

SYNTHETIC BLOOD INTERNATIONAL, INC.

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended July 31, 1998

Commission File Number 2-31909

SYNTHETIC BLOOD INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

New Jersey

22-3067701

(State of Incorporation)

(IRS Employer ID Number)

2685 Culver Avenue, Kettering, Ohio 45429

937-298-6070

(Registrant's telephone number, including area code)

Indicate by the check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

(1) YES [X] NO []

(2) YES [X] NO []

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 31, 1998.

50,729,302 shares of common stock par value \$0.01

SYNTHETIC BLOOD INTERNATIONAL, INC.
(A Development Stage Company)
BALANCE SHEETS

ASSETS

	July 31, 1998 ----- (Unaudited)	April 30, 1998 ----- (Audited)
Current Assets:		
Cash	\$ 455,785	\$ 740,215
Prepaid Expense	21,126	19,525
	-----	-----
Total Current Assets	\$ 476,911	\$ 759,740
Property & Equipment, net	76,154	84,653
Other Assets:		
Patents and Technology	151,955	141,521
	-----	-----
Total Assets	\$ 705,020 =====	\$ 985,914 =====

LIABILITIES AND STOCKHOLDERS'S EQUITY

Current Liabilities:		
Accrued Expenses	\$ 332,112	\$ 339,540
Stockholders loans	14,900	15,000
Accrued Payroll & Other	131,096	176,800
	-----	-----
Total Current Liabilities	\$ 478,108	\$ 531,340
Notes Payable, less current	\$ 103,021	\$ 103,021
Total Liabilities	\$ 581,129	\$ 634,361
Stockholder's Equity:		
Common Stock \$0.01 par Value: Authorized 100,000,000 shares Issued & outstanding 50,729,302 & 50,729,302	\$ 507,293	\$ 507,293
Additional Paid in capital	9,412,424	9,412,424
Deficit Accumulated since Development Stage	(9,795,826)	(9,568,164)
	-----	-----
Total Stockholder's Equity (Deficit)	\$ 123,891	\$ 351,553
	-----	-----
Total Liabilities & Stockholder's Equity	\$ 705,020 =====	\$ 985,914 =====

See accompanying notes to financial statements

SYNTHETIC BLOOD INTERNATIONAL, INC.
(A Development Stage Company)

STATEMENTS OF OPERATIONS

	Accumulated during the development stage	Three Months Ended July 31,	
	----- (Unaudited)	1998 -----	1997 -----
Expenses:			
Research and development	\$ 2,929,181	\$ 24,982	\$ 46,365
General and administrative	6,789,526	203,388	167,064
Interest	135,117	5,920	792
Total Expense	----- 9,853,824	----- 234,290	----- 214,221
OTHER INCOME	(57,998)	(6,628)	(114)
NET LOSS	----- \$ (9,795,826)	----- \$ (227,662) =====	----- \$ (214,107) =====
NET LOSS PER SHARE, BASIC AND DILUTED		\$ (0.005)	\$ (0.004)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING, BASIC AND DILUTED		----- 50,729,302 =====	----- 50,279,302 =====

See accompanying notes to financial statements

SYNTHETIC BLOOD INTERNATIONAL, INC.
STATEMENT OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES:	Accumulated during the development stage -----	Three months ended July 31, 1998 -----	Three months ended July 31 1997 -----
Net loss	\$(9,795,826)	\$ (227,662)	\$ (214,107)
Adjustments to reconcile net cash used in operating activities:			
Depreciation and amortization	322,447	12,890	23,294
Write down other assets	126,800		
Issuance of compensatory stk options	248,906		
Contribution of capital through services rendered	30,000		
Issuance of stock for services rendered	989,516		
Issuance of stock below FMV	695,248		
Contribution of capital by stockholders	216,851		
Changes in operating assets and liabilities:			
Prepaid expenses & other assets	(21,126)	(1,601)	(4,000)
Accounts payable and accrued expense	536,129	(12,875)	85,114
	-----	-----	-----
Net cash used in operating activities	(6,651,055)	(229,248)	(109,699)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of other assets	(377,817)	(14,825)	(7,281)
Proceeds from the sale of equipment	15,457		
Purchase of property and equipment	(262,658)		
	-----	-----	-----
Net cash used in investing activities	(625,081)	(14,825)	(7,281)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale of common stock	6,138,221		
Payments on capital lease obligations	(52,338)		
Proceeds from issuance of notes payable to stockholder	915,792		79,000
Contribution of capital stockholder	40,700		
Proceeds from convertible debentures	811,000		
Repayments of notes payable	(121,517)	(40,357)	
	-----	-----	-----
Net cash provided by (used in) financing activities	7,731,858	(40,357)	79,000

NET CHANGE IN CASH AND CASH EQUIVALENTS:	455,785	(284,430)	(37,980)
CASH AND CASH EQUIVALENTS, beginning of period		740,215	53,857
CASH AND CASH EQUIVALENTS, end of period	\$ 455,785	\$ 455,785	\$ 15,877
	=====	=====	=====
Cash paid for Interest	\$ 93,091	\$ 5,920	\$ 792
Taxes	6,400	800	800

SYNTHETIC BLOOD INTERNATIONAL, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS

July 31, 1998

1. BASIS OF PRESENTATION

The accompanying unaudited financial statements contain all adjustments (consisting only of normal recurring adjustments) which in the opinion of management, are necessary to present fairly the financial position of the Company at July 31, 1998, and the results of its operations and its cash flows for the three month periods ended July 31, 1998 and 1997. Certain information and footnote disclosures normally included in financial statements have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission although the Company believes that the disclosures in the financial statements are adequate to make the information presented not misleading.

The financial statements included herein should be read in conjunction with the financial statements of the Company, included in the Company's Annual Report on Form 10-K for the year ended April 30, 1998 filed with the Securities and Exchange Commission on August 28, 1998.

Going Concern - The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements, the Company is in the development stage and, at July 31, 1998 has accumulated losses from operations amounting to \$9,795,826, a working capital deficit of \$1,197. The Company is in the pre-clinical trial stage of its products. These products must undergo further development and testing prior to submission to the FDA for approval to market the products. The Company's continuation as a going concern is dependent on its ability to generate sufficient cash flow, to meet its obligations on a

timely basis, to obtain additional financing as may be required, and ultimately to attain successful operations. However, no assurance can be given at this time as to whether the Company will achieve any of these conditions or that the FDA approval will be granted, once applied for. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern for a reasonable period of time. Additional funding will be necessary which will require future private placements and/or joint ventures to enable the Company to continue the required testing through Phase I, II and III human testing.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Development Stage - Because the Company has not commenced principal operations, it is considered a "Development Stage Enterprise" as defined by Statement of Financial Accounting Standards No. 7, Accounting and Reporting by Development Stage Enterprises.

Pricing of Common Stock and Options to Purchase Common Stock - The Company's Board of Directors determines the issuance price of its common stock and options to purchase common stock to be fair market value, based on a good faith estimate which is derived from recent issuance of common stock to unrelated parties and/or from common stock market quotations, after giving effect to the restricted nature of the stock issued.

Property and Equipment - Property is recorded at cost. Depreciation and amortization are computed using the straight-line method over the shorter of the estimated useful lives of the related assets, ranging from three to ten years, or lease term, if applicable.

Patents - Patent costs are being amortized over the lesser of the remaining life of the patent or the estimated useful life of the

related product, ranging from eight to ten years. The Company evaluates recoverability of patents on at least an annual basis by comparing the estimated resale value of the patents to the remaining carrying values. An adjustment to the carrying value of the patent rights would be made if the estimated resale value of the patents is determined to be insufficient to recover such value.

3. COMMITMENTS AND CONTINGENCIES

Employment Contracts - The Company has employment agreements with a certain officer with aggregate future commitments of \$274,000 through February 2000.

Litigation - The Company is subject to litigation in the normal course of the business, none of which management believes will have a material adverse effect on the Company's financial statements as of July 31, 1998.

SYNTHETIC BLOOD INTERNATIONAL, INC
(A Development Stage Company)

Part I- Financial Information

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

RESULTS OF OPERATIONS- First Quarter of 1998 and 1997.

The Research and Development expenses for the three months period ended July 31, 1998 was \$ 24,982, compared to \$ 46,365 for the same period in the prior year. This decrease was due to a significant reduction in research personnel, the purchase of animals and supplies.

General and Administrative expenses for the three months period ended July 31, 1998 were \$203,388, compared to \$167,064 for the same period in the prior year. This increase was due to a increase in additional personnel and legal fees.

The net loss for the three months ended July 31, 1998 was \$227,662, compared to \$214,107 for the same period in the prior year. This increase represented the difference between an increase in administrative expense offset by a reduction in research expense.

LIQUIDITY AND CAPITAL SOURCES

The Company has financed its operations since September 1990, when the current management became involved, through the issuance of debt and equity securities and loans from stockholders. As of July 31, 1998 the Company had \$476,911 in total current assets and a working capital deficit of \$1,197.

The Company is in the pre-clinical trial stage in the development of its products. These products must undergo further development and testing prior to submission to the FDA for approval to market its products. This additional development and testing and if approved, the FDA required clinical testing will require significant additional financing. Management is actively pursuing strategic alliance and joint venture

agreements to enable the Company to develop its products. There can be no assurance that FDA approval will be granted, once applied for, or that necessary funding will be obtained.

SYNTHETIC BLOOD INTERNATIONAL, INC.
(A Development Stage Company)
Part II-Other Information

- Item 1. Legal Proceedings.
Described in Financial Statement notes.
- Item 2. Changes in Securities.
None
- Item 3. Defaults Upon Senior Securities.
None
- Item 4. Submission of Matter to a Vote of Security Holders.
None
- Item 5. Other Information
Leland C. Clark, Jr., Ph.D. resigned as an officer and director.
He was replaced on the board on May 18, 1998 by Howard Jones,
Ph.D., president of the biopharmaceutical business unit of
Curative Health Services since 1993 and co-founder of Cypros
Pharmaceutical Corporation in 1992.
- Item 6. Exhibits and Reports on Form 8-K.
None

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SYNTHETIC BLOOD INTERNATIONAL, INC.
(Registrant)

9/12/98

(Date)

/S/ ROBERT J. LARSEN

Robert J. Larsen, Secretary

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FIRST QUARTER ENDED JULY 31, 1998 SYNTHETIC BLOOD INTERNATIONAL, INC.

3-MOS		
	APR-30-1999	MAY-01-1998
		JUL-31-1998
		455,785
		0
		0
		0
		0
	476,911	294,219
	218,065	
	705,020	
478,108		0
0		0
		507,293
		(383,402)
705,020		0
	6,628	0
		0
	234,290	
	0	
	5,920	
	(227,622)	
		0
	0	
		0
		0
	(227,622)	
	(0.005)	
	(0.005)	