

**UNITED STATES
SECURITIES AND EXCHANGE
COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-QSB

(Mark one)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2006

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from to

COMMISSION FILE NUMBER 000-51334

HEMOBIOTECH, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)
14221 DALLAS PARKWAY, SUITE 1400
DALLAS, TEXAS
(Address of principal executive offices)

33-0995817
(I.R.S. Employer
Identification No.)
75254
(Zip Code)

Registrant's telephone number, including area code: (214 540-8411)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 3, 2006, the registrant had outstanding 18,436,887 shares of common stock, \$0.001 par value per share.

Transitional Small Business Disclosure Format (check one): Yes No

HEMOBIOTECH, INC.
(a development stage company)

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-QSB contains forward-looking statements. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. You can generally identify forward looking statements as statements containing the words "believe," "expect," "will," "anticipate," "intend," "estimate," "project," "assume" or other similar expressions, although not all forward-looking statements contain these identifying words. All statements in this report regarding our future strategy, future operations, projected financial position, estimated future revenues, projected costs, future prospects, and results that might be obtained by pursuing management's current plans and objectives are forward-looking statements. You should not place undue reliance on our forward-looking statements because the matters they describe are subject to known and unknown risks, uncertainties and other unpredictable factors, many of which are beyond our control. Our forward-looking statements are based on the information currently available to us and speak only as of the date on which this report was filed with the Securities and Exchange Commission (the "SEC"). We expressly disclaim any obligation to issue any updates or revisions to our forward-looking statements, even if subsequent events cause our expectations to change regarding the matters discussed in those statements. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such difference might be significant and materially adverse to our stockholders. Many important factors that could cause such a difference are described in our Annual Report on Form 10-KSB, filed with the SEC on March 30, 2006, under the caption "Risk Factors," all of which you should review carefully. Please consider our forward-looking statements in light of those risks as you read this report.

PART I -- FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

HEMOBIOTECH, INC.
(a development stage company)

CONDENSED BALANCE SHEETS

| | SEPTEMBER 30, 2006 (Unaudited) | DECEMBER 31, 2005 |
|--|--------------------------------------|----------------------|
| ASSETS: | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 3,677,000 | \$ 1,259,000 |
| Short term investments | 1,000,000 | - |
| Prepaid expenses | 156,000 | 42,000 |
| | <hr/> | <hr/> |
| Total current assets | 4,833,000 | 1,301,000 |
| Equipment, net | 13,000 | 11,000 |
| | <hr/> | <hr/> |
| | \$ <u>4,846,000</u> | \$ <u>1,312,000</u> |
| LIABILITIES: | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | \$ 120,000 | \$ 360,000 |
| Accrued interest payable | - | 20,000 |
| Convertible notes payable | - | 337,000 |
| | <hr/> | <hr/> |
| Total current liabilities | \$ 120,000 | \$ 717,000 |
| | <hr/> | <hr/> |
| STOCKHOLDERS' EQUITY: | | |
| Common stock, \$0.001 par value, 55,000,000 shares authorized, 18,436,887 (includes 1,500,000 shares subject to forfeiture) shares issued and outstanding as of September 30, 2006 and 11,638,040 shares issued and outstanding as of December 31, 2005 | \$ 19,000 | \$ 12,000 |
| Additional paid-in capital | 11,858,000 | 6,155,000 |
| Unearned compensation | - | (7,000) |
| Deficit accumulated during the development stage | (7,151,000) | (5,565,000) |
| | <hr/> | <hr/> |
| Total stockholders' equity | 4,726,000 | 595,000 |
| | <hr/> | <hr/> |
| | \$ <u>4,846,000</u> | \$ <u>1,312,000</u> |

See Notes to Condensed Financial Statements.

HEMOBIOTECH, INC.
(a development stage company)

CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | | October 3, 2001 (inception) through September 30, 2006 |
|---|-------------------------------------|----------------------|------------------------------------|----------------------|--|
| | 2006 | 2005 | 2006 | 2005 | |
| Revenue | \$ - | \$ - | \$ - | \$ - | \$ - |
| Operating expenses: | | | | | |
| Research and development | 134,000 | 150,000 | 412,000 | 226,000 | 961,000 |
| General and administrative | 398,000 | 519,000 | 1,210,000 | 1,080,000 | 4,236,000 |
| Other income (expenses) | | | | | |
| Interest expense | 0 | 554,000 | 53,000 | 1,594,000 | 2,109,000 |
| Interest income | (48,000) | (13,000) | (89,000) | (40,000) | (155,000) |
| Net loss | <u>\$(484,000)</u> | <u>\$(1,210,000)</u> | <u>\$(1,586,000)</u> | <u>\$(2,860,000)</u> | <u>\$(7,151,000)</u> |
| Basic and diluted loss per common share | <u>\$(0.03)</u> | <u>\$(0.12)</u> | <u>\$(0.11)</u> | <u>\$(0.28)</u> | |
| Weighted average number of shares outstanding basic and diluted | <u>16,675,922</u> | <u>10,501,298</u> | <u>14,601,672</u> | <u>10,230,959</u> | |

See Notes to Condensed Financial Statements.

HEMOBIOTECH, INC.
(a development stage company)
CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

| | COMMON STOCK | AMOUNT | ADDITIONAL PAID –IN CAPITAL | UNEARNED COMPENSATION | DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE | TOTAL |
|---|----------------------|------------------|-----------------------------------|--------------------------|--|------------------|
| BALANCE December 31, 2005 | 11,638,040 \$ | 12,000 \$ | 6,155,000 \$ | (7,000) \$ | (5,565,000) \$ | 595,000 |
| Elimination of unvested compensation | | | (7,000) | 7,000 | | - |
| Net Loss for the period | | | | | (1,586,000) | (1,586,000) |
| Stock based compensation – board of Advisors and consultant | | | 83,000 | | | 83,000 |
| Stock based compensation- employees and directors | | | 129,000 | | | 129,000 |
| Conversion of notes payable into common stock | 142,812 | | 286,000 | | | 286,000 |
| Exercise of warrants, net of expenses of \$273,000 | 5,156,035 | 5,000 | 5,185,000 | - | - | 5,190,000 |
| Shares issued to financial advisor (September 12, 2006) See Note F | <u>1,500,000</u> | <u>2,000</u> | <u>27,000</u> | _____ | _____ | <u>29,000</u> |
| BALANCE September 30, 2006 (unaudited) | <u>18,436,887 \$</u> | <u>19,000 \$</u> | <u>11,858,000 \$</u> | <u>=</u> | <u>(7,151,000) \$</u> | <u>4,726,000</u> |

See Notes to Condensed Financial Statements.

HEMOBIOTECH, INC.
(a development stage company)
CONDENSED STATEMENTS OF CASH FLOWS
(unaudited)

| | Nine Months Ended September 30, | | October 3, 2001 (Inception) |
|--|------------------------------------|----------------------------|--------------------------------|
| | 2006 | 2005 | Through September 30, 2006 |
| Cash flows from operating activities: | | | |
| Net loss | \$ (1,586,000) | \$ (2,860,000) | \$ (7,151,000) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Fair value of options and compensatory stock | 212,000 | 124,000 | 568,000 |
| Conversion charge – interest expense | 43,000 | | 43,000 |
| Notes Issued for services – related party | - | - | 354,000 |
| Expenses paid by stockholder | - | - | 14,000 |
| Amortization of deferred financing costs | - | 781,000 | 1,023,000 |
| Amortization of debt discount | - | 662,000 | 789,000 |
| Depreciation | 2,000 | 1,000 | 4,000 |
| Contribution of salary | | - | 11,000 |
| Changes in: | | | |
| Accounts payable and accrued expenses | (210,000) | 320,000 | 832,000 |
| Accrued interest | (3,000) | 152,000 | 139,000 |
| Prepaid expenses | (114,000) | 15,000 | (156,000) |
| Net cash used in operating activities | <u>(1,656,000)</u> | <u>(805,000)</u> | <u>(3,530,000)</u> |
| Cash flows from investing activities: | | | |
| Purchase of property and equipment | (3,000) | (8,000) | (16,000) |
| Purchase of Short term investment | (1,000,000) | - | (1,000,000) |
| Net cash used in investing activities | <u>(1,003,000)</u> | <u>-</u> | <u>(1,016,000)</u> |
| Cash flows from financing activities: | | | |
| Net proceed from issuance of common stock and debt | - | - | 3,767,000 |
| Payment of Notes | (113,000) | - | (734,000) |
| Exercise of warrants, net | 5,190,000 | - | 5,190,000 |
| Net cash provided by financing activities | <u>5,077,000</u> | <u>-</u> | <u>8,223,000</u> |
| Increase (Decrease) in cash and cash equivalents | <u>2,418,000</u> | <u>(813,000)</u> | <u>3,677,000</u> |
| Cash and cash equivalents – beginning of period | 1,259,000 | 3,086,000 | 0 |
| Cash and cash equivalents – end of period | <u><u>3,677,000</u></u> | <u><u>\$ 2,273,000</u></u> | <u><u>\$ 3,677,000</u></u> |
| Supplementary cashflow information: | | | |
| Interest Paid: | \$ 13,000 | - | \$ 110,000 |
| Supplementary non-cash investing and financing activities: | | | |
| Accrued salary exchanged for Note | - | - | \$ 150,000 |
| Employees/stockholders contribution of salary | - | - | \$ 564,000 |
| Stockholders contribution of convertible note payable and related interest | - | - | \$ 280,000 |
| Conversion of carrying value of convertible notes payable and accrued interest into common stock | \$ 243,000 | \$1,029,000 | \$ 1,815,000 |

See Notes to Condensed Financial Statements.

NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE A -- THE COMPANY

We were founded in 2001 as “HemoBioTech, Inc.,” a Texas corporation. In 2003, we incorporated a sister corporation named “HemoBioTech, Inc.,” in the state of Delaware. On December 1, 2003, HemoBioTech, Inc. (Texas) was merged with and into HemoBioTech, Inc., (Delaware), with HemoBioTech, Inc. (Delaware) as the surviving entity. This entity is referred to herein as the “Company”.

The accompanying financial statements include the predecessor operations of the Texas corporation from its inception on October 3, 2001. The historical basis of accounting was carried over in the merger, including the deficit accumulated in the development stage. The Company is researching and developing human blood substitute patented technology licensed exclusively from Texas Tech University Health Service Center ("TTU") (See Note E). The Company is in the development stage and its efforts have been principally devoted to capital raising, organizational infrastructure development and research and development.

NOTE B -- BASIS OF PRESENTATION

The interim financial statements presented are unaudited but in the opinion of management, have been prepared in conformity with accounting principles generally accepted in the United States of America applied on a basis consistent with those of the annual financial statements. Such interim financial statements reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the financial position and the results of operations for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full fiscal years. The interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2005.

The Company has incurred cumulative losses of \$7,151,000 for the period through September 30, 2006, and has been dependent on funding operations through the private sale of convertible debt and equity securities. At September 30, 2006, the Company had \$4,677,000 in cash, cash equivalents and short term investments. Management believes that current cash resources will be sufficient to fund operations for the next twelve months. Management's plans include continuing to finance operations through one or more private or public offerings of equity securities and monitoring and reducing expenditures.

NOTE C -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] LOSS PER COMMON SHARE:

Basic and diluted loss per common share is based on the net loss divided by the weighted average number of common shares outstanding during the period. No effect has been given to the outstanding shares subject to forfeiture issued to a financial services consultant during September 2006, as described in Note F[4]. No effect has been given to the following outstanding potential common shares such as options, warrants and convertible instruments in the diluted computation as their effect would be antidilutive:

| | NINE MONTHS ENDED | |
|--|--------------------------|--------------------|
| | September 30, | |
| | <u>2006</u> | <u>2005</u> |
| Options | 1,623,415 | 1,515,915 |
| Convertible notes | - | 2,647,080 |
| Warrants | 2,442,372 | 7,676,532 |
| Common shares subject to forfeiture | 1,500,000 | - |
| Total | <u>5,565,787</u> | <u>11,839,527</u> |

[2] STOCK -BASED COMPENSATION:

Effective January 1, 2006, the Company has adopted SFAS No. 123 (Revised 2004), Share Based Payment, (“SFAS No. 123(R)”) which requires a public entity to measure the cost of employee, officer and director services received in exchange for an award of equity instruments based on the grant-date fair value of the award. SFAS No. 123(R) supersedes the Company’s previous accounting under SFAS No. 123, Accounting for Stock Based Compensation (“SFAS No. 123”), which permitted the Company to account for such compensation under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (“APB No. 25”). Pursuant to APB No. 25, and related interpretations, no compensation cost had been recognized in connection with the issuance of stock options, as all options granted under the Company’s 2003 Stock Option/Stock Issuance Plan (the “Option Plan”) and all options granted outside the Option Plan had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant. The Company adopted SFAS No. 123(R) using the modified prospective transition method, which requires that compensation cost be recorded as earned for all unvested stock options outstanding at the beginning of the first fiscal year of adoption of SFAS No. 123(R) based upon the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and for compensation cost for all share-based payments granted subsequent to the adoption, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). The Company’s condensed consolidated financial statements, as of and for the nine months ended September 30, 2006, reflect the impact of SFAS No. 123(R). In accordance with the modified prospective transition method, the Company’s condensed consolidated financial statements for prior periods have not been restated to reflect, and do not include the impact of SFAS No. 123(R).

As a result of adopting SFAS 123(R) on January 1, 2006, the Company’s net loss for the three and nine months ended September 30, 2006, is \$54,000 and \$126,000, respectively, higher than if it had continued to account for share-based compensation under APB No. 25.

The following table illustrates the effect on net loss and loss per share if the Company had applied the fair value recognition provisions of SFAS 123(R) to options granted under the Company’s stock option plans for the three and nine months ended September 30, 2005. For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes option-pricing formula and amortized to expense over the options’ vesting periods:

| | Three Months Ended September 30, <u>2005</u> | Nine Months Ended September 30, <u>2005</u> |
|---|---|--|
| Net Loss, as reported | \$ (1,210,000) | \$(2,860,000) |
| Deduct: Stock-based employee compensation expense included in reported net income, net of related tax effects. | - | - |
| Add: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects. | (15,000) | (42,000) |
| Pro Forma Net Loss | <u>\$ (1,225,000)</u> | <u>\$(2,902,000)</u> |
| Net loss per common share: | | |
| as reported | \$ (.12) | \$ (.28) |
| pro forma | \$ (.12) | \$ (.28) |

The weighted-average fair values at date of grant for options granted during the nine months ended September 30, 2005 was \$0.77. The value of the options was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

| | NINE MONTHS ENDED SEPTEMBER 30, <u>2005</u> |
|------------------------|--|
| Expected life in years | 5-10 |
| Interest rate | 4.2% – 4.30% |
| Volatility | 80% |
| Dividend yield | 0% |

[3] USE OF ESTIMATES:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include the selection of assumptions underlying the calculation of the fair value of options. Actual results could differ from those estimates.

NOTE D -- ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

| | <u>September 30, 2006</u> | <u>December 31, 2005</u> |
|--------------------|---------------------------|--------------------------|
| Professional fees | \$ 42,000 | \$288,000 |
| Liquidated damages | 38,000 | 40,000 |
| Insurance | 40,000 | - |
| Other | - | <u>32,000</u> |
| Total | <u>\$120,000</u> | <u>\$360,000</u> |

NOTE E -- AGREEMENTS WITH TEXAS TECH UNIVERSITY HEALTH SERVICE CENTER ("TTU")

On January 22, 2002, the Company entered into an exclusive license agreement with TTU with respect to receiving certain patented rights. The Company is committed to the exploitation of such patented rights.

In consideration for entering into the agreement, the Company issued 678,820 shares of common stock to TTU (subject to anti-dilution protection). In addition, the Company has agreed to fund, over a four-year period, \$1.2 million to support efforts in incubating and commercializing other TTU technologies. Under the agreement, the Company reserves the right of first refusal on licensing and commercializing other technology developed from such funding. The shares issued were valued at approximately \$1,000, their estimated fair value, and charged to operations. The funding of the \$1.2 million is subject to the Company obtaining FDA approval of a blood substitute product. As of September 30, 2006, such approval had not been obtained. In addition, the Company has agreed to reimburse TTU for all intellectual property protection costs and patent maintenance fees. On May 20, 2004, TTU agreed to waive its anti-dilution protection in exchange for 135,765 additional shares of common stock. Such shares were valued at approximately \$115,000, their estimated fair value, and charged to operations.

In addition, in July 2002, the Company entered into a sponsored research agreement with TTU for the period September 1, 2002 through August 31, 2006, subject to a two-year extension to be mutually agreed on by the parties in the second year of the agreement and prior to December 31, 2006. The agreement may be terminated by either party on 90 days written notice. In November 2004, the Company agreed to fund the next phase of its research under the sponsored research agreement through November 30, 2005 for a fixed fee of approximately \$231,000, which was paid in December 2004.

In January 2006, the Company entered into a Stage Three Sponsored Research Agreement with TTU for the period January 1, 2006, to December 31, 2006. In connection therewith, the Company made an initial payment of approximately \$287,000 which is being amortized over the period of the research. Additional payments may be made to TTU under the agreement based on mutually agreed upon budgets.

NOTE F -- STOCKHOLDERS' EQUITY

[1] PRIVATE PLACEMENT:

On October 27, 2004, the Company completed a private placement of 45 units, priced at \$100,000 per unit, and raised gross proceeds of \$4,500,000. Each unit consists of a \$50,000

unsecured convertible promissory note, 58,824 shares of common stock and 117,648 warrants. The notes bear interest at 10% per annum (an effective rate of 77%) and are convertible at the option of the holder into common stock or convertible securities to be sold by the Company in its next financing, as defined, at a conversion price equal to the per share offering price of such financing.

Based on negotiations with the placement agent, the Company agreed to a fair value for the common stock of \$.85 per share and calculated the fair value of each warrant to be \$.53 using the Black-Scholes option pricing model. Prior to the revision in the method of valuing the common stock, the Company used Black-Scholes to value both common stock and warrants. The gross proceeds from the sale of each unit were allocated based on the relative fair values to each of the components.

| | |
|---------------------------|---------------|
| Convertible notes payable | \$ 31,000 |
| Common stock | 31,000 |
| Warrants | <u>38,000</u> |
| Total | \$ 100,000 |

Based on the allocation of the relative fair values to the components of the private placement offering, the debt discount was calculated to be \$855,000, which was amortized as expense to interest expense over the term of the notes.

At the time of the Company's next financing, the Company will determine if a beneficial conversion feature exists. The beneficial conversion feature will be determined by the Company by comparing the number of shares that would be received pursuant to the conversion price at the time of the next financing compared with the number that would have been received based on the then fair value of the shares. No beneficial conversion feature existed at the date of conversion since the conversion price was greater than the then share value of the stock at issuance date of the Notes.

Through October 27, 2005, an aggregate of \$1,540,000 principal amount of Notes and approximately \$97,000 accrued but unpaid interest thereon were converted into an aggregate of 1,544,490 shares of the Company's common stock, at a negotiated conversion price of \$1.06 per share, in accordance with amendments to the original terms of the Notes permitting such conversion. Effective October 27, 2005, holders of \$337,000 aggregate principal amount of Notes agreed to extend the maturity date of such Notes from October 27, 2005 to April 27, 2006. Accordingly, the Company paid the remaining outstanding balance of \$372,000 aggregate principal amount of Notes, together with approximately \$97,000 of accrued interest thereon, to holders of Notes that had not converted their Notes into shares of Company common stock on or prior to October 27, 2005.

For the period January 1, 2006 through April 27, 2006, an aggregate of \$225,000 principal amount of Notes and approximately \$18,000 accrued but unpaid interest thereon were converted into an aggregate of 142,812 shares of the Company's common stock, at conversion prices ranging from \$1.53 to \$1.96 per share, in accordance with amendments to the original terms of the Notes permitting such conversion. In connection therewith, the Company recorded a charge of approximately \$43,000 as interest expense representing the difference between the conversion price and the market price at date of conversion.

On April 27, 2006, the Company paid the remaining outstanding Notes in an aggregate of \$113,000 principal amount and accrued but unpaid interest thereon of approximately \$13,000.

[2] STOCK WARRANTS

In connection with the private placement, the Company issued 5,294,162 Class A warrants exercisable at \$1.06 per share through the fifth anniversary of the effectiveness of a registration statement of shares underlying the warrants. The warrants were subject to redemption, at the Company's sole option, after one year from the date of effectiveness of the registration statement of common stock underlying the warrants if the common stock price equaled or exceeded \$2.12 for a period of at least 20 consecutive trading days at a redemption price of \$.001 per warrant.

On June 12, 2006, the Company's stock price had been at least \$2.12 for 20 consecutive trading days. On that date, the Company provided notice of its redemption of the Class A Warrant, effective July 14, 2006, in accordance with the terms of the Class A Warrant.

Through July 14, 2006, 5,156,035 Class A Warrants were exercised at an exercise price of \$1.06 per share, and the Company received net proceeds from such exercises of approximately \$5,190,000. The remaining 138,127 Warrants were redeemed by the Company during July 2006 at a minimal cost.

In connection with the private placement, the placement agent was granted a warrant to purchase 2,382,372 shares of common stock at an exercise price of \$.90 per share ("Placement Agent Warrants"), exercisable for five years from the effective date of a registration statement to be filed on behalf of investors in the offering. The placement agent was granted "piggyback" registration rights with respect to the shares underlying this warrant. The warrants are subject to redemption, at the Company's sole option, after one year from the date of effectiveness of the registration statement covering the resale of shares of common stock underlying these warrants if the common stock price equals or exceeds \$2.12 for a period of at least 20 consecutive trading days, at a redemption price of \$.001 per warrant.

During the third quarter of 2005, the Company granted 50,000 and 10,000 warrants, respectively to two service providers. In connection therewith, the Company valued the warrants using Black-Scholes option pricing model and recorded a charge of \$34,000.

At September 30, 2006, the Company had the following warrants outstanding:

| | <u>Exercise Price</u> | <u>Expiration Date</u> | <u>Number of Shares Reserved</u> |
|-----------------|-----------------------|------------------------|----------------------------------|
| Placement Agent | .90 | May 13, 2010 | 2,382,372 |
| Other | 1.00 | July 28, 2009 | 50,000 |
| Other | 1.06 | September 13, 2009 | <u>10,000</u> |
| Total | | | 2,442,372 |

[3] STOCK OPTION/STOCK ISSUANCE PLAN

During 2003, the Board of Directors of the Company approved a Stock Option/Stock Issuance Plan (the "Old Plan") which provides for the granting of options or stock to purchase up to 1,629,168 shares of common stock, under which directors, employees and independent contractors are eligible to receive incentive and non-statutory stock options and common shares (employees). The Company's stockholders approved the Old Plan in August 2004.

Options granted are exercisable for a period of up to 10 years from date of grant at an exercise price which is not less than the fair value of the common stock on date of grant, except that the exercise period of options granted to a stockholder owning more than 10% of the outstanding

capital stock may not exceed five years and their exercise price may not be less than 110% of the fair value of the common stock at date of grant. Options generally vest 25% on the first anniversary date of the grant and then, thereafter, equally over thirty-six months.

During the year ended December 31, 2004, in connection with the change in status of an option holder from a member of the Board of Advisors to Director, the Company recorded deferred stock compensation of \$13,000, representing the difference between the exercise price and the market value of the Company's common stock on the date such stock option holder's status was changed. Deferred compensation is included as a component of stockholders' equity (capital deficiency) and is being amortized to expense over the remaining vesting period of the stock options. Such amortization expenses were \$3,000 for the nine months ended September 30, 2006.

On July 13, 2005, the Company entered into an advisory agreement with its Acting Vice President and Principal Investigator of Research and Development to receive advisory services on technical, medical and market issues related to HemoBioTech, including its second generation blood substitute, HemoTech™. The agreement provides for non-qualified stock options to purchase 271,528 shares of Common Stock of HemoBioTech at an exercise price per share of \$0.18, subject to certain vesting through July 13, 2009. In connection therewith, the Company recorded a charge of \$23,000 and \$141,000 for the nine months ended September 30, 2006 and the full year 2005 respectively. The Company will record additional charges as and when the options vest at the then fair value.

On June 9, 2006, the Company's stockholders approved an increase of 1,500,000 shares of common stock from the 1,629,168 shares of common stock available to be granted under the Plan increasing the number of shares to 3,129,168.

Additional information on shares subject to options is as follows:

At September 30, 2006, 1,505,753 options were available for grant under the Plan. The following tables present information relating to stock options under the Plan as of September 30, 2006.

| | NINE MONTHS ENDED SEPTEMBER 30, | | | |
|--|--|---|--------------------|---|
| | <u>2006</u> | | <u>2005</u> | |
| | <u>Shares</u> | Weighted Average Exercise <u>Price</u> | <u>Shares</u> | Weighted Average Exercise <u>Price</u> |
| Options outstanding at beginning of period | 1,535,915 | \$ 0.29 | 1,119,387 | \$ 0.23 |
| Granted | <u>87,500</u> | \$ 1.78 | <u>396,528</u> | \$ 0.40 |
| Options outstanding at end of period | 1,623,415 | \$ 0.37 | 1,515,915 | \$ 0.28 |
| Options exercisable at end of period | <u>1,305,639</u> | \$ 0.37 | <u>962,600</u> | \$ 0.26 |
| Options not vested at end of period | <u>317,776</u> | | <u>553,315</u> | |
| Options vested or expected to vest | 1,623,415 | | 1,515,915 | |

| September 30, 2006 | | | | | |
|---------------------------------------|----------------------|---|--|-----------------------------------|---|
| <u>OPTIONS OUTSTANDING</u> | | | | <u>OPTIONS EXERCISABLE</u> | |
| <u>Range of Exercise Price</u> | <u>Shares</u> | <u>Weighted Average Exercise Price</u> | <u>Weighted Average Remaining Life in Years</u> | <u>Shares</u> | <u>Weighted Average Exercise Price</u> |
| @\$0.18 - 0.20 | 1,325,055 | 0.19 | 5.0 | 1,087,313 | 0.19 |
| @\$0.85 - 0.94 | 178,360 | 0.85 | 8.1 | 116,244 | 0.86 |
| @\$1.06 – 1.17 | 20,000 | 1.07 | 8.4 | 12,500 | 1.08 |
| @\$1.40 – 1.60 | 50,000 | 1.45 | 8.9 | 50,000 | 1.45 |
| @\$2.15 – 2.42 | 50,000 | 2.21 | 8.9 | 39,582 | 2.21 |
| | <u>1,623,415</u> | <u>\$ 0.37</u> | <u>5.6</u> | <u>1,305,639</u> | <u>\$ 0.37</u> |
| Aggregate intrinsic value | <u>\$1,707,482</u> | | | <u>\$1,381,419</u> | |

As of September 30, 2006, there was \$68,000 of total unrecognized compensation cost related to non-vested employee share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 1.54 years.

The weighted-average fair values at date of grant for options granted during the nine-month period ended September 30, 2006 and 2005 were \$1.43 and \$0.77 respectively. The value of the options was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

| | 2006 | 2005 |
|------------------------|---------------|--------------|
| Expected life in years | 5-10 | 5-10 |
| Interest rate | 4.53% - 5.15% | 4.2% - 4.30% |
| Volatility | 80% | 80% |
| Dividend yield | 0% | 0% |

[4] STOCK ISSUED TO FINANCIAL ADVISOR

On September 12, 2006, the Company entered into a three year agreement with a financial advisor for consulting services related to corporate finance and other financial services. The services which the financial advisor will perform, shall include, assisting the Company in evaluating and negotiating particular contracts or transactions, if requested to do so by the Company and to raise for the Company its next financing of up to \$10 million with a minimum of \$6 million in next 18 months from the date of the agreement. As compensation for such services, the Company agreed to issue 1,500,000 shares of its common stock. The shares are subject to forfeiture in the event that the consultant fails to achieve certain performance criteria set forth in the agreement. In addition, the agreement provides for a fee if the financial advisor acts as a finder or financial consultant in various business transactions in which the Company may be involved such as mergers, acquisitions or joint ventures during the term of the agreement.

Accordingly, the Company recorded a \$29,000 charge during the third quarter for the estimated cost of those financial services for the three-month period ended September 30, 2006. The Company will record an additional expense related to this stock issuance as and when the performance criteria are met at the market price of the stock.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

PLAN OF OPERATIONS

We were founded in 2001 as "HemoBioTech, Inc.," a Texas corporation. In 2003, we incorporated a sister corporation named "HemoBioTech, Inc." in the State of Delaware. On December 1, 2003, HemoBioTech, Inc. was merged with and into HemoBioTech, Inc., with HemoBioTech, Inc. as the surviving entity.

We are primarily engaged in the research and development of human blood substitute technology exclusively licensed from Texas Tech University Health Services Center, although in 2003, 2004, 2005 and in the nine months ended September 30, 2006, most of our working capital was used to pay for general and administrative costs including salaries, legal and accounting fees and the continuation of our sponsored research agreement with Texas Tech University. After reviewing the blood substitute technology developed by researchers at Texas Tech, in January 2002 we licensed from Texas Tech the exclusive rights to various alternative compositions of HemoTech™, a novel blood substitute that is based on hemoglobin (which is the key protein in red blood cells that carries oxygen) of both bovine (cow) and human origin, as well as methods for its production and use. What makes HemoTech™ a novel potential blood substitute product is the fact that it is comprised of hemoglobin that has been isolated from bovine blood and then chemically modified to make the product non-toxic. We also have an agreement with Texas Tech that any patent issued from its patent application relating to the induction of erythropoiesis (which is the production of red blood cells by the body) will be included under our exclusive license with Texas Tech. In addition to our license and patent agreement with Texas Tech, we entered into a sponsored research agreement with Texas Tech in July 2002, under which we are entitled to use certain of Texas Tech's production and research and development facilities in Lubbock, Texas.

Our goal is to address an increasing demand for a safe and inexpensive human blood substitute product in the United States and around the world through our licensed technology. We believe that certain initial pre-clinical and early stage human trials undertaken outside the U.S. by prior holders of this technology suggest that our licensed technology may possess properties that diminish the intrinsic toxic effects of hemoglobin and help reduce or eliminate the abnormal reaction associated with hemorrhagic shock (which is the loss of blood pressure and the lowering of vital signs resulting from the loss of blood).

RECENT DEVELOPMENTS

On September 12, 2006, the Company entered into a three year agreement with a financial advisor for consulting services related to corporate finance and other financial services. The services which the financial advisor will perform, shall include, assisting the Company in evaluating and negotiating particular contracts or transactions, if requested to do so by the Company and to raise for the Company its next financing of up to \$10 million with a minimum of \$6 million in next 18 months from the date of the agreement. As compensation for such services, the Company agreed to issue 1,500,000 shares of its common stock. The shares are subject to forfeiture in the event that the consultant fails to achieve certain performance criteria set forth in the agreement. In addition, the agreement provides for a fee if the financial advisor acts as a

finder or financial consultant in various business transactions in which the Company may be involved such as mergers, acquisitions or joint ventures during the term of the agreement.

Accordingly, the Company recorded a \$29,000 charge during the third quarter for the estimated cost of those financial services for the three-month period ended September 30, 2006. The Company will record an additional expense related to this stock issuance as and when the performance criteria are met at the market price of the stock.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109” (FIN 48), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We do not expect the adoption of FIN 48 to have a material impact on our financial reporting, and we are currently evaluating the impact, if any, the adoption of FIN 48 will have on our disclosure requirements.

RESEARCH AND DEVELOPMENT OF HEMOTECH™

HemoTech™ is currently our only potential product. We expect that the remaining production, development, testing and FDA approval of HemoTech™, if ever, will occur over a period of approximately five to six years. In other words, assuming we are able to progress through each phase of clinical trials efficiently and without significant delay, we believe we could obtain FDA approval of HemoTech™ by 2011, and possibly even earlier, although there is no guarantee that we will meet this time table.

HemoTech™ must undergo several major stages of production, development, and clinical testing before being in a position to submit its New Drug Application (“NDA”) to the FDA, as follows:

- **PRODUCTION OF HEMOTECH™.** In order to produce HemoTech™ for Phase I U. S. clinical trials, we must complete certain upgrades of the current HemoTech™ production facilities located at Texas Tech. The initial stage of these upgrades was completed during the second quarter of 2005. Additional necessary upgrades are planned for 2006. A portion of these upgrades are contemplated by our Stage 3 Sponsored Research Agreement with Texas Tech. We paid \$287,000 to Texas Tech on January 12, 2006, when we entered into our Stage 3 Sponsored Research Agreement. In addition to the upgrades contemplated in the Stage 3 Sponsored Research Agreement, we plan to make additional upgrades and modifications to our existing production facility and equipment. These additional upgrades will be completed during 2007, although there can be no assurance that this will be the case, depending on, among other things, worker schedules, available materials, unexpected costs associated with construction and our ability to raise sufficient capital in order to complete such upgrades.
- **PREPARATION AND SUBMISSION OF U.S. IND APPLICATION.** We started preparing our U.S. IND application on December 13, 2004, when we entered into our Phase 2 sponsored research agreement with Texas Tech. Under our Phase 2 sponsored research agreement, Texas Tech has agreed to assist us in preparing our U.S. IND application by providing certain services, including converting information contained in the European IND application into digital format and analyzing our proposed Phase I U.S. clinical trial testing procedures, to be set forth in our U.S. IND application. To

further implement the preparation of the IND application, the Company had a Pre-IND meeting with the FDA on April 21, 2006. As a result of that meeting, the company expects to submit the US IND during 2007 at a cost of approximately \$2,000,000 or greater, although there can be no assurance that we will meet this deadline or budgeted amount.

- **PHASE I OF OUR U.S. CLINICAL TRIALS.** A Phase I US clinical trial for HemoTech™ will commence subsequent to the acceptance of the IND application. We estimate that our Phase I clinical trials (including the costs of doing additional research and development of HemoTech™ during our Phase I U. S. clinical trials and the operational and overhead costs that we will incur during our Phase I U.S. clinical trials) could cost approximately \$10.0 million, although the final cost could be more or less than this estimate, which includes the following:
 - approximately \$1.4 million for the production of HemoTech™;
 - approximately \$1.6 million for the testing of HemoTech™ on humans;
 - approximately \$1.9 million for personnel, administrative, and operational expenses that we expect to incur during our Phase I U. S. clinical trials;
 - approximately \$1.7 million for legal, accounting, consulting, technical and other professional fees that we expect to incur during our Phase I U. S. clinical trials;
 - approximately \$1.6 million for research and development costs that we expect to incur during our Phase I U. S. clinical trials; and approximately \$2.0 million for the initial modification of the HemoTech™ production facility in preparation for our Phase II U. S. clinical trials.

We expect that our Phase I U. S. clinical trials would take approximately six to nine months to complete from the date we start such trials, though such trials could take significantly longer to complete, depending on, among other things, the rate of production of HemoTech™ and the availability of patients. We estimate that we will be required to raise an additional approximately \$6 - 10.0 million over the next seventeen months in order to fund our Phase I U.S. clinical trials from start to finish and to cover the related expenses described above. If submission or acceptance of our U.S. IND application is delayed for any reason, and if we are unable to raise such additional capital in a timely manner, commencement of our Phase I U. S. clinical trials would also be delayed.

- *Phase II of our U.S. Clinical Trials.* A Phase II Clinical trial could commence subsequent to a successful Phase I trial. We estimate that our Phase II U. S. clinical trials (including the costs of doing additional research and development of HemoTech™ during our Phase II U. S. clinical trials and the operational and overhead costs that we will incur during our Phase II U. S. clinical trials) will cost approximately \$20.0 million, which includes the following:
 - approximately \$4.0 million for additional upgrades to the HemoTech™ production facility and the further production of HemoTech™;
 - approximately \$4.0 million for the further testing of HemoTech™ and related activities;
 - approximately \$4.5 million for personnel, administrative, and operational expenses that we expect to incur during our Phase II U. S. clinical trials;

- approximately \$2.5 million for legal, accounting, consulting , technical and other professional fees that we expect to incur during our Phase II U. S. clinical trials; and
- approximately \$2.5 million for research and development costs that we expect to incur during our Phase II U. S. clinical trials.

We expect that our Phase II U. S. clinical trials could be completed within approximately eight to ten months from the date we start such trials, though such trials could take significantly longer to finish, depending on, among other things, the timely completion of necessary upgrades to the HemoTech™ production facility and the availability of patients. If commencement or completion of our Phase I U. S. clinical trials are delayed for any reason, or if we are unable to raise sufficient funds to begin our Phase II U. S. clinical trials immediately following completion of our Phase I U. S. clinical trials, our Phase II U. S. clinical trials will be delayed.

- *Phase III of our U.S. Clinical Trials.* A Phase III Clinical trial could commence subsequent to a successful Phase II trial. At such time, and in order to cut the costs of conducting and completing our Phase III U. S. clinical trials by approximately 50%, we anticipate that we will seek to enter into a partnership with a biopharmaceutical company that has expertise in the production and marketing of biological products, although there can be no assurance that we will be able to do so. Alternatively, if we are not able to enter into such a partnership, we may seek to enter into a manufacturing arrangement with an experienced pharmaceutical manufacturer, under which such manufacturer would produce HemoTech™, which would significantly reduce the costs of our Phase III U. S. clinical trials by eliminating the need to build a production facility that meets the FDA’s standards for Phase III U. S. clinical trials. If we are not able to enter into a partnership or find a manufacturer that is willing to manufacture HemoTech™ for us, we may be required to perform all aspects of the Phase III U. S. clinical trials independently. In this case, we estimate that our Phase III U. S. clinical trials (including the costs of doing additional research and development of HemoTech™ during our Phase III U. S. clinical trials and the operational and overhead costs that we will incur during our Phase III U. S. clinical trials) could cost approximately \$195.0 million, which includes the following:
 - approximately \$100.0 million to build a production facility for HemoTech™ that is suitable for such advanced testing and that meets the standards of the FDA as a product testing facility;
 - approximately \$70.0 million for the further testing of HemoTech™ and related activities;
 - approximately \$10.0 million for personnel, administrative, and operational expenses that we expect to incur during our Phase III U. S. clinical trials;
 - approximately \$5.0 million for legal, accounting, consulting , technical and other professional fees that we expect to incur during our Phase III U. S. clinical trials; and
 - approximately \$5.0 million for research and development costs that we expect to incur during our Phase III U. S. clinical trials.

We expect that our Phase III U. S. clinical trials could be finished within 15-18 months from the date we start such trials, though such trials could take significantly longer to complete, depending on, among other things, the timely completion of a suitable production facility for HemoTech™ and the availability of patients. If we are unable to partner with a pharmaceutical company, we estimate that we will be required to raise the approximately \$200 million (or such lesser amount as may be required if we are successfully able to enter into a partnership) that we will need in order to fund our Phase III U.S. clinical trials from start to finish and to cover the related expenses described above. If commencement or completion of our Phase II U. S. clinical trials is delayed for any reason, or if we are unable to raise sufficient funds to begin our Phase III U. S.

clinical trials immediately following completion of our Phase II U. S. clinical trials, our Phase III U. S. clinical trials will be delayed.

The estimated costs of each of the phases of our clinical trials set forth above represent our best estimate of such expenses based on, among other things, current economic conditions and availability of materials and personnel. Since many of these phases will not even be commenced by us for another two to five years, we cannot offer any assurance that such estimates will reflect the actual amounts that we may be required to incur during each phase of our clinical trials based on, among other things, then-current economic conditions, availability of materials and personnel, and other factors that may be relevant at the time. The amounts we may actually be required to expend during any phase of our clinical trials may be significantly more than the amounts estimated by us above.

If our clinical trials are successful and we are able to meet the timelines set forth above, it is possible that an NDA could be approved by the FDA by 2011, and possibly even earlier, although there can be no assurance that an NDA would be approved by such time, if ever. There can also be no assurance that we will be able to complete our clinical trials under the schedule described above, or ever, or that we will be able to develop a viable and marketable human blood substitute, even if we are able to complete our clinical trials. Further, we do not expect to generate any revenues until after such time as HemoTech™ has received FDA approval, if ever.

RESULTS OF OPERATIONS

We are a development stage company and have not generated any revenue from inception through September 30, 2006. Until the consummation of our October 2004 private placement, we did not have the financial resources to engage in any significant research and development activities. Warrant exercises for the period January 1, 2006 through July 14, 2006 provided net proceeds of approximately \$5,190,000 and enabled us to engage in certain research and development activities in addition to funding our general operations.

Total expenses, and thus our losses, totaled \$7,151,000 from October 3, 2001 (inception) through September 30, 2006. Such losses included \$3,454,000 during 2005, and \$1,586,000 for the nine months ended September 30, 2006.

THREE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2005

Total expenses, and thus our losses, for the three months ended September 30, 2006, were \$484,000 compared with \$1,210,000 for the same period a year ago resulting from significantly lower interest costs and somewhat lower operating expenses.

Net interest costs were approximately \$589,000 lower due to amortizations of debt issue and debt discount (\$269,000 and \$238,000 respectively) costs incurred during the three months of 2005 that did not repeat in the 2006 period. Total amortization of these costs was completed during 2005. Interest costs relating to our 10% Convertible Promissory Notes was \$0 for the 2006 period compared to \$47,000 in the previous year as these notes were either converted into common stock or paid by April 2006. (See Liquidity and Capital Resources below). Interest income for the current period includes \$48,000 earned from cash and cash equivalents.

General and Administrative costs were \$398,000 for the three months ended September 30, 2006, a decrease of \$121,000 compared with the same period in the prior year. This decrease results from lower professional fees more than offsetting higher compensation costs from our adoption of SFAS 123(R), "stock based compensation" resulting in a charge to general and administrative expenses of approximately \$35,000, and increased salary and related costs. Higher professional

fees in the prior year resulted from the completion of the company's SB-2 registration during 2005.

Research and Development expenses were \$134,000 for the 2006 period, a decrease of \$16,000 compared with the same period in 2005. The 2005 period includes a charge related to stock based compensation granted our consultant and acting Vice President and Principal Investigator of Research and Development that had a fair value of \$115,000. Excluding this charge, the current period expenses were higher due to increased regulatory consultant costs and increased amortization of our Sponsored Research Agreement with Texas Tech University during the 2006 period. In addition, stock-based compensation related to the adoption of SFAS 123(R) included \$19,000 in the three months ended September 30, 2006.

NINE MONTHS ENDED SEPTEMBER 30, 2006 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2005

Total expenses, and thus our losses, for the nine months ended September 30, 2006, were \$1,586,000 compared with \$2,860,000 for the same period a year ago resulting from significantly lower interest costs, offset by somewhat higher general administrative and research costs.

Net interest costs were approximately \$1,590,000 lower due to amortizations of debt issue and debt discount (\$662,000 and \$781,000 respectively) costs incurred during the first nine months of 2005 that did not repeat in the 2006 period. Total amortization of these costs was completed during 2005. Interest costs relating to our 10% Convertible Promissory Notes was lower for the 2006 period as all notes were either converted to common stock or paid by April 2006. (See Liquidity and Capital Resources below). Interest cost for the 2006 period includes a conversion charge of \$43,000 related to \$225,000 principal value of those notes converted during the first four months of 2006, which represents the difference between the conversion price and the market price at the date of conversion. Interest income was \$89,000 for the 2006 period compared with \$40,000 for the same period last year resulting from increased cash and cash equivalents and a slightly higher interest rate.

General and Administrative costs were \$1,210,000 for the nine months ended September 30, 2006, an increase of \$130,000 compared with the same period in the prior year. This increase results from our adoption of SFAS 123(R), "stock based compensation" resulting in a charge to general and administrative expenses of approximately \$122,000, increased salary and related costs of \$135,000, combined with higher office expenses more than offsetting lower professional fees when compared with costs of the prior year.

Research and Development expenses were \$412,000 for the 2006 period, an increase of \$186,000 compared with the same period in 2005. This increase results from significantly higher regulatory consulting costs and amortization of our Stage Three Sponsored Research Agreement with Texas Tech University. The 2005 period includes a charge related to stock based compensation granted our consultant and acting Vice President and Principal Investigator of Research and Development that had a fair value of \$115,000. In addition, stock-based compensation related to the adoption of SFAS 123(R) included \$4,000 in the nine months ended September 30, 2006.

LIQUIDITY AND CAPITAL RESOURCES

In October 2004, we completed a private placement of units, with each unit consisting of one 10% convertible unsecured promissory note in the principal amount of \$50,000; 58,824 shares of our common stock; and a five-year warrant to purchase 117,648 shares of our common stock at an exercise price of \$1.06 per share. We sold 45 units in the private placement at a price of

\$100,000 per unit, and we received gross proceeds of \$4.5 million. Our net proceeds were \$3.43 million.

During the period of August 2005 through April 2006, an aggregate of \$1,765,000 principal amount of our notes and \$115,000 of accrued but unpaid interest was converted into an aggregate of 1,687,301 shares of our common stock at negotiated conversion prices ranging from \$1.06 to \$1.96 per share. The inducement feature corresponding with the conversion of the \$225,000 principal value was \$43,000.

Through July 14, 2006, 5,156,000 Class A Warrants were exercised at an exercise price of \$1.06 per share, and the Company received net proceeds from such exercises of approximately \$5,190,000.

We intend to use our available cash, cash equivalents and short term investments (of which there is approximately \$4,677,000 remaining as of September 30, 2006), over the next twelve months to pay for the following costs and expenditures:

- preparation of our U.S. IND application, related laboratory testing, and submission to the FDA; and
- additional upgrades to HemoTech™ production facility and initiation of production of HemoTech™ for clinical trials.
- our general administrative expenses (including salaries, legal and other professional fees, consulting and advisory fees, and to pay for the costs associated with raising additional capital);

We believe the cash, cash equivalents and short term investments available to us at September 30, 2006 will be sufficient to conduct the activities described above through the next twelve months. In order to complete our planned operations and clinical trials we will need to raise an additional approximately \$6-10 million within the next seventeen months, although there can be no assurance that we can meet this timeframe.

ITEM 3. CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed with an objective of ensuring that information required to be disclosed in our periodic reports filed with the SEC, such as this Quarterly Report on Form 10-QSB, is recorded, processed, summarized and reported within the time periods specified by the SEC. Disclosure controls also are designed with an objective of ensuring that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, in order to allow timely consideration regarding required disclosures.

Based on their review and evaluation as of the end of the period covered by this Form 10-QSB, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) are effective as of the end of the period covered by this report. They are not aware of any significant changes in our disclosure controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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 adverse effect on the financial statements.

During the period covered by this Form 10-QSB, there have not been any changes in our internal control over financial reporting that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II --OTHER INFORMATION

Items 1, 2, 3, 4 and 5 are not applicable and have been omitted.

ITEM 6. EXHIBITS

31.1 Certification of Principal Executive Officer required under Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as amended.

31.2 Certification of Principal Financial Officer required under Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as amended.

32.1 * Certification of Principal Executive Officer required under Rule 13a-14(b) or Rule 15d-14(b) of the Securities and Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350

32.2 * Certification of Principal Financial Officer required under Rule 13a-14(b) or Rule 15d-14(b) of the Securities and Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.

* The certifications attached as Exhibits 32.1 and 32.2 accompany this Quarterly Report on Form 10-QSB pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" by HemoBioTech, Inc. for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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.

HEMOBIOTECH, INC.

Dated: November 8, 2006

*By: /s/ Arthur P. Bollon, Ph.D.
Dr. Arthur P. Bollon- Chairman of the Board and
Chief Executive Officer
(PRINCIPAL EXECUTIVE OFFICER)*

Dated: November 8, 2006

*By: /s/ Mark J. Rosenblum
Mark J. Rosenblum - Chief Financial Officer and
Secretary
(PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER)*

EXHIBIT INDEX

- 31.1 Certification of Principal Executive Officer required under Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as amended.
- 31.2 Certification of Principal Financial Officer required under Rule 13a-14(a) or Rule 15d-14(a) of the Securities and Exchange Act of 1934, as amended.
- 32.1* Certification of Principal Executive Officer required under Rule 13a-14(b) or Rule 15d-14(b) of the Securities and Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.
- 32.2* Certification of Principal Financial Officer required under Rule 13a-14(b) or Rule 15d-14(b) of the Securities and Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.

* The certifications attached as Exhibits 32.1 and 32.2 accompany this Quarterly Report on Form 10-QSB pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" by HemoBioTech, Inc. for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Arthur P. Bollon, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of HemoBioTech, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in

Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986]
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 8, 2006

*/s/ Arthur P. Bollon, Ph.D.
Arthur P. Bollon, Ph.D.
Chief Executive Officer
(PRINCIPAL EXECUTIVE OFFICER)*

EXHIBIT 31.2
CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Mark J. Rosenblum, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of HemoBioTech, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in

Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have;

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986]

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the such auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Dated: November 8, 2006

/s/ Mark J. Rosenblum
Mark J. Rosenblum
Chief Financial Officer
(PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER)

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-QSB of HemoBioTech, Inc. (the "Company") for the period ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Arthur P. Bollon, Ph.D., Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

- a. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- b. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 8, 2006

*/s/ Arthur P. Bollon, Ph.D.
Arthur P. Bollon, Ph.D.
Chief Executive Officer
(PRINCIPAL EXECUTIVE OFFICER)*

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-QSB of HemoBioTech, Inc. (the "Company") for the period ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Mark J. Rosenblum, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

- a. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- b. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 8, 2006

*/s/ Mark J. Rosenblum
Mark J. Rosenblum
Chief Financial Officer
(PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER)*

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.