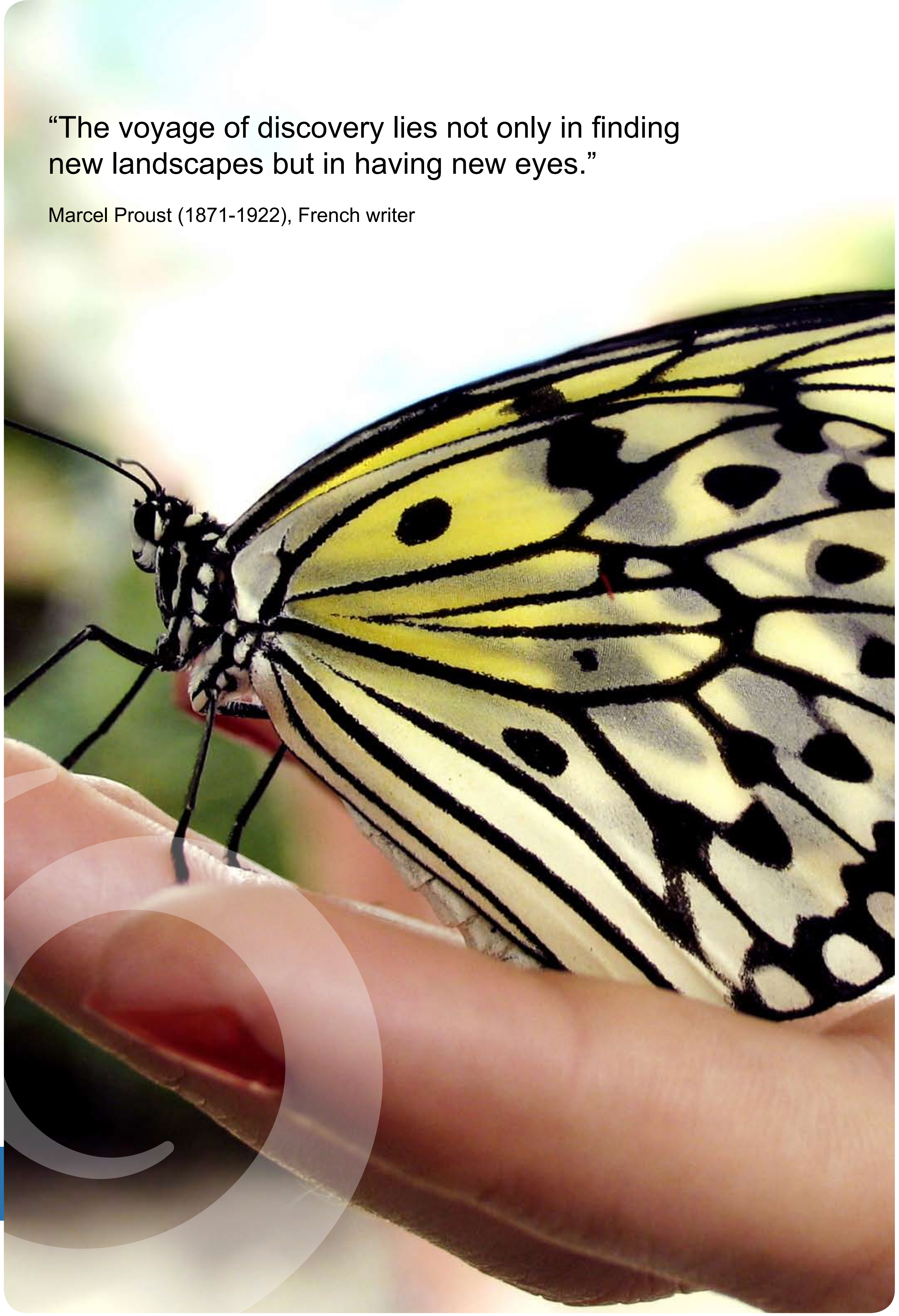
MEDICALTHERAPIES

Annual Report 2006

"The voyage of discovery lies not only in finding new landscapes but in having new eyes."

Marcel Proust (1871-1922), French writer



Contents

MEDICAL THERAPIES LIMITED
ABN 69 111 304 119

STOCK EXCHANGE LISTING
Australian Stock Exchange Limited ASX Code MTY

ANNUAL GENERAL MEETING
The Annual General Meeting will be held at the AGL Theatre, Museum of Sydney, Corner of Phillip and Bridge Streets, Sydney on Wednesday 29 November from 10:00 am.

A Notice of Meeting and Proxy Form are enclosed with this report. It is also available online at www.medicaltherapies.com.au

MEDICALTHERAPIES

Highlights

Medical Therapies Limited is a pharmaceutical company that develops products to treat various cancers and chronic inflammatory diseases such as arthritis. The Company has acquired, from The University of Sydney, a protected IP platform covering a class of metal-based inorganic compounds. Medical Therapies is committed to further developing its intellectual property portfolio, from which it plans to generate a suite of pharmaceutical products for licensing and/or manufacture in developed countries and manufacture and direct sale into emerging markets.

VISION

To relieve pain, improve quality of life and save the lives of those affected by inflammatory diseases and cancer.

2006 FINANCIAL YEAR HIGHLIGHTS

- Listed on the Australian Stock Exchange (ASX) in December 2005.
- Positive results from our pilot study into the treatment of acute vascular inflammation in March 2006.
- Commencement of our long-term preclinical trial into the treatment and possible prevention of skin cancers.

2007 FINANCIAL YEAR OBJECTIVES

- Continue to develop our existing platform of anti-inflammatory and anti-cancer technologies.
- Apply for registration of our first human medicine, copper indomethacin, in the United States and Australia.
- Explore opportunities to acquire and integrate existing, strategically aligned companies and intellectual property portfolios.

Chairman's Report

Dear Shareholders,

On behalf of the Board, I am pleased to present to you the Annual Report of Medical Therapies Limited for the fiscal year ending 30 June 2006. The report details the progress and performance of the Company over the past year and the strategic directions we have taken during the year to strengthen and better position our Company for future growth.

The past year was one of major significance for our Company. Most importantly, it saw the Company list on the Australian Stock Exchange and its shares begin trading on 9 December 2005. Since late February 2006, shares in the Company have consistently traded above their IPO issue price.

Over the past year we have continued to develop the two main streams of our pharmaceutical technology—anti-cancer and anti-inflammatory drugs. We began a long term study of the skin-cancer preventative and curative abilities of one technology, and completed a pilot study of the acute vascular anti-inflammatory activities of another technology, which demonstrated its profound ability to treat this condition. This result is now being quantified in a larger-scale study, and this drug may ultimately prove significant in the treatment of inflammation resulting from heart attack and stroke.

In an important strategic move during July 2006, the Board decided to acquire the Nature Vet Group, a veterinary pharmaceutical manufacturer and distributor based at Glenorie in the northwest of Sydney. Nature Vet is well known to Medical Therapies, having invested, together with The University of Sydney, nearly 10 years of time, effort and cash in developing the core technologies that Medical Therapies now owns. The acquisition of Nature Vet will bring significant revenue and profit to Medical Therapies over the coming years through continued growth in sales of its more than 75 products, which are distributed to more than 40 countries around the world. We look forward to concluding this acquisition during 2007.

I and the rest of the Board of Medical Therapies are of the opinion that the Company's scientific capabilities, its talented and committed staff, its experienced directors, its dedication to the highest standards of ethical behaviour, and its strict adherence to the principles of good corporate governance have kept—and will continue to keep—Medical Therapies moving strongly forward in this highly competitive environment.

Michael R Vitale

Michael Vitale
Chairman

CEO's Report

Medical Therapies Limited listed on the Australian Stock Exchange and has by all reasonable measures been successful in the context of the Australian biotech market.

During the year we continued to fund the development of our core technologies at The University of Sydney. It is very pleasing to be able to report that this work has progressed well; we continue to be either on or ahead of the Milestones we set with The University of Sydney early in the year and we have filed six new provisional patents and three PCT patents during the course of the year which build strongly on our pipeline of intellectual property. We believe that these patents will become most valuable properties over the next few years.

Our research and development efforts are the foundation of this Company and the engine of its future growth. We will continue to invest in the discovery and development of the novel medicines that we expect will define the success of Medical Therapies and are confident that these investments will lead to future growth.

FINANCIAL SUMMARY

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	**2006 $**	9 MONTHS TO 30 JUNE 2005 $
Revenue	**79,154**	10,067	**78,917**	8,994
Other income	**37,899**	-	**37,899**	-
Consultancy expenses	**(728,749)**	(591,979)	**(728,749)**	(554,803)
Share-based compensation	**(568,000)**	-	**(568,000)**	-
Research and development expense	**(663,292)**	(84,530)	**(663,292)**	(84,530)
Loan provision and impairment of investment	**-**	-	**-**	(500,500)
Depreciation and amortisation expense	**(166,481)**	(5,558)	**(163,145)**	(596)
Professional fees	**(208,065)**	(333,763)	**(205,937)**	(290,217)
Directors' remuneration	**(112,406)**	(55,590)	**(112,406)**	(55,590)
Other expenses	**(425,066)**	(211,624)	**(408,372)**	(172,221)
Finance costs	**(5,086)**	(119)	**(5,085)**	-
Loss before income tax	**(2,760,092)**	(1,273,096)	**(2,738,170)**	(1,649,463)
Income tax expense	**-**	-	**-**	-
Net loss attributable to members of Medical Therapies Limited	**(2,760,092)**	(1,273,096)	**(2,738,170)**	(1,649,463)

In support of the Company's financial position, we undertook the following capital raisings during the year (all dollar amounts reflect gross proceeds):

- Pre-IPO Seed Capital Raising (4 November 2005): $175,000
- IPO Capital Raising (5 December 2005): $3,085,300
- Issue of 15.382 million Options $0.005 each (April to June 2006): $76,910
- Capital Raising (26 May 2006): $2,004,290

PRODUCT DEVELOPMENT

In 2007, we expect to file an application for the registration of copper indomethacin as a human drug in both the USA and Australia. This application will seek approval for all of the current indications of indomethacin the parent drug of our most advanced metal-NSAID complex. These current indications include use as an anti-inflammatory medicine for the treatment of chronic conditions such as osteoarthritis and acute conditions like severe muscle strain.

We are hopeful the significantly enhanced safety profile of copper indomethacin we have demonstrated in a range of animals is translated into humans and that in a market with unresolved doubts over the safety of some of the selective COX-2 inhibiting NSAIDs such as Vioxx (which was voluntarily withdrawn in late 2004), our medicine can provide people with a therapy that is both effective and safe.

If ongoing trials are successful, in 2007 we anticipate filing for approval to conduct human trials on our copper indomethacin and/or copper ACM medicines for use in the treatment of acute cardio-vascular inflammation. Early pre-clinical tests have shown these drugs to be extremely effective in reducing the type of severe cardio-vascular inflammation that results when someone has a heart attack or a stroke. Additional studies to confirm these findings are currently being conducted. Given that heart diseases are at the top of the list of the world's most serious health problems, this application would be a welcome addition to our product portfolio.

Our early-stage pipeline also shows strong promise. Medical Therapies scientists are working in a significant number of disease areas to develop treatments for such ailments as diabetes, skin cancer and other cancers, colitis and severe pain. We are also working on implementing more effective approaches to accelerating drug development and improving the probability of success of our internal R&D efforts. These efforts are focussed to maximising our research investment at every stage of the pipeline.

While we are enhancing our 'internal' research capabilities, we are mindful that other pharmaceutical and biotech companies are also doing valuable scientific work. That is why we have expanded our approach to include the assessment of potential acquisitions, external collaborations, joint-ventures and other commercial relationships. We are hopeful that these efforts will lead to significant value for all shareholders in the short to medium term.

Copper Indomethacin – the Path to Registration

Work continues in earnest to produce human-grade clinical trial quantities of our most developed drug, copper indomethacin. In July 2006, we appointed an Active Pharmaceutical Ingredient (API) manufacturer in the USA to produce the necessary material which will shortly be formulated into capsules for these trials. I am also pleased to report that we have recently appointed a contract Clinical Trial Manager to manage the necessary clinical trials in the USA on our behalf as we move further down the path of applying for registration of copper indomethacin as a human drug in both Australia and the USA. This application is intended to be submitted early in 2007, although the timing will largely depend on the examiners at the US Food and Drug Administration.

Pre-Clinical Trials – Testing New Uses

Further developments have emerged from a number of pre-clinical animal trials which we have undertaken. The most significant results came from the study conducted on our behalf by the Heart Research Institute (Sydney) which we announced to the market on the 28 March 2006. The announcement was titled Medical Therapies Limited Reports 'Profound' Outcomes of a Pilot Study of the Treatment of Acute Vascular Inflammation: Potential New Treatments for Heart Attack, Stroke and Coronary Post-Surgery Inflammation. The Follow-up Study is now in progress and results are expected to be reported prior to this Annual Report being published. If the results of the Pilot are repeated in the Follow-up Study, these drugs are likely to be of considerable significance in the treatment of a variety of conditions that result in acute vascular inflammation including heart attack and stroke.

Furthermore, shortly after listing we announced that we had commenced a long-term trial to test the effectiveness of some of our metal-NSAID complexes in the treatment and/or prevention of a variety of skin cancers. Although the full results of this trial are not expected to be available until April or May 2007, the very early data encourages the continuation of this extended trial.

OPERATIONS

Of course, to succeed in the long term, we must first succeed in the short term. The strength of our existing product development pipeline, the analysis and approach of potential strategic partners and corporate acquisitions, and the steps we have taken to raise additional capital, contain costs and increase our overall efficiency, will drive our near-term growth. Of note is the planned acquisition of the Nature Vet Group of companies, which is described more fully under Subsequent Events on page 9.

Head-Office Relocation

In April 2006, the Company relocated its head office from York Street, Sydney to Waterloo Road, North Ryde, one of the main precincts for pharmaceutical and biotech companies in Australia. Over the next two years, all research and development work will be conducted at The University of Sydney's campus, under contract with the University. This arrangement enables Medical Therapies to use these advanced research facilities and to draw on the expertise of the University's staff and to use its advanced research facilities and other resources.

Staff

The Company continues to operate on a small staff of highly dedicated people, with the endeavour of directing as much of the Company's financial resources towards development and commercialisation of our technologies.

Head count at the end of the year totalled three, with the support of a temporary secretary. We also employed, indirectly via The University of Sydney, a number of full-time scientists and two professors who lead our project within the University.

These direct staff numbers will change during fiscal 2007, as we have appointed an experienced Chief Operating Officer and an Office Manager. Of course, given the conclusion of the Nature Vet acquisition, the Company will also acquire fifty additional staff members.

Llewellyn S Casbolt

CEO and Managing Director

Subsequent Events

Acquisition of Veterinary Pharmaceuticals, Manufacturing & Distribution Capacity

Proposed Nature Vet Acquisition

On 24 July 2006, Medical Therapies announced its intention to acquire one of Australia's largest veterinary pharmaceutical companies, the Nature Vet Group of companies, comprising Nature Vet Pty Limited, Nature Vet (NZ) Limited, Nature Vet Asia, and BVR Pty Limited.

Nature Vet manufactures, markets and distributes internationally a range of over 75 veterinary pharmaceutical and nutraceutical anti-inflammatory drugs for both large and small animals. Its fiscal 2006 revenue was $11.5 million.

Benefits of the Nature Vet acquisition to Medical Therapies

Nature Vet has:

- existing sales of anti-inflammatory drugs which will bring strong cash flow into your Company;
- strong capability in manufacturing and distribution of animal medicines;
- established international distribution channels through more than 40 countries for new Medical Therapies animal therapeutics and any further products that are acquired;
- significant profit that will dramatically increase the scale of Medical Therapies' business;
- a platform for extending manufacture to human topical therapeutics.

Medical Therapies intends to raise $4 million in equity or debt to fund the cash component of the acquisition in late 2006 or early 2007.

The Board and Senior Management

Background details for the Board of directors are given in the Directors' Report beginning on page 12.

Professor Trevor Hambley BSc (Hons) PhD FRACI CChem
CHIEF SCIENTIST PART-TIME

Trevor Hambley is Professor of Chemistry, Head of the School of Chemistry, and Director of the Centre for Structural Biology and Structural Chemistry at the University of Sydney. He has received the Edgeworth David Medal for contributions to Science by an Australian under the age of 35. He has also received the 'Supervisor of the Year' award in 1997 and an Excellence in Teaching Award for Postgraduate Supervision in 1998 from the University of Sydney. He has studied and worked at the University of Western Australia, the University of Adelaide, the Australian National University, the University of Sydney, Emory University and Birkbeck College, University of London.

Professor Peter Lay BSc (Hons) PhD FRACI CChem
CHIEF SCIENTIST PART-TIME

Peter Lay is Professor of Inorganic Chemistry, Academic Director for the Foundation for Inorganic Chemistry at the University of Sydney and associate director (Bio-Metals) of the Centre for Heavy Metals Research at the University of Sydney. He is also chair of the XOR Committee and a member of the Coordinating Committee of the Australian Synchrotron Research Program, and is on the Beamline Advisory Panels of the Microprobe and X-ray Absorption Beamlines of the Australian Synchrotron. He has been awarded a prestigious inaugural Australian Professorial Fellowship by the Australian Research Council, of which only 23 were awarded in the first year over all areas of research. He has previously studied and worked at the University of Melbourne, the Australian National University, Stanford University, the CSIRO Division of Applied Organic Chemistry and Deakin University, and has been a visiting professor at the University of Berne and the University of Argentina. He has been awarded the Rennie Medal, the Burrows Medal, Fellowship of the Royal Australian Chemical Institute (RACI), and the Edgeworth David Medal of the Royal Society of NSW. He was also recently awarded the 2005 H.G. Smith Medal of the RACI for the most important contributions to any branch of chemistry over the last 10 years. This award was received on the basis of his internationally-recognised research into biological and medicinal inorganic chemistry and applications of synchrotron science.

Directors' Report

The directors present the following report on the Company and its controlled entity for the period ended 30 June 2006.

DIRECTORS

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

Mr Llewellyn Casbolt

Mr Malcom Castle (appointed 23 February 2006)

Mr James Dominguez (resigned 8 March 2006)

Dr Michael Taverner

Professor Michael Vitale

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

PRINCIPAL ACTIVITIES

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

DIVIDENDS PAID OR RECOMMENDED

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

REVIEW OF OPERATIONS

The consolidated loss of the Company for the period after providing for income tax amounted to $2,760,092 (2005 - $2,738,170).

The major milestones of the Company achieved during the year include:

- Listing on the Australian Stock Exchange on 9 December 2005 with funds raised of $3.085 million before costs.
- Beginning a large scale mouse study examining the effectiveness of topical copper-indomethacin and zinc-indomethacin cream therapies as both preventatives and cures for a variety of skin cancers.
- Undertaking a pilot study using a rabbit model of acute vascular inflammation in which two lead compounds—copper indomethacin and copper acemetacin—exhibited positive results. The pilot study was conducted at the Heart Research Institute (Sydney) under the direction of Professor Philip Barter and Dr Raj Puranik.
- Finalising the Company's clinical trial protocols, which aim to further knowledge of the Company's technologies in the forthcoming year.
- Appointment of Dr Jane Weder, enhancing the senior research team.
- Relocation of the Company's head office to 33 Waterloo Road, North Ryde.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the year the Company:

- Successfully completed its initial public offering and listed on the ASX. Proceeds before costs were $3.085 million.
- Completed a further capital raising at $0.29 in May 2006 that provided an additional $2.004 million before costs.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

- On 22 July 2006, Medical Therapies Limited entered into a binding, conditional agreement with Hearthstone Pty Limited to acquire all of the shares in the Nature Vet group of companies, including Nature Vet Pty Limited, Nature Vet (NZ) Limited, Nature Vet Asia, and BVR Pty Limited. Nature Vet is a veterinary pharmaceutical company based in Glenorie, NSW.

  The amount payable for Nature Vet on settlement will be $12.5 million less the outstanding debt of the Nature Vet group (currently approximately $2.9 million), for a net valuation of $9.6 million plus deferred consideration as detailed below. Settlement is expected to occur prior to 31 January 2007.

  The purchase consideration payable at settlement by Medical Therapies for the Nature Vet group will comprise a $4,000,000 cash component and the balance via the issuance of Medical Therapies Limited ordinary shares. The share price to be used to calculate the number of shares to be issued will be the volume-weighted average share price (VWAP) of Medical Therapies ordinary shares as traded on the ASX in the 50 days prior to settlement.

  The agreement also requires Medical Therapies to make performance payments to Hearthstone based on Nature Vet increasing its earnings before interest and tax (EBIT) for calendar years 2007 and 2008. These performance payments would be satisfied via the issue of additional Medical Therapies ordinary shares.

  There are a number of conditions precedent that are required to be satisfied prior to settlement of the acquisition of Nature Vet. These conditions include shareholder and ASX approval, completion of a debt/equity financing to fund the $4 million cash component, and satisfactory conclusion of due diligence.
- In July 2006, the Company applied for $2.246 million in funding from AusIndustry's Commercial Ready Scheme. Further information is being provided to AusIndustry's Review Committee and a final decision is expected following review of this information in late November 2006.

- On 23 August 2006, the Company announced that it intends to raise approximately $4 million through the issue of ordinary shares to existing and new investors, at a price not less than 80% of the average price that the shares trade on the ASX over the five days prior to issue. The placement was approved by shareholders at an Extraordinary General Meeting on 26 September 2006. The net proceeds after brokerage and other transaction costs are anticipated to be $3.75 million. The proceeds will be utilised to fund the Company's research and development program over the course of the next year. The new shares will rank equally with the Company's existing ordinary shares.
- On 14 September 2006, the Company announced the appointment of David James as Chief Operating Officer. Mr James will join the Company on 9th October 2006 and will be responsible for developing and maintaining all aspects of the Company's key operations.

Except for the matters outlined above, no other matter or circumstance has arisen since 30 June 2006 that has significantly affected, or may significantly affect:

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

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

ENVIRONMENTAL ISSUES

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

EARNINGS PER SHARE

Loss per share

	2006 CENTS	2005 CENTS
Basic and diluted loss per share	**(8.06)**	(15.47)

INFORMATION ON DIRECTORS

Llewellyn Casbolt BAppSc

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER (APPOINTED 16 DECEMBER 2004)

Llewellyn Stephen Casbolt has nearly 30 years' international experience in senior executive and consulting roles in the biotechnology and scientific commercialisation area and in the financial services sector. His early career in science, as an international executive and researcher for Nicholas Limited, informs and enhances his management roles in biotechnology and pharmaceutical development.

Through his company, QuickSmart Online Pty Limited, Mr Casbolt has combined his unique skills entrepreneurially to provide strategic and IT services to the financial sector. During nearly two decades as a strategist, marketing and product development specialist, Mr Casbolt has provided corporate management, new product development and acquisition strategies to the top financial institutions of Australia. He was a long-term consultant to, and acting Managing Director of, Perpetual Funds Management, and Vice President, Marketing, for Chase AMP Bank and Elders Finance Group International. Mr Casbolt has provided corporate and product innovation strategies as a consultant to some of the top financial institutions in Australia, including AMP, ANZ Bank, Bankers Trust, Commonwealth Bank, News Limited, Westpac Bank and IOOF.

Mr Casbolt has high volume consumer product marketing experience via various marketing management roles for Cussons, Wynn Winegrowers and Nicholas International.

Mr Casbolt holds a Bachelor of Science degree from Monash University and is a graduate of the Ashridge Management College, London. He is an associate of the School of Chemistry, University of Sydney.

Mr Casbolt holds 35,000 ordinary shares and 3,508,333 options over ordinary shares in Medical Therapies Limited.

Malcom John Castle MSc (Hons) MBA MInstP CPhys CSci MAICD

NON-EXECUTIVE DIRECTOR—INDEPENDENT (APPOINTED 23 FEBRUARY 2006)

Mr Malcom Castle has over 20 years' experience as a senior executive and adviser in Australia and the USA in the healthcare and information technology sectors, and currently advises start-up companies in the areas of healthcare, biotechnology and information technology. Mr Castle has an extensive knowledge of the healthcare market in the USA including the US medical insurance and regulatory environment.

Mr Castle has co-founded and advised a number of venture capital backed start-up companies in the medical device, genetic engineering and information technology sectors.

Mr Castle earlier worked as a physicist with the CSIRO. He holds a Master of Science (honours) degree from the University of Auckland and a Master of Business Administration from the Australian Graduate School of Management, University of New South Wales.

Mr Castle holds 43,000 ordinary shares and 9,999 options over ordinary shares in Medical Therapies Limited.

James Dominguez BA BCom CBE AM

CHAIRMAN - INDEPENDENT (RETIRED 8 MARCH 2006)

Mr James Dominguez is a non-executive director of several companies including E*Trade Australia Limited, Nestle Australia and WESBEAM Holdings Limited. He is also a director of Singapore-based Tat Hong Holdings Limited, a construction and infrastructure company operating throughout Southeast Asia and Australia.

Mr Dominguez holds advisory roles for a number of technology companies, including Cisco Systems Australia and Fuji Xerox Co Limited of Japan. He has been an advisor to Liberal and Labor Federal Governments, and to the NSW Government. He is currently Chairman of BioMed North Limited, which is actively protecting and commercialising the intellectual property generated by medical research of Royal North Shore and Westmead Hospitals.

In 1976, Mr Dominguez founded Stock Exchange Member firm, Dominguez and Barry, which is now owned by UBS AG Australia. Prior to retirement from the investment banking world, he spent eight years as a non-executive director of Samuel Montagu & Co of London. Mr Dominguez was for some years Chairman of St Vincent's Hospital, Sydney, a major public teaching institution, and a member of the Committee of Management of the Garvan Institute of Medical Research. He has also been a Fellow of the Senate of the University of Sydney and is an Honorary Life trustee of the Committee for Economic Development of Australia (CEDA).

Mr Dominguez holds 1,750,000 options over ordinary shares in Medical Therapies Limited

Dr Michael Taverner BAgricSci MAgricSci PhD FAIAST MAICD

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

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

Dr Taverner is a non-executive director of Biosignal Limited, a company listed on ASX to commercialise a novel antibacterial technology, and Chairman of BluGlass Limited, a company listed on ASX to commercialise a novel semiconductor technology. He is a non-executive director of the Australian Rural Leadership Foundation Limited and was also on the boards of the Rural Industries R&D Corporation and the Australian Poultry CRC until 2005.

Dr Taverner has worked as a technical consultant to the Grains R&D Corporation since 1996. Before that he served for six years as Executive Director of the Pig R&D Corporation. His career started as a research scientist in the animal industries where over 17 years he developed a considerable international reputation.

Dr Taverner now also runs his own consulting business in Canberra working with national and international clients on research, innovation and commercialisation. He is an internationally-accredited trainer in human resources and operates widely in public sector organisations around Australia.

In the last three years Dr Taverner has held directorships with Biosignal Limited and Bluglass Limited.

Dr Taverner holds 161,666 ordinary shares and 400,000 options over ordinary shares in Medical Therapies Limited.

Professor Michael Vitale BA PhD MBA

CHAIRMAN - INDEPENDENT (APPOINTED 8 MARCH 2006)

Professor Michael Vitale researches, teaches, and consults on start-up and early stage companies (particularly in biotechnology), innovation and commercialisation, and IT governance.

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

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

Mr Vitale holds 103,733 ordinary shares and 350,000 options over ordinary shares in Medical Therapies Limited.

INFORMATION ON COMPANY SECRETARY

Ian Gilmour FCIS CA FAICD

COMPANY SECRETARY (PART-TIME)

Mr Ian Gilmour is also currently part-time Company Secretary of Biosignal Limited. He is a consultant on corporate governance, a consultant to Nova Legal & Advisory, and a non-executive director and Company Secretary of Audit Quality Review Board Limited and Amazing Loans Limited.

Mr Gilmour is a member of and active in Chartered Secretaries Australia (CSA). He is Chairman of the Corporate and Legal Issues Committee, a member of the Subject Advisory Committee, and a guest presenter for the Graduate Diploma course and other training and development courses. For the last two years he has been an adjudicator on corporate governance for the CSA-sponsored Australasian Reporting Awards.

From 1979 until April 2003, Mr Gilmour held the position of Company Secretary of Goodman Fielder, Australasia's largest food company, having been employed with the group since 1975 in positions that included Assistant Company Secretary and Group Accountant of one of the merged groups. During this time, the group saw significant growth, mergers, acquisitions and rationalisations. He was previously employed for approximately 10 years with Coopers & Lybrand (now PricewaterhouseCoopers).

Mr Gilmour is a Fellow of the Institute of Chartered Secretaries and Administrators and a Chartered Accountant. He has completed the Graduate Diploma course of the Australian Institute of Company Directors and is a Justice of the Peace in and for New South Wales.

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	
	NUMBER ELIGIBLE TO ATTEND	NUMBER ATTENDED	NUMBER ELIGIBLE TO ATTEND	NUMBER ATTENDED
Mr James Dominguez	7	7	-	-
Mr Llewellyn Casbolt	12	12	-	2*
Professor Michael Vitale	12	12	2	2
Dr Michael Taverner	12	12	2	2
Mr Malcom Castle	6	6	1	1

* Mr Casbolt attends the Audit Committee meetings by invitation.

RETIREMENT, ELECTION AND CONTINUATION OF DIRECTORS

Mr James Dominguez resigned as a director on 8 March 2006.

Mr Malcom Castle was appointed a director on 23 February 2006.

AUDIT COMMITTEE

Members of the Audit Committee are Professor Michael Vitale (Chairman), Dr Michael Taverner and Mr Malcom Castle.

REMUNERATION COMMITTEE

The Remuneration Committee was formed subsequent to 30 June 2006. Members of the Remuneration Committee are Professor Michael Vitale, Dr Michael Taverner and Mr Malcom Castle (Chairman).

NOMINATION COMMITTEE

The Nomination Committee was formed subsequent to 30 June 2006. Members of the Nomination Committee are Professor Michael Vitale, Dr Micahel Taverner (Chairman), Mr Malcom Castle and Mr Llewellyn Casbolt.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of the Company for FY2006. 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

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124 Related Party Disclosures. These disclosures have been audited.

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

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

To prosper, the Company must attract, motivate and retain highly skilled directors and executives. To this end, the Company 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 Company 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 Company.

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 2006, the Company paid non-executive directors a total of $112,406 including superannuation.

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

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

Executive remuneration

Objective

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

- reward executives for Company 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 Company
- 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 Company-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 Company.

Remuneration policy and performance

A significant portion of the CEO's remuneration is 'at risk' remuneration. The CEO will receive certain equity-based compensation on achieving of specific Company milestones that deliver value to shareholders. Mr Casbolt will receive a portion of his at risk remuneration only if the Company's share price reaches $0.50 prior to the expiry of the options. Details of the options on ordinary shares in Medical Therapies Limited granted to the CEO in December 2005 are set out in Sections B and D below.

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 (both the Group and the Company) are set out in the following tables. Key management personnel includes the CEO.

2006	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS		SHARE-BASED PAYMENTS	
NAME	CASH SALARY AND FEES $	CASH BONUS $	NON-MONETARY BENEFITS $	SUPER-ANNUATION $	RETIREMENT BENEFITS $	OPTIONS $	TOTAL $
Non-executive directors							
Michael Vitale (Chairman)	33,750	–	–	3,037	–	28,000	64,787
James Dominguez	28,875	–	–	2,599	–	140,000	171,474
Michael Taverner	30,000	–	–	2,700	–	28,000	60,700
Malcom Castle	10,500	–	–	945	–	–	11,445
Total non-executive directors	**103,125**	**–**	**–**	**9,281**	**–**	**196,000**	**308,406**
Executive director							
Llewellyn Casbolt (MD)	280,000	–	–	–	–	133,000	413,000
Total	**383,125**	**–**	**–**	**9,281**	**–**	**329,000**	**721,406**

Mr Dominguez resigned as chairman effective from 8 March 2006.

2005	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS		SHARE-BASED PAYMENTS	
NAME	CASH SALARY AND FEES $	CASH BONUS $	NON-MONETARY BENEFITS $	SUPER-ANNUATION $	RETIREMENT BENEFITS $	OPTIONS $	TOTAL $
Non-executive directors							
Michael Vitale	21,000	–	–	1,890	–	–	22,890
James Dominguez (Chairman)	15,000	–	–	1,350	–	–	16,350
Michael Taverner	15,000	–	–	1,350	–	–	16,350
Gregory Bender	–	–	–	–	–	–	–
Total non-executive directors	**51,000**	**–**	**–**	**4,590**	**–**	**–**	**55,590**
Executive director		–					
Llewellyn Casbolt (MD)	213,813	–	–	–	–	–	213,813
Total	**264,813**	**–**	**–**	**4,590**	**–**	**–**	**269,403**

Mr Bender resigned as a director effective from 14 February 2005.

C. Service agreements (audited)

The CEO, Mr Casbolt is a consultant to the Company under an agreement signed on 2 June 2005. Under the terms of the present contract:

- The initial term of the agreement is two years from 1 June 2005, and can be extended by mutual agreement.
- The base salary for the year ended 30 June 2006 is $280,000, and is to be reviewed annually by the Remuneration Committee.
- Mr Casbolt may resign from his position and thus terminate this contract by giving three months' written notice. On resignation any unvested options will be forfeited.
- The Company may terminate the consulting agreement by providing three months' written notice or providing payment in lieu of the notice period (based on the fixed component of Mr Casbolt's remuneration).
- The Company 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.

D. Share-based compensation (audited)

Options

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

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

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

The 32.2% of remuneration figure for Mr Casbolt included the total value of options expensed of $133,000 during the year.

The above options were granted on 5 December 2005. Directors' options expire on 31 December 2007 and Mr Casbolt's options expire on 31 December 2008. The exercise price is $0.20. The options can be exercised at any time prior to expiry, except while under an ASX Restriction Agreement.

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

The Directors' options and tranche 1 for Mr Casbolt were granted and vested at the date of the ASX approval of the Company's listing. The second and third tranches of Mr Casbolt's options have yet to vest. The milestones required for the vesting of these additional tranches are as follows:

Tranche 2 – On successful completion of FDA-approved Phase 1 clinical trials or formal application for registration of the Technology. The maximum total value of the tranche 2 grant yet to vest is $63,650, and the options may vest in fiscal 2007.

Tranche 3 – On the volume weighted average price of the Company's shares exceeding $0.50 for five consecutive days and the first milestone being achieved for the Technology, as defined in the Research Agreement with The University of Sydney. The maximum total value of the tranche 3 grant yet to vest is $95,350, and the options may vest in fiscal 2007.

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

The assessed fair value at grant date of options granted is allocated over the period from grant date to vesting date. The amounts are included in the tables in Sections B and D above. Fair values at grant date are independently 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 2006 included:

- options are granted for no consideration
- exercise price: $0.20
- grant date: 5 December 2005
- expiry date: 31 December 2007 for Directors' options and 31 December 2008 for Executive options
- share price at grant date: $0.20
- expected price volatility of the Company's shares: 60 – 70%
- expected dividend yield: 0%
- risk-free interest rate: 5.2%

No options have been granted to the Directors or Managing Director since the end of the fiscal year.

E. Additional information (unaudited)

As the Company has been listed less than one year, there is no history of performance against which to benchmark or link executive compensation. At present, executive compensation has been structured with particular emphasis given to achieving specific milestones. Over time, the overall level of executive reward will take into account the performance of the Company.

LOANS TO DIRECTORS AND EXECUTIVES

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

SHARES UNDER OPTION

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

	EXPIRY DATE	ISSUE PRICE	NUMBER UNDER OPTION
Listed options	31 Dec 2007	$0.20	20,178,965
Restricted options	31 Dec 2007	$0.20	2,550,000
Restricted options	31 Dec 2008	$0.20	3,500,000
Unlisted options	(a)		750,000
			26,978,965

(a) In September 2006, the Board approved the grant of options to David James, who has been appointed as the Company's Chief Operating Officer. These options will expire five years from the date of option issue, and the exercise price will be calculated as the previous 10 days Volume Weighted Average Price of the Company's shares as traded on the ASX prior to the date of issue.

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

SHARES ISSUED ON THE EXERCISE OF OPTIONS

The following ordinary shares of Medical Therapies Limited were issued during and since the year ended 30 June 2006 on the exercise of options. No amounts are unpaid on any of the shares.

	ISSUE PRICE	NUMBER OF SHARES ISSUED
Shares issued during fiscal 2006	$0.20	585,383
Shares issued since 30 June 2006	$0.20	35,665

INSURANCE OF OFFICERS

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

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 Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. Policy exclusions include: bodily injury and property damage, pollution or contamination of any kind, and liabilities that arise out of wrongful acts by the officers that cause detriment to the Company.

INDEMNIFICATION OF OFFICERS

The Company 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 Company 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 Company and its related bodies corporate that they may incur while acting in their capacity as an officer of the Company 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 Company maintain appropriate directors' and officers' insurance for the officer.

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

PROCEEDINGS ON BEHALF OF THE ECONOMIC ENTITY

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

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

NON-AUDIT SERVICES

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

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

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

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

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

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:

Directors' Report

	CONSOLIDATED	
	2006 $	2005 $
(a) Assurance services		
Audit services		
PricewaterhouseCoopers Australian firm		
Audit of financial reports and other audit work under the Corporations Act 2001	**70,000**	-
Non-PricewaterhouseCoopers audit firm		
Audit of financial reports and other audit work under the Corporations Act 2001	**20,293**	16,000
Total remuneration for audit services	**90,293**	16,000
Other assurance services		
PricewaterhouseCoopers Australian firm		
Due diligence services	**107,535**	-
Total remuneration for other assurance services	**107,535**	-
Total remuneration for assurance services	**197,828**	16,000
(b) Taxation services		
PricewaterhouseCoopers Australian firm		
Tax compliance services, including review of Company income tax returns	**20,000**	2,000
Non-PricewaterhouseCoopers firm		
Tax compliance services, including review of Company income tax returns	**12,000**	-
Total remuneration for taxation services	**32,000**	2,000
(c) Advisory services		
PricewaterhouseCoopers Australian firm		
Initial public offering	**38,500**	108,000
Strategic facilitation	**14,000**	9,935
Consulting services	**-**	37,000
Non-PricewaterhouseCoopers firm		
Accounting and advisory services	**32,365**	15,174
Independent expert report	**-**	35,000
Total remuneration for advisory services	**84,865**	205,109

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 29.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar

AUDITOR

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

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

Michael R Vitale

Michael Vitale
Chairman

Dated this 28th day of September 2006

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
www.pwc.com/au
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 2006, I declare that to the best of my knowledge and belief, there have been:

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

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Sneddon

Andrew Sneddon
Partner
PricewaterhouseCoopers

Sydney
28 September 2006

Liability limited by a scheme approved under Professional Standards Legislation

Corporate Governance

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

Medical Therapies Limited has progressively adopted aspects of its Corporate Governance Framework over the 2006 financial year, both before and after the Company's listing on the Australian Stock Exchange on 9 December 2005. In establishing its guidelines and policies, the Board has been mindful of the Principles of Good Corporate Governance and Best Practice Recommendations issued by the Australian Stock Exchange Corporate Governance Council in March 2003. The Board continued to work towards full adoption of the recommendations after the end of the financial year and, as at the date of this report, all the recommendations have been addressed.

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

PRINCIPLE 1 LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Role of the Board

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

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

Role of management

The Chief Executive Officer is responsible for:

- formulating, with the Board, the corporate strategy, performance objectives, business plans and budgets

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

PRINCIPLE 2 STRUCTURE THE BOARD TO ADD VALUE

Composition and balance of skills of directors

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

The total number of directors permitted by the constitution is not less than three, nor more than nine. The Board considers that the appropriate number in the foreseeable future will range from four to seven and such number will be determined by the directors. The shareholders in General Meeting, may increase or decrease the total number of directors in accordance with the Constitution (Rule 13.1).

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

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

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

Independence of directors

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

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

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

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

Corporate Governance

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

Appointment of directors

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

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

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

The Board's Nomination Committee consists of Dr Michael Taverner (Chair), Professor Michael Vitale and Mr Malcom Castle. At the time of this report, the Committee had not yet met.

Access to independent advice

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

The Chairman will:

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

Although this Policy was available to directors, it was not used during the year to 30 June 2006.

PRINCIPLE 3 PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

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

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

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

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

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

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

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

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

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

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

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

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

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

or authority delegated to him or her by the Board. Where any director requires information regarding the Company (unless it would be impractical or inappropriate to do so), it is expected that the director inform the Chairman, another director or the CEO of the request.

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

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

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

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

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

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

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

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

Policy regarding trading in securities

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

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

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

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

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

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

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

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

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

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

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

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

PRINCIPLE 4 SAFEGUARDING INTEGRITY IN FINANCIAL REPORTING

Certificate from CEO/CFO

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

Audit Committee

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

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

Professor Vitale is Chairman of the Board and Chairman of the Audit Commitee. The Chairman intends to step aside from the Chairmanship of the Audit Committee following the Annual General Meeting in favour of another non-executive director.

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

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

Auditor selection, appointment and lead partner rotation

The Audit Committee will annually review the:

- quality and rigour of the audit
- quality and cost of the service provided
- audit firm's internal quality control procedures
- assessment of auditor independence.

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

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

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

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

Contracts and transactions between the Company and its officers

A proposed contract between an officer and Medical Therapies must be approved by the Board prior to its execution.

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

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

PRINCIPLE 5 MAKE TIMELY AND BALANCED DISCLOSURE

Continuous disclosure

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

PRINCIPLE 6 RESPECT FOR THE RIGHTS OF SHAREHOLDERS

Communication policy

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

Information is communicated to shareholders through:

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

Corporate Governance

PRINCIPLE 7 RECOGNISE AND MANAGE RISK

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

- establishing and monitoring the Company's strategies, goals and objectives
- identifying and measuring risks that might impact on the achievement of those strategies, goals and objectives
- formulating risk management strategies to manage the identified risks
- monitoring and improving the effectiveness of risks and internal compliance controls.

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

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

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

PRINCIPLE 8 ENCOURAGE ENHANCED PERFORMANCE

Performance evaluation—Board and committees and non-executive directors

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

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

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

Performance evaluation—Non-executive directors

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

Performance evaluation—Chief Executive Officer

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

Director induction

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

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

Director indemnification, access and insurance

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

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

PRINCIPLE 9 REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration policies—non-executive directors

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

Directors will not be entitled to a retirement benefit.

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

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

Remuneration policies—senior executives

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

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

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

Long-term incentives will be through participation in the Medical Therapies Limited Incentive Option Scheme.

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

Corporate Governance

Aggregate Directors Fees

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

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

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

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

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

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

The Board's Remuneration Committee consists of Mr Malcom Castle (Chair), Professor Michael Vitale and Dr Michael Taverner. The first meeting of the Remuneration Committee was held after 30 June 2006 and was attended by all members.

PRINCIPLE 10 RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

Code of Conduct for employees

The purposes of the Code of Conduct are to:

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

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

Other matters covered by the Code of Conduct include:

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

Contents

Financial Statements

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

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

33 Waterloo Road, Suite 15
North Ryde NSW 2113

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the Directors' Report on page 12.

The financial report was authorised for issue by the directors on 28 September 2006. 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.

Income Statements

FOR THE YEAR ENDED 30 JUNE 2006

	NOTES	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 9 MONTHS TO 30 JUNE 2005
Revenue	5	**79,154**	10,067	**78,917**	8,994
Other income	5	**37,899**	-	**37,899**	-
Consultancy expenses		**(728,749)**	(591,979)	**(728,749)**	(554,803)
Share-based compensation	30	**(568,000)**	-	**(568,000)**	-
Research and development expense	7	**(663,292)**	(84,530)	**(663,292)**	(84,530)
Loan provision and impairment of investment		**-**	-	**-**	(500,500)
Depreciation and amortisation expense	7	**(166,481)**	(5,558)	**(163,145)**	(596)
Professional fees		**(208,065)**	(333,763)	**(205,937)**	(290,217)
Directors' remuneration		**(112,406)**	(55,590)	**(112,406)**	(55,590)
Other expenses		**(425,066)**	(211,624)	**(408,372)**	(172,221)
Finance costs	7	**(5,086)**	(119)	**(5,085)**	-
Loss before income tax		**(2,760,092)**	(1,273,096)	**(2,738,170)**	(1,649,463)
Income tax expense	8	**-**	-	**-**	-
Net loss attributable to members of Medical Therapies Limited		**(2,760,092)**	(1,273,096)	**(2,738,170)**	(1,649,463)

		CENTS	CENTS
Earnings per share for loss attributable to the ordinary equity holders of the Company:			
Basic earnings per share	29	**(8.06)**	(15.47)
Diluted earnings per share	29	**(8.06)**	(15.47)

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

Balance Sheets

AS AT 30 JUNE 2006

	NOTES	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
ASSETS					
Current assets					
Cash and cash equivalents	9(a)	**2,494,822**	326,028	**2,487,390**	298,742
Trade and other receivables	10	**490,263**	611,123	**471,754**	527,293
Total current assets		**2,985,085**	937,151	**2,959,144**	826,035
Non current assets					
Property, plant and equipment	11	**86,171**	34,147	**82,633**	8,812
Intangible assets	13	**2,967,715**	-	**2,967,715**	-
Total non current assets		**3,053,886**	34,147	**3,050,348**	8,812
Total assets		**6,038,971**	971,298	**6,009,492**	834,847
LIABILITIES					
Current liabilities					
Trade and other payables	14	**416,657**	741,364	**491,433**	731,090
Borrowings	15	**108,793**	-	**108,793**	-
Total current liabilities		**525,450**	741,364	**600,226**	731,090
Total liabilities		**525,450**	741,364	**600,226**	731,090
Net assets		**5,513,521**	229,934	**5,409,266**	103,757
EQUITY					
Contributed equity	17	**9,228,899**	1,753,220	**9,228,899**	1,753,220
Reserves	18(a)	**568,000**	-	**568,000**	-
Accumulated losses	18(b)	**(4,283,378)**	(1,523,286)	**(4,387,633)**	(1,649,463)
Total equity		**5,513,521**	229,934	**5,409,266**	103,757

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

Statements of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2006

	NOTES	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 9 MONTHS TO 30 JUNE 2005
Total equity at the beginning of the financial year		**229,934**	69,910	**103,757**	-
Loss for the year		**(2,760,092)**	(1,273,096)	**(2,738,170)**	(1,649,463)
Total recognised income and expense for the year		**(2,760,092)**	(1,273,096)	**(2,738,170)**	(1,649,463)
Transactions with equity holders					
Contributions of equity, net of transaction costs		**7,475,679**	1,433,120	**7,475,679**	1,753,220
Director share options	18,30	**329,000**	-	**329,000**	-
The University of Sydney options	30	**239,000**	-	**239,000**	-
		8,043,679	1,433,120	**8,043,679**	1,753,220
Total equity at the end of the financial year		**5,513,521**	229,934	**5,409,266**	103,757
Effect of correction of error in previous year, being an increase in equity, attributable to members of Medical Therapies Limited	6	**-**	401,108	**-**	401,108

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

Cash Flow Statements

FOR THE YEAR ENDED 30 JUNE 2006

	NOTES	CONSOLIDATED 2006 $	CONSOLIDATED 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 9 MONTHS TO 30 JUNE 2005
Cash flows from operating activities					
Payments to suppliers and employees (inclusive of goods and services tax)		**(2,305,345)**	(1,118,325)	**(2,319,491)**	(953,964)
Other revenue		**41,689**	-	**41,689**	-
Interest paid		**(5,086)**	(119)	**(5,085)**	-
Net cash (outflow) from operating activities	27	**(2,268,742)**	(1,118,444)	**(2,282,887)**	(953,964)
Cash flows from investing activities					
Payments for property, plant and equipment		**(85,613)**	(17,579)	**(85,613)**	(9,408)
Loan from related party		**-**	-	**75,688**	-
Loans to related parties		**-**	(14,000)	**-**	(90,000)
Payments for intangible assets		**(331,265)**	-	**(331,265)**	-
Proceeds from sale of property, plant and equipment		**3,703**	-	**1,251**	-
Repayment of loans by related parties		**39,000**	-	**-**	-
Interest received		**79,154**	10,067	**78,917**	8,994
Net cash (outflow) from investing activities		**(295,021)**	(21,512)	**(261,022)**	(90,414)
Cash flows from financing activities					
Proceeds from issues of shares and other equity securities net of transaction costs		**4,684,679**	1,433,120	**4,684,679**	1,343,120
Net cash inflow from financing activities		**4,684,679**	1,433,120	**4,684,679**	1,343,120
Net increase in cash and cash equivalents		**2,120,916**	293,164	**2,140,770**	298,742
Cash and cash equivalents at the beginning of the financial year		**326,028**	32,864	**298,742**	-
Cash and cash equivalents at end of year	9(a)	**2,446,944**	326,028	**2,439,512**	298,742
Non cash financing and investing activities	28				

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

“When we do the best that we can, we never know what miracle is wrought in our lifetime, or in the life of another.”

Helen Keller (1880-1968), American memoirist, lecturer

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

Contents of the Notes to the Financial Statements

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), 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 AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes of Medical Therapies comply with International Financial Reporting Standards (IFRSs).

Application of AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first Medical Therapies Limited financial statements to be prepared in accordance with AIFRSs. AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Financial statements of Medical Therapies Limited until 30 June, 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing Medical Therapies Limited 30 June 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. The comparative figures in respect of 30 June 2005 were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in note 31.

Historical cost convention

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

Critical accounting estimates

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

Reverse acquisition

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

This transaction has therefore been accounted for as a reverse acquisition under AASB 3. Accordingly, the consolidated financial statements of Medical Therapies Limited have been prepared as a continuation of the consolidated financial statements of Biotech Pty Limited. Biotech Pty Limited, as the deemed acquirer, has acquisition accounted for Medical Therapies Limited as at 13 October 2004. The comparative information from 1 July 2004 to 30 June 2005 presented in the consolidated financial statements is that of Biotech Pty Limited. The 2005 comparative information for the parent entity is from 13 October 2004 to 30 June 2005.

Going concern

As a developing business, the Group has experienced operating losses of $2,760,092 (2005:$1,273,096) and net cash outflows from operating activities of $2,268,742 (2005: $1,118,444).

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

As a result of these matters, there is significant uncertainty whether the Company will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report. However, the directors believe that the Company will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 30 June 2006. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of the subsidiary of Medical Therapies Limited ("Company" or "parent entity") as at 30 June 2006 and the results of its subsidiary for the year then ended. Medical Therapies Limited and its subsidiary together are referred to in this financial report as the Group or the consolidated entity.

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

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

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

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

(c) Segment reporting

A business segment is 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 engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Medical Therapies Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the Australian currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(e) Revenue recognition

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

(f) Government grants

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

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

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

(g) Income tax

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

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

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

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

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

Tax consolidation legislation

Medical Therapies Limited and its wholly owned Australian controlled entity have decided to implement the tax consolidation legislation as of 13 October 2004.

As a consequence, Medical Therapies Limited, as the head entity in the tax consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entity in this group as if those transactions, events and balances were its own.

In addition to the current and deferred tax amounts, Medical Therapies Limited also recognised the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from the controlled entity in the tax consolidated group where it is appropriate to do so.

Assets or liabilities arising under tax funding agreements which the Group has decided to put in place concurrent with implementation of the tax consolidation legislation with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in note 8.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(h) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 22). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

(i) Business combinations

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

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

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

(j) Impairment of assets

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

(k) Cash and cash equivalents

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

(l) Receivables

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

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

(m) Investments and other financial assets

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

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non current assets. Loans and receivables are included in receivables in the balance sheet (note 10).

(ii) Held-to-maturity investments

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

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

(n) Fair value estimation

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

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

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

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

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

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

Furniture, fittings and office equipment	3 - 5 years
Leasehold improvements	3 years

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

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

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

(p) Intangible assets

(i) Intangible assets – other intangibles

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

(ii) Patents and trademarks

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

(iii) Research and development

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

(q) Trade and other payables

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

(r) Borrowings

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

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

(s) Director benefits

(i) Employee benefits

There were no employee benefit policies in place during the year, as all staff members have entered into service contracts with the Company.

(ii) Share-based payments

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

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

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

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

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

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

(t) Contributed equity

Ordinary shares are classified as equity.

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

(u) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(v) Goods and Services Tax (GST)

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

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

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

(w) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) UIG 4 Determining whether an Asset Contains a Lease

UIG 4 is applicable to annual periods beginning on or after 1 January 2006. The Group has not elected to adopt UIG 4 early. It will apply UIG 4 in its 2007 financial statements and the UIG 4 transition provisions. The Group will therefore apply UIG 4 on the basis of facts and circumstances that existed as of 1 July 2006. Implementation of UIG 4 is not expected to change the accounting for any of the Group's current arrangements.

(ii) UIG 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The Group does not have interests in decommissioning, restoration and environmental rehabilitation funds. This interpretation will not affect the Group's financial statements.

(iii) AASB 2005 9 Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]

AASB 2005 9 is applicable to annual reporting periods beginning on or after 1 January 2006. The amendments relate to the accounting for financial guarantee contracts. The Group has not elected to adopt the amendments early. The directors believe that the effect of adopting this standard in a future period will be immaterial.

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

AASB 7 and AASB 2005 10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. The effect of adopting this standard is immaterial.

(v) UIG 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

UIG 6 is applicable to annual reporting periods beginning on or after 1 December 2005. The effect of adopting this standard is immaterial.

(vi) AASB 2006 1 Amendments to Australian Accounting Standards [AASB 121]

AASB 2006-1 is applicable to annual reporting periods ending on or after 31 December 2006. The effect of adopting this standard is immaterial.

2 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a limited number of financial risks as described below. The Group's overall risk management program seeks to minimise potential adverse effects on the financial performance of the Group. To date, the Group has not utilised derivative financial instruments as there have been no material risk exposures identified.

(a) Market risk

(i) Foreign exchange risk

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

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

(ii) Fair value interest rate risk

Refer to (d) below.

(b) Credit risk

The Group has no significant concentrations of credit risk.

(c) Liquidity risk

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

(d) Cash flow and fair value interest rate risk

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

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

(i) Estimated impairment of intellectual property

The Company tests annually whether intellectual property has suffered any impairment, in accordance with the accounting policy stated in note 1(j). As part of the impairment testing process, management reviews the status of the Company's research and development program (including the achievement of milestones), the status of its patents and patent-related work, and other internal and external information that may have a bearing on the value. Management also assesses the future opportunities that the intellectual property potentially presents.

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 REVENUE AND OTHER INCOME

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	**2006 $**	2005 $
Other revenue				
Interest	**79,154**	10,067	**78,917**	8,994
Other income				
Government subsidies (note (a))	**37,899**	-	**37,899**	-

(a) Government subsidiaries

Subsidies from the New South Wales Department of State and Regional Development of $37,899 (2005: $nil) were recognised as other income by the Group during the financial year. There are no unfulfilled conditions or other contingencies attaching to these subsidies. The Group did not benefit directly from any other forms of government assistance.

6 CORRECTION OF ERROR

(a) Correction of error in recording transaction costs in previous financial year

Transaction costs relating to the Initial Public Offer (IPO) were initially recorded in equity in the year ended 30 June 2005. These costs have now been reflected in the year ended 30 June 2006 as a reduction of the proceeds of the IPO that was completed in December 2005. In addition, a portion of the costs were not related to the IPO, and thus have been reclassified to expenses in the year ended 30 June 2005.

This error had the effect of understating consolidated trade and other receivables and consolidated total assets by $401,108, understating consolidated retained losses by $107,019, and understating consolidated contributed equity by $508,127 as at 30 June 2005. This error also had the effect of understating loss before income tax by $107,019.

The error has been corrected by restating each of the affected financial statement line items for the prior year, as described above. Refer to note 31 for further information regarding the error's impact on the financial statements.

Basic and diluted earnings per share for the prior year have also been restated. The amount of the correction for both basic and diluted earnings per share was an increased loss of 1.3 cents per share.

7 EXPENSES

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	**2006 $**	2005 $
Loss before income tax includes the following specific expenses:				
Depreciation				
Plant and equipment	**7,552**	5,558	**4,216**	596
Leasehold improvements	**4,379**	-	**4,379**	-
Total depreciation	**11,931**	5,558	**8,595**	596
Amortisation				
Acquired intellectual property	**154,550**	-	**154,550**	-
Finance costs				
Interest and finance charges paid/payable	**5,086**	119	**5,085**	-
Net loss on disposal of property, plant and equipment	**17,955**	-	**1,947**	-
Rental expense relating to operating leases				
Minimum lease payments	**61,275**	63,414	**61,275**	35,302
Contingent rentals	**3,299**	-	**3,299**	-
Total rental expense relating to operating leases	**64,574**	63,414	**64,574**	35,302
Defined contribution superannuation expense	**9,281**	4,857	**9,281**	4,590
Research and development				
– The University of Sydney	**546,573**	67,385	**546,573**	67,385
– Other	**116,719**	17,145	**116,719**	17,145
Total research and development	**663,292**	84,530	**663,292**	84,530

8 INCOME TAX EXPENSE

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	2006 $	2005 $
(a) Income tax expense				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
	-	-	-	-

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	**2006 $**	2005 $
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Loss before income tax expense	**(2,760,092)**	(1,273,096)	**(2,738,170)**	(1,649,463)
Tax (benefit) at the Australian tax rate of 30%	**(828,028)**	(381,929)	**(821,451)**	(494,839)
Tax effect of amounts which are not deductible in calculating taxable income:				
Amortisation of intangibles	**46,365**	-	**46,365**	-
Entertainment	**1,297**	-	**1,297**	-
Share-based payments	**170,400**	-	**170,400**	-
Research and development	**202,369**	25,877	**202,369**	25,877
Professional fees	**20,932**	152,368	**20,932**	134,129
Impairment of investment in subsidiary	**-**	-	**-**	123,030
Provision for intercompany loan	**-**	-	**-**	27,120
Depreciation	**3,580**	1,668	**2,579**	179
Sundry items	**22,609**	6,177	**20,657**	3,927
Income tax (benefit) adjusted for permanent differences	**(360,476)**	(195,839)	**(356,852)**	(180,577)
Tax losses not brought to account	**360,476**	195,839	**356,852**	180,577
Income tax expense	**-**	-	**-**	-
(c) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised	**624,267**	-	**624,267**	-
Temporary difference deferred tax assets not recognised	**506,294**	-	**506,294**	-
Potential tax benefit @ 30%	**331,168**	-	**331,168**	-

All unused tax losses were incurred by Australian entities.

(d) Tax consolidation legislation

Medical Therapies Limited and its wholly owned Australian entity have decided to implement the tax consolidation legislation as of 13 October 2004. The accounting policy in relation to this legislation is set out in note 1(g).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group enter into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Medical Therapies Limited.

The entities also enter into a tax funding agreement under which the wholly-owned entities fully compensate Medical Therapies Limited for any current tax payable assumed and are compensated by Medical Therapies Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Medical Therapies Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

9 CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	**2006 $**	2005 $
Cash at bank and in hand	**8,412**	80,694	**980**	58,542
Investment account	**2,486,410**	245,334	**2,486,410**	240,200
	2,494,822	326,028	**2,487,390**	298,742

(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	
	2006 $	2005 $	**2006 $**	2005 $
Balances as above	**2,494,822**	326,028	**2,487,390**	298,742
Bank overdrafts (note 15)	**(47,878)**	-	**(47,878)**	-
Balances per statement of cash flows	**2,446,944**	326,028	**2,439,512**	298,742

(b) Cash

Cash at bank and in hand are non interest bearing. The cash in the investment account earns a floating interest rate between 4.50% and 4.75% (2005 – 4.40% to 4.60%).

(c) Interest Rate Risk

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

10 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	**2006 $**	2005 $
Other receivables	**141,278**	171,015	**122,769**	126,185
Amounts receivable from controlled entity	**-**	-	**-**	90,400
Provision for doubtful debt controlled entity	**-**	-	**-**	(90,400)
Other related bodies corporate	**-**	39,000	**-**	-
Prepayments	**348,985**	401,108	**348,985**	401,108
	490,263	611,123	**471,754**	527,293

(a) Other receivables

The Group and parent entity balances for 2006 include $31,444 in term deposits held as security for an operating lease and a credit card facility. These deposits earn fixed interest of 5.0 to 5.55% over terms of up to six months.

(b) Effective interest rates and credit risk

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

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

11 NON CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

CONSOLIDATED	FURNITURE, FITTINGS AND OFFICE EQUIPMENT $	TOTAL $
At 1 July 2004		
Cost	23,472	23,472
Accumulated depreciation	(1,346)	(1,346)
Net book amount	22,126	22,126
Year ended 30 June 2005		
Opening net book amount	22,126	22,126
Additions	17,579	17,579
Depreciation charge	(5,558)	(5,558)
Closing net book amount	34,147	34,147
At 30 June 2005		
Cost	41,051	41,051
Accumulated depreciation	(6,904)	(6,904)
Net book amount	34,147	34,147

CONSOLIDATED	FURNITURE, FITTINGS AND OFFICE EQUIPMENT $	LEASEHOLD IMPROVEMENTS $	TOTAL $
Year ended 30 June 2006			
Opening net book amount	34,147	-	34,147
Additions	33,089	52,524	85,613
Disposals	(21,658)	-	(21,658)
Depreciation charge	(7,552)	(4,379)	(11,931)
Closing net book amount	38,026	48,145	86,171
At 30 June 2006			
Cost	46,116	52,524	98,640
Accumulated depreciation	(8,090)	(4,379)	(12,469)
Net book amount	38,026	48,145	86,171

11 NON CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

PARENT ENTITY	FURNITURE, FITTINGS AND OFFICE EQUIPMENT $	TOTAL $
At 1 July 2004		
Cost	-	-
Accumulated depreciation	-	-
Net book amount	-	-
Year ended 30 June 2005		
Opening net book amount	-	-
Additions	9,408	9,408
Depreciation charge	(596)	(596)
Closing net book amount	8,812	8,812
At 30 June 2005		
Cost	9,408	9,408
Accumulated depreciation	(596)	(596)
Net book amount	8,812	8,812

PARENT ENTITY	FURNITURE, FITTINGS AND OFFICE EQUIPMENT $	LEASEHOLD IMPROVEMENTS $	TOTAL $
Year ended 30 June 2006			
Opening net book amount	8,812	-	8,812
Additions	33,089	52,524	85,613
Disposals	(3,197)	-	(3,197)
Depreciation charge	(4,216)	(4,379)	(8,595)
Closing net book amount	34,488	48,145	82,633
At 30 June 2006			
Cost	38,888	52,524	91,412
Accumulated depreciation	(4,400)	(4,379)	(8,779)
Net book amount	34,488	48,145	82,633

12 NON CURRENT ASSETS - DEFERRED TAX ASSETS

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	**2006 $**	2005 $
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Accrued expenses claimable in future periods	**24,000**	3,927	**24,000**	3,927
Amounts recognised directly in equity				
Transaction costs	**168,523**	-	**168,523**	-
	192,523	3,927	**192,523**	3,927
Set-off of deferred tax liabilities of parent entity pursuant to set-off provisions (note 16)	**(43,635)**	-	**(43,635)**	-
Temporary difference deferred tax assets not recognised	**(148,888)**	(3,927)	**(148,888)**	(3,927)
Net deferred tax assets	**-**	-	**-**	-

13 NON CURRENT ASSET - INTANGIBLE ASSETS

CONSOLIDATED	ACQUIRED INTELLECTUAL PROPERTY $	PATENTS, TRADEMARKS AND OTHER RIGHTS $	TOTAL $
At 1 July 2004 and 2005			
Cost	-	-	-
Accumulated amortisation and impairment	-	-	-
Net book amount	-	-	-
Year ended 30 June 2006			
Opening net book amount	-	-	-
Additions	3,091,000	31,265	3,122,265
Amortisation charge *	(154,550)	-	(154,550)
Closing net book amount	2,936,450	31,265	2,967,715
At 30 June 2006			
Cost	3,091,000	31,265	3,122,265
Accumulated amortisation	(154,550)	-	(154,550)
Net book amount	2,936,450	31,265	2,967,715

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

* Amortisation of $154,550 is included in depreciation and amortisation expense in the income statement.

14 CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	**2006 $**	2005 $
Trade payables	**76,175**	-	**75,263**	-
Lease liability	**17,733**	6,350	**17,733**	6,350
Loan from controlled entity	**-**	-	**75,688**	-
Other payables	**322,749**	735,014	**322,749**	724,740
	416,657	741,364	**491,433**	731,090

15 CURRENT LIABILITIES - BORROWINGS

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	**2006 $**	2005 $
Unsecured				
Bank overdraft	**47,878**	-	**47,878**	-
Other loans	**60,915**	-	**60,915**	-
Total unsecured current borrowings	**108,793**	-	**108,793**	-

(a) Other loans

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

(b) Bank overdraft

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

(c) Interest rate risk exposures

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

16 NON CURRENT LIABILITIES - DEFERRED TAX LIABILITIES

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	**2006 $**	2005 $
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Amortisation	**43,635**	-	**43,635**	-
	43,635	-	**43,635**	-
Set off of deferred tax liabilities pursuant to set off provisions (note 12)	**(43,635)**	-	**(43,635)**	-
Net deferred tax liabilities	**-**	-	**-**	-

17 CONTRIBUTED EQUITY

	NOTES	PARENT ENTITY		PARENT ENTITY	
		2006 NUMBER	2005 NUMBER	**2006 $**	2005 $
(a) Share capital					
Ordinary shares	(c)				
Fully paid		**55,630,483**	13,779,916	**9,170,910**	1,753,220
		55,630,483	13,779,916	**9,170,910**	1,753,220
(b) Other equity securities					
Options	(e)				
Unlisted		**-**	5,516,665	**-**	-
Listed		**20,213,730**	-	**57,989**	-
Managing Director		**3,500,000**	-	**-**	-
Directors		**2,550,000**	-	**-**	-
		26,263,730	5,515,665	**57,989**	-
Total contributed equity				**9,228,899**	1,753,220

(c) Movements in ordinary share capital:

DATE	DETAILS	NOTES	NUMBER OF SHARES	ISSUE PRICE	$
	Opening balance 1 July 2004		**-**		**-**
13 October 2004	Share issue	(i)	3,416,666	$0.12	410,100
1 December 2004	Share issue		2,100,000	$0.01	21,000
7 December 2004	Share issue		5,138,250	$0.16	822,120
10 December 2004	Share issue		3,125,000	$0.16	500,000
	Closing balance 30 June 2005		**13,779,916**		**1,753,220**
4 November 2005	Share issue		1,750,000	$0.10	175,000
5 December 2005	Share issue	(ii)	17,142,857	$0.16	2,791,000
5 December 2005	Share Issue		15,426,500	$0.20	3,085,300
9 May 2006	Exercise of 281,020 options		281,020	$0.20	56,204
16 May 2006	Exercise of 217,742 options		217,742	$0.20	43,548
26 May 2006	Share issue		6,911,344	$0.29	2,004,290
29 May 2006	Exercise of 45,622 options		45,622	$0.20	9,124
1 June 2006	Share issue		34,483	$0.29	10,000
13 June 2006	Exercise of 37,666 options		37,666	$0.20	7,533
30 June 2006	Exercise of 3,333 options		3,333	$0.20	667
					9,935,886
	Less transaction costs arising on share issue				(764,976)
	Closing balance 30 June 2006		**55,630,483**		**9,170,910**

(d) Ordinary shares

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

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

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

17 CONTRIBUTED EQUITY (CONTINUED)

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

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

(e) Movements in options:

		UNLISTED	LISTED	RESTRICTED	$
	Opening balance 1 July 2004	-	-	-	-
13 October 2004	Options issued on acquisition of Biotech	5,516,665			
	Closing balance 30 June 2005	**5,516,665**	**-**	**-**	**-**
5 December 2005	Reclassification of options due to ASX listing	(100,000)		100,000	
5 December 2005	Options issue – Directors			2,450,000	
5 December 2005	Options issue – Managing Director			3,500,000	
11 April 2006	Options issue at $0.005		13,876,900		69,382
26 April 2006	Options issue at $0.005		1,005,548		5,028
2 May 2006	Unrestricted options listed	(5,416,665)	5,416,665		
9 May 2006	Options exercised		(281,020)		
16 May 2006	Options exercised		(217,742)		
29 May 2006	Options exercised		(45,622)		
13 June 2006	Options issue at $0.005		500,000		2,500
13 June 2006	Options exercised		(37,666)		
30 June 2006	Options exercised		(3,333)		
	Subtotal				76,910
	Less transaction costs arising on option issue				(18,921)
	Closing balance 30 June 2006	**-**	**20,213,730**	**6,050,000**	**57,989**

(f) Options

All outstanding options have an exercise price of $0.20 and, with the exception of options issued to the Managing Director, an expiry date of 31 December 2007.

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

In April 2006, the Company applied to the ASX, and received approval for, the listing of the rights options issued. The Company subsequently applied to the ASX, and received approval for, the listing of the existing 5,416,665 unlisted options.

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

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

18 RESERVES AND ACCUMULATED LOSSES

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	**2006 $**	2005 $
(a) Reserves				
Share-based payments reserve	**568,000**	-	**568,000**	-
	568,000	-	**568,000**	-
Movements:				
Share-based payments reserve				
Balance 1 July 2004 and 1 July 2005	**-**	-	**-**	-
Option expense	**568,000**	-	**568,000**	-
Balance 30 June 2006	**568,000**	-	**568,000**	-

(b) Accumulated losses

Movements in accumulated losses were as follows:

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	**2006 $**	2005 $
Balance 1 July	**1,523,286**	250,190	**1,649,463**	-
Net loss for the year	**2,760,092**	1,273,096	**2,738,170**	1,649,463
Balance 30 June	**4,283,378**	1,523,286	**4,387,633**	1,649,463

(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.

19 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

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

(i) Chairman–non-executive

Prof M Vitale (from 9 March 2006 to 30 June 2006)

Mr J Dominguez (from 1 July 2005 to 8 March 2006)

(ii) Executive director

Mr L Casbolt, Managing Director

(iii) Non-executive directors

Prof M Vitale (from 1 July 2005 to 8 March 2006)

Dr M Taverner

Mr M Castle (from 23 February 2006)

Mr Dominguez resigned from the position of Chairman on 8 March 2006. Prof Vitale was appointed to the position of Chairman on 9 March 2006. Mr Castle was appointed to the position of non-executive director on 23 February 2006.

(b) Key management personnel compensation

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	**2006 $**	2005 $
Short term employee benefits	**383,125**	264,813	**383,125**	264,813
Post employment benefits	**9,281**	4,590	**9,281**	4,590
Share based payments	**329,000**	-	**329,000**	-
	721,406	269,403	**721,406**	269,403

(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.

Notes to the Financial Statements

19 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(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.

2006 NAME	BALANCE AT THE START OF THE YEAR	GRANTED DURING THE YEAR AS COMPENSATION	EXERCISED DURING THE YEAR	OTHER CHANGES DURING THE YEAR	BALANCE AT THE END OF THE YEAR	VESTED AND EXERCISABLE AT THE END OF THE YEAR
Directors of Medical Therapies Limited						
M Taverner	50,000	350,000	(16,666)	16,666	400,000	400,000
J Dominguez	-	1,750,000	-	-	1,750,000	1,750,000
M Vitale	-	350,000	(23,433)	23,433	350,000	350,000
M Castle	-	-	-	9,999	9,999	9,999
L Casbolt	-	3,500,000	-	8,333	3,508,333	1,008,333

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

2005 NAME	BALANCE AT THE START OF THE YEAR	GRANTED DURING THE YEAR AS COMPENSATION	EXERCISED DURING THE YEAR	OTHER CHANGES DURING THE YEAR	BALANCE AT THE END OF THE YEAR	VESTED AND EXERCISABLE AT THE END OF THE YEAR
Directors of Medical Therapies Limited						
M Taverner	-	-	-	50,000	50,000	50,000
G Bender	-	-	-	50,000	50,000	50,000

G Bender resigned as a director effective from 14 February 2005.

(iii) Share holdings

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

2006 NAME	BALANCE AT THE START OF THE YEAR	RECEIVED DURING THE YEAR ON THE EXERCISE OF OPTIONS	OTHER CHANGES DURING THE YEAR	BALANCE AT THE END OF THE YEAR
Directors of Medical Therapies Limited				
Ordinary shares				
L Casbolt	-	-	25,000	25,000
M Castle	-	-	30,000	30,000
M Taverner	50,000	16,666	-	66,666
M Vitale	-	23,433	70,300	93,733

Mr Casbolt owns 25,000 shares indirectly.

Mr Castle owns 10,000 shares directly and 20,000 shares indirectly.

Dr Taverner and Prof Vitale own their shares directly.

Other changes during the year comprise 50,000 shares subscribed to by M Vitale at the time of the Company's ASX listing with all other changes comprising shares purchased on market.

2005 NAME	BALANCE AT THE START OF THE YEAR	RECEIVED DURING THE YEAR ON THE EXERCISE OF OPTIONS	OTHER CHANGES DURING THE YEAR	BALANCE AT THE END OF THE YEAR
Directors of Medical Therapies Limited				
Ordinary shares				
M Taverner	-	-	50,000	50,000

Dr Taverner acquired the shares in 2005 on the scrip for scrip exchange with Biotech Pty Limited.

(d) Other transactions with key management personnel

A director, Dr Taverner, provided consultancy services during the year with respect to the Company's research and development program. The services were provided on normal commercial terms and conditions. Refer to note 23 (e) for further details relating to the services.

20 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	
	2006 $	2005 $	**2006 $**	2005 $
(a) Assurance services				
Audit services				
PricewaterhouseCoopers Australian firm				
Audit of financial reports and other audit work under the Corporations Act 2001	**70,000**	-	**70,000**	-
Non-PricewaterhouseCoopers audit firm				
Audit of financial reports and other audit work under the Corporations Act 2001	**20,293**	16,000	**20,293**	8,500
Total remuneration for audit services	**90,293**	16,000	**92,293**	8,500
Other assurance services				
PricewaterhouseCoopers Australian firm				
Due diligence services	**107,535**	-	**107,535**	-
Total remuneration for other assurance services	**107,535**	-	**107,535**	-
Total remuneration for assurance services	**197,828**	16,000	**197,828**	8,500
(b) Taxation services				
PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of Company income tax returns	**20,000**	2,000	**20,000**	2,000
Non-PricewaterhouseCoopers firm				
Tax compliance services, including review of Company income tax returns	**12,000**	-	**12,000**	-
Total remuneration for taxation services	**32,000**	2,000	**32,000**	2,000
(c) Advisory services				
PricewaterhouseCoopers Australian firm				
Initial public offering	**38,500**	108,000	**38,500**	108,000
Strategic facilitation	**14,000**	9,935	**14,000**	9,935
Consulting services	**-**	37,000	**-**	37,000
Non-PricewaterhouseCoopers firm				
Accounting and advisory services	**32,365**	15,174	**30,237**	2,838
Independent expert report	**-**	35,000	**-**	35,000
Total remuneration for advisory services	**84,865**	205,109	**82,737**	192,773

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. These assignments are principally due diligence reporting on acquisitions and the Initial Public Offering, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

21 CONTINGENCIES

(a) Contingent liabilities

The parent entity and Group had no significant contingent liabilities at 30 June 2006 or at 30 June 2005.

(b) Contingent assets

During 2006, Medical Therapies Limited applied for a Research and Development tax concession from the Department of Industry Tourism and Resources, in the amount of $32,346 in relation to its fiscal 2005 year. This amount has not been recognised as a receivable in the balance sheet at 30 June 2006 on the basis that the economic benefit is probable, but not virtually certain.

If successful with its 2005 application, Medical Therapies Limited proposes to apply for the Research and Development tax concession refund with respect to its fiscal 2006 year. This amount has not yet been quantified.

In July 2005, the Company applied for a subsidy from the Department of State and Regional Development (DSRD) in the amount of $17,899 in relation to costs incurred in fiscal 2005. The amount was subsequently received in August 2006. This amount was not recognised as a receivable in the 30 June 2005 balance sheet as the realisation of the amount was dependent on the outcome of DSRD's approval process.

(c) Other contingencies

Refer to note 26 Events Occurring after the Balance Sheet Date for information pertaining to a significant acquisition.

22 COMMITMENTS

(a) Operating Lease commitments: Group as lessee

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	**2006 $**	2005 $
Commitments for minimum lease payments in relation to operating leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	**57,736**	50,805	**57,736**	-
Later than one year but not later than five years	**101,038**	-	**101,038**	-
Later than five years	**-**	-	**-**	-
	158,774	50,805	**158,774**	-
Representing:				
Non-cancellable operating leases	**158,774**	50,805	**158,774**	-
	158,774	50,805	**158,774**	-

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

(b) Research commitments

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

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	2006 $	2005 $
Commitments for minimum payments in relation to non-cancellable research and consulting agreements are payable as follows:				
Within one year	814,831	-	814,831	-
Later than one year but not later than five years	324,637	-	324,637	-
	1,139,468	-	1,139,468	-

23 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 19.

(d) Amounts receivable or payable to Related Parties

Amounts receivable from or payable to the Controlled Entity are shown in notes 10 and 14 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	
	2006 $	2005 $	**2006 $**	2005 $
Purchase of research and development and related services from The University of Sydney	**546,573**	67,385	**546,573**	67,385
Purchase of consultancy services from director M Taverner	**3,500**	3,102	**3,500**	3,102

Refer to note 30 for details of options granted to The University of Sydney.

MEDICALTHERAPIES

24 BUSINESS COMBINATION

(a) Summary of acquisition

Medical Therapies Limited was incorporated on 8 October 2004 as a public company with the intention of issuing ordinary shares to effect a business combination with Biotech Pty Limited, a proprietary company incorporated on 24 September 2003.

On 13 October 2004, Medical Therapies Limited acquired all of the outstanding share capital of Biotech Pty Limited in an equity exchange. Medical Therapies Limited issued $410,100 in ordinary shares (3,416,666 shares) for the 8,000,000 ordinary shares of Biotech.

When Medical Therapies acquired Biotech, the shareholders of Biotech obtained 100% of the outstanding shares of Medical Therapies and therefore control of the combined entity. As a result, the transaction has been accounted for as a reverse acquisition under AASB 3 for the Consolidated Entity. Biotech has been identified as the acquirer and Medical Therapies is the acquiree. For presentation and disclosure purposes however, Medical Therapies is the parent entity.

Medical Therapies results for the period from 13 October 2004 to 30 June 2005 and the year ended 30 June 2006 are reflected in the information provided for the parent entity.

There were no assets (other than its investment in Biotech) or liabilities acquired at the date of combination, as Medical Therapies balance sheet comprised its investment in Biotech and the shares issued as consideration for that investment. There were no costs directly attributable to the combination and no goodwill arising on consolidation.

There were no acquisitions in the year ending 30 June 2006.

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	
			2006 %	2005 %
Biotech Pty Limited	Australia	Ordinary	100	100

26 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

(a) Agreement to acquire Nature Vet

On 22 July 2006, Medical Therapies Limited entered into a binding, conditional agreement with Hearthstone Pty Limited to acquire all of the shares in the Nature Vet group of companies, including Nature Vet Pty Ltd, Nature Vet (NZ) Ltd, Nature Vet Asia, and BVR Pty Ltd. Nature Vet is a veterinary pharmaceutical company based in Glenorie, NSW.

The amount payable for Nature Vet on settlement will be $12.5 million less the outstanding debt of the Nature Vet group (currently approximately $2.9 million), for a net valuation of $9.6 million plus deferred consideration as detailed below. Settlement is expected to occur prior to 31 January 2007.

The purchase consideration payable on settlement by Medical Therapies for the Nature Vet group will comprise a combination of $4,000,000 cash and Medical Therapies Limited ordinary shares. The share price to be used to calculate the number of shares to be issued will be the volume weighted average share price (VWAP) of Medical Therapies ordinary shares as traded on the ASX in the 50 days prior to settlement.

The agreement also requires Medical Therapies to make performance payments to Hearthstone based on Nature Vet increasing its earnings before interest and tax (EBIT) for calendar years 2007 and 2008. These performance payments would be satisfied via the issue of additional Medical Therapies ordinary shares.

There are a number of conditions precedent that are required to be satisfied prior to settlement of the acquisition of Nature Vet. These conditions include shareholder and ASX approval, completion of a debt or equity financing to fund the $4 million cash component, and satisfactory conclusion of due diligence.

The financial effects of the above transaction have not been brought to account at 30 June 2006. The operating results and assets and liabilities of the company will be consolidated from date of settlement. No estimate of the transaction's financial effect on the 30 June 2007 consolidated financial statements can be made.

(b) Commercial Ready Application

In July 2006, the Company applied for $2.246 million in funding from AusIndustry's Commercial Ready scheme. Further information is being provided to AusIndustry's Review Committee and a final decision is expected following review of this information in late November 2006.

(c) Proposed issue of ordinary shares

On 23 August 2006, the Company announced that it intended to raise approximately $4 million through the issue of ordinary shares to existing and new investors, at a price not less than 80% of the average price that the shares trade on the ASX over the five days prior to issue. The placement was approved by shareholders at an Extraordinary General Meeting on 26 September 2006. The net proceeds after brokerage and other transaction costs are anticipated to be $3.75 million. The proceeds will be utilised to fund the Company's research and development program over the course of the next year. The new shares will rank equally with the Company's existing ordinary shares.

26 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE (CONTINUED)

(d) Appointment

On 14 September 2006, the Company announced the appointment of David James as Chief Operating Officer. Mr James will join the Company on 9th October 2006 and will be responsible for developing and maintaining all aspects of the Company's key operations.

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

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	**2006 $**	2005 $
Loss for the year	**(2,760,092)**	(1,273,096)	**(2,738,170)**	(1,649,463)
Depreciation and amortisation	**166,481**	5,558	**163,145**	596
Non-cash expense - share-based payments	**568,000**	-	**568,000**	-
Impairment of investment in controlled entity	**-**	-	**-**	410,100
Provision for loan receivable from controlled entity	**-**	-	**-**	90,000
Other non-cash item	**-**	(14,817)	**-**	-
Interest income	**(79,154)**	(10,067)	**(78,917)**	(8,994)
Net loss on sale of non-current assets	**17,955**	-	**1,947**	-
Change in operating assets and liabilities				
Decrease (increase) in trade and other receivables	**29,737**	(153,107)	**3,416**	(126,185)
Decrease (increase) in other operating assets	**52,123**	(401,108)	**52,123**	(401,108)
Increase (decrease) in trade and other payables	**(324,707)**	728,193	**(315,346)**	731,090
Increase (decrease) in borrowings	**60,915**	-	**60,915**	-
Net cash (outflow) from operating activities	**(2,268,742)**	(1,118,444)	**(2,282,887)**	(953,964)

28 NON CASH INVESTING AND FINANCING ACTIVITIES

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	**2006**	2005
Acquisition of Biotech Pty Limited via a scrip exchange	**-**	410,100	**-**	410,100
Acquisition of intellectual property from The University of Sydney	**2,791,000**	-	**2,791,000**	-

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

29 EARNINGS PER SHARE

	CONSOLIDATED	
	2006 CENTS	2005 CENTS
(a) Basic and diluted earnings per share		
Loss attributable to the ordinary equity holders of the Company	**(8.06)**	(15.47)

(b) Loss used in calculating basic and diluted earnings per share

Loss	**(2,760,092)**	(1,273,096)

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

	CONSOLIDATED	
	2006 CENTS	2005 CENTS
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	**34,244,618**	8,229,829

MEDICALTHERAPIES

29 EARNINGS PER SHARE (CONTINUED)

(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 2006, 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 30.

30 SHARE BASED PAYMENTS

(a) Director and executive options

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

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

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

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

TRANCHE	MILESTONE	NO. OF OPTIONS	FAIR VALUE OF OPTIONS
Tranche 1	On ASX listing	1,000,000	80,000
Tranche 2	On successful completion of FDA-approved Phase 1 clinical trials or formal application for registration of the technology	1,000,000	85,000
Tranche 3	On the volume weighted average price of the Company's shares exceeding $0.50 for five consecutive days and the first key milestone being achieved for the Technology, as defined in the Research Agreement	1,500,000	127,000
Total		**3,500,000**	**292,000**

The Managing Director's options are exercisable any time prior to 31 December 2008.

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

The number of options granted are also summarised in note 19 Key Management Personnel Disclosures. No options granted as share-based payments were forfeited or exercised during the periods covered by the tables in that note.

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

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2006 was 7 to 9 cents per option. The fair value at grant date is independently determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2006 included:

(a) options are granted for no consideration

(b) Exercise price: $0.20

(c) grant date: 5 December 2005

(d) expiry date: 31 December 2007 for Director options, 31 December 2008 for Executive options

(e) share price at grant date: $0.20

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

(g) expected dividend yield: nil%

(h) risk free interest rate: 5.2%

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

(b) The University of Sydney Options

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

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

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

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

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

30 SHARE BASED PAYMENTS (CONTINUED)

Fair value of options granted

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

(c) Expenses arising from share based payment transactions

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

	CONSOLIDATED		PARENT ENTITY	
	2006 $	2005 $	**2006 $**	2005 $
Options issued to Directors and the Managing Director	**329,000**	-	**329,000**	-
Options issued to The University of Sydney	**239,000**	-	**239,000**	-
	568,000	-	**568,000**	-

31 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSS

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

(a) At the date of transition to AIFRS: 1 July 2004

There were no adjustments to the opening balance sheet at 1 July 2004.

(b) At the end of the last reporting period under previous AGAAP: 30 June 2005

		CONSOLIDATED			PARENT ENTITY		
	NOTES	PREVIOUS AGAAP $	EFFECT OF TRANSITION TO AIFRS $	AIFRS $	PREVIOUS AGAAP $	EFFECT OF TRANSITION TO AIFRS $	AIFRS $
ASSETS							
Current assets							
Cash and cash equivalents		326,028	-	326,028	298,742	-	298,742
Trade and other receivables	(b)	210,015	401,108	611,123	126,185	401,108	527,293
Total current assets		536,043	401,108	937,151	424,927	401,108	826,035
Non current assets							
Property, plant and equipment		34,147	-	34,147	8,812	-	8,812
Intangible assets	(a)	268,832	(268,832)	-	-	-	-
Total non current assets		302,979	(268,832)	34,147	8,812	-	8,812
Total assets		839,022	132,276	971,298	433,739	401,108	834,847
LIABILITIES							
Current liabilities							
Trade and other payables		741,364	-	741,364	731,090	-	731,090
Total current liabilities		741,364	-	741,364	731,090	-	731,090
Total liabilities		741,364	-	741,364	731,090	-	731,090
Net assets		97,658	132,276	229,934	(297,351)	401,108	103,757
EQUITY							
Contributed equity	(b)	1,245,093	508,127	1,753,220	1,245,093	508,127	1,753,220
Retained earnings	(c)	(1,147,435)	(375,851)	(1,523,286)	(1,542,444)	(107,019)	(1,649,463)
Total equity		**97,658**	**132,276**	**229,934**	**(297,531)**	**401,108**	**103,757**

31 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSS (CONTINUED)

(2) Reconciliation of loss for the year ended 30 June 2005

		CONSOLIDATED			PARENT ENTITY		
	NOTES	PREVIOUS AGAAP $	EFFECT OF TRANSITION TO AIFRS $	AIFRS $	PREVIOUS AGAAP $	EFFECT OF TRANSITION TO AIFRS $	AIFRS $
Revenue		10,067	-	10,067	8,994	-	8,994
Consultancy expenses	(b)	(525,879)	(66,100)	(591,979)	(488,703)	(66,100)	(554,803)
Research and development expenses		(84,530)	-	(84,530)	(84,530)	-	(84,530)
Loan provision and diminution of investment		-	-	-	(500,500)	-	(500,500)
Depreciation and amortisation expense	(a)	(15,486)	9,928	(5,558)	(596)	-	(596)
Professional fees		(302,779)	(30,984)	(333,763)	(259,233)	(30,984)	(290,217)
Directors' remuneration		(55,590)	-	(55,590)	(55,590)	-	(55,590)
Other expenses	(a),(b)	(173,119)	(38,505)	(211,624)	(162,286	(9,935)	(172,221)
Finance costs		(119)	-	(119)	-	-	-
Loss before income tax		(1,147,435)	(125,661)	(1,273,096)	(1,542,444)	(107,109)	(1,649,463)
Income tax expense		-	-	-	-	-	-
Loss for the year		(1,147,435)	(125,661)	(1,273,096)	(1,542,444)	(107,019)	(1,649,463)
Loss attributable to members of Medical Therapies Limited		(1,147,435)	(125,661)	(1,273,096)	(1,542,444)	(107,019)	(1,649,463)

(3) Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the reconciliations

(a) Business combinations

On 13 October 2004, Medical Therapies issued $410,100 in ordinary shares for all of the outstanding ordinary shares of Biotech Pty Limited (refer note 24). Under AGAAP, Medical Therapies is both the legal parent and the acquirer. On consolidation under AGAAP, Biotech's fair value of assets and liabilities were recognised, and the difference between that net fair value and the consideration value of $410,100 gave rise to goodwill of $278,760. Of that goodwill amount, $9,928 was amortised to the 30 June 2005 income statement in accordance with AGAAP.

Under AIFRS, AASB 3 specifies that the acquirer in a business combination is that entity that obtains control of the combining entities. When Medical Therapies Limited acquired Biotech Pty Limited, the shareholders of Biotech Pty Limited obtained 100% of the outstanding shares of Medical Therapies Limited, and thus control of the combined entity. Accordingly, the business combination has been treated as a reverse acquisition under AIFRS, where Biotech Pty Limited (the legal subsidiary) is the acquirer and Medical Therapies Limited (the legal parent) is the acquiree.

Consequently, Biotech as the acquirer recognises the fair value of Medical Therapies' identifiable net assets at their fair values at the date of combination. No goodwill arises on consolidation.

The effect is:

(i) At 1 July 2004

There is no effect on the Group or parent entity.

(ii) At 30 June 2005

For the Group there has been a decrease in intangible assets of $268,832 (original goodwill of $278,760 less amortisation of $9,928), and a corresponding decrease in retained earnings of $268,832. There is no effect on the parent entity.

(iii) For the year ended 30 June 2005

For the Group goodwill amortisation expense for the year has decreased by $9,928 and other expenses increased by $28,570, reflecting the pre-acquisition losses for Biotech from 1 July 2005 to date of combination that were previously eliminated under AGAAP. There is no effect on the parent entity.

31 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSS (CONTINUED)

(b) Correction of error made under previous AGAAP

Due to an error in the treatment of equity transaction costs in 2005, expenses for the year ended 30 June 2005 were understated by $107,019 (Consulting expenses $66,100, Other expenses $40,919), contributed equity was understated by $508,127 and trade and other receivables were understated by $401,108 (refer to note 6). Under AIFRS, the 2005 comparatives have been adjusted to reflect the correction of the error. The effect of this correction is:

(i) At 1 July 2004

There is no effect on the Group or the parent entity.

(ii) At 30 June 2005

For the Group and the parent entity, trade and other receivables increased by $401,108. Retained earnings decreased by $107,019 and contributed equity increased by $508,127.

(iii) For the year ended 30 June 2005

For the Group and parent entity, expenses and loss before income tax increased by $107,019.

(c) Retained earnings

The effect on retained earnings of the changes set out above are as follows:

There are no adjustments as at transition date of 1 July 2004.

		30 JUNE 2005	
	NOTES	CONSOLIDATED $	PARENT ENTITY $
Reversal of goodwill arising under AGAAP consolidation (including $28,570 pre-acquisition losses eliminated under AGAAP)	(a)	(278,760)	-
Reversal of goodwill amortisation under AGAAP	(a)	9,928	-
Correction of error	(b)	(107,019)	(107,019)
Total adjustment		(375,851)	(107,109)
Attributable to:			
Equity holders of the parent		(375,851)	(107,109)

Directors' Declaration

30 JUNE 2006

In the directors' opinion:

(a) the financial statements and notes set out on pages 43 to 94 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 2006 and of its performance, as represented by the results of their operations, changes in equity and their cash flows, 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 19 to 24 of the Directors' Report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001.

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

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

Michael R Vitale

Michael R Vitale
Chairman

Sydney

28 September 2006

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

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

Independent audit report to the members of Medical Therapies Limited

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report and remuneration disclosures of Medical Therapies Limited (the Company) and the Medical Therapies Limited Group (defined below) for the financial year ended 30 June 2006 included on Medical Therapies Limited's web site. The Company's directors are responsible for the integrity of the Medical Therapies Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report and remuneration disclosures identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration disclosures. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration disclosures to confirm the information included in the audited financial report and remuneration disclosures presented on this web site.

Audit opinion

In our opinion:

1. the financial report of Medical Therapies Limited:

   - gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Medical Therapies Limited and the Medical Therapies Limited Group (defined below) as at 30 June 2006, and of their performance for the year ended on that date, and
   - is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*; and

2. the remuneration disclosures that are contained on pages 21 to 24 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures* (AASB 124) and the *Corporations Regulations 2001*.

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

Emphasis of Matter

Inherent uncertainty regarding continuation as a going concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of matters described in Note 1 to the financial statements, there is significant uncertainty whether Medical Therapies Limited Group will be able to continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report.

Scope

The financial report, remunerations disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statements, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Medical Therapies Limited (the company) and the Medical Therapies Limited Group (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

PRICEWATERHOUSECOOPERS

The company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 124, under the heading "remuneration report" on pages 21 to 24 of the directors' report, as permitted by the *Corporations Regulations 2001*.

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

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and the *Corporations Regulations 2001*.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and remuneration disclosures, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

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

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

Independence

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

PricewaterhouseCoopers.

PricewaterhouseCoopers

Andrew Sneddon.

Andrew Sneddon
Partner

Sydney
28 September 2006

Shareholder Information

The shareholder information set out below was applicable as at 15 September 2006.

A Distribution of equity securities

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

	ORDINARY SHARES	
	SHARES	OPTIONS
1 – 1,000	5	9
1,001 – 5,000	56	153
5,001 – 10,000	187	72
10,001 – 100,000	346	117
100,001 and over	73	37
	667	388

There were 25 holders with less than a marketable parcel of ordinary shares.

B Equity security holders

(i) Ordinary Shares

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

		ORDINARY SHARES	
	NAME	NUMBER HELD	PERCENTAGE OF ISSUED SHARES
1	University of Sydney	17,142,857	30.80
2	Bond Street Custodians Limited	1,525,000	2.74
3	Armelek Pty Ltd	1,203,833	2.16
4	Canemoon Investments Pty Ltd	1,203,833	2.16
5	Marc R Bonnici	1,059,425	1.90
6	Gregory G Worth	900,000	1.62
7	ANZ Nominees Limited	846,900	1.52
8	Adrian L Horbach	813,851	1.46
9	Tina Wei	594,828	1.07
10	Timothy J Dowling	576,140	1.04
11	Joseph C Camuglia & Kirsten I Camuglia	534,000	0.96
12	George Sim	520,000	0.93
13	Brantaz Pty Ltd	462,500	0.83
14	Anthony S Crimmins	451,125	0.81
15	Joseph Camuglia	450,000	0.81
16	Mark S Schumacher	448,516	0.81
17	Anita Worth	420,000	0.75
18	Dean Cook	403,250	0.72
19	Talrind Pty Ltd	375,000	0.67
20	Talrind Pty Ltd	375,000	0.67
		30,306,058	**54.43**

(ii) Options

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

	NAME	OPTIONS NUMBER HELD	OPTIONS PERCENTAGE OF LISTED OPTIONS
1	University of Sydney	2,677,168	13.27
2	Timothy J Dowling	1,326,593	6.57
3	George Sim	1,275,000	6.32
4	Armelek Pty Ltd	1,042,610	5.17
5	Canemoon Investments Pty Ltd	1,042,610	5.17
6	Joseph C Camuglia & Kirsten I Camuglia	534,000	2.65
7	Adrian L Horbach	530,000	2.63
8	Bond Street Custodians Limited	508,333	2.52
9	Anthony S Crimmins	500,000	2.48
10	Oh Boss Pty Ltd	433,333	2.15
11	ANZ Nominees Limited	402,933	2.00
12	Mark S Schumacher	400,000	1.98
13	Feint Holdings Pty Ltd	400,000	1.98
14	Marc R Bonnici	335,085	1.66
15	Kich Pty Ltd	333,333	1.65
16	Gregory G Worth	300,000	1.49
17	Thorley Management Pty Ltd	293,056	1.45
18	David W Findlay	197,900	0.98
19	Andrew Ferguson & Jill A Ferguson	181,666	0.90
20	Joseph C Camuglia & Kirsten I Camuglia	178,000	0.88
		12,891,620	**63.90**

C Substantial holders

Substantial holders in the Company are set out below:

	ORDINARY SHARES NUMBER HELD	ORDINARY SHARES PERCENTAGE OF ISSUED SHARES
University of Sydney	17,142,857	30.80

D Voting rights

The voting rights attaching to each class of equity securities are set out below:
Ordinary shares - On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.
Options - No voting rights.

E Restricted securities

	SHARES	OPTIONS
Ordinary shares escrow ending 4 November 2006	875,000	
Ordinary shares escrow ending 9 December 2006	17,142,857	
Ordinary shares escrow ending 9 December 2007	95,000	
Unquoted options escrow ending 5 December 2007		6,050,000

F Use of funds

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

Patent Report

The Company's patent portfolio currently comprises a number of granted patents, international (PCT) patent applications and provisional patent applications, grouped into 13 patent families, as listed in Table 1.

Table 1. Current status of the Company's patent portfolio.

TYPE	JURISDICTION	APPLICATION NO.	FILING DATE	STATUS	PATENT NO.	PATENT EXPIRY
Patent family 1 – Divalent metal salts of indomethacin						
prov	Australia	PJ4328	22/05/89	lapsed	–	–
PCT	International	PCT/AU90/00209	21/05/90	lapsed	–	–
patent	Australia	56663/90	–	granted	629943	21/05/10
patent	Canada	2,058,754	–	granted	2,058,754	21/05/10
patent	Europe	90908178.8	–	granted	0473655	21/05/10
patent	Ireland	-	–	granted	81142	21/05/10
patent	New Zealand	233776	–	granted	233776	22/05/10
patent	Norway	19910004565	–	granted	175148	21/05/10
patent	South Korea	19910071536	–	granted	156231	20/07/13
patent	United States	773,601	–	granted	5,310,936	10/05/11
patent	United States	217,520	–	granted	5,466,824	24/03/14
Patent family 2 – Anti-inflammatory compositions						
PCT	International	PCT/AU2005/000442	30/03/05	pending	–	–
prov	Australia	2004901694	30/03/04	lapsed	–	–
prov	Australia	2005901464	24/03/05	lapsed	–	–
prov	USA	60/664,867	24/03/05	lapsed	–	–
Patent family 3 – Copper complexes						
PCT	International	PCT/AU2006/000402	24/03/06	pending	–	–
prov	Australia	2005901464	24/03/05	lapsed	–	–
prov	USA	60/644,867	24/03/05	lapsed	–	–
PCT	International	PCT/AU2005/000442	30/03/05	pending	–	–
prov	Australia	2005905476	04/10/05	filed	–	–
prov	Australia	2005905479	05/10/05	filed	–	–
Patent family 4 – Methods for treating inflammatory conditions in humans and animals						
PCT	Australia	PCT/AU2006/000391	24/03/06	pending	–	–
prov	Australia	2005901462	24/03/05	lapsed	–	–
Patent family 5 – Method of treatment of carcinomas						
PCT	International	PCT/AU2006/000403	24/03/06	pending	–	–
prov	Australia	2005901463	24/03/05	lapsed	–	–
prov	Australia	2005904836	02/09/05	lapsed	–	–
Patent family 6 – Methods and compositions for the prophylaxis or treatment of cancers of the skin						
PCT	International	PCT/IB2006/002423	01/09/06	pending	–	–
prov	Australia	2005904807	01/09/05	lapsed	–	–
prov	Australia	2005904836	02/09/05	lapsed	–	–
PCT	International	PCT/AU2006/000403	24/03/06	pending		–
Patent family 7 – Methods for prophylaxis or treatment of cardiovascular inflammation						
prov	Australia	2006901557	27/03/06	pending	–	–
prov	USA	60/830,203	11/07/06	pending	–	–
Patent family 8 – Methods for prophylaxis or treatment						
prov	Australia	2006901583	28/03/06	pending	–	–
prov	USA	60/830,290	11/07/06	pending	–	–
Patent family 9 – Metal complexes having anti-inflammatory activity						
pct	International	PCT/AU2006/000403	24/03/06	pending	–	—
prov	Australia	TBA	19/09/06	pending	–	–
prov	Australia	TBA	22/09/06	pending	–	–
Patent family 10 – Metal complexes having anti-inflammatory activity II						
pct	International	PCT/AU2006/000403	24/03/06	pending	–	–
prov	Australia	TBA	22/9/06	pending	–	–

Patent family 11 – Combination therapy for treatment of cancer						
pct	International	PCT/AU2006/000403	24/03/06	pending	–	–
prov	Australia	TBA	19/9/06	pending	–	–
prov	Australia	TBA	22/9/06	pending	–	–
Patent family 12 – Prophylaxis for treatment of cancer						
prov	Australia	TBA	19/9/06	pending	–	–
prov	Australia	TBA	22/9/06	pending	–	–
Patent family 13 – Skin treatment and wound repair						
prov	Australia	TBA	19/9/06	pending	–	–
prov	Australia	TBA	22/9/06	pending	–	–

Prov = provisional application PCT = International patent application TBA = to be advised

PATENT FAMILY 1 – DIVALENT METAL SALTS OF INDOMETHACIN

This patent family relates to metal complexes of the non-steroidal anti-inflammatory drug indomethacin. The patent family further relates to a method for the preparation of an indomethacin salt of a divalent metal, comprising dissolving indomethacin and a salt of the divalent metal in a tertiary amide or cyclic tertiary amide, and adding a C1-4 alkanol or C3-6 ketone to the solution to precipitate the indomethacin metal salt. The technology also extends to a method for treating inflammation and pain, comprising administering an "anti-inflammatory and analgesically effective" amount of an indomethacin salt of a divalent metal, and to pharmaceutical compositions comprising an indomethacin salt of a divalent metal produced as described immediately above. The date of expiry of the respective patents in this patent familiy is indicated in Table 1. The European patent was validated in Austria, Belgium, Denmark, France, Germany, Italy, Luxembourg, Spain, Sweden, Switzerland, The Netherlands, and the United Kingdom.

PATENT FAMILY 2 – ANTI-INFLAMMATORY COMPOSITIONS

This patent family relates to pharmaceutical compositions comprising a metal complex of a carboxylate having anti-inflammatory activity. The carboxylate is described as typically comprising a non-steroidal anti-inflammatory drug (NSAID). NSAIDs are referred to as being used to treat inflammatory conditions such as rheumatoid arthritis, osteoarthritis, acute musculoskeletal disorders (e.g. tendonitis), lower back pain, inflammation, and pain and oedema following surgical or non-surgical procedures. The specification for the international (PCT) application in this patent family states that free NSAIDs when administered orally can cause adverse gastrointestinal effects and describes formulation of the pharmaceutical compositions to enhance the stability of the metal carboxylate complexes. Metal carboxylate complexes that may be used in the pharmaceutical compositions are stated to include copper carboxylate complexes such as copper indomethacin.

The technology further extends to methods for treating an inflammatory condition in humans and animals comprising administering the pharmaceutical composition.

The International (PCT) patent application in this patent family claims priority from the 3 corresponding provisional applications listed in Table 1, and is due to enter the "national phase" of jurisdictions of interest by 30 September 2006. At the date of preparation of this patent report, the PCT remains pending. However, it is anticipated the application will enter the "national phase" of Australia, Japan, New Zealand, the United States, United Arab Emirates, Canada, and Europe by way of a European patent application designating all the major European countries available via this filing route including France, Germany, the United Kingdom, Spain, the Netherlands and Italy.

PATENT FAMILY 3 – COPPER COMPLEXES

This patent family relates to certain copper complexes, and the use of the copper complexes in the treatment of inflammatory conditions in humans and animals. It also relates to the treatment of inflammation using the copper complexes. PCT application PCT/AU2006/000402 claims priority from the further PCT application and 4 corresponding provisional applications listed in Table 1 for this patent family.

PATENT FAMILY 4 – METHODS FOR TREATING INFLAMMATORY CONDITIONS IN HUMANS AND ANIMALS

This patent family relates to certain compounds having anti-inflammatory, analgesic and antipyretic activity. It also relates to pharmaceutical compositions containing the compounds. The PCT application in this patent family claims priority from the corresponding provisional application listed in Table 1.

PATENT FAMILY 5 – METHOD OF TREATMENT OF CARCINOMAS

This patent family relates to the prophylaxis and treatment of carcinomas, including skin cancers, in humans and animals using a specific class of compounds found to have anti-cancer activity. It also relates to systemic or topical administration of the compounds, and pharmaceutical compositions containing the compounds. The PCT application in this patent family claims priority from the 2 corresponding provisional applications listed in Table 1 for this patent family.

PATENT FAMILY 6 – METHODS AND COMPOSITIONS FOR THE PROPHYLAXIS OR TREATMENT OF CANCERS OF THE SKIN

This patent family relates to the prophylaxis and treatment of carcinomas of the skin using a specific class of compounds found to have anti-cancer activity. At the date of preparing this patent report the provisional and PCT applications listed in Table 1 for this patent family remain pending. PCT application No. PCT/IB2006/002423 claims priority from PCT application No. PCT/AU2006/000403 and the 2 corresponding provisional applications listed in Table 1 for this patent family.

PATENT FAMILY 7 – METHODS FOR PROPHYLAXIS OR TREATMENT OF CARDIOVASCULAR INFLAMMATION

This patent family relates to the prophylaxis or treatment of cardiovascular diseases and conditions using certain compounds with anti-inflammatory activity. A PCT application claiming priority from the 2 provisional applications listed in Table 1 for this patent family is due to be filed by 27 March 2007.

PATENT FAMILY 8 – METHODS FOR PROPHYLAXIS OR TREATMENT OF AN INFLAMMATION RELATED CONDITION

This patent family relates to the prophylaxis or treatment of an inflammation related condition using certain compounds having anti-inflammatory activity. A PCT application claiming priority from the 2 provisional applications listed in Table 1 for this patent family is due to be filed by 28 March 2007.

PATENT FAMILY 9 – METAL COMPLEXES HAVING ANTI-INFLAMMATORY ACTIVITY

This patent family relates to certain metal complexes having anti-inflammatory activity and their use in the prophylaxis and treatment of various conditions including cancer in humans and animals. A PCT application claiming priority from PCT Application No. PCT/AU2006/000403 and the 2 provisional applications listed in Table 1 for this patent family is due to be filed by 24 March 2007.

PATENT FAMILY 10 – METAL COMPLEXES HAVING ANTI-INFLAMMATORY ACTIVITY II

This patent family relates to certain metal complexes having anti-inflammatory activity and their use in the prophylaxis and treatment of various conditions including cancer in humans and animals. A PCT application claiming priority from PCT Application No. PCT/AU2006/000403 and the provisional application listed in Table 1 for this patent family is due to be filed by 24 March 2007.

PATENT FAMILY 11 – COMBINATION THERAPY FOR TREATMENT OF CANCER

This patent family relates to the treatment and palliative care of cancer patients and certain side effects of cancer employing a specific class of compounds. A PCT application claiming priority from PCT Application No. PCT/AU2006/000403 and the 2 provisional applications listed in Table 1 for this patent family is due to be filed by 24 March 2007.

PATENT FAMILY 12 – PROPHYLAXIS OR TREATMENT OF CANCER

This patent family relates to the treatment and prophylaxis of certain types of cancers in humans and animals employing a specific class of compounds. A PCT application claiming priority from the 2 provisional applications listed in Table 1 for this patent family is due to be filed by 19 September 2007.

PATENT FAMILY 13 – SKIN TREATMENT AND WOUND REPAIR

This patent relates to methods for protecting and treating skin and wound repair, employing a specific class of compounds. A PCT application claiming priority from the 3 provisional applications listed in Table 1 for this patent family is due to be filed by 19 September 2007.

Generally speaking, a patent will now normally have a term of 20 years from the applicable filing date of the application on which the patent was granted. In many jurisdictions it is possible to obtain an extension of the term of a patent granted in respect of a pharmaceutical substance for human use. In Australia at least, the extension can be up to 5 years.

Corporate Directory

DIRECTORS

Professor Michael Vitale
Chairman

Mr Llewellyn Casbolt
Managing Director and
Chief Executive Officer

Dr Michael Taverner
Non-executive Director

Mr Malcom Castle
Non-executive Director

COMPANY SECRETARY

Mr Ian Gilmour

AUSTRALIAN COMPANY NUMBER

111 304 119

REGISTERED AND PRINCIPAL OFFICE

Suite 15
33 Waterloo Road
North Ryde NSW 2113
Australia

T +61 2 9889 1222
F +61 2 9889 2022

info@medicaltherapies.com.au
www.medicaltherapies.com.au

AUDITORS

PricewaterhouseCoopers

Darling Park Tower 2
201 Sussex Street
Sydney NSW 2000
Australia

INVESTIGATING ACCOUNTANTS

PricewaterhouseCoopers Securities Limited

Darling Park Tower 2
201 Sussex Street
Sydney NSW 2000
Australia

SOLICITORS

Steinepreis Paganin Lawyers & Consultants

Level 4, Next Building
16 Milligan Street
Perth WA 6000
Australia

PATENT ATTORNEYS

Adams Pluck

Suite 3, Level 1
20 George Street
Hornsby NSW 2077
Australia

Blake Dawson Waldron Patent Services

Grosvenor Place
225 George Street
Sydney NSW 2000
Australia

SHARE REGISTRY

Computershare Investor Services Pty Ltd

Level 2
45 St Georges Terrace
Perth WA 6000
Australia

MEDICAL THERAPIES LIMITED

Suite 15, 33 Waterloo Road
North Ryde NSW 2113
Australia

T +61 2 9889 1222
F +61 2 9889 2022

info@medicaltherapies.com.au
www.medicaltherapies.com.au

ABN 69 111 304 119