

**MEDICAL THERAPIES LIMITED
AND CONTROLLED ENTITY**

**FINANCIAL REPORT
FOR THE PERIOD ENDED 30 JUNE 2005**

**MEDICAL THERAPIES LIMITED
AND CONTROLLED ENTITY**

DIRECTORS' REPORT

Your directors present their report on the company and its controlled entity for the period ended 30 June 2005.

Directors

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

Mr James Dominguez (Appointed 16 December 2004)
Mr Llewellyn Casbolt (Appointed 16 December 2004)
Professor Michael Vitale (Appointed 16 December 2004)
Dr Michael Taverner (Appointed 8 October 2004)
Mr Maurice Howe (Appointed 8 October 2004, Resigned 8 October 2004)
Mrs Marea Howe (Appointed 8 October 2004, Resigned 8 October 2004)
Mr David Howe (Appointed 8 October 2004, Resigned 8 October 2004)
Mr David Roche (Appointed 8 October 2004, Resigned 16 December 2004)
Mr Gregory Bender (Appointed 8 October 2004, Resigned 14 February 2005)

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

Corporate Structure

Medical Therapies Limited (Medical Therapies or Company), formerly Newbio Limited, is a company limited by shares that was incorporated on 8 October 2004 and is domiciled in Australia. Medical Therapies has prepared a consolidated financial report incorporating the entities it controlled during the year (Economic Entity).

Operating Results

The consolidated loss of the economic entity for the period after providing for income tax amounted to \$1,147,435.

Principal Activities

The principal activities of the Economic Entity were:

- Raising seed capital to support the activities of the Company in its endeavours to secure rights over what it believes to be valuable intellectual property from two Sydney based universities in the fields of anti-inflammatory and anti-cancer drugs;
- The negotiation and formalisation of various agreements with The University of Sydney and the University of Western Sydney that transfer economic ownership of certain university intellectual property to the Company on listing on the Australian Stock Exchange and achievement by the Company of the Conditions Precedent described in the Prospectus issued on the 3rd June 2005 and the Replacement Prospectus issued on the 12th September 2005;
- The preparation of a Prospectus which offers the Company's shares to the general public in support of the Shareholders approved approach of listing the Company on the ASX via an Initial Public Offering (IPO);
- Presentation of the Offer to the stockbroking communities in Australia in support of the IPO;
- Management and oversight of clinical trial protocols aimed at furthering knowledge of the technologies in the forthcoming year;
- Upon the Company failing to reach the minimum investment amount of \$5 million under the Prospectus dated 3rd June 2005, the development and subsequent lodgement of a Replacement Prospectus which reduced the minimum investment to \$3 million and rationalised the technology portfolio being sought from the Universities to that owned by The University of Sydney (formerly known as Technology One);
- Raising further seed capital to support the Company's operations;
- Promotion of the revised IPO using all available resources in order to achieve the sanctioned listing.

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DIRECTORS' REPORT (Continued)

Review of Operations and After Balance Date Events

As at the 30th June 2005, the Company had not achieved its target of listing on the ASX and subsequent to year end decided to issue a Replacement Prospectus in relation to its targeted IPO. During the time of currency of the 3rd June Prospectus, the Australian Biotech market and in particular IPO's which sought to raise money from the Australian public were under significant pressure. For instance, during this time, no stockbroking firm was willing to underwrite the Company's IPO given the depressed state of the biotech market.

Shareholders may be interested to know that subsequent to the issue of the Replacement Prospectus on the 12th September, the Company had received a total of \$1,440,700 of subscriptions, and during the "refund" period, processed a total of \$205,100 of subscription refunds and received a total of \$57,200 in new subscriptions, leaving a net loss of just \$147,900, significantly less than had been anticipated.

Subsequent to year end, the Company raised a further \$175,000 seed capital, with a further \$225,000 being sought as at the date of this Report.

Significant Changes in State of Affairs

During the year the Company:

- Was incorporated on 8 October 2004.
- Made two seed capital raisings totalling \$1.3 million.
- Acquired all the shares in Biotech Pty Ltd.
- Changed its name from Newbio Limited to Medical Therapies Limited.
- Entered into agreements with The University of Sydney and NatureVet Pty Ltd that seek transfer of economic ownership of intellectual property associated with metal-based non-steroidal-anti-inflammatory drugs (Metallo-NSAIDs) and their derivatives to the Company upon the Company listing on the ASX and achieving certain other Conditions Precedent.
- Issued a Prospectus in support of an IPO of the Company's shares to raise a minimum of \$5 million that was intended to be used to further develop and commercialise technologies from The University of Sydney and the University of Western Sydney.
- Issued a Replacement Prospectus which reduced both the minimum raising to \$3 million and scope of the technology acquisition to that technology emanating from The University of Sydney.

No matters or circumstances have arisen since the end of the period which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in future periods.

Likely Developments

The economic entity expects to maintain the present status and level of operations and hence there are no likely developments in the economic entity's operations.

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.

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.

**MEDICAL THERAPIES LIMITED
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DIRECTORS' REPORT (Continued)

Information on Directors

James Dominguez BA BCom CBE AM

Chairman - Independent

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).

Llewellyn Casbolt BAppSc

Managing Director and Chief Executive Officer

Mr Llewellyn Casbolt has a professional background that includes over 30 years experience as a senior executive and consultant. He has extensive experience in strategic management, marketing, and product research and development across a diverse range of industries including finance and investment, software, pharmaceuticals, cosmetics, toiletries and confectionery.

Mr Casbolt was formerly CEO of Australia's only privately-funded biotechnology business incubator, Xcelerator Limited, an unlisted public company, where he provided on-the-ground business and operational advice to 'new economy' biotechnology and bio-informatics businesses. He was founder and Managing Director of QuickSmart OnLine Pty Limited, a successful financial planning software development firm, which licensed its technology to large financial institutions in Australia and New Zealand, and recently founded a private company exploiting IP in the area of haemophilia, in which he has a significant interest.

Mr Casbolt has been responsible for the development and implementation of corporate and product marketing strategies for retail and wholesale banks, securities and stockbroking companies, fund managers, insurance companies, friendly societies, building societies, finance houses, trustee companies and credit cooperatives. His clients have included AMP, ANZ Bank Limited, Bankers Trust Australia Limited, Commonwealth Bank of Australia, Commonwealth Securities Limited, News Limited Suburban Network, Paladin Australia Limited, Perpetual Funds Management Limited, Perpetual Trustees Australia Limited, PricewaterhouseCoopers, Price Waterhouse Konsultan (Indonesia), Rothschild Australia Asset Management Limited, Royal & Sun Alliance Life Assurance Limited and Xcelerator Limited.

Mr Casbolt has held senior executive positions in Australia and overseas for several multi-national corporations including Chase AMP Bank (General Manager Marketing), Elders Finance Group (Marketing Director), IOOF of Victoria (Marketing Manager), HJ Heinz, Cheseborough Ponds, Nicholas International, Cussons and Wynn Winegrowers. He has also worked as a senior R&D chemist, specialising in pharmaceutical, cosmetic and toiletry product research, development and commercialisation.

Professor Michael Vitale BA PhD MBA

Non-Executive Director – Independent

Professor Michael Vitale currently researches, teaches and consults on start-up and early stage companies (particularly in biotechnology), innovation and commercialisation, and IT governance. He currently sits on the advisory boards for bizCapital, Cleanskins.com, Elastagen Pty Limited and iSelect.

Professor Vitale's Australian Consulting and Executive Education Clients include ASIC, ASX, the Attorney-General's Department, Australia Post, Brambles Marine, the Department of Finance and Administration, Ernst & Young, Geelong Radiological Clinic, Hewlett Packard, Hospital Supplies Australia, Kolotex Australia, Macquarie Bank, Melbourne Water, National Australia Bank, PricewaterhouseCoopers, SA Water (member of IT Advisory Board) and Victorian Imaging Group.

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DIRECTORS' REPORT (Continued)

Information on Directors (cont'd)

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 member of the Professional Education Board of CPA Australia, a Fellow of the Association for Information Systems and Treasurer 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.

Dr Michael Taverner BAgriSci MAgriSci PhD

Non-Executive Director – Independent

Dr Michael Taverner is a scientific consultant and company director. He currently serves on boards 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 recently listed on ASX to commercialise novel antibacterial technology. He is a non-executive director of the Rural Industries R&D Corporation, the Australian Poultry CRC and the Australian Rural Leadership Foundation Limited.

Dr Taverner has worked as a technical consultant to the Grains R&D Corporation since 1996. He served as Chairman of national R&D advisory groups for the chicken meat and egg industries, and for six years before that was 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.

Information on Company Secretary

Ian Gilmour FCIS CA FAICD JP(NSW)

Company Secretary (part-time)

Mr Ian Gilmour is currently part-time company secretary of Biosignal Limited, a company recently listed on ASX to commercialise novel antibacterial technology. He is a consultant on corporate governance, a consultant to Nova Legal & Advisory, and company secretary of a proprietary company operating in the telecommunications area and a non-executive director and company secretary of 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). During this time he was called up for approximately two years' National Service in the Australian Army, including a period of service in Singapore.

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.

**MEDICAL THERAPIES LIMITED
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DIRECTORS' REPORT (Continued)

Meetings of Directors

The number of meetings of directors held during the year and the number of meetings attended by each director were as follows:

	Directors' Meetings	
	Number eligible to attend	Number attended
Mr James Dominguez	5	5
Mr Llewellyn Casbolt	5	5
Professor Michael Vitale	5	4
Dr Michael Taverner	8	8
Mr Gregory Bender	4	4
Mr David Roche	3	3
Mr David Howe	1	-
Mrs Marea Howe	1	1
Mr Maurice Howe	1	-

No meetings of committees of the board were held during the year.

Options

At the date of this report, the unissued ordinary shares of Medical Therapies Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number Under Option
13 October 2004	31 December 2007	\$0.20	5,516,665

During the year ended 30 June 2005 no ordinary shares of Medical Therapies Limited were issued on the exercise of options granted under the Medical Therapies Limited Executive and Employee Share Option Plan. No further shares have been issued since that date. No amounts are unpaid on any of the shares. No person entitled to exercise an option had or has any right by virtue of an option to participate in any share issue of any other body corporate.

Indemnification of Officer or Auditor

Under the Company's Constitution the Company must indemnify the directors and secretary against certain liabilities and legal costs in defending relevant actions. In addition, the Company may make payments by way of advance, loan or otherwise in respect of such legal costs and may pay premiums for a contract of insuring such officers, to the extent permitted by law.

During the period, the Company entered into Officer Protection Deeds with each of the directors, which are subject to approval of shareholders, which approval will be sought at the first AGM. These Deeds obligate the Company to take out insurance.

At the date of this report, the Company has not paid any premiums in respect of a contract insuring the directors and officers of the Company against liabilities and legal costs to the extent permitted by Section 199B of the Corporations Act 2001.

No indemnities have been given or insurance premiums paid, during or since the end of the period, for any person who is or has been an auditor of the economic entity.

**MEDICAL THERAPIES LIMITED
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DIRECTORS' REPORT (Continued)

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors support and have adhered to the principles of good corporate governance, having regard to the status of the company, which is in a start-up situation. The Company's corporate governance policies and procedures will be developed as the Company grows.

The composition of the Board of Directors', even prior to listing on the Stock Exchange, is made up of a majority of independent directors and an independent Chairman.

Qualification

The directors are of the view that the ability of the Company to continue as a going concern is dependent on the successful completion of the current capital raising.

Proceedings on Behalf of the Economic Entity

No person has applied for leave of Court to bring proceedings on behalf of the company or 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 any part of those proceedings.

The company was not a party to any such proceedings during the year.

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 7.

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

Director



James Dominguez

Director



Llewellyn Casbolt

Dated this 31st day of October 2005

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

I declare that, to the best of my knowledge and belief, during the period ended 30 June 2005 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

WHK Greenwoods

WHK Greenwoods



Anthony Rose

Sydney

31 October 2005

**MEDICAL THERAPIES LIMITED
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**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE PERIOD ENDED 30 JUNE 2005**

	Note	Economic Entity June 2005 \$	Parent Entity June 2005 \$
Revenue from ordinary activities	2	10,067	8,994
Consultancy expenses		(525,879)	(488,703)
Legal expenses		(236,515)	(212,895)
Loan provision and diminution of investment expenses		-	(500,500)
Research and development expenses		(84,530)	(84,530)
Occupancy expenses		(63,414)	(35,302)
Other expenses from ordinary activities		(247,164)	(229,508)
Profit from ordinary activities before income tax expense		(1,147,435)	(1,542,444)
Income tax expense relating to ordinary activities	3	-	-
Profit from ordinary activities after related income tax expense		(1,147,435)	(1,542,444)
Equity issue costs charged direct to equity		(508,127)	(508,127)
Total changes in equity other than those resulting from transactions with owners as owners		(1,655,562)	(2,050,571)

The accompanying notes form part of these financial statements.

**MEDICAL THERAPIES LIMITED
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**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005**

	Note	Economic Entity June 2005 \$	Parent Entity June 2005 \$
CURRENT ASSETS			
Cash assets	5	326,028	298,742
Receivables	6	210,015	126,185
TOTAL CURRENT ASSETS		536,043	424,927
NON-CURRENT ASSETS			
Property, plant and equipment	7	34,147	8,812
Intangible assets	8	268,832	-
TOTAL NON-CURRENT ASSETS		302,979	8,812
TOTAL ASSETS		839,022	433,739
CURRENT LIABILITIES			
Payables	9	741,364	731,090
TOTAL CURRENT LIABILITIES		741,364	731,090
TOTAL LIABILITIES		741,364	731,090
NET ASSETS/NET LIABILITIES		97,658	(297,351)
EQUITY			
Contributed equity	10	1,245,093	1,245,093
Accumulated losses	11	(1,147,435)	(1,542,444)
TOTAL EQUITY		97,658	(297,351)

The accompanying notes form part of these financial statements.

**MEDICAL THERAPIES LIMITED
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**STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2005**

	Note	Economic Entity June 2005 \$	Parent Entity June 2005 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(1,132,326)	(953,564)
Interest received		10,067	8,994
Borrowing costs		(119)	-
Net cash used in operating activities	12(b)	<u>(1,122,378)</u>	<u>(944,570)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Payment for property, plant and equipment		(17,579)	(9,408)
Loan to Biotech		-	(90,400)
Net cash used in investing activities		<u>(17,579)</u>	<u>(99,808)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from share issue		<u>1,433,120</u>	<u>1,343,120</u>
Net cash provided by financing activities		<u>1,433,120</u>	<u>1,343,120</u>
Net increase/(decrease) in cash held		293,163	298,742
Cash at beginning of period		<u>32,865</u>	-
Cash at end of period	12 (a)	<u><u>326,028</u></u>	<u><u>298,742</u></u>

The accompanying notes form part of these financial statements.

**MEDICAL THERAPIES LIMITED
AND CONTROLLED ENTITY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers Medical Therapies Limited as an individual entity and Medical Therapies Limited and controlled entity as an economic entity. Medical Therapies Limited is a company limited by shares, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Principles of Consolidations

A controlled entity is any entity controlled by Medical Therapies Limited. Control exists where Medical Therapies Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Medical Therapies Limited to achieve the objectives of Medical Therapies Limited.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where a controlled entity has entered or left the economic entity during the period its operating results have been included from the date control was obtained or until the date control ceased.

(b) Income Tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences, which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account either as provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

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

**MEDICAL THERAPIES LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Property, Plant and Equipment

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

Plant and equipment

Plant and equipment is measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by the directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, are depreciated over their estimated useful lives to the economic entity commencing from the time the asset is held ready for use. Properties held for investment purposes are not subject to a depreciation charge. Leasehold improvements are amortised over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

(d) Investments

Non-current investments are measured on the cost basis. The carrying amount of investments is reviewed annually by directors' to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value for shares in listed companies or the underlying net assets for other non-listed corporations. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

(e) Intangibles

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net tangible assets at date of acquisition. Both purchased goodwill and goodwill on consolidation are amortised on a straight line basis over the period of 20 years. The balances are reviewed annually and any balance representing future benefits the realisation of which is considered to be no longer probable are written off.

(f) Research and Development Expenditures

Expenditure on research is charged to profit on ordinary activities before income tax as incurred, since the company considers that the future benefits cannot be demonstrated beyond reasonable doubt. Development expenditure is charged to profit on ordinary activities before income tax as incurred, or deferred. Expenditure is only deferred where sufficient future benefits can be expected beyond reasonable doubt to be derived and the following have been demonstrated in relation to the expenditure; technical feasibility; the intention and ability to use or sell; how the benefits will arrive; and, the cost of the expenditure can be reliably measured.

(g) Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and net of bank overdrafts.

(h) Revenue

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

All revenue is stated net of the amount of goods and services tax (GST).

**MEDICAL THERAPIES LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

(j) Comparative Figures

No comparatives have been shown as the company was incorporated on 8 October 2004.

(k) Impact of Adoption of Australian Equivalents to International Financial Reporting Standards

The economic entity is preparing and managing the transition to Australian Equivalent of International Financial Reporting Standards (AIFRS) effective for financial periods commencing from 1 January 2005. The adoption of AIFRS will be reflected in the economic entity's financial statements for the period ending 30 June 2006. On first time adoption of AIFRS, comparatives for the period ended 30 June 2005 are required to be restated.

The company's management, with the assistance of external consultants, has assessed the significance of the expected changes and is preparing for their implementation. An AIFRS committee is overseeing and managing the company's transition to AIFRS. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The figures disclosed below are management's best estimates of the quantitative impact of changes as at the date of preparing the 30 June 2005 financial report. These figures have not been adjusted in this (AGAAP) financial report. The figures will be adjusted next year when preparing the AIFRS financial report. It should be noted that the actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) ongoing work undertaken by the AIFRS committee, (b) potential amendments to AIFRSs and interpretations thereof being issued by the standard setters and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

(i) Business combinations and goodwill

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

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

The requirement to account for the business combination as a reverse acquisition is a significant change. Currently, the legal parent recognises its cost of investment and the net assets of the legal subsidiary at their fair values at the date of the combination. Under AASB3, the legal subsidiary will recognise its cost of investment and the fair values of the legal parent's identifiable net assets at the date of the combination at their fair values. This leads to a significantly different value for goodwill, which will be lower, and other intangible and other assets arising on the combination.

When Medical Therapies Limited acquired (as the legal parent) Biotech Pty Limited, the shareholders of Medical Therapies Limited (the legal subsidiary) ended up with 100% of the shares in Medical Therapies Limited and control of the combined entity. Accordingly the transaction will be accounted for as a reverse acquisition under AASB 3.

The IFRS consolidated financial statements of Medical Therapies Limited will disclose the individual accounts financial statements of Medical Therapies Limited (the legal parent) and the consolidated accounts financial statements of the group, accounted for as a reverse acquisition by Biotech Pty Limited. The individual accounts financial statements of Medical Therapies Limited will however continue to show the cost of investment in Biotech Pty Limited at the fair value of the consideration given at the date of the combination.

(ii) Income Tax

Currently, as allowed required under AASB 1020, the economic entity adopts the balance sheet of tax-effect accounting. Under AASB 112: Income Taxes, the entity will also be required to adopt a balance sheet approach, under which temporary differences are identified for each asset and liability. No material differences in treatment are expected to arise as a result of the application of AASB 112, but differences to the tax balances will arise as a result of the adoption of other AIFRS.

**MEDICAL THERAPIES LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impact of Adoption of Australian Equivalents to International Financial Reporting Standards

(iii) Share-Based Payment

Share-Based compensation forms part of the remuneration of employees of the economic entity (including executives) as disclosed in the notes to the financial statements. The economic entity does not recognise an expense for any share-based compensation granted. Under AASB2: Share-Based Payments the economic entity will be required to recognise an expense for such share-based compensation. Share-based compensation is measured at the fair value of the share based payments determined at grant date and recognised over the expected vesting period of the payments. These amounts are not expected to be material as at 30 June 2005.

(iv) Reconciliation of Equity as presented under AGAAP to that under AIFRS

Since the company was incorporated on 8 October 2004, there was no total equity at 1 July 2004 and accordingly, the total changes to equity in the period to 30 June 2005 are shown here, not the change in equity at the start of the period, which would have been nil, since total equity was nil.

ADJUSTMENTS TO TOTAL EQUITY UNDER AGAAP (NET OF TAX)	Economic Entity
	30 June 2005
	\$
Total equity under AGAAP	97,658
Accounting for the acquisition of Biotech Pty Limited as a reverse acquisition	(278,760)
Reversal of goodwill amortisation	9,928
	<hr/>
Total Equity under AIFRS	(171,174)
	<hr/> <hr/>

(v) Reconciliation of Net Profit under AGAAP to that under AIFRS

ADJUSTMENTS TO NET PROFIT AFTER TAX FOR THE YEAR ENDED 30 JUNE 2005	Economic Entity
	\$
Net profit after tax under AGAAP	(1,147,435)
Reversal of Goodwill amortisation	9,928
	<hr/>
Net profit after tax under AIFRS	(1,137,507)
	<hr/> <hr/>

There is no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

**MEDICAL THERAPIES LIMITED
AND CONTROLLED ENTITY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005**

	Note	Economic Entity	Parent Entity
		June 2005 \$	June 2005 \$
<hr/>			
NOTE 2: REVENUE			
Operating activities			
- interest	2(a)	<u>10,067</u>	<u>8,994</u>
		<u>10,067</u>	<u>8,994</u>
 (a) Interest from:			
- other organisations		<u>10,067</u>	<u>8,994</u>
 Profit (losses) from ordinary activities before income tax expenses (income tax revenue) has been determined after:			
(b) Expenses			
Borrowing costs:			
- other persons		<u>119</u>	<u>-</u>
 Depreciation of non-current assets			
- Office Equipment		596	596
- Furniture, fixtures and fittings		<u>4,962</u>	<u>-</u>
Total Depreciation		<u>5,558</u>	<u>596</u>
 Amortisation of non-current assets			
- goodwill		<u>9,928</u>	<u>-</u>
 Remuneration of the auditors for			
- audit or review services		16,000	8,500
- tax and other advisory services		<u>37,838</u>	<u>12,425</u>
 Research and development costs		<u>84,530</u>	<u>84,530</u>

**MEDICAL THERAPIES LIMITED
AND CONTROLLED ENTITY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005**

	Note	Economic Entity	Parent Entity
		June 2005	June 2005
		\$	\$

NOTE 3: INCOME TAX EXPENSE

The prima facie tax payable on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:

Prima facie income tax payable on profit from ordinary activities before income tax at 30.0%	(344,231)	(462,733)
--	-----------	-----------

Add:

Tax effect of:

– Losses not brought to account the benefit of which may approximate	344,231	462,733
Income tax attributable to parent and economic entity	-	-

NOTE 4: REMUNERATION AND RETIREMENT BENEFITS

(a) Directors' remuneration

Income paid or payable to all directors of the company by the company and any related parties:

- Non-executive directors	51,000	51,000
- Executive director	213,813	213,813
	264,813	264,813

The names of directors who have held office during the period are:

Mr James Dominguez
Mr Llewellyn Casbolt
Professor Michael Vitale
Dr Michael Taverner
Mr Maurice Howe
Mrs Marea Howe
Mr David Howe
Mr David Roche
Mr Gregory Bender

(b) Retirement and Superannuation Payments

Amounts of a prescribed benefit given during the period to a director or prescribed superannuation fund in connection with the retirement from a prescribed office.

Full particulars are not provided as the directors believe this would be unreasonable.	4,590	4,590
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NOTE 5: CASH ASSETS

Cash on hand	100	-
Cash at bank	325,928	298,742
	326,028	298,742

**MEDICAL THERAPIES LIMITED
AND CONTROLLED ENTITY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005**

	Note	Economic Entity	Parent Entity
		June 2005 \$	June 2005 \$
NOTE 6: RECEIVABLES			
CURRENT			
Other debtors		171,015	126,185
Amounts receivable from:			
- controlled entities			
- wholly owned entities		90,400	90,400
- provision for doubtful debts wholly owned entities		(90,400)	(90,400)
- other related bodies corporate		39,000	-
		210,015	126,185
NOTE 7: PROPERTY, PLANT AND EQUIPMENT			
PLANT AND EQUIPMENT			
Plant and equipment			
At cost		8,626	-
Less accumulated depreciation		(3,768)	-
		4,858	-
Office equipment			
At cost		9,408	9,408
Less accumulated depreciation		(596)	(596)
		8,812	8,812
Furniture, fixtures and fittings			
At cost		23,017	-
Less accumulated depreciation		(2,540)	-
		20,477	-
Total plant and equipment		34,147	8,812
NOTE 8: INTANGIBLE ASSETS			
Goodwill at cost		278,760	-
Less accumulated amortisation		(9,928)	-
		268,832	-
NOTE 9: PAYABLES			
CURRENT			
Unsecured liabilities			
Other lease liability		6,350	6,350
Sundry creditors and accruals		735,014	724,740
		741,364	731,090

**MEDICAL THERAPIES LIMITED
AND CONTROLLED ENTITY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005**

Note	Economic Entity June 2005 \$	Parent Entity June 2005 \$
<hr/>		
NOTE 10: CONTRIBUTED EQUITY		
13,779,916 fully paid ordinary shares	<u>1,245,093</u>	<u>1,245,093</u>
Ordinary shares at the beginning of the reporting period	-	-
13,779,916 shares issued during the reporting period	1,753,220	1,753,220
Transaction costs relating to share issue	<u>(508,127)</u>	<u>(508,127)</u>
Balance at reporting date	<u>1,245,093</u>	<u>1,245,093</u>

(a) ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number and amounts paid on the shares held. This is subject to the prior entitlements of the redeemable preference shares.

On a show of hands every shareholder 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.

(b) options

5,516,665 options were issued on 13 October 2004 with an exercise price of 20 cents and an expiry date of 31 December 2007.

NOTE 11: RETAINED PROFITS/(ACCUMULATED LOSSES)

Retained profits at the beginning of the period	-	-
Net profit (loss) attributable to members of the entity	<u>(1,147,435)</u>	<u>(1,542,444)</u>
Accumulated losses at the end of the period	<u>(1,147,435)</u>	<u>(1,542,444)</u>

NOTE 12: CASH FLOW INFORMATION

(a) Reconciliation of cash

Cash at the end of the period as shown in the statement of Cash Flows is reconciled to the related items in the statement of financial position as follows:

Cash on hand	100	-
Cash at bank	<u>325,928</u>	<u>298,742</u>
	<u>326,028</u>	<u>298,742</u>

(b) Reconciliation of cash flow from operations with profit from ordinary activities after income tax

Loss from ordinary activities after income tax	(1,576,176)	(1,542,444)
--	-------------	-------------

Non-cash flows in profit from ordinary activities

Amortisation	9,928	-
Depreciation	5,558	596
Provisions	410,100	500,500

Changes in assets and liabilities

Increase in payables	165,576	222,963
Increase in current assets	<u>(137,364)</u>	<u>(126,185)</u>
Cash flows from operations	<u>(1,122,378)</u>	<u>(944,570)</u>

**MEDICAL THERAPIES LIMITED
AND CONTROLLED ENTITY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005**

	Note	Economic Entity	Parent Entity
		June 2005	June 2005
		\$	\$

NOTE 13: CAPITAL AND LEASING COMMITMENTS

(b) Operating lease commitments

Operating leases contracted for but not capitalised in the financial statements:

Payable

- not later than one year

50,805

-

- later than one year and not later than five years

-

-

50,805

-

NOTE 14: CONTROLLED ENTITIES

Subsidiary: Biotech Pty Limited

Country of incorporation: Australia

Percentage owned: 100%

NOTE 15: RELATED PARTY TRANSACTIONS

All transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

(a) Share transactions of directors

Directors and director related entities hold directly, indirectly or beneficially as at the reporting date the following equity interests in members of the economic entity

50,000

50,000

(b) Other transactions between the economic entity and directors and their related parties

Mr Llewellyn Casbolt

Casbolt & Associates, a company associated with Mr Casbolt provided/ was engaged on commercial terms consulting services.

The total paid or payable, (as indicated in the directors' remuneration note) during the year ended 30 June 2005 was \$213,813.

NOTE 16: EVENTS SUBSEQUENT TO REPORTING DATE

There have been two matters that have arisen since the end of the financial year that may significantly affect the operations of the economic entity, the results of those operations, or state of affairs of the economic entity in future financial years.

- The Board has resolved to focus on developing and commercialising Technology One only. As a result the Company will no longer be acquiring Technology Two or Technology Three from the Universities. The Company is of the view that Technology One represents the most promising opportunity for investors and has the shortest anticipated timeframe to commercialisation.
- On 12 September 2005 the Company lodged a Replacement Prospectus with ASIC for the offer of 15,000,000 shares at an issue price of \$0.20 to raise \$3,000,000 (with the ability to accept oversubscriptions for up to a further \$2,000,000).

**MEDICAL THERAPIES LIMITED
AND CONTROLLED ENTITY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2005**

NOTE 17: FINANCIAL INSTRUMENTS

(a) Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

2005	Weighted average effective interest rate %	Floating interest rate \$'000	Within year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Non- interest bearing \$'000	Total \$'000
Financial assets:							
Cash	5.3%	325,928	-	-	-	-	325,928
Receivables – others	-	-	-	-	-	209,497	209,497
Total financial assets		325,928	-	-	-	209,497	535,425
Financial liabilities							
Payables	-	-	-	-	-	741,364	741,364
Total financial liabilities		-	-	-	-	741,364	741,364

(b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to the financial report.

The economic entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the economic entity.

(c) Net Fair Values

The carrying amount of financial assets and liabilities approximate their fair values. These monetary financial assets and liabilities are included in the assets and liabilities in the statement of financial position.

NOTE 18: COMPANY DETAILS

The registered office and principal place of business of the company is:

Medical Therapies Limited
Level 11
91 York Street
SYDNEY NSW 2000

**MEDICAL THERAPIES LIMITED
AND CONTROLLED ENTITY**

DIRECTORS' DECLARATION

The directors of the economic entity declare that:

1. The financial statements and notes, as set out on pages 8 to 20 are in accordance with the Corporations Act 2001:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2005 and of the performance for the period ended on that date of the economic entity.
2. In the directors' opinion there are reasonable grounds to believe that the economic entity will be able to pay its debts as and when they become due and payable.

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

Director



James Dominguez

Director



Llewellyn Casbolt

Dated this 31st day of October 2005

**MEDICAL THERAPIES LIMITED
AND CONTROLLED ENTITY**

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF
MEDICAL THERAPIES LIMITED**

Scope

The financial report and directors responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements and the directors' declaration for Medical Therapies Limited and Medical Therapies Limited, for the period ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during the year.

The directors of the company are responsible for preparing a financial report that gives a 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.

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. 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.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, 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 and cash flows.

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
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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.

Independence

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

**MEDICAL THERAPIES LIMITED
AND CONTROLLED ENTITY**

**INDEPENDENT AUDIT REPORT TO THE MEMBERS OF
MEDICAL THERAPIES LIMITED**

Audit Opinion

In our opinion, the financial report of Medical Therapies Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

Inherent uncertainty regarding going concern

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

Notwithstanding the deficit of current assets over current liabilities and the accumulated losses of the company, the financial report has been prepared on a going concern basis. The directors are of the opinion that the ability of the Company to continue as a going concern is dependent on the successful completion of the current capital raising pursuant to the Supplementary Prospectus issued on 12 September 2005.

WHK Greenwoods

WHK Greenwoods



Anthony Rose
Sydney
31 October 2005