FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

Washington D.C., 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended April 30, 1997

Commission File No. 2-31909

SYNTHETIC BLOOD INTERNATIONAL, INC.

New Jersey	22-3067701
(State of Incorporation)	(IRS Employer I.D. Number)

402 West Broadway Street, Suite 400, San Diego, California, 92101
(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number and area code: (619) 595-4829

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by 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 by check mark if disclosure of delinquent filings pursuant to Item 405 of Regulation S-K is not contained herein, and will not be continued, to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

YES (X) NO

The aggregate market value of the shares held by non-affiliates of the registrant (assuming officers, directors and 10% shareholders are affiliates) was approximately $ 5,564,872 based on the closing bid price of the Registrants Common Stock on April 30, 1997 of $0.15 per share.

PART 1

Item 1 - BUSINESS

Synthetic Blood International, Inc. ("SBI" or the "Company") is a development-stage company which is developing OXYCYTE, a proprietary synthetic blood emulsion and FLUOROVENT, a neat liquid for assisting oxygen exchange in damaged or diseased lungs for human and non-human applications based upon perfluorocarbon ("PFC") technology. In addition the Company has developed an Implantable continuous reading glucose biosensor. The Company is now in the Preclinical stage and is completing independent animal testing necessary for the preparation of applications with the United States Food and Drug Administration ("FDA") for approval to market these products. After the submission to the FDA, the Company's products will require extensive clinical testing before FDA approval may be granted. No assurance may be given that FDA approval will be granted.

SBI's scientific team is led by Dr. Leland C. Clark, Jr. who is a pioneer and leader with a world-wide reputation in the development of PFC-based synthetic blood. Dr. Clark invented the first heart-lung machine which successfully provided oxygen to the blood stream of, or perfused, a human being. The treatment of this patient showed the feasibility of using an artificial heart and lung to sustain life. Dr. Clark also invented the Clark Electrode, which is utilized worldwide to measure oxygen in the blood and for many other commercial oxygen measuring needs in industry. Dr. Clark has also experimented with fluorocarbon liquid breathing which was the catalyst for the development of fluorocarbon based synthetic blood substitutes.

The Company began conducting business in its current form in September 1990, shortly thereafter changed its name to Synthetic Blood International, Inc., and revised its business purpose to developing a line of red blood cell substitutes. During this period part of the current management team began as officers and directors

MARKET

According to independent industry sources which the Company believes are reliable, the total future market potential for synthetic blood worldwide is now estimated to be $10-$15 billion. The United States market is estimated by the Company to account for up to 35% of this total. The Company believes the growth potential for the synthetic blood market is substantial, although there can be no assurance as to when, if ever, any applications for such blood substitutes will be approved by the FDA and introduced into the market, and if so, whether any particular market size will be achieved.

If appropriate regulatory approvals are obtained, several major applications for synthetic blood are generally envisioned and are being developed by many companies. The sole existing application for synthetic blood approved by the FDA for commercial use is balloon angioplasty, for which Fluorosol-DA (20%), a PFC-based blood substitute, has been approved. Industry sources indicate that the largest number of recipients of synthetic blood would be patients involved in various surgeries, and would represent approximately 54% of the total demand. Other major applications for synthetic blood are for procedures related to thrombolytics (anti-blood clotting), cancer, traumas, sickle cell anemia and organ transplantation. Each application would require a particular type of PFC emulsion as treatment, as the properties of PFC's can vary significantly, depending on their molecular weight, boiling point and physical structure. Although one perfluorocarbon could eventually be used in all applications, the Company believes it may be advantageous to have emulsions of different perfluorocarbons available.

Approximately 600,000 adult inpatients receive treatment with a mechanical respirator annually in the U.S. This together with 80,000 neonates born each year with severe respiratory disorders suggests a potential market for FLUOROVENT(TM) in the range of $500 millions for hospital inpatients alone.

The Company believes the potential market for an Implantable self-fueling glucose sensor was significantly increased by the announcement at the June 1993 annual meeting of the American Diabetes Association that, "Complications of the disease (diabetes) could be prevented or delayed ... when diabetics closely monitored their blood sugar levels with a special meter throughout the day and injected themselves with insulin four to seven times daily to keep their blood sugar at near-normal level". The total potential market is now estimated to exceed $1 billion annually.

Most diabetics do not mind injecting insulin when needed but to finger stick themselves many times throughout the day and night to determine, if or how much insulin is needed, becomes a very difficult regimen to continue day after day. Of the 14 million diabetics nationwide, tens of thousands experience complications that include vision and nerve loss, or kidney failure and researchers have said that most may lengthen their lives and lessen symptoms while at the same time reducing the nation's health care costs.

TECHNOLOGY

PFC's consist principally of carbon and fluorine atoms. Fluorine is, under normal conditions, a gas, obtainable from the widely available mineral fluorite (calcium fluoride). The PFC's are chemically inert, causing no chemical reactions when in contact with other substances, are biologically inert and have no effect on healthy organ function when given in clinical doses.

Earlier studies had shown that oxygen and carbon dioxide, gases which are essential to mammal breathing, are highly soluble in certain fluorocarbon liquids. This fact suggested that such liquids could support respiration in mammals. Beginning in 1965, Dr. Clark demonstrated in a series of laboratory tests that mice could survive, and breathe, while they were immersed in a PFC liquid. Dr. Clark's experiments also indicated that PFC's could perform the same basic functions as red blood cells, i.e., as life-supporting, intravascular oxygen and carbon dioxide transport agents. In fact, the Company believes PFC's can exceed the performance of red blood cells in certain functions.

Since the mid 1960's, one aspect of research and development efforts has been to determine which PFC's are safest for intravascular use in humans. In this regard, the molecular weight and structure of PFC'S, which affect the rate at which they are expelled from the body, have been of key importance.

PFC'S leave the body by evaporation, mainly through the lungs. Depending on the molecular structure and boiling point of a given PFC, the process of evaporation can be as short as a few days, or as long as 100 years. This process determines the length of time that the PFC's stay in certain organs of the body such as the spleen and liver (referred to as "dwell time"). Generally, the heavier the PFC molecule, (i.e., the more carbon and fluorine atoms it contains), the longer the dwell time.

Certain PFC molecular structures are known by the Company to cause undesirable side effects in laboratory test animals, which are believed to be related to how quickly PFC's leave the body. Some types of PFC'S with a very short body dwell time, when administered intravascularly, have been shown to cause an enlargement of the lungs in laboratory test animals. Other types of PFC'S, with very long dwell times, have been found to not cause any significant side effects. Based on the Company's review of FDA approval procedures for PFC'S, the Company has concluded that the FDA apparently considers PFC'S with very long body dwell time as generally unacceptable. A therapeutic agent such as PFC's may be perceived as better when it is eliminated quickly from the body after performing its intended function.

POTENTIAL APPLICATIONS FOR THE COMPANY'S PRODUCTS UNDER DEVELOPMENT

Several major applications are currently under review by the Company for its PFC-based synthetic blood products under development. The most important initial applications are in cardiac catheterization and other surgical procedures. Such applications include the uses such as for percutaneous transluminal coronary angioplasty with a balloon-tipped catheter, treatment of myocardial infarction (heart attack) and cardioplegia for open heart surgery. Other potential applications are as a cancer diagnostic and adjunct therapeutic. Additional possible applications exist for procedures related to thrombolytics (anti-blood clotting), traumas, sickle cell anemia and organ transplantation.

The products under development could be used to enhance radiation treatment and chemotherapy. Because malignant tumors or cancers contain less oxygen than normal tissue and the Company's products carry more oxygen than red cells, the use of PFC'S could result in a much higher presence of oxygen at the tumor site. Consequently lower effective doses of chemotherapeutics or radiation may be used in the treatment of certain cancers in conjunction with the Company's products under development.

The Company's products are expected to carry as much oxygen as red blood cells but because they carry oxygen at high oxygen tensions they can exchange a greater amount of oxygen. Unlike hemoglobin and human blood, PFC'S do not require blood-typing or cross matching and they do not transmit disease. During cardioplegia (surgical arrest of the heart for open heart surgery), studies have been performed using PFC'S in place of whole blood or the plasma expanders such as saline or dextran, which demonstrated that the oxygen transport characteristics were superior to those of the expanders. PFC'S can also be used to prime the heart-lung machines, eliminating the reliance on scarce and potentially dangerous human blood.

MARKETING

The Company intends to search for strategic partners in Europe, the Far East or elsewhere for the purposes of completing development of its products, manufacturing, testing and marketing its products under development for distribution in these areas. To date no agreements have been completed although a number of negotiations are in progress. There can be no assurance that any such agreement will be consummated.

The Company plans on initially contracting for the manufacturing of its products in the United States for the purpose of supplying sufficient quantity for the proposed clinical testing. The company then has the option to license out on a royalty basis all or part of its manufacturing and distribution or establish an organization for the distribution and sale of its products in North and South America. These sales are anticipated to be made either through a sales force selling to drug or medical distribution systems or direct sales to end users such as hospitals and other institutions by future company sales force.

The marketing of the biosensor devices if FDA approval is achieved will probably be by manufacturing and distribution via licensing agreements with companies presently involved with distributing products in the diabetic field. Several of such companies have been contacted and are at present reviewing the patents and discussing the technology with our Company.

COMPETITION

Synthetic blood research to date has been focused virtually exclusively on red cell substitutes. PFC-based hemoglobin substitute, bovine hemoglobin, modified human hemoglobin and recombinant (genetically engineered) human hemoglobin are the four main categories of red cell substitutes currently being pursued.

PFC'S are based on elements and minerals which occur naturally and are in abundant supply. PFC'S must be emulsified with a surfactant and mixed with "salt" water, before it can be administered intravenously.

Bovine hemoglobin is derived from cows, blood. It is not compatible with human blood and, therefore, requires substantial processing in order to become usable. Various proteins present in bovine blood must be eliminated lest they cause an immune response in humans.

Modified human hemoglobin is based on reconstituted, old or otherwise discarded human blood. Although it is derived from human blood, modified human hemoglobin can only be used after it has undergone substantial processing.

Recombinant human hemoglobin has been produced in yeast and in swine. Current efforts are underway to engineer genes which will allow sufficient quantities of oxygen to be released for the oxygenation of tissues. Organ toxicity remains a problem to be solved.

One other company is involved with the development of a PFC based liquid ventilation method utilizing a mechanical ventilator to move the PFC in and out of the lung. It is currently in Phase I/II Clinical testing.

There are a number of companies and researchers attempting to develop an Implantable glucose sensor or other approaches which include the use of infrared light rays, drawing glucose through the skin surface and other noninvasive mechanical devices. None of these methods have been successful in spite of the renewed emphasis on the development of such a sensor. There are over 125 public and closely held companies involved worldwide in the development of synthetic blood and related products.

MANUFACTURING AND SOURCES OF SUPPLY

PFC'S, traditionally manufactured as lubricants for military and industrial use, are available from a large number of sources. However, the degree of purity ultimately required by the FDA for the use of PFC'S for medical purposes could limit the sources for raw materials. Surfactants are also generally available, although quality varies. between different manufacturers. Certain types of egg yolk phospholipids are superior to others. Saline or Ringer Is solution is available from multiple sources and is relatively standard in quality.

PATENTS AND PROPRIETARY RIGHTS

OXYCYTE(TM) is based on the molecular structure of certain PFC'S, that provides equal or greater oxygen carrying capacity, greater ability to be stored at room temperature, greater dwell-time in the blood stream but less dwell time in the liver and spleen, and fewer side-effects than many of the synthetic blood products of its competitors.

Patent application No. 08-242-310, filed May 13, 1994 is for "A Method of Assisting Normal Breathing in a Mammal Having a Lung Disorder". It utilizes one of the PFC'S being developed for a synthetic blood emulsion for therapeutic treatment of certain lung disorders. It contains 13 claims which have been approved by the patent examiner and is scheduled for issuance by October 1997.Foreign application filed in December 1996 in Canada, Australia, Japan and in the European Communities.

A Continuation-in-Part was filed May 12, 1995 for 14 additional claims of the above by mixing two or more PFC compounds to achieve different exhalation rates, or dwell time. Additional patent applications are in the process of being prepared by the Company for composition of matter, method of purification, and new improved emulsion formula.

A "Glucose Sensor" patent application was filed in December 1996 for a method of restricting the flow of glucose through the outer filter membrane and the ability to store oxygen in the sensor. This enables the implanted sensor to operate in the low oxygen and high glucose levels found in body tissues. This application contains 32 claims.

An "Implantable Sensor Employing an Auxillary Electrode" patent application was filed in January 1997 containing 20 claims covering the design of the titanium case as a reference electrode. This alleviates the need to force the reference electrode to carry the current allowing the reference electrode to remain constant and stable, improving the accuracy of the glucose measurement.

Additional patent applications are in the process of preparation and will be filed soon for "A Copolymer Screen Membrane with Enhanced Oxygen Transport for Use in an Implanted Biosensor"and "A Method of Correcting the Temperature Coefficient of the Glucose Probe Output Signal".

Pursuant to Dr. Clark's Employment Agreement, all of his intellectual property not already assigned to third parties were assigned to the Company.

GOVERNMENT REGULATION

All of the Company's proposed products will require governmental approval before production and marketing can commence. The regulatory approval process is administered by the FDA in the United States, and by similar agencies in foreign countries. FDA review of new drugs, devices or biologicals is an uncertain, costly and lengthy process. Various state, federal and foreign statutes also govern or influence the manufacturing, safety, labeling, storage, record keeping and marketing of such products. ongoing compliance with these requirements can require the expenditure of substantial resources.

At the present time, the Company intends to file a "Request for Jurisdiction" with the FDA for its OXYCYTE(TM) artificial blood product and FLUOROVENT(TM) for its liquid ventilation product. The FDA's response to these requests will likely determine whether a subsequent filing by the Company for that product will be classified as a drug, device or biological. The Implantable glucose sensor will be filed as a device and many of its parts are off-the-shelf material already approved for human implantation by the FDA. The FDA has different procedures for drugs, devices and biologicals.

Whether or not FDA approval has been obtained, approval of a product by regulatory authorities in foreign countries must be obtained prior to the commencement of marketing of the product in such countries. The requirement governing the conduct of clinical trials and product approvals vary widely from country to country, and the time required for approval may be longer or shorter than that required for FDA approval. Although there are some procedures for unified filings for certain European countries, in general, each country has its own procedures and requirements.

EMPLOYEES

On April 30, 1997, the Company employed 9 individuals, three of whom were executive and scientific personnel with Ph.D's, three are executives, three are technicians. None of its employees are currently represented by a union or any other form of collective bargaining unit.

ITEM 2 - PROPERTIES

The Company owns no real property and currently leases on a month to month basis its administrative offices at 402 West Broadway Street, Suite 400, San Diego, California 92101. The Company rents laboratories at the Charles F. Kettering Research Laboratories, Antioch University in Yellow Springs, Ohio. These facilities originally were provided to Dr. Clark for his teaching services and partly paid by the National Institutes of Health research grant. The Company has since negotiated a one year lease with options to renew annually on the premises and expanded its laboratory, general and administrative space. The lease was not renewed this year and it is rented on a month to month basis currently $3,700 per month. In addition the company leases office and workshop space at the Kettering Research Center in Kettering, Ohio. The current monthly rent is $1,200 per month.

ITEM 3 - LEGAL PROCEEDINGS

A legal action against Wright State University and its officers and directors to protect the privacy of research records held by them under the Federal Animal Protection Act was settled satisfactorily in June 1996. Two addition actions have been filed by former employees alleging unfair treatment during a temporary layoff in December 1995. A contingent liability of $124,000 has been booked to this years expense, however the Company plans to aggressively pursue a settlement at a lower cost.

ITEM 4 - SUBMISSION OF MATTER TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5 - MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

On February 26, 1993 the Common Stock of the Company began limited public trading in the over-the-counter market with prices quoted in the "Pink Sheets" published by the National Quotation Bureau under the symbol SYBD. On March 15, 1993 the Common Stock of the company began limited public trading on the OTC Electronic Bulletin Board. From 1973 to February 26, 1993 Management believes there was no public trading market for any of the registrant's securities. This past year the bid and ask prices as determined by Company records were as follows:

	1997		1996	
Quarter	Low	High	Low	High
lst	$ .25	$.65	$ 1/4	$ 3/4
2nd	.24	.55	7/16	1.00
3rd	1/8	.18	1/16	7/8
4th	1/8	.18	1/16	1/2

As of April 30, 1997 the approximate number of holders of the Common stock of the Company was 930. To the best knowledge of management, the Company has never paid dividends since the date of its incorporation. The Company does not expect to declare or pay dividend in the foreseeable future.

ITEM 6 - SELECTED FINANCIAL DATA

	April 30, 1993	April 30, 1994	April 30, 1995	April 30, 1996	April 30, 1997
Income	$ 811	$ 698	$ 35,181	$ 5,916	$ 914
Total Expenses	$ 720,437	$ 874,997	$ 1,917,004	$ 2,352,143	$ 1,911,290
Net Loss from Operations	$ 719,626	$ 874,299	$ 1,881,823	$ 2,346,227	$ 1,910,376
Net Loss per share based on weighted Shares outstanding	17,990,650 $0.04	21,857,475 $0.04	26,33,838 $.0.07	28,894,248 $0.08	36,053,557 $0.05
Total Assets	$ 386,368	$3,075,689	$ 1,179,085	$ 393,939	$ 318,163
Total Liabilities	$ 261,866	$ 490,299	$ 117,907	$ 974,969	$ 600,675
Long Term Debt	0	0	$ 32,736	$ 16,573	$ 0

ITEM 7 - MANAGEMENTS DISCUSSIONS AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

FISCAL 1997 COMPARED TO FISCAL 1996

The Company is a development-stage company which is developing products in the medical field and therefore has no revenue from operations.

For the fiscal year ended April 30, 1997, other income decreased to $914 from $5,916 for the fiscal year ended April 30, 1996. This decrease was due to substantially less funds available to earn interest.

The General and Administrative expenses increased 1.0 % from $1,422,809 in the fiscal year ended April 30, 1996 to $1,437,353 during the fiscal year ended April 30, 1997.

The Research and Development expenses decreased from $924,093 for the fiscal year ended April 30, 1996 to $460,978 during the fiscal year ended April 30, 1997. This decrease was due to a reduction in staffing and outside testing and raw material costs associated with changing the focus from basic research to product development with the emphasis on patent application filing.

The interest expense for the fiscal year ended April 30, 1996 was $5,241 compared to the fiscal year ended April 30, 1997 of $12,959. This increase was due to additional finance and carrying charges necessitated by the reduced cash flow.

FISCAL 1996 COMPARED TO FISCAL 1995

For the fiscal year ended April 30, 1996, other income decreased to $5,916 from $35,181 for the fiscal year ended April 30, 1995 due to a reduction of funds available for investment.

The General and Administrative expenses increased 40% from $1,017,415 for the fiscal year ended April 30, 1995 to $1,422,809 during the fiscal year ended April 30, 1996. This increase was due primarily to $380,000 charged to general and administrative expense from the issuance of stock below the then current market price.

The Research and Development expenses increased 4% from $896,534 for the fiscal year ended April 30, 1995 to $924,093 for the fiscal year ended April 30, 1996. This small increase was due to the purchasing of a larger volume of raw materials for additional testing.

The interest expense for the fiscal year ended April 30, 1995 was $3,055 compared to $5,241 for the fiscal year ended April 30, 1996 primarily due to the financing of insurance premiums.

EQUITY AND CAPITAL RESOURCES

The Company has financed its operations since September 1990, when current management became involved, through the issuance of debt and equity securities and loans from stockholders. For the fiscal year ended April 30, 1997 the Company had $71,282 in total current assets and a working capital deficit of $529,393 compared to $106,124 in total current assets and a working capital deficit of $868,845 during the

fiscal year ended April 30, 1996. The Company raised $600,000 from the sale of Common Stock, $460,775 from stockholder loans and $607,904 of expenses were paid with stock during fiscal year ended April 30, 1997.

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 will require significant additional financing. Additional funds are needed immediately to continue to operate as a going concern. Funding in the form of bridge loans and future options are currently being negotiated. There can be no assurance these proposed funding arrangements will be successful, or that if they are not the Company will be able to secure additional capital.

As a result of the Company's accumulated losses from operations, its accumulated deficit, and its necessity to obtain additional financing to fund operations until the necessary regulatory approvals are obtained, if ever, its continuation as a going concern is dependent on its ability to obtain additional financing as may be required. These factors, among others, raise doubts about the Company's ability to continue as a going concern.

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Stands No. 123, Accounting for Stock-Based Compensation, which requires adoption of the disclosure provisions for fiscal years beginning after December 15, 1995 and adoptions of the recognition and measurement provisions for non-employee transactions no later than December 15, 1995. The new standard defines a fair value method of accounting for stock options and other equity instruments. Under the fair value method, compensation cost is measured at the grant date based on the fair value of the award and is recognized over the service period, which is usually the vesting period.

During 1997, the FASB issued SFAS No. 128, Earnings per Share. SFAS No. 128 requires the Company to disclose a basic and diluted earnings per share calculation. Basic earnings per share (EPS) excludes common stock equivalents from the EPS calculation. The Company will adopt the provisions of SFAS No. 128 with the 1998 financial statements. Basic and diluted EPS, as computed under SFAS No. 128, would not have been materially different from EPS determined in accordance with APB Opinion No. 15 for the periods presented

FORWARD LOOKING STATEMENTS

Certain statements in this annual report include forward looking statements which involve risks and uncertainties. Potential risks and uncertainties include, but are not limited to the company's ability to obtain financing and FDA approval to market their products.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data as required by this item are set forth in a separate section of this report.

ITEM 9 - CHANGES IN AND DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 10- DIRECTORS, EXECUTIVE OFFICERS AND KEY EMPLOYEES OF THE REGISTRANT

The directors, officers and key employees of the Company are as follows:

Name	Age	Position
Roger A. Ekbom	70	Chairman of the Board Director
Gerald D. Schlatter	63	President and Director
Leland C. Clark, Jr., Ph.D.	78	Vice President, Director Research and Develop. Director
Robert J. Larsen	68	Secretary-Treasurer and Director
Richard E. Hoffmann, Ph.D.	46	Laboratory Director

DIRECTORS AND EXECUTIVE OFFICERS

Roger A. Ekbom, Chairman of the Board of Directors, Chief Executive Officer and Director since 1991, was formerly President and major stockholder of Cardio Vista Systems, Inc., which was sold in 1994. He was also founder and Chairman of Tronomed, Inc. which was sold in January 1993. From 1978 to 1988, Mr. Ekbom was the Vice President of and a major stockholder in Respiratory Support Products, Inc. and Tronomed International, Inc. Mr. Ekbom was formerly the General Manager of a division of Becton Dickinson, and of Marion Scientific, a subsidiary of Marion Laboratories. Mr. Ekbom received his B.S. Degree from the University of Minnesota in 1960.

Gerald D. Schlatter, President and Director since 1990, was President of Delamesa Leasing Co., Irvine, California, prior to joining the Company full time in August 1994. Prior to joining Delamesa Leasing Co. in 1979, Mr. Schlatter was a Marketing Manager of American Hospital supply's New Product Division. He has also held position in marketing the Medical Products Division of Xerox Corporation. Mr. Schlatter obtained his undergraduate degree from the California State University, Fresno, in Business Finance and Labor Law in 1962

Leland C. Clark, Jr., Ph.D., was appointed Vice President, Director of Research and Development in 1991. Dr. Clark received his Ph.D. in Biochemistry & Physiology at the University of Rochester School of Medicine in 1944. Dr. Clark has held several academic appointments including Professor of Biochemistry in the Department of Surgery in the School of Medicine of the University of Alabama (1958-1968) and at the University of Cincinnati School of Medicine where he was Director of the Division of Neurophysiology, and was Research Professor of Pediatrics at the Children's Hospital Medical center of the University of Cincinnati Medical School(1968-91).

Robert J. Larsen, Secretary-Treasurer and Director since 1990, is a former President and Chief Executive Officer of Bay Hospital Medical Center, Chula Vista, California. Mr. Larsen has 25 years of experience in the development and management of hospitals and other related enterprises in

California and Oregon. Mr. Larsen received his graduate degree in Hospital Administration from the University of California, Santa Barbara, and his B.A. from the University of Washington.

KEY EMPLOYEES

Richard E. Hoffmann, Ph.D., manages the laboratory activities of the Company in developing a blood substitute. Dr. Hoffmann is a graduate of the University of Cincinnati, with a doctorate in Physical Chemistry in 1982. Dr. Hoffmann worked first as a Research Assistant, then as a Research Scientist, with Dr. Clark at the Children's Hospital Research Foundation in Cincinnati. Dr. Hoffmann is currently working as a Research Associate with Dr. Clark at the Kettering Research Laboratories at Antioch University in Yellow Springs, Ohio.

ITEM 11 - EXECUTIVE COMPENSATION

The summary compensation table shows the compensation for Roger A. Ekbom, Chairman and Chief Executive officer, Gerald D. Schlatter, President, Robert J. Larsen, Chief Financial Officer and Secretary-Treasurer of the Company and Dr. Leland C. Clark, Vice President. Mr. Ekbom, Dr. Clark, Mr. Schlatter, and Mr. Larsen have been executive officers for the five years ended April 30, 1997.This information includes the dollar amount of base salaries, bonus awards, stock options and all other compensation, if any, whether paid or deferred.

SUMMARY COMPENSATION TABLE

Name & Position	Year	Salary	Bonus	Other	Awards	Shares	Stock Option Payouts	Incent. other in	Total $ S	TARS	Long Tm.Comp.
Roger A. Ekbom	1997	$ 43,746		0		0	0	0		0	0
	1996	100,000		0		0	0	0		0	0
Chairman	1995	34,333		0		0	0	0		0	0
	1994	13,000		0		0	0	0		0	0
	1993	6,000		0		0	0	0		0	0
Gerald D. Schlatter											
	1997	$87,000		0		0	0	0		0	0
	1996	96,000		0		0	0	0		0	0
President	1995	85,500		0		0	0	0		0	0
	1994	13,000		0		0	0	0		0	0
	1993	6,000		0		0	0	0		0	0
Leland C. Clark, Jr.											
	1997	$ 96,000		0		0	0	0		0	0
	1996	$114,0000		0		0	0	0		0	
Vice President	1995	114,000		0		0	0	0		0	0
	1994	96,000		0		0	0	0		0	0
	1993	84,000		0		0	0	0		0	0

Robert J. Larsen	1997	$ 62,502	0	0	0	0	0	0
	1996	100,000	0	0	0	0	0	0
Chief Financial	1995	72,333	35,000	0	0	0	0	0
Officer	1994	55,000	0	0	0	0	0	0
	1993	48,000	0	0	0	0	0	0

Stork Option Plan

The Company's 1995 Stock Option Plan ("Plan") was adopted by the Board of Directors in April 1995. Pursuant to the Plan, the Company may grant both incentive stock options intended to qualify for preferential tax treatment under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), and nonstatutory stock options that do not qualify for such treatment. Incentive stock options may be granted only to employees, while consultant, employees, officers and directors are eligible for the grant of nonstatutory options. The Plan also provides for the grant of stock purchase rights, stock appreciation rights and long term performance awards.

The purpose of the plan is to provide an incentive to eligible employees, consultants and officers whose present and potential contributions are important to the continued success of the company, to afford those individuals the opportunity to acquire a proprietary interest in the Company and to enable the Company to enlist and retain in its employment qualified personnel for the successful conduct of its business.

The total number of shares of Common Stock of the Company reserved and available for distribution under the Plan is 2,500,000 shares. Pursuant to the Plan, the administrators of the Plan shall be either the Board of Directors or one or more committees designated by the Board of Directors to administer the Plan. Subject to the express terms of the Plan, the administrators have full power to select, from among the officers, employees and consultants of the Company eligible for award rights, and options, the individuals to whom awards, rights or options will be granted, and to determine the specific terms of each award or grant.

The maximum term of a stock option under the Plan is ten years, but if the optionee at the time of the grant has voting power over more than 10% of the Company's outstanding capital stock, the terms is five years. The exercise price of incentive stock options granted under the Plan must be at least equal to the fair market value of such shares on the date of the grant. The exercise price of nonstatutory stock options granted under the Plan is determined by the administrators. Option may be exercisable in installments, and the exercisability of options may be accelerated by the administrators.

Options and rights granted pursuant to the Plan are nontransferable by their participants, other than by will or by the laws of descent or distribution, and may be exercised during the lifetime of the participant only by the participant. Appropriate transfer restrictions shall apply to any such stock awards.

In the event of any change in capitalization in the company that results in an increase or decrease in the number of outstanding shares without receipt of consideration by the Company, an appropriate adjustment shall be made in the number of shares which have been reserved for issuance under the Plan and the price per share or number of shares covered by each outstanding option or right.

The Plan may be amended by the Board at any time. However, stockholder approval will be required to increase the number of shares reserved for issuance under the Plan or where an amendment to the Plan would materially increase the benefits accruing to participants under the Plan or materially modify the requirements as to eligibility for participation in the Plan.

Defined Benefit and Actuarial Plans

The Company has not supplied Defined Benefits, or similar Pension, Benefit or Actuarial Plan Benefits to its Executive Officers.

Compensation of Directors

Mr. Ekbom became a full time employee in April 1995, prior to that he received compensation as a board member. Mr. Schlatter became a full time employee in August 1994 and prior to that received compensation as a board member. Mr. Larsen became a full time consultant and prior to that time received compensation as a board member and part time consultant. Dr. Clark has been a full time employee since he joined the Company 1991 and has not received board member fees.

EMPLOYMENT CONTRACTS

On April 1, 1995 the Board of Directors approved a three year employment contract with Roger A. Ekbom, Chairman with an automatic renewal for one year annually. The employment contract specifies a base annual salary of $100,000, an automobile allowance, Medical and Dental coverage, $200,000 life insurance payable to the corporation and participation in the 1995 Stock Plan with the right to have an option for 100,000 shares to be granted annually. The contract covers the duties and responsibilities as chief Executive officer for the corporation. As of August 1, 1996 Mr. Ekbom agreed to a 75% reduction in compensation for the balance of the fiscal year.

On April 1, 1995 the Board of Directors approved an extension of the employment contract of Gerald D. Schlatter to a total of three years with an automatic one year extension annually. The contract added a $200,000 life insurance policy payable to the corporation and participation in the 1995 Stock Plan with the right to have an option for 100,000 shares to be granted annually. The contract covers the duties and responsibilities as chief operating officer for the corporation. As of August 1, 1996 Mr. Schlatter agreed to a 25% reduction in compensation for the balance of the fiscal year.

On April 1, 1995 the Board of Directors approved a three year consulting contract with Robert J. Larsen with an annual one year automatic extension. The contract specifies an annual consulting fee of $100,000 and includes a $200,000 life insurance payable to the corporation on the life of Robert Larsen and participation in the 1995 Stock Plan with the right to have an option for 100,000 shares to be granted annually. The contract included the duties and responsibilities of Robert Larsen as Chief Financial officer for the corporation. On August 1, 1996 Mr. Larsen agreed to a 50% reduction in compensation for the balance of the fiscal year.

On October 1, 1991, Dr. Leland C. Clark, Jr., signed a five year contract with the Company as Research and Development Director. That contract has been extended on a month to month basis since October 1, 1996. The annual salary is $120,000. On August 1, 1996 Dr. Clark agreed to a 25% reduction in compensation for the fiscal year.

REPRICING OF OPTIONS

During the last fiscal year the Company has not adjusted or amended the exercise price of stock options.

ADDITIONAL INFORMATION WITH RESPECT TO COMPENSATION COMMITTEE, INTERLOCKS AND INSIDER PARTICIPATION IN COMPENSATION DECISIONS

The Company does not presently have a Compensation Committee of the Board of Directors, or other Board Committees performing equivalent functions, and did not at any time during the last four years. The entire Board of Directors presently performs these functions. All of the Executive officers are members of the Company's four person Board of Directors.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following tables sets forth the stock ownership of all persons who, to the registrants knowledge, own of record and beneficially five (5%) per cent or more of its outstanding Common Stock, and for the officers and directors as a group.

MANAGEMENT OWNERS

Title of Class	Name of Beneficial Owner	Amount & Nature of Beneficial Ownership	Percent of Class
Common Stock	Roger A. Ekbom	1,891,670	4.4%
Common Stock	Gerald D. Schlatter	1,234,660	2.9%
Common Stock	Leland C. Clark, Jr.(l)	4,852,900	11.3%
Common Stock	Robert J. Larsen (2)	1,542,445	3.6%
All Directors and Officers as a group (4 persons)		5,730,330	18.5%

(1) Leland C. Clark, Jr., owns 4,283,485 shares, Eleanor W. Clark owns 569,415 for a total of 4,852,900.

(2) Robert J. Larsen owns 1,542,445 beneficial by virtue of his control of Peso, Inc. and Jada, Inc.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Roger A. Ekbom, a director and Chief Executive officer, loaned the Company $3,560 as of April 30, 1997. Gerald D. Schlatter, a director and Chief Operating Officer, loaned the Company $8,365 as of April 30, 1997. Leland C. Clark, Jr. , a director and Vice President of Research and Development, loaned the Company $62,887 as of April 30, 1997. Robert J. Larsen, a director and Chief Financial officer, loaned the Company $1,167 as of April 30, 1997. These loans totaling $75,979 were made to enable the Company to continue its business operations, pending receipt of additional funding.

ITEM 14 EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM S-K

Response to Item 8.

A. Documents Filed as a Part of This Report:

(1) FINANCIAL STATEMENTS

(a) Independent Auditors Report.

(b) Balance Sheets as of April 30, 1997 & 1996.

(c) Statements of operations for each of the three years in the period ended April 30, 1997.

(d) Statements of Stockholders, Equity for each of the three years in the period ended April 30, 1997.

(e) Statements of Cash Flows for the three years in the period ended April 30, 1997.

(f) Notes to the Financial Statements.

INDEX TO EXHIBITS

Exhibits Required by Item 601 of Regulation S-K	Exhibits to This Year	Exhibits To Prior Reports
3 (a) Registrants Amended Articles of Incorporation		A-1
3 (b) Specimen Form of Common Stock Certificate		x
4 (a) Specimen three year Warrants to Purchase Stock dated July 24, 1992 with amendments		x
4 (b) Specimen three years Warrants to Purchase Stock dated September 30, 1992 with amendments		x
4 (c) Specimen three year Warrants to Purchase Stock dated November 20, 1992 with amendments		x
4 (d) Warrant to Purchase Stock issued February 28,1994 to American Heritage Fund.		
4 (e) Warrant to Purchase Stock issued July 24, 1992 to Cato Portfolio AG		x
4 (f) Specimen two year Warrant to Purchase Stock dated September 30, 1992 and November 20, 1992		x
4 (g) Warrant to Purchase Stock issued April 29, 1994 to Cato Portfolio AG		x

(k)	Warrant to Purchase Stock issued August 19, 1993 and September 9, 1993 to Cato Portfolio	x
(1)	Specimen two year Warrants to Purchase Stock issued on various dates from January 21, 1993 to February 23, 1994	x
10(a)	Agreement between the Registrant and Leland C. Clark, Jr., Ph.D. dated October 1, 1991 with amendments, Re: Assignment of Intellectual Property and Trade Secrets	x
10(b)	Agreement between the Registrant and Keith R. Watson, Ph.D., Re: Assignment of Invention	x
10(c)	Agreement between the Registrant and Children's Hospital Medical Center dated, July 6, 1992	x
10(d)	Agreement between the Registrant and Children's Hospital Medical Center dated, July 6, 1993	x
10(e)	Agreement between the Registrant and Children's Hospital Medical Center dated, July 6, 1993	x
10(f)	Agreement between the Registrant and Roger R. Ekbom dated, April 1, 1995	x
10(g)	Agreement between the Registrant and Gerald D. Schlatter dated, July 11, 1994 with Amendments	x
10(h)	Agreement between the Registrant and Robert J. Larsen dated, April 1, 1995	x
10(i)	Agreement between the Registrant and L.G. Kurtz & Associates dated, July 22, 1994	x
10(j)	Agreement between the Registrant and Broadgate Consultant, Inc., dated, July 29, 1994	x
10(k)	Agreement between the Registrant and San Diego Contract Research Associates, Inc. dated November 21, 1995	x
10(l)	Agreement between the Registrant and Glen Wegner, M.D., J.D. dated, April 27, 1995	x
10(m)	Employee Stock Plan dated, April 28, 1995	x
10(n)	Indemnification Agreement between the Registrant and members of the Board of Directors dated, April 26, 1995	x
10(o)	Agreement between the Registrant and Air Products & Chemical, Inc., dated January 30, 1995.	x

Pursuant to the requirements of Section 13 of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereto duly authorized.

SYNTHETIC BLOOD INTERNATIONAL, INC.

Roger A. Ekbom, Chairman & CEO

By: /S/ ROGER A. EKBOM

Robert J. Larsen, Secretary & Chief Financial Officer

BY: /S/ ROBERT J. LARSEN

Dated: 7/22/97

Pursuant to the requirements of Instruction D to Form 10-K under the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated. The following represent at least a majority of the Board of Directors of the Registrant.

Date	Name & Title
7/22/97	Roger A. Ekbom Chairman of the Board of Directors By: /S/ ROGER A. EKBOM
7/22/97	Gerald D. Schlatter President & Director By: /S/ GERALD SCHLATTER
	Leland C. Clark, Jr. Vice President & Director
7 / 22 / 97	Robert J. Larsen Director & Secretary Treasurer By: /S/ ROBERT LARSEN

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Synthetic Blood International, Inc.:

We have audited the accompanying balance sheets of Synthetic Blood International, Inc. (the Company) as of April 30, 1997 and 1996 and the related statements of operations, stockholders' deficit and cash flows for each of the three years in the period ended April 30, 1997 and for the period from May 26, 1967 (date of incorporation) to April 30, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits. The financial statements for the period May 26, 1967 through April 30, 1994 were audited by other auditors and reflected an accumulated net loss of $2,148,706. The other auditors' report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such prior period, is based solely on the report of such other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, such financial statements present fairly, in all material respects, the financial position of Synthetic Blood International, Inc. as of April 30, 1997 and 1996 and the results of its operations and its cash flows for the years then ended, and for the period from May 26, 1967 (date of incorporation) to April 30, 1997 in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company is a development stage enterprise engaged in developing certain medical products. As discussed in Note 1 to the financial statements, the Company's accumulated losses from operations, negative working capital and operating cash flows, its necessity to obtain additional financing to fund operations until the necessary regulatory approvals are obtained, if ever, and its ability to ultimately attain successful operations, raise

substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Costa Mesa, California
June 18, 1997

SYNTHETIC BLOOD INTERNATIONAL, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

BALANCE SHEETS
AS OF APRIL 30, 1997 AND 1996

	1997	1996
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 53,857	$ 76,312
Prepaid expenses:		
Insurance	11,925	20,686
Other	5,500	9,126
	17,425	29,812
Total current assets	71,282	106,124
PROPERTY AND EQUIPMENT:		
Laboratory equipment	235,133	235,329
Furniture and fixtures	68,385	70,064
	303,518	305,393
Less accumulated depreciation	(166,085)	(103,226)
Property and equipment, net	137,433	202,167
PATENTS, net (Note 2)	109,448	85,648
	$ 318,163	$ 393,939

See independent auditors' report and notes to financial statements.

SYNTHETIC BLOOD INTERNATIONAL, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

BALANCE SHEETS
AS OF APRIL 30, 1997 AND 1996 (CONTINUED)

	1997	1996
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Current portion of capital lease obligation (Note 3)	$ 16,573	$ 17,722
Accounts payable	323,401	277,340
Accrued payroll	50,722	343,641
Other accrued liabilities	134,000	89,565
Notes payable to stockholders (Note 4)	75,979	246,701
Total current liabilities	600,675	974,969
CAPITAL LEASE OBLIGATION, net of current portion (Note 3)		16,573
COMMITMENTS AND CONTINGENCIES (Notes 3 and 6)		
STOCKHOLDERS' DEFICIT (Notes 5 and 6):		
Common stock, par value $0.01 per share; authorized 100,000,000 shares; 42,829,477 and 31,030,382 shares issued and outstanding at April 30, 1997 and 1996, respectively	428,295	310,304
Additional paid-in capital	7,576,325	5,468,849
Deficit accumulated during the development stage	(8,287,132)	(6,376,756)
Total stockholders' deficit	(282,512)	(597,603)
	$ 318,163	$ 393,939

See independent auditors' report and notes to financial statements.

SYNTHETIC BLOOD INTERNATIONAL, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF OPERATIONS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 1997

	ACCUMULATED DURING THE DEVELOPMENT STAGE	1997	1996	1995
EXPENSES:				
Research and development	$ 2,792,433	$ 460,978	$ 924,093	$ 896,534
General and administrative	5,441,328	1,437,353	1,422,809	1,017,415
Interest	101,672	12,959	5,241	3,055
Total expenses	8,335,433	1,911,290	2,352,143	1,917,004
OTHER INCOME	(48,301)	(914)	(5,916)	(35,181)
NET LOSS	$ (8,287,132)	$ (1,910,376)	$ (2,346,227)	$(1,881,823)
NET LOSS PER SHARE		$ (0.05)	$ (0.08)	$ (0.07)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		36,053,557	28,894,248	26,333,838

See independent auditors' report and notes to financial statements.

SYNTHETIC BLOOD INTERNATIONAL, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 1997

	NUMBER OF SHARES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
BALANCES, May 26, 1967	-	$ -	$ -	$ -	$ -
Issuance of common stock	23,541,043	235,410	2,718,686		2,954,096
Conversion of convertible debentures into common stock	870,199	8,702	771,298		780,000
Net losses				(2,148,706)	(2,148,706)
BALANCES, May 1, 1994	24,411,242	244,112	3,489,984	(2,148,706)	1,585,390
Issuance of common stock, net of issuance costs of $210,000 (Note 5)	2,366,667	23,667	1,061,333		1,085,000
Issuance of common stock to employees and compensatory options (Note 5)	218,800	2,188	81,312		83,500
Common stock issued upon conversion of notes payable (Note 5)	500,000	5,000	120,000		125,000
Exercise of warrants (Note 6)	13,750	137	1,238		1,375
Contribution of capital through services rendered (Note 5)			30,000		30,000
Net loss				(1,881,823)	(1,881,823)
BALANCES, April 30, 1995	27,510,459	275,104	4,783,867	(4,030,529)	1,028,442

See independent auditors' report and notes to financial statements.

SYNTHETIC BLOOD INTERNATIONAL, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 1997 (CONTINUED)

	NUMBER OF SHARES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
Issuance of common stock	358,333	$ 3,583	$ 71,417	$ -	$ 75,000
Issuance of common stock in conjunction with funding agreements and services rendered (Note 5)	1,444,090	14,441	317,291		331,732
Issuance of common stock to officers (Note 5)	117,500	1,176	16,574		17,750
Common stock issued upon conversion of notes payable (Note 5)	400,000	4,000	76,000		80,000
Exercise of warrants (Note 6)	1,200,000	12,000	108,000		120,000
Issuance of warrants (Note 6)			60,000		60,000
Contribution of capital from officer (Note 5)			35,700		35,700
Net loss				(2,346,227)	(2,346,227)
BALANCES, April 30, 1996	31,030,382	310,304	5,468,849	(6,376,756)	(597,603)
Issuance of common stock	4,000,000	40,000	1,100,000		1,140,000
Common stock issued upon conversion of note payable (Note 5)	133,500	1,335	18,165		19,500
Common stock issued upon conversion of notes payable to officers (Note 5)	3,733,320	37,333	423,442		460,775
Issuance of common stock in exchange for services rendered (Note 5)	3,932,275	39,323	565,869		605,192
Net loss				(1,910,376)	(1,910,376)
BALANCES, April 30, 1997	42,829,477	$ 428,295	$7,576,325	$(8,287,132)	$(282,512)

See independent auditors' report and notes to financial statements.

SYNTHETIC BLOOD INTERNATIONAL, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 1997

	ACCUMULATED DURING THE DEVELOPMENT STAGE	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$(8,287,132)	$(1,910,376)	$(2,346,227)	$(1,881,823)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	238,450	83,073	87,459	44,097
Write-down of other assets	126,800			126,800
Issuance of compensatory stock options/ warrants	118,500		60,000	58,500
Issuance of stock below fair market value	540,000	540,000		
Issuance of stock for services rendered	936,924	605,192	331,732	
Contribution of capital through services rendered	30,000			30,000
Changes in operating assets and liabilities:				
Receivables from employees				7,178
Prepaid expenses	(17,425)	12,387	60,282	36,090
Accounts payable and accrued expenses	508,123	(202,423)	608,263	(194,016)
Net cash used in operating activities	(5,805,760)	(872,147)	(1,198,491)	(1,773,174)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property and equipment	(270,640)	(2,128)	(33,699)	(136,686)
Proceeds from sale of property and equipment	15,457		15,457	
Purchase of other assets	(304,610)	(40,011)	(35,866)	(14,209)
Net cash used in investing activities	(559,793)	(42,139)	(54,108)	(150,895)

See independent auditors' report and notes to financial statements.

SYNTHETIC BLOOD INTERNATIONAL, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 1997 (CONTINUED)

	ACCUMULATED DURING THE DEVELOPMENT STAGE	1997	1996	1995
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of notes payable to stockholder	$ 836,254	$ 309,553	$ 326,701	$ 6,000
Repayments of notes payable to stockholder	(75,000)			(75,000)
Proceeds from issuance of convertible debentures	780,000			
Payments on capital lease obligation	(35,765)	(17,722)	(14,065)	(3,978)
Contribution of capital from stockholders	35,700		35,700	
Proceeds from issuance of common stock	4,878,221	600,000	212,750	1,111,375
Net cash provided by financing activities	6,419,410	891,831	561,086	1,038,397
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	53,857	(22,455)	(691,513)	(885,672)
CASH AND CASH EQUIVALENTS, beginning of period		76,312	767,825	1,653,497
CASH AND CASH EQUIVALENTS, end of period	$ 53,857	$ 53,857	$ 76,312	$ 767,825
CASH PAID FOR:				
Interest	$ 88,446	$ 3,339	$ 5,241	$ 1,601
Taxes	$ 4,800	$ 800	$ 800	$ 800

SUPPLEMENTAL INFORMATION -
For information relating to conversion of notes payable into common stock and other noncash transactions see Notes 3 and 5.

See independent auditors' report and notes to financial statements.

SYNTHETIC BLOOD INTERNATIONAL, INC.
(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO FINANCIAL STATEMENTS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED APRIL 30, 1997

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1. GENERAL

The Company was incorporated on May 26, 1967 and was inactive through September 1990 when it began conducting operations for the purpose of developing a synthetic blood emulsion to act as a human blood substitute, and a method of using a perfluorocarbon compound to facilitate oxygen exchange for individuals with respiratory distress syndrome. Shortly after commencing these operations the Company changed its name to Synthetic Blood International, Inc. The Company is also developing an implantable, continuous reading glucose biosensor to be used primarily by individuals with diabetes. All of the Company's products are currently in the pre-clinical trial stage. This stage requires a sufficient level of animal testing to be performed in order to file certain applications with the United States Food and Drug Administration (FDA) which is necessary to obtain FDA approval to proceed with human testing and ultimately approval to market the products. No assurances can be given that such approvals, once applied for, will be granted.

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. The Company is in the development stage and, at April 30, 1997, has accumulated losses from operations amounting to $8,287,132, a working capital deficit of $529,393 and incurred negative cash flow from operations of $872,147 in fiscal 1997. As mentioned in the preceding paragraph, 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 additional development and testing will require significant additional financing. Management intends to seek such additional financing through future private placement offerings and/or joint ventures. The Company's continuation as a going concern is dependent on its ability to obtain additional financing, and ultimately to attain successful operations. However, no assurance can be given at this time as to whether the Company will achieve these conditions or that 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.

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 (SFAS) No. 7, Accounting and Reporting by Development Stage Enterprises.

Cash and Cash Equivalents - The Company considers highly liquid investments with original maturities of three months or less to be cash equivalents.

Property and Equipment - Property and equipment are 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 the 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. Patent costs totaled $149,801 and $134,790, net of accumulated amortization of $40,353 and $49,142, at April 30, 1997 and 1996, respectively. 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.

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 the exercise price of options to purchase common stock, based on a good faith estimate of fair market value, which is derived from recent issuances of common stock to unrelated parties and/or from common stock market quotations, after giving effect to the restricted nature of the stock issued. In the event that stock is issued at a price below fair market value, an expense is recorded for the difference between fair market value and the issuance price and is included in general and administrative expenses.

Net Loss per Common Share - Net loss per common share is calculated using the weighted average number of common shares outstanding during the period. Common share equivalents have not been included in the per share computations because their effect is antidilutive.

Income Taxes - The Company accounts for its income taxes in accordance with the standards specified in SFAS No. 109, Accounting for Income Taxes.

Reclassifications - Certain amounts as previously reported have been reclassified to conform to the 1997 presentation.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of other income and expenses during the reporting periods. Actual results could differ from those estimates.

Fair Value of Financial Instruments - The Company's balance sheet includes the following financial instruments: cash and cash equivalents, accounts payable, accrued expenses, capital lease obligation and notes payable to stockholders. The Company considers the carrying amount in the financial statements to approximate fair value for these financial instruments because of the relatively short period of time between origination of the instruments and their expected realization.

Stock-Based Compensation - The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. (Note 6)

New Accounting Pronouncement - During 1997, the FASB issued SFAS No. 128, Earnings per Share. SFAS No. 128 requires the Company to disclose a basic and diluted earnings per share calculation. Basic earnings per share (EPS) excludes common stock equivalents from the EPS calculation, while diluted EPS is calculated consistent with the Company's primary earnings per share calculation. The Company will adopt the provisions of SFAS No. 128 with the fiscal 1998 financial statements. Basic and diluted EPS, as computed under SFAS No. 128, would not have been materially different from EPS determined in accordance with APB Opinion No. 15 for the periods presented.

3. COMMITMENTS AND CONTINGENCIES

Leases - During fiscal 1995, the Company entered into capital lease agreements for certain computer equipment which expires in fiscal 1998. At April 30, 1997, the capitalized cost related to these leases amount to $52,388 and the related accumulated amortization amounted to $39,254. As of April 30, 1997, the future minimum lease payments amounted to $17,551, of which $978 represents interest.

Employment Contracts - The Company has employment agreements with certain officers and a key employee with aggregate future commitments of $240,000 in 1998.

Litigation - The Company is subject to litigation in the normal course of business, none of which management believes will have a material adverse effect on the Company's financial statements as of April 30, 1997 except as follows:

The Company has two legal matters pending at April 30, 1997. These legal actions were filed by former employees alleging unfair treatment during a temporary layoff in December 1995. These cases are presently in pretrial discovery. Company management's recent communications with legal counsel

have indicated that the Company's exposure related to these legal actions could amount to $124,000. Thus, while the outcome of such litigation is uncertain, the Company has provided an accrual for such loss contingency using the best available estimate of $124,000.

4. NOTES PAYABLE TO STOCKHOLDERS

During 1997, certain stockholders loaned the Company $309,553 to fund operations. As of April 30, 1997, notes payable to stockholders amounted to $79,979. Such loans are due on demand and are noninterest-bearing.

5. STOCKHOLDERS' EQUITY

At April 30, 1994, the Company had a subscription agreement with an unrelated entity providing for future purchases of up to 1,666,667 shares of the Company's common stock at $.60 per share, which was fulfilled during fiscal 1995. In conjunction with this agreement, the Company incurred offering costs of $210,000, of which $150,000 was paid in cash and $60,000 was paid through the issuance of 100,000 shares of common stock. Also, the Company issued a warrant providing for the purchase of up to 500,000 shares of its common stock at $.60 per share, which approximated the fair market value of the warrant. The warrants expire in April 1998.

During fiscal 1995, the Company converted outstanding notes payable to a stockholder and officer aggregating $125,000 into 500,000 shares of the Company's common stock, pursuant to a conversion provision granted by the Company. In conjunction with the terms of the original agreement which was entered into during fiscal 1994, the Company granted the holder warrants to purchase 110,250 shares of common stock at an exercise price of $.10 per share. At the date of the agreement, the exercise price of the warrants was considered to approximate the fair market value of the warrants. In addition, the Company issued 110,800 shares of the Company's common stock as additional consideration for the note. An amount representing the fair market value of the Company's common stock at the date of the agreement was recognized as expense related to this issuance.

During fiscal 1995, an entity in which an officer of the Company has a controlling interest, transferred an aggregate of 120,000 shares of the Company's common stock to a stockholder and an employee for certain loans and services, respectively, provided to the Company. Accordingly, an amount which represents the fair market value of the Company's common stock at the date of the related transfers or issuances has been recognized in the accompanying financial statements as an expense.

During fiscal 1995, the Company issued 100,000 shares of common stock to an employee for $25,000 in cash, which represented the fair market value at the date of issuance. In addition, in exchange for various services performed, the Company issued certain officers 8,000 shares of the Company's common stock.

During fiscal 1996, the Company issued 1,200,000 shares of its common stock in conjunction with a standby funding agreement with a stockholder, which allowed the Company to borrow up to $450,000 from this stockholder during the period from August 1995 through October 1995. As a result of this agreement, the Company recognized an expense of $240,000 which represented the fair market value of the shares at the date of the agreement.

During fiscal 1996, the Company issued 117,500 shares of common stock to officers. In addition, during 1996, the officers exercised warrants granted during 1994 to purchase 91,250 shares of common stock. The exercise price of the warrants of $.10 per share approximated the fair market value of the warrants on the date of grant. The remaining shares were purchased for $8,625 in cash, which represented the fair market value at the date of issuance.

During fiscal 1996, the Company converted an outstanding note payable to a stockholder of $80,000 into 400,000 shares of the Company's common stock, pursuant to a conversion option granted by the Company.

During fiscal 1996, an officer of the Company contributed $35,700 in cash to fund operations.

During fiscal 1996, the Company expensed $45,000, which was paid to a stockholder as an inducement to retain shares of the Company's common stock.

In July 1997, the Company converted an outstanding note payable to a stockholder in the amount of $19,500 into 133,500 shares of the Company's common stock. As a result of this transaction, the Company recognized expense of $14,685, representing the difference between the fair market value and the issuing value of the common stock.

During fiscal 1997, the Company converted outstanding notes payable to officers totaling $460,775 into 3,733,320 shares of the Company's common stock. In addition, the Company issued 3,330,175 shares of the Company's common stock in exchange for services rendered by officers, which were valued at an average per share price of $.15.

During fiscal 1997, the Company issued 602,100 shares of the Company's common stock in exchange for services rendered by stockholders, which were valued at an average per share price of $.18.

6. STOCK OPTIONS AND WARRANTS

In April 1995, the Company adopted a stock option plan providing for the granting of options to officers, directors, consultants and key employees to purchase up to 2,500,000 shares of the Company's common stock at prices not less than the fair market value of the stock at the date of grant. The option expiration dates are determined at the date of grant, but may not exceed ten years. In conjunction with this agreement in fiscal 1995, the Company granted an employee an option to purchase up to 100,000 shares of the Company's common stock at $.25 per share. The option expires in March 1999. In fiscal 1996, no new options were granted, however, the Company's Board of Directors did commit to grant three officers 100,000 options each at a future date. The option price will be determined at the date of grant. In fiscal 1997, no new options were granted.
During fiscal 1995, 1996 and 1997, no options were exercised.

In connection with various agreements for the sale of the Company's common stock (Note 5) and in lieu of payment for services rendered, the Company issued warrants to purchase shares of its common stock at prices ranging from $0.10 to $3.00 per share. During fiscal 1996, the Company granted warrants to nonemployees to purchase 1,200,000 shares of common stock at $.10 per share. As the exercise price was less than the fair market value of the stock on the grant date, an amount representing the difference between exercise price and fair market value was recognized as expense during fiscal 1996. All warrants granted during fiscal 1996 were exercised in April 1996. Remaining warrants outstanding at April 30, 1997 provide for the purchase of common shares at $.60 to $1.00 per share and expire in April 1999. Warrant activity for each of the three years ended April 30, 1997 is as follows:

	1997			1996			1995		
	NUMBER OF SHARES	EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES	EXERCISE PRICE PER SHARE	WEIGHTED AVERAGE EXERCISE PRICE
BALANCE, beginning of year	600,000	($.60 - $1.00)	$ 0.67	2,189,973	($.10 - $3.00)	$ 1.31	2,218,584	($.10 - $3.00)	$ 1.29
Granted				1,200,000	($.10)	$ 0.10	101,500	($.10 - $1.00)	$ 0.99
Expired				(1,498,723)	($.10 - $3.00)	$ 1.64	(116,361)	($.10 - $1.12)	$ 0.86
Exercised				(1,291,250)	($.10)	$ 0.10	(13,750)	($.10)	$ 0.10
BALANCE, end of year	600,000	($.60 - $1.00)	$ 0.67	600,000	($.60 - $1.00)	$ 0.67	2,189,973	($.10 - $3.00)	$ 1.31

The Company applies APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations to account for stock option and warrants granted to employees. Had compensation cost for the stock option been determined based on the fair value at the grant date consistent with the method of SFAS No. 123, Accounting for Stock-Based Compensation, the Company's net loss would not have been materially different from the net loss recorded under APB Opinion No. 25.

The Company did not grant any options or warrants during fiscal 1997 and all previous issuances were fully vested. Therefore, there is no difference between the reported net loss for fiscal 1997 as accounted for under the provisions of APB Opinion No. 25 and SFAS No. 123.

The fair value for these options and warrants was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions for fiscal 1996: risk-free interest rate of 6%, no dividend yield, volatility factor of 117%, and a life of the options and warrants of one month. The assumptions were the same for fiscal 1995, with the exception of the life of the options and warrants, which was estimated to be 48 months.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options and warrants which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options and warrants have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

7. INCOME TAXES

SFAS No. 109, Accounting for Income Taxes, requires the recognition of deferred tax liabilities and assets for the future consequences of events that have been recognized in the Company's financial statements or tax returns. In the event the future consequences of differences between financial reporting bases and tax bases of the Company's assets and liabilities result in a deferred tax asset, SFAS No. 109 requires an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

As of April 30, 1997 and 1996, the Company had net deferred tax assets of approximately $2,817,625 and $2,171,000, respectively, all of which has been offset by a valuation allowance. These deferred tax assets are comprised of net operating loss and research and development credit carryforwards which expire through 2012.

8. RELATED PARTIES

During fiscal 1997, 1996 and 1995, the Company recorded expenses of approximately $63,000, $100,000 and $72,000, respectively, for services provided to the Company which were provided by a company in which an officer of the Company has a controlling interest.

Included in accounts payable at April 30, 1997 and 1996 are payables to officers of $52,038 and $53,784, respectively.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FISCAL YEAR ENDED APRIL 30, 1997 SYNTHETIC BLOOD INTERNATIONAL, INC.

YEAR	
	APR-30-1997
	MAY-01-1996
	APR-30-1997
	53,857
	0
	0
	0
	0
	71,282
	303,518
	166,085
	318,163
	600,675
	0
	0
	0
	428,295
	(710,807)
	318,163
	0
	914
	0
	0
	1,911,290
	0
	12,959
	(1,910,376)
	0
	0
	0
	0
	0
	(1,910,376)
	($0.05)
	($0.05)