

MEDICAL THERAPIES LIMITED

ABN 69 111 304 119

ASX APPENDIX 4E RESULTS FOR ANNOUNCEMENT TO THE MARKET PRELIMINARY FINAL REPORT FOR THE TWELVE MONTHS ENDED 30 JUNE 2008

FINANCIAL RESULTS

Revenue from ordinary activities for the period	Down 0.4% to \$77,977
Loss from ordinary activities after tax for the period attributable to members	Down 41% to \$2,688,804
Net loss after tax for the period attributable to members	Down 41% to \$2,688,804

DIVIDENDS

The Company has not paid dividends and is not proposing to pay dividends.

COMMENTARY ON RESULTS

The consolidated loss of the Group for the period after providing for income tax amounted to \$2,688,804 (2007 - \$4,554,782).

The 2008 loss is attributable to the following:

- Research and development expenses of \$(22,858) (2007: \$1,125,662)
- Amortisation expense of \$1,081,850 (2007 - \$309,100) relating to the Group's intellectual property
- Employment benefits of \$756,314 (2007 - \$510,250) reflecting the employment of full-time staff by the Group.

The consolidated balance sheet at 30 June 2008 reflects cash at bank of \$0.97m (2007: \$1.84m). The Group has raised funds during the year by issuing ordinary shares which resulted in a cash inflow of \$0.8m excluding transaction costs.

While net loss was down 41% operational activities added significant value to the Group's assets at a reduced cash burn as outlined in the following sections.

Increases in the Group's value due to the operational activities have not been reflected in these financial statements. Value adding activities not included here are:

- Acquisition of the Midkine Intellectual Property (post balance date event)
- Progress of Cuprindo™ from pre-clinical to clinical development stage
- Settlement of a major dispute which could have resulted in an exposure to liabilities
- Addition of recognised expertise at board and advisory board level

REVIEW OF OPERATIONS

Increase in asset value not reflected in the accounts

The 2008 financial year has seen the transformation of Medical Therapies Limited. As a key significant event in adding value to the Company's assets the Intellectual Property Agreement was signed on 16 April 2008 for the acquisition of the Midkine asset portfolio.

On another front Cuprindo™, the Company's metal NSAID technology, reached early clinical development in January 2008. In a safety study of a small number of healthy volunteers it proved to have no significant adverse effects.

Securing outstanding expertise at board and advisory board level has been the key to achieving these milestones, especially in view of the limited financial and human resources during the period. This expertise at board and advisory board level will continue to add value to the Company's assets.

Acquisition program

Considerable resources have been invested during the period into identifying and securing a new technology platform or product development opportunity which could add significant value to the Company's assets. Importantly, any acquisition had to be made in the context of the Company's size, its ability to raise development capital and the constraints of the existing capital structure.

We identified several promising technologies over the fiscal period which represented opportunities for substantial value add but were not a good fit for Medical Therapies due to either capital structure or development stage issues.

During this extensive international search we found the Midkine Intellectual Property portfolio early this calendar year. After an initial review of the technology it became apparent that there was an opportunity to unlock considerable value with a focused and pragmatic product development program.

Midkine is a native protein highly expressed by the body during the onset of certain cancers and inflammatory conditions. As an important modulator of key biological processes including apoptosis, cell migration, cell growth and angiogenesis, it is a strong diagnostic and therapeutic target.

In addition to the broad therapeutic and diagnostic opportunities for the protein itself, it was apparent that the Midkine Intellectual Property assets include a large number of other promising products, including antibodies and anti-midkine nucleotides, at various stages of development.

The Midkine Intellectual Property portfolio was ideally suited for Medical Therapies having key indications which could be developed in-house and with a rich pool of other non-core assets which could potentially be developed through early partnerships.

As a last but not least important step we have been able to strike a deal with Cell Signals Inc., the original owner of the Midkine Intellectual Property Portfolio, that was ideal for not only value creation but for the current capital structure and development stage of the Company.

Our technology acquisition program commenced in July 2007 and culminated in the signing of the Intellectual Property Agreement between Cell Signals and Medical Therapies on 16th April 2008.

Following the approval of the acquisition at the extraordinary general meeting of Medical Therapies' shareholders on 16 June 2008, and after the completion of due diligence by both parties, Settlement of the transaction took place post balance sheet date on 3 July 2008.

The acquisition added immediate and significant value to Medical Therapies' asset portfolio. As a result of the deal Medical Therapies currently holds the largest intellectual property assets in the world around Midkine, a valuable molecular target for biotechnology and pharmaceutical companies for therapeutic, diagnostic and theragnostic applications.

The assets include 26 patent and patent application families for the diagnosis and/or treatment of a range of conditions. Targeted indications include acute myocardial infarct (AMI or heart attack), brain ischemia (stroke), cancers, inflammatory disorders and auto-immune diseases. The transaction has also provided the Company with the opportunity to generate early revenues through partnering of non-core intellectual property.

Settlement of The University Of Sydney dispute

Yet another significant and transforming milestone in the Company's progress, and a credit to both parties, was the settlement of the dispute between The University of Sydney and the Company. The dispute originated from the research agreements between the University and MTY for the development of the company's metal NSAID technology. The terms of the Settlement Deed between MTY and the University remain confidential.

Cuprindo™, the metal NSAID technology

The Company has progressed with Cuprindo™, the lead candidate in the metal NSAID portfolio, to early clinical trials and confirmed its safety using suppository formulations in a small number of healthy volunteers earlier this calendar year. We expected to commence proof of concept trials in humans in the last quarter of fiscal 2008 but have been delayed by our human ethics committee approval, which we expect to be finalised during the third quarter of the 2008 calendar year.

Significant events since Balance Sheet date

The Company has completed Settlement of its Intellectual Property Agreement with Cell Signals Inc. for the acquisition of the Midkine Intellectual Property portfolio following an overwhelming support by shareholders during the extraordinary general meeting held on 16 June 2008. Pursuant to the Settlement, Cell Signals Inc. has transferred all of its rights to its Midkine Intellectual Property including patents, trademarks, manufacturing information and technical know-how.

Net Tangible Assets

	As at 30.06.2008	As at 30.06.2007
Net tangible assets per ordinary share	(1.26) cents	(1.96) cents

Other

There are no entities over which control has been gained or lost during the period. There are no associates, joint venture entities or foreign entities.

Medical Therapies Limited
Annual financial report

ABN 69 111 304 119

for the year ended 30 June 2008

MEDICAL THERAPIES LIMITED ABN 69 111 304 119
Annual financial report – 30 June 2008

Contents

Directors Report	3
Auditor's Independence Declaration	19
Corporate Governance	20
Financial Report	26
Directors' declaration	65
Independent auditor's report to the members of Medical Therapies Limited	66

Directors Report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Medical Therapies Limited and the entities it controlled at the end of, or during, the year ended 30 June 2008.

Directors

The names of the directors in office at any time during or since the end of the period are:

Dr David King (appointed 18 January 2008)

Dr Stephanie Williams (appointed 15 February 2008, resigned 26 August 2008)

Ms Maria Halasz (appointed 16 April 2007)

Professor Michael Vitale (resigned 18 January 2008)

Dr Michael Taverner (resigned 15 February 2008)

Directors have been in office since the start of the period to the date of this report unless otherwise stated.

Principal activities

The principal activities of Medical Therapies Limited are the development and commercialisation of products for the treatment and diagnosis of certain conditions including acute myocardial infarction, brain ischemia, cancers and inflammatory diseases.

Dividends paid or recommended

No dividends were paid or declared since the start of the period. No recommendation for payment of dividends has been made.

REVIEW OF OPERATIONS

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Company's assets. Importantly, any acquisition had to be made in the context of the Company's size, its ability to raise development capital and the constraints of the existing capital structure.

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Significant changes in state of affairs

During the year the Group successfully raised \$0.8 million (excluding transaction costs) in funds from capital raisings in June 2007 and May 2008. The company has written off assets with a net value of \$58,115 following the settlement of the University of Sydney dispute in.

Matters subsequent to the end of the financial year

The company has completed settlement of its intellectual property agreement with Cell Signals Inc for the acquisition of the midkine protein related technology assets (at the general meeting of shareholders held on 16 June 2008 there was overwhelming support for the transaction). As a consequent of the settlement, Cell Signals Inc has transferred all of its rights to its midkine related intellectual property including patents, trademarks, manufacturing information and technical know-how.

Except for the matters outlined above, no other matter or circumstance has arisen since 30 June 2008 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years
- the results of those operations in future financial years or
- the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Comments on expected results of certain operations of the Group are included in this annual report under the review of operations.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulations

The economic entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

Information on directors

Dr David King

CHAIRMAN - INDEPENDENT (APPOINTED 18 JANUARY 2008)

Dr David King brings a depth of corporate governance, capital markets and listed company board experience to Medical Therapies. He has previously held positions as Executive Director, Chief Executive Officer and Managing Director in a number of private and listed companies.

An expert in high growth companies Dr King has a track record in starting business ventures and developing them into attractive investment and/or take-over targets. His experience in successful start-up businesses has been instrumental in MTY's recent acquisition of the midkine intellectual property portfolio.

Dr King is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australian Institute of Geoscientists and the Australian Institute of Mining & Metallurgy (Chartered Professional, Management) and holds degrees in physics and geophysics and a PhD in Seismology from the Australian National University.

Maria Halasz MBA

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER (APPOINTED 16 APRIL 2007)

Maria Halasz has been involved with biotechnology companies for 16 years; initially working in executive positions in biotechnology firms, then managing investment funds and later holding senior positions in corporate finance specialising in life sciences.

Prior to joining Medical Therapies Ms Halasz had been an adviser to an independent sector based research firm in life sciences and managed Direct Capital Group Pty Ltd, a specialist biotechnology fund. She has also been a venture partner at the Emerging Technology Fund of venture capital firm Allen and Buckeridge.

Since taking over as Chief Executive and Managing Director of Medical Therapies Ms Halasz has led the restructure of the business, the acquisition of the midkine intellectual property portfolio and the recapitalisation of the company.

Ms Halasz is a Member of the Australian Institute of Company Directors and holds a science degree in microbiology and an MBA

Dr Stephanie Williams

NON-INDEPENDENT NON-EXECUTIVE DIRECTOR—INDEPENDENT (APPOINTED 15 FEBRUARY 2008, RESIGNED 26 AUGUST 2008)

Dr Stephanie Williams has worked extensively as a scientist and as a medical research advocate and communicator. Prior to joining the Board of Medical Therapies Dr Williams was Project Manager for the Queensland Government supervising the state's science education initiatives and held the position of Business and Corporate Affairs Manager at Research Australia, a national organisation for the promotion of health and medical research.

Dr Williams completed her PhD in colon cancer genetics at the Queensland Institute of Medical Research and also holds a graduate degree in journalism from the University of Queensland.

Information on Company Secretary**Derek Bolling MBA FCIS FCPA**

COMPANY SECRETARY/FINANCIAL CONTROLLER (PART-TIME)

Derek has over 20 years experience in accounting and financial management including senior financial and information systems management positions in the banking, telecommunications, resources, manufacturing and medical diagnostics sectors. He has experience in the implementation and operation of large scale financial systems, financial management of resource projects, contract negotiation and change management of the finance function.

Derek is currently a consultant in accounting and financial management to start-up companies in the biomedical and computer engineering fields.

Derek holds a BBus (Accounting) from Deakin University and a MBA from the University of Central Queensland. He is a Fellow of CPA Australia and the Institute of Chartered Secretaries.

Bernadette Kerrigan Grad Dip Corp Gov ACIS

JOINT COMPANY SECRETARY (PART-TIME)

Bernadette is a corporate solicitor with extensive experience in governance and legal compliance. She has previously worked as an in-house counsel and company secretary for a number of publicly listed companies in the life sciences sector, predominantly involved in the development and sale of medical devices. Bernadette is Chair of the NSW Professional Development Committee of Chartered Secretaries Australia and secretary to the Board, Jessie Street National Women's Library.

Director and Audit Committee meetings

The number of meetings of directors held during the year and the number of meetings attended by each director were as follows:

	Board meetings		Audit Committee meetings		Remuneration meetings	
	number eligible to attend	Number attended	Number eligible to attend	number attended	Number eligible	Number attended
Ms Maria Halasz **	12	12	*	*	-	-
Dr Stephanie Williams ***	3	3	2	2	-	-
Professor Michael Vitale	8	8	2	2	-	-
Dr Michael Taverner	9	9	2	2	-	-
Dr David King	4	4	2	2	-	-

The nomination committee of the board met on several occasions during the financial year on an informal basis.

* Attends the Audit Committee meetings by invitation.

** Executive directors

*** Executive from 15 February 2008 to 7 May 2008. Non executive director from 7 May 2008 to 26 August 2008.

Retirement, election and continuation of directors

Professor Michael Vitale resigned as a director on 18 January 2008.

Dr Michael Taverner resigned as a director on 15 February 2008.

Audit Committee

Members of the Audit Committee are Dr David King and Dr Stephanie Williams.

Remuneration Committee

Members are Dr David King and Dr Stephanie Williams.

Remuneration report

The remuneration report is set out under the following main headings:

- A. Principles used to determine the nature and amount of remuneration
- B. Details of remuneration
- C. Service agreements
- D. Share-based compensation
- E. Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

A. Principles used to determine nature and amount of remuneration (audited)

The performance of the Group depends on the quality of its directors and executives.

To prosper, the Group must attract, motivate and retain highly skilled directors and executives. To this end, the Group embodies the following principles in its remuneration framework:

- provide competitive rewards to attract high calibre executives
- link executive rewards to shareholder value
- ensure that a significant portion of executive remuneration is 'at risk', and therefore dependent on meeting pre-determined performance benchmarks
- establish appropriate performance hurdles in relation to variable executive remuneration.

The Board of Directors assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and senior manager remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level that provides the Group with the ability to attract and retain directors of the highest calibre, while incurring costs that are acceptable to shareholders.

Structure

Each non-executive director receives a fixed fee for being a director of the Group.

The Constitution and the ASX Listing Rules specify that the maximum aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting of shareholders. At the general meeting of shareholders in 2005, this maximum amount was set at \$300,000 per annum. In 2008, the Group paid non-executive directors a total of \$110,649 (2007:\$ 172,811) including superannuation.

The amount of aggregate remuneration sought to be approved by shareholders and the fixed fees paid to directors are reviewed annually. The Board considers fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Non-executive directors were also granted options on ordinary shares of Medical Therapies Limited on the successful ASX listing of the Company in December 2005. The details of these options are set out in Sections B and D below.

The board of Medical Therapies Limited is currently actively seeking to appoint new directors against established selection criteria. A shortlist of candidates has now been prepared and it is expected that appropriate new board member(s) will be interviewed in the near future.

Executive remuneration

Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and so as to:

- reward executives for Group and individual performance against targets set by reference to appropriate benchmarks
- align the interests of executives with those of shareholders
- link reward with the strategic goals and performance of the Group
- ensure total remuneration is competitive by market standards.

Structure

A policy of the Board is the establishment of employment or consulting contracts with the CEO and other senior executives. At the time of this report this included the CEO.

Remuneration consists of fixed remuneration under an employment or consultancy agreement and long term equity-based incentives that are subject to satisfaction of performance conditions. The equity-based incentives are intended to retain key executives and reward performance against agreed performance objectives.

Fixed remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration that is both appropriate to the position and competitive in the market.

Fixed remuneration is reviewed annually by the Board and the process consists of a review of Group-wide and individual performance, relevant comparative remuneration in the market, and internal and (where appropriate) external advice on policies and practices.

Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and expense payment plans, such that the manner of payment chosen is optimal for the recipient without creating additional cost for the Group.

Remuneration policy and performance

A significant portion of the CEO's remuneration is 'at risk' remuneration. The CEO will receive certain equity-based compensation on achieving of specific Company milestones that deliver value to shareholders.

Ms Halasz's employment agreement sets out certain performance incentives that are payable subject to achievement of two milestones. The first milestone required the setup of a definitive agreement for the licensing or acquisition of new technology. The second milestone required the formation of a Clinical Advisory Board. Ms Halasz has been successful in forming a Clinical Advisory Board, as approved by the Board of Medical Therapies Limited and has successfully completed an acquisition of new technology in relation to the Minkine transaction approved at a general meeting of shareholders on 16 June 2008. For each milestone a bonus of \$25,000 was paid. Total bonus paid for the year to Ms Halasz was \$50,000

B. Details of remuneration (audited)

Details of the remuneration of the directors and key management personnel (as defined in AASB 124 Related Party Disclosures) of Medical Therapies Limited are set out in the following tables. Key management personnel includes the CEO.

2008

Name	short-term benefits		post-employment benefits		share-based	Total
	cash salary and fees	cash bonus #	non-monetary benefits	super-annuation	retirement benefits options	
	\$	\$	\$	\$	\$	\$
Non-executive directors						
David King (Chairman)	27,083	-	-	2,438	-	29,521
Michael Vitale	37,917	-	-	3,413	-	41,330
Michael Taverner	34,410	-	-	2,888	-	37,298
Stephanie Williams**	52,641	-	-	4,545	-	57,186
Total non-executive directors	152,051	-	-	13,284	-	165,335
Executive directors						
Maria Halasz (MD/CEO)	321,721	50,000	-	31,205	-	556,233
Key Management						
David James	78,586	5,000	-	6,355	-	105,356
Total Executive directors & key management	400,307	55,000	-	37,560	-	661,589
Total	552,358	55,000	-	50,844	-	826,924

Professor Vitale resigned as a director effective from 18 January 2008.

Dr Taverner resigned as a director effective 15 February 2008.

Dr King was appointed as Chairman effective 18 January 2008.

** The remuneration for Dr Williams comprises \$50,141 for her role as chief scientific officer for the period from 15 February 2008 to 7 May 2008 and \$2,500 for her role as non executive director for the period from 7 May 2008 to the date of this report.

represents 100% of the bonus entitlement for the year.

DIRECTOR'S REPORT

Medical Therapies Directors report
For the year ended 30 June 08

2007

Name	short-term benefits		post-employment share-based benefits			options	Total
	cash salary and fees	cash bonus	non-monetary benefits	super-annuation	retirement benefits		
	\$	\$	\$	\$	\$	\$	\$
Non-executive directors							
Michael Vitale (Chairman)	70,000	-	-	6,300	-	-	76,300
Michael Taverner	60,000	-	-	5,400	-	-	65,400
Malcom Castle	28,542	-	-	2,569	-	-	31,111
Total non-executive directors	158,542	-	-	14,269	-	-	172,811
Executive directors							
Maria Halasz (MD/CEO)	57,339	-	-	5,161	-	-	62,500
Malcom Castle (Interim CEO)	127,629	20,000	-	12,518	-	-	160,147
Llewellyn Casbolt (MD/CEO)	250,015	-	-	-	-	(53,001)	197,014
Key Management							
David James	127,199	-	-	10,440	-	43,685	181,324
Total Executive directors & key management	562,182	20,000	-	28,119	-	(9,316)	600,985
Total	720,724	20,000	-	42,388	-	(9,316)	773,796

Mr Casbolt resigned as managing director effective from 15 November 2006.

Mr. Castle resigned as a director effective from 18 May 2007.

Ms. Halasz commenced employment as managing director effective from 16 April 2007.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration		At risk -STI		At risk – LTI	
	2008	2007	2008	2007	2008	2007
Directors						
David King (Chairman)	100	-	-	-	-	-
Michael Vitale	100	100	-	-	-	-
Michael Taverner	100	100	-	-	-	-
Maria Halasz (CEO)	63	100	9	-	28	-
Stephanie Williams	100	-	-	-	-	-
Other key management personnel of Group						
David James	80	76	5	-	15	24

C. Service agreements (audited)

The CEO, Ms Halasz is an employee of the Group under an agreement signed on 21 September 2007 Under the terms of the present contract:

- Ms Halasz may resign from her position and thus terminate this contract by giving six months' written notice. On resignation any unvested options will be forfeited.
- The Group may terminate the employment agreement by providing six months' written notice or providing payment in lieu of the notice period (based on the fixed component of Ms Halasz's remuneration).
- The Group may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the CEO is only entitled to that portion of remuneration which is fixed, and only up to the date of termination. On termination with cause, any unvested options will immediately be forfeited.
- Ms Halasz's employment agreement sets out certain performance incentives that are payable subject to achievement of specific milestones. Key milestones that trigger performance incentives are related to definitive agreement for the licensing or acquisition of new technology and the formation of a Clinical Advisory Board. Ms Halasz has been successful in forming a Clinical Advisory Board, as approved by the Board of Medical Therapies Limited and has successfully completed an acquisition of new technology in relation to the Minkine transaction approved at a general meeting of shareholders on 16 June 2008.

D. Share-based compensation (audited)

Options

The issuance of options to Directors, Executives and Key management personnel was approved by shareholders at a General Meeting on 29 April 2005 and on 16 June 2008.

These options were granted for no consideration. The terms and conditions of the grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

2008

	Options Granted in 2008	Value of options at grant date	Options Vested in 2008	Value of options expensed in 2008	Proportion of remuneration
Maria Halasz	5,000,000	153,307	5,000,000	(\$) 153,307	% 28
David James	-	43,685	125,000	15,415	15

2007

	Options Granted in 2007	Value of options at grant date	Options Vested in 2007	Value of options expensed in 2007	Proportion of remuneration
Maria Halasz	-	-	-	(\$) -	% -
Malcom Castle	-	-	-	-	-
M Vitale	-	-	-	-	-
M Taverner	-	-	-	-	-
L Casbolt – tranche 1	-	-	-	(53,001)	**
D James	750,000	43,685	354,167	43,685	24.1%
	750,000	43,685	354,167	(9,316)	

** Mr L Casbolt resigned effective 15 November 2006.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company.

The Directors' options and tranche 1 for Mr Casbolt were granted and vested at the date of the ASX approval of the Company's listing. The second and third tranches of Mr Casbolt's options have lapsed following his resignation on 15 November 2006.

The Executive options for Ms Halasz were granted and vested at the date of approval by a general meeting of shareholders held on 16 June 2008. The options vested as Ms Halasz has completed one full year of service and completion of a materially significant transaction evidenced by the acquisition of the Midkine technology.

None of the Director or Executive options granted as share-based compensation were exercised during the period.

The assessed fair value at grant date of options granted is allocated over the period from grant date to vesting date. The amounts are included in the tables in Sections B and D above. Fair values at grant date are determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2008 included:

- options are granted for no consideration
- exercise price: \$0.05735 (2007: \$0.18 to \$0.30)
- grant date: 16 June 2008 (2007: 2 January 2007, 26 March 2007)
- expiry date: 15 June 2013 for Director options (31 December 2008 for Executive options and up to 9 January 2009 for key management personnel).
- share price at grant date: \$0.06 (2007: \$0.165 to \$0.235)
- expected price volatility of the Company's shares: 60 - 70% (2007: 60 – 70%)
- expected dividend yield: nil% (2007: nil)
- risk-free interest rate: 6.32% (2007: 5.72 to 5.92%)

No options have been granted since the end of the financial year.

E. Additional information

The CEO, Ms Halasz receives cash bonuses and has been granted options during the year. No part of the bonuses is payable in future years. The options granted have vested in accordance with the terms of the options and hence the minimum value to vest is nil. The options expire 5 years from grant date and were approved at a meeting of shareholders on 16 June 2008.

Loans to directors and executives

There were no loans to directors or executives during or since the end of the year.

Shares under option

Unissued ordinary shares of Medical Therapies Limited under option at the date of this report are as follows:

DIRECTOR'S REPORT

Medical Therapies Directors report
For the year ended 30 June 08

	Expiry Date	Issue Price	Number under option
			(\$)
Restricted options	31 Dec 2008	\$0.20	1,000,000
Restricted options	31 Dec 2009	\$0.45	500,000
Unlisted options	8 Jan 2012	\$0.12	750,000
Unlisted options	31 Dec 2008	\$0.20	205,000
Unlisted options	8 Jan 2012	\$0.30	50,000
Unlisted options	15 June 2013	\$0.06	5,000,000
			7,505,000

Shares issued on the exercise of options

The following ordinary shares of Medical Therapies Limited were issued during and since the year ended 30 June 2008 on the exercise of options. No amounts are unpaid on any of the shares.

	Issue Price	Number of shares issued
Shares issued during fiscal 2006	\$0.20	585,383
Shares issued during fiscal 2007	\$0.20	46,997
Shares issued during fiscal 2008	\$0.20	73,330

Insurance of officers

During the financial year, the Group paid a premium to insure the directors and officers of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Indemnification of officers

The Group has entered into Deeds of Indemnity, Insurance and Access with each of the directors and the Company Secretary. Each deed provides officers with the following:

- a right to access certain Board papers of the Group during the period of their tenure and for a period of seven years after that tenure ends
- subject to the Corporations Act, an indemnity in respect of liability to persons other than the Group and its related bodies corporate that they may incur while acting in their capacity as an officer of the Group or a related body corporate, except where that liability involves a lack of good faith and for defending certain legal proceedings, and
- the requirement that the Group maintain appropriate directors' and officers' insurance for the officer.

No liability has arisen under these indemnities as at the date of this report.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group and/or the Group are important.

Details of the amounts paid or payable to the auditor (currently PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The Board has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

DIRECTOR'S REPORT

Medical Therapies Directors report
For the year ended 30 June 08

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2008	2007
	\$	\$
(a) Assurance services		
<i>Audit services</i>		
PricewaterhouseCoopers Australian firm		
Audit of financial reports and other audit work under the <i>Corporations Act 2001</i>	86,074	141,620
Non-PricewaterhouseCoopers audit firm		
Audit of financial reports and other audit work under the <i>Corporations Act 2001</i>	-	-
Total remuneration for audit services	86,074	141,620
<i>Other assurance services</i>		
PricewaterhouseCoopers Australian firm		
Due diligence services	-	10,610
Total remuneration for other assurance services	-	10,610
Total remuneration for assurance services	86,074	152,230
(b) Taxation services		
PricewaterhouseCoopers Australian firm		
Tax compliance services, including review of Company income tax returns	-	26,400
Non-PricewaterhouseCoopers firm		
Tax compliance services, including review of Company income tax returns	-	-
Total remuneration for taxation services	-	26,400
(c) Advisory services		
PricewaterhouseCoopers Australian firm		
Initial public offering, other public raisings	-	16,500
Strategic facilitation	-	-
Consulting services	-	27,742
Non-PricewaterhouseCoopers firm		
Accounting and advisory services	-	-
Independent expert report	-	-
Total remuneration for advisory services	-	44,242
Total remuneration for non-audit services	-	70,642

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 19

DIRECTOR'S REPORT

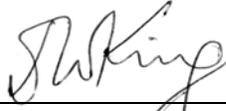
Medical Therapies Directors report
For the year ended 30 June 08

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

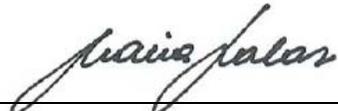
Signed in accordance with a resolution of the Board of Directors:

Director



David King

Director



Maria Halasz

Dated this 27th day of August 2008

PricewaterhouseCoopers
ABN 52 780 433 757

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SYDNEY NSW 1171
DX 77 Sydney
Australia
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Auditor's Independence Declaration

As lead auditor for the audit of Medical Therapies Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Medical Therapies Limited and the entities it controlled during the period.



Mark Dow
Partner
PricewaterhouseCoopers

Sydney
27 August 2008

Corporate Governance

The Board of Directors of Medical Therapies Limited (the Company) is committed to ensuring the most appropriate corporate governance arrangements are in place to achieve optimal performance and the long term prosperity while meeting shareholder expectations.

The Board determines the most appropriate corporate governance arrangements having regard to the best interests of the Company, its shareholders and consistent with its responsibilities to other stakeholders. This statement outlines the Company's main corporate governance practices.

As required by the ASX Listing Rules this statement sets out the extent to which the Company has followed the Corporate Governance Council's Corporate Governance Principles and Recommendations. This statement is based on the revised Recommendations released by ASX in August 2007. Where the Company departs from the Recommendations an explanation is provided.

Principle 1—Lay solid foundations for management and oversight

The Board Charter details the composition, role and responsibility of the Board and its relationship with management. In particular the Board has responsibility to set the strategic direction of and promote the long term prosperity of the Company. A copy of the Board Charter can be found on the Company's website at www.medicaltherapies.com.au/Content_Common/pg-corporate-governance.seo. (ASX Recommendation 1.3). The Charter clearly defines the functions reserved for the Board (ASX Recommendation 1.1).

The Company has also established guidelines in relation to the allocation of individual responsibility in relation to the appointment of Directors, in particular the role of the Managing Director and the Chairman as well as issuing formal letters of appointment to all new Director's setting out the key terms and conditions of that appointment which are clearly defined in the Board Operating Manual.

The Board, through the Chairman, is charged with undertaking an evaluation against appropriate key indicators of the performance of the Board, individual Directors and the Board committees as well as the performance of the Managing Director. The evaluation of the Managing Director includes a review of financial results, achievement of strategic goals, compliance and other key objectives as established by the Board. (ASX Recommendation 1.2).

During the financial year the Managing Director has had two performance reviews based on the criteria set out above. The Board is scheduled to undertake a review of its performance, that of individual Directors and the Board committees during the last half of this calendar year.

Principle 2—Structure the Board to add value

The Board considers that the number of directors and the composition of the Board are critical for the success of the Company. It is acknowledged that these numbers could vary from time to time depending on the circumstances of the Company.

The total number of directors permitted by the constitution is not less than three, nor more than nine. The Board considers that the appropriate number in the current circumstances is three. However, the number of Directors will need to increase during the coming financial year as the business opportunities from the acquisition of the midkine intellectual property portfolio develop and commercialisation of the intellectual property is underway. The Board will seek suitably qualified directors with an appropriate mix of skills that allows the Board collectively to understand the business environment in which the Company operates and who can add value to the current Board.

Independence of directors

The Board believes that the best interests of the Company, at present, are served where:

- the Chairman is an independent director (ASX recommendation 2.2) and
- the other non-executive director, while not independent, Dr Williams was the Company's Chief Scientific Officer, has technical and scientific qualifications that outweigh the requirement for independence at this time in the Company's development cycle.

The Board is conscious of not being in compliance with ASX Recommendation 2.1, but as stated above, the technical and scientific skills that Dr. S Williams brings to the Company at this critical time outweigh the requirement for a majority of independent Directors. As previously stated additional Directors will be appointed as the business opportunities arising from the midkine intellectual property portfolio are developed and the Company is in a position to justify additional appointments to the Board.

The Company has in place a clear division of responsibility between the Chairman and the Managing Director as set out in the Board Operating Manual. The role of Chairman and Managing Director are held by different individuals and the Chairman is an independent member of the Board. (ASX Recommendation 2.2 & 2.3).

The Board has established a Nominations committee (ASX Recommendation 2.4) to assist in the execution of the Board's responsibilities. Given there are only three Board members, the Board as a whole, exercises the responsibility of the Nominations committee. The Nominations committee is responsible for the selection and appointment of Directors. It is also charged with undertaking evaluation of the Board's performance and developing and implementing a plan for identifying, assessing and enhancing Directors competencies though these responsibilities have been undertaken by the Board as a whole to date (ASX Recommendation 2.5).

The process for the evaluation of the Board, its committees and individual directors is available on the Company's website. (ASX Recommendation 2.5). The process for conducting the review consists of the Chairman conducting individual interviews with each of the Directors at which time they are able to make any comment or raise issues they have in relation to the Board's or the Board Committee's operations. A written report is then prepared by the Chairman for inclusion in the next Board papers.

The Audit committee consists of Dr David King, Chairman and Dr Stephanie Williams with the Managing Director attending by invitation.

A copy of the Charter for the Audit committee can be found on the Company's website.

Access to information

Directors may request additional information as and when they consider it appropriate or necessary to discharge their obligation as a Director of the Company. This includes access to internal senior executives or external advisor when and as appropriate. The Board has in place a policy dealing with Directors entitlements to access external independent advice with the consent of the Chairman and at the expense of the Company (ASX Recommendation 2.6).

Principle 3—Promote ethical and responsible decision-making

The Company has in place a robust framework of policies centred on its Codes of Conduct to ensure it maintains the highest standards for both Directors and employees in dealing with all its stakeholders, both internally and externally. Copies can be found on the Company's website. (ASX Recommendation 3.1 and 3.3).

Directors and employees are to ensure that the Company conducts its business in accordance with all applicable laws and regulations and in a way that enhances the Company's reputation.

In addition Directors should make reasonable endeavours to ensure that the Company gives proper consideration to:

- the impact on the environment of the Company's activities and proposed activities and that the Company observes its obligations in respect of environmental practices and
- matters affecting the health, safety and general wellbeing of its employees.

To ensure that clear, consistent and appropriate information is given to regulatory bodies and the media the Chairman and the CEO are the only Officers authorised to speak to the media.

Policy regarding trading in securities

The Company has established a securities trading policy which balances the investment interests of employees and Directors with the requirements for ensuring such trades only take place when all information relevant to making such an investment decisions is fully disclosed to the market.

One of the key aspects of the policy relates to Directors notifying the Chairman directly or via the Company Secretary prior to dealing and they only proceed to deal after receiving due acknowledgement. A copy of the Trading Policy can be found on the Companies website. (ASX Recommendation 3.2 and 3.3).

The acquisition of shares or options acquired pursuant to an employee share or option plan and the acquisition of securities through exercising rights to securities or through conversion of convertible securities is specifically excluded from this policy. This exclusion applies only to the acquisition, exercise or conversion of securities. Subsequent dealing in the underlying securities is restricted as outlined in the policy.

Directors must notify the Company Secretary in writing of all transactions in accordance with the requirements of Sections 205F and 205G of the Corporations Act 2002. The Company will notify the ASX of the details of any transaction, on behalf of the directors.

The above restrictions extend to a director's spouse, partner, children and organisations (e.g. private companies or trusts) in which a director has a material interest and the capacity to control the decision. These restrictions also apply in all situations where a director is in a position of exerting significant influence over the voting intentions of parties personally known to that director

(e.g. where the director is a trustee and is in a position to make investment decisions or exert significant influence on those making such decisions even though he may not be a beneficiary of the trust).

Principle 4—Safeguarding integrity in financial reporting

The Company has in place processes aimed at ensuring that the financial statements and related notes are complete, prepared in accordance with applicable accounting standards and provide a true and fair view of the Company's financial position.

Audit Committee

The Company has an Audit Committee comprising two non-executive directors (ASX Recommendation 4.2), on of whom, the Chairman, is independent, with financial skills and experience relevant to the committee's functions. The Audit Committee charter can be found on the Company's website. (ASX Recommendations 4.1 and 4.3). While the current membership of the committee does not comply with the ASX Recommendations in that only one member is independent, the Board considers that the current number of members and their status is appropriate given the Company's present circumstances. (ASX Recommendation 4.2)

The Audit Committee comprises Dr. David King (Independent Chairman) and Dr S Williams.

Audit Committee Membership	Audit Meetings Held	Audit Meetings Attended
Dr. Michael Vitale ¹	2	2
Dr. Michael Taverner ²	2	2
Dr David King ³	2	2
Dr Stephanie Williams ^a	2	2

¹ Dr. Michael Vitale resigned from the Board on 18th January 2008

² Dr. Michael Taverner resigned from the Board on 15th February 2008

³ Dr. David King was appointed to the Board on 18th January 2008

^a Dr. Stephanie Williams was appointed to the Board on 15th February 2008 and resigned from the board 26 August 2008

The main object of the Audit Committee is to assist the Board in fulfilling its responsibility to oversee the integrity of the Company's financial reporting and compliance including:

- overseeing the compliance with legislative and other mandatory reporting standards
- assisting with the determinations regarding accounting and regulatory practices and disclosures and reviewing the scope and results of the audit process;
- assisting with the internal controls and risk management framework;
- ensuring legal and regulatory compliance with appropriate standards, policies and codes and
- oversight of the independence and effectiveness of external auditors.

Auditor selection, appointment and lead partner rotation

The Audit Committee will annually review the audit process including assessment of auditor independence. Any non audit work will require the prior approval of the Audit Committee which approval will only be given where it can be established that it will not compromise the independence of the audit.

The Board has responsibility to ensure that the audit partner rotation policy is effective and the overall succession plan is designed to minimise the effect on the Company.

Contracts and transactions between the Company and its officers

Any proposed contract between an officer and the Company must be approved by the Board prior to its execution.

Officers include any directors, employees of the Company or subsidiaries with the ability to enter into agreements on behalf of the Company.

The contract may be either direct with the officer, a member of the officer's family or an entity in which the officer or a member of the officer's family holds an interest. Holdings in publicly-listed companies of less than 5% are excluded.

Principle 5—Make timely and balanced disclosure

Continuous disclosure

The Company has established procedures to ensure that the share market in which the Company's shares are traded is properly informed of matters that may have a material impact on the price at which the Company's securities are traded. Specifically, the Company's policy is to ensure compliance with the Australian Stock Exchange (ASX) Listing Rules 3.1, 3.1A and 3.1B. (ASX Recommendation 5.1) A summary of the policy can be found on the Company's website. (ASX Recommendations 5.2)

Principal 6 – Respect the rights of shareholders

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs. All ASX announcements are posted to the Company's website in a clearly marked Shareholder Information section. Shareholders are encouraged to participate at general meetings and are specifically offered the opportunity of receiving communications via email. (ASX Recommendation 6.1 and 6.2)

Principle 7 – Recognise and manage risk

The Company has in place strategies and controls in relation to management of financial risk which includes identifying and measuring the financial risk, developing strategies to minimise the identified risks and monitoring implementation. Management is required to provide assurance to the Board as to the contents of the annual financial statements including compliance with accounting standards and that the accounts represent a true and fair view of the Company's financial position (ASX Recommendation 7.3).

Given the Company's size, number of employees and level of activity there has not been the time nor the resources to undertake the work required to establish a general business risk framework. The Company is currently establishing a business risk framework based on AS4360 to ensure management, control and oversight of the business risk as the Company proceeds with the

commercialisation of the recently acquired midkine intellectual property. As part of this process a risk management committee will be established to ensure oversight of the Company's business risk and report to the Board (ASX Recommendation 7.1 & 7.2).

At this stage the Company is not fully in compliance with Principle 7 but it is envisaged that the business risk framework, risk management committee and reporting structure (ASX Recommendation 7.4) will be in place towards the end of 2009 financial year.

Principle 8 – Remunerate fairly and responsibly

Given the current number of Directors the Board acts as the Remuneration Committee, though no formal Charter has been developed, in accordance with documented remuneration policies. These policies establish a balance between fixed and incentive pay for both the short and long term.

Short term incentives include a fixed (cash) element and variable incentive components which may include both cash and equity based remuneration. Long term incentives are in the form of cash payments linked to major performance milestones and participation in an option plan for full or part time employees or consultants of the Company. The Company may impose conditions in relation to these options (including vesting periods, exercise price and conditions precedent to exercise) which must be satisfied before the options can be exercised. (ASX Recommendation 8.1 & 8.3).

Non-executive Directors fees are specifically dealt with under the Company's Remuneration Policies. In particular Directors will not be entitled to a retirement benefit nor are they entitled to participate in share or option plans except with the approval of the shareholders. For further information, refer to the Remuneration Report included in the Directors' Report. (ASX Recommendation 8.2 & 8.3).

MEDICAL THERAPIES LIMITED ABN 69 111 304 119

Annual financial report – 30 June 2008

Contents

Financial Report	26
Income statements	27
Balance sheets	28
Statements of changes in equity	29
Cash flow statements	30
Notes to the financial statements	31
Directors' declaration	65
Independent auditor's report to the members of Medical Therapies Limited	66

Financial Report

This financial report covers both Medical Therapies Limited as an individual entity and the consolidated entity consisting of Medical Therapies Limited and its subsidiary. The financial report is presented in Australian currency.

Medical Therapies Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 6, 40 King Street
Sydney
NSW 2000

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the directors' report on pages 3 – 5, which is not part of this financial report.

The financial report was authorised for issue by the directors on 27 August 2008. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available on our website: www.medicaltherapies.com.au.

Medical Therapies Limited

Income statements

For the year ended 30 June 2008

	Notes	Consolidated		Parent entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Revenue	5	77,977	78,329	77,977	77,622
Other income	5	668,547	57,279	668,424	56,737
Consultancy expenses		(180,585)	(777,199)	(180,585)	(777,199)
Share-based compensation	30(b)	(275,885)	(427,314)	(275,885)	(427,314)
Research and development expense		22,858	(1,125,662)	22,858	(1,125,662)
Depreciation and amortisation expense	6	(1,127,063)	(364,249)	(1,126,548)	(362,253)
Professional fees		(213,033)	(448,299)	(213,033)	(447,904)
Directors' remuneration		(110,873)	(172,911)	(110,873)	(172,911)
Employee benefits		(756,314)	(510,250)	(756,314)	(510,250)
Patent costs		(93,645)	(298,754)	(93,645)	(298,754)
Occupancy	6	(96,369)	(72,180)	(96,369)	(72,180)
Travel		(137,308)	(106,125)	(137,308)	(106,125)
Other expenses		(263,451)	(316,826)	(262,734)	(316,604)
Finance costs	6	(203,660)	(70,621)	(203,660)	(70,621)
Loss before income tax		(2,688,804)	(4,554,782)	(2,687,695)	(4,553,418)
Income tax expense	7	-	-	-	-
Net loss attributable to equity holders of Medical Therapies Limited		(2,688,804)	(4,554,782)	(2,687,695)	(4,553,418)

		Cents	Cents
Earnings per share for loss attributable to the ordinary equity holders of the Company:			
Basic earnings per share	29	(4.12)	(8.18)
Diluted earnings per share	29	(4.12)	(8.18)

The above income statements should be read in conjunction with the accompanying notes.

Medical Therapies Limited

Balance sheets

As at 30 June 2008

	Notes	Consolidated		Parent entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
ASSETS					
Current assets					
Cash and cash equivalents	8(a)	968,242	1,842,312	962,308	1,835,785
Trade and other receivables	9	51,585	110,348	42,765	101,526
Total current assets		1,019,827	1,952,660	1,005,073	1,937,311
Non-current assets					
Property, plant and equipment	10	36,106	135,085	35,078	133,543
Intangible assets	12	1,545,500	2,627,350	1,545,500	2,627,350
Total non-current assets		1,581,606	2,762,435	1,580,578	2,760,893
Total assets		2,601,433	4,715,095	2,585,651	4,698,204
LIABILITIES					
Current liabilities					
Trade and other payables	13	288,970	1,483,254	374,970	1,569,254
Borrowings	14	1,660,978	-	1,660,978	-
Provisions	15	35,855	22,125	35,855	22,125
Total current liabilities		1,985,803	1,505,379	2,071,803	1,591,379
Non-current liabilities					
Borrowings	17	-	1,676,754	-	1,676,754
Total non-current liabilities		-	1,676,754	-	1,676,754
Total liabilities		1,985,803	3,182,133	2,071,803	3,268,133
Net assets		615,630	1,532,962	513,848	1,430,071
EQUITY					
Contributed equity	18	10,871,395	9,375,808	10,871,395	9,375,808
Reserves	19(a)	1,271,199	995,314	1,271,199	995,314
Accumulated losses	19(b)	(11,526,964)	(8,838,160)	(11,628,746)	(8,941,051)
Total equity		615,630	1,532,962	513,848	1,430,071

The above balance sheets should be read in conjunction with the accompanying notes.

Medical Therapies Limited

Statements of changes in equity
For the year ended 30 June 2008

	Notes	Consolidated		Parent entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Total equity at the beginning of the financial year		1,532,962	5,513,521	1,430,071	5,409,266
Loss for the year		(2,688,804)	(4,554,782)	(2,687,695)	(4,553,418)
Total recognised income and expense for the year		(2,688,804)	(4,554,782)	(2,687,695)	(4,553,418)
Transactions with equity holders					
Contributions of equity, net of transaction costs	18(c)	1,495,587	19,600	1,495,587	19,600
Movement in share based payments reserve	19	275,885	427,314	275,885	427,314
Equity component of convertible notes		-	127,309	-	127,309
		1,771,472	574,223	1,771,472	574,223
Total equity at the end of the financial year		615,630	1,532,962	513,848	1,430,071

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Medical Therapies Limited

Cash flow statements

For the year ended 30 June 2008

Notes	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash flows from operating activities				
Payments to suppliers and employees (inclusive of goods and services tax)	(2,242,842)	(2,945,547)	(2,242,126)	(2,943,393)
Other revenue	668,547	57,279	668,424	56,737
Interest paid	(322)	(3,607)	(322)	(3,607)
Net cash (outflow) from operating activities	(1,574,617)	(2,891,875)	(1,574,024)	(2,890,263)
27				
Cash flows from investing activities				
Payments for property, plant and equipment	(4,546)	(104,064)	(4,546)	(104,064)
Loan from related party	-	-	-	-
Payments for intangible assets	-	-	-	-
Proceeds from sale of property, plant and equipment	15,000	-	15,000	-
Repayment of loans by related parties	-	-	-	-
Interest received	62,620	78,329	62,620	77,622
Net cash inflow/ (outflow) from investing activities	73,074	(25,735)	73,074	(26,442)
Cash flows from financing activities				
Proceeds from issues of shares and other equity securities net of transaction costs	766,088	9,399	766,088	9,399
Proceeds from borrowings net of transaction costs	-	1,758,571	-	1,758,571
Interest paid on convertible note	(138,615)	(13,577)	(138,615)	(13,577)
Proceeds from equity placement received in advance	-	619,500	-	619,500
Repayment of borrowings	-	(60,915)	-	(60,915)
Net cash inflow from financing activities	627,473	2,312,978	627,473	2,312,978
Net decrease in cash and cash equivalents				
	(874,070)	(604,632)	(873,477)	(603,727)
Cash and cash equivalents at the beginning of the financial year	1,842,312	2,446,944	1,835,785	2,439,512
Cash and cash equivalents at end of year	968,242	1,842,312	962,308	1,835,785
8(a)				
Non-cash financing and investing activities				

28

The above cash flow statements should be read in conjunction with the accompanying notes.

Notes to the financial statements

Contents

1	Summary of significant accounting policies	32
2	Financial risk management	38
3	Critical accounting estimates and judgements	39
4	Segment Information	39
5	Other revenue and other income	40
6	Expenses	40
7	Income tax expense	41
8	Current assets - Cash and cash equivalents	42
9	Current assets - Trade and other receivables	42
10	Non-current assets – Property, plant and equipment	43
11	Non-current assets - Deferred tax assets	45
12	Non-current assets – Intangible assets	46
13	Current liabilities - Trade and other payables	47
14	Current liabilities - Borrowings	47
15	Current liabilities - Provisions	48
16	Non-current liabilities - Deferred tax liabilities	48
17	Non-current liabilities – Borrowings	48
18	Contributed equity	49
19	Reserves and accumulated losses	54
20	Key management personnel disclosures	55
21	Remuneration of auditors	58
22	Contingencies	59
23	Commitments	59
24	Related party transactions	60
25	Subsidiaries	60
26	Events occurring after the balance sheet date	60
27	Reconciliation of loss after income tax to net cash outflow from operating activities	61
28	Non-cash investing and financing activities	61
29	Earnings per share	62
30	Share-based payments	63

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Medical Therapies Limited as an individual entity and the consolidated entity consisting of Medical Therapies Limited and its subsidiary.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRSs

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Medical Therapies comply with International Financial Reporting Standards (IFRS).

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Going concern

As a developing business, the Consolidated Entity has experienced operating losses of \$2,688,804 (2007: \$4,554,782) and net cash outflows from operating activities of \$ 1,574,617 (2007: \$2,891,875) and has net liabilities of \$965,976 (2007: net current assets \$447,281).

The continuing viability of the Consolidated Entity and its ability to continue as a going concern and meet its debts and commitments as and when they fall due are dependent upon the Consolidated Entity being successful in negotiating additional debt or equity finance, to fund forecast working capital expenditure, to execute strategic plans and address the net current liability position.

As a result of these matters, there is significant uncertainty whether the Consolidated Entity will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report. As approved by the shareholders at the EGM of 16 June 2008, the Consolidated Entity has commenced the process of undertaking a placement of 23.5 million shares and raising up to a further \$3.0 million of equity. The directors believe that the Consolidated Entity will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 30 June 2008. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Consolidated Entity not continue as a going concern.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of the subsidiary of Medical Therapies Limited ("Company" or "parent entity") as at 30 June 2008 and the results of its subsidiary for the year then ended. Medical Therapies Limited and its subsidiary together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(g)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted

by the Group.

(c) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments

(d) Revenue recognition

Interest income is recognised on a time proportion basis using the effective interest method.

Government research and development tax rebates are recognised as revenue when received.

(e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation

Medical Therapies Limited and its wholly-owned Australian controlled entity have decided not to implement the tax consolidation legislation.

(f) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 23). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(g) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their

present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(h) Impairment of assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(j) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectibility of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

(k) Investments and other financial assets

The Group classifies its investments in the following categories: loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (note 9).

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

(l) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(m) Leasehold improvements, furniture, fittings and office equipment

Leasehold improvements, furniture, fittings and office equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

- | | |
|--|--|
| - Furniture, fittings and office equipment | 3-5 years |
| - Leasehold improvements | 3 years – or over shorter lease term of the related lease. |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(n) Intangible assets

(i) Intangible assets – other intangibles

Costs incurred in acquiring intellectual property are capitalised and amortised on a straight line basis over the period of the expected benefit. Intellectual property held at the reporting date is amortised over its estimated useful life of five years, using the straight line method. Management review the useful economic life of intellectual property at each year end.

(ii) Patents and Trademarks

Patents and trademarks have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Patents and trademarks are capitalised only when technical feasibility is achieved. Amortisation is calculated using the straight-line method to allocate the cost of patents and trademarks over their estimated useful lives, which vary from 5 to 20 years.

(iii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(q) Employee benefits

Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. Contributions are paid into the fund nominated by the employee.

(iv) Share-based payments

Share-based compensation benefits are provided to directors and executives. Information relating to these benefits is set out in note 30.

The fair value of options granted is recognised as a benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the directors and executives become unconditionally entitled to the options.

The fair value at grant date is determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

(r) Other Share Based Payments

The fair value of options granted is recognised as a benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the designated party becomes unconditionally entitled to the options.

The fair value at grant date is determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

(s) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax,

from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(t) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(v) New accounting standards and UIG interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Group's and the parent entity's assessment of the impact of potentially applicable new standards and interpretations is set out below.

(i) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different type of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

(ii) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group does already capitalise borrowing costs relating to qualifying assets.

(iii) Revised AASB 101 Presentation of Financial Statements and AASB 2007 8 Amendments to Australian Accounting Standards arising from AASB 101

A revised AASB 101 was issued in September 2007 is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 30 June 2009 but does not expect a significant impact on the financial statements.

2 Financial risk management

The Group's activities expose it to a number of financial risks as described below. The Group's overall risk management program seeks to minimise potential adverse effects on the financial performance of the Group. To date, the Group has not had the need to utilise derivative financial instruments such as foreign exchange contracts or interest rate swaps to manage any risk exposures identified.

The Group and the parent entity hold the following financial instruments:

	Consolidated		Parent	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Financial assets				
Cash and cash equivalents	968,242	1,842,312	962,308	1,835,785
Trade and other receivables	51,586	110,348	42,764	101,526
	<u>1,019,828</u>	<u>1,952,660</u>	<u>1,005,072</u>	<u>1,937,311</u>
Financial liabilities				
Trade and other payable	288,970	1,483,254	374,970	1,569,254
Borrowings	1,660,978	1,676,754	1,660,978	1,676,754
Other financial liabilities	35,855	22,125	35,855	22,125
	<u>1,985,803</u>	<u>3,182,133</u>	<u>2,071,803</u>	<u>3,268,133</u>

(a) Market risk

(i) Foreign exchange risk and price risk

The Group and parent entity are not exposed to any material foreign exchange risk nor any price risk.

(ii) Cashflow and fair value interest rate risk

The Group's main interest rate risk arises from convertible notes that were issued by the parent entity on 8 May 2007 and mature on 31 December 2008. The convertible notes were issued at a fixed interest rate of 8% and interest is paid quarterly.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks. For banks, only independently rated parties with a minimum rating of 'A' are accepted. The Group has no significant concentrations of credit risk. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised in the table above.

(c) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows. The Group and parent have no access to borrowing facilities at the reporting date.

Maturities of financial liabilities

The table below analyses the Group and the parent entity's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the

contractual undiscounted cash flows.

Group and parent - At 30 June 2008	Less than 3 months	3 – 6 months	7 – 12 months	Total contractual cash flows	Carrying Amount (assets)/ liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities					
Convertible note (fixed interest rate)	0	1,705,746	0	1,705,746	1,660,978

(d) Fair value estimation

The carrying amount of financial assets and liabilities recorded in the financial statements represents their respective net fair values unless otherwise noted, determined in accordance with the accounting policies disclosed in the Statement of Accounting Policies.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Change in accounting estimate

In accordance with management's policy to review the useful economic life of intellectual property each year, this year management revised the estimated useful life of the intellectual property such that the remaining useful life at year end is approximately 2.5 years. This resulted in annual amortisation for intellectual property being increased from \$309,100 to \$1,081,500. The estimate was revised due to reduced management resources available for the development of intellectual property due to management resources being required in the acquisition of the Midkine portfolio which was completed on 3 July 2008.

(ii) Estimated impairment of intellectual property

The Company tests annually whether intellectual property has suffered any impairment, in accordance with the accounting policy stated in note 1(h). The recoverable amounts of the intellectual property have been determined based on reviewing the status of the research and development program, progress on its patent applications and projected cash flow calculations. These calculations require the use of assumptions.

4 Segment information

The primary business segment and the primary geographic segment within which the consolidated entity operates are biotechnology and Australia respectively. For primary reporting purposes, the entity operates in one business segment and one geographic segment as described.

5 Other revenue and other income

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<i>Other revenue</i>				
Interest	77,977	78,329	77,977	77,622
<i>Other income</i>				
R&D Tax rebates	636,975	-	636,975	-
Government subsidies (note (a))	31,035	50,200	31,035	50,200
Miscellaneous income	537	7,079	414	6,537
	668,547	57,279	668,424	56,737

(a) Government subsidies

Subsidies from the New South Wales Department of State and Regional Development of \$nil (2007: \$19,013) were recognised as other income by the Group during the financial year. Export market development grants of \$31,035 (2007: \$31,187) were recognised as other income by the Group during the financial year. There are no unfulfilled conditions or other contingencies attaching to these subsidies. The Group did not benefit directly from any other forms of government assistance.

6 Expenses

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Loss before income tax includes the following specific expenses:				
<i>Depreciation</i>				
Plant and equipment	45,213	37,736	44,698	35,740
Leasehold improvements	-	17,413	-	17,413
Total depreciation	45,213	55,149	44,698	53,153
<i>Amortisation</i>				
Acquired intellectual property	1,081,850	309,100	1,081,850	309,100
Total amortisation	1,081,850	309,100	1,081,850	309,100
<i>Finance costs</i>				
Interest and finance charges paid/payable	203,660	70,621	203,660	70,621
<i>Net loss on disposal of property, plant and equipment</i>	44,479	-	44,479	-
<i>Rental expense relating to operating leases</i>				
Minimum lease payments	96,369	57,736	96,369	57,736
Contingent rentals	-	11,369	-	11,369
Total rental expense relating to operating leases	96,369	69,105	96,369	69,105

7 Income tax expense

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
(a) Income tax expense				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
	-	-	-	-

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$

(b) Numerical reconciliation of income tax expense to prima facie tax payable

Loss before income tax expense	(2,688,804)	(4,554,782)	(2,687,695)	(4,553,418)
Tax (benefit) at the Australian tax rate of 30%	(806,641)	(1,366,435)	(806,309)	(1,366,025)
Tax effect of amounts which are not deductible in calculating taxable income:				
Non-assessable income	(191,093)	-	(191,093)	-
Amortisation of intangibles	324,555	92,730	324,555	92,730
Entertainment	-	1,214	-	1,214
Share-based payments	82,766	128,194	82,766	128,194
Research and development	-	337,699	-	337,699
Professional fees	-	-	-	-
Depreciation	3,086	16,545	3,086	15,946
Sundry items	-	-	-	-
Adjusted income tax	(587,327)	(790,053)	(586,995)	(790,242)
Tax losses not brought to account	587,327	790,053	586,995	790,242
Income tax expense	-	-	-	-

(c) Tax losses

Unused tax losses for which no deferred tax asset has been recognised	3,372,080	1,414,320	3,370,970	1,414,320
Temporary difference deferred tax assets not recognised	(237,527)	576,787	(237,527)	576,787
Potential tax benefit @ 30%	940,366	597,332	940,033	597,332

All unused tax losses were incurred by Australian entities.

This benefit for tax losses will only be obtained if:

- (i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (ii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and
- (iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

(d) Tax consolidation legislation

Medical Therapies Limited and its wholly-owned Australian entity have decided not to implement the tax consolidation legislation.

8 Current assets - Cash and cash equivalents

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash at bank and in hand	116,951	194,414	111,017	187,887
Investment account	851,291	1,647,898	851,291	1,647,898
	968,242	1,842,312	962,308	1,835,785

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Balances as above	968,242	1,842,312	962,308	1,835,785
Balances per statement of cash flows	968,242	1,842,312	962,308	1,835,785

(b) Cash

Cash at bank and in hand are non-interest bearing. The cash in the investment account earns a floating interest rate between 7.05% and 7.80% (2007 – 4.75% to 5.20%).

(c) Interest Rate Risk

The Group's exposure to interest rate risk relates primarily to the cash balances in the investment account detailed above.

9 Current assets - Trade and other receivables

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Other receivables	49,772	63,313	40,952	54,491
Prepayments	1,813	47,035	1,813	47,035
	51,585	110,348	42,765	101,526

(a) Other receivables

The Group and parent entity balances for 2008 include \$32,597(2007:\$32,214) in term deposits held as security for an operating lease and a credit card facility. These deposits earn fixed interest of 7.05% to 7.80% (2007:5.55% to 6.20%) over terms of up to six months.

(b) Effective interest rates and credit risk

There is no interest rate risk for the balance of Trade and other receivables.

There is no material credit risk associated with other receivables and prepayments.

10 Non-current assets – Property, plant and equipment

Consolidated	Furniture, fittings and office equipment \$	Leasehold improvements	Total \$
At 1 July 2006			
Cost	46,116	52,524	98,640
Accumulated depreciation	(8,090)	(4,379)	(12,469)
Net book amount	38,026	48,145	86,171
Year ended 30 June 2007			
Opening net book amount	38,026	48,145	86,171
Additions	104,063	-	104,063
Disposals	-	-	-
Depreciation charge	(37,736)	(17,413)	(55,149)
Closing net book amount	104,353	30,732	135,085
At 30 June 2007			
Cost	150,180	52,524	202,704
Accumulated depreciation	(45,828)	(21,791)	(67,619)
Net book amount	104,352	30,733	135,085

Consolidated	Furniture, fittings and office equipment \$	Leasehold improvements \$	Total \$
Year ended 30 June 2008			
Opening net book amount	104,353	30,732	135,085
Additions	4,348	-	4,348
Disposals	(37,667)	(20,447)	(58,114)
Depreciation charge	(34,928)	(10,285)	(45,213)
Closing net book amount	36,106	-	36,106
At 30 June 2008			
Cost	83,511	-	83,511
Accumulated depreciation	(47,405)	-	(47,405)
Net book amount	36,106	-	36,106

10 Non-current assets – Property, plant and equipment (continued)

Parent entity	Furniture, fittings and office equipment \$	Leasehold improvements	Total \$
At 1 July 2006			
Cost	38,888	52,524	91,412
Accumulated depreciation	(4,400)	(4,379)	(8,779)
Net book amount	34,488	48,145	82,633
Year ended 30 June 2007			
Opening net book amount	34,488	48,145	82,633
Additions	104,063	-	104,063
Disposals	-	-	-
Depreciation charge	(35,740)	(17,413)	(53,153)
Closing net book amount	102,811	30,732	133,543
At 30 June 2007			
Cost	142,952	52,524	195,476
Accumulated depreciation	(40,142)	(21,791)	(61,933)
Net book amount	102,810	30,733	133,543
Parent entity			
	Furniture, fittings and office equipment \$	Leasehold improvements \$	Total \$
Year ended 30 June 2008			
Opening net book amount	102,811	30,732	133,543
Additions	4,348	-	4,348
Disposals	(37,667)	(20,447)	(58,114)
Depreciation charge	(34,414)	(10,285)	(44,699)
Closing net book amount	35,078	-	35,078
At 30 June 2008			
Cost	76,283	-	76,283
Accumulated depreciation	(41,205)	-	(41,205)
Net book amount	35,078	-	35,078

11 Non-current assets - Deferred tax assets

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
The balance comprises temporary differences attributable to:				
<i>Amounts recognised in profit or loss</i>				
Accrued expenses claimable in future periods	10,757	16,800	10,757	16,800
Unused tax losses	-	-	-	-
<i>Amounts recognised directly in equity</i>				
Transaction costs	76,271	110,614	76,271	110,614
	87,028	127,414	87,028	127,414
Set-off of deferred tax liabilities of parent entity pursuant to set-off provisions (note 16)	(324,555)	(92,730)	(324,555)	(92,730)
Temporary difference deferred tax assets not recognised	237,527	(34,684)	237,527	(34,684)
Net deferred tax assets	-	-	-	-

12 Non-current assets – Intangible assets

Consolidated	Acquired intellectual property \$	Patents, trademarks and other rights \$	Total \$
At 1 July 2006			
Cost	3,091,000	31,265	3,122,265
Accumulated amortisation and impairment	(154,550)	-	(154,550)
Net book amount	<u>2,936,450</u>	<u>31,265</u>	<u>2,967,715</u>
Year ended 30 June 2007			
Opening net book amount	2,936,450	31,265	2,967,715
Additions	-	-	-
Write-down	-	(31,265)	(31,265)
Amortisation charge *	(309,100)	-	(309,100)
Closing net book amount	<u>2,627,350</u>	<u>-</u>	<u>2,627,350</u>
At 30 June 2007			
Cost	3,091,000	-	3,091,000
Accumulated amortisation	(463,650)	-	(463,650)
Net book amount	<u>2,627,350</u>	<u>-</u>	<u>2,627,350</u>
Year ended 30 June 2008			
Opening net book amount	2,627,350	-	2,627,350
Additions	-	-	-
Write-down	-	-	-
Amortisation charge *	(1,081,850)	-	(1,081,850)
Closing net book amount	<u>1,545,500</u>	<u>-</u>	<u>1,545,500</u>
At 30 June 2008			
Cost	3,091,000	-	3,091,000
Accumulated amortisation	(1,545,500)	-	(1,545,500)
Net book amount	<u>1,545,500</u>	<u>-</u>	<u>1,545,500</u>

* Amortisation of \$309,100 is included in depreciation and amortisation expense in the income statement.

Key assumptions used

The impairment testing of intellectual property is determined based on future benefits to the company. These calculations use cash flows based on financial projections reviewed by management which cover a five-year period plus a terminal value. The revenue projections include the distal proctitis markets, with market penetrations ranging between 2 to 5 %. The increase in market size year on year was assumed to be around 1%. Pricing assumptions are based on near equivalent products currently sold in the target markets. All future cash flows have been discounted to present values at a rate of 13.5%.

13 Current liabilities - Trade and other payables

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Trade payables	97,666	393,059	97,666	393,059
Lease liability	-	11,284	-	11,284
Loan from controlled entity	-	-	86,000	86,000
Funds in trust (private placement rec'd in advance)	-	619,500	-	619,500
Other payables	191,304	459,411	191,304	459,411
	288,970	1,483,254	374,970	1,569,254

14 Current liabilities – Borrowings

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Unsecured				
Bank overdraft	-	-	-	-
Convertible notes	1,660,978	-	1,660,978	-
Total unsecured current borrowings	1,660,978	-	1,660,978	-

(a) Interest rate risk exposures

The Group has no significant exposure to interest rate risk on borrowings.

(b) Convertible notes

The parent entity issued 10,741,095 8% convertible notes for \$1.83 million on 8 May 2007. The notes are convertible into ordinary shares of the parent entity, at the option of the holder, or repayable on 31 December 2008. The number of ordinary shares to be issued for each convertible note will be determined by dividing the issue price of the note (\$0.17) by the lesser of \$0.17 (the market price per share at the date of issue of the notes) and the market price per share at settlement date.

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Face value of notes issued	1,825,946	1,825,946	1,825,946	1,825,946
Converted to shares	(120,200)	(10,200)	(120,200)	(10,200)
Other equity securities - value of conversion rights	(127,309)	(127,309)	(127,309)	(127,309)
	1,578,437	1,688,437	1,578,437	1,688,437
Interest expense *	270,674	67,014	270,674	67,014
Interest paid	(154,018)	(13,577)	(154,018)	(13,577)
Current liability – interest payable	(34,115)	(37,047)	(34,115)	(37,047)
Transaction costs	-	(28,073)	-	(28,073)
Non-current liability	1,660,978	1,676,754	1,660,978	1,676,754

* Interest expense is calculated by applying the effective interest rate of 12.64% (2007:12.64 %) to the liability component

15 Current liabilities - Provisions

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Employee benefits -annual leave	35,855	22,125	35,855	22,125
	<u>35,855</u>	<u>22,125</u>	<u>35,855</u>	<u>22,125</u>

16 Non-current liabilities - Deferred tax liabilities

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
The balance comprises temporary differences attributable to:				
<i>Amounts recognised in profit or loss</i>				
Amortisation	324,555	92,730	324,555	92,730
	<u>324,555</u>	<u>92,730</u>	<u>324,555</u>	<u>92,730</u>
Set-off of deferred tax liabilities pursuant to set-off provisions (note 11)	(324,555)	(92,730)	(324,555)	(92,730)
Net deferred tax liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

17 Non-current liabilities – Borrowings

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Unsecured				
Convertible notes	-	1,676,754	-	1,676,754
Total unsecured current borrowings	<u>-</u>	<u>1,676,754</u>	<u>-</u>	<u>1,676,754</u>

(a) Interest rate risk exposures

The Group has no significant exposure to interest rate risk on borrowings.

(b) Fair value

The carrying amounts and fair values of borrowings at balance date are the same.

18 Contributed equity

Notes	Consolidated and Parent entity		Consolidated and Parent entity	
	2008 Number	2007 Number	2008 \$	2007 \$
(a) Share capital				
Ordinary shares				
Fully paid	(c),(d) 74,085,624	55,737,480	10,686,097	9,190,510
	74,085,624	55,737,480	10,686,097	9,190,510
(b) Other equity securities				
Value of conversion rights – conversion notes	127,309	127,309	127,309	127,309
	127,309	127,309	127,309	127,309
Options				
Listed	-	20,166,733	57,989	57,989
Managing Director (L Casbolt)	1,000,000	1,000,000	-	-
Managing Director (M Halasz)	5,000,000	-	-	-
Other	500,000	-	-	-
Directors	-	2,550,000	-	-
Executives	1,005,000	1,080,000	-	-
	7,505,000	24,796,733	57,989	57,989
Total contributed equity			10,871,395	9,375,808

18 Contributed equity (continued)

(c) Movements in ordinary share capital:

Date	Details	Notes	Number of shares	Issue price	\$
	Opening balance 1 July 2006		55,630,483		9,170,910
24 July 2006	Exercise of 27,332 options		27,332	\$0.20	5,466
8 August 2006	Exercise of 5,000 options		5,000	\$0.20	1,000
22 September 2006	Exercise of 3,333 options		3,333	\$0.20	667
1 December 2006	Exercise of 4,999 options		4,999	\$0.20	1,000
6 March 2007	Exercise of 3,000 options		3,000	\$0.20	600
27 April 2007	Exercise of 3,333 options		3,333	\$0.20	667
25 May 2007	Exercise of 60,000 converting note options		60,000	\$0.17	10,200
	Closing balance 30 June 2007		55,737,480		9,190,510
4 July 2007	Share Issue		6,499,556	\$0.115	747,449
9 July 2007	Share Issue		1,000,000	\$0.115	115,000
13 July 2007	Share Issue		473,913	\$0.115	54,500
15 Oct 2007	Exercise of 294,118 converting note options		294,118	\$0.170	50,000
5 Dec 2007	Exercise of 176,471 converting note options		176,471	\$0.170	30,000
19 Dec 2007	Exercise of 53,331 options		53,331	\$0.200	10,666
20 Dec 2007	Exercise of 117,647 converting note options		117,647	\$0.170	20,000
20 Dec 2007	Exercise of 11,666 options		11,666	\$0.200	2,333
24 Dec 2007	Exercise of 5,000 options		5,000	\$0.200	1,000
2 Jan 2008	Exercise of 3,333 options		3,333	\$0.200	667
11 March 2008	Exercise of 58,823 converting note options		58,823	\$0.170	10,000
14 May 2008	Share issue		9,654,286	\$0.053	506,850
			74,085,624		10,738,975
	Less transaction costs arising on share issue				(52,878)
	Closing balance 30 June 2008		74,085,624		10,686,097

18 Contributed equity (continued)

(d) Ordinary shares

No limit has been set on the total number of ordinary shares that the Company may issue. The ordinary shares do not carry par value.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(i) The Company issued 3,416,666 shares at a value of \$0.12 for the equity exchange with Biotech.

(ii) The Company issued 17,142,857 shares as consideration for the intellectual property acquired from The University of Sydney.

(e) Other equity securities

The amount shown for other equity securities is the value of the conversion rights relating to the 8% convertible notes, details of which are shown in note 14.

18 Contributed equity (continued)

(f) Movements in options:

		Number	\$
	Opening balance 1 July 2006	26,263,730	57,989
24 July 2006	Options exercised	(27,332)	
8 August 2006	Options exercised	(5,000)	
22 September 2006	Options exercised	(3,333)	
29 November 2006	Options issue	500,000	
1 December 2006	Options exercised	(4,999)	
2 January 2007	Options lapsed – previous Managing Director (L Casbolt)	(2,500,000)	
30 January 2007	Options issue – Executives	1,030,000	
27 February 2007	Options issue – Executives	50,000	
6 March 2007	Options exercised	(3,000)	
27 April 2007	Options exercised	(3,333)	
	Closing balance 30 June 2007	25,296,733	57,989
19 Dec 2007	Options exercised	(53,331)	
20 Dec 2007	Options exercised	(11,666)	
24 Dec 2007	Options exercised	(5,000)	
31 Dec 2007	Options lapsed	(20,096,736)	
31 Dec 2007	Options lapsed	(2,550,000)	
31 Dec 2007	Options lapsed	(75,000)	
16 June 2008	Options issued –M Halasz	5,000,000	
	Closing balance 30 June 2008	7,505,000	57,989

(g) Options

On 9 March 2006, the Company invited its shareholders to subscribe to a rights issue of options at an issue price of \$0.005 per option on the basis of one option for every three fully paid ordinary shares held.

In April 2006, the Company applied to the ASX, and received approval for, the listing of the rights options issued. The

18 Contributed equity (continued)

Company subsequently applied to the ASX, and received approval for, the listing of the existing 5,416,665 unlisted options.

In June 2008, 5,000,000 unlisted options were granted to Ms Halasz. These options vested at the date of approval by a general meeting of shareholders held on 16 June 2008. The options vested as Ms Halasz has completed one full year of service and completion of a materially significant transaction evidenced by the acquisition of the Midkine technology.

Information relating to Medical Therapies Director and Executive options, including details of options issued and outstanding, is set out in note 30.

19 Reserves and accumulated losses

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
(a) Reserves				
Share-based payments reserve	1,271,199	995,314	1,271,199	995,314
	1,271,199	995,314	1,271,199	995,314

Movements:

<i>Share-based payments reserve</i>				
Balance 1 July	995,314	568,000	995,314	568,000
Option expense	275,885	427,314	275,885	427,314
Balance 30 June	1,271,199	995,314	1,271,199	995,314

(b) Accumulated losses

Movements in accumulated losses were as follows:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Balance 1 July	8,838,160	4,283,378	8,941,051	4,387,633
Net loss for the year	2,688,804	4,554,782	2,687,695	4,553,418
Balance 30 June	11,526,964	8,838,160	11,628,746	8,941,051

(c) Nature and purpose of reserves

(i) *Share-based payments reserve*

The share-based payments reserve is used to recognise the fair value of options granted but not exercised.

20 Key management personnel disclosures

(a) Directors

The following persons were directors of Medical Therapies Limited during the financial year:

(i) *Chairman - non-executive*

Dr D King (from 18 January 2008)

Prof M Vitale (resigned 18 January 2008)

(ii) *Executive directors*

Ms M Halasz, Managing Director (from 16 April 2007 to current)

Dr S Williams (from 15 February 2008 to 7 May 2008)

(iii) *Non-executive directors*

Dr M Taverner (resigned 15 February 2008)

Dr S Williams (from 7 May 2008 to 26 August 2008)

Dr S. Williams resigned from the position of Clinical Director on 7 May 2008, becoming a non executive director on that date.

(b) Directors and key management personnel compensation

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Short-term employee benefits	607,358	740,724	607,358	740,724
Post-employment benefits	50,844	42,388	50,844	42,388
Share-based payments	168,722	(9,316)	168,722	(9,316)
	<u>826,924</u>	<u>773,796</u>	<u>826,924</u>	<u>773,796</u>

The company has taken advantage of the relief provided by *Corporations Regulation 2M.6.04* and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 7 to 14

(c) Equity instrument disclosures relating to key management personnel

(i) *Options provided as remuneration and shares issued on exercise of such options*

Details of options provided as remuneration, together with terms and conditions of the options, can be found in note 30.

(ii) *Option holdings*

The numbers of options over ordinary shares in the Company held during the financial year by each director of Medical Therapies Limited and other key management personnel of the Group, including their personally related parties, are set out below.

20 Key management personnel disclosures (continued)

2008						
Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Medical Therapies Limited						
M Taverner	400,000	-	-	(400,000)	-	-
M Vitale	350,000	-	-	(350,000)	-	-
M Halasz	-	5,000,000	-	-	5,000,000	5,000,000
D King	-	-	-	-	-	-
S Williams	-	-	-	-	-	-
Other key management personnel						
D James	750,000	-	-	-	450,000	450,000

The 5,000,000 options for Ms Halasz were granted and vested at the date of approval by a general meeting of shareholders held on 16 June 2008. The options vested as Ms Halasz has completed one full year of service and completion of a materially significant transaction evidenced by the acquisition of the Midkine technology.

2007						
Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of Medical Therapies Limited						
M Taverner	400,000	-	-	-	400,000	400,000
M Vitale	350,000	-	-	-	350,000	350,000
M Castle	9,999	-	-	20,000	29,999	9,999
M Halasz	-	-	-	-	-	-
L Casbolt	3,508,333	-	-	(2,500,000)	1,008,333	1,008,333
Other key management personnel						
D James	-	750,000	-	-	750,000	354,167

20 Key management personnel disclosures (continued)

2008				
Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Medical Therapies Limited				
Ordinary shares				
D King	-	-	830,000	830,000
S Williams	-	-	-	-
M Halasz	-	-	133,000	133,000
M Taverner	171,666	-	-	171,666
M Vitale	123,733	-	-	123,733

Dr King owns 500,000 shares directly and 330,000 shares indirectly.

Dr Williams does not own shares directly or indirectly.

Ms Halasz owns 133,000 shares indirectly.

Dr Taverner owns 47,500 shares directly and 124,166 shares indirectly.

Prof Vitale owns his shares directly.

Other changes during the year comprise shares purchased on market.

<i>(iii) Share holdings</i>				
The numbers of shares in the Company held during the financial year by each director of Medical Therapies Limited, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.				
2007				
Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Medical Therapies Limited				
Ordinary shares				
L Casbolt	25,000	-	10,000	35,000
M Castle	30,000	-	34,000	64,000
M Halasz	-	-	-	-
M Taverner	66,666	-	105,000	171,666
M Vitale	93,733	-	30,000	123,733
Other key management personnel				
Ordinary shares				
D James	-	-	-	-

Mr Casbolt owns 35,000 shares indirectly.

Mr Castle owns 64,000 shares indirectly.

Dr Taverner owns 50,000 shares directly and 121,666 shares indirectly.

Prof Vitale own his shares directly.

Other changes during the year comprise shares purchased on market.

20 Key management personnel disclosures (continued)

(d) Other transactions with key management personnel

There were no transactions with key management personnel during the financial year ended 30 June 2008.

The Chief executive officer is employed under a employment services contract.

21 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and a non-related audit firm:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
(a) Assurance services				
<i>Audit services</i>				
PricewaterhouseCoopers Australian firm				
Audit of financial reports and other audit work under the <i>Corporations Act 2001</i>	86,074	141,620	86,074	141,620
Non-PricewaterhouseCoopers audit firm				
Audit of financial reports and other audit work under the <i>Corporations Act 2001</i>	-	-	-	-
Total remuneration for audit services	86,074	141,620	86,074	141,620
<i>Other assurance services</i>				
PricewaterhouseCoopers Australian firm				
Due diligence services	-	10,610	-	10,610
Total remuneration for other assurance services	-	10,610	-	10,610
Total remuneration for assurance services	86,074	152,230	86,074	152,230
(b) Taxation services				
PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of Company income tax returns	-	26,400	-	26,400
Non-PricewaterhouseCoopers firm				
Tax compliance services, including review of Company income tax returns	-	-	-	-
Total remuneration for taxation services	-	26,400	-	26,400
(c) Advisory services				
PricewaterhouseCoopers Australian firm				
Initial public offering, other public raisings	-	16,500	-	16,500
Strategic facilitation	-	-	-	-
Consulting services	-	27,742	-	27,742
Non-PricewaterhouseCoopers firm				
Accounting and advisory services	-	-	-	-
Independent expert report	-	-	-	-
Total remuneration for advisory services	-	44,242	-	44,242
Total remuneration for non-audit services	-	70,642	-	70,642

PricewaterhouseCoopers were appointed as the Group's auditors at the Annual General Meeting on 5 April 2006. It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. It is the Group's policy to seek competitive tenders for all major consulting projects.

22 Contingencies

(a) Contingent liabilities

The parent entity and Group had no significant contingent liabilities at 30 June 2008 or at 30 June 2007.

(b) Contingent assets

The parent entity and Group had no significant contingent assets at 30 June 2008 or at 30 June 2007.

23 Commitments

(a) Operating Lease commitments : Group as lessee

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Commitments for minimum lease payments in relation to operating leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	89,640	57,736	89,640	57,736
Later than one year but not later than five years	-	43,302	-	43,302
Later than five years	-	-	-	-
	89,640	101,038	89,640	101,038
Representing:				
Non-cancellable operating leases	89,640	101,038	89,640	101,038
	89,640	101,038	89,640	101,038

The Group leases an office under a non-cancellable operating lease expiring in June 2009.

24 Related party transactions

(a) Parent entities

Medical Therapies Limited is the ultimate parent entity within the wholly-owned Group.

(b) Subsidiaries

Interests in subsidiaries are set out in note 25.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 20.

(d) Amounts receivable or payable to Related Parties

Amounts receivable from or payable to the Controlled Entity are shown in notes 9 and 13 to the financial statements. These amounts do not carry interest and there is no fixed term for their repayment.

(e) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Purchase of research and development and related services from The University of Sydney	-	1,022,078	-	1,022,078
Refer to note 30 for details of options granted to The University of Sydney.				

25 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2007	2006
			%	%
Biotech Pty Limited	Australia	Ordinary	100	100

The subsidiary is classified as a small company and is exempt from submitting accounts to the Australian Securities and Investments Commission and therefore is not required to enter into a deed of cross guarantee.

26 Events occurring after the balance sheet date

On 2 July 2008, following shareholder approval at the June 2008 EGM, the company finalised its intellectual property agreement with Cell Signals Inc for the acquisition of the midkine protein related technology assets. The purchase price of \$1.5 million will be paid following the finalisation of an equity placement in October 2008.

27 Reconciliation of loss after income tax to net cash outflow from operating activities

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Loss for the year	(2,688,804)	(4,554,782)	(2,687,695)	(4,553,418)
Depreciation and amortisation	1,127,063	364,249	1,126,547	362,253
Non-cash expense - share-based payments	275,885	427,314	275,885	427,314
Other non-cash item				
Amortisation of convertible note costs	28,073	39,302	28,073	39,302
Patent costs write-back	-	31,265	-	31,265
Convertible note effective interest rate	64,723	16,390	64,723	16,390
Interest accrual on converting note	34,115	50,624	34,115	50,624
Interest income	(62,620)	(78,329)	(62,620)	(77,622)
Net loss on sale of non-current assets	-	-	-	-
Change in operating assets and liabilities				
Decrease (increase) in trade and other receivables	58,762	379,916	58,762	361,825
Decrease (increase) in other operating assets	-	-	-	-
Increase (decrease) in trade and other payables	(411,814)	432,176	(411,814)	451,804
Increase (decrease) in borrowings	-	-	-	-
Net cash (outflow) from operating activities	(1,574,617)	(2,891,875)	(1,574,024)	(2,890,263)

28 Non-cash investing and financing activities

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Acquisition of Biotech Pty Limited via a scrip exchange	-	-	-	-
Acquisition of intellectual property from The University of Sydney	-	-	-	-

The consideration for the intellectual property acquired from The University of Sydney was 17,142,857 ordinary shares of Medical Therapies Limited.

30 Share-based payments

(a) Director and executive options

The issue of options to the CEO Ms Halasz was approved at a General Meeting of shareholders on 16 June 2008

Options were granted for no consideration and are exercisable at \$0.06. Each option entitles the holder to one share in the Company. Options granted carry no dividend or voting rights.

The options were granted to the CEO in two tranches. These options have vested as milestones described below were attained:

Tranche	Milestone	No. of options	Fair value of options
Tranche 1	Completion of first full years of service as CEO of the company	3,000,000	91,985
Tranche 2	Completion of a materially significant transaction such as acquisition of new technology, business or affecting merger with another entity.	2,000,000	61,322
Total		5,000,000	153,307

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2008 was 6 cents (2006: 5 to 13 cents) per option. The fair value at grant date is determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2008 included:

- (a) options are granted for no consideration
- (b) Exercise price: \$0.06 (2007:\$0.18 to \$0.30)
- (c) grant date: 16 June 2008 (2007:2 January 2007, 26 March 2007)
- (d) expiry date: 15 June 2013 for Director options, (31 December 2008 for Executive options and up to 9 January 2009 for key management personnel).
- (e) share price at grant date: \$0.06 (2007:\$0.165 to \$0.235)
- (f) expected price volatility of the Company's shares: 60 - 70% (2007: 60 – 70%)
- (g) expected dividend yield: nil% (2007: nil)

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period were as follows:

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Options issued to Directors and the previous Managing Director (L Casbolt)	-	(53,001)	-	(53,001)
Options issued to The University of Sydney	104,500	409,000	104,500	409,000
Options issued to Fresh Capital	-	16,000	-	16,000
Options issued to Executives	171,385	55,315	171,385	55,315
	275,885	427,314	275,885	427,314

** Options granted to the previous Managing Director Mr. L Casbolt did not vest following his resignation from the company

Medical Therapies Limited

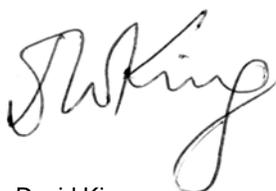
Directors' declaration
30 June 2008

In the directors' opinion:

- (a) the financial statements and notes set out on pages 26 to 65 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (c) the audited remuneration disclosures set out on pages 8 to 14 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*; and

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



David King
Chairman

Sydney
27 August 2008

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Independent auditor's report to the members of Medical Therapies Limited

Report on the financial report

We have audited the accompanying financial report of Medical Therapies Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Medical Therapies Limited. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant

to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website
<http://www.pwc.com/au/financialstatementaudit>.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Medical Therapies Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements and parent entity financial statements and notes also complies with International Financial Reporting Standards as disclosed in Note 1.

Emphasis of Matter

Material Uncertainty Regarding Continuation as a Going Concern

Without qualification to our opinion, we draw attention to Note 1 in the financial statements which indicates that the Consolidated Entity incurred a net loss of \$2,688,804 during the year ended 30 June 2008. This condition, along with other matters as set forth in Note 1, indicates the existence of a material uncertainty which may cast doubt about the Consolidated Entity's ability to continue as a going concern.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 15 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the Remuneration Report of Medical Therapies Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Medical Therapies Limited (the company) for the year ended 30 June 2008 included on Medical Therapies Limited web site. The company's directors are responsible for the integrity of the Medical Therapies Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

The logo for PricewaterhouseCoopers, written in a stylized, cursive script.

PricewaterhouseCoopers

A handwritten signature in cursive script, appearing to read 'Mark Dow'.

Mark Dow
Partner

Sydney
27 August 2008