MEDICALTHERAPIES

FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

MEDICAL THERAPIES LIMITED AND CONTROLLED ENTITIES ACN 111 304 119

DIRECTORS' REPORT

Your directors submit the financial report of the economic entity for the half-year ended 31 December 2005.

Directors

The names of directors who held office during or since the end of the half-year are:

Mr James Dominguez (Appointed 16 December 2004, resigned 8 March 2006)

Mr Llewellyn Casbolt (Appointed 16 December 2004)

Professor Michael Vitale (Appointed 16 December 2004)

Dr Michael Taverner (Appointed 8 October 2004)

Mr Malcom Castle (Appointed 23 February 2006)

Principal Activities

The principal activities of Medical Therapies Limited are the development and commercialisation of pharmaceutical products to treat various cancers and chronic inflammatory diseases.

Review of Operations

The group incurred an after tax loss attributed to members of $874,149 for the six months to 31 December. While the group incurred a loss over the six months, it has made significant progress in terms of strengthening the balance sheet and in the commercialisation of its Technology. The key developments were:

- Medical Therapies Limited was admitted to the Australian Stock Exchange's Official List on 6 December 2005 and its ordinary shares commenced trading on 9 December 2005. The IPO generated gross proceeds of $3,085,300.
- The University of Sydney irrevocably assigned its intellectual property to the group in exchange for 17,142,857 shares in Medical Therapies Limited.
- Management met with the company's US FDA consultants as part of its strategy to pursue the early registration of Copper Indomethacin as a "generic" equivalent drug in the United States of America. Indications to date are that short term registration is possible under the FDA's 505(b)2 application, with timing still on track for the New Drug Application (NDA) being submitted in late 2006.
- The group has commenced a large scale mouse trial on a topical (cream) therapy for the treatment of skin cancer. Preliminary results are anticipated to be available in the third quarter of 2006, with final results anticipated by the end of the first quarter of 2007.
- The group is investigating various intellectual property acquisitions and other opportunities aimed at extending its pipeline of future products and enhancing shareholder value.
- The group is proceeding with an options issue in March 2006 which will raise $63,665 net of the issue costs.
- Mr. Malcom Castle has been appointed as a non-executive director of the group.
- Mr. James Dominguez resigned as a director subsequent to the end of the period.

DIRECTORS' REPORT

Earnings Per Security	**31 Dec 2005**	**31 Dec 2004**
Basic loss per share (cents per share)	4.57 cents	6.65 cents
Diluted loss per share (cents per share)	4.57 cents	6.65 cents

Net Tangible Asset Backing	**31 Dec 2005**	**30 Jun 2005**
Per Ordinary Security (cents per share)	4.28 cents	(9.76 cents)

Adoption of Australian Equivalents to IFRS ("AIFRS")

This interim financial report has been prepared under AIFRS. A reconciliation of differences between previous AGAAP and AIFRS is included in Note 2. The key difference arising on the transition to AIFRS is the business combination that resulted when Medical Therapies Limited acquired Biotech Pty Limited on 13 October 2004. Under AIFRS, this transaction is accounted for as a "reverse acquisition" whereby Biotech Pty Limited is treated as having acquired Medical Therapies Limited at that date for accounting purposes. Under AGAAP at 30 June 2005, this transaction was accounted for as an acquisition whereby Medical Therapies Limited was treated as having acquired Biotech Pty Limited at that date for accounting purposes.

Going concern

This financial report has been prepared on the going concern basis.

In the half year to 31 December 2005, the group has incurred losses of $874,149 and experienced net cash inflows of $1,437,897, as shown in the income and cashflow statements in this financial report. These results are consistent with the group's strategic objectives and budget estimates.

The group is currently seeking additional funding to ensure the availability of working capital for the coming year.

The Directors are of the view that the ability of the company to continue as a going concern is dependent on the successful completion of future capital raisings and or receipt of grants.

Auditor's Declaration

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 4 for the half year ended 31 December 2005.

This report is signed in accordance with a resolution of the Board of Directors.

Llewellyn P. Casbolt

Managing Director

Dated this 9th Day of March 2006

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF MEDICAL THERAPIES LIMITED

WHK Greenwoods

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2005 there have been:

(a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review, and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

WHK Greenwoods

WHK GREENWOODS

Anthony Stuart Rose

Dated this 9th Day of March 2006

MEDICAL THERAPIES LIMITED
AND CONTROLLED ENTITIES
ACN 111 304 119

CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	Economic Entity	
	31.12.2005	**31.12.2004**
	$	**$**
Revenue		
Interest received	16,902	4,318
Grants	17,899	-
Total revenue	34,801	4,318
Accounting fees	49,751	14,067
Consultancy expense	423,421	195,993
Directors fees	51,000	-
Share-based compensation	276,000	-
Research and development expense	90,496	-
Legal expense	42,223	44,934
Occupancy expense	29,237	32,432
Depreciation and amortisation expense	3,074	3,064
Other expenses	88,220	11,157
Loss before income tax	1,018,621	297,329
Income tax benefit	144,472	-
Loss after tax from continuing operations	874,149	297,329
Loss for the period attributable to members	874,149	297,329
Overall Operations:		
Basic loss per share (cents per share)	4.57 cents	6.65 cents
Diluted loss per share (cents per share)	4.57 cents	6.65 cents

The accompanying notes form part of these financial statements.

MEDICAL THERAPIES LIMITED
AND CONTROLLED ENTITIES
ACN 111 304 119

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

	Notes	Economic Entity 31.12.2005 $	Economic Entity 30.06.2005 $
CURRENT ASSETS			
Cash and cash equivalents		1,763,925	326,028
Trade and other receivables		239,755	210,015
Other current assets		105,004	-
TOTAL CURRENT ASSETS		2,108,684	536,043
NON-CURRENT ASSETS			
Property, plant and equipment		28,620	34,147
Intangible assets		3,091,000	-
TOTAL NON CURRENT ASSETS		3,119,620	34,147
TOTAL ASSETS		5,228,304	570,190
CURRENT LIABILITIES			
Trade and other payables		76,404	741,364
TOTAL CURRENT LIABILITIES		76,404	741,364
TOTAL LIABILITIES		76,404	741,364
NET ASSETS	2	5,151,900	(171,174)
EQUITY			
Issued capital		7,852,416	1,655,193
Accumulated losses		(2,700,516)	(1,826,367)
TOTAL EQUITY	2	5,151,900	(171,174)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	Issued Capital $	Accumulated Losses $	Total $
Balance at 1.7.2004	320,100	(235,373)	84,727
Capital issued during the period	1,343,220		1,343,220
Loss attributable to members		(297,329)	(297,329)
Consolidation adjustment on acquisition		(410,100)	(410,100)
Sub-total	1,663,320	(942,802)	720,518
Dividends paid or provided for			
Balance at 31.12.2004	1,663,320	(942,802)	720,518
Balance at 1.7.2005	1,655,193	(1,826,367)	(171,174)
Capital issued during the year	6,051,300		6,051,300
Share options expensed	276,000		276,000
Loss attributable to members of parent entity		(874,149)	(874,149)
Costs of share issue	(130,077)		(130,077)
Sub-total	7,852,416	(2,700,516)	5,151,900
Dividends paid or provided for			
Balance at 31.12.2005	7,852,416	(2,700,516)	5,151,900

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	Economic Entity	
	31.12.2005	**31.12.2004**
	$	**$**
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	-	-
Payments to suppliers and employees	(1,470,371)	(341,444)
Interest received	16,902	4,318
Grant received	19,689	-
Net cash provided by / (used in) operating activities	(1,433,780)	(337,126)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of non-current assets	2,454	-
Purchase of non-current assets	-	(1,295)
Loan to related entity	-	(14,000)
Loan repaid by related entity	39,000	-
Purchase of intellectual property	(300,000)	-
Net cash provided by / (used in) investing activities	(258,546)	(15,295)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	3,260,300	933,120
Share issue costs	(130,077)	-
Net cash provided by / (used in) financing activities	3,130,223	933,120
Net increase in cash held	1,437,897	580,699
Cash at the start of the period	326,028	32,864
Cash at the end of the period	1,763,925	613,563

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2005

NOTE 1: ACCOUNTING POLICIES

These half-year consolidated financial statements are a general purpose financial report prepared in accordance with Australian equivalents to International Financial Reporting Standards ("AIFRS"), the requirements of the Corporations Act 2001, Accounting Standard AASB 134: Interim Financial Reporting, Urgent Issues Group ("UIG") Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2005 and any public announcements made by Medical Therapies Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

As this is the first interim financial report prepared under AIFRS, the accounting policies applied are inconsistent with those applied in the 30 June 2005 annual report as that report was presented under previous Australian GAAP. Accordingly, a summary of the significant accounting policies under AIFRS has been included below. A reconciliation of equity and profit and loss between previous GAAP and AIFRS has been prepared at Note 2.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

(a) Principles of Consolidation

A controlled entity is any entity controlled by Medical Therapies Limited whereby Medical Therapies Limited has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased. Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

When Medical Therapies Limited acquired (as the legal parent) Biotech Pty Limited, shareholders of Biotech Pty Limited (the legal subsidiary) obtained 100% of the shares in Medical Therapies Limited and therefore control of the combined entity. Accordingly the transaction is accounted for as a reverse acquisition under AIFRS. This half-year financial report discloses the consolidated financial statements of the group, with the above transaction accounted for as a reverse acquisition.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2005

(b) Income Tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any non-assessable or disallowed items.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available, against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value.

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment and Leasehold improvements

Plant and equipment and leasehold improvements are measured on the cost basis less depreciation and impairment losses.

Depreciation

The depreciable amount of all fixed assets including leasehold improvements is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

(d) Property, Plant and Equipment (cont'd)

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	33%
Furniture and fittings	20%

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.

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

(e) Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset but not the legal ownership are transferred to entities in the economic entity, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset over the term of the lease.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(f) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

(f) Financial Instruments (cont'd)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

(g) Intangibles

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but is tested annually for impairment and carried at cost less accumulated impairment losses.

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technically feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised over the useful life of particular projects.

Intellectual Property

Intellectual property acquired has a finite useful life and is carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of the intellectual property over its estimated useful life of ten years.

(h) Acquisition of Assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets acquired, shares issued or liabilities undertaken at the date of exchange plus costs directly attributable to the acquisition. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2005

(i) Share-based Payments

Share options granted after 7 November 2002 and vested after 1 January 2005 are recognised as an expense with a corresponding increase in equity based on the fair value of the options granted. The fair value is measured at grant date and recognised over the period during which the option holder becomes unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model which takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the option, 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.

Upon exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

(j) Foreign Currency Transactions and Balances

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional and presentation currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge. Exchange difference arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

(k) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2005

(l) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(m) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-borrowings in current liabilities on the balance sheet.

(n) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers. All revenue is stated net of the amount of goods and services tax (GST).

(o) Borrowing Costs

Borrowing costs are recognised in income in the period in which they are incurred.

(p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST. Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(q) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(r) Issued capital

Issued capital is shown on the basis that the acquisition of Biotech Pty Limited at 13 October 2004 by Medical Therapies Limited is being accounted for as a reverse acquisition. Issued share capital comprises the share capital of Biotech Pty Limited prior to the reverse acquisition, the share capital deemed to be issued as a result of the reverse acquisition, and the share capital issued by Medical Therapies Limited to outside shareholders after the date of the acquisition, net of costs relating to capital raising activities.

NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS("AIFRS")

This financial report is the first presented fully under AIFRS. The figures disclosed in this financial report are management's best estimates of the quantitative impact of the changes as at the date of preparing the 31 December 2005 financial report. The actual effects of the transition to AIFRS may differ from the figures disclosed due to: (a) ongoing work undertaken by management; (b) potential amendments to AIFRS and interpretation thereof by standard setters, and; (c) emerging accepted practice in interpreting AIFRS and UIG statements.

The key changes arising are as follows.

(i) Business combinations and goodwill

AASB 3, Business Combinations, requires the acquirer in a business combination to be identified as the entity that obtains control of the combining entities. Control is the power to govern the financial and operating policies of the combined entity.

In a business combination achieved via the exchange of equity interests, when the legal subsidiary is identified as the acquirer, rather than the legal parent, the business combination is accounted for as if the legal subsidiary has obtained control of the legal parent. This is known as a reverse acquisition. Under previous Australian accounting requirements, the legal parent was the acquirer.

The requirement to account for the business combination as a reverse acquisition under AIFRS is a significant change. Previously, the legal parent recognised its cost of investment and the net assets of the legal subsidiary at their fair values at the date of the combination. Under AIFRS, the legal subsidiary recognises its cost of investment and the fair values of the legal parent's identifiable net assets at the date of the combination at their fair values. This leads to a significantly different value for goodwill and other assets arising on the combination. When Medical Therapies Limited acquired (as the legal parent) Biotech Pty Limited, the shareholders of Biotech Pty Limited (the legal subsidiary) ended up with 100% of the shares in Medical Therapies Limited and therefore control of the combined entity. Accordingly the transaction will be accounted for as a reverse acquisition under AIFRS.

This consolidated financial report of Medical Therapies Limited discloses the consolidated financial statements of the group, accounted for as a reverse acquisition by Biotech Pty Limited.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2005

NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)

(ii) Income Tax

Previously, the group adopted the balance sheet approach of tax-effect accounting. Under AIFRS, the group will also be required to adopt a balance sheet approach, under which temporary differences are identified for each asset and liability. No material differences in treatment are expected to arise as a result of the application of AIFRS, but differences to the tax balances will arise as a result of the adoption of AIFRS.

(iii) Share-Based Payments

Share-based compensation forms part of the remuneration of the group's directors and CEO. Under superseded AGAAP, the group did not recognise an expense for share-based compensation granted. Under AIFRS the group recognises an expense for share-based compensation. Share-based compensation is measured at the fair value of the options determined at grant date and recognised over the expected vesting period of the options.

Reconciliation of Equity and Losses at 1 July 2004

There were no differences in the total equity of the group at 1 July 2004 or losses for the period then ended under previous AGAAP and AIFRS.

Reconciliation of Equity at 31 December 2004 and 30 June 2005

The equity of the group under AGAAP is the equity of Medical Therapies Limited at that date. The equity of the group under AIFRS is the equity of Biotech Pty Limited and its controlled entities at that date. The difference between the two bases of presentation arises because under AGAAP the parent company for accounting purposes is Medical Therapies Limited, and under AIFRS the parent company for accounting purposes is Biotech Pty Limited.

Reconciliation of Equity at		Economic Entity	
	Note	31.12.2004 $	30.6.2005 $
Total equity under AGAAP		996,955	97,658
Reversal of goodwill arising on AGAAP consolidation	2(a)	(278,760)	(278,760)
Reversal of goodwill amortisation	2(b)	2,323	9,928
Total equity under AIFRS		720,518	(171,174)

Reconciliation of Losses

Previous AGAAP results for this period comprise the results of Medical Therapies Limited. AIFRS requires that the group is accounted for as a reverse acquisition whereby Biotech Pty Limited is deemed to have acquired Medical Therapies Limited at 13 October 2004. The AIFRS results for the period comprise the consolidated results of the economic entity accounted for in this manner.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

NOTE 2: FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)

Reconciliation of Losses for the period ended	Note	Half year to 31.12.2004 $	Year to 30.6.2005 $
Loss after tax attributable to members of the parent entity under AGAAP		271,083	1,147,435
Pre acquisition earnings		28,569	28,569
Reversal of goodwill amortisation	2(b)	(2,323)	(9,928)
Loss attributable to members of the parent entity under AIFRS		297,329	1,166,076

Notes to the Reconciliations of Equity and Losses

2(a) Adjustment to goodwill of $278,760 due to accounting for the acquisition of Biotech Pty Limited by Medical Therapies Limited as a reverse acquisition under AIFRS.

2(b) Under AIFRS, goodwill is no longer amortised but is subject to annual impairment testing. All goodwill amortised under previous GAAP has been reversed. No goodwill has been reversed to retained earnings at 1 July 2004. Goodwill amounting to $9,928 previously amortised in the 2005 full financial year has been reversed in the AIFRS income statement for the year ended 30 June 2005. Goodwill amounting to $2,323 has been adjusted for in the period ended 31 December 2004.

NOTE 3: PROFIT FROM ORDINARY ACTIVITIES

All revenue and expense items that are relevant in explaining the financial performance for the interim period have been included in the Consolidated Income Statement.

NOTE 4: DIVIDENDS

No dividends have been declared or paid

NOTE 5: BUSINESS COMBINATIONS

Medical Therapies Limited was a new entity registered as a public company on 8 October 2004 to issue equity instruments to effect a business combination with Biotech Pty Limited. On 13 October 2004, Medical Therapies acquired the share capital of Biotech Pty Limited in an equity exchange. In accordance with AASB 3, Biotech Pty Limited has been identified as the acquirer.

As Medical Therapies had no assets or liabilities on 13 October 2004, the fair value of the company on acquisition was $1 and no goodwill arises under AIFRS.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2005

NOTE 6: SEGMENT INFORMATION

All operations to date have been based in Australia.

NOTE 7: CONTINGENT LIABILITIES

There are no changes in contingent liabilities since the last annual reporting date.

NOTE 8: SUBSEQUENT EVENTS

Except as disclosed in the Directors report, there have been no subsequent events arising since 31 December 2005 that the Directors are aware of that would require disclosure in this report.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 5 to 18:
    a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
    b. give a true and fair view of the economic entity's financial position as at 31 December 2005 and of its performance for the half year ended on that date.

2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Managing Director

Dated this 9th Day of March 2006

WHK Greenwoods

INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF MEDICAL THERAPIES LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for Medical Therapies Limited and its controlled entities, for the half-year ended 31 December 2005. The consolidated entity comprises both Medical Therapies Limited (the company) and the entities it controlled during that half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review Approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission/Australian Stock Exchange Limited. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Accounting Standard AASB 134: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of company personnel, and
- analytical procedures applied to financial data.

When this review report is included in a document containing information in addition to the financial report, our procedures include reading the other information to determine whether it contains any material inconsistencies with the financial report.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

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INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF MEDICAL THERAPIES LIMITED

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Medical Therapies Limited is not in accordance with:

a. the Corporations Act 2001, including:

   i. giving a true and fair view of the company's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and

   ii. complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and

b. other mandatory professional reporting requirements in Australia.

Inherent uncertainty regarding going concern

Without qualification to the opinion expressed above, attention is drawn to the following matter.

The directors are of the opinion that the ability of the Company to continue as a going concern is dependent on the continued availability of working capital, which is dependent on the successful completion of future capital raisings and or receipt of grants.

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Anthony Stuart Rose

Dated this 9th Day of March 2006