SANGUI BIOTECH INTERNATIONAL INC
Form 10-Q
February 14, 2014

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: **December 31, 2013**

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 [X] No [ ]

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 [ ]

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 [X]

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 February 13, 2014, there were 137,902,957 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 December 31, 2013

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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 condensed consolidated balance sheet as of December 31, 2013 and the audited balance sheet as of June 30, 2013, our unaudited condensed consolidated statements of operations for the six month periods ended December 31, 2013, and 2012, and our unaudited condensed consolidated statements of cash flows for the six month period ended December 31, 2013, and 2012 are attached hereto and incorporated herein by this reference.

SANGUI BIOTECH INTERNATIONAL, INC.
Consolidated Balance Sheets

ASSETS

	December 31, 2013 (unaudited)	June 30, 2013
CURRENT ASSETS		
Cash	$ 143,259	$ 47,764
Prepaid expenses and other assets	38,927	43,046
Tax refunds receivable	20,310	18,572
Related party receivables	48,346	38,537
Note receivable, related party	41,300	39,022
Notes receivable	355,176	335,588
Total Current Assets	647,318	522,529
PROPERTY AND EQUIPMENT, Net	238	449
TOTAL ASSETS	$ 647,556	$ 522,978

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2013 (unaudited)	June 30, 2013
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 180,277	$ 171,728
Related party payables	63,117	35,397
Note payable - related party	20,649	19,511
Total Current Liabilities	264,043	226,636
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, 137,902,957 and 132,116,857 shares issued and 136,718,215 and 130,932,115 shares outstanding, respectively	31,000,460	30,315,527
Additional paid-in capital	4,621,430	4,621,430
Treasury stock	(339,387)	(339,387)
Accumulated other comprehensive income	131,897	92,846
Accumulated deficit	(34,597,211)	(34,027,179)
Non-controlling interest	(433,676)	(366,895)
Total Stockholders' Equity	383,513	296,342
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 647,556	$ 522,978

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

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

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2013	2012	2013	2012
REVENUES	33,776	$ 46,249	$ 60,303	$ 48,043
COST OF SALES	208	-	412	-
GROSS MARGIN	33,568	46,249	59,891	48,043
OPERATING EXPENSES				
Research and development	70,926	15,506	107,234	23,950
Depreciation and amortization	118	185	232	364
General and administrative	157,039	536,309	338,644	725,138
Total Operating Expenses	228,083	552,000	446,110	749,452
OPERATING LOSS	(194,515)	(505,751)	(386,219)	(701,409)
OTHER INCOME (EXPENSE)				
Other income	48	5,585	48	5,585
Loss on equity investment	(244,983)	-	(244,983)	-
Interest expense	(5,659)	(238)	(5,659)	(476)
Total Other Income (Expense)	(250,594)	5,347	(250,594)	5,109
Loss before income taxes and non-controlling interest	(445,109)	(500,404)	(636,813)	(696,300)
Provision for income taxes	-	-	-	-
NET LOSS	(445,109)	(500,404)	(636,813)	(696,300)
Less: Net loss attributable to non-controlling interest	(47,279)	(15,030)	(66,781)	(30,721)

NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (397,830)	$ (485,374)	$ (570,032)	$ (665,579)
OTHER COMPREHENSIVE INCOME LOSS				
Foreign currency translation adjustments	8,458	32,899	39,051	35,687
Total Other Comprehensive Income Loss	8,458	32,899	39,051	35,687
COMPREHENSIVE INCOME LOSS	$ (436,651)	$ (467,505)	$ (597,762)	$ (660,613)
BASIC AND DILUTED LOSS PER SHARE	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.01)
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	136,330,014	126,832,058	134,714,941	126,219,007

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

SANGUI BIOTECH INTERNATIONAL, INC.
Consolidated Statements of Cash Flows
(unaudited)

	For the Six Months Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (636,813)	$ (696,300)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	232	362
Common stock issued for services	26,400	358,867
` Loss on equity investment	244,983	-
Changes in operating assets and liabilities		
Trade accounts receivable	1,049	-
Royalties receivable	(8,525)	-
Prepaid expenses and other current assets	6,791	(6,302)
Tax refunds receivable	(647)	-
Related party receivables	(338)	(2,240)
Accounts payable and accrued expenses	(55)	62,344
Related parties accounts payable	29,504	16,762
Net Cash Used in Operating Activities	(337,419)	(266,507)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in equity subsidiary	(242,216)	-
Issuance of notes receivable	-	(494,607)
Net Cash Used in Investing Activities	(242,216)	(494,607)
CASH FLOWS FROM FINANCING ACTIVITIES		
Common stock issued for cash	658,533	684,300
Net Cash Provided by Financing Activities	658,533	684,300
EFFECTS OF EXCHANGE RATES	16,597	(7,287)
NET INCREASE (DECREASE) IN CASH	95,495	(84,101)
CASH AT BEGINNING OF PERIOD	47,764	238,639

CASH AT END OF PERIOD	$ 143,259	$ 154,538
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
CASH PAID FOR:		
Interest	$ -	$ 476
Income Taxes	$ -	$ -
NON CASH INVESTING AND FINANCING ACTIVITIES	$ -	$ -

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

SANGUI BIOTECH INTERNATIONAL, INC.

Notes to the Condensed Consolidated Financial Statements

December 31, 2013 and June 30, 2013

(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, 2013. 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 six months periods ended December 31, 2013 are not necessarily indicative of the results that may be expected for the full fiscal year ending June 30, 2014.

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 December 31, 2013 and June 30, 2013 and our unaudited consolidated statements of operations for the six month periods ended December 31, 2013 and 2012, were calculated as follows:

as of December 31, 2013	USD 1 : EUR 0.7264
as of June 30, 2013	USD 1 : EUR 0.6949
July 1 through December 31, 2013	USD 1 : EUR 0.7448
July 1 through December 31, 2012	USD 1 : EUR 0.7855

SANGUI BIOTECH INTERNATIONAL, INC.

Notes to the Condensed Consolidated Financial Statements

December 31, 2013 and June 30, 2013

(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 $34,597,211 as of December 31, 2013. The Company incurred a net loss applicable to common stockholders of $570,032 during the six months ended December 31, 2013 and used cash in operating activities of $337,416 during the six months ended December 31, 2013. 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, is not able to collect its outstanding receivables 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 December 31, 2013 the Company had no cash equivalents.

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

December 31, 2013 and June 30, 2013

(Unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Product sales 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. Product royalty revenue is recognized when the licensee has reported the product sales to the Company. Product royalty revenue is calculated based upon the contractual percentage of reported sales.

Basic and Diluted Loss Per Common Share

Basic earnings loss per common share is computed by dividing loss available to common stockholders by the weighted average number of common shares outstanding during the period of computation. loss per share give effect to all potential dilutive common shares outstanding during the period of compensation. The computation of diluted loss per share does not assume conversion, exercise or contingent exercise of securities that would have an antidilutive effect on earnings. As of December 31, 2013, the Company had no potentially dilutive securities that would affect the loss per share if they were to be dilutive.

Comprehensive Loss

Total comprehensive loss represents the net change in stockholders' equity during a period from sources other than transactions with stockholders and as such, includes net loss. For the Company, the components of other comprehensive (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.

SANGUI BIOTECH INTERNATIONAL, INC.

Notes to the Condensed Consolidated Financial Statements

December 31, 2013 and June 30, 2013

(Unaudited)

NOTE 4 NOTES RECEIVABLE, RELATED PARTIES

On May 15, 2012, the Company entered into a note receivable with a shareholder for $63,658. The note receivable accrues interest at 6 percent per annum, was due on August 31, 2012 and is secured by 138,899 shares of the Company s common stock. The note receivable has been extended without a fixed due date. The note receivable is due one month from notice by the Company to the shareholder on intent to collect. Interest and principle have been received in several installments so that at December 31, 2013 the outstanding note receivable amounted to $41,300 of principal and interest.

NOTE 5 CAPITAL STOCK

Preferred Stock The Company is authorized to issue 10,000,000 shares of preferred stock. No preferred stock has been issued so far. 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.

During the six months ended December 31, 2013, the Company issued 200,000 shares of its common stock for services to an unrelated party at $0.13 per share. Additionally the Company sold 5,586,100 shares of its common stock for cash to one entity and several individuals at an average price of $0.12 per share.

On October 1, 2013 the Company entered into an obligation to invest another approximately $260,000 into its 25 percent owned joint venture, SastoMed GmbH. The total amount was reduced by outstanding interest payments due Sangui from SastoMed. The Company satisfied its obligation through a payment made on October 7, 2013 of $131,497 and a payment made on December 30, 2013 of $110,719. This total investment of $242,216 was capitalized and then impaired in full as of December 31, 2013. It was presented as an impairment of $244,983 due to exchange rate changes.

NOTE 6 SUBSEQUENT EVENTS

Subsequent to December 31, 2103, the Company issued 100,000 shares of its common stock for cash to one individual at a price of $0.14 per share.

In the course of its 2013 financial year (ended June 30, 2013) the Company entered into an agreement under which SastoMed GmbH did provide certain services in preparation of the further development of blood additive products. As compensation, the company retained SastoMed with approximately $7,760 per month through December 31, 2013. In February 2014, after the period covered by this report, this agreement was extended until December 31, 2014.

In accordance with ASC 855-10, the Company s management has reviewed all material events and there are no additional material subsequent events to report.

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 SanguiBioTech GmbH. The Company is seeking to market and sell some or all of their products through partnerships with industry partners.

The focus of SanguiBioTech 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. SanguiBioTech 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. SanguiBioTech 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.

SanguiBioTech GmbH holds distribution rights for Chitoskin wound pads for the European Union and various other countries. A European patent has been granted for the production and use of improved Chitoskin wound pads.

Artificial Oxygen Carriers

SanguiBioTech 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.

During the first quarter of our 2013 financial year the European Patent Office granted a patent based on Sangui s application (01 945 245) Mammalian hemoglobin compatible with blood plasma, cross-linked and conjugated with polyalkylene oxides as artificial medical oxygen carriers, production and use thereof .

During the third quarter of our 2013 financial year the company had a feasibility study prepared by external experts inquiring into market potentials and further preclinical and clinical development requirements. The study came to the conclusion that an approval of Sangui's hemoglobin hyperpolymers as a blood additive appears possible, expedient and promising.

During the fourth quarter of our 2013 financial year the company filed a patent application aimed at significantly expanding the protection of our hemoglobin formulations. It will encompass a greater array of ischemic conditions of the human body, for instance in the case of severe dysfunctions of the lung.

During the first quarter of our 2014 financial year, the company has entered into an agreement with a German university research institution aimed at carrying out a series of animal tests as part of its preparations to enter the preclinical testing of hemoglobin based artificial oxygen carriers targeting the remediation of ischemic conditions in human patients.

The necessary applications prerequisite for carrying out those animal tests were submitted to the respective Ethics Commission during the second quarter of our 2014 financial year.

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.

Sales of this series have remained at a low level throughout the first nine months 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 Georgsmarienhütte, Germany. SanguiBioTech GmbH has granted SastoMed GmbH global distribution rights. SastoMed GmbH started to distribute the product in Germany after having obtained the CE mark authorizing the distribution of the wound spray in the countries of the European Union in April 2012.

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.

In the course of the first half of our 2014 financial year SastoMed GmbH accelerated the pace of its international expansion: Along with Germany, Granulox will become available in 18 other countries in the course of the next couple of months, promoted by contracts signed with ten distributors.

FINANCIAL POSITION

Our current assets increased approximately $124,789 from June 30, 2013 to approximately $647,318 at December 31, 2013. This is mainly attributed to our issuance of common stock for cash over the period.

Our net property and equipment decreased approximately $211 from June 30, 2013 to approximately $238 at December 31, 2013. The decrease is attributable to the depreciation for the period.

We funded our operations primarily through our existing cash reserves and cash received from the issuance of shares of common stock. Our stockholders equity increased by $87,171 from $296,342 at June 30, 2013 to $383,513 at December 31, 2013. The primary factor behind this was our issuance of common stock for cash and services.

RESULTS OF OPERATIONS

Three months ended December 31, 2013 and 2012:

REVENUES - Revenues during the three months ended December 31, 2013 amounted to $33,776. The decrease by $12,681 from the revenues in the comparable period of our 2013 financial year is due to the fact that in the three month period of the previous year six months worth of royalties from the licensing agreement with SastoMed GmbH were incurred. Cost of sales in the second quarter of the 2014 financial year amounted to $208 compared to $-0- the year before.

RESEARCH AND DEVELOPMENT - Research and development expenses increased $55,420 to approximately $70,926 in the second quarter of our 2014 financial year from approximately $15,506 in the comparable period of the previous year. This is mainly attributed to R&D expenses relating to activities in the pursuit of our artificial oxygen carriers, in particular the preparatory works for the initial animal tests.

GENERAL AND ADMINISTRATIVE - General and administrative expenses decreased $379,270 to approximately $157,039 in the quarter ended December 31, 2013, from approximately $536,309 in the respective period of the previous year. In the second quarter of our 2013 financial year the company had issued a high amount of common stock for services which was not repeated in the course of the second quarter of this year.

DEPRECIATION AND AMORTIZATION - Depreciation decreased $67 to approximately $118 in the second quarter from approximately $185.

OTHER INCOME AND EXPENSES - Other expenses contains an expense of $244,983 which relates to an investment of the company into its 25% owned joint venture, SastoMed GmbH, carried out in the course of the quarter ended December 31, 2013. This total investment of $242,216 was capitalized and then impaired in full as of December 31, 2013. It was presented as an impairment of $244,983 due to exchange rate changes.

NET LOSS - As a result of the above factors, our consolidated net loss attributable to common stockholders was $397,830, or $(0.00) per common share, for the three months ended December 31, 2013, compared to $485,374, or $(0.00) per common share, during the comparable period in our 2013 financial year.

Six months ended December 31, 2013 and 2012:

REVENUES - Revenues during the six months ended December 31, 2013 amounted to $60,303, an increase of 25.5% over the revenues of $48,043 in the comparable period of our 2013 financial year. Revenues as of the period covered by this report include accrued receivables from the licensing agreement with SastoMed GmbH. Cost of sales in the first half of the 2014 financial year amounted to $412 compared to $-0- the year before.

RESEARCH AND DEVELOPMENT - Research and development expenses increased $83,284 to approximately $107,234 in the first six months of our 2014 financial year from approximately $23,950 in the comparable period of the previous year. This is mainly attributed to enhanced R&D activities in resuming activities in the pursuit of our artificial oxygen carriers, in particular the filing of new patent applications and the preparatory works for the initial animal tests.

GENERAL AND ADMINISTRATIVE - General and administrative expenses decreased $386,494 to approximately $338,644 in the half year ended December 31, 2013, from approximately $725,138 in the respective period of the previous year. In the second quarter of our 2013 financial year the company had issued a high amount of common stock for services which was not repeated in the course of the comparable period of this year.

DEPRECIATION AND AMORTIZATION - Depreciation decreased $132 to approximately $232 in the half year from approximately $364.

OTHER INCOME AND EXPENSES - Other expenses contains an expense of $244,983 which relates to an investment of the company into its 25% owned joint venture, SastoMed GmbH, carried out in the course of the quarter ended December 31, 2013. This total investment of $242,216 was capitalized and then impaired in full as of December 31, 2013. It was presented as an impairment of $244,983 due to exchange rate changes.

NET LOSS - As a result of the above factors, our consolidated net loss attributable to common stockholders was $570,032, or $(0.00) per common share, for the six months ended December 31, 2013, compared to $665,579, or $(0.00) per common share, during the comparable period in our 2013 financial year.

LIQUIDITY AND CAPITAL RESOURCES

For the six months ended December 31, 2013, net cash used in operating activities increased to approximately $337,419, from approximately $266,507 in the corresponding period of the previous year. The issuance of common stock for services had reduced the cash used in operating activities in the period ended December 31, 2012.

We had a working capital of approximately $383,275 at December 31, 2013, an increase of approximately $87,382 from June 30, 2013. A significant part of our current assets consists of receivables from related and unrelated parties while the company has no financial liabilities. At December 31, 2013, we had cash of approximately $143,259. 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 this 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 December 31, 2013, 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 December 31, 2013, 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 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

The Company is not aware of pending claims or assessments which may have a material adverse impact on the Company s financial position or results of operations.

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

During the three months ended September 30, 2013, the Company issued 200,000 shares of its common stock for services to an unrelated party at $0.13 per share. Additionally the Company sold 3,303,000 shares of its common stock for cash to several individuals at an average price of $0.10 per share. No underwriters were used. The

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securities were sold pursuant to an exemption from registration provided by Regulation S and Section 4(2) of the Securities Act of 1933. The certificate representing the shares contained a restricted legend.

During the three months ended December 31, 2013, the company issued 2,283,100 shares of its common stock for cash to nine individuals at an average price of $0.14 per share. No underwriters were used. The securities were sold pursuant to an exemption from registration provided by Regulation S and Section 4(2) of the Securities Act of 1933. The certificates representing the shares each contained a restricted legend.

Item 3 - Defaults Upon Senior Securities

None.

Item 5 - Other Information

None.

Item 6 Exhibits

1. ***Financial Statements.*** The unaudited condensed consolidated Balance Sheet of Sangui Biotech International, Inc. as of December 31, 2013 and the audited balance sheet as of June 30, 2013, the unaudited condensed consolidated Statements of Operations for the three month periods ended December 31, 2013 and 2012, and the unaudited condensed consolidated Statements of Cash Flows for the six-month periods ended December 31, 2013 and 2012, 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: February 13, 2014

/s/ Thomas Striepe

By: Thomas Striepe

Chief Executive Officer

Dated: February 13, 2014

/s/ Joachim Fleing

By: Joachim Fleing

Chief Financial Officer

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