

# MEDICAL THERAPIES LIMITED

ABN 69 111 304 119

## APPENDIX 4E RESULTS FOR ANNOUNCEMENT TO THE MARKET PRELIMINARY FINAL REPORT FOR THE TWELVE MONTHS ENDED 30 JUNE 2009

### FINANCIAL RESULTS

Revenue from ordinary activities for the period	Down 80% to \$20,953
Loss from ordinary activities after tax for the period attributable to members	Up 24% to \$3,334,546
Net loss after tax for the period attributable to members	Up 24% to \$3,334,546

### DIVIDENDS

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

### EARNINGS PER SHARE

	2009 Cents per Share	2008 Cents per share
Basic and diluted earnings per share	(2.8)	(4.1)
Weighted average number of shares used in denominator to calculate the earnings per share	120,397,192	65,291,503

### NET TANGIBLE ASSETS PER SECURITY

	2009 Cents per Share	2008 Cents per share
Net Tangible asset per security	0.6	(1.4)

### COMMENTARY ON RESULTS

The consolidated loss of the Group for the period after providing for income tax amounted to \$3,334,546 (2009, loss of \$2,688,804). During the last quarter the Company has undergone some cost restructuring and reduced its monthly overhead considerably to place Medical Therapies into a stronger financial position moving forward.

For further details please see the Group's Annual Financial Report and Independent Auditors' Report following.

**Medical Therapies Limited**  
**Annual financial report**

ABN 69 111 304 119

**for the year ended 30 June 2009**

**MEDICAL THERAPIES LIMITED** ABN 69 111 304 119  
**Annual financial report – 30 June 2009**

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## 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 2009.

### Directors

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

Dr David King

Ms Maria Halasz

Mr Koichiro Koike (appointed 10 September 2008)

Dr Stephanie Williams (resigned 26 August 2008)

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

### Principal activities

Medical Therapies Limited is an Australian biotechnology company developing a range of therapeutic and diagnostic products around midkine, a novel target. The Company's disease indications include inflammatory and autoimmune conditions and cancer.

In addition to its in-house development program Medical Therapies Limited is actively pursuing licensing and collaboration arrangements in relation to its substantial intellectual property assets.

### 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

### Midkine Intellectual Property Portfolio

The Group completed settlement of the Midkine Intellectual Property portfolio at the beginning of the financial year. The portfolio includes 26 patent and patent application families for the therapeutic and diagnostic use of midkine and its inhibitors.

Since settlement on 2 July 2008 a number of patent applications have been granted and others progressed in the examination process (please see details below). Overall, there has been a significant increase in the value of the Midkine Intellectual Property portfolio since acquisition in July 2008.

### Convertible Notes

In February 2009 the Group retired its remaining convertible debt obligations by way of a partial conversion and partial repayment to note holders. Significantly, the Group has become debt free except for ordinary trading debt.

### Cancer diagnostic program

The Group's cancer diagnostic program has gone through a major development during the course of the financial year. A development collaborator has been found for the midkine immunoassay (ELISA), a blood test conducted in pathology labs. A cell bank has been established for the requisite mouse monoclonal antibodies and production of the final reagents commenced. It is expected that a midkine ELISA will be the Group's first product for sale to the research market.

The Group has also progressed in its point-of-care (POC) midkine diagnostic assay development, which is an important product for the veterinary market. Due to the favourable regulatory environment a veterinary POC midkine tests for the diagnosis of cancer in dogs is likely to be the Group's first commercial product to market.

An in vivo midkine diagnostic program has also been developed during the financial year, the first stage of which is a diagnostic assay for the imaging of midkine in cancer patients. A partner has been identified and preparations are in progress for a feasibility study.

During the financial year the Group has made advances in pursuing collaborations with suitably qualified partners to facilitate the development of cancer diagnostic tests in each relevant indication.

**Therapeutic antibody program**

The Group has transferred and cell banked all requisite therapeutic antibodies ready for the commencement of validation trials in multiple sclerosis, rheumatoid arthritis and diseases involving the narrowing of blood vessels (atherosclerosis and restenosis).

Therapeutic antibody validation trials are expected to commence in late calendar 2009, subject to conditions.

**Patents granted since 1 July 2008**

USA Patent No. 7,390,491 – Agents comprising midkine or an inhibitor thereof as active ingredient

EUROPEAN Patent No. 1108436 – Pharmaceutical compositions for the prevention and treatment of Atherosclerosis and Restenosis after PTCA

**Published peer reviewed journal articles since 1 July 2008 on the group's intellectual property**

<b>Publication</b>	<b>Title</b>
Pediatrics International	Serum levels of midkine in children and adolescents without malignant disease.
The Journal of Clinical Investigation	The growth factor midkine regulates the rennin-angiotensin system in mice
Cancer Science	Midkine in plasma as a novel breast cancer marker
Pediatric Surgery International	Midkine highly expressed in neuroblastoma tissues
American Journal of Physiology - Heart and Circulatory Physiology	Midkine prevents ventricular remodelling and improves long-term survival after myocardial infarction
Cancer Science	Plasma midkine level is a prognostic factor for human neuroblastoma

## **Significant changes in state of affairs**

During the year the Group successfully raised \$818,500 (excluding transaction costs) in funds from capital raisings. In part, these funds have been used for the repayment of convertible debt with the remaining amount funding operations.

## **Matters subsequent to the end of the financial year**

On 7 July 2009 the company announced the successful placement of \$550,000 in private placement of shares and options.

Except for the matters outlined above, no other matter or circumstance has arisen since 30 June 2009 that has significantly affected, or may significantly affect:

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

## **Likely developments and expected results of operations**

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

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

## **Environmental regulations**

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

## **Information on directors**

### ***Dr David King***

CHAIRMAN (APPOINTED 18 JANUARY 2008)

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

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

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

### *Other current directorship*

Eastern Star Gas Limited; Ausmon Resources Limited

### *Former directorships in the last 3 years*

Gas2Grid Limited; Sapex Limited

### *Interest in shares and options*

Shares: 9,555,000 Indirectly held

***Maria Halasz***

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

Maria Halasz has been involved with biotechnology companies for 17 years; initially working in executive positions in biotechnology firms, then managing investment funds and later holding senior positions in corporate finance specialising in life sciences.

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

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

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

*Other current directorship*

Nil

*Former directorships in the last 3 years*

Nil

*Interest in shares and options*

Shares: 439,250 indirectly held

Options: 5,000,000 (Expiry: 15 June 2013, exercisable at \$0.05735 each) – Directly held

***Mr Koichiro Koike***

NON-INDEPENDENT NON-EXECUTIVE DIRECTOR - (APPOINTED 26 AUGUST 2008)

Mr Koike is a senior executive with extensive global life science and technology business development experience. He is currently based in Tokyo after living in Melbourne for 15 years.

He is co-principal of V2V, a corporate advisory firm specializing in cross border life science transactions between Australian and Japanese companies.

Before joining V2V he worked as a corporate finance and M&A specialist in Tokyo for a European investment bank. He has served on a number of public and private company boards and has a strong track record in facilitating business and corporate development events between firms of all sizes in the sector. He brings extensive contacts in some of the most prominent diagnostic and pharmaceutical companies in Japan which are candidates for Medical Therapies Limited out licensing activities, particularly for its diagnostic portfolio.

Mr Koike has been closely involved with the Midkine technology for over a year and was advisor to Cell Signals Inc., the vendor of the technology, during the acquisition process by Medical Therapies.

*Other current directorship*

Nil

*Former directorships in the last 3 years*

Nil

*Interest in shares and options*

Nil

***Dr Stephanie Williams***

NON-INDEPENDENT NON-EXECUTIVE DIRECTOR—INDEPENDENT (RESIGNED 26 AUGUST 2008)

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

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

*Other current directorship*

Nil

*Former directorships in the last 3 years*

Nil

*Interest in shares and options*

Nil

**Information on Company Secretary**

***Andrew Bursill ACA***

COMPANY SECRETARY (APPOINTED 10 DECEMBER 2008)

Mr Bursill is a member of the Institute of Chartered Accountants in Australia and has been employed by Franks and Associates for over 10 years where he provides outsourced Company secretarial and Chief Financial Officer services for listed and unlisted public companies.

He is a Company secretary for Australian Oriental Minerals (ASX:AOM), MOKO.mobi (ASX:MKB) and other unlisted public and private companies.

**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 **	9	9	*	*	-	-
Dr Stephanie Williams ***	2	2	1	1	-	-
Mr Koiche Koike	7	6	1	1	-	-
Dr David King	9	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.

\*\* Executive directors

\*\*\* Executive from 15 February 2008 to 7 May 2008. Non executive director from 7 May 2008 to resignation date (26 August 2008).

**Audit Committee**

Members of the Audit Committee are Dr David King and Mr Koiche Koike.

**Remuneration Committee**

Members are Dr David King and Mr Koiche Koike.

**Remuneration report**

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

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

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

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

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

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

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

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

### ***Remuneration structure***

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

### ***Non-executive director remuneration***

#### **Objective**

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

#### **Structure**

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

The Constitution and the ASX Listing Rules specify that the maximum aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting of shareholders. At the general meeting of shareholders in 2005, this maximum amount was set at \$300,000 per annum. In 2009, the Group paid non-executive directors a total of \$92,380 (2008:\$165,335) including superannuation.

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

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

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

## ***Executive remuneration***

### Objective

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

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

### Structure

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

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

### *Fixed remuneration*

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

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

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

### ***Remuneration policy and performance***

None of the CEO's remuneration is 'at risk' remuneration.

## **B. Details of remuneration (audited)**

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

# DIRECTOR'S REPORT

Medical Therapies Directors report  
For the year ended 30 June 09

2009

Name	short-term benefits			post-employment benefits		share-based payments	Total
	cash salary and fees	cash bonus	non-monetary benefits	super-annuation	retirement benefits	options	
	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive directors</b>							
David King (Chairman) <sup>1</sup>	64,999	-	-	5,850	-	-	70,849
Koichiro Koike <sup>2</sup>	16,473	-	-	-	-	-	16,473
Stephanie Williams <sup>3</sup>	4,640	-	-	418	-	-	5,058
<b>Total non-executive directors</b>	<b>86,112</b>	-	-	<b>6,268</b>	-	-	<b>92,380</b>
<b>Executive directors &amp; Key Management</b>							
Maria Halasz (MD/CEO) <sup>4</sup>	350,000	-	-	31,500	-	-	381,500
Julia Hill	77,769	-	-	6,999	-	-	84,768
Andrew Bursill (Sec) <sup>5</sup>	-	-	-	-	-	-	-
<b>Total Executive directors &amp; key management</b>	<b>427,769</b>	-	-	<b>38,499</b>	-	-	<b>466,268</b>
<b>Total</b>	<b>513,881</b>	-	-	<b>44,767</b>	-	-	<b>558,648</b>

<sup>1</sup> An amount of \$43,333 is still due and payable to Mr King

<sup>2</sup> Mr Koichiro Koike was appointed as director effective 10 September 2008

<sup>3</sup> Dr Williams resigned as a director effective 26 August 2008

<sup>4</sup> Ms Halasz's employment agreement sets out certain performance incentives that are payable subject to achievement of specific milestones. Key milestones that trigger performance incentives are related to definitive agreement for the licensing or acquisition of new technology. Ms Halasz has not met these performance incentives and has therefore forgone two \$25,000 bonus payments.

<sup>5</sup> Mr Bursill, company secretary, is an associate of Franks & Associates Pty Ltd who provides accounting and company secretarial services to Medical Therapies Limited. The contract between Medical Therapies Limited and Franks & Associates is based on normal commercial terms. A total of \$11,206 (2008: \$Nil) in cash and \$40,000 in shares and options (2008: \$Nil), being 4,000,000 shares issued on 8 May 2009 for \$0.01 each and 800,000 options expiring 8 January 2012, exercisable at \$0.03 each was received by Franks & Associates in relation to this contract for the year.

# DIRECTOR'S REPORT

Medical Therapies Directors report  
For the year ended 30 June 09

2008

Name	short-term benefits		post-employment benefits		share-based payments		Total
	cash salary and fees	cash bonus #	non-monetary benefits	super-annuation	retirement benefits	options	
	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive directors</b>							
David King (Chairman)	27,083	-	-	2,438	-	-	29,521
Michael Vitale	37,917	-	-	3,413	-	-	41,330
Michael Taverner	34,410	-	-	2,888	-	-	37,298
Stephanie Williams**	52,641	-	-	4,545	-	-	57,186
<b>Total non-executive directors</b>	<b>152,051</b>	<b>-</b>	<b>-</b>	<b>13,284</b>	<b>-</b>	<b>-</b>	<b>165,335</b>
<b>Executive directors</b>							
Maria Halasz (MD/CEO)	321,721	50,000	-	31,205	-	153,307	556,233
<b>Key Management</b>							
David James	78,586	5,000	-	6,355	-	15,415	105,356
<b>Total Executive directors &amp; key management</b>	<b>400,307</b>	<b>55,000</b>	<b>-</b>	<b>37,560</b>	<b>-</b>	<b>168,722</b>	<b>661,589</b>
<b>Total</b>	<b>552,358</b>	<b>55,000</b>	<b>-</b>	<b>50,844</b>	<b>-</b>	<b>168,722</b>	<b>826,924</b>

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

Dr Taverner resigned as a director effective 15 February 2008.

Dr King was appointed as Chairman effective 18 January 2008.

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

# represents 100% of the bonus entitlement for the year on achievement of successfully forming a Clinical Advisory Board and successfully completed an acquisition of new technology in relation to the Midkine transaction.

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

Name	Fixed remuneration		At risk -STI		At risk – LTI	
	2009	2008	2009	2008	2009	2008
<b>Directors</b>						
David King (Chairman)	100	100	-	-	-	-
Maria Halasz (CEO)	100	63	-	9	-	28
Stephanie Williams	100	100	-	-	-	-
Mr Koiche Koike	100	-	-	-	-	-

**C. Service agreements (audited)**

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

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

**D. Share-based compensation (audited)**

**Options**

No options were granted for the year ended 30 June 2009.

2008

	Options Granted in 2008	Value of options at grant date	Options Vested in 2008	Value of options expensed in 2008	Proportion of remuneration
Maria Halasz	5,000,000	153,307	5,000,000	(\$) 153,307	% 28
D James	-	43,685	125,000	15,415	15
	5,000,000	196,992	5,125,000	168,722	

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

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

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

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

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

## DIRECTOR'S REPORT

Medical Therapies Directors report  
For the year ended 30 June 09

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

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

- options are granted for no consideration
- exercise price: \$0.05735
- grant date: 16 June 2008
- expiry date: 1 June 2014
- share price at grant date: \$0.06
- expected price volatility of the Company's shares: 60-70%
- expected dividend yield: nil%
- risk-free interest rate: 6.32%

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
			(\$)
Restricted options	31 Dec 2009	\$0.45	500,000
Restricted options	8 January 2012	\$0.30	50,000
Unlisted options	15 June 2013	\$0.06	5,000,000
Unlisted options	8 January 2012	\$0.18	499,995
Unlisted options	8 January 2012	\$0.03	6,800,000
Unlisted options	1 June 2014	\$0.05	5,250,000
			<b>18,099,995</b>

## **Shares issued on the exercise of options**

No ordinary shares of Medical Therapies Limited were issued during and since the year ended 30 June 2009 on the exercise of options (2008: 73,330 at \$0.20). No amounts are unpaid on any of the shares (2008:\$Nil).

## **Insurance of officers**

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

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

## **Indemnification of officers**

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

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

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

## **Proceedings on behalf of the company**

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

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

## **Non-audit services**

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

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

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

# DIRECTOR'S REPORT

Medical Therapies Directors report  
For the year ended 30 June 09

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:

	<b>Consolidated</b>	
	2009	2008
	\$	\$
<b>(a) Assurance services</b>		
<i>Audit services</i>		
PricewaterhouseCoopers Australian firm		
Audit of financial reports and other audit work under the Corporations Act 2001	51,910	86,074
Non-PricewaterhouseCoopers audit firm		
Audit of financial reports and other audit work under the Corporations Act 2001	-	-
<b>Total remuneration for audit services</b>	<b>51,910</b>	<b>86,074</b>
<i>Other assurance services</i>		
PricewaterhouseCoopers Australian firm		
Due diligence services	-	-
<b>Total remuneration for other assurance services</b>	<b>-</b>	<b>-</b>
<b>Total remuneration for assurance services</b>	<b>51,910</b>	<b>86,074</b>
<b>(b) Taxation services</b>		
PricewaterhouseCoopers Australian firm		
Tax compliance services, including review of Company income tax returns	-	-
Non-PricewaterhouseCoopers firm		
Tax compliance services, including review of Company income tax returns	-	-
<b>Total remuneration for taxation services</b>	<b>-</b>	<b>-</b>
<b>(c) Advisory services</b>		
PricewaterhouseCoopers Australian firm		
Initial public offering, other public raisings	-	-
Strategic facilitation	-	-
Consulting services	-	-
Non-PricewaterhouseCoopers firm		
Accounting and advisory services	-	-
Independent expert report	-	-
<b>Total remuneration for advisory services</b>	<b>-</b>	<b>-</b>
<b>Total remuneration for non-audit services</b>	<b>-</b>	<b>-</b>

**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 18.

**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:

A handwritten signature in cursive script, appearing to read 'D King', is positioned above the printed name and title.

David King  
Chairman

Sydney  
31 August 2009

PricewaterhouseCoopers  
ABN 52 780 433 757

Darling Park Tower 2  
201 Sussex Street  
GPO BOX 2650  
SYDNEY NSW 1171  
DX 77 Sydney  
Australia  
Telephone +61 2 8266 0000  
Facsimile +61 2 8266 9999

## Auditor's Independence Declaration

As lead auditor for the audit of Medical Therapies Limited for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been:

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

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



Mark Dow  
Partner  
PricewaterhouseCoopers

Sydney  
31 August 2009

## Corporate Governance

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

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

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

### **Principle 1—Lay solid foundations for management and oversight**

*Recommendation 1.1 – Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions*

*Recommendation 1.2 – Companies should disclose the process for evaluating the performance of senior executives*

*Recommendation 1.3 – Companies should disclose the process for evaluating the performance of senior executives*

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

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

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

There have been no departures from Principle 1 during the year ending 30 June 2009.

### **Principle 2—Structure the Board to add value**

*Recommendation 2.1 – A majority of the board should be independent directors*

*Recommendation 2.2 – The chair should be an independent director*

*Recommendation 2.3 – The roles of chair and chief executive officer should not be exercised by the same individual*

*Recommendation 2.4 – The board should establish a nomination committee*

*Recommendation 2.5 – The Company should disclose the process for evaluating the performance of the board, its committees and individual directors*

*Recommendation 2.6 – The Company should provide the information indicated in the Guide to reporting on Principle 2*

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

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

**Independence of directors**

*Departure from Recommendation 2.1:* As at the date of this report, two of the three Directors are not considered independent, namely Dr David King, who is an associate of a substantial shareholder and Ms Maria Halasz, who is an executive Director of Medical Therapies Limited. This departure arises from the size and nature of operations of the Company.

The Company has in place a clear division of responsibility between the Chairman and the Managing Director as set out in the Board Operating Manual. The role of Chairman and Managing Director are held by different individuals.

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

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

The Audit committee consists of Dr. David King, Chairman and Mr Koichiro Koike with the Managing Director attending by invitation.

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

*Access to information*

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

Apart from those noted above, there have been no departures from Principle 2 during the year ending 30 June 2009:

**Principle 3: Promote ethical and responsible decision making**

*Recommendation 3.1 – The Company should establish a code of conduct and disclose the code*

*Recommendation 3.2 – The Company should establish a policy concerning trading in company securities and disclose a summary of that policy*

*Recommendation 3.3 – The Company should provide the information indicated in the Guide to reporting on Principle 3*

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

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

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

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

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

**Policy regarding trading in securities**

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

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

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

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

The above restrictions extend to a Director's spouse, partner, children and organisations (e.g. private companies or trusts) in which a Director has a material interest and the capacity to control the decision. These restrictions also apply in all situations where a Director is in a position of exerting significant influence over the voting intentions of parties personally known to that Director (e.g. where the Director is a trustee and is in a position to make investment decisions or exert significant influence on those making such decisions even though he may not be a beneficiary of the trust).

There have been no departures from Principle 3 during the year ending 30 June 2009.

**Principle 4: Safeguard integrity in financial reporting**

*Recommendation 4.1 – The board should establish an audit committee*

*Recommendation 4.2 – The audit committee should be structured so that it: (i) consists only of non-executive directors, (ii) consists of a majority of non-executive directors; (iii) is chaired by an independent chair, who is not the chair of the board; and (iv) has at least three members.*

*Recommendation 4.3 – The audit committee should have a formal charter*

*Recommendation 4.4 – The Company should provide the information indicated in the Guide to reporting on Principle 4*

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

*Audit Committee*

The Company has an Audit Committee comprising two non-executive directors on whom with financial skills and experience relevant to the committee's functions. The Audit Committee charter can be found on the Company's website.

The Audit Committee comprises Dr. David King, Mr Koichiro Koike (appointed 26 August 2008), and Dr. S Williams (resigned 26 August 2008).

Audit Committee Membership	Audit Meetings Held	Audit Meetings Attended
Dr. David King <sup>6</sup>	2	2
Dr. Stephanie Williams <sup>7</sup> (resigned 26 August 2008)	1	1
Mr Koichiro Koike <sup>8</sup>	1	1

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

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

<sup>6</sup> Dr. David King was appointed to the Board on 18<sup>th</sup> January 2008

<sup>7</sup> Dr. Stephanie Williams was appointed to the Board on 15<sup>th</sup> February 2008 and resigned from the board 26 August 2008

<sup>8</sup> Mr Koichiro Koike was appointed to the Board on 26<sup>th</sup> August 2008

*Auditor selection, appointment and lead partner rotation*

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

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

*Contracts and transactions between the Company and its officers*

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

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

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

There have been departures from Principle 4 during the year ending 30 June 2009:

Recommendation 4.2: - While the current membership of the committee does not comply with ASX Recommendations in that only one member is independent, the Board considers that the current number of members and their status is appropriate given the Company's present circumstances.

**Principle 5: Make timely and balance disclosure**

*Recommendation 5.1 – The Company should put in place mechanisms designed to ensure compliance with the ASX Listing Rule requirements.*

*Recommendation 5.2 – The Company should provide the information indicated in the Guide to reporting on Principle 5*

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. A summary of the policy can be found on the Company's website.

There have been no departures from Principle 5 during the year ending 30 June 2009.

**Principle 6: Respect the rights of shareholders**

*Recommendation 6.1 – The Company should design a communications policy for promoting effective communication with shareholders.*

*Recommendation 6.2 – The Company should provide the information indicated in the Guide to reporting on Principle 6*

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

There have been no departures from Principle 6 during the year ending 30 June 2009.

**Principle 7: Recognise and manage risk**

*Recommendation 7.1 – The Company should establish policies for the oversight and management of material business risks and disclose a summary of those policies.*

*Recommendation 7.2 – The Company should require management to design and implement a risk management and internal control system to manage the Company's material business risks.*

*Recommendation 7.3 – The Company should disclose whether it has received assurance from the chief executive officer and chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and that the system is operating effectively in all material respects in relation to financial reporting risks.*

*Recommendation 7.4 – The Company should provide the information indicated in the Guide to reporting on Principle 7*

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

Given the Company's size, number of employees and level of activity there has not been the time nor the resources to undertake the work required to establish a general business risk framework. The company is currently establishing a business risk framework based on AS4360 to ensure management, control and oversight of the business risk as the Company proceeds with the commercialisation of the recently acquired midkine intellectual property. As part of this process a risk management committee will be established to ensure oversight of the Company's business risk and report to the Board.

There have been departures from Principle 7 during the year ending 30 June 2009:

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

**Principle 8: Remunerate fairly and responsible**

*Recommendation 8.1 – The board should establish a remuneration committee*

*Recommendation 8.2 – The Company should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.*

*Recommendation 8.3 – The Company should provide the information indicated in the Guide to reporting on Principle 8*

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

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

Non-executive Directors fees are specifically dealt with under the Company's Remuneration Policies. In particular Directors will not be entitled to a retirement benefit nor are they entitled to participate in share or

option plans except with the approval of the shareholders. For further information, refer to the Remuneration Report included in the Director's Report.

There have been no departures from Principle 8 during the year ending 30 June 2009.

**MEDICAL THERAPIES LIMITED** ABN 69 111 304 119  
**Annual financial report – 30 June 2009**

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## Financial Report

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

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

Level 6, 40 King Street  
Sydney  
NSW 2000

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the directors' report on pages 3 - 17, which is not part of this financial report.

The financial report was authorised for issue by the directors on 31 August 2009. 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](http://www.medicaltherapies.com.au).

## Medical Therapies Limited

Income statements

For the year ended 30 June 2009

	Notes	Consolidated		Parent entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
Revenue	5	15,413	77,977	15,413	77,977
Other income	5	160,287	668,547	160,287	668,424
Consultancy expenses		(88,228)	(180,585)	(88,228)	(180,585)
Share-based compensation	30(b)	(563,132)	(275,885)	(563,132)	(275,885)
Research and development expense		(10,448)	22,858	(10,448)	22,858
Depreciation and amortisation expense	6	(1,566,893)	(1,127,063)	(1,566,380)	(1,126,548)
Professional fees		(218,191)	(213,033)	(218,191)	(213,033)
Directors' remuneration		(92,380)	(110,873)	(92,380)	(110,873)
Employee benefits		(575,720)	(756,314)	(575,720)	(756,314)
Patent costs		(707)	(93,645)	(707)	(93,645)
Occupancy	6	(199,707)	(96,369)	(199,707)	(93,369)
Travel		(100,961)	(137,308)	(100,961)	(137,308)
Other expenses		(170,266)	(263,451)	(75,279)	(262,734)
Finance costs	6	76,387	(203,660)	76,387	(203,660)
<b>Loss before income tax</b>		<b>(3,334,546)</b>	<b>(2,688,804)</b>	<b>(3,239,046)</b>	<b>(2,687,695)</b>
Income tax expense	7	-	-	-	-
<b>Net loss attributable to equity holders of Medical Therapies Limited</b>		<b>(3,334,546)</b>	<b>(2,688,804)</b>	<b>(3,239,046)</b>	<b>(2,687,695)</b>

		Cents	Cents
<b>Earnings per share for loss attributable to the ordinary equity holders of the Company:</b>			
Basic earnings per share	29	(2.77)	(4.12)
Diluted earnings per share	29	(2.77)	(4.12)

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

## Medical Therapies Limited

Balance sheets

As at 30 June 2009

	Notes	Consolidated		Parent entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	8(a)	163,161	968,242	157,397	962,308
Trade and other receivables	9	38,301	51,585	37,783	42,765
Inventory	10	1,000,000	-	1,000,000	-
<b>Total current assets</b>		<b>1,201,462</b>	<b>1,019,827</b>	<b>1,195,180</b>	<b>1,005,073</b>
<b>Non-current assets</b>					
Property, plant and equipment	11	20,991	36,106	20,991	35,078
Intangible assets	13	-	1,545,500	-	1,545,500
<b>Total non-current assets</b>		<b>20,991</b>	<b>1,581,606</b>	<b>20,991</b>	<b>1,580,578</b>
<b>Total assets</b>		<b>1,222,453</b>	<b>2,601,433</b>	<b>1,216,171</b>	<b>2,585,651</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	14	395,322	288,970	395,322	374,970
Borrowings	15	26,021	1,660,978	26,021	1,660,978
Provisions	16	62,461	35,855	62,461	35,855
<b>Total current liabilities</b>		<b>483,804</b>	<b>1,985,803</b>	<b>483,804</b>	<b>2,071,803</b>
<b>Total liabilities</b>		<b>483,804</b>	<b>1,985,803</b>	<b>483,804</b>	<b>2,071,803</b>
<b>Net assets</b>		<b>738,649</b>	<b>615,630</b>	<b>732,367</b>	<b>513,848</b>
<b>EQUITY</b>					
Contributed equity	18	14,255,828	10,871,395	14,255,828	10,871,395
Reserves	19(a)	1,344,331	1,271,199	1,344,331	1,271,199
Accumulated losses	19(b)	(14,861,510)	(11,526,964)	(14,867,792)	(11,628,746)
<b>Total equity</b>		<b>738,649</b>	<b>615,630</b>	<b>732,367</b>	<b>513,848</b>

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

## Medical Therapies Limited

Statements of changes in equity  
For the year ended 30 June 2009

	Notes	Consolidated		Parent entity	
		2009 \$	2008 \$	2009 \$	2008 \$
<b>Total equity at the beginning of the financial year</b>		615,630	1,532,962	513,848	1,430,071
<b>Loss for the year</b>		<b>(3,334,546)</b>	(2,688,804)	<b>(3,239,046)</b>	(2,687,695)
<b>Total recognised income and expense for the year</b>		<b>(3,334,546)</b>	(2,688,804)	<b>(3,239,046)</b>	(2,687,695)
<b>Transactions with equity holders</b>					
Contributions of equity, net of transaction costs	18(c)	<b>3,511,742</b>	1,495,587	<b>3,511,742</b>	1,495,587
Movement in share based payments reserve	19	<b>73,132</b>	275,885	<b>73,132</b>	275,885
Equity component of convertible notes		<b>(127,309)</b>	-	<b>(127,309)</b>	-
		<b>3,457,565</b>	1,771,472	<b>3,457,565</b>	1,771,472
<b>Total equity at the end of the financial year</b>		<b>738,649</b>	615,630	<b>732,367</b>	513,848

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

## Medical Therapies Limited

### Cash flow statements

For the year ended 30 June 2009

	Notes	Consolidated		Parent entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Payments to suppliers and employees (inclusive of goods and services tax)		(1,252,127)	(2,242,842)	(1,251,957)	(2,242,126)
Other revenue		160,288	668,547	160,288	668,424
Interest paid		(8,352)	(322)	(8,352)	(322)
<b>Net cash (outflow) from operating activities</b>	27	<b>(1,100,191)</b>	<b>(1,574,617)</b>	<b>(1,100,021)</b>	<b>(1,574,024)</b>
<b>Cash flows from investing activities</b>					
Payments for property, plant and equipment		(6,792)	(4,546)	(6,792)	(4,546)
Loan from related party		-	-	-	-
Payments for intangible assets		-	-	-	-
Proceeds from sale of property, plant and equipment		-	15,000	-	15,000
Repayment of loans by related parties		-	-	-	-
Interest received		30,569	62,620	30,569	62,620
<b>Net cash inflow/ (outflow) from investing activities</b>		<b>23,777</b>	<b>73,074</b>	<b>23,777</b>	<b>73,074</b>
<b>Cash flows from financing activities</b>					
Proceeds from issues of shares and other equity securities net of transaction costs		770,197	766,088	770,197	766,088
Interest paid on convertible note		(31,917)	(138,615)	(31,917)	(138,615)
Repayment of convertible note		(454,239)	-	(454,239)	-
Repayment of borrowings		(12,708)	-	(12,708)	-
<b>Net cash inflow from financing activities</b>		<b>271,333</b>	<b>627,473</b>	<b>271,333</b>	<b>627,473</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(805,081)</b>	<b>(874,070)</b>	<b>(804,911)</b>	<b>(873,477)</b>
Cash and cash equivalents at the beginning of the financial year		968,242	1,842,312	962,308	1,835,785
<b>Cash and cash equivalents at end of year</b>	8(a)	<b>163,161</b>	<b>968,242</b>	<b>157,397</b>	<b>962,308</b>

Non-cash financing and investing activities

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

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## **1 Summary of significant accounting policies**

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

### **(a) Basis of preparation**

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

#### *Compliance with IFRSs*

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

#### *Historical cost convention*

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

#### *Critical accounting estimates*

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

#### *Going concern*

As a developing business, the Consolidated Entity has experienced operating losses of \$3,334,546 (2008:\$ 2,688,804) and net cash outflows from operating activities of \$ 1,100,191 (2008: \$1,574,617).

Since 30 June 2009 the Consolidated Entity has raised \$550,000 from an equity placement. The Consolidated Entity is also in negotiations with a number of parties for the out-licensing of some of the non-core Midkine assets and for the production of diagnostic packages. Early stage licensing of some of these assets and production of diagnostic packages is expected to provide the working capital to pursue in-house product development programs.

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

As a result of these matters, there is significant uncertainty whether the Consolidated Entity will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The directors believe that the Consolidated Entity will be successful in negotiating significant debt or equity finance or securing other cashflows 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 2009. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Consolidated Entity not continue as a going concern.

### **(b) Principles of consolidation**

#### *(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of the subsidiary of Medical Therapies Limited ("Company" or "parent entity") as at 30 June 2009 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.

**(c) Segment reporting**

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

**(d) Revenue recognition**

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

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

**(e) Income tax**

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

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

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

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

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

*Tax consolidation legislation*

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

**(f) Leases**

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

**(g) Business combinations**

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

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

difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

**(h) Impairment of assets**

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

**(i) Cash and cash equivalents**

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

**(j) Receivables**

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

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

**(k) Inventories**

Raw materials, work in progress and finished goods are stated at lower of cost and net realisable value. Costs comprise direct materials, direct labour and an appropriate portion of variable and fixed overhead expenditure, the later being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated cost necessary to make the sale.

**(l) 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.

**(m) 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.

**(n) Leasehold improvements, furniture, fittings and office equipment**

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

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

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

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

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

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

**(o) Intangible assets**

*(i) Intangible assets – other intangibles*

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

*(ii) Patents and Trademarks*

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

*(iii) Research and development*

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

**(p) 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.

**(q) 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.

## **(r) Employee benefits**

### *Employee benefits*

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

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

#### *(ii) Long service leave*

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

#### *(iii) Retirement benefit obligations*

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

#### *(iv) Share-based payments*

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

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

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

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

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

## **(s) Other Share Based Payments**

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

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

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

estimate.

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

**(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**

**Accounting Standards**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods.

The Group has not elected to early adopt any new standards or amendments.

The Group's assessment of the impact of those new standards and interpretations that are applicable to the entity is set out below.

**(i) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 (effective from 1 January 2009)**

AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group will adopt AASB 8 from 1 July 2009.

**(ii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101 (effective from 1 January 2009)**

The September 2007 revised AASB 101 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a

third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group will apply the revised standard from 1 July 2009.

*(iii) AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations (effective from 1 January 2009)*

AASB 2008-1 clarifies that vesting conditions are service conditions and performance conditions only and that other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply the revised standard from 1 July 2009, but it is not expected to affect the accounting for the Group's share-based payments.

*(iv) Revised AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 (effective 1 July 2009)*

The revised AASB 3 continues to apply the acquisition method to business combinations, but with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement.

At present the Group does not have any business combination, however, where applicable, the Group will apply the revised standards prospectively to all business combinations and transactions with non-controlling interests from 1 July 2009.

*(v) AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective 1 July 2009)*

The amendments to AASB 5 Discontinued Operations and AASB 1 First-Time Adoption of Australian-Equivalents to International Financial Reporting Standards are part of the IASB's annual improvements project published in May 2008. They clarify that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosures should be made for this subsidiary if the definition of a discontinued operation is met. The Group will apply the amendments prospectively to all partial disposals of subsidiaries from 1 July 2009.

*(vi) AASB 2008-7 Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 July 2009)*

In July 2008, the AASB approved amendments to AASB 1 First-time Adoption of International Financial Reporting Standards and AASB 127 Consolidated and Separate Financial Statements. The Group will apply the revised rules prospectively from 1 July 2009. After that date, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. Under the entity's current policy, these dividends are deducted from the cost of the investment. Furthermore, when a new intermediate parent entity is created in internal reorganisations it will measure its investment in subsidiaries at the carrying amounts of the net assets of the subsidiary rather than the subsidiary's fair value.

*(ix) AASB 2008-8 Amendment to IAS 39 Financial Instruments: Recognition and Measurement (effective 1 July 2009)*

AASB 2008-8 amends AASB 139 Financial Instruments: Recognition and Measurement and must be applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. The Group will apply the amended standard from 1 July 2009. It is not expected to have a material impact on the Group's financial statements.

## 2 Financial risk management

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

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

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Financial assets</b>				
Cash and cash equivalents	163,161	968,242	157,397	962,308
Trade and other receivables	<u>38,301</u>	<u>51,586</u>	<u>37,783</u>	<u>42,764</u>
	<u>201,462</u>	<u>1,019,828</u>	<u>195,180</u>	<u>1,005,072</u>
<b>Financial liabilities</b>				
Trade and other payable	327,915	288,970	327,915	374,970
Borrowings	26,021	1,660,978	26,021	1,660,978
Other financial liabilities	<u>62,461</u>	<u>35,855</u>	<u>62,461</u>	<u>35,855</u>
	<u>416,397</u>	<u>1,985,803</u>	<u>416,397</u>	<u>2,071,803</u>

### (a) Market risk

#### (i) Foreign exchange risk and price risk

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

#### (ii) Cashflow and fair value interest rate risk

The Group's main interest rate risk arose from convertible notes that were issued by the parent entity on 8 May 2007 and matured on 31 December 2008. The convertible notes were issued at a fixed interest rate of 8% and interest was paid quarterly. On 18 February 2009, the Consolidated Entity finalised an agreement with all the holders of Convertible Notes in Medical Therapies Limited ("Noteholders"), whereby each Noteholder was to be issued 2.55 ordinary shares and paid 6.8 cents cash for each Convertible Note currently held, with all shares issued and payments made prior to 25 February 2009.

### (b) Credit risk

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

### (c) Liquidity risk

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

## 2 Financial risk management (continued)

### *Maturities of financial liabilities*

Group and parent – At 30 June 2009	Less than 3 months	3 – 6 months	7 – 12 months	Total contractual cash flows	Carrying Amount (assets)/ liabilities
	\$	\$	\$	\$	\$
<b>Financial liabilities</b> Macquarie Premium Funding	<u>10,160</u>	<u>10,160</u>	<u>5,701</u>	<u>26,021</u>	<u>26,021</u>

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

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

### (d) Fair value estimation

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

## 3 Critical accounting estimates and judgements

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

### (a) Critical accounting estimates and assumptions

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

#### (i) Estimated impairment of intellectual property

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

#### 4 Segment information

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

#### 5 Other revenue and other income

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<i>Other revenue</i>				
Interest	15,413	77,977	15,413	77,977
<i>Other income</i>				
Government subsidies (note (a))	-	31,035	-	31,035
Research and Development tax offset (note (b))	154,748	636,975	154,748	636,975
Miscellaneous income	5,539	537	5,539	414
	<b>160,287</b>	<b>668,547</b>	<b>160,287</b>	<b>668,424</b>
	<b>175,700</b>	<b>746,524</b>	<b>175,700</b>	<b>746,401</b>

##### (a) Government subsidies

Export market development grants of \$Nil (2008: \$ 31,035) were recognised as other income by the Group during the financial year. There are no unfulfilled conditions or other contingencies attaching to these subsidies.

##### (b) Research and Development tax offset

The \$154,748 (2008: \$636,975) research and development tax offset was received for a claim in accordance with the Commonwealth Governments Research and Development Tax Concession initiatives where the consolidated groups' expenditure on research and development is below \$1 million and revenue is less than \$5 million.

#### 6 Expenses

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Loss before income tax includes the following specific expenses:</b>				
<i>Depreciation and amortisation</i>				
Plant and equipment	21,393	45,213	20,880	44,698
Acquired intellectual property	1,545,500	1,081,850	1,545,500	1,081,850
Total depreciation and amortisation	<b>1,566,893</b>	<b>1,127,063</b>	<b>1,566,380</b>	<b>1,126,548</b>
<i>Finance costs</i>				
Interest and finance charges paid/payable	<b>(76,387)</b>	203,660	<b>(76,387)</b>	203,660
Net loss on disposal of property, plant and equipment	514	44,479	-	44,479
<i>Rental expense relating to operating leases</i>				
Minimum lease payments	199,707	96,369	199,707	96,369
Contingent rentals	-	-	-	-
Total rental expense relating to operating leases	<b>199,707</b>	<b>96,369</b>	<b>199,707</b>	<b>96,369</b>

## 7 Income tax expense

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>(a) Income tax expense</b>				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>				
Loss before income tax expense	<b>(3,334,546)</b>	(2,688,804)	<b>(3,239,046)</b>	(2,687,695)
Tax (benefit) at the Australian tax rate of 30%	<b>(1,000,364)</b>	(806,641)	<b>(971,714)</b>	(806,309)
Tax effect of amounts which are not deductible in calculating taxable income:				
Non-assessable income	-	(191,093)	-	(191,093)
Amortisation of intangibles	<b>463,650</b>	324,555	<b>463,650</b>	324,555
Entertainment	-	-	-	-
Share-based payments	<b>168,940</b>	82,766	<b>168,940</b>	82,766
Depreciation	-	3,086	-	3,086
Sundry items	<b>198</b>	-	<b>198</b>	-
Adjusted income tax	<b>(367,576)</b>	(587,327)	<b>(338,926)</b>	(586,995)
Tax losses not brought to account	<b>367,576</b>	587,327	<b>338,926</b>	586,995
Income tax expense	-	-	-	-
<b>(c) Tax losses</b>				
Unused tax losses for which no deferred tax asset has been recognised	<b>3,739,656</b>	3,372,080	<b>3,709,896</b>	3,370,970
Temporary difference deferred tax assets not recognised	<b>(413,266)</b>	(237,527)	<b>(413,266)</b>	(237,527)
Potential tax benefit @ 30%	<b>997,917</b>	940,366	<b>988,989</b>	940,033

All unused tax losses were incurred by Australian entities.

This benefit for tax losses will only be obtained if:

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

### (d) Tax consolidation legislation

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

## 8 Current assets – Cash and cash equivalents

	Consolidated		Parent entity	
	20089	2008	2009	2008
	\$	\$	\$	\$
Cash at bank and in hand	42,679	116,951	36,915	111,017
Investment account	120,482	851,291	120,482	851,291
	<b>163,161</b>	<b>968,242</b>	<b>157,397</b>	<b>962,308</b>

### (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	
	2009	2008	2009	2008
	\$	\$	\$	\$
Balances as above	163,161	968,242	157,397	962,308
Balances per statement of cash flows	163,161	968,242	157,397	962,308

### (b) Cash

Cash at bank and in hand are non-interest bearing. The cash in the investment account earns a floating interest rate between 2% and 6.15% (2008 – 7.05% to 7.80%).

### (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	
	2009	2008	2009	2008
	\$	\$	\$	\$
Other receivables	9,128	49,772	8,610	40,952
Prepayments	29,173	1,813	29,173	1,813
	<b>38,301</b>	<b>51,585</b>	<b>37,783</b>	<b>42,765</b>

### (a) 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 Current assets – Inventory

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Inventory	1,000,000	-	1,000,000	-
<b>Total inventories at the lower of cost and net realisable value</b>	<b>1,000,000</b>	<b>-</b>	<b>1,000,000</b>	<b>-</b>

## 11 Non-current assets – Property, plant and equipment

Consolidated	Furniture, fittings and office equipment	Leasehold improvements	Total
	\$	\$	\$
<b>At 1 July 2007</b>			
Cost	150,180	52,524	202,704
Accumulated depreciation	(45,828)	(21,791)	(67,619)
Net book amount	104,352	30,733	135,085
<b>Year ended 30 June 2008</b>			
Opening net book amount	104,353	30,732	135,085
Additions	4,348	-	4,348
Disposals	(37,667)	(20,447)	(58,114)
Depreciation charge	(34,928)	(10,285)	(45,213)
Closing net book amount	36,106	-	36,106
<b>At 30 June 2008</b>			
Cost	83,511	-	83,511
Accumulated depreciation	(47,405)	-	(47,405)
Net book amount	36,106	-	36,106
Consolidated	Furniture, fittings and office equipment	Leasehold improvements	Total
	\$	\$	\$
<b>Year ended 30 June 2009</b>			
Opening net book amount	36,106	-	36,106
Additions	6,792	-	6,792
Disposals	(514)	-	(514)
Depreciation charge	(21,393)	-	(21,393)
Closing net book amount	20,991	-	20,991
<b>At 30 June 2009</b>			
Cost	83,078	-	83,078
Accumulated depreciation	(62,087)	-	(62,087)
Net book amount	20,991	-	20,991

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

Parent entity	Furniture, fittings and office equipment \$	Leasehold improvements \$	Total \$
<b>At 1 July 2007</b>			
Cost	142,952	52,524	195,476
Accumulated depreciation	(40,142)	(21,791)	(61,933)
Net book amount	<u>102,810</u>	<u>30,733</u>	<u>133,543</u>
<b>Year ended 30 June 2008</b>			
Opening net book amount	102,811	30,732	133,543
Additions	4,348	-	4,348
Disposals	(37,667)	(20,447)	(58,114)
Depreciation charge	(34,414)	(10,285)	(44,699)
Closing net book amount	<u>35,078</u>	<u>-</u>	<u>35,078</u>
<b>At 30 June 2008</b>			
Cost	76,283	-	76,283
Accumulated depreciation	(41,205)	-	(41,205)
Net book amount	<u>35,078</u>	<u>-</u>	<u>35,078</u>
<b>Parent entity</b>			
<b>Year ended 30 June 2009</b>			
Opening net book amount	35,078	-	35,078
Additions	6,792	-	6,792
Disposals	-	-	-
Depreciation charge	(20,879)	-	(20,879)
Closing net book amount	<u>20,991</u>	<u>-</u>	<u>20,991</u>
<b>At 30 June 2009</b>			
Cost	83,078	-	83,078
Accumulated depreciation	(62,087)	-	(62,087)
Net book amount	<u>20,991</u>	<u>-</u>	<u>20,991</u>

## 12 Non-current assets - Deferred tax assets

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>The balance comprises temporary differences attributable to:</b>				
<i>Amounts recognised in profit or loss</i>				
Accrued expenses claimable in future periods	<b>50,384</b>	10,757	<b>50,384</b>	10,757
Unused tax losses	-	-	-	-
<i>Amounts recognised directly in equity</i>				
Transaction costs	-	76,271	-	76,267
	<b>50,384</b>	87,028	<b>50,384</b>	87,028
Set-off of deferred tax liability of parent entity pursuant to set-off provisions (note 16)	<b>(463,650)</b>	(324,555)	<b>(463,650)</b>	(324,555)
Temporary difference deferred tax assets not recognised	<b>413,266</b>	237,527	<b>413,266</b>	237,527
Net deferred tax assets	-	-	-	-

### 13 Non-current assets – Intangible assets

#### Consolidated

#### Acquired intellectual property \$

##### At 1 July 2007

Cost	3,091,000
Accumulated amortisation and impairment	(463,650)
Net book amount	<u>2,627,350</u>

##### Year ended 30 June 2008

Opening net book amount	2,627,350
Additions	-
Write-down	-
Amortisation charge *	(1,081,850)
Closing net book amount	<u>1,545,500</u>

##### At 30 June 2008

Cost	3,091,000
Accumulated amortisation	(1,545,500)
Net book amount	<u>1,545,500</u>

#### Acquired intellectual property \$

##### Year ended 30 June 2009

Opening net book amount	1,545,500
Additions	-
Write-down	-
Amortisation charge *	(1,545,500)
Closing net book amount	<u>-</u>

##### At 30 June 2009

Cost	-
Accumulated amortisation	-
Net book amount	<u>-</u>

\* Amortisation of \$1,545,000 is included in depreciation and amortisation expense in the income statement.

### 14 Current liabilities - Trade and other payables

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Trade payables	83,509	97,666	83,509	97,666
Loan from controlled entity	-	-	-	86,000
Other payables	311,813	191,304	311,813	191,304
	<u>395,322</u>	<u>288,970</u>	<u>395,322</u>	<u>374,970</u>

## 15 Current liabilities – Borrowings

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Unsecured</b>				
Convertible notes	-	1,660,978	-	1,660,978
Macquarie Premium Funding	<b>26,021</b>	-	<b>26,021</b>	-
Total unsecured current borrowings	<b>26,021</b>	1,660,978	<b>26,021</b>	1,660,978

### (a) Interest rate risk exposures

The Group has no significant exposure to interest rate risk on borrowings. The Macquarie Premium Funding agreement incurs a fixed flat interest rate of 4.94% (2008: \$Nil).

### (b) Convertible notes

The parent entity issued 10,741,095 8% convertible notes for \$1.83 million on 8 May 2007. The notes were 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.

On 18 February 2009, the Consolidated Entity finalised an agreement with all the holders of Convertible Notes in Medical Therapies Limited ("Noteholders"), whereby each Noteholder was issued 2.55 ordinary shares and paid 6.8 cents cash for each Convertible Note currently held, with all shares issued and payments made prior to 25 February 2009.

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Face value of notes issued	1,660,978	1,825,946	1,660,978	1,825,946
Converted to shares	(1,251,548)	(120,200)	(1,251,548)	(120,200)
Other equity securities - value of conversion rights	127,309	(127,309)	127,309	(127,309)
Payment to Credit Note Holders	(454,239)	-	(454,239)	-
	(82,500)	1,578,437	(82,500)	1,578,437
Interest expense *	-	270,674	-	270,674
Interest paid	-	(154,018)	-	(154,018)
Interest writeback	82,500	-	82,500	-
Current liability – interest payable	-	(34,115)	-	(34,115)
Transaction costs	-	-	-	-
Non-current liability	-	1,660,978	-	1,660,978

\* Interest expense is calculated by applying the effective interest rate of Nil% (2008:12.64 %) to the liability component

## 16 Current liabilities - Provisions

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Employee benefits -annual leave	<b>62,461</b>	35,855	<b>62,461</b>	35,855
	<b>62,461</b>	35,855	<b>62,461</b>	35,855

## 17 Non-current liabilities - Deferred tax liabilities

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>The balance comprises temporary differences attributable to:</b>				
<i>Amounts recognised in profit or loss</i>				
Amortisation	463,650	324,555	463,650	324,555
	<u>463,650</u>	<u>324,555</u>	<u>463,650</u>	<u>324,555</u>
Set-off of deferred tax liabilities pursuant to set-off provisions (note 11)	(463,650)	(324,555)	(463,650)	(324,555)
Net deferred tax liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

## 18 Contributed Equity

	Notes	Consolidated and Parent entity		Consolidated and Parent entity	
		2009	2008	2009	2008
		Number	Number	\$	\$
<b>(a) Share capital</b>					
Ordinary shares	(c),(d)				
Fully paid		<b>187,571,266</b>	74,085,624	<b>14,197,839</b>	10,686,097
		<u>187,571,266</u>	<u>74,085,624</u>	<u>14,197,839</u>	<u>10,686,097</u>
<b>(b) Other equity securities</b>					
Value of conversion rights – conversion notes		-	127,309	-	127,309
		<u>-</u>	<u>127,309</u>	<u>-</u>	<u>127,309</u>
Options					
Listed		-	-	<b>57,989</b>	57,989
Managing Director (L Casbolt)		-	1,000,000	-	-
Managing Director (M Halasz)		<b>5,000,000</b>	5,000,000	-	-
Other		<b>13,049,995</b>	500,000	-	-
Directors		-	-	-	-
Executives		<b>50,000</b>	1,005,000	-	-
		<u>18,099,995</u>	<u>7,505,000</u>	<u>57,989</u>	<u>57,989</u>
<b>Total contributed equity</b>				<b>14,255,828</b>	10,871,395

## 18 Contributed equity (continued)

### (c) Movements in ordinary share capital:

Date	Details	Notes	Number of shares	Issue price	\$
	<b>Opening balance 1 July 2007</b>		<b>55,737,480</b>		<b>9,190,510</b>
4 July 2007	Share Issue		6,499,556	\$0.115	747,449
9 July 2007	Share Issue		1,000,000	\$0.115	115,000
13 July 2007	Share Issue		473,913	\$0.115	54,500
15 Oct 2007	Exercise of 294,118 converting note options		294,118	\$0.170	50,000
5 Dec 2007	Exercise of 176,471 converting note options		176,471	\$0.170	30,000
19 Dec 2007	Exercise of 53,331 options		53,331	\$0.200	10,666
20 Dec 2007	Exercise of 117,647 converting note options		117,647	\$0.170	20,000
20 Dec 2007	Exercise of 11,666 options		11,666	\$0.200	2,333
24 Dec 2007	Exercise of 5,000 options		5,000	\$0.200	1,000
2 Jan 2008	Exercise of 3,333 options		3,333	\$0.200	667
11 Mar 2008	Exercise of 58,823 converting note options		58,823	\$0.170	10,000
14 May 2008	Share issue		9,654,286	\$0.053	506,850
	Less transaction costs arising on share issue				(52,878)
	<b>Closing balance 30 June 2008</b>		<b>74,085,624</b>		<b>10,686,097</b>
	<b>Opening balance 1 July 2008</b>		<b>74,085,624</b>		<b>10,686,097</b>
1 July 2008	Share Issue		20,000,000	\$0.05	1,000,000
16 Sept 2008	Exercise of 9,474,437 converting note options		9,474,437	\$0.048	460,187
17 Sept 2008	Exercise of 1,235,295 converting note options		1,235,295	\$0.048	60,000
20 Nov 2008	Exercise of 1,029,413 converting note options		1,029,413	\$0.048	50,000
17 Dec 2008	Share issue		712,503	\$0.04	28,500
23 Feb 2009	Exercise of 17,033,994 converting note options		17,033,994	\$0.04	681,360
23 Feb 2009	Share issue		7,500,000	\$0.03	225,000
8 May 2009	Share issue		7,500,000	\$0.03	225,000
8 May 2009	Share issue		34,000,000	\$0.01	340,000
8 May 2009	Share issue		15,000,000	\$0.03	450,000
	Less transaction costs arising on share issue				(8,305)
	<b>Closing balance 30 June 2009</b>		<b>187,571,266</b>		<b>14,197,839</b>

## 18 Contributed equity (continued)

### (d) Ordinary shares

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

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

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

### (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 15.

### (f) Movements in options:

		Number	\$
<b>Opening balance 1 July 2007</b>		<b>25,296,733</b>	<b>57,989</b>
19 Dec 2007	Options exercised	(53,331)	
20 Dec 2007	Options exercised	(11,666)	
24 Dec 2007	Options exercised	(5,000)	
31 Dec 2007	Options lapsed	(20,096,736)	
31 Dec 2007	Options lapsed	(2,550,000)	
31 Dec 2007	Options lapsed	(75,000)	
16 June 2008	Options issued –M Halasz	5,000,000	
<b>Closing balance 30 June 2008</b>		<b>7,505,000</b>	<b>57,989</b>
<b>Opening balance 1 July 2008</b>		<b>7,505,000</b>	<b>57,989</b>
31 Dec 2008	Options lapsed	(1,455,005)	
08 May 2009	Options issued	6,800,000	
01 June 2009	Options issued	5,250,000	
<b>Closing balance 30 June 2009</b>		<b>18,099,995</b>	<b>57,989</b>

## 18 Contributed equity (continued)

### (g) Options

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

In May 2009, 6,800,000 unlisted \$0.03 options expiring on 8 May 2012 were issued to applicants of Medical Therapies Limited's 34,000,000 share issue with 1 option for every 5 shares applied for no additional consideration.

In June 2009, 5,250,000 unlisted \$0.05 options expiring on the 1 June 2014 were issued as payment for work performed by consultants. These options were issued at \$0.1393 resulting in equity based payments of \$73,132.

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

## 19 Reserves and accumulated losses

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>(a) Reserves</b>				
Share-based payments reserve	<b>1,344,331</b>	1,271,199	<b>1,344,331</b>	1,271,199
	<b>1,344,331</b>	1,271,199	<b>1,344,331</b>	1,271,199
<b>Movements:</b>				
<i>Share-based payments reserve</i>				
Balance 1 July	<b>1,271,199</b>	995,314	<b>1,271,199</b>	995,314
Option expense	<b>73,132</b>	275,885	<b>73,132</b>	275,885
Balance 30 June	<b>1,344,331</b>	1,271,199	<b>1,344,331</b>	1,271,199

### (b) Accumulated losses

Movements in accumulated losses were as follows:

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Balance 1 July	<b>11,526,964</b>	8,838,160	<b>11,628,746</b>	8,941,051
Net loss for the year	<b>3,334,546</b>	2,688,804	<b>3,239,046</b>	2,687,695
Balance 30 June	<b>14,861,510</b>	11,526,964	<b>14,867,792</b>	11,628,746

### (c) Nature and purpose of reserves

#### (i) Share-based payments reserve

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

## 20 Key management personnel disclosures

### (a) Directors

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

(i) *Chairman - non-executive*

Dr D King (from 18 January 2008 to current)

(ii) *Executive directors*

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

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

(iii) *Non-executive directors*

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

Mr Koichiro Kioke (from 10 September 2008 to current)

### (b) Directors and key management personnel compensation

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Short-term employee benefits	513,882	607,358	513,882	607,358
Post-employment benefits	44,767	50,844	44,767	50,844
Share-based payments	-	168,772	-	168,722
	<u>558,648</u>	<u>826,924</u>	<u>558,648</u>	<u>826,924</u>

The company has taken advantage of the relief provided by AASB 124 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 8 to 14.

### (c) Equity instrument disclosures relating to key management personnel

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

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

(ii) *Option holdings*

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

## 20 Key management personnel disclosures (continued)

2009						
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
<b>Directors of Medical Therapies Limited</b>						
M Halasz	5,000,000	-	-	-	-	5,000,000
D King	-	-	-	-	-	-
S Williams	-	-	-	-	-	-
K Koike	-	-	-	-	-	-
<b>Other key management personnel</b>						
A Bursill	-	-	-	-	-	-
J Hill	-	-	-	-	-	-

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

D James options lapsed on termination of his employment.

Mr Bursill, company secretary, is an associate of Franks & Associates Pty Ltd who provides accounting and company secretarial services to Medical Therapies Limited. The contract between Medical Therapies Limited and Franks and Associates is based on normal commercial terms. Franks & Associates subscribed for \$40,000, being 4,000,000 shares, in Medical Therapies Limited on 8 May 2009. Subscribers in the capital placement received, at no additional consideration, one option for every five shares subscribed for. These options are exercisable at 3c each and expire on 8 May 2012. As a result, 800,000 options were received by Franks and Associates on 8 May 2009.

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

## 20 Key management personnel disclosures (continued)

### (iii) Share holdings

The numbers of shares in the Company held during the financial year by each director and key management personnel of Medical Therapies Limited, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2009				
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
<b>Directors of Medical Therapies Limited</b>				
<b>Ordinary shares</b>				
D King	830,000	8,725,000	-	9,555,000
M Halasz	133,000	306,250	-	439,250
K Koike	-	-	-	-
A Bursill	-	-	-	-
J Hill	-	-	-	-

Dr King owns 9,555,000 shares indirectly.

Ms Halasz owns 439,250 shares indirectly.

Mr Koike does not own shares directly or indirectly.

Mr Bursill, company secretary, is an associate of Franks & Associates Pty Ltd who provides accounting and company secretarial services to Medical Therapies Limited. The contract between Medical Therapies Limited and Franks & Associates is based on normal commercial terms. \$40,000 in shares, being 4,000,000 shares issued on 8 May 2009 for \$0.01 each was received by Franks & Associates in relation to this contract for the year.

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

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

Dr Williams does not own shares directly or indirectly.

Ms Halasz owns 133,000 shares indirectly.

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

Prof Vitale owns his shares directly.

Other changes during the year comprise shares purchased on market.

## 20 Key management personnel disclosures (continued)

### (d) Other transactions with key management personnel

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

There were no transactions with key management personnel during the financial year ended 30 June 2009.

## 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	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>(a) Assurance services</b>				
<i>Audit services</i>				
PricewaterhouseCoopers Australian firm				
Audit of financial reports and other audit work under the <i>Corporations Act 2001</i>	51,910	86,074	51,910	86,074
Non-PricewaterhouseCoopers audit firm				
Audit of financial reports and other audit work under the <i>Corporations Act 2001</i>	-	-	-	-
Total remuneration for audit services	51,910	86,074	51,910	86,074
<i>Other assurance services</i>				
PricewaterhouseCoopers Australian firm				
Due diligence services	-	-	-	-
Total remuneration for other assurance services	-	-	-	-
Total remuneration for assurance services	51,910	86,074	51,910	86,074
<b>(b) Taxation services</b>				
PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of Company income tax returns	-	-	-	-
Non-PricewaterhouseCoopers firm				
Tax compliance services, including review of Company income tax returns	-	-	-	-
Total remuneration for taxation services	-	-	-	-
<b>(c) Advisory services</b>				
PricewaterhouseCoopers Australian firm				
Initial public offering, other public raisings	-	-	-	-
Strategic facilitation	-	-	-	-
Consulting services	-	-	-	-
Non-PricewaterhouseCoopers firm				
Accounting and advisory services	-	-	-	-
Independent expert report	-	-	-	-
Total remuneration for advisory services	-	-	-	-
Total remuneration for non-audit services	-	-	-	-

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 2009 or at 30 June 2008.

### (b) Contingent assets

The parent entity and Group had no significant contingent assets at 30 June 2009 or at 30 June 2008.

## 23 Commitments

### (a) Operating Lease commitments : Group as lessee

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
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	5,202	89,640	5,202	89,640
Later than one year but not later than five years	-	-	-	-
Later than five years	-	-	-	-
	<b>5,202</b>	<b>89,640</b>	<b>5,202</b>	<b>89,640</b>
Representing:				
Non-cancellable operating leases	5,202	89,640	5,202	89,640
	<b>5,202</b>	<b>89,640</b>	<b>5,202</b>	<b>89,640</b>

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

## 24 Related party transactions

### (a) Parent entities

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

### (b) Subsidiaries

Interests in subsidiaries are set out in note 25.

### (c) Key management personnel

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

### (d) Amounts receivable or payable to Related Parties

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

### (e) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Conversion of 7,500,000 converting notes held by Mr David King (director) into ordinary shares	-	-	-	-

## 25 Subsidiaries

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

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2009	2008
			%	%
Biotech Pty Limited	Australia	Ordinary	100	100

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

## 26 Events occurring after the balance sheet date

On 7 July 2009 the company announced the successful placement of \$550,000 in private placement of shares and options.

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

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Loss for the year	<b>(3,334,546)</b>	(2,688,804)	<b>(3,239,046)</b>	(2,687,695)
Depreciation and amortisation	<b>1,577,948</b>	1,127,063	<b>1,577,435</b>	1,126,547
Write off property, plant and equipment	<b>514</b>	-	-	-
Non-cash expense - share-based payments	<b>446,514</b>	275,885	<b>446,514</b>	275,885
Amortisation of convertible note costs	-	28,073	-	28,073
Convertible note effective interest rate	<b>31,917</b>	64,723	<b>31,917</b>	64,723
Interest accrual on converting note	-	34,115	-	34,115
Interest income	<b>(30,568)</b>	(62,620)	<b>(30,568)</b>	(62,620)
Change in operating assets and liabilities				
(Increase)/Decrease in trade and other receivables	<b>19,529</b>	58,762	<b>4,982</b>	58,762
Increase (decrease) in trade and other payables	<b>161,895</b>	(411,814)	<b>82,139</b>	(411,814)
Increase (decrease) in provisions	<b>26,606</b>	-	<b>26,606</b>	-
Net cash (outflow) from operating activities	<b>(1,100,191)</b>	(1,574,617)	<b>(1,100,021)</b>	(1,574,024)

## 28 Non-cash investing and financing activities

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Acquisition of inventory from Cell Signals Inc	<b>1,000,000</b>	-	<b>1,000,000</b>	-

The consideration for the Midkine inventory acquired from Cell Signals Inc. was 20,000,000 ordinary shares. 10,000,000 shares to be held in escrow until 1 July 2009 and 10,000,000 shares to be held in escrow until July 2010.

## 29 Earnings per share

	Consolidated	
	2009 Cents	2008 Cents
<b>(a) Basic and diluted earnings per share</b>		
Loss attributable to the ordinary equity holders of the Company	<b>(2.77)</b>	(4.12)
<b>(b) Loss used in calculating basic and diluted earnings per share</b>		
Loss	<b>(3,334,546)</b>	(2,688,804)
<b>(c) Weighted average number of shares used as the denominator</b>		
	Consolidated	
	2009 Number	2008 Number
<i>Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share</i>	<b>120,397,192</b>	65,291,503

### (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 2009, these options were in fact anti-dilutive, and consequently diluted EPS is the same as basis 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 18.

## 30 Share-based payments

### (a) Director and executive options

No options were issued to any directors during the year ended 30 June 2009.

### (b) Expenses arising from share-based payment transactions

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

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Shares issued to Cell Signals Inc.*	<b>450,000</b>	-	<b>450,000</b>	-
Shares issued to Franks & Associates	<b>40,000</b>	-	<b>40,000</b>	-
Options issued to Advisors	<b>73,132</b>	-	<b>73,132</b>	-
Options issued to The University of Sydney	-	104,500	-	104,500
Options issued to Fresh Capital	-	-	-	-
Options issued to Executives	-	171,385	-	171,385
	<b>563,132</b>	275,885	<b>563,132</b>	275,885

\* 15,000,000 shares issued to Cell Signals Inc. as consideration for the transfer of intellectual property assets that were subsequently expensed relating to Midkine.

**Medical Therapies Limited**

**Directors' declaration  
30 June 2009**

In the directors' opinion:

- (a) the financial statements and notes set out on pages 26 to 60 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 2009 and of their performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (c) the audited remuneration disclosures set out on pages 8 to 14 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*; and

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

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



David King  
Chairman

Sydney  
31 August 2009

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

### Report on the financial report

We have audited the accompanying financial report of Medical Therapies Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Medical Therapies Limited (the Company) and the Medical Therapies Limited Group (the Consolidated Entity). The Consolidated Entity comprises the Company and the entities it controlled at the period's end or from time to time during the financial period.

#### *Directors' responsibility for the financial report*

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

#### *Auditor's responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

**Independent auditor's report to the members of  
Medical Therapies Limited (continued)**

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

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

*Independence*

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

*Auditor's opinion*

In our opinion:

- (a) the financial report of Medical Therapies Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the period ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements and parent entity financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

*Significant Uncertainty Regarding Continuation as a Going Concern*

Without qualification to our opinion, we draw attention to Note 1 in the financial report. Note 1 comments on the Consolidated Entity's continuation as a going concern being dependent on its success in obtaining additional capital or other funds and ultimately its ability to generate revenues. These conditions, along with other matters as set forth in Note 1, indicates the existence of a significant uncertainty as to whether the Consolidated Entity will continue as a going concern and, therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

**Independent auditor's report to the members of  
Medical Therapies Limited (continued)**

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 8 to 15 of the directors' report for the year ended 30 June 2009. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's opinion*

In our opinion, the Remuneration Report of Medical Therapies Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

*Matters relating to the electronic presentation of the audited financial report*

This auditor's report relates to the financial report and remuneration report of Medical Therapies Limited (the Consolidated Entity) for the year ended 30 June 2009 included on Medical Therapies Limited's web site. The Consolidated Entity's directors are responsible for the integrity of the Medical Therapies Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.



PricewaterhouseCoopers



Mark Dow  
Partner

Sydney  
31 August 2009