MEDICAL THERAPIES LIMITED
AND CONTROLLED ENTITIES
ACN 111 304 119

INTERIM REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

Contents

Your directors present their Report on the consolidated entity consisting of Medical Therapies Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2008.

DIRECTORS

The followings persons were directors of Medical Therapies Limited during the whole of the half-year and up to the date of this report, unless otherwise stated:

- Dr David King
- Ms Maria Halasz
- Mr Koichiro Koike (appointed 10 September 2008)
- Dr Stephanie Williams (resigned 26 August 2008)

PRINCIPAL ACTIVITIES

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

REVIEW OF OPERATIONS

The Group incurred an after tax loss attributed to members of $2,157,959 for the six months to 31 December 2008 (2007: loss of $933,419). Of this loss, $1,545,500 relates to the write-off of some of the Company's intellectual property. While the group incurred a loss over the six months, it has made significant progress in its business as follows:

Acquisition of the Midkine asset portfolio completed

The Group has completed the acquisition of the Midkine asset portfolio adding significant value to the business. Key components of the assets acquired include patents covering Midkine as a novel target for the diagnosis and treatment of inflammation and cancer. In addition, a marketable quantity of valuable Midkine protein has also been acquired together with the patents. The Midkine assets provide the Group with substantial new direction in product development and commercialisation, fulfilling the key criterium for the acquisition, and include four new business divisions:

1. Midkine early cancer diagnostics
2. Midkine antibodies for the treatment of inflammation and cancer
3. Midkine protein therapy for ischemic diseases such as heart attack and stroke
4. Midkine antagonists for the treatment of cancer

Out-licensing of non-core assets

The Group is currently in negotiations with a number of parties for the out-licensing of some of the non-core Midkine assets. Early stage licensing of some of these assets is expected to provide the working capital to pursue in-house product development programs.

Transfer of Midkine intellectual property completed

The Midkine asset portfolio includes products that have been researched for a number of years by Cell Signals in Japan. They are covered by 21 patent families and over 200 peer reviewed journal articles. Transferring the underlying data has been completed solidifying the Group's ownership position.

Commercialisation of Cuprindo™

Clinical trials for the testing of the efficacy of Cuprindo™ in patients with distal proctitis has been delayed due to lack of funding. The trials may recommence once adequate funding has been received.

Earnings Per Security	**31 Dec 2008**	**31 Dec 2007**
Basic loss per share (cents per share)	**(2.15) cents**	1.47 cents
Diluted loss per share (cents per share)	**(2.15) cents**	1.47 cents

Net Tangible Asset Backing	**31 Dec 2008**	**31 Dec 2007**
Per Ordinary Security (cents per share)	**(0.07) cents**	(1.20) cents

Going concern

This Report has been prepared on the going concern basis.

In the half year to 31 December 2008, the Group has incurred losses of $2,157,959 (2007: losses of $933,419), experienced net cash outflows of $778,660 (2007: cash outflows of $661,127) and net liabilities of $79,255 (2007: net assets of $1,700,191) as shown in the income and cashflow statements and balance sheet in this financial report. These results are consistent with the Group's strategic objectives and budget estimates.

Post balance date events

Since 31 December 2008, the Group has been successful in negotiating the partial redemption and partial conversion of $1.135m of convertible notes, recorded as a current liability in this financial report, resulting in an improvement in the net assets of the Group of approximately $906,000.

The Group has also renegotiated the Intellectual Property agreement in relation to the acquisition of the Midkine assets and extinguished a potential liability of $1.5M which would otherwise have become due and payable.

In January the Group received an R&D Tax Offset refund of $133,900 from the Australian Taxation Office.

The Group is actively involved in discussions to seek additional funding which would ensure the availability of working capital for the coming year.

The directors are of the view that the ability of the Group to continue as a going concern is dependent on the successful completion of some of the out-licensing transactions in relation to non-core Midkine assets, future capital raisings and or receipt of grants.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration under section 307C of the *Corporations Act 2001* is set out on page 5.

This Report is made in accordance with a resolution of directors.

Chairman

Dated this 27th Day of February 2009

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Auditor's Independence Declaration

As lead auditor for the review of Medical Therapies Limited for the half year ended 31 December 2008, 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 review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
27 February 2009

CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

	Half-year	
	31.12.2008	31.12.2007
	$	$
Revenue	**11,113**	40,557
Other Income	**154,748**	335,515
Consultancy expense	**(81,587)**	(115,824)
Directors remuneration	**(52,693)**	(65,400)
Employee benefits expense	**(279,113)**	(355,605)
Share-based compensation	**-**	(122,578)
Research and development expense	**(4,634)**	45,514
Professional fees	**(159,206)**	(87,510)
Depreciation and amortisation expense	**(1,556,748)**	(185,777)
Patent costs	**(707)**	(59,010)
Occupancy costs	**(90,275)**	(37,077)
Finance costs	**78,310**	(102,806)
Other expenses	**(177,167)**	(223,418)
Loss before income tax	**(2,157,959)**	(933,419)
Income tax benefit	**-**	-
Loss for the half-year	**(2,157,959)**	(933,419)
Net loss attributable to equity holders of Medical Therapies Limited	**(2,157,959)**	(933,419)
Earnings per share for loss attributable to the ordinary equity holders of the Company:		
Basic loss per share (cents per share)	**(2.15) cents**	1.47 cents
Diluted loss per share (cents per share)	**(2.15) cents**	1.47 cents

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008

	31.12.2008 $	30.06.2008 $
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**189,582**	968,242
Trade and other receivables	**169,423**	51,585
Inventory	**1,000,000**	-
TOTAL CURRENT ASSETS	**1,359,005**	1,019,827
NON-CURRENT ASSETS		
Property, plant and equipment	**31,651**	36,106
Intangible assets	**-**	1,545,500
TOTAL NON CURRENT ASSETS	**31,651**	1,581,606
TOTAL ASSETS	**1,390,656**	2,601,433
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	**273,848**	288,970
Borrowings	**1,148,794**	1,660,978
Provisions	**47,269**	35,855
TOTAL CURRENT LIABILITIES	**1,469,911**	1,985,803
NON-CURRENT LIABILITIES		
Borrowings	**-**	-
TOTAL NON CURRENT LIABILITIES	**-**	-
TOTAL LIABILITIES	**1,469,911**	1,985,803
NET ASSETS / (LIABILITIES)	**(79,255)**	615,630
EQUITY		
Contributed equity	**12,334,469**	10,871,395
Reserves	**1,271,199**	1,271,199
Accumulated losses	**(13,684,923)**	(11,526,964)
TOTAL EQUITY	**(79,255)**	615,630

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

	Notes	Half-year 31.12.2008 $	31.12.2007 $
Total equity at the beginning of the half-year		**615,630**	1,532,962
Loss for the half-year		**(2,157,959)**	(933,419)
Total recognised income and expense for the year		**(2,157,959)**	(933,419)
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity, net of transaction costs	4	**1,590,383**	978,070
Reduction in value of conversion rights		**(127,309)**	-
Director and employee share options		**-**	18,078
The University of Sydney options		**-**	104,500
		1,463,074	1,100,648
Total equity at the end of the half-year		**(79,255)**	1,700,191

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

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CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

	Half-year	
	31.12.2008	31.12.2007
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees (inclusive of goods & services tax)	**(753,445)**	(1,227,098)
R&D tax rebate received	**-**	304,293
Grant received	**-**	34,138
Interest received	**25,454**	40,557
Interest paid	**(2,453)**	-
Net cash (outflow) from operating activities	**(730,444)**	(848,110)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	**(6,794)**	-
Repayment of loan	**(37,899)**	-
Net cash (outflow) from investing activities	**(44,693)**	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	**28,500**	311,451
Repayment of borrowings	**-**	-
Interest paid on convertible note	**(32,023)**	(71,588)
Share issue costs	-	(52,880)
Net cash inflows (outflows) from financing activities	**(3,523)**	186,983
Net decrease in cash and cash equivalents	**(778,660)**	(661,127)
Cash and cash equivalents at the beginning of the half-year	**968,242**	1,842,312
Cash and cash equivalents at the end of the half-year	**189,582**	1,181,185

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2008

NOTE 1: BASIS FOR PREPARATION OF HALF-YEAR REPORT

This general purpose Financial Report for the interim half-year reporting period ended 31 December 2008 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2008 and any public announcements made by Medical Therapies Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Going concern

As a developing business, the Consolidated Entity has experienced operating losses of **$2,157,959** (2007:$ 933,419), net cash outflows from operating activities of **$730,444** (2007: $848,110) and net liabilities of **$79,255** (2007: net assets of $1,700,191)

Since 31 December 2008, the Company has been successful in negotiating the partial redemption and partial conversion of $1.135m of convertible notes, recorded as a current liability in this financial report, resulting in an improvement in the net assets of the Company by approximately $906,000.

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

The Group is currently in negotiations with a number of parties for the out-licensing of some of the non-core Midkine assets. Early stage licensing of some of these sought after assets is expected to provide the working capital to pursue in-house product development programs.

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

The directors believe that the Consolidated Entity will be successful in the negotiating significant debt or equity finance or securing other cashflows and, accordingly, have prepared the Financial Report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 31 December 2008. Accordingly, no

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2008

NOTE 1: BASIS FOR PREPARATION OF HALF-YEAR REPORT (continued)

adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Consolidated Entity not continue as a going concern.

NOTE 2: PROFIT FROM ORDINARY ACTIVITIES

All revenue and expense items that are relevant in explaining the financial performance for the interim period have been included in the Consolidated Income Statement.

NOTE 3: DIVIDENDS

No dividends have been declared or paid

NOTE 4: EQUITY SECURITIES ISSUED

	2008 Shares	2007 Shares	**2008 $**	2007 $
Issues of ordinary shares during the half-year				
Exercise of options issued under the Medical Therapies Employee Option Plan	**-**	-	**-**	-
Exercise of converting note options	**11,739,144**	588,236	**570,187**	100,000
Exercise of listed options	**-**	69,997	**-**	13,999
Capital issued during year	**20,000,000**	7,973,469	**1,000,000**	916,950
Share purchase plan	**662,500**	-	**28,500**	
Share issue costs		-	**(8,304)**	(52,880)
	106,487,272	8,631,702	**1,590,383**	978,070

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2008

NOTE 5: 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.

NOTE 6: CONTINGENT LIABILITIES

Under the original Intellectual Property Agreement between Medical Therapies Limited and Cell Signals Inc the Consolidated Entity had a potential obligation to make a cash payment of $1.5M to Cell Signals Inc. within 90 days after the completion of the transfer of all Midkine related patents owned by Cell Signals to Medical Therapies Limited. This transfer had not been completed at balance date and was subject to ongoing negotiation.

Subsequent to 31 December 2008, the agreement was amended to replace the potential cash payment with the issuing of 15 million Medical Therapies Limited shares to Cell Signals, subject to shareholders' approval (Refer Note 7).

Apart from the above, the parent entity and Group had no significant contingent liabilities at 31 December 2008.

NOTE 7: EVENTS OCCURING AFTER THE BALANCE SHEET DATE

Cell Signals Inc
During February 2009,an amendment to the Intellectual Property Agreement was executed between the Company and Cell Signals Inc. that replaces a potential cash payment of $1.5M with the issuing of 15 million Medical Therapies Limited shares to Cell Signals, subject to shareholders' approval.

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

Share and Converting Note Placement
On 23 February 2009, the Company issued 7,500,000 ordinary shares at 3 cents each and 7,500,000 Converting Notes at a face value of 3 cents each for a total consideration of $450,000. These Converting Notes have been issued at a zero coupon rate and will automatically convert into ordinary shares at the rate of one share per note once shareholder approval to issue the shares on conversion of the notes has been received.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2008

NOTE 7: EVENTS OCCURING AFTER THE BALANCE SHEET DATE (continued)

The funds from the placement were used to repay the cash component of the Convertible Note redemption outlined above.

Except as disclosed above and in the Directors report, there have been no subsequent events arising since 31 December 2008 that the Directors are aware of that would require disclosure in this report.

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the financial statements and notes set out on pages 6 to 13 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 consolidated entity's financial position as at 31 December 2008 and of its performance, for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Medical Therapies Limited 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.

SW King

Chairman

Sydney

Dated this 27th Day of February 2009

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Medical Therapies Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Medical Therapies Limited (the consolidated entity). The consolidated entity comprises both Medical Therapies Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Medical Therapies Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

For further explanation of a review, visit our website http:/www.pwc.com/au/financialstatementaudit.

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

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

PRICEWATERHOUSECOOPERS

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

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Medical Therapies Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Significant Uncertainty Regarding Continuation as a Going Concern

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

PricewaterhouseCoopers

Mark Dow
Partner

Sydney
27 February 2009