MEDICALTHERAPIES

Annual Report 2007


“Progress lies not in enhancing what is,
but in advancing toward what will be”
Kahlil Gibran

Contents

MEDICAL THERAPIES LIMITED
ABN 69 111 304 119

STOCK EXCHANGE LISTING
Australian Stock Exchange Limited ASX Code MTY

ANNUAL GENERAL MEETING
The Annual General Meeting will be held
at the AGL Theatre, Museum of Sydney,
Corner of Phillip and Bridge Streets, Sydney

Highlights

Medical Therapies Limited is an Australian pharmaceutical development company committed to the commercialisation of promising drug candidates for a range of anti-inflammatory conditions and cancer. Our lead drug, Cuprindo™, has shown encouraging results in pre-clinical testing and is currently being prepared for clinical trials. Medical Therapies is also on the path to acquire complimentary technologies in the areas of anti-inflammatory and cancer therapies to add value to the Company's assets.

Medical Therapies has reached key milestones during the 2007 financial year including reviewing the existing technology portfolio and developing a commercially feasible product development program as a result.

2007 Financial Year Highlights

- Development of clinical trial path for the commercialisation of Cuprindo™
- Agreement with the Centre for Digestive Diseases for human clinical trials of Cuprindo™ in diseases of the gastrointestinal tract
- Development of a strong acquisition program to enhance the current technology portfolio

2008 Financial Year Objectives

- Continue to implement the Company's technology acquisition strategy to accelerate the product development programs and add significant shareholder value in the process
- Progress the existing portfolio of anti-inflammatory compounds to commercialisation by taking them through clinical trials and following a prudent regulatory path

As Cuprindo™ is now well on the way to being commercialised we are increasingly focused on transferring the copper Indomethacin technology into a cGMP manufacturing environment.

Chairman's Report

Dear Shareholders,

On behalf of the Board, I am pleased to present to you the Annual Report of Medical Therapies Limited for the fiscal year ending 30 June 2007. The report details the progress and performance of the Company over the past year and the strategic directions we have taken during the year to strengthen our Company and to better position it for future growth.

The past year was one of transition for Medical Therapies, as the Company moved from a focus on research towards a focus on bringing products to market. As part of this transition, Llewellyn Casbolt, the Company's inaugural Managing Director, left Medical Therapies in November 2006. Non-executive director Malcom Castle served as Interim Managing Director and ably guided the Company during our search for a new CEO. This search ended very successfully with the hiring of Maria Halasz, who has taken on the role of Managing Director with enormous energy and enthusiasm. Maria's experience and expertise in both science and finance are an excellent fit with the Company's increasingly commercial direction.

Over the past year we continued to develop the two streams of our initial technology—anti-cancer and anti-inflammatory compounds. Preliminary results suggest that the latter may be the more promising route for the near future.

In an important strategic move during the year, the Company began to explore corporate partnering relationships, including mergers and licenses, for technologies outside of our historical base. These newer technologies are potentially at least as important as those on which the Company was founded.

I expect that the 2007 – 2008 financial year will see a continued focus on bringing products to market, with the long-term goals of improving the lives of patients as well as increasing the wealth of shareholders. The Board thanks you for your confidence and looks forward to a very successful year.

Michael R Vitale

Michael Vitale
CHAIRMAN

CEO's Report

Our Valued Shareholders,

It is my pleasure to report to you after a year of significant change; one in which your Board of Directors has been steering your Company in the direction of growth and increased shareholder value.

While we have continued to fund the work at The University of Sydney we have also conducted a thorough internal and external review of the research completed to date. During this process we have identified key anti-inflammatory indications for our lead drug candidate, Cuprindo™, and have also been able to select a new compound, VOM, for further trials in diabetes.

We have signed a Heads of Agreement with the Centre for Digestive Diseases (CDD) for phase 1 clinical trials of Cuprindo™. The phase 1 trials will test safety and early efficacy in acute gastrointestinal conditions in an open label human trial using topical formulations. This collaboration is reflective of our strategy of taking the most promising data into an environment where its commercial potential can best be tested. Focusing our attention on areas where scientific evidence is apparent we are pursuing further pre-clinical and clinical work in select indications.

We have engaged a number of highly experienced industry consultants who have been instrumental in developing our commercialisation programs. We have appointed senior advisers with many years of experience in regulatory affairs, licensing, pharmaceutical development and managing technology to assist us in the challenging process of adding significant value to your Company's asset base.

The results of this rigorous approach lead us to become keenly aware of the need to accelerate our current research program and the necessity of complementing it with the acquisition of an advanced stage technology.

We have developed broad but instructive selection criteria for the acquisition of a suitable technology. Focused on finding a project in advanced clinical stage we have been most interested in technologies within our own fields of anti-inflammatories or cancer therapeutics with strong data and intellectual property position. We have also decided to place preference on projects where the key experts are able to continue to guide the technology through its future stages of development.

During the year your Company continued to fund its operations from capital raisings through the issuing of convertible notes to the value of $1.8M in March 2007 and via a private placement of shares to the amount of $0.9M in July 2007, after the close of the 2007 financial year.

We would not have been able to achieve so much without the commitment of your staff. I would especially like to thank our Chief Operating Officer David James, our Financial Controller Derek Bolling and our Office Manager Sindy Taouk for their dedication and support through this challenging period of many changes.

FINANCIAL SUMMARY

	CONSOLIDATED		PARENT ENTITY	
	2007 $	**2006 $**	**2007 $**	**2006 $**
Revenue	**78,329**	79,154	**77,622**	78,917
Other income	**57,279**	37,899	**56,737**	37,899
Consultancy expenses	**(777,199)**	(728,749)	**(777,199)**	(728,749)
Share-based compensation	**(427,314)**	(568,000)	**(427,314)**	(568,000)
Research and development expense	**(1,125,662)**	(663,292)	**(1,125,662)**	(663,292)
Depreciation and amortisation expense	**(364,249)**	(166,481)	**(362,253)**	(163,145)
Professional fees	**(448,299)**	(208,065)	**(447,904)**	(205,937)
Directors' remuneration	**(172,911)**	(112,406)	**(172,911)**	(112,406)
Employee benefits	**(510,250)**	-	**(510,250)**	-
Patent costs	**(298,754)**	(57,148)	**(298,754)**	(57,148)
Occupancy	**(72,180)**	(65,878)	**(72,180)**	(65,878)
Other expenses	**(422,951)**	(302,040)	**(422,729)**	(285,346)
Finance costs	**(70,621)**	(5,086)	**(70,621)**	(5,085)
Loss before income tax	**(4,554,782)**	(2,760,092)	**(4,553,418)**	(2,738,170)
Income tax expense	**-**	-	**-**	-
Net loss attributable to members of Medical Therapies Limited	**(4,554,782)**	(2,760,092)	**(4,553,418)**	(2,738,170)

Maria Halasz

Maria Halasz

MANAGING DIRECTOR AND CEO

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 2007.

Directors

The names of the directors in office at any time during or since the end of the period are:
Professor Michael Vitale
Dr Michael Taverner
Ms Maria Halasz (appointed 16 April 2007)
Mr Malcom Castle (resigned 18 May 2007)
Mr Llewellyn Casbolt (resigned 15 November 2006)
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 pharmaceutical products to treat various 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

In fiscal 2007 Medical Therapies Limited continued to make progress in commercialising its core technologies. Our metal NSAID technology has been advancing towards proof of concept human clinical trials in 2008 in a number of indications.

The group has now rationalised its patent portfolio to secure intellectual property around key indications of interest.

The Group has signed a Heads of Agreement with the Centre for Digestive Diseases (CDD) for Phase 1 clinical trials of the Group's leading drug candidate Cuprindo™. The Phase 1 trials will test the drug candidate for safety and early efficacy in acute conditions in an open label clinical trial using topical formulations. According to the agreement the Group will supply its Cuprindo™ compound to the CDD to be formulated for topical applications in up to three different acute inflammatory conditions of the gastrointestinal tract. The CDD will pay all expenses associated with the clinical trials including the cost of ethics committee approvals.

The Group continues to actively pursue potential acquisitions in the areas of inflammatory conditions and certain cancers. Any such acquisitions will be biased towards drugs in clinical development that are available on a share based transaction.

The consolidated loss of the Group for the period after providing for income tax amounted to $4,554,782 (2006 - $2,760,092). This year reflects the first full year of operation for the Group. The 2007 loss is attributable to the following:

- Research and development expenses of $1,125,662 (2006: $663,292)
- Amortisation expense of $309,100 (2006 - $154,550) relating to the Group's intellectual property
- Employment benefits of $510,250 (2006: $ nil) reflecting the employment of full-time staff by the Group for the first time since listing

The consolidated balance sheet at 30 June 2007 reflects cash at bank of $1.84m (2006: $2.49m). The Group raised funds during year by issuing convertible notes which resulted in a cash inflow of $1.8m (excluding transaction costs).

Significant changes in state of affairs

During the year the Group successfully raised $1.8 million (excluding transaction costs) in funds from a convertible note issue in the third quarter of this financial year.

Matters subsequent to the end of the financial year

The Group completed a further capital raising at $0.115 per share in July 2007 which resulted in the raising of an additional $0.9 million (excluding transaction costs). Funds totalling $0.6m relating to this raising were received prior to 30 June 2007.

Except for the matters outlined above, no other matter or circumstance has arisen since 30 June 2007 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

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 issues

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.

Loss per share

	2007 CENTS	2006 CENTS
Basic and diluted loss per share	**(8.18)**	(8.06)

Information on directors

Professor Michael Vitale BA PhD MBA

CHAIRMAN—INDEPENDENT (APPOINTED 8 MARCH 2006)

NON-EXECUTIVE DIRECTOR—INDEPENDENT (APPOINTED 16 DECEMBER 2004)

Professor Michael Vitale researches, teaches, and consults on start-up and early stage companies (particularly in biotechnology), innovation and commercialisation, and IT governance. He is the Director, Commercialisation, at the Monash Asia-Pacific Centre for Science and Wealth Creation and also serves as the Chairman of the Australian Centre for Posttraumatic Mental Health.

Professor Vitale's previous positions include Dean and Director of the Australian Graduate School of Management; Professor at the Centre for Management of Information Technology, Melbourne Business School; Foundation Professor of Information Systems and Head of the Information Systems Department at the University of Melbourne; Fellow at the Ernst & Young Centre for Business Innovation in Boston; Executive Vice-President, Information Technology and Corporate Services, for Prudential Insurance Company of America; and Associate Professor at the Harvard Business School. He was also a non-executive Director of Deloitte Touche Tohmatsu (Australia).

Professor Vitale is a Fellow of the Association for Information Systems and Treasurer of the Harvard Club of Australia - Victoria. He was previously President of the Association for Information Systems and a member of Council of the Australian Computer Society.

Maria Halasz MBA

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

Ms Halasz has been involved with biotechnology companies for 15 years initially working in executive positions in biotechnology firms, then managing funds in the life sciences sector and later holding senior positions in corporate finance.

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.

Ms Halasz brings to Medical Therapies not only her science and business qualifications and many years of industry experience, but also her passion for the biotechnology sector.

Dr Michael Taverner MAgricSci PhD

NON-EXECUTIVE DIRECTOR—INDEPENDENT (APPOINTED 16 DECEMBER 2004)

Dr Michael Taverner is a company director and scientific consultant. He currently serves on the boards of and consults to a variety of companies and organisations involved in biotechnology, research and development, innovation and training.

Dr Taverner is Chairman of BluGlass Limited, a company listed on ASX to commercialise a novel semiconductor technology. Until recently he was a non-executive director of Biosignal Limited, a company listed on ASX to commercialise a novel antibacterial technology, and a non-executive director of the Australian Rural Leadership Foundation Limited. He has also served on the boards of the Rural Industries R&D Corporation and the Australian Poultry CRC.

Dr Taverner also works as a technical consultant to the Australian pork industry and the Australian grains industry. He served for six years as Executive Director of the Pig R&D Corporation and before that had a long career as a research scientist.

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.

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	3	3	-	1*	-	-
Mr Llewellyn Casbolt	6	6	-	6*	-	-
Professor Michael Vitale	19	19	9	9	2	2
Dr Michael Taverner	19	18	9	9	2	2
Mr Malcom Castle	17	17	8	8	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.

Retirement, election and continuation of directors

Mr Llewellyn Casbolt resigned as a director on 15 November 2006.
Mr Malcom Castle resigned as a director on 18 May 2007.

Audit Committee

Members of the Audit Committee are Professor Michael Vitale and Dr Michael Taverner.

Remuneration Committee

Members are Dr Michael Taverner and Professor Michael Vitale.

Remuneration report

This report outlines the remuneration arrangements in place for directors and executives of the Group for FY2007. The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation

The information provided under the above heading includes remuneration disclosures that are required under Accounting Standard AASB 124 Related Party Disclosures. These disclosures have been audited.

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 2007, the Group paid non-executive directors a total of $172,811 (2006:$112,406) 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 contracts with the CEO, COO 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.

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.

2007

NAME	CASH SALARY AND FEES $	SHORT-TERM BENEFITS CASH BONUS $	NON-MONETARY BENEFITS $	POST-EMPLOYMENT BENEFITS SUPER-ANNUATION $	RETIRE-MENT BENEFITS $	SHARE-BASED PAYMENTS OPTIONS $	TOTAL $
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.

2006

	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS		SHARE-BASED PAYMENTS	
NAME	CASH SALARY AND FEES	CASH BONUS	NON-MONETARY BENEFITS	SUPER-ANNUATION	RETIRE-MENT BENEFITS	OPTIONS	TOTAL
	$	$	$	$	$	$	$
Non-executive directors							
Michael Vitale (Chairman)	33,750	–	–	3,037	–	28,000	64,787
James Dominguez (Chairman)	28,875	–	–	2,599	–	140,000	171,474
Michael Taverner	30,000	–	–	2,700	–	28,000	60,700
Malcom Castle	10,500	–	–	945	–	–	11,445
Total non-executive directors	**103,125**	**–**	**–**	**9,281**	**–**	**196,000**	**308,406**
Executive directors							
Llewellyn Casbolt (MD/CEO)	280,000	–	–	–	–	133,000	413,000
Total	**383,125**	**–**	**–**	**9,281**	**–**	**329,000**	**721,406**

Mr Dominquez resigned as chairman effective from 8 March 2006.

Professor Vitale was appointed chairman effective from 8 March 2006

SERVICE AGREEMENTS (AUDITED)

The CEO, Ms Maria Halasz is an employee of the Group under an agreement signed on 5 April 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 substantial and significant advances in the regulatory status of the technology and the formation of a Medical Advisory Board. Ms Halasz has been successful in forming a Medical Advisory Board post year end, as approved by the Board of Medical Therapies Limited.

The COO, Mr David James is an employee of the Group under an agreement signed on 18 August 2006. Under the terms of the present contract:

- Mr James may resign from his position and thus terminate this contract by giving three months' written notice. On resignation any unvested options will be forfeited.
- The Group may terminate the employment agreement by providing three months' written notice or providing payment in lieu of the notice period (based on the fixed component of Mr James remuneration).
- The Group may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the COO 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.
- Mr James' contract does not specify any short term incentives however the Board, at its discretion, may decide to reward outstanding performance by Mr. James by the payment of an appropriate performance incentive.

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.

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:

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.

2006

	OPTIONS GRANTED IN 2006	VALUE OF OPTIONS AT GRANT DATE	OPTIONS VESTED IN 2006	VALUE OF OPTIONS EXPENSED IN 2006	PROPORTION OF REMUNERATION
				($)	%
J Dominguez	1,750,000	140,000	1,750,000	140,000	81.6
M Vitale	350,000	28,000	350,000	28,000	43.2
M Taverner	350,000	28,000	350,000	28,000	46.1
L Casbolt – tranche 1	1,000,000	80,000	1,000,000	80,000	
L Casbolt – tranche 2	1,000,000	85,000	-	21,350	
L Casbolt – tranche 3	1,500,000	127,000	-	31,650	32.2
	5,950,000	**488,000**	**3,450,000**	**329,000**	

The above options were granted on 5 December 2005. Directors' options expire on 31 December 2007. The exercise price is $0.20. The options can be exercised at any time prior to expiry, except while under an ASX Restriction Agreement.

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.

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 2007 included:

- options are granted for no consideration
- exercise price: $0.18 to $0.30 (2006:$0.20)
- grant date: 2 January 2007, 26 March 2007, (2006: 9 December 2005)
- expiry date: 31 December 2007 for Director options, 31 December 2008 for Executive options and up to 9 January 2009 for key management personnel.
- share price at grant date: $0.165 to $0.235 (2006: $0.20)
- expected price volatility of the Company's shares: 60 - 70% (2006: 60 – 70%)
- expected dividend yield: nil% (2006: nil)
- risk-free interest rate: 5.72 to 5.92% (2006: 5.2%)

The employment contract with Ms M Halasz (CEO) provides for an entitlement to receive 3,000,000 options as part of her employment with the company. These options are subject to shareholder approval at the next annual general meeting.

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

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:

	EXPIRY DATE	ISSUE PRICE	NUMBER UNDER OPTION
Listed options	31 Dec 2007	$0.20	20,166,733
Restricted options	31 Dec 2007	$0.20	2,550,000
Restricted options	31 Dec 2008	$0.20	1,000,000
Restricted options	31 Dec 2009	$0.45	500,000
Unlisted options	8 Jan 2012	$0.18	750,000
Unlisted options	31 Dec 2008	$0.20	205,000
Unlisted options	31 Dec 2008	$0.30	50,000
			25,221,733

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 2007 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

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. Policy exclusions include: bodily injury and property damage, pollution or contamination of any kind, and liabilities that arise out of wrongful acts by the officers that cause detriment to the Group.

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 economic entity

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.

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	
	2007	2006
	$	$
(a) Assurance services		
Audit services		
PricewaterhouseCoopers Australian firm		
Audit of financial reports and other audit work under the *Corporations Act 2001*	141,620	70,000
Non-PricewaterhouseCoopers audit firm		
Audit of financial reports and other audit work under the *Corporations Act 2001*	-	20,293
Total remuneration for audit services	141,620	90,293
Other assurance services		
PricewaterhouseCoopers Australian firm		
Due diligence services	10,610	107,535
Total remuneration for other assurance services	10,610	107,535
Total remuneration for assurance services	152,230	197,828
(b) Taxation services		
PricewaterhouseCoopers Australian firm		
Tax compliance services, including review of Company income tax returns	26,400	20,000
Non-PricewaterhouseCoopers firm		
Tax compliance services, including review of Company income tax returns	-	12,000
Total remuneration for taxation services	26,400	32,000
(c) Advisory services		
PricewaterhouseCoopers Australian firm		
Initial public offering, other public raisings	16,500	38,500
Strategic facilitation	-	14,000
Consulting services	27,742	-
Non-PricewaterhouseCoopers firm		
Accounting and advisory services	-	32,365
Independent expert report	-	-
Total remuneration for advisory services	44,242	84,865
Total remuneration for non-audit services	70,642	116,865

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 23.

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:

Michael R Vitale

DIRECTOR
Michael Vitale

DIRECTOR
Maria Halasz

Dated this 31st day of August 2007

PRICEWATERHOUSECOOPERS

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Auditor's Independence Declaration

As lead auditor for the audit of Medical Therapies Limited for the year ended 30 June 2007, 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 and the entities it controlled during the period.

Mark Dow

Partner
PricewaterhouseCoopers

Sydney

31 August 2007


“All progress occurs because people
dare to be different” Harry Milner

Corporate Governance

The Board of Directors of Medical Therapies Limited is responsible for the corporate governance of the Company. The Board monitors the business affairs of the Company on behalf of all shareholders, by whom they are elected and to whom they are accountable.

In establishing its guidelines and policies, the Board has been mindful of the Principles of Good Corporate Governance and Best Practice Recommendations issued by the Australian Stock Exchange Corporate Governance Council in March 2003. The Board continued to work towards full adoption of the recommendations after the end of the financial year and, as at the date of this report, all the recommendations have been adopted.

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.

Below is an outline of the corporate governance policies adopted by the Board described in a structure consistent with the recommendations made by the ASX. The Board's Charter is set out in full in the Board Operating Manual, which can be found on the Medical Therapies website (www.medicaltherapies.com.au) under 'Corporate Governance'.

PRINCIPLE 1 LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Role of the Board

The Board of Directors is responsible to Medical Therapies' shareholders for overall business performance. These responsibilities include the following:

- improving the performance of the business through strategy and policy formulation
- approving the annual budget, strategic plan and major operating plans
- reviewing and providing feedback on the performance of the CEO. (Note that M Halasz is the CEO and Managing Director, and that these titles are used interchangeably throughout this report.)
- reviewing the performance of the Board, individual directors and committees every year
- monitoring financial performance and reporting including half-year and full-year financial reports and quarterly cash-flow statements
- determining policies and ensuring adequate procedures are in place to manage the identified risks
- ensuring the Board sub-committees are appropriately constituted and performing their functions
- appointment and accountabilities of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Company Secretary.

Role of management

The Chief Executive Officer and senior management are responsible for:

- formulating, with the Board, the corporate strategy, performance objectives, business plans and budgets
- providing leadership, appointing and negotiating terms of employment of senior executives (with Board approval where necessary), developing a succession plan, and ensuring procedures are in place for education and training to enable compliance with laws and policies
- bringing all matters requiring review or approval to the Board, advising on the changes in risk profile, providing certification regarding the financial statements for the half year and full year, reporting on the Company's performance to the Board on a monthly basis, and aiding education of directors on relevant matters
- management of the business and implementation of strategy within the context of the Board-approved budget.

PRINCIPLE 2 STRUCTURE THE BOARD TO ADD VALUE

Composition and balance of skills of directors

The Board considers that the number of directors at any time and the composition of the Board are critical for the success of the Company. It is acknowledged that these aspects 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 foreseeable future will range from four to seven and such number will be determined by the directors. The shareholders in General Meeting, may increase or decrease the total number of directors in accordance with the Constitution (Rule 13.1).

The Board will comprise a variety of persons with diverse sets of skills and experience relevant to the Company and the circumstances at the time.

The Board will review its composition from time to time having regard to the requirements of the Company.

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.

The Chief Executive Officer will be a director of the Company and will also have the title of Managing Director.

Independence of directors

The Board believes that the best interests of the Company are served if:

- a majority of the directors are independent, as defined in the ASX Corporate Governance Guidelines, and
- the Chairman is an independent director, and therefore, not also the CEO.

The Board will review annually, and as circumstances determine, whether or not each director is independent. This will include the determination of materiality thresholds for each director and for each particular circumstance, as necessary. The outcome of this determination will be disclosed in the Annual Report.

Where a director has a material personal interest in a matter and, in accordance with the provisions of the Corporations Law, the director is not present when the matter is discussed and does not vote on the matter, or the non-interested directors resolve to allow the director to participate, then the Board considers that these circumstances alone may not jeopardise a director's independence.

The Board believes that, over time, a renewal of members of the Board is beneficial to the ongoing vitality of the Company. This policy does not apply to the CEO.

Appointment of directors

In the circumstances where the Board believes there is a need to appoint another director, whether due to retirement of a director, growth of the Company, changed circumstances of the Company or its environment, certain procedures will be followed, including the following:

- determine the skills and experience appropriate for the appointee having regard to those of the existing directors and any other likely changes to the Board
- agree the process for seeking such a person
- set a timetable for completion having regard to the date of the AGM and finalisation of the Notice of AGM and whether the person will be appointed prior to the AGM or the person's nomination will first be put to the AGM
- prepare a short list of candidates after rigorously assessing the candidates on a number of criteria including competencies, qualifications, independence, other directorships etc.

The Board will meet the preferred candidate(s) and make an appointment, for ratification by the shareholders, as appropriate.

The Board's Nomination Committee consists of Dr Michael Taverner (Chair) and Professor Michael Vitale.

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.

Access to independent advice

Directors may obtain independent experts' advice to enable them to fulfil their obligations, at the expense of the Company and after obtaining approval of the Chairman.

The Chairman will:

- ensure that the nature of the advice being sought is appropriate, the party from whom the advice is to be sought has no conflict with the Company and the basis of charge is reasonable, and
- approve for payment all invoices in relation to the advice.

PRINCIPLE 3 PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Directors have a fiduciary relationship with the shareholders of Medical Therapies. Directors are expected to exercise skills commensurate with their level of knowledge and experience to increase the value of the Company. Each director must endeavour to ensure that the Company is properly managed so as to protect and enhance the shareholders' interests.

To meet this obligation, directors must act honestly and should:

- at all times exercise due care in their duties
- be diligent, attend Board meetings and make themselves knowledgeable about the business of the Company and the physical and social environment in which it operates
- not use their position or information for personal gain
- ensure that the shareholders and the stock market are informed of all material matters that require disclosure, in accordance with ASX Listing Rules
- avoid or fully disclose conflicts of interest
- be impartial in their judgements and actions.

Directors should ensure they can give sufficient time and attention to detail so as to properly fulfil the duties of directors.

No director will conduct himself or herself in a way that brings or may bring the Company or the name of the Company into disrepute.

At all times a director must be able to act in the interests of the Company. Where the interests of the director or the director's family or associates conflict with those of the Company, the director must immediately disclose such conflict and either:

- eliminate the conflict, or
- abstain from participation in any discussion or decision-making process in relation to the subject matter of the conflict, or
- in exceptional circumstances, consider resignation.

Executive directors must always be alert to the potential for conflict of interest between management interests and their fiduciary duty as directors.

Directors should refrain from voting their shares at any general meeting on any matter in the outcome of which they or their associates have a special beneficial interest.

Directors must comply with the provisions of the Australian Corporations Law relating to disclosure of directors' benefits and related party transactions.

To enable all directors, but particularly non-executive directors, to be fully effective, they must have full access to all relevant information. In the case of matters to be considered by the Board, directors must insist that full details are made available to them in sufficient time to allow proper consideration.

In becoming informed of the Company's affairs, the directors must have regard for the integrity of management's functions and responsibilities. In particular, no director, acting individually, shall:

- require any action by an officer of the Company in connection with the business of the Company, except as authorised by the Board or as requested by the CEO, or
- require or request any information concerning the Company from any officer, except where such information is necessary or appropriate for the discharge by that director of his or her duties as a member of the Board or in exercise of any power or authority delegated to him or her by the Board. Where any director

requires information regarding the Company (unless it would be impractical or inappropriate to do so), it is expected that the director inform the Chairman, another director or the CEO of the request.

Directors must ensure that when expert advice is sought it comes from suitably qualified sources. Auditors and other experts must not be subjected to pressure to produce results deemed appropriate by management or the Board.

Directors must ensure that strict confidentiality is maintained in relation to all Company matters.

Directors are required to ensure that information in their possession that would affect the price of the Company's securities is transmitted only to those with a need to know for the proper discharge of their duties on behalf of the Company. Such information includes, but is not limited to, financial results, profit forecasts, proposed share issues, borrowings, impending takeovers, acquisitions, mergers, reconstructions, litigation etc.

Directors are to ensure that the accounts are drawn up in accordance with the Australian Corporations Law and approved accounting standards.

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
- matters affecting the health, safety and general wellbeing of the employees.

Where permitted by law, each director of the Company will enter into a deed of access, indemnity and insurance in the form approved (or to be approved) by shareholders.

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

Directors are specifically prohibited from dealing in the Company's securities, except during the following trading windows during the calendar year which commence 24 hours after the relevant announcement or event:

- Half-Year announcement – six weeks
- 31 March Quarter announcement – six weeks
- Full Year announcement – six weeks
- Extraordinary General Meeting – six weeks, subject to compliance with other restrictions
- Annual General Meeting – six weeks
- 30 September Quarter announcement – six weeks.

However, the following prohibition overrides these trading windows, when applicable.

Dealings are not to take place for a certain period before important announcements that are likely to affect the market price. It is difficult to establish a fixed period in respect of the prohibition. In principle this prohibition would start to run from the point at which the likelihood of an announcement ultimately being necessary becomes a reasonable probability. This particular prohibition also extends to any potential target companies where there is sufficient evidence to believe that the group may have intentions of acquiring a shareholding.

The Board should be formally informed of all dealings by directors in the Company's securities.

A Director is not to deal in the Company's securities without first notifying the Chairman directly or via the Company Secretary of their intention to deal and should only proceed after receiving due acknowledgment. A record of this notification should be maintained and acknowledgment in writing given to the directors by the Company Secretary. For the purposes of this policy, securities means either listed or unlisted securities and includes shares, options (including exchange-traded options), convertible securities, and any right to subscribe for, call for or make delivery of a share or convertible security.

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

The restrictions contained herein apply to the acquisition or disposal of an interest in any type of options. The actual exercise of the options is not subject to these restrictions. However, any dealing in the underlying securities after the exercise of the options is subject to the same restrictions.

Directors must notify the Company Secretary in writing of all transactions in accordance with the requirements of Sections 205F and 205G of the Australian Corporations Act. 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).

Senior executives who have price sensitive information are restricted from dealing in the Company's securities in the same way as Directors, as set out above.

The Chairman has discretion to permit a director or officer to deal in the Company's securities in specific circumstances such as financial hardship or restructuring personal affairs.

PRINCIPLE 4 SAFEGUARDING INTEGRITY IN FINANCIAL REPORTING

Certificate from CEO/CFO

The CEO and CFO have provided a certificate to the Board regarding the Financial Reports that follow, giving a true and fair view and being in accordance with accounting standards.

Audit Committee

The Company has an Audit Committee comprising only non-executive directors of the Board, as determined by the Board, with financial skills and experience relevant to the committee's functions.

The Audit Committee comprises two independent non-executive directors, Professor Vitale (Chairman) and Dr Taverner.

Professor Vitale is Chairman of the Board and Chairman of the Audit Commitee.

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.

The Audit Committee will assist the Board in fulfilling its statutory and fiduciary responsibilities relating to:

- external reporting of financial information
- internal control and risk management processes
- legal and regulatory compliance
- independence and effectiveness of external auditors.

Auditor selection, appointment and lead partner rotation

- The Audit Committee will annually review the:
- quality and rigour of the audit
- quality and cost of the service provided
- audit firm's internal quality control procedures
- assessment of auditor independence.

The Audit Committee will approve all non-audit work that is proposed to be carried out by the auditors and ensure that it will not compromise the independence of the audit.

Should a change in auditor be considered necessary a formal tendering process will be undertaken. Appointment will be made taking various matters into consideration and in consultation with management.

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

Each half-year, the auditor will be required to provide a certificate regarding their independence as auditor of the Company. In addition, the auditor will be required to confirm that all professional members of the audit team have declared, prior to commencing any audit work, that they are independent for the purposes of the Corporations Act and the firm's own policies.

Contracts and transactions between the Company and its officers

A proposed contract between an officer and Medical Therapies 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 of 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.

PRINCIPLE 6 RESPECT FOR THE RIGHTS OF SHAREHOLDERS

Communication policy

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs.

Information is communicated to shareholders through:

- the Annual Report
- the Interim Report
- disclosures made to the Australian Stock Exchange
- notices and explanatory memoranda of Annual General Meetings
- the Annual General Meeting
- occasional newsletters from the Company to specifically inform shareholders of key matters of interest
- the Company's website, www.medicaltherapies.com.au.

PRINCIPLE 7 RECOGNISE AND MANAGE RISK

The Board determines the Company's 'risk profile' and is responsible for overseeing and approving risk management strategies and internal compliance and control. These include:

establishing and monitoring the Company's strategies, goals and objectives

identifying and measuring risks that might impact on the achievement of those strategies, goals and objectives

formulating risk management strategies to manage the identified risks

monitoring and improving the effectiveness of risks and internal compliance controls.

The Board acknowledges that the development of sound risk management policies and procedures is an ongoing process that will continue as the Company grows.

The Board will oversee an annual assessment of the effectiveness of risk management and internal compliance and control.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required by the Board to assess risk management and associated internal compliance and control procedures and report back on the efficiency and effectiveness of risk management.

PRINCIPLE 8 ENCOURAGE ENHANCED PERFORMANCE

Performance evaluation - Board and committees and non-executive directors

The Board, through the Chairman, will carry out an evaluation, at least every three years, to:

- review the role of the Board
- assess the performance of the Board with a view to assisting the Board to better perform its duties
- review the type and timing of information provided to directors
- review the performance of the committees
- review the performance and contribution of each of the non-executive directors.

The Board may, from time to time, use an independent adviser to assist in the reviews.

Performance evaluation - Non-executive directors

The performance and contribution of each non-executive director will be carried out by the Chairman prior to their standing for re-election.

Performance evaluation - Chief Executive Officer

The Board will annually review the performance of the CEO having regard to performance measures set out at the commencement of each year. These will include financial measures, achievement of strategic objectives and other key performance indicators, and compliance.

Director induction

The objective of a director induction is to inform the director such that he or she can become as effective a director as possible, as soon as possible.

The Chairman is responsible for ensuring an adequate induction plan is in place and is followed. Induction covers directors' duties, the Company's business and Board structures, policies and issues.

Director indemnification, access and insurance

To enable directors to fulfil their obligations they must have access to information. It is also considered appropriate that directors, during and after their period of service, have access to information for proper purposes, including defending a legal action. It is also common practice for directors to be indemnified out of the assets of the company, except where there has been a wilful breach of duty. It is also common practice for companies to maintain Directors and Officers Liability insurance.

It is a policy of this Board that Deeds of Indemnity, Insurance and Access covering the above matters (and other appropriate matters) will be entered into with each of the directors, as approved by shareholders at the Annual General Meeting in April 2006. These Deeds have been put in place for the existing directors.

PRINCIPLE 9 REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration policies - non-executive directors

Fees paid to non-executive directors will generally be around the market average. Statutory superannuation will be paid in addition to the fees.

Directors will not be entitled to a retirement benefit.

Directors may be paid additional fees for work on standing committees of the Board and any ad hoc committee that meets more than four times per year.

Directors and Company officers will not participate in share or option plans except with the approval of the shareholders.

Remuneration policies - senior executives

Remuneration packages will generally be set in a range approved by the Board with the goal of attracting and retaining executives with skills and experience that the Company requires.

Packages will be negotiated by the CEO and will comprise a fixed (cash) element and variable incentive components.

Short-term incentives will be in the form of cash and be subject to various performance measures linked to the short-term objectives of the Company as set by the CEO and approved by the Board.

Long-term incentives will be through participation in an option plan, the exercise of which will be subject to achievement of major performance milestones.

For further information, refer to the Remuneration Report included in the Directors' Report.

Aggregate Directors Fees

The aggregate directors' fees will be approved by shareholders under Clause 13.7 of the Constitution and paid to individual non-executive directors in accordance with a resolution of the directors.

The annual aggregate remuneration has been set at an amount of $300,000 per annum as approved by shareholders at the shareholder meeting held on 29 April 2005.

The following fees were established from 1 July 2006 and are paid monthly:

- Chairman — $55,000 per annum
- Non-Executive Director — $45,000 per annum
- Audit Committee Member — $5,000 per annum

Statutory superannuation is in addition to the above amounts. Directors may elect to have part or all of the above fees paid into an approved superannuation fund.

Directors may elect to take all or part of the above fees in the form of shares in Medical Therapies Limited, subject to this election occurring through a plan that has all necessary approvals.

The Board's Remuneration Committee consists of Dr Michael Taverner (Chair) and Professor Michael Vitale.

PRINCIPLE 10 RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

Code of Conduct for employees

The purposes of the Code of Conduct are to:

- ensure compliance with all relevant legislation
- fulfil the reasonable expectations of the communities in which the Company operates, by acknowledging the rights of various stakeholders
- enhance the reputation of the Company with the financial and broader communities
- improve the performance of the Company
- inform employees of the Board's expectations of them, including the obligations of raising and pursuing concerns of non-compliance or unethical behaviour
- assist in achieving the Company vision.

The Code of Conduct acknowledges the responsibility to shareholders, employees and the community.

Other matters covered by the Code of Conduct include:

- commitment to quality
- commitment to confidentiality and not using knowledge or position improperly
- commitment to complying with laws and regulation.

“An optimist sees opportunity in every danger; the pessimist sees danger in every opportunity”

Sir Winston Churchill

Contents

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:

33 Waterloo Road, Suite 15
North Ryde NSW 2113

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 9 to 10, which is not part of this financial report.

The financial report was authorised for issue by the directors on 31 August 2007. 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

ABN 69 111 304 119

Annual Report 30 June 2007

FINANCIAL STATEMENTS

Income statements

For the year ended 30 June 2007

		CONSOLIDATED		PARENT ENTITY	
		2007	2006	2007	2006
	NOTES	$	$	$	$
Revenue	5	**78,329**	79,154	**77,622**	78,917
Other income	5	**57,279**	37,899	**56,737**	37,899
Consultancy expenses		**(777,199)**	(728,749)	**(777,199)**	(728,749)
Share-based compensation	30	**(427,314)**	(568,000)	**(427,314)**	(568,000)
Research and development expense	6	**(1,125,662)**	(663,292)	**(1,125,662)**	(663,292)
Depreciation and amortisation expense	6	**(364,249)**	(166,481)	**(362,253)**	(163,145)
Professional fees		**(448,299)**	(208,065)	**(447,904)**	(205,937)
Directors' remuneration		**(172,911)**	(112,406)	**(172,911)**	(112,406)
Employee benefits		**(510,250)**	-	**(510,250)**	-
Patent costs		**(298,754)**	(57,148)	**(298,754)**	(57,148)
Occupancy		**(72,180)**	(65,878)	**(72,180)**	(65,878)
Other expenses		**(422,951)**	(302,040)	**(422,729)**	(285,346)
Finance costs	6	**(70,621)**	(5,086)	**(70,621)**	(5,085)
Loss before income tax		**(4,554,782)**	(2,760,092)	**(4,553,418)**	(2,738,170)
Income tax expense	7	**-**	-	**-**	-
Net loss attributable to members of Medical Therapies Limited		**(4,554,782)**	(2,760,092)	**(4,553,418)**	(2,738,170)

		CENTS	CENTS
Earnings per share for loss attributable to the ordinary equity holders of the Company:			
Basic earnings per share	29	**(8.18)**	(8.06)
Diluted earnings per share	29	**(8.18)**	(8.06)

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

Balance sheets

As at 30 June 2007

		CONSOLIDATED		PARENT ENTITY	
		2007	2006	2007	2006
	NOTES	$	$	$	$
ASSETS					
Current assets					
Cash and cash equivalents	8(a)	**1,842,312**	2,494,822	**1,835,785**	2,487,390
Trade and other receivables	9	**110,348**	490,263	**101,526**	471,754
Total current assets		**1,952,660**	2,985,085	**1,937,311**	2,959,144
Non current assets					
Property, plant and equipment	10	**135,085**	86,171	**133,543**	82,633
Intangible assets	12	**2,627,350**	2,967,715	**2,627,350**	2,967,715
Total non current assets		**2,762,435**	3,053,886	**2,760,893**	3,050,348
Total assets		**4,715,095**	6,038,971	**4,698,204**	6,009,492
LIABILITIES					
Current liabilities					
Trade and other payables	13	**1,483,254**	416,657	**1,569,254**	491,433
Borrowings	14	**-**	108,793	**-**	108,793
Provisions	15	**22,125**	-	**22,125**	-
Total current liabilities		**1,505,379**	525,450	**1,591,379**	600,226
Non-current liabilities					
Borrowings	17	**1,676,754**	-	**1,676,754**	-
Total non-current liabilities		**1,676,754**	-	**1,676,754**	-
Total liabilities		**3,182,133**	525,450	**3,268,133**	600,226
Net assets		**1,532,962**	5,513,521	**1,430,071**	5,409,266
EQUITY					
Contributed equity	18	**9,375,808**	9,228,899	**9,375,808**	9,228,899
Reserves	19(a)	**995,314**	568,000	**995,314**	568,000
Accumulated losses	19(b)	**(8,838,160)**	(4,283,378)	**(8,941,051)**	(4,387,633)
Total equity		**1,532,962**	5,513,521	**1,430,071**	5,409,266

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

Statements of changes in equity

For the year ended 30 June 2007

		CONSOLIDATED		PARENT ENTITY	
		2007	2006	2007	2006
	NOTES	$	$	$	$
Total equity at the beginning of the financial year		5,513,521	229,934	5,409,266	103,757
Loss for the year		**(4,554,782)**	(2,760,092)	**(4,553,418)**	(2,738,170)
Total recognised income and expense for the year		**(4,554,782)**	(2,760,092)	**(4,553,418)**	(2,738,170)
Transactions with equity holders					
Contributions of equity, net of transaction costs		**19,600**	7,475,679	**19,600**	7,475,679
Movement in share based payments reserve	19	**427,314**	568,000	**427,314**	568,000
Equity component of convertible notes		**127,309**	-	**127,309**	-
		574,223	8,043,679	**574,223**	8,043,679
Total equity at the end of the financial year		**1,532,962**	5,513,521	**1,430,071**	5,409,266

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

Cash flow statements

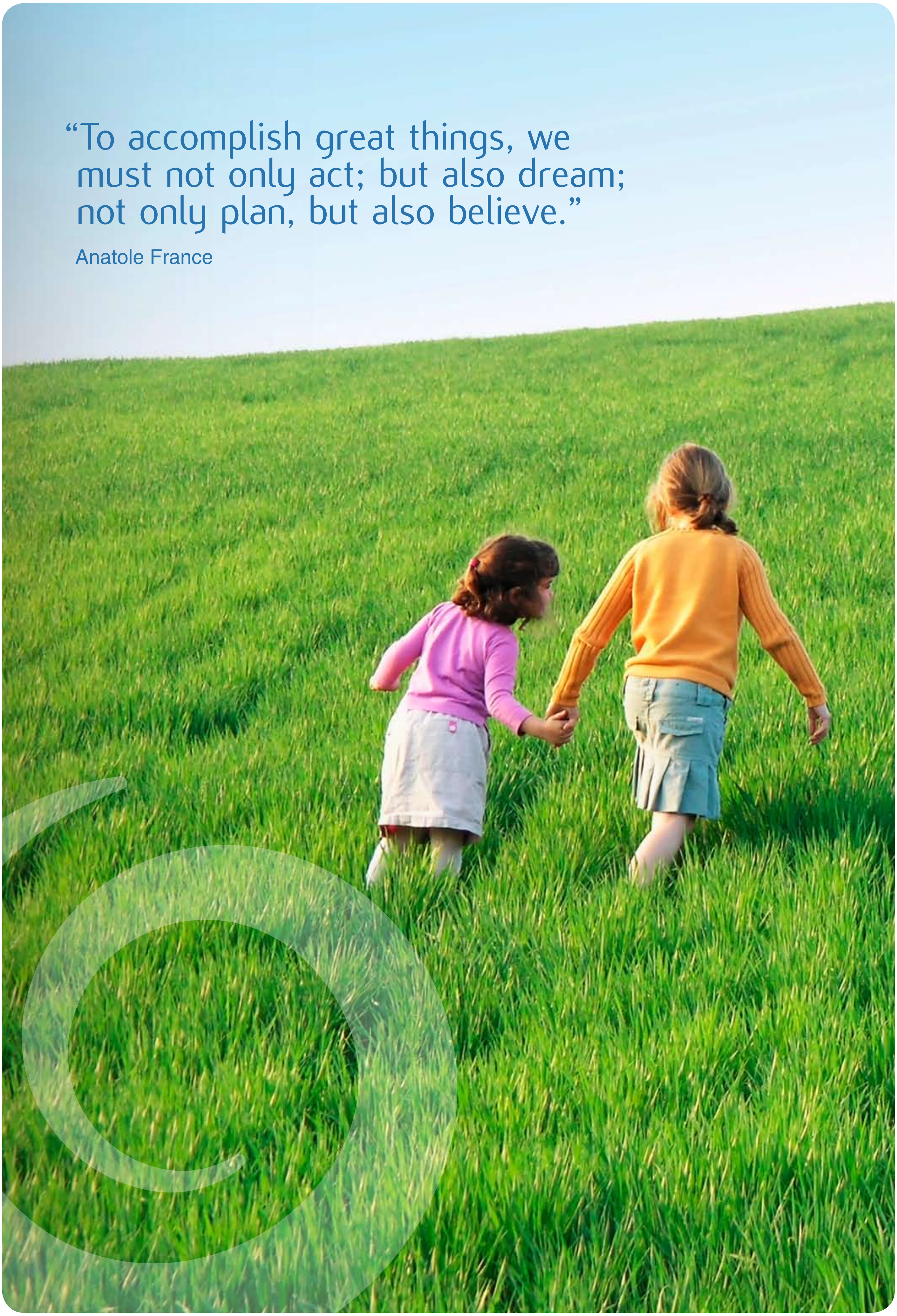
For the year ended 30 June 2007

	NOTES	CONSOLIDATED 2007 $	CONSOLIDATED 2006 $	PARENT ENTITY 2007 $	PARENT ENTITY 2006 $
Cash flows from operating activities					
Payments to suppliers and employees (inclusive of goods and services tax)		**(2,945,547)**	(2,305,345)	**(2,943,393)**	(2,319,491)
Other revenue		**57,279**	41,689	**56,737**	41,689
Interest paid		**(3,607)**	(5,086)	**(3,607)**	(5,085)
Net cash (outflow) from operating activities	27	**(2,891,875)**	(2,268,742)	**(2,890,263)**	(2,282,887)
Cash flows from investing activities					
Payments for property, plant and equipment		**(104,064)**	(85,613)	**(104,064)**	(85,613)
Loan from related party		**-**	-	**-**	75,688
Payments for intangible assets		**-**	(331,265)	**-**	(331,265)
Proceeds from sale of property, plant and equipment		**-**	3,703	**-**	1,251
Repayment of loans by related parties			39,000		-
Interest received		**78,329**	79,154	**77,622**	78,917
Net cash (outflow) from investing activities		**(25,735)**	(295,021)	**(26,442)**	(261,022)
Cash flows from financing activities					
Proceeds from issues of shares and other equity securities net of transaction costs		**9,399**	4,684,679	**9,399**	4,684,679
Proceeds from borrowings net of transaction costs		**1,758,571**	-	**1,758,571**	-
Interest paid on convertible note		**(13,577)**	-	**(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		**2,312,978**	4,684,679	**2,312,978**	4,684,679
Net decrease in cash and cash equivalents		**(604,632)**	2,120,916	**(603,727)**	2,140,770
Cash and cash equivalents at the beginning of the financial year		**2,446,944**	326,028	**2,439,512**	298,742
Cash and cash equivalents at end of year	8(a)	**1,842,312**	2,446,944	**1,835,785**	2,439,512
Non cash financing and investing activities	28				

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

“To accomplish great things, we must not only act; but also dream; not only plan, but also believe.”

Anatole France



Contents of the Notes to the Financial Statements

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.

Reverse acquisition

Medical Therapies Limited was incorporated on 8 October 2004 as a public company. On the 13 October 2004, Medical Therapies Limited acquired all of the outstanding shares in Biotech Pty Limited via an equity exchange. As the shareholders of Biotech Pty Limited acquired all of the outstanding shares in Medical Therapies Limited on that date, they effectively obtained control of the combined entity. Under the terms of AASB 3 Business Combinations, Biotech Pty Limited is deemed to be the accounting acquirer in this business combination.

This transaction has therefore been accounted for as a reverse acquisition under AASB 3. Accordingly, the consolidated financial statements of Medical Therapies Limited have been prepared as a continuation of the consolidated financial statements of Biotech Pty Limited. Biotech Pty Limited, as the deemed acquirer, has acquisition accounted for Medical Therapies Limited as at 13 October 2004.

Going concern

As a developing business, the Group has experienced operating losses of $4,554,782 (2006:$ 2,760,092) and net cash outflows from operating activities of $ 2,891,875 (2006: $2,268,742).

The continuing viability of the Company 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 Company being successful in negotiating additional debt or equity finance.

As a result of these matters, there is significant uncertainty whether the Company 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. However, the directors believe that the Company 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 2007. 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 Company 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 2007 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(i)).

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

(e) Revenue recognition

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

(f) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non current liabilities as deferred income and are credited to the income statement on a straight line basis over the expected lives of the related assets.

(g) 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.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) 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

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(j)).

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

(p) 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 ten years, using the straight line method. Management review the useful economic life of intellectual property at each year end. Following the IPO, the useful economic life of the acquired intellectual property was assessed as 10 years.

(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.

(q) 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.

(r) 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.

(s) 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.

Share based payments

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

Shares and options granted after 7 November 2002 and vested after 1 January 2005

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.

(t) 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.

(u) 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.

(v) 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.

(w) New accounting standards and UIG interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 7 Financial Instruments: Disclosures and AASB 2005 10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]

AASB 7 and AASB 2005 10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's and the parent entity's financial instruments.

(ii) AASB I 10 Interim Financial Reporting and Impairment

AASB I 10 is applicable to reporting periods commencing on or after 1 November 2006. The Group has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried at cost in an interim reporting period but subsequently reversed the impairment loss in the annual report. Application of the interpretation will therefore have no impact on the Group's or the parent entity's financial statements.

2 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a limited 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 utilised derivative financial instruments as there have been no material risk exposures identified.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group is exposed to short term foreign exchange risk arising from purchases payable in US dollars. These purchases have not been significant, and have generally been paid within 30 days of invoice receipt.

(iii) Fair value interest rate risk

Refer to (d) below.

(b) Credit risk

The Group has no significant concentrations of credit risk.

(c) Liquidity risk

The Group maintains sufficient liquidity by holding cash in readily accessible accounts.

(d) Cash flow and fair value interest rate risk

The Group holds significant cash balances in a variable rate investment account. The Group's net income and operating cash flows however are not materially exposed to changes in market interest rates.

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) 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(j). The expected useful life of the intellectual property is accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. 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. Refer to note 12 for details of these assumptions and the potential impact of changes to the 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	
	2007	2006	2007	2006
	$	$	$	$
Other revenue				
Interest	**78,329**	79,154	**77,622**	78,917
Other income				
Government subsidies (note (a))	**50,200**	37,899	**50,200**	37,899
Miscellaneous income	**7,079**	-	**6,537**	-
	57,279	37,899	**56,737**	37,899

(a) Government subsidies

Subsidies from the New South Wales Department of State and Regional Development of $19,013 (2006: $37,899) were recognised as other income by the Group during the financial year. Export market development grants of $31,187 (2006: $ nil) 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 2007 $	CONSOLIDATED 2006 $	PARENT ENTITY 2007 $	PARENT ENTITY 2006 $
Loss before income tax includes the following specific expenses:				
Depreciation				
Plant and equipment	**37,736**	7,552	**35,740**	4,216
Leasehold improvements	**17,413**	4,379	**17,413**	4,379
Total depreciation	**55,149**	11,931	**53,153**	8,595
Amortisation				
Acquired intellectual property	**309,100**	154,550	**309,100**	154,550
Total amortisation	**309,100**	154,550	**309,100**	154,550
Finance costs				
Interest and finance charges paid/payable	**70,621**	5,086	**70,621**	5,085
Net loss on disposal of property, plant and equipment	**-**	17,955	**-**	1,947
Rental expense relating to operating leases				
Minimum lease payments	**57,736**	61,275	**57,736**	61,275
Contingent rentals	**11,369**	3,299	**11,369**	3,299
Total rental expense relating to operating leases	**69,105**	64,574	**69,105**	64,574
Defined contribution superannuation expense	**47,952**	9,281	**47,952**	9,281
Research and development				
– The University of Sydney	**1,022,078**	546,573	**1,022,078**	546,573
– Other	**103,584**	116,719	**103,584**	116,719
Total research and development	**1,125,662**	663,292	**1,125,662**	663,292

7 INCOME TAX EXPENSE

	CONSOLIDATED		PARENT ENTITY	
	2007	2006	2007	2006
	$	$	$	$
(a) Income tax expense				
Current tax	**-**	-	**-**	-
Deferred tax	**-**	-	**-**	-
	-	-	**-**	-

	CONSOLIDATED		PARENT ENTITY	
	2007	2006	2007	2006
	$	$	$	$
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Loss before income tax expense	**(4,554,782)**	(2,760,092)	**(4,553,418)**	(2,738,170)
Tax (benefit) at the Australian tax rate of 30%	**(1,366,435)**	(828,028)	**(1,366,025)**	(821,451)
Tax effect of amounts which are not deductible in calculating taxable income:				
Amortisation of intangibles	**92,730**	46,365	**92,730**	46,365
Entertainment	**1,214**	1,297	**1,214**	1,297
Share based payments	**128,194**	170,400	**128,194**	170,400
Research and development	**337,699**	202,369	**337,699**	202,369
Professional fees	**-**	20,932	**-**	20,932
Depreciation	**16,545**	3,580	**15,946**	2,579
Sundry items	**-**	22,609	**-**	20,657
Income tax (benefit) adjusted for permanent differences	**(790,053)**	(360,476)	**(790,242)**	(356,852)
Tax losses not brought to account	**790,053**	360,476	**790,242**	356,852
Income tax expense	**-**	-	**-**	-
(c) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised	**1,414,320**	624,267	**1,414,320**	624,267
Temporary difference deferred tax assets not recognised	**576,787**	506,294	**576,787**	506,294
Potential tax benefit @ 30%	**597,332**	331,168	**597,332**	331,168

All unused tax losses were incurred by Australian entities.

(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	
	2007	2006	2007	2006
	$	$	$	$
Cash at bank and in hand	**194,414**	8,412	**187,887**	980
Investment account	**1,647,898**	2,486,410	**1,647,898**	2,486,410
	1,842,312	2,494,822	**1,835,785**	2,487,390

(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	
	2007	2006	2007	2006
	$	$	$	$
Balances as above	**1,842,312**	2,494,822	**1,835,785**	2,487,390
Bank overdrafts (note 14)	**-**	(47,878)	**-**	(47,878)
Balances per statement of cash flows	**1,842,312**	2,446,944	**1,835,785**	2,439,512

(b) Cash

Cash at bank and in hand are non interest bearing. The cash in the investment account earns a floating interest rate between 4.75% and 5.20% (2006 – 4.50% to 4.75%).

(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	
	2007	2006	2007	2006
	$	$	$	$
Other receivables	63,313	141,278	54,491	122,769
Prepayments	47,035	348,985	47,035	348,985
	110,348	490,263	101,526	471,754

(a) Other receivables

The Group and parent entity balances for 2007 include $32,214 in term deposits held as security for an operating lease and a credit card facility. These deposits earn fixed interest of 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 2005			
Cost	41,051	-	41,051
Accumulated depreciation	(6,904)	-	(6,904)
Net book amount	34,147	-	34,147
Year ended 30 June 2006			
Opening net book amount	34,147	-	34,147
Additions	33,089	52,524	85,613
Disposals	(21,658)	-	(21,658)
Depreciation charge	(7,552)	(4,379)	(11,931)
Closing net book amount	38,026	48,145	86,171
At 30 June 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

Consolidated	FURNITURE, FITTINGS AND OFFICE EQUIPMENT $	LEASEHOLD IMPROVEMENTS $	TOTAL $
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

Parent entity	FURNITURE, FITTINGS AND OFFICE EQUIPMENT	LEASEHOLD IMPROVEMENTS	TOTAL
	$		$
At 1 July 2005			
Cost	9,408	-	9,408
Accumulated depreciation	(596)	-	(596)
Net book amount	8,812	-	8,812
Year ended 30 June 2006			
Opening net book amount	8,812	-	8,812
Additions	33,089	52,524	85,613
Disposals	(3,197)	-	(3,197)
Depreciation charge	(4,216)	(4,379)	(8,595)
Closing net book amount	34,488	48,145	82,633
At 30 June 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

Parent entity	FURNITURE, FITTINGS AND OFFICE EQUIPMENT	LEASEHOLD IMPROVEMENTS	TOTAL
	$	$	$
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

11 NON CURRENT ASSETS DEFERRED TAX ASSETS

	CONSOLIDATED		PARENT ENTITY	
	2007	2006	2007	2006
	$	$	$	$
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Accrued expenses claimable in future periods	**16,800**	24,000	**16,800**	24,000
Amounts recognised directly in equity				
Transaction costs	**110,614**	168,523	**110,614**	168,523
	127,414	192,523	**127,414**	192,523
Set-off of deferred tax liabilities of parent entity pursuant to set-off provisions (note 16)	**(92,730)**	(43,635)	**(92,730)**	(43,635)
Temporary difference deferred tax assets not recognised	**(34,684)**	(148,888)	**(34,684)**	(148,888)
Net deferred tax assets	**-**	-	**-**	-

12 NON CURRENT ASSETS – INTANGIBLE ASSETS

Consolidated	ACQUIRED INTELLECTUAL PROPERTY $	PATENTS, TRADEMARKS AND OTHER RIGHTS $	TOTAL $
At 1 July 2005			
Cost	-	-	-
Accumulated amortisation and impairment	-	-	-
Net book amount	-	-	-
Year ended 30 June 2006			
Opening net book amount	-	-	-
Additions	3,091,000	31,265	3,122,265
Write-down	-	-	-
Amortisation charge *	(154,550)	-	(154,550)
Closing net book amount	2,936,450	31,265	2,967,715
At 30 June 2006			
Cost	3,091,000	31,265	3,122,265
Accumulated amortisation	(154,550)	-	(154,550)
Net book amount	2,936,450	31,265	2,967,715

	ACQUIRED INTELLECTUAL PROPERTY $	PATENTS, TRADEMARKS AND OTHER RIGHTS $	TOTAL $
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	2,627,350	-	2,627,350
At 30 June 2007			
Cost	3,091,000	-	3,091,000
Accumulated amortisation	(463,650)	-	(463,650)
Net book amount	2,627,350	-	2,627,350

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

Key assumptions used

The impairment testing of intellectual property (intangible assets refer note 12) 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, colitis and cholecystitis 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 12%.

13 CURRENT LIABILITIES TRADE AND OTHER PAYABLES

	CONSOLIDATED		PARENT ENTITY	
	2007	2006	2007	2006
	$	$	$	$
Trade payables	393,059	76,175	393,059	75,263
Lease liability	11,284	17,733	11,284	17,733
Loan from controlled entity	-	-	86,000	75,688
Funds in trust (private placement rec'd in advance)	619,500	-	619,500	-
Other payables	459,411	322,749	459,411	322,749
	1,483,254	416,657	1,569,254	491,433

14 CURRENT LIABILITIES – BORROWINGS

	CONSOLIDATED		PARENT ENTITY	
	2007	2006	2007	2006
	$	$	$	$
Unsecured				
Bank overdraft	-	47,878	-	47,878
Other loans	-	60,915	-	60,915
Total unsecured current borrowings	-	108,793	-	108,793

(a) Other loans

Other loans have been repaid over the period to February 2007 and bear interest at a fixed rate of 10.5% per annum.

(b) Bank overdraft

The bank overdraft was repaid in early July 2006, as the Group does not currently utilise this type of facility.

(c) Interest rate risk exposures

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

15 CURRENT LIABILITIES PROVISIONS

	CONSOLIDATED		PARENT ENTITY	
	2007	2006	2007	2006
Employee benefits annual leave	22,125	-	22,125	-
	22,125	-	22,125	-

16 NON CURRENT LIABILITIES DEFERRED TAX LIABILITIES

	CONSOLIDATED		PARENT ENTITY	
	2007	2006	2007	2006
	$	$	$	$
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Amortisation	92,730	43,635	92,730	43,635
	92,730	43,635	92,730	43,635
Set off of deferred tax liabilities pursuant to set off provisions (note 11)	(92,730)	(43,635)	(92,730)	(43,635)
Net deferred tax liabilities	-	-	-	-

17 NON-CURRENT LIABILITIES – BORROWINGS

	CONSOLIDATED		PARENT ENTITY	
	2007	2006	2007	2006
	$	$	$	$
Unsecured				
Convertible notes	1,676,754	-	1,676,754	-
Total unsecured current borrowings	1,676,754	-	1,676,754	-

(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.

The convertible notes are presented in the balance sheet as follows:

	CONSOLIDATED		PARENT ENTITY	
	2007	2006	2007	2006
	$'000	$'000	**$'000**	$'000
Face value of notes issued	**1,825,946**	-	**1,832,136**	-
Converted to shares	**(10,200)**		**(10,200)**	
Effective interest	**16,390**		**16,390**	
Other equity securities value of conversion rights	**(127,309)**	-	**(127,309)**	-
	1,704,827	-	**1,704,827**	-
Interest expense *	**67,014**	-	**67,014**	-
Interest paid	**(13,577)**	-	**(13,577)**	-
Current liability – interest payable	**(53,437)**		**(53,437)**	
Transaction costs	**(28,073)**	-	**(28,073)**	-
Non current liability	**1,676,754**	-	**1,676,754**	-

* Interest expense is calculated by applying the effective interest rate of 12.64 % to the liability component.

(k) Fair value

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

18 CONTRIBUTED EQUITY

	NOTES	PARENT ENTITY 2007 NUMBER	PARENT ENTITY 2006 NUMBER	PARENT ENTITY 2007 $	PARENT ENTITY 2006 $
(a) Share capital					
Ordinary shares	(c),(d)				
Fully paid		**55,737,480**	55,630,483	**9,190,510**	9,170,910
		55,737,480	55,630,483	**9,190,510**	9,170,910
(b) Other equity securities					
Value of conversion rights – convertible notes		**127,309**	-	**127,309**	-
		127,309	-	**127,309**	-
Options					
Listed		**20,166,733**	20,213,730	**57,989**	57,989
Managing Director (L Casbolt)		**1,000,000**	3,500,000	**-**	-
Directors		**2,550,000**	2,550,000	**-**	-
Executives		**1,080,000**	-	**-**	-
		24,796,733	26,263,730	**57,989**	57,989
Total contributed equity				**9,375,808**	9,228,899

18 CONTRIBUTED EQUITY (CONTINUED)

(c) Movements in ordinary share capital:

DATE	DETAILS	NOTES	NUMBER OF SHARES	ISSUE PRICE	$
Opening balance 1 July 2005			**13,779,916**		**1,753,220**
4 November 2005	Share issue		1,750,000	$0.10	175,000
5 December 2005	Share issue	(ii)	17,142,857	$0.16	2,791,000
5 December 2005	Share Issue		15,426,500	$0.20	3,085,300
9 May 2006	Exercise of 281,020 options		281,020	$0.20	56,204
16 May 2006	Exercise of 217,742 options		217,742	$0.20	43,548
26 May 2006	Share issue		6,911,344	$0.29	2,004,290
29 May 2006	Exercise of 45,622 options		45,622	$0.20	9,124
1 June 2006	Share issue		34,483	$0.29	10,000
13 June 2006	Exercise of 37,666 options		37,666	$0.20	7,533
30 June 2006	Exercise of 3,333 options		3,333	$0.20	667
					9,935,886
	Less transaction costs arising on share issue				(764,976)
Closing balance 30 June 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**

(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 a 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 Pty Ltd.

(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 17.

(e) Movements in options:

		UNLISTED	LISTED	RESTRICTED	$
Opening balance 1 July 2005		5,516,665	-	-	-
5 December 2005	Reclassification of options due to ASX listing	(100,000)		100,000	
5 December 2005	Options issue – Directors			2,450,000	
5 December 2005	Options issue – previous Managing Director (L Casbolt)			3,500,000	
11 April 2006	Options issue at $0.005		13,876,900		69,382
26 April 2006	Options issue at $0.005		1,005,548,		5,028
2 May 2006	Unrestricted options listed	(5,416,665)	5,416,665		
9 May 2006	Options exercised		(281,020)		
16 May 2006	Options exercised		(217,742)		
29 May 2006	Options exercised		(45,622)		
13 June 2006	Options issue at $0.005		500,000		2,500
13 June 2006	Options exercised		(37,666)		
30 June 2006	Options exercised		(3,333)		
	Subtotal				76,910
	Less transaction costs arising on option issue				(18,921)
Closing balance 30 June 2006		**-**	**20,213,730**	**6,050,000**	**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		**-**	**20,666,733**	**4,630,000**	**57,989**

18 CONTRIBUTED EQUITY (CONTINUED)

(f) Options

All outstanding options have an exercise price of $0.20 and, with the exception of options issued to the previous Managing Director (L Casbolt), Executives and Fresh Capital, an expiry date of 31 December 2007.

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

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

Under an Option Deed, the Company has agreed to allot and issue 10,000,000 options to The University of Sydney on the Agreement End Date, subject to the University meeting the Technology Option Milestones set out in the Research Agreement. These options would be issued on substantially the same terms as the Director options set out in note 30, except that the expiry date will be two years from the date of issue.

19 RESERVES AND ACCUMULATED LOSSES

	CONSOLIDATED		PARENT ENTITY	
	2007	2006	2007	2006
	$	$	$	$
(a) Reserves				
Share based payments reserve	**995,314**	568,000	**995,314**	568,000
	995,314	568,000	**995,314**	568,000
Movements:				
Share based payments reserve				
Balance 1 July	**568,000**	-	**568,000**	-
Option expense	**427,314**	568,000	**427,314**	568,000
Balance 30 June	**995,314**	568,000	**995,314**	568,000

(b) Accumulated losses

Movements in accumulated losses were as follows:

	CONSOLIDATED		PARENT ENTITY	
	2007	2006	2007	2006
	$	$	$	$
Balance 1 July	**4,283,378**	1,523,286	**4,387,633**	1,649,463
Net loss for the year	**4,554,782**	2,760,092	**4,553,418**	2,738,170
Balance 30 June	**8,838,160**	4,283,378	**8,941,051**	4,387,633

(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

Prof M Vitale

(ii) Executive directors

Mr L Casbolt, Managing Director (from 1 July 2006 to 15 November 2006)
Mr M Castle, Interim Managing Director (from 15 November 2006 to 13 April 2007)
Ms M Halasz, Managing Director (from 16 April 2007 to current)

(iii) Non executive directors

Dr M Taverner
Mr M Castle (from 1 July 2006 to 15 November 2006 and from 16 April 2007 to 18 May 2007(resigned)
Mr L Casbolt resigned from the position of Managing Director on 15 November 2006.
Mr Castle resigned from the position of Non- Executive Director on 18 May 2007.

(b) Other key management personnel

Mr D James, Chief Operating Officer

(c) Key management personnel compensation

	CONSOLIDATED		PARENT ENTITY	
	2007	2006	2007	2006
	$	$	$	$
Short term employee benefits	740,724	383,125	740,724	383,125
Post employment benefits	42,388	9,281	42,388	9,281
Share based payments	(9,316)	329,000	(9,316)	329,000
	773,796	721,406	773,796	721,406

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 13 to 18

(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.

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

The employment contract with Ms M Halasz (CEO) provides for an entitlement to receive 3,000,000 options as part of her employment with the company. These options are subject to shareholder approval at the next annual general meeting scheduled to be held on 28 November 2007.

Other changes during the year comprise options issued as a result of an options rights issue. Shareholders were granted the right to purchase one option for every 3 shares held at a price of $0.005 per option. All directors who held shares at the time took up their entitlements.

2006

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	50,000	350,000	(16,666)	16,666	400,000	400,000
J Dominquez	-	1,750,000	-	-	1,750,000	1,750,000
M Vitale	-	350,000	(23,433)	23,433	350,000	350,000
M Castle	-	-	-	9,999	9,999	9,999
L Casbolt	-	3,500,000	-	8,333	3,508,333	1,008,333

(iii) Share holdings

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.

2006

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	25,000
M Castle	-	-	30,000	30,000
M Taverner	50,000	16,666	-	66,666
M Vitale	-	23,433	70,300	93,733

Mr Casbolt owns 25,000 shares indirectly.
Mr Castle owns 10,000 shares directly and 20,000 shares indirectly.
Dr Taverner and Prof Vitale own their shares directly.

Other changes during the year comprise shares purchased on market.

(d) Other transactions with key management personnel

There were no transactions with key management personnel during the financial year ended 30 June 2007.

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	
	2007	2006	2007	2006
	$	$	$	$
(a) Assurance services				
Audit services				
PricewaterhouseCoopers Australian firm				
Audit of financial reports and other audit work under the *Corporations Act 2001*	141,620	70,000	141,620	70,000
Non-PricewaterhouseCoopers audit firm				
Audit of financial reports and other audit work under the *Corporations Act 2001*	-	20,293	-	20,293
Total remuneration for audit services	141,620	90,293	141,620	92,293
Other assurance services				
PricewaterhouseCoopers Australian firm				
Due diligence services	10,610	107,535	10,610	107,535
Total remuneration for other assurance services	10,610	107,535	10,610	107,535
Total remuneration for assurance services	152,230	197,828	152,230	197,828
(b) Taxation services				
PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of Company income tax returns	26,400	20,000	26,400	20,000
Non-PricewaterhouseCoopers firm				
Tax compliance services, including review of Company income tax returns	-	12,000	-	12,000
Total remuneration for taxation services	26,400	32,000	26,400	32,000
(c) Advisory services				
PricewaterhouseCoopers Australian firm				
Initial public offering, other public raisings	16,500	38,500	16,500	38,500
Strategic facilitation	-	14,000	-	14,000
Consulting services	27,742	-	27,742	-
Non-PricewaterhouseCoopers firm				
Accounting and advisory services	-	32,365	-	30,237
Independent expert report	-	-	-	-
Total remuneration for advisory services	44,242	84,865	44,242	82,737
Total remuneration for non-audit services	70,642	116,865	70,642	116,865

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 2007 or at 30 June 2006.

(b) Contingent assets

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

23 COMMITMENTS

(a) Operating Lease commitments : Group as lessee

	CONSOLIDATED		PARENT ENTITY	
	2007	2006	2007	2006
	$	$	$	$
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	**57,736**	57,736	**57,736**	57,736
Later than one year but not later than five years	**43,302**	101,038	**43,302**	101,038
Later than five years	**-**	-	**-**	-
	101,038	158,774	**101,038**	158,774
Representing:				
Non cancellable operating leases	**101,038**	158,774	**101,038**	158,774
	101,038	158,774	**101,038**	158,774

The Group leases an office under a non cancellable operating lease expiring in three years. The lease contains an option to extend for an additional two year period.

(b) Research commitments

The Group has entered into several agreements with The University of Sydney for research and development, as well as consulting with respect to its R&D program. The Research Agreement terminates at the earlier of the completion of the Research Project or the second anniversary of the Research Commencement Date (in December 2007), and can be extended by mutual agreement. The Consultancy Agreements terminate 31 December 2007 and again, can be extended by mutual agreement.

	CONSOLIDATED		PARENT ENTITY	
	2007	2006	2007	2006
	$	$	$	$
Commitments for minimum payments in relation to non cancellable research and consulting agreements are payable as follows:				
Within one year	**324,637**	814,831	**324,637**	814,831
Later than one year but not later than five years	**-**	324,637	**-**	324,637
	324,637	1,139,468	**324,637**	1,139,468

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	
	2007	2006	2007	2006
	$	$	$	$
Purchase of research and development and related services from The University of Sydney	1,022,078	546,573	1,022,078	546,573
Purchase of consultancy services from director M Taverner	-	3,500	-	3,500

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 INCORPORA-TION	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

The company completed a private equity placement, which was completed during the month of July 2007. The private placement resulted in raising total funds of $916,950 being 7,973,469 shares issued at $0.115 each share. Funds totalling $0.6m relating to this raising were received prior to 30 June 2007. The funds raised from this private placement will be used for ongoing Research and Development and working capital purposes.

27 RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	CONSOLIDATED		PARENT ENTITY	
	2007	2006	2007	2006
	$	$	$	$
Loss for the year	(4,554,782)	(2,760,092)	(4,553,418)	(2,738,170)
Depreciation and amortisation	364,249	166,481	362,253	163,145
Non cash expense share based payments	427,314	568,000	427,314	568,000
Other non-cash item				
Amortisation of convertible note costs	39,302	-	39,302	-
Patent costs write-back	31,265	-	31,265	-
Convertible note effective interest rate	16,390	-	16,390	-
Interest accrual on converting note	50,624	-	50,624	-
Interest income	(78,329)	(79,154)	(77,622)	(78,917)
Net loss on sale of non current assets	-	17,955	-	1,947
Change in operating assets and liabilities				
Decrease (increase) in trade and other receivables	379,916	29,737	361,825	3,416
Decrease (increase) in other operating assets	-	52,123	-	52,123
Increase (decrease) in trade and other payables	432,176	(324,707)	451,804	(315,346)
Increase (decrease) in borrowings	-	60,915	-	60,915
Net cash (outflow) from operating activities	(2,891,875)	(2,268,742)	(2,890,263)	(2,282,887)

28 NON CASH INVESTING AND FINANCING ACTIVITIES

	CONSOLIDATED		PARENT ENTITY	
	2007	2006	2007	2006
	$	$	$	$
Acquisition of Biotech Pty Limited via a scrip exchange	-	-	-	-
Acquisition of intellectual property from The University of Sydney	-	2,791,000	-	2,791,000

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

29 EARNINGS PER SHARE

	CONSOLIDATED	
	2007	2006
	CENTS	CENTS
(a) Basic and diluted earnings per share		
Loss attributable to the ordinary equity holders of the Company	**(8.18)**	(8.06)
(b) Loss used in calculating basic and diluted earnings per share		
Loss	**(4,554,782)**	(2,760,092)

(c) Weighted average number of shares used as the denominator

	CONSOLIDATED	
	2007	2006
	NUMBER	NUMBER
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	55,673,513	34,244,618

(d) Information concerning the classification of securities

(i) Options

Options granted to executives and directors are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. In the year ended 30 June 2007, these options were in fact anti-dilutive, and consequently diluted EPS is the same as basic EPS. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 30.

30 SHARE BASED PAYMENTS

(a) Director and executive options

The issuance of options to Directors and Executives was approved by shareholders at a General Meeting on 29 April 2005.

Options were granted for no consideration and are exercisable at $0.20. Each option entitles the holder to one share in the Company. Options granted carry no dividend or voting rights.

The Director options were granted and vested at the date of the Initial Public Offering. They are exercisable at any time prior to 31 December 2007. The fair value of these options of $196,000 has been recorded as share-based compensation in the year ended 30 June 2006.

The Executive options were granted to the previous Managing Director (L Casbolt) in three tranches, and will only vest if the milestones as described below are attained.

TRANCHE	MILESTONE	NO. OF OPTIONS	FAIR VALUE OF OPTIONS
Tranche 1	On ASX listing	1,000,000	80,000
Total		1,000,000	80,000

The previous Managing Director (L Casbolt) options are exercisable any time prior to 31 December 2008.

The fair value of the previous Managing Director (L Casbolt)'s options recognised as share-based compensation in the year ended 30 June 2006 is $133,000. This amount comprises the $80,000 for the options which vested on ASX listing, and $53,000 for the proportion of the second and third tranches earned to 30 June 2006.

The number of options granted are also summarised in note 20 Key Management Personnel Disclosures. No options granted as share-based payments were forfeited or exercised during the periods covered by the tables in that note.

The weighted average remaining contractual life of Director and Executive share options outstanding at the end of the period was 1.09 years.

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2007 was 5 to 13 cents (2006: 7 to 9 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 2007 included:

(a) options are granted for no consideration

(b) Exercise price: $0.18 to $0.30 (2006:$0.20)

(c) grant date: 2 January 2007, 26 March 2007, (2006: 9 December 2005)

(d) expiry date: 31 December 2007 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: $0.165 to $0.235 (2006: $0.20)

(f) expected price volatility of the Company's shares: 60 - 70% (2006: 60 – 70%)

(g) expected dividend yield: nil% (2006: nil)

(h) risk free interest rate: 5.72 to 5.92% (2006: 5.2%)

The expected price volatility is based on the historic volatility of companies in the Australian biotechnology sector.

(b) The University of Sydney Options

The grant of options to The University of Sydney was approved by shareholders at a General Meeting on 29 April 2005.

Options were granted for no consideration and are exercisable at $0.20. Each option entitles the holder to one share in the Company. Options granted carry no dividend or voting rights.

These options were granted at the date of the Initial Public Offering. They will vest when The University of Sydney attains certain milestones set out in the Research Agreement. The two key milestones are the commencement of Phase 1 of FDA approved human trials for both oral and topical applications of Copper Indomethacin, and to complete mouse studies for at least one lead compound such that it is ready for clinical trials. The University has up to two years from option grant date to attain these milestones.

The options are exercisable for a period of two years from vesting date. The remaining contractual life of these share options at the end of the period is estimated as 3.25 years.

The fair value of these options has been assessed at $752,000. The $239,000 expensed as share-based compensation in 2006 represents the proportion earned to 30 June 2006.

Fair value of options granted

The assessed fair value at grant date of the options was as per that described under Director and Executive Options in (a), including the valuation approach and methodology.

(c) 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	
	2007	2006	2007	2006
	$	$	$	$
Options issued to Directors and the previous Managing Director (L Casbolt)	(53,001) **	329,000	(53,001)	329,000
Options issued to The University of Sydney	409,000	239,000	409,000	239,000
Options issued to Fresh Capital	16,000		16,000	
Options issued to Executives	55,315	-	55,315	-
	427,314	568,000	427,314	568,000

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

Directors' Declaration

30 June 2007

In the directors' opinion:

(a) the financial statements and notes set out on pages 29 to 73 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 07 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 13 to 18 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.

Michael R Vitale

Michael Vitale

Chairman

Sydney

31 August 2007

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Independent auditor's report

to the members of Medical Therapies Limited

Report on the financial report and the AASB 124 Remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of Medical Therapies Limited, which comprises the balance sheet as at 30 June 2007, 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 both Medical Therapies Limited and the Medical Therapies Limited Group. 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.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in pages 8 to 12 of the directors' report and not in the financial report.

Directors' responsibility for the financial report and the AASB 124 Remunerations disclosures contained in the directors' 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 control 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.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

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. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' 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 and the remuneration disclosures contained in the directors' 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 and the remuneration disclosures contained in the directors' 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.

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report and remuneration disclosures of Medical Therapies Limited for the financial year ended 30 June 2007 included on the 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 audit report refers only to the financial report and remuneration disclosures identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or remuneration disclosures. 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 disclosures to confirm the information included in the audited financial report and remuneration disclosures presented on this web site.

Independence

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

Auditor's opinion on the financial report

In our opinion:

(a) the financial report of Medical Therapies Limited is in accordance with the *Corporation Act 2001*, including:

 (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 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

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(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Auditor's opinion on the AASB 124 Remuneration disclosures contained in the directors' report

In our opinion, the remuneration disclosures that are contained in pages 7 to 12 of the directors' report comply with Accounting Standard AASB 124

This opinion must be read in conjunction with the rest of our audit report.

Emphasis of Matter

Material Uncertainty Regarding Continuation as a Going Concern

Without qualification our opinion, we draw attention to Note 1 in the financial statements which indicates that the group incurred a net loss of $4,544,782 during the year ended 30 June 2007. This condition, along with other matters as set forth in Note 1, indicates the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

PricewaterhouseCoopers

PricewaterhouseCoopers

Mark Dow
Partner

Sydney
31 August 2007

Shareholder Information

The shareholder information set out below was applicable as at 14th September 2007

A DISTRIBUTION OF EQUITY SECURITIES

Analysis of a number of equity security holders by size of holding:

	ORDINARY SHARES	
	SHARES	OPTIONS
1 - 1000	7	9
1,001 - 5,000	60	139
5,001 - 10,000	170	68
10,001 - 100,000	346	105
100,001 and over	92	40
	675	**361**

B EQUITY SECURITY HOLDERS

i) Ordinary Shares

Twenty largest quoted equity security holders

The names of the 20 largest quoted equity security holders of quoted equity securities are listed below:

	NAME	ORDINARY SHARES	
		NUMBER HELD	PERCENTAGE OF ISSUED SHARES
1	University of Sydney	17,142,857	26.95
2	ANZ Nominees Limited	2,558,800	4.02
3	Gregory Plummer	1,825,000	2.87
4	Bond Street Custodians Limited	1,525,000	2.40
5	Armelek Pty Ltd	1,350,353	2.12
6	Gregory Glenn Worth	1,263,479	1.99
7	Canemoon Investments Pty Ltd	1,203,833	1.89
8	RBC Dexia Investor Services Australia	1,000,000	1.57
9	Talrind Pty Ltd	805,880	1.27
10	George Sim	760,000	1.20
11	Jetan Pty Ltd	675,000	1.06
12	Tina Wei	594,828	0.94
13	Run It Pty Ltd	566,250	0.89
14	Joseph Charles Camuglia & Kirsten Ingret Camuglia	534,000	0.84
15	Brantaz Pty Ltd	462,500	0.73
16	Joseph Camuglia	450,000	.071
17	Lodge Findlay Superannuation Fund	434,783	0.68
18	David Mclauchlan	434,783	0.68
19	Wakko Investments Pty Ltd	434,783	0.68
20	Anita Worth	420,000	0.66
		34,442,129	**54.14**

ii) Options

Twenty largest quoted option holders

The names of the 20 largest quoted option holders are listed below:

	NAME	ORDINARY SHARES	
		NUMBER HELD	PERCENTAGE OF ISSUED OPTIONS
1	University of Sydney	2,677,168	13.28
2	Timothy James Dowling	1,484,926	7.36
3	George Calder Sim	1,275,000	6.32
4	Armelek Pty Ltd	1,042,610	5.17
5	Canemoon Investments Pty Ltd	1,042,610	5.17
6	ANZ Nominees Limited	641,266	3.18
7	Joseph Charles Camuglia and Kirsten Ingret Camuglia	534,000	2.65
8	Bond Street Custodians Limited	508,333	2.52
9	Anthony Stephen Crimmins	500,000	2.48
10	Oh Boss Pty Ltd	454,832	2.26
11	Feint Holdings Pty Ltd	400,000	1.98
12	Marc Robert Bonnici	350,000	1.74
13	David William Findlay	345,899	1.72
14	Kich Pty Ltd	333,333	1.65
15	Gregory Glenn Worth	300,000	1.49
16	Robert Foster Colefax and Irene Louise Colefax	300,000	1.49
17	Thorley Management Pty Ltd	293,056	1.45
18	Joseph Charles Camuglia and Kirsten Ingret Camuglia	178,000	0.88
19	David Matthew Roche	173,333	0.86
20	Roger Saliba	164,666	0.82
		12,999,032	64.46

C SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below:

	NUMBER HELD	PERCENTAGE
Ordinary shares		
University of Sydney	17,142,857	26.95

D VOTING RIGHTS

The voting rights attaching to each class of equity securities are set out below:

Ordinary shares - On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options - No voting rights.

E RESTRICTED SECURITIES

MEDICAL THERAPIES LIMITED- RESTRICTED SECURITIES AS AT 14 SEPTEMBER 2007	SHARES	OPTIONS
Ordinary shares escrowed ending 9 December 2007	95,000	
Unquoted options escrow ending 9 December 2007		3,550,000

F USE OF FUNDS

The company has used the cash and cash equivalents it had at the time of listing, 9 December 2005, in a manner that is consistent with business objectives.

Corporate Directory

Directors

Professor Michael Vitale
CHAIRMAN

Maria Halasz
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Dr Michael Taverner
NON-EXECUTIVE DIRECTOR

Company Secretary

Derek Bolling

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