MEDICALTHERAPIES

MTY News

Issue 4 31 October 2008

IMPORTANT DATES

10am Saturday 22 November 2008
Deadline for Proxies

24 November 2008
Annual General Meeting

HIGHLIGHTS

Multiple partnership discussions

Strong interest in our Midkine therapeutic portfolios as negotiations continue with potential partners

Savings on manufacture

Up to $2.5M in cost saving is expected from using existing Midkine stock for Phase I trials

MK Diagnostics getting hot

We are at term sheet stage with some of our potential partners for the Midkine diagnostic portfolio

Dear Shareholder,

We have made strong progress on a number of fronts during the last quarter and continue to grow our asset value irrespective of the adverse market conditions.

Midkine Program At this stage we are on target with the projected timetable for the Midkine clinical trials in Acute Myocardial Infarct (heart attack) and our partnering program is on track in relation to our diagnostic and non-core therapeutic assets. This momentum can be maintained for the current quarter, however delays will be inevitable in 2009 unless our major capital raising drive is completed.

Reducing Costs We continue to be focused on reducing costs and minimizing capital expenditure. Our spending on the Midkine technology transfer was 40% below budget and we have also saved the majority of the costs allocated for our Midkine assay development through the rapid validation of our new ELISA. As a major development we have identified a cost saving opportunity of up to $2.5M in our AMI clinical trial budget by using our existing Midkine stock.

Capital market strategy We have been making progress on securing long term funding from life science partners and investors. Our advisors are currently investigating an underwritten share purchase plan as a first step in a three stage capital program. We will continue to keep you informed on the progress.

A $2M commitment by a Japanese investor has been temporarily delayed and our advisors confirm the investor will fulfill this commitment in the coming months.

We are disappointed we have not been able to close a funding round in this quarter and the Company's directors will defer most of their fees until this has been successfully completed. We are confident that it will be finalized as market conditions improve.

The following pages contain more details on the progress we have made and important information for you to gain better insight into our business. As always, I would like to invite you to call me should you have any questions in relation to the report, or indeed any aspect of the Company.

Thank you for your continued support.

MARIA HALASZ
CEO and Managing Director

Savings of up to $2.5M in manufacturing in first year

Our original clinical trial budget for the phase I/IIa Acute Myocardial Infarct (AMI) study included $2.6M for the manufacture of cGMP quality Midkine. The FDA implemented favorable regulatory changes in September 2008 and it is our preliminary advice that we can use our current non-GMP Midkine stock following a process of certification.

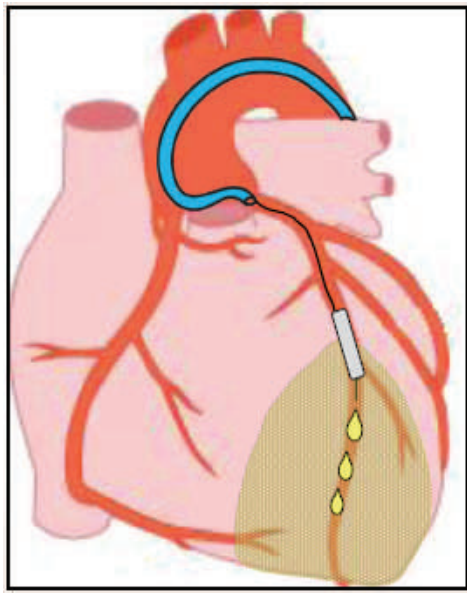
Initial cost estimates for the certification indicate a potential saving of around $2.5M during the first year of our trials. In addition, this could represent a reduced overall timetable, as cGMP manufacture is expected to take 10-12 months.

Tendering for MK manufacture completed on target

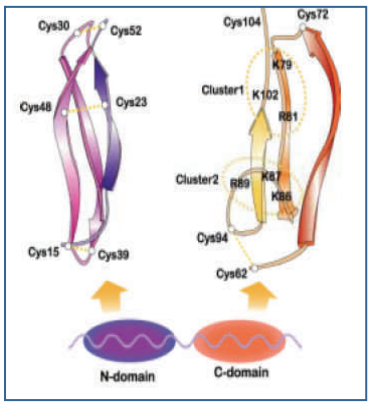
Midkine is best expressed in commercial quantities by *Pichia pastoris,* a yeast not commonly used for protein expression by contract manufacturers. Earlier this year we have identified three contract manufacturing groups capable of producing MK using *Pichia,* and called for tenders for the cGMP production of MK. We have now closed the tendering process and are currently assessing the proposals received.

While focusing on the best manufacturing process we have also been keen to take advantage of the funding and taxation advantages of manufacturing in Australia. Without a local *Pichia* company we have asked a contract manufacturer to assess the feasibility of producing MK using an *E. Coli* expression system. Having completed the complex tendering and initial due diligence process we will be in a position to appoint a contract manufacturer in 2009 to provide cGMP quality MK for Phase 2 trials and beyond.

Midkine dosing



Midkine is an important novel therapeutic and diagnostic target



Midkine structure and action

Midkine is a small two domain protein prevalent during embryonic development. It acts as a modulator in many interactions controlling cell growth, cell spread and cell adherence properties, interactions which are of relevance to nerve growth and repair, cancer, wound healing, and inflammation.

Midkine is not detectable in healthy adults and only reappears in the body as part of the pathogenesis of a number of diseases. Accordingly, Midkine is an important novel target for the treatment of a number of conditions

Midkine Wellness Test

Our assay can reliably measure Midkine in blood and urine. Since Midkine is not detectable in healthy adults and only appears as part of a disease process, high Midkine levels suggest the presence of inflammation or cancer. In some cancers Midkine appears in Stage 0, when physical symptoms are minimal and other markers cannot be detected yet. Regular checks of blood Midkine levels could become an important tool in monitoring recurring cancer.

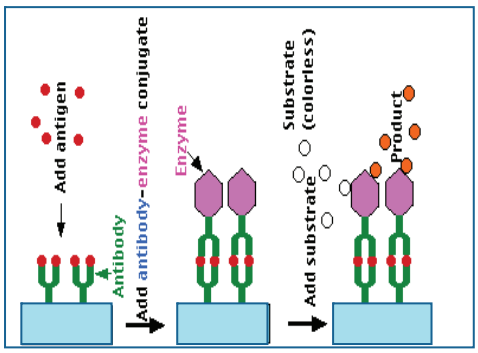
Diagnostics

Discussions with potential partners in Europe and Japan

Components of our cancer diagnostic portfolio have now been finalized ahead of schedule and our partnering discussions are at various stages with potential licensees in Europe and Japan, some at confidential term sheet stage. In addition to the partnering discussions we have also commenced work with tissue banks to further validate our early cancer diagnostic data and potentially increase the value of our diagnostic assets.

Veterinary diagnostic assets - a bonus!

Review of our intellectual property portfolio yielded extensive cancer diagnostic data in companion animals, mostly dogs. We have appointed Bio-Link, a specialist group with experience in licensing diagnostic products, to commence discussions in relation to the licensing of our veterinary cancer diagnostic portfolio.



Midkine ELISA

Our proprietary immunoassay for the detection of Midkine in blood and urine is using antibodies binding to the N-domain of Midkine. The N-domain of Midkine has limited biological activity and its primary function is to stabilize the active C-domain. This is significant as antibodies against this domain can be licensed separately as "diagnostic only", leaving our C-domain binding antibodies free to be licensed at a higher value.

Anti-midkine antibodies

Taking advantage of subsidies for the production of antibodies

Of the 130+ agents in our portfolio we have selected the best performing 12 therapeutic antibodies for further development. While these antibodies have already been assessed in vitro for affinity and binding, we will generate further data on their biological activity to enhance the value of our intellectual property portfolio. Import permits have now been received from the Australian Quarantine and Inspection Service (AQIS) for all of the selected hybridoma cells for the production of these antibodies.

The antibodies will be produced at the Australian Institute for Nanotechnology and Biotechnology (AIBN) at the University of Queensland. AIBN's NCRIS facility is part of the Government initiated National Collaborative Research Infrastructure Strategy (NCRIS) program which means that we will have access to the substantial subsidies on the work carried out in these facilities.

Therapeutic antibodies - potentially our most valuable assets

Following the completion of our anti-midkine antibody report on the data generated by our scientists we have been able to identify key indications for Midkine antagonist therapies. Our additional data development program will add significant value to the asset portfolio and we have commenced discussions with parties who could not only contribute with their expertise but may potentially be financial partners in our antibody program.

Midkine as anti-apoptotic

Preventing apoptosis is an exciting therapeutic opportunity for partnerships

Midkine's protective characteristic of reducing cell suicide (apoptosis) following an ischemic event is of strong therapeutic interest. Ischemic diseases can affect a number of organs including the heart (AMI or heart attack), brain (stroke), eyes (optic nerve stroke), kidneys (renal ischemia). Our first clinical trials focusing on treatment following heart attack have already attracted the interest of potential partners. We have commenced early discussions with potential partners for our clinical programs for the treatment of AMI and stroke having made initial presentations to companies with an interest in the treatment of ischemic diseases in other organs.

Capital raising

We have funding commitment for a $2M investment from a Japanese group. Due to current market conditions this funding has been delayed. While there is no guarantee regarding the date for the receipt of these funds our advisors confirmed that the group is still committed to make the investment.

In addition to this funding our advisors are progressing plans to implement an **underwritten share purchase plan** in the coming weeks. We encourage shareholders to participate in the share purchase plan as it is an opportunity to top up current holding at a favourable price.

Our negotiations are continuing for additional funding with corporate and institutional sources and we remain committed to finalising a transaction as market conditions improve.

Revenue outlook

We are very much focused on partnering non-core assets that can deliver substantial revenues in the medium term and ongoing royalties long term. It is difficult to predict timing of these transactions but we will initially pursue proposals weighted towards early licensing payments. With its substantial asset portfolio of high value antibodies and strong intellectual property the Company has the potential to receive real revenues.

Funding Operations

Our operating cash outflow for the quarter included some significant non-recurring costs which related to the acquisition of the Midkine portfolio. Consulting costs as part of the Midkine due diligence process and technology transfer related expenses have resulted in higher than normal operating cash outflow. Our project related expenses are expected to increase in the future, however these will be subject to securing adequate funding.

Convertible Notes

During the recent offer to MTY Note holders 34% of the notes have been converted into shares. This has reduced our debt facility to just over $1M which we expect to retire as part of our major capital raising program.

Substantial shareholders

Substantial shareholders in the Company as at 1st September 2008 are listed below.

Ordinary shares	Number held	Percentage
Cell Signals Inc.	20,000,000	21.257
University of Sydney	17,142,857	18.220
Jetan Pty Ltd	6,440,000	6.844
Mr Christopher Peter Walker	5,714,286	6.073

Intellectual property - two new patents granted since acquisition

Since acquiring the Midkine IP portfolio we have had two of our patents granted. On 26 August 2008 we announced to the market the granting of our major therapeutic patent **(US 739 0491)** as it provides us with a significant blocking IP in the treatment of any inflammatory or autoimmune diseases using midkine or anti-midkine agents. Earlier in July the Japanese Patent Office granted our **Therapeutic and preventative compositions for drug induced nephropathy and hepatitis** patent.

Technology transfer from Japan - import permit means shipping MK

As one of the final steps in the transfer of the technology we will ship all the Japanese manufactured Midkine stock, the 130plus hybridoma cell lines for antibody production and all other reagents to Australia. Products of biological origin require special import permits from the Australian Quarantine and Inspection Service (AQIS). Import permit has now been received for the Japanese manufactured Midkine protein stock and for our selected hybridoma cell lines and reagents.

Dr Julia Hill - Project Manager, Midkine

Dr Julia Hill

Dr Julia Hill was appointed in July 2008 as Project Manager of the Midkine portfolio. With over 15 years experience in the biotechnology industry Julia worked extensively both in research and in commercialising technology. Following the completion of her PhD she held post-doctoral positions in Europe and in the USA. Returning to Australia in 1999 Julia completed an MBA and gained technology commercialisation experience first as Commercial Manager at the CSIRO, then as COO of a publicly listed biotechnology company. Recently Julia was Investment Manager in the venture capital sector as well as at a corporate advisory group where she was involved with capital raisings and licensing transactions. Her experience as director on the boards of biotechnology companies provides an ideal mix of understanding the scientific, commercial and governance related issued of a publicly listed biotechnology company.

Making her mark Amongst other things, since joining in July, Julia managed the tendering process for the Midkine cGMP manufacture, coordinated the quoting for the production of anti-MK antibodies for our validation trials, and successfully managed the AQIS import permit process for our existing Midkine stock, the Japanese hybridoma cells and for our reagents. Julia has also established a partnership with TGR Biosciences in Adelaide for the development of cell based bioassays for Midkine bioactivity assessment during the cGMP manufacturing process.

Mr Koichiro Koike - Our new Director making his mark in Tokyo

Mr Koike has joined the MTY board in September and has been instrumental in securing the Japanese end of the technology transfer. His experience in licensing negotiations for diagnostics and medical devices will continue to be important, particularly in the series of discussions we have on foot with potential Japanese partners.

Mr Derek Bolling - Thank you for the invaluable contribution

Our Financial Controller, Derek Bolling has resigned earlier in October due to his other commitments. He has been instrumental during the transitionary period in the Company's life. Derek's friendly assistance in managing the Company's finances will be very much missed. We thank Derek for his contribution and wish him success in his future projects.

Frank & Associates - Financial Control outsourced to small cap specialist

We have appointed Frank & Associates to provide the services of Financial Controller following the resignation of Derek Bolling. Frank & Associates has been providing contract financial controller and company secretarial services since 1998 for companies. They have extensive experience in managing the financial affairs of small to medium size listed companies and we look forward to working with them here at Medical Therapies.

Hasegawa Patent Lawfirm - Patent attorney appointed to large IP portfolio

We have appointed Hasegawa Patent Law Firm in Tokyo to assist with the management of our large patent portfolio. With the help of partner Tomoko Hasegawa we have finalised our patent strategy and decided not to pursue certain patents with limited geographical reach and no apparent commercial potential. This focused approach will have no immediate effect on our patent portfolio, but will result in savings in patent costs over time.

INVESTOR UPDATES

Please register for regular investor updates on our website www.medicaltherapies.com.au.

MEDICALTHERAPIES

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