SANGUI BIOTECH INTERNATIONAL INC
Form 10-Q
November 15, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

# FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: **September 30, 2012**

Commission file number: 0-21271

**SANGUI BIOTECH INTERNATIONAL, INC.**

(Exact name of Registrant as specified in Its Charter)

| Colorado | 84-1330732 |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

Alfred-Herrhausen-Str. 44, 58455 Witten, Germany

(Address of Principal Executive Offices)

011-49-2302-915-204

(Registrant's Telephone Number, including area code)

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.

Yes [ ] No [X]

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer [ ] Accelerated Filer [ ]

Non-Accelerated Filer [ ] Smaller Reporting Company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

As of November 12, 2012, there were 126,046,757 shares of the issuer's Common Stock, no par value, issued and outstanding.

SANGUI BIOTECH INTERNATIONAL, INC.

Quarterly Report on Form 10-Q

For the Quarterly Period Ended September 30, 2012

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## PART I - FINANCIAL INFORMATION

**Item 1 - Consolidated Financial Statements**

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission and, therefore, do not include all information and footnotes necessary for a complete presentation of our financial position, results of operations, cash flows, and stockholders' deficit in conformity with generally accepted accounting principles in the United States of America. In the opinion of management, all adjustments considered necessary for a fair presentation of the consolidated results of operations and financial position have been included and all such adjustments are of a normal recurring nature.

Our unaudited Consolidated Balance Sheet as of September 30, 2012 and the audited balance sheet as of June 30, 2012, the unaudited Consolidated Statements of Operations for the three month periods ended September 30, 2012 and 2011, the unaudited Consolidated Statements of Stockholders Equity (Deficit) from June 30, 2012 to September 30, 2012, and the unaudited Consolidated Statements of Cash Flows for the three-month periods ended September 30, 2012 and 2011, and together with the notes thereto, are attached hereto and are incorporated herein by this reference.

**SANGUI BIOTECH INTERNATIONAL, INC.**
Condensed Consolidated Balance Sheets

ASSETS

| | September 30, 2012 (unaudited) | June 30, 2012 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash | $ 48,704 | $ 238,639 |
| Prepaid expenses and other assets | 30,063 | 15,621 |
| Tax refunds receivable | 22,741 | 19,487 |
| Related party receivables | 149,815 | 160,509 |
| Note receivable, related party | 65,743 | 63,347 |
| Notes receivable | 643,004 | 628,852 |
| Total Current Assets | 960,070 | 1,126,455 |
| PROPERTY AND EQUIPMENT, Net | 1,197 | 1,270 |
| TOTAL ASSETS | 961,267 | $ 1,127,725 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | $ 99,124 | $ 81,005 |
| Related party payables | 77,012 | 68,481 |
| Note payable - related party | 18,865 | 18,865 |
| TOTAL CURRENT LIABILITIES | 195,001 | 168,351 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, no par value; 10,000,000 shares authorized, -0- shares issued and outstanding | - | - |
| Common stock, no par value; 250,000,000 shares authorized, 125,605,957 and 109,804,855 shares issued and 125,605,957 and 109,804,855 shares outstanding, respectively | 28,589,773 | 28,589,773 |
| Additional paid-in capital | 4,621,430 | 4,621,430 |
| Treasury stock | (19,387) | (19,387) |
| Accumulated other comprehensive loss | (99,265) | (102,053) |

| | | |
|---|---|---|
| Accumulated deficit | (32,111,890) | (31,931,685) |
| Noncontrolling interest | (214,395) | (198,704) |
| Total Stockholders' Equity | 766,266 | 959,374 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 961,267 | $ 1,127,725 |

**SANGUI BIOTECH INTERNATIONAL, INC.**
Condensed Consolidated Statements of Operations
(unaudited)

| | For the Three Months Ended September30, | |
|---|---|---|
| | 2012 | 2011 |
| REVENUES | | |
| Product sales, net | $ 1,794 | $ 1,181 |
| Product royalties-related party, net | - | - |
| Total Revenues | 1,794 | 1,181 |
| COST OF SALES | - | 1,459 |
| GROSS MARGIN | 1,794 | (278) |
| OPERATING EXPENSES | | |
| Research and development | 8,444 | 17,717 |
| Depreciation and amortization | 179 | 184 |
| Bad debt expense | - | 203 |
| General and administrative | 188,829 | 238,679 |
| Total Operating Expenses | 197,452 | 256,783 |
| OPERATING LOSS | (195,658) | (257,061) |
| OTHER INCOME (EXPENSE) | | |
| Interest expense | (238) | - |
| Other income | - | 2,207 |
| Total Other Income (Expense) | (238) | 2,207 |
| Loss before income taxes and noncontrolling interest | (195,896) | (254,854) |
| Provision for income taxes | - | - |
| NET LOSS | (195,896) | (254,854) |
| Less: Net loss attributable to noncontrolling interest | (15,691) | (17,260) |
| NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS | $ (180,205) | $ (237,594) |
| OTHER COMPREHENSIVE LOSS | | |
| Foreign currency translation adjustments | 2,788 | 7,017 |

| | | |
|---|---|---|
| Total Other Comprehensive Loss | 2,788 | 7,017 |
| COMPREHENSIVE LOSS | $ (193,108) | $ (247,837) |
| BASIC AND DILUTED LOSS PER SHARE | $ (0.00) | $ (0.00) |
| BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 125,605,957 | 110,378,442 |

**SANGUI BIOTECH INTERNATIONAL, INC.**
Condensed Consolidated Statements of Cash Flows

| | For the Three Months Ended September 30, | |
|---|---|---|
| | 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | $ (195,896) | $ (254,854) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation | 106 | 184 |
| Common stock issued for services | - | 61,700 |
| Bad debt expense | - | 203 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | - | 231 |
| Inventory | - | 1,052 |
| Prepaid expenses and other assets | (2,307) | 10,822 |
| Related party receivables | (2,929) | - |
| Accounts payable and accrued expenses | (7,624) | 37,820 |
| Related parties accounts payable | 4,177 | (2,437) |
| Net Cash Used in Operating Activities | (204,473) | (145,279) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of equity investment | - | - |
| Purchase of fixed assets | - | - |
| Purchase notes receivable, related parties | - | - |
| Purchase of notes receivable | - | - |
| Net Cash Used in Investing Activities | - | - |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from notes payable- related party | - | - |
| Common stock issued for cash | - | 258,362 |
| Purchase of treasury stock | - | - |
| Net Cash Provided by Financing Activities | - | 258,362 |
| EFFECTS OF EXCHANGE RATES | 14,538 | (1,364) |
| NET INCREASE (DECREASE) IN CASH | (189,935) | 111,719 |
| CASH AT BEGINNING OF YEAR | 238,639 | 122,619 |
| CASH AT END OF YEAR | $ 48,704 | $ 234,338 |

| | | |
|---|---|---|
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| CASH PAID FOR: | | |
| Interest | $ - | $ - |
| Income Taxes | $ - | $ - |
| NON CASH INVESTING AND FINANCING ACTIVITIES | $ - | $ - |

**SANGUI BIOTECH INTERNATIONAL, INC.**

Notes to the Condensed Consolidated Financial Statements

September 30, 2012 and June 30, 2011

(Unaudited)

## NOTE 1 - BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared without audit in accordance with accounting principles generally accepted in the United States of America for interim financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. The unaudited consolidated financial statements and notes should, therefore, be read in conjunction with the consolidated financial statements and notes thereto in the Company's Form 10-K for the year ended June 30, 2012. In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair presentation, have been included. The results of operations for the three and nine months periods ended September 30, 2012 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2013.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Sangui Biotech International, Inc., incorporated in Colorado in 1995, and its subsidiary, Sangui BioTech GmbH (Sangui GmbH). Sangui GmbH, which is headquartered in Witten, Germany, is engaged in the development of artificial oxygen carriers (external applications of hemoglobin, blood substitutes and blood additives) as well as in the development, marketing and sales of cosmetics and wound management products.

Consolidation

The consolidated financial statements include the accounts of Sangui BioTech International, Inc. and its ninety percent owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Foreign Currency Translation

Assets and liabilities of the Company's foreign operations are translated into U.S. dollars at period-end exchange rates. Net exchange gains or losses resulting from such translation are excluded from net loss but are included in comprehensive income (loss) and accumulated in a separate component of stockholders' equity. Income and expenses are translated at weighted average exchange rates for the period.

Exchanges rates used for the preparation of the consolidated balance sheet as of September 30, 2012 and our unaudited consolidated statements of operations for the three month periods ended September 30, 2012 and 2011, were calculated as follows:

| | |
|---|---|
| as of September 30, 2012 | USD 1 : EUR 0.7776 |
| as of June 30, 2012 | USD 1 : EUR 0.7951 |

**SANGUI BIOTECH INTERNATIONAL, INC.**

Notes to the Condensed Consolidated Financial Statements

September 30, 2012 and June 30, 2011

(Unaudited)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Risk and Uncertainties

The Company's line of future pharmaceutical products (artificial oxygen carriers or blood substitute and additives) and medical products (wound dressings and other wound management products) being developed by Sangui GmbH, are deemed as medical devices or biologics, and as such are governed by the Federal Food and Drug and Cosmetics Act and by the regulations of state agencies and various foreign government agencies. The pharmaceutical, under development in Germany, will be subject to more stringent regulatory requirements, because they are in vivo products for humans. The Company and its subsidiaries have no experience in obtaining regulatory clearance on these types of products. Therefore, the Company will be subject to the risks of delays in obtaining or failing to obtain regulatory clearance.

Going Concern

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates, among other things, the realization of assets and satisfaction of liabilities in the normal course of business. The Company has accumulated deficit of $32,111,890 as of September 30, 2012 and has been significantly reducing its working capital since June 30, 2004. The Company incurred a net loss applicable to common stockholders of $180,205 during the three months ended September 30, 2012 and used cash in operating activities of $204,473 for the three months ended September 30, 2012. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company expects to continue to incur significant capital expenses in pursuing its business plan to market its products and expand its product line, while obtaining additional financing through stock offerings or other feasible financing alternatives. In order for the Company to continue its operations at its existing levels, the Company will require significant additional funds over the next twelve months. Therefore, the Company is dependent on funds raised through equity or debt offerings. Additional financing may not be available on terms favorable to the Company, or at all. If these funds are not available the Company may not be able to execute its business plan or take advantage of business opportunities. The ability of the Company to obtain such additional financing and to achieve its operating goals is uncertain. In the event that the Company does not obtain additional capital or is not able to increase cash flow through the increase of sales, there is a substantial doubt of its being able to continue as a going concern. The accompanying condensed consolidated financial statements do

not include any adjustments that might result from the outcome of this uncertainty.

Cash and Cash Equivalents

The Company maintains its cash in bank accounts in Germany. Cash and cash equivalents include time deposits for which the Company has no requirements for compensating balances. The Company has not experienced any losses in its uninsured bank accounts. At September 30, 2012 the Company had no cash equivalents.

Revenue Recognition

Revenue is recognized when the sales amount is determined, shipment of goods to the customer has occurred and collection is reasonably assured. Product is shipped FOB origination.

Research and Development

Research and development costs are charged to operations as they are incurred. Legal fees and other direct costs incurred in obtaining and protecting patents are expensed as incurred.

**SANGUI BIOTECH INTERNATIONAL, INC.**

Notes to the Condensed Consolidated Financial Statements

September 30, 2012 and June 30, 2011

(Unaudited)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basic and Diluted Earnings (Loss) Per Common Share

Basic earnings (loss) per common share is computed by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period of computation. Diluted earnings (loss) per share gives effect to all potential dilutive common shares outstanding during the period of compensation. The computation of diluted earnings (loss) per share does not assume conversion, exercise or contingent exercise of securities that would have an antidilutive effect on earnings. As of September 30, 2012, the Company had no potentially dilutive securities that would affect the loss per share if they were to be dilutive.

Comprehensive Income (Loss)

Total comprehensive income (loss) represents the net change in stockholders' equity during a period from sources other than transactions with stockholders and as such, includes net earnings (loss). For the Company, the components of other comprehensive income (loss) are the changes in the cumulative foreign currency translation adjustments and unrealized gains (losses) on marketable securities and are recorded as components of stockholders' equity.

**NOTE 3 - COMMITMENTS AND CONTINGENCIES**

Litigation

The Company may, from time to time, be involved in various legal disputes resulting from the ordinary course of operating its business. Management is currently not able to predict the outcome of any such cases. However, management believes that the amount of ultimate liability, if any, with respect to such actions will not have a material

effect on the Company's financial position or results of operations.

Indemnities and Guarantees

During the normal course of business, the Company has made certain indemnities and guarantees under which it may be required to make payments in relation to certain transactions. These indemnities include certain agreements with the Company's officers, under which the Company may be required to indemnify such person for liabilities arising out of their employment relationship. The duration of these indemnities and guarantees varies and, in certain cases, is indefinite. The majority of these indemnities and guarantees do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not been obligated to make significant payments for these obligations and no liabilities have been recorded for these indemnities and guarantees in the accompanying consolidated balance sheet.

**NOTE 4 CAPITAL STOCK**

Preferred Stock The Company is authorized to issue 10,000,000 shares of preferred stock. No preferred stock has been issued as of the period end. The authorized preferred shares are non-voting and the Board of Directors has not designated any liquidation value or dividend rates.

Common Stock The Company is authorized to issue 250,000,000 shares of no par value common stock. The holders of the Company's common stock are entitled to one vote for each share held of record on all matters to be voted on by those stockholders.

**SANGUI BIOTECH INTERNATIONAL, INC.**

Notes to the Condensed Consolidated Financial Statements

September 30, 2012 and June 30, 2011

(Unaudited)

**NOTE 5 SUBSEQUENT EVENTS**

Subsequent to the period end, the Company issued 140,000 shares of its common stock for cash proceeds of $51,664 and 300,000 shares for services valued at $93,300.

**Item 2 - Management's Discussion And Analysis Of Financial Condition And Results Of Operations**

Forward-looking Statements

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes thereto included elsewhere in this quarterly report. Some of the information in this quarterly report contains forward-looking statements, including statements related to anticipated operating results, margins, growth, financial resources, capital requirements, adequacy of the Company's financial resources, trends in spending on research and development, the development of new markets, the development, regulatory approval, manufacture, distribution, and commercial acceptance of new products, and future product development efforts. Investors are cautioned that forward-looking statements involve risks and uncertainties, which may affect our business and prospects, including but not limited to, the Company's expected need for additional funding and the uncertainty of receiving the additional funding, changes in economic and market conditions, acceptance of our products by the health care and reimbursement communities, new development of competitive products and treatments, administrative and regulatory approval and related considerations, health care legislation and regulation, and other factors discussed in our filings with the Securities and Exchange Commission.

GENERAL

The Company's mission is the development of novel and proprietary pharmaceutical, medical and cosmetic products. The Company develops its products through its ninety percent owned German subsidiary Sangui GmbH. The Company is seeking to market and sell some or all of their products through partnerships with industry partners.

The focus of Sangui GmbH has been the development of oxygen carriers capable of providing oxygen transport in humans in the event of acute and/or chronic lack of oxygen due to arterial occlusion, anemia or blood loss whether due to surgery, trauma, or other causes. Sangui GmbH has thus far focused its development and commercialization efforts of such artificial oxygen carriers by reproducing and synthesizing polymers out of native hemoglobin of defined molecular sizes. Sangui GmbH has in addition developed external applications of oxygen transporters in the medical and cosmetic fields in the form of gels and emulsions for the regeneration of the skin as well as in the form of a hemoglobin-based wound spray.

Sangui GmbH holds the exclusive distribution rights for Chitoskin wound pads in the European Union and various other countries. Sangui GmbH has filed a patent cooperation treatment applications ( PCT ) for the production and use of improved Chitoskin wound pads using gelatin instead of collagen as the carrier substance.

Artificial Oxygen Carriers

Sangui GmbH develops several products based on polymers of purified natural porcine hemoglobin with oxygen carrying abilities that are similar to native hemoglobin. These are (1) oxygen carrying blood additives and (2) oxygen carrying blood volume substitutes.

The blood additives and blood substitute projects were halted in 2003 due to the lack of financing for the pre-clinical test phase of the blood additives.

According to regulatory requirements, all drugs must complete preclinical and clinical trials before approval (e.g. Federal Drug Administration approval) and market launch. The Company s management believes that the European and FDA approval process will take at a minimum several years to complete.

Nano Formulations for the Regeneration of the Skin

Healthy skin is supplied with oxygen both from the inside as well as through diffusion from the outside. A lack of oxygen will cause degenerative alterations, ranging from premature aging, to surface damage, and even as extensive as causing open wounds. The cause for the lack of oxygen may be a part of the normal aging process, but it may also be caused by burns, radiation, trauma, or a medical condition. Impairment of the blood flow, for example caused by diabetes mellitus or by chronic venous insufficiency, can also lead to insufficient oxygen supply and the resulting skin damage. Based on this, Sangui GmbH developed a series of nano-emulsion-based preparations supporting the regeneration of the skin by improving its oxygen supply.

Sales of this series have remained at a low level throughout the first quarter of our 2013 fiscal year. It is the strategy of the company to find industry partners ready to acquire or license this product range as a whole.

Chitoskin Wound Pads

Usually, normal ( primary ) wounds tend to heal over a couple of days without leaving scars following a certain sequence of phases. Burns and certain diseases impede the normal wound healing process, resulting in large, hardly healing ( secondary ) wounds which only close by growing new tissue from the bottom. Wound dressings serve to safeguard the wound with its highly sensitive new granulation tissue from mechanical damage as well as from infection. Using the natural polymer chitosan, Sangui s Chitoskin wound dressings show outstanding properties in supporting wound healing.

It is the strategy of the company to find industry partners ready to acquire or license this product range as a whole.

Hemospray Wound Spray

SanguiBioTech GmbH has developed a novel medical technology supporting the healing of chronic wounds. Lack of oxygen supply to the cells in the wound ground is the main reason why those wounds lose their genuine healing power. Based on its concept of artificial oxygen carriers, our wound spray product bridges the watery wound surface and permits an enhanced afflux of oxygen to the wound ground.

In December 2010, SanguiBioTech GmbH established SastoMed GmbH, a joint venture company with SanderStrothmann GmbH of Georgsmarienhuette, Germany. SanguiBioTech GmbH has granted SastoMed GmbH global distribution rights.

On August 13, 2012, SastoMed GmbH publicized a statement indicating that it expects to reach break-even and pay back points by 2014. The expectations are based on the response from wound management experts and patients as well as on the fact that by the end of July 2012, already more than 500 customers had been recorded as regular buyers, according to SastoMed, well ahead of the original planning.

In August, 2012, Sangui BioTech GmbH and SastoMed GmbH cordially adjusted the existing sales strategy. In consideration of corresponding contributions the existing licensing contract was partially complemented resulting in the following conditions: As licensor SanguiBioTech GmbH is awarded a fixed licensing fee as a percentage of each and every external revenues incurred by SastoMed from sales of the Granulox product (based on SastoMed selling prices). The percentage ranges in the uppermost zone of what is usually granted in the pharmaceutical and medical products industries. In addition and complementing this basic agreement the percentage will be permanently increased by one fourth of the current rate as soon as cumulated sales revenues at SastoMed will have exceeded the total of €50,000,000.

FINANCIAL POSITION

Our current assets decreased approximately $166,385 from June 30, 2012 to approximately $960,070 at September 30, 2012. The decrease is primarily attributable to the decrease of cash in the ordinary course of business.

Our net property and equipment decreased approximately $73, or approximately 5.7% from June 30, 2012 to approximately $1,197 at September 30, 2012. The decrease is primarily attributable to the depreciation for the period.

We funded our operations primarily through our existing cash reserves and cash received from the issuance of share of common stock. Our stockholders equity decreased by approximately $193,108 to approximately $766,266.

RESULTS OF OPERATIONS

Three months ended September 30, 2012 and 2011:

REVENUES - Revenues during the three months ended September 30, 2012 amounted to $1,794. In the comparable period of 2011 we had revenues of $1,181. In August, 2012, SastoMed GmbH and Sangui agreed that no invoicing based on the wound spray licensing agreement will occur prior to the end of the current calendar year. Revenues as of the period covered by this report, therefore, do not include accrued receivables from this licensing agreement. We incurred no cost of sales in the first quarter of the 2013 financial year compared to $1,459 in 2012.

RESEARCH AND DEVELOPMENT - Research and development expenses decreased $9,273 to approximately $8,444 in the first quarter of our 2012 financial year from approximately $17,717 in the comparable period of the previous year. The decrease is mainly attributed to reduced research activities after the market entry of our wound management technology.

GENERAL AND ADMINISTRATIVE - General and administrative expenses decreased almost 21% to approximately $188,829 in the quarter ended September 30, 2012, from approximately $238,679 in the respective quarter of the previous year. This decrease is due to reduced activities in the usual course of business.

DEPRECIATION AND AMORTIZATION - Depreciation decreased $5 to approximately $179 in the quarter from approximately $184. This decrease is mainly attributed to the ongoing restructuring of Sangui GmbH.

NET LOSS - As a result of the above factors, our consolidated net loss was approximately $195,896, or approximately $(0.00) per common share, for the three months ended September 30, 2012, compared to approximately $254,854, or $(0.00) per common share, during the comparable period in our 2012 financial year.

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended September 30, 2012, net cash used in operating activities decreased to approximately $204,473, from approximately $145,279 in the corresponding period of the previous year.

We had a working capital of approximately $765,070 at September 30, 2012, a decrease of approximately $193,034 from June 30, 2012 due primarily to our use cash in the ordinary course of business. At September 30, 2012, we had cash of approximately $48,704. We will need substantial additional funding to fulfill our business plan and we intend to explore financing sources for our future development activities. No assurance can be given that these efforts will be successful.

**Item 3 - Quantitative and Qualitative Disclosures about Market Risk**

We are a smaller reporting company as defined by § 229.10(f)(1) and are not required to provide the information under this item.

**Item 4 - Controls and Procedures**

***Disclosure Controls and Procedures***

As of the date of the end of the period covered by report, our Chief Executive Officer and Chief Financial Officer conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as required by Exchange Act Rule 13a-15. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this report to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC s rules and forms.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure.

***Management s Report on Internal Control Over Financial Reporting***

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rule 13a-15(f). Management conducted an evaluation of the effectiveness of the internal control over financial reporting as of September 30, 2012, using the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Based on the evaluation of the effectiveness of the internal controls over financial reporting as of September 30, 2012,

management has concluded that our internal controls over financial reporting were not effective as of the end of the period covered by this report.

As a result of management s assessment, management has determined that there is a material weakness due to the lack of segregation of duties. In order to address and resolve this weakness we will endeavor to locate and appoint additional qualified personnel to the board of directors and pertinent officer positions as our financial means allow. To date, our limited financial resources have not allowed us to hire the additional personnel necessary to address this material weakness.

Additionally, as a result of management s assessment, management has determined that there is a significant deficiency with regard to the lack of a backup process for electronic financial information. There is no stored backup offsite or in a media safe, and as such, there are no regularly run test restorations of said financial information. In order to address and resolve this deficiency we are currently researching the options available given our financial means to have a regularly scheduled and dependable offsite backup of our Company records.

Lastly, the Company has not instituted specific anti-fraud controls. While management found no evidence of fraudulent activity, the chief accounting officer has access to both accounting records and corporate assets, principally the operating bank account. Management believes this exposure to potential fraudulent activity is not significant either to the operations of the company or to the financial reporting; however, management is in the process of instituting controls specifically designed to address this material weakness, so as to prevent and detect on a timely basis any potential loss due to fraudulent activity.

This Quarterly Report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

***Changes in Internal Control Over Financial Reporting***

There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter (our fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The term internal control over financial reporting is defined as a process designed by, or under the supervision of, the registrant s principal executive and principal financial officers, or persons performing similar functions, and effected by the registrant s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

(a) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the registrant;

(b) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the registrant are being made only in accordance with authorizations of management and directors of the registrant; and

(c) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the registrant s assets that could have a material effect on the financial statements.

## PART II - OTHER INFORMATION

**Item 1 - Legal Proceedings**

We are not a party to any pending legal proceeding. No federal, state or local governmental agency is presently contemplating any proceeding against the Company. No director, executive officer or affiliate of the Company or owner of record or beneficially of more than five percent of the Company's common stock is a party adverse to the Company or has a material interest adverse to the Company in any proceeding.

**Item 1a - Risk Factors**

We are a smaller reporting company and are not required to provide the information under this item.

**Item 2 - Unregistered Sales of Equity Securities and Use Of Proceeds**

Subsequent to the period end, the Company issued 140,800 shares of its common stock for cash proceeds of $51,664 and 300,000 shares for services valued at $93,300. No underwriters were used. The securities were issued pursuant to an exemption from registration provided by Section 4(2) of the Securities Act of 1933. The individuals receiving the common stock were intimately acquainted with the Company s business plan and proposed activities at the time of issuance, and possessed information on the Company necessary to make an informed investment decision.

**Item 3 - Defaults Upon Senior Securities**

None.

**Item 5 - Other Information**

None.

**Item 6 Exhibits**

***1.*** ***Financial Statements.*** The unaudited Consolidated Balance Sheet of Sangui Biotech International, Inc. as of September 30, 2012 and the audited balance sheet as of June 30, 2012, the unaudited Consolidated Statements of Operations for the three month periods ended September 30, 2012 and 2011, the unaudited Consolidated Statements of Stockholders Equity (Deficit) from June 30, 2012 to September 30, 2012, and the unaudited Consolidated Statements of Cash Flows for the three-month periods ended September 30, 2012 and 2011, and together with the notes thereto, are included in this Quarterly Report on Form 10-Q.

***3.*** ***Exhibits***. The following exhibits are either filed as a part hereof or are incorporated by reference. Exhibit numbers correspond to the numbering system in Item 601 of Regulation S-K.

**Exhibit**

**Number Description of Exhibit**

31.01 Certification of CEO Pursuant to Rule 13a-14(a) and 15d-14(a), filed herewith

| | |
|---|---|
| 31.02 | Certification of CFO Pursuant to Rule 13a-14(a) and 15d-14(a), filed herewith |
| 32.01 | Certification Pursuant to Section 1350 of Title 18 of the United States Code, filed herewith |

**SIGNATURES**

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.

SANGUI BIOTECH INTERNATIONAL, INC.

Dated: November 14, 2012

*/s/ Thomas Striepe*

By: Thomas Striepe

Chief Executive Officer

Dated: November 14, 2012

*/s/ Joachim Fleing*

By: Joachim Fleing

Chief Financial Officer

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