLUDED FROM TIME-TO-TIME IN THE COMPANY’S SECURITIES AND EXCHANGE COMMISSION FILINGS.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

General

IGENE Biotechnology, Inc. (“Igene”) is engaged in the business of developing, marketing, and manufacturing specialty ingredients for human and animal nutrition. Igene was formed on October 27, 1981 to develop, produce and market value-added specialty biochemical products. Igene is a supplier of natural astaxanthin, an essential nutrient in different feed applications and a source of pigment for coloring farmed salmon species. Igene is also venturing to supply astaxanthin as a nutraceutical ingredients. Igene is focused on research and development of fermentation technology, nutrition and health in its marketing of products and applications worldwide.

Igene has devoted its resources to the development of proprietary processes to convert selected agricultural raw materials or feedstocks into commercially useful and cost effective products for the food, feed, flavor and agrochemical industries. In developing these processes and products, Igene has relied on the expertise and skills of its in-house scientific staff and, for special projects, various consultants.

In 2000, Igene formed a wholly-owned subsidiary, Igene Chile Comercial, Ltda., in Chile. The subsidiary has a sales and customer service office in Puerto Varas, Chile, and a product warehouse in Puerto Montt, Chile. Igene currently leases manufacturing capacity in Mexico City, Mexico, through a contract manufacturer on an as needed basis.

In an effort to develop a dependable source of production, on March 19, 2003, Tate & Lyle PLC and Igene announced a 50:50 joint venture to produce AstaXin® for the aquaculture industry, which we refer to as the “Joint Venture”. Production utilizes Tate & Lyle’s fermentation capability together with the unique technology developed by Igene. Part of Tate & Lyle’s existing citric acid facility located in Selby, England, was modified to include the production of this product. Tate & Lyle’s investment of \$25 million included certain of its facility assets that were used in citric acid production. The production facility has been completed and is now in full production.

Government Regulation

The manufacturing and marketing of most of the products Igene has developed are, and will likely continue to be, subject to regulation by various governmental agencies in the United States, including the Food and Drug Administration (“FDA”), the Department of Agriculture (“USDA”), the Environmental Protection Agency (“EPA”), and comparable agencies in other countries. Igene, as a matter of policy, requires that its products conform to

current Good Manufacturing Practices (“GMPs”) (as defined under the Federal Food, Drug and Cosmetic Act and the rules and regulations thereunder) and Igene believes all of its products so conform. The extent of any adverse governmental regulation that might arise from future administrative or legislative action, including current rules and regulations pertaining to the process of GRAS (Generally Recognized as Safe) affirmations, cannot be predicted.

In a notice published in the Federal Register July 6, 2000, the FDA announced the amendment of its color additive regulations to provide for the safe use of Phaffia yeast, such as that in the Company's product, AstaXin®, as a color additive in aquaculture feeds. This ruling, which became effective August 8, 2000, allows Igene to market its product, AstaXin®, for aquaculture feeds and fish produced in, or imported into, the United States. This ruling is available to the public in the Federal Register. Igene has also previously obtained approval for AstaXin® from the Canadian Food Inspection Agency (CFIA). Additional foreign approval applications for AstaXin®, including those for the European Union, are in progress. Igene is required to perform additional tests and prepare additional documentation as part of the application process. The initial application for the European Union was submitted in May of 2004. It is hoped the application will be approved in the second half of 2007.

In July 2000, Igene also obtained clearance from the FDA to market its product, AstaXin®, as a human dietary supplement in the United States. Scientific literature indicates that natural astaxanthin, such as that in the Company's product, AstaXin®, may offer health benefits for humans due to its antioxidant properties. The FDA notification and the Company's submissions are available to the public from the FDA. Comparable agencies in the European Union and other foreign countries may have their own additional registration procedures. No additional applications for approval of AstaXin® as a human nutritional supplement have yet been submitted.

Igene has not incurred and does not anticipate any material environmental compliance costs.

Research and Development

As of December 31, 2006, Igene had expended approximately \$16,290,000 on research and development since its inception on October 27, 1981. The costs listed below for 2006 and 2005 were reimbursed by the Joint Venture. Sales of astaxanthin (through Igene and the Joint Venture) resulted in revenues of \$35,400,000 as of December 31, 2006, \$27,700,000 of which were realized through the Joint Venture. Igene will continue to incur research and development costs in connection with improvements in its existing processes and products, but it does not anticipate development of new processes and products in 2007.

Research and development expenditures for each of the last two years are as follows

2006	\$ 847,598
2005	\$ 819,782

Igene's research and development activities have resulted in the development of processes to produce the products hereinafter discussed.

Commercial Products

AstaXin®

AstaXin® is Igene's registered trademark for its dried yeast product made from a proprietary strain of yeast developed by Igene. AstaXin® is a natural source of astaxanthin, a pigment which imparts the characteristic red color to the flesh of salmon, trout, prawns and certain other types of fish and shellfish. In the ocean, salmon and trout obtain astaxanthin from krill and other planktonic crustaceans in their diet. A krill and crustacean diet would be prohibitively expensive for farm-raised salmonids. Without the addition of astaxanthin, the flesh of such fish is a pale, off-white color, which is less appealing to consumers expecting "salmon-colored" fish. Fish feeding trials in Europe, Asia, and North and South America have demonstrated the efficacy of AstaXin® in pigmenting fish. An estimated 1,000,000 metric tons of farm-raised salmon are produced annually worldwide. The Joint Venture derived revenue during 2006 and 2005 from sales of AstaXin®, the majority of which were to fish producers in the aquaculture industry in Chile, as well as sales exported to Japan and Canada.

On May 20, 2000, Igene renewed its manufacturing arrangement with Fermic, S.A. de C.V., of Mexico City, Mexico ("Fermic"), for the production of its natural astaxanthin pigment, AstaXin®, in Fermic's manufacturing facility in Mexico. Commercial production began in January of 1998.

The Fermic contract executed in May 2000, provides that the manufacturer has the non-exclusive right and license to produce AstaXin® for the Joint Venture, is paid a cash fee based on manufacturing capacity, and has received 20,000,000 shares of Igene common stock in lieu of additional cash for product manufactured over the six year term. Fermic provided equipment and facilities necessary to manufacture and store the product and was responsible for purchasing raw materials. The Joint Venture is responsible for sales efforts and for ensuring the quality of the pigment. The Joint Venture also has a role in ensuring that the manufacturing process works effectively. The contract expired May 20, 2006, and Fermic has not been producing product as the two companies are currently discussing renewing this agreement. See Item 2. Description of Property.

On March 18, 2003, the Company entered into a Joint Venture Agreement with Tate & Lyle Fermentation Products Ltd. ("Tate"). Pursuant to a Joint Venture Agreement, the Company and Tate agreed to form a joint venture (the "Joint Venture") to manufacture, market and sell astaxanthin and derivative products throughout the world for all uses other than as a nutraceutical or otherwise for direct human consumption. Tate contributed \$24,600,000 in cash to the Joint Venture primarily for the modification of its Selby, England facility, while the Company transferred to the Joint Venture its technology relating to the production of Astaxanthin and assets related thereto. These assets will continue to be used by the Joint Venture in the same manner as historically used by the Company. The Company and Tate each have a 50% ownership interest in the Joint Venture and equal representation on the Board of Directors of the Company. The initial value of the Company's investment in the Joint Venture has been recorded at an amount equal to the book value of the Company's consideration contributed at the creation of the Joint Venture. As the cost of the Company's technology and intellectual property has been previously expensed and had a carrying amount of zero, the investment in the Joint Venture has been initially recorded with a book value of \$316,869, which represents the unamortized production costs contributed to the Joint Venture. In addition to the Company's initial investment in the Joint Venture, the Company has made \$1,169,112 in advances to the Joint Venture and a \$6,000 capital investment.

On June 15th 2005, the Company executed a limited guarantee for one of the debt obligations of the Joint Venture, a copy of which was filed with the 2005 Form 10-KSB as Exhibit 10.11. Under the terms of the limited guarantee, the Company agreed to guarantee up to 4,200,000 British pounds sterling (approximately \$8,237,000 at February 28, 2007). The Company subsequently entered into an agreement with Tate & Lyle (the other 50% partner in the Joint Venture) where Tate & Lyle has agreed to arrange funds for the Joint Venture, without recourse to Igene Biotechnology, Inc., until the Joint Venture produces a regular monthly cash flow, as defined, for four consecutive months. The Joint Venture has not met the cash flow requirements. The Company has subsequently received a full release from the guarantee.

Production utilizes Tate's fermentation capability together with the unique technology developed by Igene. Part of Tate's existing Selby, England, citric acid facility has been modified to produce up to 1,500 tons per annum of astaxanthin. Tate & Lyle's investment of approximately \$25 million included certain of its facility assets previously used in citric acid production.

Based on estimates of worldwide production of farm raised salmon, Igene believes the market for astaxanthin as a color additive in salmon feed exceeds \$200,000,000 per year worldwide, which would require approximately 10,000 metric tons of AstaXin® to serve 100% of the market. A single competitor, who produces a chemically synthesized product, presently controls more than 80% of the world market for astaxanthin as a pigment for aquaculture.

During 2005, the Joint Venture successfully completed its new production facility. However, there can be no assurance that the Company and venture will be able to utilize these additional sources of production capacity, or that, if it is able to utilize the additional production capacity, that it will be able to do so on terms favorable to Igene or that any level of demand will continue.

During 2001, Igene began investigating other possible commercial uses of astaxanthin, including its application as a human nutritional supplement. Igene has formulated natural astaxanthin as a super-antioxidant, AstaXin®, for the North American dietary supplement market. Antioxidants are one of the largest product categories in the health and nutrition industry.

Patents and Trademarks

It is Igene's policy to protect its intellectual property rights by a variety of means, including applying for patents and trademarks in the United States and in other countries. Igene also relies upon trade secrets and improvements, un-patented proprietary know-how and continuing technological innovation to develop and maintain its competitive position. Igene places restrictions in its agreements with third parties with respect to the use and disclosure of any of its proprietary technology. Igene also has internal nondisclosure safeguards, including confidentiality agreements with employees and consultants.

All patents and trademarks are carefully reviewed and those with no foreseeable commercial value are abandoned to eliminate costly maintenance fees. Patents, trademarks on technology and products with recognized commercial value, and which Igene is currently maintaining, include those for AstaXin®, have various remaining lives ranging from 1 to 23 years.

Competition

Competitors in the biotechnology field in the United States and elsewhere are numerous and include major chemical, pharmaceutical and food companies, as well as specialized biotechnology companies. Competition can be expected to increase as small biotechnology companies continue to be purchased by major multinational corporations with substantial resources. Competition is also expected to increase with the introduction of more diverse products developed by biotechnology firms, increasing research cooperation among academic institutions and large corporations, and continued government funding of research and development activities in the biotechnology field, both in the United States and overseas. Unlike the majority of biotechnology companies, which are developing products principally for the pharmaceutical industry, Igene has focused its own activities on the development of proprietary products for use in aquaculture and nutritional supplement industries. In the future, however, competitors may offer products, that, by reason of price, or efficacy, or more substantial resources for technology advances, may be superior to Igene's existing or future products.

A single large pharmaceutical company presently dominates the market for astaxanthin pigment for aquaculture in which Igene's product, AstaXin®, is presently marketed and sold. Igene believes that AstaXin®, which is made from yeast, will compete with this dominant producer, and other producers whose products are chemically synthesized, based on its use of natural ingredients. As consumers and producers of fish become more aware of other alternatives, Igene believes that they will desire natural ingredients, such as those in AstaXin®.

Several companies are also known to be developing and marketing other natural astaxanthin products. Some of these companies' products are made from algae, while others are made from yeast. Igene believes that AstaXin® will compete with other companies' astaxanthin products which are made from algae, due to Igene's higher production capacity and lower production costs, but can provide no assurances in that regard. Igene also believes that AstaXin® will compete with other companies' astaxanthin products which are also made from yeast due to our proprietary process to disrupt yeast cell walls, which, as studies have shown, makes AstaXin® more readily absorbed by fish.

Igene is also beginning to explore the possible use of AstaXin® as a human nutritional supplement. This market is attractive because of potentially higher profit margins. Other companies are known to also be developing and marketing astaxanthin products for the human nutritional supplement market. Igene cannot yet predict how competitive it would be in this market.

Sources and Availability of Raw Materials

Raw materials used in the manufacture of AstaXin® consist principally of agricultural commodities widely available in world markets from many suppliers, which may be used interchangeably. We do not anticipate material price fluctuations or changes in availability in these raw materials in the near future, but can provide no assurances in that regard.

Employees

At December 31, 2006, Igene had 12 full time employees. Three full time employees are in administration and/or marketing, while the remainder are engaged in research, process development and support of manufacturing activities. The employees are based in the U.S. Igene also utilizes various consultants on an as-needed or short-term basis.

None of Igene's employees are represented by a labor union and Igene has experienced no work stoppages. Igene believes its relations with its employees are satisfactory.

ITEM 2. DESCRIPTION OF PROPERTY

Igene leases approximately 8,500 square feet of space in the Oakland Ridge Industrial Park located at 9110 Red Branch Road, Columbia, Maryland. Igene occupies the space under a lease extension expiring on January 31, 2011. The approximate current annual rental expense is \$118,600. Approximately 2,000 square feet of this space is used for executive and administrative offices and approximately 2,500 feet is used for research and development activities. The remaining 4,000 square feet of space is used for Igene's intermediate-stage or scale-up pilot plant facility.

Igene is currently renegotiating its lease which expired May 2006 for manufacturing capacity at Fermic S.A. de C.V. (Fermic) in Mexico City, Mexico as well as the lease of warehouse space for product storage in Mexico City. The lease for warehouse space is on an as needed basis, and Igene is under no obligation to lease space.

Igene began a one year lease in December 2001, which renews annually, of approximately 220 square feet of office space, in Chile, to conduct marketing and technical support activities by its full-time technical representatives. Igene also leases warehouse space on a month-to-month basis as needed for product storage in Chile.

Igene currently owns or leases sufficient equipment and facilities for its research operations and all of this equipment is in satisfactory condition and is adequately insured. There are no current plans for improvement of this property. If demand for Igene's product continues to increase, Igene plans to lease additional warehouse space as needed in Chile.

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

The Registrant's Annual Meeting was held on July 20, 2006. At the Annual Meeting, the five nominees and then-current directors were re-elected as the directors for a one year term. The election results are as follows:

	<u>Votes For</u>	<u>Against or Withheld</u>	<u>Votes Abstained</u>	<u>Non- Votes</u>
(1) Election of Directors				
Stephen F. Hiu	81,116,817	178,996	---	---
Thomas L. Kempner	81,117,227	178,586	---	---
Michael G. Kimelman	81,117,227	178,586	---	---
Sidney R. Knafel	81,117,227	178,586	---	---
Patrick F. Monahan	81,116,817	178,996	---	---

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Common Stock

Commencing on or about June 12, 1989, Igene's common stock began trading on the over-the-counter market on a limited basis and is quoted on the National Quotation Bureau's OTC "bulletin board". The following table shows, by calendar quarter, the range of representative bid prices for Igene's common stock for 2006 and 2005.

	<u>Calendar Quarter</u>	<u>High</u>	<u>Low</u>
2006:	First Quarter	\$.1200	\$.0400
	Second Quarter	\$.1200	\$.0360
	Third Quarter	\$.0600	\$.0250
	Fourth Quarter	\$.0420	\$.0090
2005:	First Quarter	\$.1170	\$.0650
	Second Quarter	\$.1000	\$.0300
	Third Quarter	\$.0500	\$.0350
	Fourth Quarter	\$.0600	\$.0150

Igene obtained the above information through Pink Sheets, LLC, a national quotation bureau. Such quotations are inter-dealer quotations without retail mark-up, mark-downs, or commissions, and may not represent actual transactions. The above quotations do not reflect the "asking price" quotations of the stock.

The approximate number of record holders of Igene's common stock as of February 28, 2007 was 250. As of February 28, 2007, the high bid and low offer prices for the common stock, as shown on the "over-the-counter bulletin board" were \$0.030 and \$0.025, respectively.

Dividend Policy

When and if funds are legally available for such payment under statutory restrictions, Igene may pay annual cumulative dividends on the preferred stock of \$.64 per share on a quarterly basis. During 1988 Igene declared and paid a cash dividend of \$.16 per share on its preferred stock. In December 1988, Igene suspended payment of the quarterly dividend of \$.16 per share of preferred stock. No dividends have been declared or paid since 1988. Any resumption of dividend payments on preferred stock would require significant improvement in cash flow. Preferred stock dividends are payable when and if declared by Igene's board. Unpaid dividends accumulate for future payment or addition to the liquidation preference and redemption price of the preferred stock. As of December 31, 2006, total dividends in arrears on Igene's preferred stock equal \$130,045 (or \$11.68 per share) on Igene's Series A Preferred Stock and are included in the carrying value of the Series A Preferred Stock.

Dividends on common stock are currently prohibited because of the preferential rights of holders of preferred stock. Igene has paid no cash dividends on its common stock in the past and does not intend to declare or pay any dividends on its common stock in the foreseeable future.

8% Notes

Pursuant to the terms of an Indenture dated as of March 31, 1998, as amended (the "Indenture") between the Registrant and American Stock Transfer & Trust Company, as Trustee (the "Trustee"), the Company issued and sold \$5,000,000 of its 8% notes (the "8% Notes"). Concurrently with the issuance of the Securities, the Company issued, pursuant to a Warrant Agreement by and between Registrant and American Stock Transfer & Trust Company (the "Warrant Agent") dated as of March 31, 1998, as amended (the "Warrant Agreement"), 50,000,000 warrants to purchase shares of the Registrant's common stock for \$.10 per share. The warrant purchase price under the Warrant Agreement was reduced to \$.075 per share, and the maturity date of the Securities extended to March 31, 2006, by an amendment dated March 18, 2003 and approved by the requisite number of holders of the Securities.

On March 28, 2006, the Registrant and Trustee and Warrant Agent entered into a Second Amendment to Indenture, Securities, Warrant Agreement and Warrant Certificates (the "Second Amendment") that extended the maturity date of the Securities to March 31, 2009, and reduced the warrant price under the Warrant Agreement from \$.075 to \$.056 per share.

Both the Indenture, as amended, and the Warrant Agreement, as amended, have been filed as Exhibits 4.2 and 4.3, respectively, to this Form 10-KSB.

Sales of Unregistered Securities

During the course of 2006, Fermic, Igene's manufacturing agent, earned 545,569 shares of common stock as part of the manufacturing agreement. Fermic earns 2,250 shares of common stock for each kilogram pure astaxanthin produced and delivered as part of the agreement. The average price is based on the market value of the shares at the time the product was produced. The 545,569 shares were earned at an average price of \$.056 per share for 2006. Through December 31, 2006, all 20,000,000 shares have been earned. Igene relied on Section 4(2) of the Securities Act of 1933, as amended, to issue the shares to Fermic without registration under that act. Igene relied on the representations and warranties of Fermic made in the manufacturing agreement in claiming the aforementioned exemption.

Default Upon Senior Securities

As previously stated in the Registrant's third quarter Form 10-QSB, on November 30, 2001, Igene entered into Convertible Promissory Notes (the "Convertible Notes") with each of the following note holders for the following respective amounts (a) NorInnova AS (formerly Forskningsparken I Tromsø AS) for \$106,500; (b) Knut Gjernes for \$7,500; (c) Magne Russ Simenson for \$378,000; and (d) Nord Invest AS for \$313,000. Each of the Convertible Notes had a maturity date of November 1, 2004. On November 18, 2005, each of the Convertible Note Holders provided Igene with written notice of default under each of the Convertible Notes.

On November 29, 2006, the Convertible Note holders filed a complaint against the Company in the Circuit Court of Howard County, Maryland seeking payment of all outstanding amounts due under the Convertible Notes. On February 23, 2007, the Company, paid \$762,638 to the Convertible Note holders as settlement of all claims related to the Convertible Notes. The complaint was dismissed with prejudice on March 6, 2007.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Certain statements in this report set forth management's intentions, plans, beliefs, expectations or predictions of the future based on current facts and analyses. Actual results may differ materially from those indicated in such statements, due to a variety of factors including competitive pressures from other companies and within the biotech industry, economic conditions in Igene's primary markets, exchange rate fluctuations, reduced product demand, increased competition, unavailability of production capacity, unavailability of financing, government action, weather conditions and other uncertainties, including those detailed in "Risk Factors" that are included from time-to-time in Igene's Securities and Exchange Commission filings.

Results of Operations

On March 18, 2003, the Company entered into a Joint Venture Agreement with Tate & Lyle Fermentation Products Ltd. ("Tate"). Pursuant to a Joint Venture Agreement, the Company and Tate agreed to form a joint venture (the "Joint Venture") to manufacture, market and sell astaxanthin and derivative products throughout the world for all uses other than as a Nutraceutical or otherwise for direct human consumption. Tate contributed \$24,600,000 in cash to the Joint Venture, while the Company transferred to the Joint Venture its technology relating to the production of Astaxanthin and assets related thereto. These assets continue to be used by the Joint Venture in the same manner as historically used by the Company. The Company and Tate each have a 50% ownership interest in the Joint Venture and equal representation on the Board of Directors of the Joint Venture. The initial value of the Company's investment in the Joint Venture has been recorded at an amount equal to the book value of the Company's consideration contributed at the creation of the Joint Venture. As the cost of the Company's technology and intellectual property had been previously expensed and had a carrying amount of zero, the investment in the

Joint Venture has been recorded with a book value of \$316,869, which represents the unamortized production costs contributed to the Joint Venture. In addition, the Company also contributed \$6,000 to the capital of the Joint Venture.

Production utilizes Tate's fermentation capability together with the unique technology developed by Igene. Part of Tate's existing Selby, England, citric acid facility was modified to produce up to 1,500 tons per annum of astaxanthin. Tate's investment of approximately \$25 million includes certain of its facility assets previously used in citric acid production. Sales and cost of sales activity are now recorded as part of the operations of the unconsolidated venture.

As a result of the Joint Venture, the production, sales and marketing of Astaxanthin now takes place in the unconsolidated Joint Venture. From inception on March 18, 2003 through December 31, 2006, the Joint Venture's results of operations included the following: Gross profit from inception was a negative \$15,165,979 on sales of \$27,772,879, less manufacturing cost of \$42,938,858. Selling and general and administrative expenses were \$13,090,287, and interest expense was \$3,588,534. The resulting loss since inception was \$31,844,800. Igene's 50% portion of the cumulative Joint Venture loss through December 31, 2006 was \$15,922,400.

Because the Company accounts for its investment in the Joint Venture under the equity method of accounting, it would ordinarily recognize a loss representing its 50% equity interest in the loss of the Joint Venture. However, losses in the Joint Venture are recognized only to the extent of the investment in and advances to the Joint Venture. Losses in excess of this amount are suspended from recognition in the financial statements and are carried forward to offset Igene's share of the Joint Venture's future income, if any.

At December 31, 2006, prior to the recognition of its portion of the Joint Venture loss, Igene's investment in the Joint Venture consisted of \$322,869 and its net advances to the Joint Venture amounted to \$1,169,112, for a total of \$1,491,981. For the year ended December 31, 2005, Igene recognized \$374,527 of its share of a \$5,931,049 loss. For the year ended December 31, 2006, Igene recognized losses to the extent of the increase in advances of \$109,147. The remainder of approximately 5 million, is suspended and will be carried forward to offset Igene's share of earnings from the Joint Venture, if any. The balance in the advances to and investment in Joint Venture account on the Company's financial statements is zero at December 31, 2006.

Sales and other revenue

As part of the Joint Venture agreement, all sales of AstaXin® are recognized through the Joint Venture. Therefore, Igene recorded no sales during 2006 or 2005. Sales had been limited in past years due to insufficient production quantity. The Joint Venture has provide a more dependable product flow. However, there can be no assurance of the continued dependability of production, or that any increases in production or sales will occur, or that if they occur, they will be material.

Cost of sales and gross profit

As with sales revenue, beginning July 2003 forward, cost of sales and gross profit are recognized and will continue to be recognized through the Joint Venture. Igene reported no gross profit on sales of AstaXin® for 2006 or 2005.

Marketing and selling expenses

Marketing and selling expenses for 2006 were \$98,240, a decrease of \$184,211, or 65% from the marketing and selling expenses of \$282,451 for 2005. As a result of the Joint Venture with Tate, Igene is expecting an increase in salable product with a corresponding increase in selling expenses as the new facility is now in full production. As a result of Mr. Benjaminsen's resignation as the Director of Sales and Marketing during 2006, the cost of the majority of the sales activity has been transferred to the Joint Venture. All marketing and selling expenses incurred by Igene since the inception of the Joint Venture, with the exception of the cost related to the shares reissued to Fermtech as part of the ProBio agreement, have been reimbursed by the Joint Venture. All of 2006 and approximately \$240,000 of the 2005 marketing and selling expenses was reimbursed by the Joint Venture.

Research, development and pilot plant expenses

Research, development and pilot plant expenses for 2006 and 2005 were \$847,598 and \$819,782, respectively, reflecting an increase of \$27,816 or 3.4%. Costs are expected to be maintained at this level to support increasing the efficiency of the manufacturing process through experimentation in the Company's pilot plant, undertaken in an attempt to develop higher yielding strains of yeast and other improvements in the Company's AstaXin® technology, as well as through travel to the Selby facility to aid in further development of the plant. Igene is hoping this will lead to a reduced cost for salable product marketed by Igene and the Joint Venture. However, no assurances can be made in that regard. All research and development costs were funded through reimbursement from the Joint Venture.

General and administrative expenses

General and administrative expenses for 2006 increased by \$216,997, or 27%, from those in 2005, from \$805,054 to \$1,022,051. These additional costs are due to increased reporting costs related to SEC and public filing requirements, legal costs related to extension of the 8% notes, as well as increased rent and salary expenses. These costs are expected to drop slightly from the current increased level. The salary increases included 1,000,000 shares of common stock issued to the Joint Venture's new Vice President of Manufacturing as part of his agreement in accepting the position. The cost was expensed in the third quarter as payroll expense, at a cost of \$.05 per share, for a total expense of \$50,000. This is a one time cost. In addition, there was \$95,000 of non-reimbursed compensation in 2006. These expenses, net of reimbursements, are expected to be funded by additional funding from stockholders, and by cash flows from operations, to the extent available for such purposes. However, we can provide no assurances that such additional funding or cash flows from operations will become available or that such funding, if any, will be available upon terms favorable to us. Of the general and administrative expenses incurred during 2006 approximately \$715,000 were reimbursed by the Joint Venture. During 2005, approximately \$770,000 of general and administration expenses were reimbursed by the Joint Venture.

Expenses reimbursement by Joint Venture

As part of the Joint Venture agreement, costs incurred by Igene related to production, research and development, as well as those related to the marketing of AstaXin(R), and most of the general and administrative expenses, are considered costs of the Joint Venture and therefore are reimbursed by the Joint Venture. For the year ended December 31, 2006, costs reimbursed by the Joint Venture totaled \$1,660,519. Of the reimbursement received, approximately \$848,000 was to cover research and development costs, \$98,000 was to cover marketing and selling expenses and \$715,000 was to cover general and administrative costs. For the year ended December 31, 2005, costs reimbursed by the Joint Venture totaled \$1,830,198. Of the reimbursement received approximately \$820,000 was to cover research and development costs, \$240,000 was to cover marketing and selling expenses and \$770,000 was to cover general and administrative costs.

Interest expense (net of interest income)

Interest expense for 2006 and 2005 was \$753,791 and \$857,013 respectively, a decrease of \$103,222 or 12%. This interest expense (net of interest income) was almost entirely composed of interest on Igene's long term financing from its directors and other stockholders and interest on Igene's subordinated and convertible debentures, and is expected to remain at the current level. The amount recorded in 2006 was reduced by interest income of \$77,982 received from the Joint Venture based on the outstand balance due to Igene.

Equity in earnings of Joint Venture

As a result of the Joint Venture, the production, sales and marketing of astaxanthin now take place in the unconsolidated Joint Venture. For the years ended 2006 and 2005, Igene's portion of the Joint Venture loss was \$5,103,852 and \$5,931,049, respectively, a decreased loss of \$827,197 or 14%. The loss was a result of a 50% interest in the following: Gross profit for 2006 was a negative \$4,137,386 compared with a negative \$6,672,593 for 2005, a decreased loss of \$2,535,207. The decrease in the losses was due mainly to the increased efficiencies associated with the development of production in the Joint Venture facility. Losses are still being incurred due to the reduction in sales price, due to increased competition. As sales for 2006 decreased to \$10,027,656 from \$10,961,223 for 2005, associated manufacturing costs decreased to \$14,165,042 for 2006 from \$17,633,816 for

2005. Management expects the Joint Venture to be able to sell product at a gross profit through expected increases in production efficiency derived from the continued development of the Joint Venture with Tate & Lyle offsetting pricing competition, but can provide no assurances in that regard.

As a condition of Igene's acceptance of the Selby facility, Tate and Lyle has assumed a portion of the Selby facility's production costs. These cost have been reduced from the Joint Venture's cost of manufacturing in 2005 of \$1,600,000.

The Company attributes the negative gross profit to pricing pressure in the market. Demand is expected to increase both due to seasonal increases in customer usage and increases in our market share. The Company believes potential production efficiencies could alleviate these pricing pressures as the Joint Venture plant continues to develop.

Selling, general and administrative expenses for the years ended 2006 and 2005 were \$3,874,710 and \$3,947,577, respectively a decrease of \$72,867. These expenses are expected to remain at current levels. Interest expense increased to \$2,195,607 in 2006 from \$1,241,927 in 2005 as the Joint Venture incurs debt to finance its operation. The resulting losses were \$10,207,703 and \$11,862,097 for the years ended 2006 and 2005, respectively. For 2006, Igene's 50% equity interest in the Joint Venture loss was \$5,103,852. Igene's 50% equity interest in the Joint Venture loss was \$5,931,049 for 2005.

Because the Company accounts for its investment in the Joint Venture under the equity method of accounting, it would ordinarily recognize a loss representing its 50% equity interest in the loss of the Joint Venture. However, losses in the Joint Venture are recognized only to the extent of the investment in and advances to the Joint Venture. Losses in excess of this amount are suspended from recognition in the financial statements and carried forward to offset Igene's share of the Joint Venture's future income, if any. From the inception of the Joint Venture through December 31, 2006, \$14,430,419 has been suspended.

On March 29, 2007 the Company was informed by their 50% partner in the Joint Venture, Tate and Lyle, that they determined to write down their portion of the investment in the Joint Venture. There has been no impairment charge reflected by the Joint Venture as of December 31, 2006. During the first quarter of 2007, the Joint Venture will make its annual impairment assessment and any necessary write-downs will be recorded at that time.

Loss on Disposal

During 2005, Igene sold equipment and wrote off a receivable from the prior sale of equipment it had determined would not be of use in the Joint Venture facility and recorded a loss on disposal of \$106,150. This is a one time occurrence.

Net loss and basic and diluted net loss per common share

As a result of the foregoing results of operations, Igene reported net losses of \$1,155,773 and \$1,414,779 for 2006 and 2005, respectively, a decreased loss of \$259,006 or 18%, a loss of \$.01 per basic and diluted common share in both 2006 and 2005. The weighted average number of shares of common stock outstanding was 108,387,454 and 103,384,377 for 2006 and 2005, respectively, an increase of 5,003,077 shares. The increase in outstanding shares resulted from primarily the weighted average adjustment of the issuance of 545,569 shares to Igene's manufacturer under the manufacturing agreement with Fermic, and the issuance of 1,000,000 shares of common stock to the Joint Venture's new Vice President of Manufacturing as part of his employment agreement in accepting the position, as well as the weighted average effect of the 2,453,208 shares issued at the end of 2005.

Financial Position

During 2006 and 2005, the following also affected Igene's financial position:

- During 2006, decreases in accounts receivable and prepaid expenses and other assets of \$14,619 and \$27,419, respectively, and increases in accounts payable and accrued expenses of \$899,534 were sources of cash.

- During 2006, \$109,147 was used in advances to the Joint Venture, as compared with \$374,527 used in 2005.
- During 2005, decreases in accounts receivable of \$65,009, and increases in accounts payable and accrued expenses of \$774,386 were sources of cash.

Since December 1988, as part of an overall effort to contain costs and conserve working capital, Igene suspended payment of the quarterly dividend on its preferred stock. Resumption of the dividend will require significant improvements in cash flow. Unpaid dividends cumulate for future payment or addition to the liquidation preference or redemption value of the preferred stock. As of December 31, 2006, total dividends in arrears on Igene's Series A preferred stock equal \$130,045 (or \$11.68 per share) and are included in the carrying value of the such preferred stock.

Liquidity and Capital Resources

Historically, Igene has been funded primarily by equity contributions and loans from stockholders. As of December 31, 2006, Igene had a negative working capital of \$926,115, and cash and cash equivalents of \$21,786.

Cash provided by operating activities in 2006 was \$100 as compared to \$290,024 in 2005.

Cash used by investing activities in 2006 was \$109,147 as compared to \$374,527 used by investing activities in 2005.

During 2005, no cash was provided by financing activities. During 2006 cash provided by financing activities was \$11,088. It was comprised primarily of exercise of employee stock options.

Over the next twelve months, Igene believes it will need additional working capital. This funding is expected to be received from sales of AstaXin®, resulting in income from the Joint Venture. However, there can be no assurance that projected profits, if any, from sales, or additional funding from the Joint Venture will be sufficient for Igene to fund its continued operations.

Igene does not believe that inflation had a significant impact on its operations during 2005 and 2006.

Critical Accounting Policies

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires management to make judgments, assumptions and estimates that affect the amounts reported in our financial statements and accompanying notes. Actual results could differ materially from those estimates. The following are critical accounting policies important to our financial condition and results of operations presented in the financial statements and require management to make judgments and estimates that are inherently uncertain:

The Joint Venture's inventories are stated at the lower of cost or market. Cost is determined using a weighted-average approach, which approximates the first-in first-out method. If the cost of the inventories exceeds their expected market value, provisions are recorded for the difference between the cost and the market value. Inventories consist of currently marketed products.

The Joint Venture recognizes revenue from product sales when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed and determinable, and collectibility is reasonably assured. Allowances are established for estimated uncollectible amounts, product returns and discounts.

The Joint Venture has entered into a lease of real property with an affiliate of Tate & Lyle in Selby, England upon which a manufacturing facility has been constructed and operated by the Joint Venture. The Joint Venture is accounted for under the equity method of accounting as the Company has a 50% ownership interest.

The Company cannot recognize the loss of the Joint Venture beyond the investment and advances to the Joint Venture or the amount of debt guaranteed by Igene, if any. This excess loss, and all future losses incurred as a result of the Joint Venture, that are in excess of the Company's investment and advances, will be suspended until the point that the profits of the Joint Venture, if any, exceed the incurred losses.

ITEM 7. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements appear after Part III of this Report and are incorporated herein by reference.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS AND FINANCIAL DISCLOSURE

As of February 15, 2005, the Company dismissed its registered public accountant, Stegman & Company ("Stegman"), due to the Registrant's increased international audit requirements brought about by the Company's 50% participation in a joint venture with Tate & Lyle PLC ("Tate & Lyle"), which joint venture produces AstaXin(R) for the aquaculture industry at Tate & Lyle's Selby, England facility. The decision to dismiss Stegman was recommended by the Board of Directors of the Registrant during a meeting held on February 8, 2005. The audit reports issued by Stegman on the consolidated financial statements of the Registrant as of and for the years ended December 31, 2003, December 31, 2002 and prior, did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified, as to uncertainty, audit scope or accounting principles, except as follows:

Stegman's reports contain explanatory paragraphs. The paragraph states that the Company has suffered recurring losses from operations since inception and has a working capital deficiency that raises substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty.

There have been no material disagreements between the Registrant and Stegman on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Stegman, would have caused Stegman to make reference to the subject matter thereof in its report on the Registrant's consolidated financial statements for such periods.

A letter from Stegman addressed to the Securities & Exchange Commission ("SEC") stating that Stegman agrees with the statements contained herein has been filed as an exhibit to this Form 10-KSB.

The Registrant has appointed Berenson LLP ("Berenson") as its new registered public accountants effective as of February 14, 2005. The selection of Berenson was approved by the Audit Committee of the Board of Directors of the Registrant on February 8, 2005.

ITEM 8A. CONTROLS AND PROCEDURES

Based on their most recent review, which was completed within 90 days of the balance sheet date, Igene's principal executive officer and principal financial officer have concluded that Igene's disclosure controls and procedures are effective to ensure that information required to be disclosed by Igene in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to Igene's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and are effective to ensure that such information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There were no significant changes in Igene's internal controls or in other factors that could significantly affect those controls subsequent to the date of their evaluation.

The Company has restated its previously issued financial results for the second, third and fourth quarters of 2003, as well as the first three quarters of 2004. This restatement was primarily the result of the Company's investment in the Joint Venture which should have been recorded at an amount equal to the historical book value of the Company's consideration contributed at the creation of the Joint Venture (not its fair value). As a result, the

investment in the Joint Venture should have been initially recorded with a value of \$316,860, rather than the \$12,300,000 initially recorded in the restated financial statements.

Additionally, the Company cannot recognize the loss of the Joint Venture beyond its investment in the Venture or the guarantee of the Joint Venture debt by Igene, if any. As of the fourth quarter of 2003, the Company had an initial investment of and amounts due from the Joint Venture of \$818,052. Igene's share of the loss through December 31, 2003 equaled \$914,494, exceeding the total investment by \$96,442. This excess loss, and all future losses incurred as a result of the Joint Venture, that are in excess of the Company's investment and advances, are suspended until the point that the profits of the Joint Venture, if any, exceed the incurred losses.

The restatement also included the classification of the Company's preferred stock as liabilities in accordance with Statement of Financial Accounting Standards No. 150 "Accounting for certain Financial Instruments with Characteristics of both Liabilities and Equity" ("FASB 150"), which become effective in the third quarter of 2003. Amounts previously treated as dividends have been classified as interest expense.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS, AND KEY EMPLOYEES

Igene's directors are elected annually by the stockholders of Igene. The directors, executive officers and key employees of Igene as of December 31, 2006 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position with Igene</u>
Michael G. Kimelman	68	Chairman of the Board of Directors, member of audit committee
Thomas L. Kempner	79	Vice Chairman of the Board of Directors, member of finance committee
Stephen F. Hiu	50	Director, President, Chief Technical Officer, and Director of Research and Development
Patrick F. Monahan	56	Director, Vice-President, Secretary, and Director of Manufacturing
Sidney R. Knafel	76	Director, member of finance committee
Edward J. Weisberger	42	Chief Financial Officer

Each of our directors was elected for a one-year term at our most recent annual meeting, held in July of 2006. Our officers serve at the pleasure of the Board of Directors and until their respective successors are elected and qualified.

MICHAEL G. KIMELMAN has served as a Director of Igene since February 1991 and as Chairman of the Board of Directors since March 1991. He is a founder and member of Kimelman & Baird, LLC, as well as Chairman of the Board of Directors of Astaxanthin Partners Ltd. He also serves on the Board and the Executive Committee of the Hambletonian Society.

THOMAS L. KEMPNER is Vice Chairman of the Board of Directors and has been a Director of Igene since its inception in October 1981. He is and has been Chairman and Chief Executive Officer of Loeb Partners Corporation, investment bankers, New York, and its predecessors since February 1978. He is currently a Director of CCC Information Services Group, Inc., Dyax Corporation, Fuel Cell Energy, Inc., Insight Communications Co., Inc., and Intermagnetics General Corp and Intersections, Inc. He is a Director Emeritus of Northwest Airlines, Inc.

STEPHEN F. HIU was appointed Chief Technical Officer in 2002, and has served as President and Treasurer since March 1991, and elected a Director in August 1990. He has been Director of Research and Development since January 1989 and, prior thereto, was Senior Scientist since December 1985, when he joined Igene. He was a post-doctoral Research Associate at the Virginia Polytechnic Institute and State University, Blacksburg, Virginia, from January 1984 until December 1985. Dr. Hiu holds a Ph.D. degree in microbiology from Oregon State University and a B.S. degree in biological sciences from the University of California, Irvine.

PATRICK F. MONAHAN has served as Vice-President since 2002, and as Director of Manufacturing and as a Director of Igene since April 1991. He has served as Secretary since September 1998. He has managed Igene's fermentation pilot plant since 1982. He received an Associate of Arts degree in biology from Allegheny Community College and a B.S. degree in biology with a minor in Chemistry from Frostburg State College, Frostburg, Maryland.

SIDNEY R. KNAFEL, has served as a Director of Igene since 1982, has also been Managing Partner of SRK Management Company, a private investment concern located in New York City, since 1981. He has also served as Chairman of Insight Communications, Inc. since 1985. He is also currently a Director of General American Investors Company, Inc. as well as a number of private companies.

EDWARD J. WEISBERGER was appointed Chief Financial Officer of Igene in December 2001. He is a CPA with multiple years of financial experience in the public and private sectors with both smaller and Fortune 100 companies.

Section 16(a) Beneficial Ownership Reporting Compliance

Igene believes that during 2006 and through March of 2007 all of its officers and directors of more than 10% of its common stock, have filed all past due reports and come into compliance with Section 16(a) reporting requirements with respect to acquisitions and dispositions of Igene's securities. In making this disclosure, Igene has relied solely on written representations of its directors, officers and more than 10% holders and on copies furnished to Igene of reports that have been filed with the Securities and Exchange Commission.

ITEM 10. EXECUTIVE COMPENSATION

The following tables show the compensation paid or accrued by Igene to each of the three officers. During 2006, no Directors were compensated for their Board or Committee activities. Other than the 1986, 1997 and 2001 Stock Incentive Plans and the Simple Retirement Plan described below, Igene has no profit sharing or incentive compensation plans.

Summary Compensation Table

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary (\$)(1)</u>	<u>Option Awards (\$)(2)</u>	<u>All Other Compensation (\$)(3)</u>	<u>Total (\$)</u>
Stephen Hiu President	2006	\$ 142,580	\$ 0	\$ 6,575	\$ 149,155
Patrick Monahan Vice-President, Secretary and Direction of Manufacturing	2006	\$ 129,965	\$ 0	\$ 5,838	\$ 135,803
Edward Weisberger Chief Financial Officer	2006	\$ 125,817	\$ 0	\$ 5,750	\$ 131,567

- (1) Salaries of the named executive officers listed on compensation received.
- (2) Represents the disclosed fair value of options determined SFAS 123 for all options granted using assumptions set forth in the footnotes to the consolidated financial statements.
- (3) Includes annual taxable compensation for health insurance premium and employer match of 401K.

Outstanding Equity Awards at Fiscal Year-End

Outstanding Equity Award. The following table sets forth information concerning the outstanding equity awards of each of the named executive officers as of December 31, 2006:

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Exercise Price (\$/Sh)	Option Expiration Date
Stephen Hiu	2,000,000	\$.10	04/16/2008
President	2,000,000	.05	01/19/2010
	45,000	.065	01/02/2011
	4,800,000	.025	08/13/2012
	5,000,000	.10	06/25/2014
Patrick Monahan	1,050,000	.10	04/16/2008
Vice-President	1,317,500	.05	01/19/2010
Secretary	2,900,000	.025	08/13/2012
Dir. of Mfg.	2,000,000	.10	06/25/2014
Edward Weisberger	2,500,000	.05	12/01/2011
Chief Financial	500,000	.10	06/25/2014
Officer	1,500,000	.027	12/09/2015

Retirement Plans

Effective February 1, 1997 Igene adopted a Simple Retirement Plan under Internal Revenue Code Section 408(p). The plan was a defined contribution plan, which covered all of Igene's U.S. employees who receive at least \$5,000 of compensation for the preceding year. The plan permits elective employee contributions. Effective January 1, 2003, Igene made an elective contribution of 3% of each eligible employee's compensation for each year. Igene's contributions to the plan for 2003 were \$17,631.

Effective February 1, 2004 Igene discontinued use of the Simple Retirement Plan and began use of a 401K savings/retirement plan, or 401(k) Plan. The 401(k) Plan permits our eligible employees to defer annual compensation, subject to limitations imposed by the Internal Revenue Code. All employees that have been employed for three months are eligible for the plan. The plan permits elective contributions by the Company's eligible employees based under the Internal Revenue Code, which are immediately vested and non-forfeitable upon contribution to the 401(k) Plan. Effective January 1, 2004, Igene made an elective contribution, subject to limitations, of 4% of each eligible employee's compensation for each year. Igene's contributions to the plan for 2006 and 2005 were \$25,996 and \$23,052, respectively, which is expensed in the 2006 statement of operations.

Life Insurance Plans

Igene provides life insurance benefits to its employees that in the event of an employee's death would pay to the employee's beneficiary 2 times the employees annual salary up to \$150,000.

Severance Benefit

In cases where a termination of employment is initiated by the Company for economic reasons (e.g. reduction in force, reorganization or position elimination) the terminated employee will receive one week of severance at base pay for each year of service, up to a maximum of 12 weeks.

Stock Option Plans

Igene currently maintains two stock incentive plans. Igene's 2001 Stock Incentive Plan (the "2001 Plan"), which was approved by Igene's stockholders on June 12, 2001, authorized 55,000,000 options and shares of restricted stock for issuance under that plan. Igene's 1997 Stock Option Plan (the "1997 Plan"), which was approved by Igene's stockholders on November 17, 1997, authorized 20,000,000 options for issuance under that plan. A committee of the Board of Directors administers the Plans.

The purpose of the Plans is to further the long-term stability and financial success of Igene by attracting and retaining employees and consultants through the use of stock-based incentives, and to provide non-employee members of the Board of Directors with an additional incentive to promote the success of Igene. It is believed that ownership of Igene common stock will stimulate the efforts of those employees, consultants and non-employee directors upon whose judgment and interests Igene is and will be largely dependent for the successful conduct of its business. It is also believed that incentive awards granted to employees under these plans will strengthen their desire to remain employed with Igene and will further the identification of employees' interests with those of Igene.

Options are exercisable at such rates and times as may be fixed by the committee. Options also become exercisable in full upon (i) the holder's retirement on or after his 65th birthday, (ii) the disability or death of the holder, or (iii) under other circumstances as determined by the Committee. Options generally terminate on the tenth business day following cessation of service as an employee, director, consultant or independent contractor.

Options may be exercised by payment in full of the option price in cash or check, or by delivery of previously-owned shares of common stock having a total fair market value on the date of exercise equal to the option price, or by such other methods as permitted by the Committee.

The Plans contain anti-dilution provisions in the event of certain corporate transactions.

The Board of Directors may at any time withdraw from, or amend, the Plans and any options not heretofore granted. Stockholder approval is required to (i) increase the number of shares issuable under the Plans, (ii) increase the number of options which may be granted to any individual during a year, (iii) or change the class of persons to whom options may be granted. No options shall be granted under the 2001 Plan after April 30, 2011 and under the 1997 Plan after September 19, 2007. Igene previously maintained its 1986 Stock Option Plan, but additional options may no longer be granted under that plan.

Options to acquire 47,873,250 shares of common stock have been granted under the three Stock Option Plans and 44,845,000 options are still outstanding under the Plans as of December 31, 2006. 1,500,000 were granted during 2005, none were granted during 2006.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information as of March 14, 2007 with respect to beneficial ownership of shares of Igene's outstanding common stock and preferred stock by (i) each person known to Igene to own or beneficially own more than five percent of its common stock or preferred stock, (ii) each Director, and (iii) each officer named in the Summary Compensation Table provided in Part II Item 10 above, and (iv) all Directors and executive officers as a group.

Name and Address	Common Stock		Preferred Stock	
	Number of Shares	Percent *	Number of Shares	Percent
<u>Directors and officers</u>				
Joseph C. Abeles 220 E. 42nd Street New York, NY 10017	17,954,407 ¹	14.34	---	---
Stephen F. Hiu 9110 Red Branch Road Columbia, MD 21045	14,993,633 ²	12.17	---	---
Thomas L. Kempner 61 Broadway New York, NY 10006	145,085,648 ³	61.39	---	---
Michael G. Kimelman 100 Park Avenue New York, NY 10017	33,947,723 ⁴	23.90	---	---
Sidney R. Knafel 810 Seventh Avenue New York, NY 10019	142,977,554 ⁵	61.07	---	---
Patrick F. Monahan 9110 Red Branch Road Columbia, MD 21045	8,315,033 ⁶	7.13	---	---
Edward J. Weisberger 9110 Red Branch Road Columbia, MD 21045	4,570,000 ⁷	4.01	---	---
All Directors and Officers as a Group (8 persons)	369,343,999 ⁸	84.86	---	---
<u>Others</u>				
Fraydun Manocherian 3 New York Plaza New York, NY 10004	7,905,135 ⁹	7.20	---	---
Fermic	20,000,000	18.29	---	---

* Under the rules of the Securities and Exchange Commission, the calculation of the percentage assumes for each person that only that person's rights, warrants, options or convertible notes or preferred stock are exercised or converted, and that no other person exercises or converts outstanding rights, warrants, options or convertible notes or preferred stock.

1. Includes the following: 2,128,294 shares held directly or indirectly by Mr. Abeles, 6,723,701 shares issuable upon the conversion of \$311,663 of long-term notes issued by Igene, and 9,102,412 shares issuable upon exercise of warrants held by Mr. Abeles.

2. Includes the following: 1,148,633 shares held directly or indirectly by Mr. Hiu and 13,845,000 shares issuable pursuant to options held by Dr. Hiu that are currently exercisable.
3. Includes 386,972 shares and 536,920 shares issuable upon exercise of warrants held by Mr. Kempner that are currently exercisable. Also includes 8,843,771 shares held directly by Mr. Kempner, 19,479,919 shares issuable upon conversion of notes issued by Igene and held by Mr. Kempner, and 41,680,293 shares issuable upon exercise of warrants held by a trust under which Mr. Kempner is one of two trustees and the sole beneficiary, which are currently exercisable. Also includes 8,621,247 shares held directly by Mr. Kempner, 19,479,920 shares issuable upon the conversion of notes issued by Igene and held by Mr. Kempner and 41,561,125 shares issuable upon exercise of warrants held a trust under which Mr. Kempner is one of two trustees and one of his brothers is the sole beneficiary, which are currently exercisable. Also includes 2,040,296 shares issuable upon the conversion of \$79,200 of notes issued by Igene and held by Mr. Kempner and 2,079,411 shares issuable upon exercise of warrants held by trusts under which Mr. Kempner is one of two trustees and is a one-third beneficiary that are currently exercisable. Also includes 243,360 shares and 131,414 shares issuable upon exercise of warrants held by trusts under which Mr. Kempner is executer and is a one-third beneficiary that are currently exercisable.
4. Includes 1,264,360 shares held directly or indirectly by Mr. Kimelman, 14,000,000 shares issuable upon exercise of options currently exercisable, 1,430,341 shares issuable upon the conversion of \$63,070 of notes issued by Igene and held by Mr. Kimelman, and 17,253,022 shares issuable upon exercise of warrants held directly or indirectly by Mr. Kimelman.
5. Includes 18,190,551 shares, 39,819,509 shares issuable upon the conversion of notes issued by Igene and held by Mr. Knafel and 84,967,495 shares issuable upon the exercise of warrants owned or beneficially owned by Mr. Knafel that are currently exercisable.
6. Includes 1,047,533 shares held directly or indirectly by Mr. Monahan and 7,267,500 shares issuable upon the exercise of options held by Mr. Monahan that are currently exercisable.
7. Includes 70,000 shares held directly by Mr. Weisberger and 4,500,000 shares issuable upon exercise of options that are currently exercisable.
8. Includes 43,444,721 shares of common stock, 39,612,500 shares issuable upon exercise of options that are currently exercisable, 88,973,687 shares issuable upon the conversion of notes issued by Igene and 197,313,091 shares issuable upon the exercise of warrants that are currently exercisable.
9. Includes 7,375,935 shares of common stock owned directly or indirectly by Mr. Manocherian and 529,200 shares issuable upon the exercise of warrants owned directly or indirectly by Mr. Manocherian that are currently exercisable.

Equity Compensation Plan Information as of December 31, 2006

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column)
Equity compensation plans approved by security holders	44.8 million (1)	\$.059 (2)	27.387 million (3)

(1)	Total shares issued under employee stock option plan.
(2)	Exercise price of outstanding options under compensation plans.
(3)	All shares remaining issuable under employee option plan.

ITEM 13. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) The following financial statements relating to 2006 and 2005 are filed as a part of this Report:

Reports of Independent Registered Public Accounting Firm.

Consolidated Balance Sheet as of December 31, 2006.

Consolidated Statements of Operations for the years ended December 31, 2006 and 2005.

Consolidated Statements of Stockholders' Deficiency for the years ended December 31, 2006 and 2005.

Consolidated Statements of Cash Flows for the years ended December 31, 2006 and 2005.

Notes to Consolidated Financial Statements.

(a)(2) Exhibits filed herewith or incorporated by reference herein are set forth in the following table prepared in accordance with Item 601 of Regulations S-K.

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|------|--|
| 3.1 | Articles of Incorporation of the Registrant as amended to date, constituting Exhibit 3.1 to Registration Statement No. 333-41581 on Form SB-1 are hereby incorporated herein by reference. |
| 3.2 | By-Laws, constituting Exhibit 3.2 to the Registrant's Registration Statement No. 33-5441 on Form S-1, are hereby incorporated herein by reference. |
| 4.1 | Form of Variable Rate Convertible Subordinated Debenture Due 2002 (Class A), constituting Exhibit 4.4 to Registration Statement No. 33-5441 on Form S-1, is hereby incorporated herein by reference. |
| 4.2 | Indenture dated as of March 31, 1998 by and between the Registrant and American Stock Transfer and Trust Company, as Trustee, as amended by that First Amendment to Indenture, Securities, Warrant Agreement and Warrant Certificates dated as of March 18, 2003, as further amended by that Second Amendment to Indenture, Securities, Warrant Agent and Warrant Certificates dated as of March 28, 2006. |
| 4.3 | Warrant Agreement dated as of March 31, 1998 by and between the Registrant and American Stock Transfer and Trust Company, as Warrant Agent, as amended by that First Amendment to Indenture, Securities, Warrant Agreement and Warrant Certificates dated as of March 18, 2003, as further amended by that Second Amendment to Indenture, Securities, Warrant Agent and Warrant Certificates dated as of March 28, 2006. |
| 10.1 | Form of Conversion and Exchange Agreement used in May 1988 in connection with the conversion and exchange by certain holders of shares of preferred stock for common stock and Warrants, constituting Exhibit 10.19 to Registration Statement No. 33-5441 on Form S-1, is hereby incorporated herein by reference. |
| 10.2 | Exchange Agreement made as of July 1, 1988 between the Registrant and now Dow Chemical Company, Inc. (f.k.a. Essex Industrial Chemicals, Inc.), with respect to the exchange of 187,500 shares of preferred stock for a Debenture, constituting Exhibit 10.21 to Registration Statement No. 33-5441 on Form S-1, is hereby incorporated herein by reference. |
| 10.3 | Preferred Stockholders' Waiver Agreement dated May 5, 1988, incorporated herein by reference to the identically numbered exhibit in Form S-1 Registration Statement No. 33-23266. |
| 10.4 | Form of Agreement between the Registrant and Certain Investors in Preferred Stock dated September 30, 1987, incorporated herein by reference to the identically numbered exhibit in Amendment No. 1 to Form S-1 Registration Statement No. 33-23266. |

- 10.5 Letter Agreement executed May 11, 1995 between Archer Daniels Midland, Inc. and IGENE Biotechnology, Inc., along with November 11, 1995 Amendment, constituting Exhibit 10.11 to the Registrant's Report on Form 10-KSB for the year ended December 31, 1995 is incorporated herein by reference.
- 10.6 Agreement of Lease effected December 15, 1995 between Columbia Warehouse Limited Partnership and IGENE Biotechnology, Inc. constituting Exhibit 10.13 to the registrant's report on Form 10-KSB for the year ended December 31, 1995 is incorporated herein by reference.
- 10.7 Toll manufacturing agreement effective as of May 20, 2000 between Igene Biotechnology, Inc. and Fermic S.A. de C.V. constituting exhibit 10.7 to Igene's annual report on Form 10-KSB filed on April 2, 2001, is incorporated herein by reference. Portions of this exhibit have been omitted pursuant to a request for confidential treatment.
- 10.8 First amendment to lease made September 13, 2000 between Igene Biotechnology, Inc. and Red Branch Center, LLC constituting Exhibit 10.8 to Igene's annual report on Form 10-KSB filed on April 2, 2001, is incorporated herein by reference.
- 10.9 Consulting Agreement between Igene and Martin L. Gerson, Exhibit 10.9 to Igene's annual report on Form 10-KSB filed on March 28, 2003, is incorporated herein by reference.
- 10.10 Stock Purchase and Severance Agreement dated as of the 4th day of February 2003 among Igene, Fermtech AS, Stein Ulve and Per Benjaminsen, constituting Exhibit 10.10 to Igene's annual report on Form 10-KSB filed on March 28, 2003, is incorporated herein by reference.
- 10.11 Limited Guarantee dated as of June 15, 2005 for the benefit of The Royal Bank of Scotland in connection with £4,200,000 credit facility for Astaxanthin Manufacturing Limited.
- 21. Subsidiaries
 - Igene Chile Comercial, Ltda.
 - Igene Norway AS (divested pursuant to Stock Purchase and Severance Agreement dated February 4, 2003 attached hereto as Exhibit 10.10)
- 23.a. Consent of Berenson LLP
 - 31.1 Rule 13a-14(a) or 15d-14(a) Certification of the Company's principal executive officer filed herewith.
 - 31.2 Rule 13a-14(a) or 15d-14(a) Certification of the Company's principal financial officer filed herewith.
 - 32.1 Rule 13a-14(b) or 15d-14(b) Certification of the Company's principal executive officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Rule 906 of the Sarbanes-Oxley Act of 2002 filed herewith.
 - 32.2 Rule 13a-14(b) or 15d-14(b) Certification of the Company's principal financial officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Rule 906 of the Sarbanes-Oxley Act of 2002 filed herewith.

ITEM 14. PRINCIPAL ACCOUNTANTS FEES AND SERVICES

REGISTERED PUBLIC ACCOUNTANTS

The accounting firm of Berenson LLP, Certified Public Accountants, has been engaged to audit the books and accounts of the Company for the next fiscal year. Berenson LLP serviced as the Company's registered public auditor in 2006 and 2005. Berenson LLP has advised the Company that neither the accounting firm nor any of its members or associates has any direct financial interest in or any connection with the Company other than as independent public auditors.

AUDIT FEES AND SERVICES

The following table shows the fees paid or accrued by the Company for the audit and other services provided by Berenson LLP for fiscal years 2006 and 2005:

	FY 2006	FY 2005
	<hr/>	<hr/>
Audit Fees	\$ 100,844.00	\$ 90,000.00
Tax Fees	5,000.00	5,000.00
All Other Fees	0.00	0.00
	<hr/>	<hr/>
TOTAL	\$ 100,844.00	\$ 95,000.00

Audit services of Berenson LLP for fiscal years 2006 and 2005 consisted of the audit of the consolidated financial statements of the Company and quarterly reviews of financial statements. "Tax Fees" include charges primarily related to tax return preparation and tax consulting services. In 2003, the SEC adopted a rule pursuant to the Federal Sarbanes-Oxley Act of 2002 that, except with respect to certain *de minimis* services discussed below, requires Audit Committee pre-approval of audit and non-audit services provided by the Company's independent auditors. All of the 2006 services described above were pre-approved by the Audit Committee pursuant to this SEC rule to the extent that rule was applicable during fiscal year 2006.

The Audit Committee's policy is to pre-approve all audit and permitted non-audit services, except that *de minimis* non-audit services, as defined in Section 10A(i)(1) of the Exchange Act, may be approved prior to the completion of the independent auditor's audit. The Audit Committee has reviewed summaries of the services provided and the related fees and has determined that the provision of non-audit services is compatible with maintaining the independence of Berenson LLP.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee and Stockholders
IGENE Biotechnology, Inc.

We have audited the accompanying consolidated balance sheet of IGENE Biotechnology, Inc. and subsidiary as of December 31, 2006, and the related consolidated statements of operations, stockholders' deficiency and cash flows for the years ended December 31, 2006 and 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IGENE Biotechnology, Inc. and subsidiary as of December 31, 2006, and the results of their operations and their cash flows for the years ended December 31, 2006 and 2005, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 13 to the consolidated financial statements, the Company's recurring losses, and limited capitalization raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/S/ BERENSON LLP

BERENSON LLP

New York, New York

March 8, 2007 (except for note 5, as to which the date is March 29, 2007)

IGENE Biotechnology, Inc. and Subsidiary
Consolidated Balance Sheet
December 31, 2006

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 21,786
Prepaid expenses and other current assets	<u>14,093</u>
TOTAL CURRENT ASSETS	35,879

Property and equipment, net	33,571
Investment in and advances to unconsolidated joint venture	---
Other assets	<u>5,125</u>
TOTAL ASSETS	<u>\$ 74,575</u>

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 210,424
Convertible debenture	705,000
Accrued interest	<u>46,570</u>
TOTAL CURRENT LIABILITIES	961,994

LONG-TERM DEBT

Notes payable	5,842,267
Convertible Debentures	3,814,212
Accrued interest	5,655,830

REDEEMABLE PREFERRED STOCK

Carrying amount of redeemable preferred stock, 8% cumulative, convertible, voting, series A, \$.01 par value per share. Stated value \$19.68 per share. Authorized 1,312,500 shares; issued and outstanding 11,134 shares. Redemption amount \$219,117.	<u>219,117</u>
TOTAL LIABILITIES	<u>16,493,420</u>

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' DEFICIENCY

Common stock -- \$.01 par value per share. Authorized 750,000,000 shares; issued and outstanding 109,337,072 shares	1,093,371
Additional paid-in capital	25,659,696
Accumulated Deficit	<u>(43,171,912)</u>
TOTAL STOCKHOLDERS' DEFICIENCY	<u>(16,418,845)</u>

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	<u>\$ 74,575</u>
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The accompanying notes are an integral part of the consolidated financial statements.

IGENE Biotechnology, Inc. and Subsidiary
Consolidated Statements of Operations

	Years ended December 31,	
	<u>2006</u>	<u>2005</u>
EQUITY IN LOSS OF JOINT VENTURE	\$ (109,147)	\$ (374,527)
<u>OPERATING EXPENSES</u>		
Marketing and selling	98,240	282,451
Research, development and pilot plant	847,598	819,782
General and administrative	1,022,051	805,054
Less expenses reimbursed by Joint Venture	<u>(1,660,519)</u>	<u>(1,830,198)</u>
TOTAL OPERATING EXPENSES	<u>307,370</u>	<u>77,089</u>
OPERATING LOSS	(416,517)	(451,616)
LOSS ON DISPOSAL	---	(106,150)
OTHER INCOME	14,535	---
INTEREST EXPENSE (net of interest income of \$77,982 for 2006, \$0 for 2005)	<u>(753,791)</u>	<u>(857,013)</u>
NET LOSS	<u>\$ (1,155,773)</u>	<u>\$ (1,414,779)</u>
BASIC AND DILUTED NET LOSS PER COMMON SHARE	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>

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

IGENE Biotechnology, Inc. and Subsidiary
Consolidated Statements of Stockholders' Deficiency
Years ended December 31, 2006 and 2005

	Common Stock		Additional	Accumulated	Total
	# Shares	Amount	Paid-in Capital	Deficit	Stockholders' Deficiency
BALANCE AT JANUARY 1, 2005	101,732,453	\$ 1,017,325	\$ 25,138,748	\$ (40,601,360)	\$ (14,445,287)
Re-issuance of shares held in escrow related to sale of ProBio	1,000,000	10,000	32,000	---	42,000
Shares issued for manufacturing agreement	4,724,416	47,244	274,702	---	321,946
Net loss for 2005	---	---	---	(1,414,779)	(1,414,779)
BALANCE AT December 31, 2005	107,456,869	1,074,569	25,445,450	(42,016,139)	(15,496,120)
Conversion of redeemable preferred stock into common stock	14,750	148	141,452	---	141,600
Conversion of warrants	7,884	79	709	---	788
Shares issued to VP of Manufacturing	1,000,000	10,000	40,000	---	50,000
Shares issued for employee stock incentive program	312,000	3,120	7,180	---	10,300
Shares issued for manufacturing agreement	545,569	5,455	24,905	---	30,360
Net loss for 2006	---	---	---	(1,155,773)	(1,155,773)
BALANCE AT December 31, 2006	<u>109,337,072</u>	<u>\$ 1,093,371</u>	<u>\$ 25,659,696</u>	<u>\$ (43,171,912)</u>	<u>\$ (16,418,845)</u>

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

IGENE Biotechnology, Inc. and Subsidiary
Consolidated Statements of Cash Flows

	<u>Years ended</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net loss	\$ (1,155,773)	\$ (1,414,779)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	16,488	18,695
Loss on disposal of equipment	---	56,150
Loss on receivable from disposal of equipment	---	50,000
Issuance of shares to Fermtech per ProBio agreement	---	42,000
Issuance of common stock for VP of Manufacturing	50,000	---
Manufacturing cost paid in shares of common stock	30,360	321,946
Increase in preferred stock for cumulative dividend		
Classified as interest	8,306	11,846
Equity in loss of unconsolidated joint venture	109,147	374,527
Decrease (increase) in:		
Accounts receivable	14,619	65,009
Prepaid expenses and other assets	27,419	(9,756)
Increase (decrease) in:		
Accounts payable and other accrued expenses	899,534	774,386
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>100</u>	<u>290,024</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Advances to Joint Venture	(109,147)	(374,527)
NET CASH USED IN INVESTING ACTIVITIES	<u>(109,147)</u>	<u>(374,527)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from exercise of employee stock options	10,300	---
Repayment from exercise of warrants	788	---
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>11,088</u>	<u>---</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(97,959)	(84,503)
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	<u>119,745</u>	<u>204,248</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u>\$ 21,786</u>	<u>\$ 119,745</u>
<u>SUPPLEMENTARY DISCLOSURE AND CASH FLOW INFORMATION</u>		
Cash paid during the year for interest	\$ 35,250	\$ 91,594
Cash paid during the year for income taxes	---	---

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

IGENE Biotechnology, Inc. and Subsidiary
Notes to Consolidated Financial Statements
Years ended December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies

Nature of Operations

Igene Biotechnology, Inc. ("Igene") was incorporated under the laws of the State of Maryland on October 27, 1981 as "Industrial Genetics, Inc." Igene changed its name to "IGI Biotechnology, Inc." on August 17, 1983 and to "Igene Biotechnology, Inc." on April 14, 1986. Igene is located in Columbia, Maryland and is engaged in the business of industrial microbiology and related biotechnologies. Igene has an operational subsidiary in Chile and through February 2003 had a subsidiary in Norway. Igene is engaged in the business of developing, marketing, and manufacturing specialty ingredients for human and animal nutrition. Igene was formed to develop, produce and market value-added specialty biochemical products. Igene is a supplier of natural astaxanthin, an essential nutrient in different feed applications and a source of pigment for coloring farmed salmon species. Igene is also venturing to supply astaxanthin as a nutraceutical ingredient. Igene is focused on fermentation technology, pharmacology, nutrition and health in its marketing of products and applications worldwide.

Igene has devoted its resources to the development of proprietary processes to convert selected agricultural raw materials or feedstocks into commercially useful and cost effective products for the food, feed, flavor and agrochemical industries. In developing these processes and products, Igene has relied on the expertise and skills of its in-house scientific staff and, for special projects, various consultants.

In an effort to develop a dependable source of production, on March 18, 2003, Tate and Lyle and Igene announced a 50:50 joint venture to produce AstaXin® for the aquaculture industry. Production utilizes Tate & Lyle's fermentation capability together with the unique technology developed by Igene. Part of Tate & Lyle's existing Selby, England, citric acid facility was modified to include the production of 1,500 tons per annum of astaxanthin. Tate & Lyle's investment of approximately \$25 million includes certain of its facility assets that were previously used in citric acid production.

Principles of Consolidation

The accounts of our other wholly-owned subsidiary, Igene Chile, are included in the consolidation of these financial statements. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and cash equivalents

Igene considers cash equivalents to be short-term, highly liquid investments that have original maturities of less than 90 days. These include interest bearing money market accounts.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from the outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based upon its assessment of the current collection status of individual accounts. Delinquent amounts that are outstanding after management has conducted reasonable collection efforts, are written off through a charge to the valuation allowance and a credit to accounts receivable. During 2005 assets were sold for less than the initial agreed upon price with the distributor and the \$50,000 balance remaining was written off.

IGENE Biotechnology, Inc. and Subsidiary
Notes to Consolidated Financial Statements
Years ended December 31, 2006 and 2005

Investment in and advances to unconsolidated joint venture

The investment in the Joint Venture is accounted for under the equity method whereby the Company's 50% ownership percentage in the Joint Venture is reflected as an asset in the consolidated balance sheet and the changes in the Joint Venture's equity as a result of its operations is reflected in the Company's consolidated statement of operations. The Company evaluates its investment in the Joint Venture for impairment, as it does for all long term assets. The Company can not recognize the loss of the Joint Venture beyond its investment in and advances to the Joint Venture or the amount of debt guaranteed by Igene, if any. This excess loss, and all future losses incurred as a result of the Joint Venture, that are in excess of the Company's investment and advances, are suspended until the point that the profits of the Joint Venture, if any, exceed the incurred losses. The accounting policies followed by the Joint Venture are in conformity with accounting principles generally accepted in the United States of America.

On June 15th 2005, the Company executed a limited guarantee for one of the debt obligations of the Joint Venture. Under the terms of the limited guarantee, the Company has agreed to guarantee up to 4,200,000 British Pounds sterling (approximately \$8,237,000 at February 28, 2007). The Company subsequently entered into an agreement with Tate & Lyle (the other 50% partner in the Joint Venture) whereby Tate & Lyle has agreed to arrange funds for the Joint Venture, without recourse to Igene, until the Joint Venture produces a regular monthly cash flow, as defined, for four consecutive months. The Joint Venture has not met the cash flow requirements. The Company has subsequently received a full release from the guarantee.

Research and development costs

For financial reporting purposes, research, development and pilot plant scale-up costs are charged to expense as incurred.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization computed using the straight-line method. Premises and equipment are depreciated over the useful lives of the assets, which generally range from three to ten years for furniture, fixtures and equipment, three to five years for computer software and hardware. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. The cost of major renewals and betterments are capitalized, while the costs of ordinary maintenance and repairs are expensed as incurred.

Estimates

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

Foreign Currency Translation and Transactions

Since the day-to-day operations of Igene's foreign subsidiary in Chile are dependent on the economic environment of the parent's currency, the financial position and results of operations of Igene's foreign subsidiary are determined using Igene's reporting currency (US dollars) as the functional currency. All exchange gains and losses from remeasurement of monetary assets and liabilities that are not denominated in US dollars are recognized currently in income. The gains are due to large fluctuations in the Chilean Peso.

IGENE Biotechnology, Inc. and Subsidiary
Notes to Consolidated Financial Statements
Years ended December 31, 2006 and 2005

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and short-term debt approximate fair value because of the relatively short maturity of these instruments. Management believes the carrying amount of long-term debt approximates fair value because of similar current rates at which Igene could borrow funds with consistent remaining maturities.

Accounting for stock based compensation

Prior to January 1, 2006, the Company accounted for its stock based compensation plans under the recognition and measurement principles of APB opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. No stock option based employee compensation cost is reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and disclosure provisions of SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", to stock-based employee compensation for the year ended December 31, 2005:

	<u>2005</u>
Net loss, as reported	\$ (1,414,779)
Pro forma stock-based employee compensation expense determined under fair value based method net of related tax effects	<u>(38,677)</u>
Pro forma net loss	<u>\$ (1,453,456)</u>
Net loss per Share:	
Basic – as reported	\$ (0.01)
Basic – pro forma	\$ (0.01)
Diluted – as reported	\$ (0.01)
Diluted – pro forma	\$ (0.01)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants during the year ended December 31, 2005:

	<u>2005</u>
Dividend yield	---
Expected volatility	136.00%
Risk-free interest rate	4.63%
Expected lives in years	10
Fair value of options granted	\$ 0.027

New accounting pronouncements

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154"), which replaces APB Opinion No. 20 Accounting Changes and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements-An Amendment of APB Opinion No. 28." SFAS 154 requires retrospective application to prior periods' financial statement of a voluntary change in accounting principal unless it is not practical. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, and is required to be adopted by the Company in the first

IGENE Biotechnology, Inc. and Subsidiary
Notes to Consolidated Financial Statements
Years ended December 31, 2006 and 2005

quarter of fiscal 2007. Although the Company will continually evaluate its accounting policies, management does not currently believe adoption will have a material impact on the Company's results of operations, cash flows or financial position.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards Number 157 - Fair Value Measurements ("SFAS157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements.

Prior to SFAS 157, there were different definitions of fair value and limited guidance for applying those definitions in GAAP. Moreover, that guidance was dispersed among the many accounting pronouncements that require fair value measurements. SFAS 157 clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability.

SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact, if any, that SFAS 157 will have on its financial position, results of operations and cash flows.

In June 2006, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standards Board Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109." FIN No. 48 provides a comprehensive model for the recognition, measurement and disclosure in the financial statements of uncertain tax positions taken or expected to be taken on a tax return. The Company will adopt FIN No. 48 effective beginning on January 1, 2007. The Company is currently evaluating the impact this interpretation may have on its future financial position, results of operations, earnings per share, or cash flows.

In September 2006, the Securities and Exchange Commission issued SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." SAB No. 108 was issued to address diversity in practice in quantifying financial statement misstatements. Current practice allows for the evaluation of materiality on the basis of either (1) the error quantified as the amount by which the current year income statement was misstated ("rollover method") or (2) the cumulative error quantified as the cumulative amount by which the current year balance sheet was misstated ("iron curtain method"). The guidance provided in SAB 108 requires both methods to be used in evaluating materiality ("dual approach"). SAB No. 108 permits companies to initially apply its provisions either by (1) restating prior financial statements as if the dual approach had always been used or (2) recording the cumulative effect of initially applying the "dual approach" as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. There were no matters warranting the Company's consideration under the provisions of SAB No. 108 and, therefore, it did not have an impact on the Company's financial position, results of operations, earnings per share or cash flows.

(2) Non-cash investing and financing activities:

During 2006, 7,375 shares of redeemable preferred stock, with a recorded aggregate value of \$141,600, were converted into 14,750 shares of common stock. This included the 8% Cumulative Convertible Preferred Stock, Series B and has relieved the Company of this amount of long-term debt.

During the course of 2006 and 2005, Fermic, Igene's manufacturing agent, earned 545,569 and 4,724,416 shares, respectively, of common stock as part of the manufacturing agreement. Fermic earned 2,250 shares

IGENE Biotechnology, Inc. and Subsidiary
Notes to Consolidated Financial Statements
Years ended December 31, 2006 and 2005

of common stock for each kilogram pure astaxanthin produced and delivered as part of the agreement. The average price is based on the market value of the shares at the time the product was produced. Fermic has earned all 20,000,000 shares available under the contract. The 545,569 shares were earned at an average price of \$.056 per share for 2006, and 4,724,416 shares were earned at an average price of \$.068 per share for 2005.

During 2006, 312,000 shares of common stock were issued as part of employee stock option exercises. The Company received \$10,300 based on an average exercise price of \$.033 per share.

During 2006, 7,884 warrants were exercised for \$788. 7,884 new shares of common stock were issued pursuant to the exercise.

During 2006, 1,000,000 shares of common stock were issued to the Joint Venture's new Vice President of Manufacturing as part of his agreement in accepting the position. The cost was expensed at a cost of \$.05 per share or \$50,000.

During 2006 and 2005, Igene recorded dividends in arrears on its 8% Redeemable Preferred Stock, Series A at \$.64 per share aggregating \$8,306 and \$11,846 respectively, on such preferred stock which has been removed from paid-in capital and included in the carrying value of the redeemable preferred stock. (see also note 9).

(3) Concentration of Credit Risk

The Joint Venture is potentially subject to the effects of a concentration of credit risk in accounts receivable. Accounts receivable is substantially composed of receivables from customers in Chile, which is an important market for Igene's product, AstaXin®. Chile has from time to time experienced political unrest and currency instability. Because of the volume of business transacted by the Joint Venture in Chile, recurrence of such unrest or instability could adversely affect the businesses of its customers in Chile or the Joint Venture's ability to collect its receivables from these customers. In order to minimize risk, the Joint Venture strictly evaluates the companies to which it extends credit and all prices are denominated in US dollars so as to minimize currency fluctuation risk. Losses due to credit risks in accounts receivable are expected to be immaterial.

(4) Property and Equipment

Property and equipment are stated at cost and are summarized as follows:

Laboratory equipment and fixtures	\$ 181,042
Pilot plant equipment and fixtures	91,503
Office furniture and fixtures	<u>36,990</u>
	309,535
Less accumulated depreciation	<u>(275,964)</u>
	<u>\$ 33,571</u>

(5) Investment in Joint Venture

On March 18 2003, the Company entered into a Joint Venture Agreement with Tate & Lyle Fermentation Products Ltd. ("Tate"). Pursuant to a Joint Venture Agreement, the Company and Tate agreed to form a joint venture (the "Joint Venture") to manufacture, market and sell Astaxanthin and derivative products throughout the world for all uses other than as a nutraceutical or otherwise for direct human consumption. Tate contributed \$24,600,000 in cash to the Joint Venture, while the Company transferred to the Joint Venture its technology relating to the production of astaxanthin and assets related thereto. These assets

IGENE Biotechnology, Inc. and Subsidiary
Notes to Consolidated Financial Statements
Years ended December 31, 2006 and 2005

continue to be used by the Joint Venture in the same manner as historically used by the Company. The Company and Tate each have a 50% ownership interest in the Joint Venture and equal representation on the Board of Directors of the Joint Venture. The value of the Company's initial investment in the Joint Venture has been recorded at an amount equal to Igene's historical book value. As the cost of the Company's technology and intellectual property has been previously expensed and has a carrying amount of zero, the investment in the Joint Venture was originally recorded with a book value of \$316,869, which represents the unamortized production costs contributed to the Joint Venture. The Company also contributed \$6,000 to the capital of the Joint Venture.

Production utilizes Tate's fermentation capability together with the unique technology developed by Igene. Part of Tate's existing Selby, England, citric acid facility was modified to produce up to 1,500 tons per annum of this astaxanthin. Tate's investment of approximately \$25 million includes certain of its facility assets previously used in citric acid production. Sales and cost of sales activity are now recorded as part of the earnings of the unconsolidated venture.

As a result of the Joint Venture, the production, sales and marketing of astaxanthin now take place in the unconsolidated Joint Venture. From inception on March 18, 2003 through December 31, 2006, the Joint Venture's results of operations included the following: Gross profit from inception was a negative \$15,165,979 on sales of \$27,772,879, less manufacturing cost of \$42,938,858. Selling and general and administrative expenses were \$13,090,287, and interest expense was \$3,588,534. The resulting loss was \$31,844,800. Igene's 50% portion of the Joint Venture loss was \$15,922,400.

Because the Company accounts for its investment in the Joint Venture under the equity method of accounting, it would ordinarily recognize a loss representing its 50% equity interest in the loss of the Joint Venture or the amount that is guaranteed by the Company, if any. However, losses in the Joint Venture are recognized only to the extent of the investment in and advances to the Joint Venture. Losses in excess of this amount are suspended from recognition in the financial statements and are carried forward to offset Igene's share of the Joint Venture's future income, if any.

On June 15, 2005, the Company executed a limited guarantee for one of the debt obligations of the Joint Venture. Under the terms of the limited guarantee, the Company will guarantee up to 4,200,000 British Pounds sterling (approximately \$8,237,000 at February 28, 2007). The Company subsequently entered into an agreement with Tate & Lyle (the other 50% partner in the Joint Venture) where Tate & Lyle has agreed to arrange funds for the Joint Venture, without recourse to Igene Biotechnology, Inc., until the Joint Venture produces a regular monthly cash flow, as defined, for four consecutive months. The Joint Venture has not met the cash flow requirements. The Company has subsequently received a full release from the guarantee.

At December 31, 2006, prior to the recognition of its portion of the Joint Venture loss, Igene's investment in the Joint Venture consisted of \$322,869 and its net advances to the Joint Venture amounted to \$1,169,112, for a total of \$1,491,981. For the year ended December 31, 2005, Igene recognized \$374,527 of its share of a \$5,931,049 loss. For the year ended December 31, 2006, Igene recognized losses to the extent of the increase in advances of \$109,147. The remainder of approximately 5 million, is suspended and will be carried forward to offset Igene's share of earnings from the Joint Venture, if any. The balance in the advances to and investment in Joint Venture account on the Company's financial statements is zero at December 31, 2006.

IGENE Biotechnology, Inc. and Subsidiary
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The following schedules display certain account balances of the Joint Venture as of December 31, 2006 and for the period since March 18, 2003 (inception):

	December 31, <u>2006</u> (Unaudited)
ASSETS	
CURRENT ASSETS	
Cash	\$ 2,612,000
Accounts Receivable	2,524,000
Inventories	<u>11,469,000</u>
	16,605,000
 Fixed Assets	 20,519,000
Intellectual property	<u>24,614,000</u>
TOTAL ASSETS	<u>\$ 61,738,000</u>

LIABILITIES AND EQUITY

CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 30,123,000
Working capital loan	<u>11,752,000</u>
TOTAL LIABILITIES	41,875,000
Equity	<u>19,863,000</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 61,738,000</u>

	Period from initial investment to <u>December 31, 2006</u> (unaudited)
Net Sales	\$ 27,772,879
Less: manufacturing cost	<u>(42,938,858)</u>
Gross Profit (Loss)	(15,165,979)
Less: selling, general and administrative	<u>(13,090,287)</u>
Operating Loss	(28,256,266)
Interest Expense	<u>(3,588,534)</u>
Net Loss	<u>\$ (31,844,800)</u>
Igene's 50% equity interest in the net loss	\$ (15,922,400)
Igene's Investment in and Advances to the Joint Venture	<u>\$ (1,491,981)</u>
Igene's suspended loss	<u>\$ (14,430,419)</u>

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The following schedule displays certain account balances of the Joint Venture for the years ended December 31, 2006 and 2005. As shown, 50% of the activity is recorded as equity in loss of Joint Venture:

	Year Ended <u>December 31, 2006</u>	Year Ended <u>December 31, 2005</u>
Net Sales	\$ 10,027,656	\$ 10,961,223
Less: manufacturing cost	<u>(14,165,042)</u>	<u>(17,633,816)</u>
Gross Profit (Loss)	(4,137,386)	(6,672,593)
Less: selling, general and admin	<u>(3,874,710)</u>	<u>(3,947,577)</u>
Operating Loss	(8,012,096)	(10,620,170)
Interest Expense	<u>(2,195,607)</u>	<u>(1,241,927)</u>
Loss before tax	<u>\$ (10,207,703)</u>	<u>\$ (11,862,097)</u>
50% equity interest Igene	<u>\$ (5,103,852)</u>	<u>\$ (5,931,049)</u>
Igene's additional Investment in and Advances to the Joint Venture	<u>\$ (109,147)</u>	<u>\$ (374,527)</u>
Igene's incremental suspended loss	<u>\$ (4,994,705)</u>	<u>\$ (5,556,522)</u>

As a result of the Joint Venture, the production, sales and marketing of Astaxanthin now take place in the unconsolidated Joint Venture. For the years ended 2006 and 2005, Igene's portion of the Joint Venture loss was \$5,103,852 and \$5,931,049, respectively.

On March 29, 2007 the Company was informed by their 50% partner in the Joint Venture, Tate and Lyle, that they determined to write down their portion of the investment in the Joint Venture. There has been no impairment charge reflected by the Joint Venture as of December 31, 2006. During the first quarter of 2007, the Joint Venture will make its annual impairment assessment and any necessary write-downs will be recorded at that time.

(6) Convertible Debentures

On July 17, 2002, Igene issued and sold \$300,000 in aggregate principal amount of 8% convertible debentures, 50% each to certain directors of Igene. These debentures are convertible into shares of Igene's common stock at \$.03 per share based on the market price of Igene's shares at the time the debentures were agreed to. In consideration of the commitment to purchase the 8% convertible debenture, these directors also received an aggregate of 10,000,000 warrants to purchase common stock at \$.03 per share. These debentures, if not converted earlier, become due on July 17, 2012.

On February 22, 2002, Igene issued and sold \$1,000,000 in aggregate principal amount of 8% convertible debentures, 50% each to certain directors of Igene. These debentures are convertible into shares of Igene's common stock at \$.04 per share based on the market price of Igene's shares at the time the debentures were agreed to. In consideration of the commitment to purchase the 8% convertible debenture, these directors also received an aggregate of 25,000,000 warrants to purchase common stock at \$.04 per share. These debentures, if not converted earlier, become due on February 22, 2012.

In March 2001, Igene issued \$1,014,211 of 8%, 10-year, convertible debentures to certain directors of Igene in exchange for the cancellation of \$800,000 of demand notes payable (including accrued interest of \$14,212) and \$200,000 in cash. \$600,000 of these demand notes were issued during 2000 and \$200,000 were issued subsequently. These debentures are convertible into 10,142,110 shares of Igene's common stock at \$.08 per share. These directors also received 10,142,110 warrants to purchase common stock at \$.08 per share. Interest is payable at maturity.

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In March 2001, certain directors of Igene also committed to provide additional funding in the form of 8%, 10-year, convertible debentures in the amount of \$1,500,000. In consideration of this commitment, these directors also received 18,750,000 warrants to purchase common stock at \$.08 per share. These debentures are convertible into 18,750,000 shares of Igene's common stock at \$.08 per share. Interest is payable at maturity.

In December 2001, Igene issued \$1,000,000 of 6%, 3-year convertible debentures in connection with the purchase of ProBio, now known as Igene Norway AS. These convertible debentures are convertible into the Company's stock at a price of \$.10 per share, 10,000,000 shares in total. Accrued interest on this note is due every six months. Of these \$295,000 have been converted to common stock. These notes have been repaid in full as of February 23, 2007 (see note 17).

Convertible debentures are summarized as follows as of December 31, 2006:

	<u>Principal</u>	<u>Accrued Interest</u>
8%, 10-year, convertible debenture issued 7/17/02	\$ 300,000	\$ 106,718
8%, 10-year, convertible debenture issued 2/22/02	1,000,000	384,877
8%, 10-year, convertible debenture issued 3/1/01	1,014,212	473,137
8%, 10-year, convertible debenture issued 3/27/01	1,500,000	654,180
10%, 3-year, convertible debenture issued 11/30/01	<u>705,000</u>	<u>46,570</u>
	\$4,519,212	\$1,665,482
Less current maturities	<u>(705,000)</u>	<u>(46,570)</u>
	<u>\$3,814,212</u>	<u>\$1,618,912</u>

(7) Notes Payable

This long term debt, approximately \$5,800,000 which was scheduled to become payable in March 2003, had been extended to be due March 2006. It has been extended a second time to be due March 2009. Management felt any attempts to satisfy the debt on it's original due date would have had materially adverse effects on the Company.

As a part of the terms of the first extension of the debt, the exercise prices of the warrants and any conversion features were discounted by 25%, thus a \$.10 warrant is now convertible at \$.075 cents. As part of the terms of the second extension of the debt, the exercise prices of the warrants and any conversion features were discounted again by 25%, thus a \$.075 warrant is now convertible at \$.056 cents.

Beginning November 16, 1995 and continuing through May 8, 1997, Igene issued promissory notes to certain directors for aggregate consideration of \$1,082,500. These notes specify that at any time prior to repayment the holder has the right to convert the notes to common stock of Igene at prices ranging from \$0.05 per share to \$0.135 per share, based on the market price of common shares at the respective issue dates. The notes were convertible in total into 13,174,478 shares of common stock. As a result of the extensions they are now convertible into 23,421,273 shares of common stock. Concurrently, with each of the \$1,082,500 of promissory notes, the holders also received 13,174,478 warrants for an equivalent number of shares at the equivalent price per share. The warrants expire ten years from the date of issue of the notes. As a result of the extension of debt the warrant exercise prices were reduced by 25%. These notes were modified in conjunction with the 1998 rights offering to be due on March 31, 2003, and have been extended to March 31, 2009 as part of the extension. The notes bear interest at the prime rate.

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As part of the rights offering in March 1998, Igene issued \$5,000,000 of its 8% Notes due March 31, 2003 and 50,000,000 warrants to purchase one share of common stock at an exercise price of \$0.10 per share expiring March 31, 2008. The maturity date of these notes had been extended to March 31, 2006, and the exercise price reduced to \$.075 per share. The maturity date of these notes have again been extended to March 31, 2009, and the exercise price reduced to \$.056 per share.

Notes Payable are summarized as follows as of December 31, 2006:

	<u>Principal</u>	<u>Accrued Interest</u>
Long-term unsecured notes payable, bearing interest at prime, scheduled to mature March 31, 2003, extended to March 31, 2009, convertible into common stock	\$ 1,082,500	\$ 702,734
Long-term unsecured notes payable, bearing interest at 8%, scheduled to mature March 31, 2003, extended to March 31, 2009	4,759,767	3,334,184
	<u>\$ 5,842,267</u>	<u>\$ 4,036,918</u>

Combined aggregate amounts of maturities for all convertible debentures and notes payable are as follows:

<u>Year</u>	<u>Amount</u>
2007	\$ 705,000
2008	---
2009	5,842,267
2010	---
2011	2,514,212
2012	1,300,000

(8) Redeemable Preferred Stock

Each share of redeemable preferred stock is entitled to vote on all matters requiring shareholder approval as one class together with holders of common stock. Each share of redeemable preferred stock is entitled to two votes and each share of common stock is entitled to one vote.

Redeemable preferred stock is convertible at the option of the holder at any time, unless previously redeemed, into shares of Igene's common stock at the rate of two shares of common stock for each share of preferred stock (equivalent to a conversion price of \$4.00 per common share), subject to adjustment under certain conditions.

Shares of redeemable preferred stock are redeemable for cash in whole or in part at the option of Igene at any time at the stated value plus accrued and unpaid dividends to the redemption date. Dividends are cumulative and payable quarterly on January 1, April 1, July 1 and October 1, since January 1, 1988.

Mandatory redemption of Series A preferred stock was to be made in October 2002. As Igene is operating at a negative cash flow and negative earnings, Maryland law does not allow for the redemption of these shares. As such they will remain outstanding and continue to accrue dividends until such time as Igene is able to undertake redemption, though there can be no assurance this will develop. Igene does not expect to be able to redeem the Series A preferred stock unless, after giving effect to such redemption (a) the Company would be able to pay its indebtedness in the usual course of business and (b) the Company's total

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assets would be greater than the sum of its total liabilities plus the amount that would be needed if the Company were to be dissolved as of the time of the distribution, to satisfy the preferential rights upon dissolution of stockholders whose preferential rights on dissolution are superior to those receiving the distribution.

In December 1988, as part of an overall effort to contain costs and conserve working capital, Igene suspended payment of the quarterly dividend on its preferred stock. Resumption of the dividend will require significant improvements in cash flow. Unpaid dividends cumulate for future payment or addition to the liquidation preference or redemption value of the preferred stock. As of December 31, 2006, total dividends in arrears on Igene's preferred stock equal \$130,045 (or \$11.68 per share) on Igene's Series A and are included in the carrying value of the redeemable preferred stock.

(9) Stockholders' Equity

Options

In June of 2001, the stockholders approved the 2001 Stock Option Plan (the "2001 Plan"), which succeeds the 1997 Stock Option Plan (the "1997 Plan"), which succeeded Igene's 1986 Stock Option Plan (the "1986 Plan"), as amended. All outstanding, unexercised options granted under the 1997 and 1986 Plans remain outstanding with unchanged terms. The number of shares authorized for issuance under the 2001 Plan is 55,000,000. This is in addition to the 20,000,000 shares authorized for issuance under the 1997 Plan, and the 2,000,000 shares authorized for issuance under the 1986 Plan.

The following is a summary of options granted and outstanding under the plans as of December 31, 2006 and 2005:

	<u>2006</u>		<u>2005</u>	
	<u>Number</u>	<u>Weighted Average Exercise Price</u>	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Options outstanding and exercisable, beginning of year	48,427,750	\$.061	46,927,750	\$.061
Options granted	---	---	1,500,000	\$.027
Options exercised	312,000	\$.033	---	---
Options forfeited, or withdrawn with consent of holders	1,600,000	\$.100	---	---
Options expired	<u>1,670,750</u>	<u>\$.050</u>	<u>---</u>	<u>---</u>
Options outstanding and exercisable, end of year	<u>44,845,000</u>	<u>\$.059</u>	<u>48,427,750</u>	<u>\$.061</u>

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Options Outstanding

<u>Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Remaining Life (Years)</u>
\$.025	16,333,000	5.6
\$.027	1,500,000	8.9
\$.050	1,500,000	2.8
\$.050	3,837,500	3.0
\$.050	2,500,000	4.9
\$.065	45,000	4.0
\$.080	5,500,000	4.8
\$.100	10,389,500	7.5
\$.100	<u>3,240,000</u>	1.3
\$.059	<u>44,845,000</u>	

Warrants

The following table summarizes warrants issued, outstanding and exercisable:

	<u>As of December 31,</u>	
	<u>2006</u>	<u>2005</u>
Issued	205,261,073	205,261,073
Outstanding	205,261,073	205,261,073
Exercisable	205,261,073	205,261,073

Common Stock

At December 31, 2006, 205,261,073 shares of authorized but unissued common stock were reserved for issuance upon exercise of outstanding warrants, 44,845,000 shares of authorized but unissued common stock were reserved for exercise pursuant to the 1997 and 2001 Stock Option Plans, 22,268 shares of authorized but unissued common stock were reserved for issuance upon conversion of Igene's outstanding preferred stock, and 96,898,924 shares of authorized but unissued stock were reserved for issuance upon conversion of outstanding convertible notes.

Preferred Stock

As of December 31, 2006, total dividends in arrears on Igene's preferred stock equal \$130,045 (or \$11.68 per share) on Igene's Series A preferred stock and are included in the carrying value of the Series A preferred stock.

(10) Net Loss Per Common Share

Net loss per common share for 2006 and 2005 is based on 108,387,454 and 103,384,377 weighted average shares, respectively. For purposes of computing net loss per common share, the amount of net loss has been increased by dividends declared and cumulative undeclared dividends in arrears on preferred stock.

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Common stock equivalents, including: options, warrants, convertible debt, convertible preferred stock, and exercisable rights have not been included in the computation of earnings per share in 2006 and 2005 because to do so would have been anti-dilutive. However, these common stock equivalents could have potentially dilutive effects in the future.

(11) Commitments

Igene is obligated for office and laboratory facilities and other rentals under operating lease agreements, which expire in 2011. The base annual rentals are approximately \$98,000, increasing to \$106,000 by the end of the lease term, plus the Company's share of taxes, insurance and other costs. Annual rent expense relating to the leases for the years ended December 31, 2006 and 2005 approximated \$118,600 and \$113,400, respectively.

Future minimum rental payments, in the aggregate and for each of the next five years are as follows:

<u>Year</u>	<u>Amount</u>
2007	\$ 98,000
2008	101,000
2009	103,000
2010	106,000
2011	<u>9,000</u>
Total	<u>\$417,000</u>

Effective May 20, 2000, Igene signed an exclusive manufacturing agreement with Fermic, S.A. de C.V. ("Fermic"), of Mexico City, Mexico, for the production of AstaXin®. The Fermic contract provides that the manufacturer has a limited exclusive right to produce AstaXin® and is paid a monthly fee in cash, which is based on manufacturing capacity, plus shares of Igene common stock based on production quantities. Fermic provides equipment and facilities necessary to manufacture and store the product and is responsible for purchasing raw materials. The Joint Venture is responsible for sales efforts and for ensuring the quality of the pigment. The Joint Venture also has a role in ensuring that the manufacturing process works effectively. The term of the contract has expired

Based on production of AstaXin®, Igene had committed to issue to Fermic up to a maximum of 20,000,000 shares of Igene common stock during the six year period which expired May 20, 2006 in accordance with the manufacturing agreement. Based on quantities of AstaXin® produced, all shares have been earned and issued to Fermic. Since the inception of the agreement stock has been recorded as a manufacturing expense and also as an increase in common stock and additional paid in capital of \$1,356,520. The expense is now recorded on the books of the Joint Venture with the related receivable from the Joint Venture on the books of Igene. This amount has been computed based on the fair value of the stock as of the period in which the shares were earned.

(12) Income Taxes

No income tax benefit or deferred tax asset is reflected in the financial statements. Deferred tax assets are recognized for future deductible temporary difference and tax loss carry forwards if their realization is "more likely than not".

At December 31, 2006 Igene has federal and state net operating loss carry-forwards of approximately \$22,400,000 that expire at various dates from 2006 through 2026. The recorded deferred tax asset, representing the expected benefit from the future realization of the net operating losses, net of the valuation allowance, was \$-0- for 2006 and 2005.

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The sources of the deferred tax asset are approximately as follows:

Net operating loss carry-forward benefit	\$ 8,850,000
Valuation allowance	<u>(8,850,000)</u>
Deferred tax asset, net	<u>\$ ---</u>

(13) Uncertainty

Igene has incurred net losses in each year of its existence, aggregating approximately \$43,100,000 from inception to December 31, 2006 and its liabilities exceeded its assets by approximately \$16,400,000 at that date. These factors indicate that Igene will not be able to continue in existence unless it is able to raise additional capital and attain profitable operations.

Igene believes that should the Joint Venture be able to efficiently and profitably manufacture product, and eventually gross profits, and subsequently profitable operation, can be achieved.

(14) Nature of Risks and Concentrations

Revenue of the Joint Venture during 2006 and 2005 were derived from sales of the product, AstaXin®. The majority of the Joint Venture's 2006 and 2005 sales were to fish producers in the aquaculture industry in Chile.

The preceding concentrations subject Igene to certain risks. For example, it is considered at least reasonably possible that any particular customer, distributor, product line, or provider of services or facilities could be lost in the near term. It is also considered at least reasonably possible that operations located outside the United States could be disrupted in the near term. However, Igene has at present no information that would lead it to believe that it will lose its principal product, principal customers, or its contracted manufacturer; or that its operations in Mexico City or Chile will be disrupted, though this belief can not be assured.

(15) Retirement Plan

Effective February 1, 1997 Igene adopted a Simple Retirement Plan under Internal Revenue Code Section 408(p). The plan was a defined contribution plan, which covered all of Igene's U.S. employees who receive at least \$5,000 of compensation for the preceding year. The plan permits elective employee contributions. Effective January 1, 2003, Igene made an elective contribution of 3% of each eligible employee's compensation for each year. Igene's contributions to the plan for 2003 were \$17,631.

Effective February 1, 2004 Igene discontinued use of the Simple Retirement Plan and began use of a 401K savings/retirement plan, or 401(k) Plan. The 401(k) Plan permits our eligible employees to defer annual compensation, subject to limitations imposed by the Internal Revenue Code. All employees that have been employed for three months are eligible for the plan. The plan permits elective contributions by the Company's eligible employees based under the Internal Revenue Code, which are immediately vested and non-forfeitable upon contribution to the 401(k) Plan. Effective January 1, 2004, Igene made an elective contribution, subject to limitations, of 4% of each eligible employee's compensation for each year. Igene's contributions to the plan for 2006 and 2005 were \$25,996 and \$23,052, respectively, which is expensed in the 2006 statement of operations.

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(16) Loss on Disposal

During the year ended December 31, 2005, Igene sold equipment and wrote-off a receivable from the prior sale of equipment. The resulting loss of \$106,150 has been reflected as a loss on disposal on the accompanying 2005 statement of operations.

(17) Subsequent event

As previously stated in the Registrant's third quarter Form 10-QSB, on November 30, 2001, Igene entered Into Convertible Promissory Notes (the "Convertible Notes") with each of the following note holders for the following respective amounts (a) NorInnova AS (formerly Forskningsparken I Tromsø AS) for \$106,500; (b) Knut Gjernes for \$7,500; (c) Magne Russ Simenson for \$378,000; and (d) Nord Invest AS for \$313,000. Each of the Convertible Notes had a maturity date of November 1, 2004. On November 18, 2005, each of the Convertible Note Holders provided Igene with written notice of default under each of the Convertible Notes.

On November 29, 2006, the Convertible Note holders filed a complaint against the Company in the Circuit Court of Howard County, Maryland seeking payment of all outstanding amounts due under the Convertible Notes. On February 23, 2007, the Company, paid \$762,638 to the Convertible Note holders as settlement of all claims related to the Convertible Notes. The complaint was dismissed with prejudice on March 6, 2007.

In an attempt to settle the matter, the Note holders were offered the ability to extend the notes they held for a period of ten years at an interest rate of 5%. The conversion would be changed from the original debenture rate of \$.10 (ten cents) per share to the current market rate of \$.02 (two cents) per share. They rejected the offer.

The funds to settle the litigation were provided by Igene's directors using the terms offered above to the debenture holders. On February 15, 2007, Igene issued and sold \$762,000 in aggregate principal amount of 5% convertible debentures, 50% each to certain directors of Igene. These debentures are convertible into shares of Igene's common stock at \$.02 per share based on the offer made to the original debenture holders as the market price of Igene's shares at the time the debentures were agreed to. These debentures, if not converted earlier, become due on February 15, 2007.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Howard County, Maryland on March 31, 2006.

IGENE Biotechnology, Inc.

(Registrant)

By /S/ STEPHEN F. HIU

STEPHEN F. HIU
President, Chief Technical Officer
and Treasurer

Date March 30, 2007

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/S/ STEPHEN F. HIU</u> STEPHEN F. HIU	Director, President, Chief Technical Officer	March 30, 2007
<u>/S/ EDWARD J. WEISBERGER</u> EDWARD J. WEISBERGER	Chief Financial Officer (principal financial and accounting officer)	March 30, 2007
<u>/S/ THOMAS L. KEMPNER</u> THOMAS L. KEMPNER	Vice Chairman of Board of Directors	March 30, 2007
<u>/S/ MICHAEL G. KIMELMAN</u> MICHAEL G. KIMELMAN	Chairman of the Board of Directors	March 30, 2007
<u>/S/ SIDNEY R. KNAFEL</u> SIDNEY R. KNAFEL	Director	March 30, 2007
<u>/S/ PATRICK F. MONAHAN</u> PATRICK F. MONAHAN	Director, Vice President Secretary and Director of Manufacturing	March 30, 2007

EXHIBIT 23.a.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements Nos. 333-76616, 333-65013 and 333-6103 each on Form S-8 and to Registration Statement No. 333-45218 on Form S-3, and in the Annual Report on Form 10-KSB of Igene Biotechnology, Inc. for the years ended December 31, 2006 and 2005 of our report dated March 8, 2007, relating to the consolidated financial statements of Igene Biotechnology, Inc.

/s/ BERENSON LLP

BERENSON LLP

New York, New York
March 29, 2007

EXHIBIT 31.1

I, Stephen F. Hiu, certify that:

1. I have reviewed this Annual report on Form 10-KSB for fiscal year 2006 of Igene Biotechnology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the small business issuer's internal control financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: March 30, 2007

/S/ STEPHEN F. HIU

STEPHEN F. HIU

President

EXHIBIT 31.2

I, Edward J. Weisberger, certify that:

1. I have reviewed this Annual report on Form 10-KSB for fiscal year 2006 of Igene Biotechnology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the small business issuer's internal control financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: March 30, 2007

/S/ EDWARD J. WEISBERGER
EDWARD J. WEISBERGER
Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the IGENE Biotechnology, Inc. (the "Company") Annual Report on Form 10-KSB for the period ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen F. Hiu, President of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 30, 2007

By:

/S/ STEPHEN F. HIU

STEPHEN F. HIU

President

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the IGENE Biotechnology, Inc. (the "Company") Annual on Form 10-KSB for the period ended December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edward J. Weisberger, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 30, 2007

By:

/S/ EDWARD J. WEISBERGER

EDWARD J. WEISBERGER

Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.