

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 October 31, 1996

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)

402 West Broadway Street, Suite 400, San Diego, CA 92101

619-595-4829

(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).

YES (X) NO ()

and (2) has been subject to such filing requirements for the past
90 days.

YES (X) NO ()

Indicate the number of shares outstanding of each of the issuer's classes of
common stock, as of October 31, 1996.

38,485,094 shares of common stock par value \$0.01

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

BALANCE SHEETS

ASSETS

	October 31, 1996 (Unaudited)	April 30, 1996 (Audited)
	-----	-----
Current Assets:		
Cash	\$ 138,760	\$ 76,312
Receivables	200,000	
Prepaid Expense	9,126	29,812
	-----	-----
Total Current Assets	\$ 347,886	\$ 106,124
Property & Equipment, net	191,619	202,167
Other Assets:		
Patents and Technology	88,585	85,648
	-----	-----
Total Assets	\$ 628,090	\$ 393,939
	=====	=====

LIABILITIES AND STOCKHOLDERS'S EQUITY

Current Liabilities:		
Accrued Expenses	\$ 308,086	\$ 277,340
Stockholders loans	4,027	246,701
Accrued Payroll & Other	65,115	450,928
	-----	-----
Total Current Liabilities	\$ 377,228	\$ 974,969
Capital lease obligations	\$ 12,211	\$ 16,573
	-----	-----
Total Liabilities	\$ 389,439	\$ 991,542
Stockholder's Equity:		
Common Stock \$0.01 par		
Value: Authorized		
100,000,000 shares		
Issued & outstanding		
38,485,094 & 31,030,382	\$ 384,851	\$ 310,304
Additional Paid in capital	7,043,609	5,468,849
Stock Subscribed	200,000	
Deficit Accumulated since		
Development Stage	(7,389,809)	(6,376,756)
	-----	-----
Total Stockholder's Equity	\$ 238,651	\$ (597,603)
(Deficit)	-----	-----
Total Liabilities &		
Stockholder's Equity	\$ 628,090	\$ 393,939
	=====	=====

See accompanying notes to financial statements

SYNTHETIC BLOOD INTERNATIONAL, INC
(A Development Stage Company)

STATEMENTS OF OPERATIONS

	Accumulated during the development stage -----	Six Months Ended October 31, 1996 1995 ----- (Unaudited)	
Expenses:			
Research and development	\$ 2,682,349	\$ 284,047	\$ 625,289
General and administrative	4,662,074	724,946	805,692
Interest	93,036 -----	4,323 -----	5,318 -----
Total Expense	7,437,459	1,013,316	1,436,299
OTHER INCOME	47,650 -----	263 -----	5,650 -----
NET LOSS	\$(7,389,809)	\$(1,013,053) =====	\$(1,430,649) =====
NET LOSS PER SHARE		\$(0.03)	\$(0.05)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		32,274,295 =====	28,910,459 =====

See accompanying notes to financial statements

SYNTHETIC BLOOD INTERNATIONAL, INC.
STATEMENT OF CASH FLOWS

	ACCUMULATED during the development stage	SIX MONTHS ended October 31, 1996	SIX MONTHS ended October 31, 1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$(7,388,863)	\$(1,013,053)	\$(1,378,528)
Adjustments to reconcile net cash used in operating activities:			
Depreciation and amortization	165,925	10,548	18,142
Write down other assets	126,800		
Issuance of compensatory stk options	118,500		
Contribution of capital through services rendered	30,000		
Changes in operating assets and liabilities:			
Accounts receivable			
Prepaid expenses & other assets	9,126	20,686	42,546
Accounts payable and accrued expense	355,067	(355,067)	(228,748)
	-----	-----	-----
Net cash used in operating activities	(6,583,445)	(1,336,886)	(1,089,092)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of other assets	(264,599)		
Purchase of property and equipment	(255,992)	(2,937)	(33,926)
	-----	-----	-----
Net cash used in investing activities	(520,591)	(2,937)	(33,926)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale of common stock	5,177,721	819,500	371,699
Payments on capital lease obligations	(22,405)	(4,362)	(8,724)
Proceeds from issuance of notes payable to stockholder	446,701		(6,930)
Contribution of capital stockholder	35,700		
Stock subscription	(200,000)	(200,000)	
Proceeds from convertible debentures	780,000		
Issuance of stock for services	1,360,593	1,028,861	
Repayments of notes payable	(335,514)	(242,674)	
	-----	-----	-----
Net cash provided by financing activities	7,242,796	1,402,269	356,045
NET DECREASE IN CASH AND CASH EQUIVALENTS:	138,760	62,448	(766,973)
CASH AND CASH EQUIVALENTS, beginning of period		76,312	767,825
CASH AND CASH EQUIVALENTS, end of period	\$ 138,760	\$ 138,760	\$ 852
	=====	=====	=====
Cash paid for Interest	\$ 89,429	\$ 4,322	\$ 904
Taxes	4,800	800	800

See accompanying notes to financial statements

SYNTHETIC BLOOD INTERNATIONAL, INC.
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
October 31, 1996

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 October 31, 1996, and the results of its operations and its cash flows for the six month period ended October 31, 1996 and 1995. 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, 1996 filed with the Securities and Exchange Commission on August 29, 1996.

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 has accumulated losses from operations amounting to \$7,389,809. 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. 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 evaluated 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.

Reclassification - Certain amounts as previously reported have been reclassified to conform to the 1996 presentation.

3. COMMITMENTS AND CONTINGENCIES

Employment Contracts - The Company has employment agreements with certain officers and an employee with aggregate future commitments of \$411,000 in 1997 and \$272,000 in 1998.

Consulting Agreements - The Company has an equity finance agreement with an individual which provides for commissions of 6% to be paid in cash or common stock, in exchange for raising at least \$5,000,000 in equity financing after May 7, 1996. As of October 31, 1996, no amounts were due under this agreement. The agreement expires on May 7, 1997.

During fiscal 1995, the Company entered into a consulting agreement with an unrelated party which requires monthly payment of \$5,000 and expired in December 1995. In conjunction with this agreement, the Company issued warrants to purchase 100,000 shares of the Company's common stock at \$1.00 per share, which exceeded the fair market value at the date of the agreement. The warrants expire in April 1999.

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 October 31, 1996.

4. LICENSE AGREEMENTS

The Company has various exclusive and non-exclusive license agreements with an unaffiliated entity providing for the rights to manufacture, use and sell certain licensed products. In exchange for these rights the Company is required to pay royalties of the greater of 3 1/2% of net sales or \$30,000, \$140,000 and \$150,000 for the years ended April 30, 1997, 1998 and 1999 and \$200,000 per year, thereafter. These agreements expire at various dates through the expiration of the patents.

5. STOCKHOLDERS' EQUITY

In connection with a funding in 1995, the Company issued a warrant providing for the purchase of up to 500,000 shares of its common stock at \$0.60 per share, which approximated the fair market value of the warrant. The warrants expire in April 1998.

On July 28, 1996 the Company issued 1,000,000 shares of its common stock under a Regulation S subscription agreement to an offshore company, Caymus Capital, Ltd., for a \$200,000 investment.

On July 5, 1996 the Company issued 2,869,191 shares of common stock to officers and directors for the cancellation of \$ 581,763 of loans made to the corporation and for salaries and expenses remaining unpaid as at July 5, 1996.

On July 5, 1996 the Company issued an employee bonus of 222,100 shares of common stock to all employees other than officers and directors. An expense of \$44,420 was made at \$0.20 per share for said bonus.

On August 29, 1996 the Company issued 1,000,000 shares of common stock to Robert Nicora, an outside consultant as a bonus for services rendered to the company. An expense of \$10,000 was made at \$0.20 per share for said bonus.

On August 2, 1996 the company issued 133,500 shares of common stock to Jan Glines for the payment of \$19,500 or \$0.15 per share.

On August 6, 1996, the company issued 100,000 shares of common stock to Mary Harvey for services rendered to the company. An expense of \$20,000 or \$0.20 per shares was made for the payment.

On October 2, 1996, the company issued 40,000 shares of common stock to CeCe Wilkens for cancelling \$6,000 owed to her company Wilkens Communications. An expense of \$2,000 was made for this issuance.

On October 2, 1996, the company issued 40,000 shares of common stock to Jeremy Andrus as payment for services rendered to the company. An expense of \$8,000 was made for this issuance.

On August 29, 1996 the Company issued 1,000,000 shares of its common stock under a Regulation S subscription agreement to an offshore company, Caymus Capital, Ltd., for a \$200,000 investment.

On October 16, 1996 the Company issued 2,000,000 shares of its common stock under a Regulation S subscription agreement to Argos Invest Consult AG, a Zurich Switzerland asset manager, for a \$200,000 investment.

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

Second Quarter of 1996 and 1995.

The Research and Development expenses for the six months period ended October 31, 1996 were \$284,047, compared to \$625,289 for the

same period in the prior year. This decrease was due to a significant reduction in research personnel, research support personnel, and outside independent laboratory confirmation of test results. The development activities were primarily concerned with the patenting activity.

General and Administrative expenses for the six month period ended October 31, 1996 were \$724,946, compared to \$805,692 for the same period in the prior year. The decrease for the six months period reflected lower travel and office expenses for the period.

The net loss for the six month period ended October 31, 1996 was \$1,013,053, compared to \$1,430,649 for the same period in the prior year. This decrease for the six month period represents the reduction of research staff and outside laboratory testing.

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 October 31, 1996 the Company had \$347,886 in total current assets and a working capital deficit of \$29,342.

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.
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Part II-Other Information

- Item 1. Legal Proceedings.
None
- 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
None
- 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)

12/13/96 _____
(Date)

_____/s/_____/_____
Robert J. Larsen, Secretary/Treasurer

This schedule contains summary financial information extracted from a quarterly October 31, 1996 report Synthetic Blood International, Inc.

6-MOS		
	APR-30-1997	
	MAY-01-1996	
	OCT-31-1996	
		138,760
		0
	200,000	0
		0
	347,886	305,957
	114,338	
	628,090	
377,228		12,211
	0	0
		384,851
		(146,199)
628,090		0
	263	0
		0
	1,013,316	
	0	
	4,323	
	(1,013,053)	
		0
	0	
		0
		0
	(1,013,053)	
	(0.03)	
	(0.03)	