U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-KSB

(Mark One)
X Annual Report Under Section 13 or 15(d) of the Securities
- ----- Exchange Act of 1934 (FEE REQUIRED)

For the fiscal year ended December 31, 1996

Transition Report Under Section 13 or 15(d) of the Securities
- ------ Exchange Act of 1934 (NO FEE REQUIRED)

For the transition period from to .

Commission file number 0-12627

Medical Discoveries, Inc.
(Name of small business issuer in its charter)

Utah	87-0407858
(State or other Jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2040 East Murray-Holladay Road, Suite 116, Salt Lake City, UT 84117
(Address of Principal Executive Offices) (Zip Code)

Issuer's Telephone Number, Including Area Code: (801) 273-7388

Title of Each Class	Name of Each Exchange on Which Registered
None	None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock
(Title of Class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
--- ---

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The Company had no revenues from operations during the fiscal year ended December 31, 1996.

The aggregate market value of the voting stock held by nonaffiliates of the registrant (21,658,423 shares) is approximately $8,663,369. The aggregate market value has been computed by reference to the average bid and asked prices of such stock ($0.40 per share) as of March 31, 1997 (which date is within 60 days of the filing of this Form 10-KSB/A).

The number of shares outstanding of the issuer's Common Stock as of March 31, 1997 was 21,658,423.

PART I

ITEM 1. BUSINESS OVERVIEW

THE COMPANY

Medical Discoveries, Inc. ("MDI" or the "Company")has developed a product

(hereafter "MDI-P") that appears to have the ability to destroy certain viruses and bacteria. MDI-P may also have the ability to kill other infectious agents, possibly including pathogenic fungi and parasites. MDI-P may possibly be used as a sterilizing agent for medical and dental instruments. MDI-P may also potentially be used to remove or inactivate infectious agents in human and animal blood-derived products, such as plasma and gamma globulin.

MDI is a development stage company. The Company needs to raise additional funding to continue development of its technology and to submit its technology to the Food and Drug Administration(the "FDA") for approval. FDA approval is required for commercialization of the Company's products.

THE PRODUCT

The Company's product is referred to as MDI-P. MDI-P stands for "Medical Discoveries, Inc.-Pharmaceutical." MDI-P is a saline solution that is chemically changed by electrolysis to form the MDI-P solution, which is then injected into the body intravenously or is applied to the surface of a surgical instrument, for example. Electrolysis is the method whereby a certain type of electric current is passed through a chemical solution. The electrical current causes the chemicals in the saline solution to alter, producing a variety of chemical compounds, such as ozone and hypochlorous acid. Different electrical currents produce different concentrations of these and related products. In previously published scientific literature, electrolyzed saline solutions have been shown to have an intense microbicidal effect.
IN VITRO applications, such as the sterilization of surgical instruments, involve the washing and/or submersion of the instrument or material in the MDI-P solution. In the Company's currently proposed protocol for treating human diseases, this electrolyzed solution would be administered intravenously to a patient in a series of injections over a two-week period. MDI-P could also conceivably be administered orally, nasally, or topically.

PATENTS AND PATENT APPLICATIONS

MDI has been issued the following three patents:

"Electrically Hydrolyzed Salines as in vivo Microbicides for Treatment of Cardiomyopathy and Multiple Sclerosis", issued August 2, 1994, patent 5,334,383. This is the original patent filed by MDI.

"Apparatus for Electrolyzing Fluids", issued April 16, 1996, patent 5,507,932. This allows for patent protection for the device which manufactures MDI-P.

Divisional Application for "Apparatus for Electrolyzing Fluids", issued October 1, 1996, patent 5,560,816. This covers the methods for using the device to generate MDI-P.

MDI has been issued the following two Notice of Allowances ("NOA"; an NOA is the step which precedes the actual issuance of a patent):

"Electrically hydrolyzed salines as microbicides for in vitro treatment of contaminated fluids containing blood", NOA issued August 27, 1996. This covers the use of MDI-P for blood and blood products sterilization.

"Electrically hydrolyzed saline solution comprising reactive species of ozone and chlorine", NOA issued March 28, 1997. This is a patent on the product MDI-P produced by the Company's technology.

MDI has two other patents pending which, if allowed, will provide protection for in vivo treatment of microbial infections and the methods used to prepare MDI-P.

In addition, the Company has made use of the Patent Treaty Cooperative to extend its patent protection to countries in the European Union, Canada, Mexico, and Japan.

RESEARCH AND DEVELOPMENT

MDI is a start-up company with limited resources. During the two fiscal years ended December 31, 1995 and 1996, the Company spent $140,481 and $ 286,858 respectively on research and development of MDI-P. The Company intends actively to pursue and expand its research efforts as funds will allow. The focus of the initial research will be on the use of MDI-P as a sterilizing agent for dental and medical instruments. In the future as funds allow, the Company will also focus its research on the use of MDI-P as a broad spectrum bactericide, anti-fungal agent, human anti-viral agent, and a potential sterilizing agent for blood products.
1996 RESEARCH ACTIVITIES

MDI contracted with the Baylor College of Dentistry to perform preliminary studies on the use of MDI-P as a sterilizing agent for dental instruments. The preliminary studies demonstrated the feasibility of using MDI-P as a sterilizing agent by showing that MDI-P can kill Bacillus subtilis spores on

autoclave quality control spore strips and demonstrating that contaminated handpieces have shown no growth after six minutes exposure to MDI-P.

MDI contracted with UCLA to perform preliminary studies on the use of MDI-P as an anti-bacterial agent. Several pathogenic strains of bacteria when tested in-vitro against MDI-P showed no growth after less than a one-minute exposure to MDI-P. Some of the strains include methicillin-resistant Staphylococcus aureus (MRSA) and vancomycin-resistant Enterococcus faecalis.

MDI contracted with the Albany Medical College to perform preliminary studies on the use of MDI-P as an anti-fungal agent. Preliminary in-vitro studies have shown that MDI-P has killed up to 99.6% of the 109 CFU/ml of Candida albicans in less that one minute.

ALL 1996 STUDIES ARE PRELIMINARY IN NATURE AND ADDITIONAL CLINICAL AND LABORATORY TESTS ARE REQUIRED. THE COMPANY HAS NOT YET DEMONSTRATED THE EFFICACY OF MDI-P IN ANY OF ITS USES IN COMPREHENSIVE LABORATORY TESTING OR IN WIDE SPREAD CLINICAL TRIALS.

SCIENTIFIC ADVISORY BOARD

Scientific Advisory Board. In 1996, MDI added two members to its Scientific Advisory Board. The Board is charged with the responsibility of providing expert advice and guidance with respect to the Company's research, FDA submissions, and the commercialization of MDI-P. The members of this Scientific Advisory Board are as follows:

William D. Welch, Ph.D., the Company's Vice President of Research & Development, is the Chairman of the Scientific Advisory Board.

Bruce J. Dezube, M.D., who is an Assistant Professor of Medicine at the Harvard Medical School, Director of AIDS Oncology at Beth Israel Hospital in Boston, and a member of the AIDS Clinical Trial Group.

William J. Novick, Ph.D., who held various senior positions at Smith Kline & French, Rorer and Hoechst-Roussel, where he was Senior Director for International Drug Development for ten years.

Thomas M. Asher Ph.D., who is currently the President of the Southern California Biomedical Council, an organization representing over 70 biotech companies. Dr. Asher has been President and CEO of Hemacare, Inc., a company that provides specialized blood components and therapeutic services to hospitals.

Ned Weinshaker, Ph.D., who is currently President and CEO of IOMED, Inc. a leader in the field of active transport of drugs into and across the skin (iontophresis).

THE FUTURE

In regard to applications of MDI-P other than the direct treatment of human diseases, MDI intends to actively pursue the potential application of MDI-P as a sterilizing agent for medical and dental instruments in the U.S. and overseas. MDI intends, as soon as the necessary studies are completed, to file a 510(k) pre-market notification in this regard with the FDA. In regard to use of MDI-P for human diseases, MDI intends to file appropriate "investigational new drug" applications ("IND Application") with the FDA for use of MDI-P. The Company has filed a pre-IND submission for the possible use of MDI-P as an anti-HIV agent. The Company will also seek funding to commence appropriate clinical trials on such patients upon approval of the IND Application. Additionally, the Company intends to further investigate the ability of MDI-P to kill certain highly resistant and pathogenic bacteria. Also, MDI intends to continue possible cooperative research efforts with the two major pharmaceutical/biotechnology companies mentioned above with respect to blood-derived products and veterinary diseases. The results of the current preliminary research in these areas will determine the course of future research efforts.

MORROW LICENSE AGREEMENT

MDI previously was obligated to pay a royalty on all revenues from sales of MDI-P. This royalty agreement was terminated and all other outstanding items with the holder of the royalty agreement were resolved by a mutual general agreement on March 26, 1996 in exchange for 150,000 shares of MDI stock and cash of $1,500. MDI has no future obligations with regard to royalty payments.

TECHNOLOGY PROTECTION POLICY AND DISCLAIMERS

It is the Company's policy to protect its technology by, among other means, filing patent applications to protect technology which it considers important to the development of its business. The Company will also rely upon trade secrets and improvements, unpatented know-how, and continuing technological innovation to develop and maintain its competitive position. Despite the Company's policy to seek patent protection wherever appropriate, there can be

no assurance that the Company's patent applications will result in further patents being issued or that, if issued, the patents will afford protection against competitors with similar technology. There can also be no assurance that any patent issued to the Company will not be infringed or circumvented by others or that others will not obtain patents that the Company would need to license or circumvent. There can be no assurance that licenses, which might be required for the Company's processes or products, would be available on reasonable terms or that patents issued to others would not prevent the Company from developing and marketing its products. In addition, there can be no assurance that the patents, if issued, would be held valid by a court of competent jurisdiction. To the extent the Company also relies upon unpatented trade secrets, there can be no assurance that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to the Company's trade secrets or disclose such technology.

CONFIDENTIALITY POLICY AND DISCLAIMERS

MDI, as a matter of policy, requires its employees, consultants, and advisors to execute a confidentiality agreement upon the commencement of an employment or consulting relationship with the Company. The Company also, as a matter of policy, obtains such confidentiality agreements from appropriate independent parties. The agreements provide that all confidential information developed or made known to the individual during the course of the relationship shall be kept confidential and not be disclosed to others except in specified circumstances. In the case of employees and certain consultants, the agreements contain non-competition clauses and provide that all inventions conceived by the individual shall be the exclusive property of the Company. There can be no assurance, however, that these agreements will provide meaningful protection for the Company's trade secrets in the event of unauthorized use or disclosure of such information.

COMPETITION

COMPETITION WITH RESPECT TO STERILIZATION TECHNIQUES. The most commonly used technique for sterilizing medical and dental instruments is the autoclave apparatus. An autoclave is a chamber in which the instruments or materials to be sterilized are placed. This chamber is then heated to 121 C. and pressurized to 15 psi for 15 to 20 minutes. Autoclaves are manufactured and distributed by a variety of companies, notably Barnstead and Amsco Scientific. Another sterilization technique is the use of ethylene oxide gas, a toxic gas, that requires 18 hours to complete. This technique has primarily been used in the past by large hospitals or clinics, however, its use is currently declining in the United States due to strict controls that have been placed on its use in the United States by the Environmental Protection Agency ("EPA"). In addition to the autoclaving and ethylene oxide techniques, there are several other sterilization processes, which are used on a limited basis. Sterris Corporation manufactures and distributes its "Sterris System I," a chemical sterilant process for immersible medical and surgical instruments. This process requires approximately 30 minutes. Another sterilization technique is the "Sterrad Sterilization System" which is manufactured and distributed by a division of Johnson & Johnson. This technique uses hydrogen peroxide and requires over one hour to complete. Another sterilization technique is the "Plazlyte Sterilization System," which is manufactured and distributed by AbTox, Inc. This process also uses chemical sterilants and requires approximately six hours to complete.

MDI's preliminary tests of MDI-P as a sterilizing agent have shown that sterilization of "contaminated" dental handpieces can be accomplished in six minutes or less. Moreover, MDI-P is a non-toxic sterilizing agent, in contrast to some of the techniques currently in the marketplace that use toxic chemicals or toxic gas. Based on these preliminary tests, MDI's management believes that MDI-P has the potential to be competitive in the sterilization marketplace. Nevertheless, future sterilization techniques may be developed that could compete directly with MDI-P.

COMPETITION GENERALLY. The biotechnology and pharmaceutical industries are characterized by rapidly evolving technology and intense competition. The Company's competitors include major pharmaceutical, chemical, and specialized biotechnology companies, many of which have financial, technical, and marketing resources significantly greater than those of the Company . Fully integrated pharmaceutical companies, due to their expertise in research and development, manufacturing, testing, obtaining regulatory approvals, and marketing, as well as their substantially greater financial and other resources, may be the Company's most formidable competitors. In addition, acquisitions by such pharmaceutical companies could enhance the financial and marketing resources of smaller competitors. Furthermore, colleges, universities, governmental agencies, and other public and private research organizations will continue to conduct research and possibly market competitive commercial products on their own or through joint ventures. These institutions are becoming more active in seeking patent protection and licensing arrangements to collect royalties for use of technology that they have developed. These institutions also will compete with the Company in recruiting and retaining highly qualified scientific personnel.

If and when MDI obtains regulatory approval for any of the uses of MDI-P, it must then compete for acceptance in the marketplace. Given that such regulatory approval, especially in the United States, may take a number of years, the timing of the introduction of MDI-P and other products to the market is critical. Other safe and effective drugs and treatments may be introduced into the market prior to the time that the Company is able to obtain approval for the commercialization of MDI-P. In addition, even after such regulatory approval is obtained, competition among products approved for sale may be affected by, among other things, product efficacy, safety, reliability, availability, price, and patent position. There can be no assurance that MDI-P will be competitive if and when introduced into the marketplace for any of its possible uses.

GOVERNMENT REGULATIONS

REGULATIONS GENERALLY. The Company's use of the MDI-P solution in the treatment of HIV and for other human or IN VITRO uses is subject to extensive regulation by United States and foreign governmental authorities. These regulations apply not only to the use of MDI-P itself, but also to the manufacture of the electrolyzer used to create MDI-P. In particular, pharmaceutical treatments are subject to rigorous preclinical and clinical testing and other approval requirements by the FDA in the United States under the federal Food, Drug and Cosmetic Act and by comparable agencies in most foreign countries. Various federal, state and foreign statutes also govern or influence the manufacture, labeling, storage, record keeping, and marketing of such products. Pharmaceutical manufacturing facilities are also regulated by state, local, and other authorities. Obtaining approval from the FDA and other regulatory authorities for a new drug or treatment may take several years and involve substantial expenditures. Moreover, on going compliance with these requirements can require the expenditure of substantial resources. Difficulties or unanticipated costs may been countered by the Company or marketing partners in their respective efforts to secure necessary governmental approvals, which could delay or preclude the Company or its marketing partners from marketing MDI-P.

GOVERNMENT APPROVALS NEEDED FOR COMMERCIALIZATION. For in vivo uses, MDI must conduct preclinical studies to prepare its IND application. If the FDA accepts the IND application, the Company would be allowed to commence a series of clinical trials. Each clinical study must be evaluated by an independent institutional review board ("IRB"). Data from preclinical testing and clinical trials of MDI-P against HIV or as an anti-bacterial agent may eventually be submitted to the FDA in a "New Drug Application" ("NDA") for marketing approval. After the FDA grants approval for the NDA, initial marketing efforts may begin. Each step of the approval process can involve considerable time, money, and effort. At any point, approvals may be withdrawn if compliance with regulatory standards are not maintained. For in vitro uses, the FDA process is significantly less complicated and time consuming. Because the use of MDI-P as a sterilizing agent does not require the injection of this "new drug" in a human patient, MDI is required by the FDA regulations only to demonstrate in laboratory tests that MDI-P is an effective sterilizing agent. This data is required to be filed with the FDA by MDI in the form of a "510(k) Application." This 510(k) Application is subject to FDA approval, but the time required for such approval is considerably less than the time required for the approval of a "new drug" because extensive clinical data is not required. Given appropriate funding, MDI's management believes that MDI will be able to obtain approval from the FDA for the use of MDI-P as a sterilizing agent possibly before June, 1998, although there is no guarantee that such approval can be obtained within that time. Again, the FDA's approval may be withdrawn if any regulatory standards are not maintained.

OTHER GOVERNMENTAL REGULATIONS. In addition to regulations enforced by the FDA, the Company is also subject in the United States to regulation under the Occupational Safety and Health Act, the Environmental Protection Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act, and other present and potential federal, state and local regulations. Because the Company does not currently produce, use, or otherwise handle hazardous chemicals or produce pollutants in regulated amounts, it is not subject to significant costs of compliance with these environmental laws.

CONTINUING RESEARCH

MDI has not yet commenced any operations other than research and development with respect to MDI-P. Initially, the Company intends to focus its continuing research on commercializing the use of MDI-P as a sterilizing agent for medical and dental instruments.

LICENSING, DISTRIBUTION, AND MANUFACTURING

Given the preliminary nature of the Company's research, and given the uncertainty of regulatory approvals and market viability, management of the Company has not yet determined the best course for commercialization of MDI-P in its various potential applications. MDI may seek to commercialize the potential applications of MDI-P either directly or indirectly in contracts with third parties, including larger, established pharmaceutical companies.

EMPLOYEES AND OFFICERS

MDI is currently a development stage company that conducts research primarily through third parties. It currently has one full-time, paid employee who is not an officer. The officers of the Company are Mr. Alvin Zidell, Interim President, Dr. William Welch, Vice President of Research and Development, and Mr. Marlin Toombs, Vice President of Corporate Affairs and Secretary. Dr. Welch and Mr. Toombs each devote their full time to MDI's affairs. Mr. Zidell currently works on a parttime basis. Generally, the officers of the Company have not drawn any regular salaries or bonuses, although the Company occasionally has authorized compensation to certain officers for services rendered and expenses personally incurred on the Company's behalf. This compensation has generally taken the form of a waiver of the cash exercise price for outstanding stock options to these individuals (see "Executive Compensation" below). It is anticipated that in 1998, given an appropriate level of funding, the Company will begin to pay appropriate salaries to its officers. The Company has terminated its formal relationship with Gerald T. Simmons who has served as Advisor to the Board since April 8, 1996. Mr. Simmons remains available to advise the Company as needed.

ITEM 2. PROPERTIES

The Company's principal place of business is located in a small commercial office space at 2040 East Murray-Holladay Road, Suite 116, Salt Lake City, Utah 84117. The lease on the Company's offices expires on July 31, 1998, with a remaining lease obligation of approximately $18,500. This space is currently used primarily by Marlin Toombs and the Company's one staff employee. This space is currently adequate for the Company's needs, but the Company will likely need to acquire additional space in the near future.

ITEM 3. LEGAL PROCEEDINGS

NO LEGAL PROCEEDINGS. The Company is not currently involved in any legal proceedings.

SETTLEMENT OF ANTI-VIRAL LAWSUIT. In January 1996, the Company entered into a Settlement Agreement with Anti-Viral of America, Inc., the Company with which MDI had previously signed a Letter of Intent for the use of MDI-P in Mexico. In connection with the Settlement Agreement, a permanent injunction was entered against Anti-Viral of America, Inc., its principals, and others permanently enjoining them from using the MDI-P treatment or the technology concerning the MDI-P treatment in any manner, from disclosing the technology or any other trade secrets of the Company, from providing the MDI-P treatment to patients or others, and from having possession or control, directly or indirectly, of any machines which produce the treatment. The claims against the Company were also dismissed with prejudice.

POTENTIAL DISPUTE. A former advisor to the Company, Spira & Associates, has indicated dissatisfaction with the terms of its separation from MDI and cited various disagreements with management. There has been no communications from Spira & Associates since the second quarter of 1996. An associate of Spira & Associates, Mr. John Carella, who served for a time as the Company's Chief Financial Officer, has also cited various disagreements with management. In subsequent discussions with management, Mr. Carella was offered and he agreed to become a director of the Company. The agreement was not consummated.

MDI raised $332,000 through the MDI Investors Trust ("Trust") in the third quarter of 1995 to be used for research. To date, the Trust has disbursed $281,000 to MDI and has paid commissions of $33,200 on behalf of MDI. The trustee of the Trust has alleged that some of the Trust funds have not been spent in accordance with the Trust's budget. The Board of Directors of MDI commissioned an independent review of the Company's expenditures which were approved by Mr. Carella. The Board of Directors believes the results of this review showed that the funds were expended in accordance with the budget, and the Company has provided the results of its review to the Trustee. The Trustee has noted his disagreement with the review.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

Part II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on the over-the-counter("OTC") system under the symbol "MLSC". The following table sets forth, for the periods indicated, the closing high and low bid prices for the Common Stock. The prices represent inter-dealer prices, without adjustment for retail markups, markdowns, or commissions and may not represent actual transactions. The information has been provided by the National Quotation Bureau, Inc.

	BID PRICE	
	HIGH	LOW

Fiscal Year Ended December 31, 1996		
First quarter	1 1/8	1/2
Second quarter	1 3/4	5/8
Third quarter	7/8	7/16
Fourth quarter	5/8	1/4

Fiscal Year Ended December 31, 1995		
First quarter	1 3/4	1/4
Second quarter	1 3/4	1/8
Third quarter	2 ---	1/8
Fourth quarter	1 11/16	1/8

On March 31, 1996, there were approximately 1,003 record owners of the Company's Common Stock. The Company estimates that the number of beneficial holders is in excess of 2,000.

The Company has never paid a cash dividend and does not anticipate the payment of cash dividends in the foreseeable future. Earnings are expected to be retained to finance the Company's growth. Declaration of dividends in the future will remain within the discretion of the Company's Board of Directors, which will review its dividend policy from time to time.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF PLAN OF OPERATION

RESULTS OF OPERATIONS: FISCAL YEAR 1996 COMPARED TO FISCAL YEAR 1995. The Company had no revenue in 1996 compared to $38,200 of revenue in 1995. In 1995, the Company initiated limited testing in a foreign country which resulted in revenues of $38,200. Testing was abandoned due to regulatory issues. The Company has interest revenue of $11,974 in 1996 compared to $3,088 in 1995 due to capital raised by the Company during the year. Funds raised in equity offerings were placed in low-risk interest-bearing accounts until needed by the Company and resulted in higher interest income in 1996. The Company spent $286,858 on R&D in 1996 compared to $140,481 in 1995, an increase of 104%. The additional funds supported thrid-party research at UCLA, Baylor College of Dentistry, and the Albany Research Institute for anti-microbial, anti-fungal, and dental sterilization studies. G&A Costs were $807,002 in 1996 compared to $1,463,282 in 1995. G&A costs in 1995 included the value of stock paid to investment advisors of approximately $700,000. The Company made interest payments of $46,566 in 1996 compared to $7,097 in 1995. The increase in interest payments is due primarily to interest costs of approximately $38,000 due to the MDI Investors Trust (the "Trust") in 1996. The Company began borrowing money from the Trust in October of 1995 and currently owes the Trust $316,700. During the year, the Company was late in making interest payments to the Trust. At of the date of filing this report, the Company was not in default under the terms of the notes to the Trust.

LIQUIDITY. The Company's net working capital position (current assets less current liabilities) improved to negative $616,129 in 1996 from negative $1,095,144 in 1995, due primarily to debt forgiveness of $673,486 in 1996. Of the Company's $699,000 in current liabilities, approximately $200,000 results from to legal services, approximately $264,000 results from dated payables from a predecessor company, and approximately $181,000 results from accrued liabilities to officers and employees. None of these three groups has made or is expected to make a demand for cash payments until the Company's cash positon improves.

CONTINUING RESEARCH. The Company is continuing its research and development of MDI-P. The Company's focus in the next twelve months will be to seek commercialization of MDI-P as a sterilizing agent. Beyond that, the Company will continue its research into the use of MDI-P as an anti-bacterial agent. At the same time, the Company will continue its joint research into removing or inactivating infectious agents in blood-derived products and in treating livestock diseases. Each of these objectives is discussed separately below.

MDI-P AS A STERILIZING AGENT. Management of the Company intends to seek commercialization of MDI-P as a sterilizing agent. The reason forthis priority, as discussed above under "BUSINESS--GOVERNMENTAL REGULATIONS," is that such use can be approved by the FDA relatively quickly. The Company will likely seek an alliance with a large pharmaceutical company in this regard to assist MDI in the manufacturing and marketing of these sterilizers. Steril*Med, an affiliate of Cooley& Cooley and the Company who originally financed the initial research into the use of MDI-P as a sterilizing agent, has a first right of negotiation in this regard. How these sterilizers will be marketed is still undecided, but will be determined once a marketing partner is identified. Management believes that this use can be commercialized in the near future, but given that the FDA must approve the application, there is no guarantee that such approval will be obtained soon, if at all.

MDI-P AS AN ANTI-BACTERIAL AGENT. The Company has conducted preliminary tests on the use of MDI as a potential broad spectrum anti bacterial agent. The Company's management will likely seek an alliance with a major pharmaceutical

company to market and distribute MDI-P. That partner would also assist the Company in obtaining FDA approval for such use. The Company expects that an NDA to the FDA will be approved, if at all, in a number of years.

OTHER RESEARCH EFFORTS. The Company intends to pursue its cooperative research efforts with two major United Stated based pharmaceutical/biotechnology companies to evaluate the use of MDI-P in removing or inactivating infectious agents in blood-derived products. While preliminary research has been sufficiently positive to encourage continued joint research efforts in this area, the Company does not know whether such research will lead to commercialization of such uses. If the joint research efforts are ultimately successful in establishing that such use of MDI-P is commercially viable, MDI intends to fully cooperate with the pharmaceutical companies' efforts at commercialization and derive revenues from the sale of MDI-P to these companies. Beside the objectives described above, the Company intends to conduct further research and to seek regulatory approval in the United States and abroad for the testing and commercial use of MDI-P on other human diseases and ailments.

PATENT APPLICATIONS. During the next twelve months, the Company will continue to seek expanded patent protection for the use of MDI-P on a variety of diseases and ailments. The Company intends to seek patent protection both in the United States and abroad.

PRIVATE PLACEMENTS CLOSED. The Company closed the follwing private placemtns during 1996:

During the first quarter of 1996, the Company sold 676,923 shares of stock to sophistcated investors for $440,000 at $0.65 per share. Each investor in this offering also received a warrant to acquire three shares in the future of every one share acquired currently. Accordingly, the Company issued warrants to these investors allowing them to acquire an aggregate of 2,030,769 shares at $3.00 per share over the next three years.

During the second quarter of 1996, the Company sold 80,000 shares of stock to sophistcated investors for $50,000 at $0.625 per share. Each investor in this offering also received a warrant to acquire two shares in the future of every one share acquired currently. Accordingly, the Company issued warrants to these investors allowing them to acquire an aggregate of 160,000 shares at $3.00 per share over the next three years.

During the third quarter of 1996, the Company sold 25,000 shares of stock to sophistcated investors for $25,000 at $1.00 per share. Also during the thrid quarter, an investor exersized an option to putchase 25,000 shares of stock at $1.00 per share for $25,000. No warrants were associated with either sale of stock.

During the fourth quarter of 1996, the Company sold 63,637 shares of stock to sophistcated investors for $35,000 at $0.55 per share. Each investor in this offering also received a warrant to acquire three shares in the future of every one share acquired currently. Accordingly, the Company issued warrants to these investors allowing them to acquire an aggregate of 190,911 shares at $3.00 per share over the next three years.

ADDITIONAL FUNDING IS REQUIRED. The Company's planned research and testing will require substantial additional funds. At this time, the Company does not have sufficient cash to support all the required testing for the projects described above. Management intends to raise substantial additional funds in both private and possibly public stock offerings in the future in order to meet its future funding requirements. Additionally, MDI will seek licensing and research funds from the companies with whom MDI may establish a relationship. As additional funds are raised or revenues received, the Company intends to commence paying salaries to its officers and to lease appropriate office space. The Company also intends at that time to hire additional technical and administrative personnel. The bulk of any additional funding will likely be spent on continued research, testing, and patent protection with respect to MDI-P.

ITEM 7. FINANCIAL STATEMENTS

The financial statements are filed at the end of this report and are incorporated herein by reference.

ITEM 8. CHANGES IN AND DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

DIRECTORS AND EXECUTIVE OFFICERS

The following table identifies the name, ages, and positions of all directors,

officers, and persons nominated by management to become a director.

NAME	AGE	POSITION
Alvin Zidell	67	Director and Interim President
William D. Welch	45	Director and Vice President of Research and Development
Marlin N. Toombs	65	Director, Vice President of Corporate Affairs, and Secretary
David Walker	52	Director

All current directors are serving one-year terms and are subject to re-election at the annual meeting of shareholders. Officers are elected to serve, subject to the discretion of the Board, until their successors are appointed.

Alvin Zidell has been a Director of the Company since December 1, 1993. Since February 1, 1996, Mr. Zidell has served as Interim President of the Company. Since April 1, 1989, Mr. Zidell has acted as President of AZ Healthcare Group, a company which develops and sells laser machines. Since April 1, 1992, Mr. Zidell has also acted as a vice president of Dal-Tex Recycling, a paper recycling company which employs approximately 48 people.

William Welch has been a Director and the Vice President of Research for the Company since December 2, 1993. He was appointed as Interim President on March 7, 1995, but relinquished this position on February 1, 1996 so that he could focus on his duties as Vice President of Research and Development. Since 1987, Dr. Welch has been the sole owner and President of WMCL, Inc., a California corporation that provides biotechnology consulting services. Dr. Welch has also served as a consultant for Kaiser Permanente Regional Laboratory in Southern California from 1990 to April 1996. From 1987 to 1990, Dr. Welch served as the Chief of Microbiology of the Kaiser Laboratory. Dr. Welch earned his Bachelor of Science degree in biology in 1973 and his Masters of Arts degree in Immunology in 1974, both from California State University, Fullerton. Dr. Welch earned his Ph.D in Microbiology and Immunology in 1978 from the University of California, Los Angeles.

Marlin Toombs has been a Director and the Secretary for the Company since August 6, 1992. He has served as Vice President for Corporate Affairs since February 21, 1994. Mr. Toombs has also served as marketing director for International Marketing, Inc. from 1985 to 1989. He managed personal real estate from 1990 until 1992.

David Walker was appointed to the board of directors on May 2, 1996. He represents a group of investors who recently invested in the Company in a private stock offering. He has been general manager of Sunheaven Farms in Prosser, Washington (a twelve thousand acre agricultural operation) for twenty years. Mr. Walker has a degree in economics from Brigham Young University.

COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Section 16(a) of the Securities and Exchange Act of 1934 requires the Company's executive officers and directors, and persons who beneficially own more than ten percent of the Company's stock, to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than ten-percent owners are required by applicable regulations to furnish the Company with copies of all Section 16(a) forms that they file.

Based solely on a review of the copies of such forms furnished to the Company or written representations from certain persons, the Company believes that during the 1996 fiscal year all filing requirements applicable to its current officers and directors were complied with.

ITEM 10. EXECUTIVE COMPENSATION

EXECUTIVE COMPENSATION

The following table sets forth the annual compensation for services rendered by certain officers for the fiscal years indicated.

SUMMARY COMPENSATION TABLE
ANNUAL COMPENSATION

Name and Position	Year	Salary	Other Annual Bonus	Comp
William D. Welch (1)	Fiscal 96	-0-	-0-	-0-
Interim President and	Fiscal 95	-0-	-0-	-0-
Vice President of R&D	Fiscal 94	-0-	-0-	$75,000 (2)
Marlin Toombs	Fiscal 96	-0-	-0-	$60,000 (3)
Vice President of	Fiscal 95	-0-	-0-	$60,000 (4)
Corporate Affairs	Fiscal 94	-0-	-0-	$135,000 (5)

and Secretary

John J. Carella (7)	Fiscal 96	N/A	N/A	N/A
CFO (resigned)	Fiscal 95	-0-	-0-	$4,687 (6)
	Fiscal 94	N/A	N/A	N/A
Ken Brennen (8)	Fiscal 96	N/A	N/A	N/A
Vice President of	Fiscal 95	-0-	-0-	-0-
Financial Affairs	Fiscal 94	N/A	N/A	N/A
(resigned)				

(1) Interim President from March 7, 1995 to February 1, 1996.
(2) On February 17, 1995, Dr. Welch was allowed to exercise a stock option for 75,000 shares at $1.00 per share, without the payment of the $75,000 exercise price. This compensation was for services rendered in 1994.

(3) During 1996, Mr. Toombs was given the right to exercise stock options for 60,000 shares (accruing at 5,000 shares per month) at $1.00 per share, without the payment of the $60,000 exercise price. He has not exercised options for any shares from the 1996 grant.

(4) During 1995, Mr. Toombs was given the right to exercise stock options for 60,000 shares (accruing at 5,000 shares per month) at $1.00 per share, without the payment of the $60,000 exercise price. To date, Mr. Toombs has only exercised stock options for 30,000 shares, although he has the right to acquire an additional 30,000 shares.

(5) On February 17, 1995, Mr. Toombs was allowed to exercise a stock option for 75,000 shares at $1.00 per share, without the payment of the $75,000 exercise price. During 1994, Mr. Toombs was given the right to exercise stock options for 60,000 shares (accruing at 5,000 shares per month) at $1.00 per share, without the payment of the $60,000 exercise price.

(6) During 1995, Mr. Carella earned 1,500 shares per month for five months ended December 31, 1995 for an aggregate of 7,500 shares. Assuming that these shares are issued as of December 31, 1995 at an the fair market value at that date of $0.625 per share, Mr. Carella's total compensation is $4,687.

(7) CFO from June 1995 to March 9, 1996.

(8) V.P. of Financial Affairs from June 1995 to March 20, 1996.

The following table sets forth all long-term compensation and all other compensation for the above-named executive officers for the fiscal years indicated.

SUMMARY COMPENSATION TABLE CONTINUED
LONG-TERM (OPTIONS/SARS) AND ALL OTHER COMPENSATION

Name and Position	Year	Options/SARS	All Other Compensation
William Welch (1)	Fiscal 96	150,000 (2)	None
Vice President of R&D		275,000 (3)	
	Fiscal 95	None	None
	Fiscal 94	None	None
Marlin Toombs	Fiscal 96	200,000 (2)	None
Vice President of		335,000 (3)	
Corporate Affairs	Fiscal 95	None	None
	Fiscal 94	None	None
Alvin Zidell	Fiscal 96	200,000 (2)	None
		173,000 (3)	
	Fiscal 95	None	None
	Fiscal 94	None	None
John J. Carella (4)	Fiscal 96	None	None
CFO (resigned)	Fiscal 95	None	None
	Fiscal 94	N/A	N/A
Ken Brennen (5)	Fiscal 96	None	None
Vice President of	Fiscal 95	None	None
Financial Affairs	Fiscal 94	N/A	N/A
(resigned)			

(1) Interim President from March 7, 1995 to February 1, 1996.

(2) Options granted at $0.25 per share to expire on December 31, 2001

(3) Options previously granted at $1.00 per share which expired on December 31, 1996. The expiration date is extended to December 31, 1999.

(4) CFO from June 1995 to March 9, 1996.

(5) V.P. of Financial Affairs from June 1995 to March 20, 1996.

No officers or directors of the Company exercised any options or SARS in fiscal 1996.

COMPENSATION OF DIRECTORS

The Company has no standard arrangements to compensate directors of the Company.

The compensation previously described for William Welch and Marlin Toombs in the section captioned "Executive Compensation" includes compensation for their services as directors of the Company.

As previously described above, in footnote 2 to the Summary Compensation Table in the section "Executive Compensation," the Company has granted to Mr. Toombs the right to exercise Company stock options that were previously granted to him at the rate of 5,000 shares per month without the payment of the $1.00 exercise price in consideration for services rendered and expenses he personally incurred as an officer on behalf of the Company. Pursuant to this arrangement, Mr. Toombs acquired 30,000 shares in 1995 and no shares in 1996. Mr. Toombs has the right to acquire an additional 60,000 shares for 1996.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

PRINCIPAL SHAREHOLDERS

The following table sets forth the holdings of Common Stock (the Company's sole class of stock) as of March 31, 1997 by (i) each person who held of record, or was known by the Company to own beneficially, more than five percent of the outstanding Common Stock of the Company, (ii) each director, (iii) each director nominee, and (iv) all directors and officers as a group. Unless otherwise indicated, all shares are owned directly. Common Stock that is "beneficially owned" includes all the Common Stock that the person has the right to acquire within 60 days of March 31, 1997, and stock for which the person has voting rights alone. The percentage ownership for any person assumes that all the stock that could be acquired by that person, by option exercise or otherwise, is in fact outstanding and that no other stockholder has exercised a similar right to acquire additional shares. The number of shares of stock in this table is 22,804,786 which includes 21,417,786 shares outstanding on March 31, 1997 plus all shares represented by options currently held by the directors listed in the table.

BENEFICIAL OWNERS OF COMMON STOCK

Names and Addresses of Certain Beneficial Owners	Amount of Beneficial Ownership	Percentage of Class
Marlin Toombs Director/Vice President c/o Medical Discoveries, Inc.	1,679,600 (1) (2)	7.37%
Dr. William Welch Director/Vice President c/o Medical Discoveries, Inc.	1,058,500 (1) (3)	4.64%
Alvin Zidell Director c/o Medical Discoveries, Inc.	1,098,000 (1) (4)	4.81%
David Walker Director c/o Medical Discoveries, Inc.	91,538	0.40%
Directors and Executive Officers as a Group (4 persons)	3,927,638	17.22%

(1) Includes shares to which the shareholder has voting rights under a Stock Purchase Agreement ("SPA") with a former director of the Company. The SPA is for 2,800,000 shares purchased in 40 quarterly installments by buyers (including a fourth individual not on table). Each buyer receives 1/4 of shares. Shares are held by an escrow agent. Shares are released in groups of 70,000 on payment of each installment. Voting proxy for balance of shares held by escrow agent has been granted to the buyers. If buyers default any shares with the escrow agent revert to the seller and proxy for those shares is canceled.

(2) Includes 290,180 shares owned directly; 381,920 shares owned in a

family partnership in which Mr. Toombs is a general partner; 472,500 shares for which Mr. Toombs has voting rights under the SPA referred to in footnote (1) above; and options to purchase 535,000 shares that are currently exercisable. Excludes: all shares owned by Mr. Toombs' children (other than through the family partnership noted above), for which Mr. Toombs disclaims beneficial ownership.

(3) Includes: 161,000 shares owned directly; 472,500 shares for which Mr. Welch has voting rights under the SPA referred to in footnote (1) above; and options to purchase 425,000 shares that are currently exercisable.

(4) Includes: 252,500 shares owned directly; 472,500 shares for which Mr. Zidell has voting rights under the SPA referred to in footnote (1) above; and options to purchase 373,000 shares that are currently exercisable. Excludes: all shares held by children and other relatives of Mr. Zidell, for which Mr. Zidell disclaims beneficial ownership.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Dr. William Welch, who is a director and Vice President of Research and Development of the Company, is the sole owner and the President of WMCL, Inc., a business that performs consulting and supervisory services for the Company. The Company incurred cash expenses of $91,816 for such services in 1996 and $79,877 for such services in 1995 to WMCL, Inc.

Mr. David Walker, a director of the Company received 61,538 shares of the Company's stock in April 1996, valued in the aggregate at $40,000 or $0.65 per share. These shares were paid to Mr. Walker as compensation for his services in assisting the Company in raising money in connection with a recent private stock offering.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits Required by Item 601 of Regulation S-B.

The following are exhibits to this Form 10-KSB:

EXHIBIT NUMBER	DESCRIPTION
3.1	Articles of Incorporation, as amended June 14, 1994. (1)
3.2	Bylaws, as amended June 14, 1994. (1)
10.1	1993 Incentive Plan, effective April 1, 1993. (1) (2)
10.2	Form of Stock Option Grant under 1993 Incentive Plan. (1) (2)
10.3	Settlement Agreement, dated October 12, 1995, between Dr. Robert E. Morrow and the Company re settlement of lawsuit. (3)
10.4	Agreement, dated March 26, 1996, between Dr. Robert E. Morrow and the Company re termination of royalties. (4)
10.5	Engagement Agreement, dated June 15, 1995, between Robert A. Spira and the Company re financial advisory services. (4)
27	Financial Data Schedule

(1) These exhibits are incorporated by reference to the Company's Form 10-KSB for the fiscal year ended December 31, 1994, to which these exhibits were filed as exhibits with the same exhibit numbers as shown above.

(2) These exhibits are management or compensatory plans, contracts or arrangements required to be filed as exhibits.

(3) This exhibit is incorporated by reference to the Company's Form8-K, dated October 12, 1995, to which it was originally filed as "Exhibit 10.1."

(4) These exhibits are incorporated by reference to the Compnay's original filing of Form 10-KSB for the Fiscal Year ended December 31, 1995, to which these exhibits were filed as exhibits with the same exhibit numbers as shown above.

The Company has filed no 8-k reports during the since the previous 10KSB/a filing.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and
Stockholders of Medical Discoveries, Inc.

We have audited the accompanying balance sheet of Medical Discoveries, Inc., (a development stage company) as of December 31, 1996, and the related statements of operations, stockholders' deficit and cash flows for the two years ended December 31, 1996 and cumulative amounts since inception. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Medical Discoveries, Inc., (a development stage company) as of December 31, 1996, and the results of its operations and its cash flows for the two years then ended and cumulative amounts since inception in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 2, the Company's significant losses, lack of significant revenue and a stockholders' deficit raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

TANNER+CO.

Salt Lake City, Utah
February 18, 1997

MEDICAL DISCOVERIES, INC.
(A Development Stage Company)
Balance Sheet

	December 31, 1996	December 31, 1995
Assets		
Current assets:		
Cash	$ 25,307	$ 37,833
Current portion of note receivable - related	46,785	20,796
Prepaid expenses	10,780	65,860
Total current assets	82,871	124,489
Note receivable - related party	30,586	99,166
Furniture and equipment	74,231	52,471
Less accumulated depreciation	(16,181)	(3,233)
Net furniture and equipment	58,050	49,238
Other assets	1,170	1,170
Total assets	$ 172,677	$ 274,063
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 670,166	$ 536,494
Accrued interest	26,039	30,583
Current maturities of notes payable	2,795	652,556
Total current liabilities	699,000	1,219,633
Notes payable	2,008	4,803
Convertible notes payable	316,700	301,700
Commitments and contingencies	-	-
Stockholders' deficit:		

Common stock - no par value, authorized 100,000,000 shares, 21,658,423 shares and 21,699,558 shares issued and outstanding in 1996 and 1995, respectively	6,121,733	5,670,585
Accumulated deficit	(6,794,264)	(6,337,798)
Subscription receivables	(172,500)	(584,860)
Total stockholders' deficit	(845,031)	(1,252,073)
	$ 172,677	$ 274,063

See accompanying notes to financial statements.

MEDICAL DISCOVERIES, INC.
(A Development Stage Company)
Statement of Operations

	Year Ended December 31, 1996	1995	Cumulative Amounts Since November 20, 1991 (Date of Inception)
Revenues			
Medical care and fees	$ -	$ 38,200	$ 108,200
Interest	11,974	3,088	15,062
Total revenue	11,974	41,288	123,262
Expenses			
License	1,500	-	1,001,500
Research and development	286,858	140,481	1,707,056
General and administrative	807,002	1,463,282	3,969,786
Interest	46,566	7,097	75,143
Total expenses	1,141,926	1,610,860	6,753,485
Loss before income taxes and extraordinary item	(1,129,952)	(1,569,572)	(6,630,223)
Income taxes	-	-	-
Forgiveness of debt net of $-0- income taxes	673,486	562,050	1,235,536
Net loss	$(456,466)	$(1,007,522)	$(5,394,687)
Gain loss per share			
Continuing operations	$ (.05)	$ (.08)	$ (.39)
Extraordinary item	.03	.03	.07
Net loss per share	$ (.02)	$ (.05)	$ (.32)
Weighed average number of shares	22,549,000	19,064,000	16,862,000

See accompanying notes to financial statements.

MEDICAL DISCOVERIES, INC.
(A Development Stage Company)
Statement of Stockholders Deficit

<TABLE>
<S> <C> <C> <C> <C> <C>

	Common Stock Shares	Common Stock Amount	Accumulated Deficit	Subscription Receivables	Total
Balance, October 31, 1991	3,500,000	252,997	$(1,482,514)	$ -	$(1,229,517)
Reverse stock split (1 for 2)	(1,750,000)	-	-	-	-
Restatement for reverse acquisition of WPI Pharmaceutical, Inc. by Medical Discoveries, Inc.	-	(252,997)	252,997	-	-
Shares issued in merger of WPI Pharmaceutical and Medical Discoveries, Inc.	10,000,000	135,000	(170,060)	-	(35,060)
Balance at November 20, 1991 (Date of Inception)	11,750,000	135,000	(1,399,577)	-	(1,264,577)

Common stock issued for cash	200,000	100,000	-	-	100,000
Common stock issued for services	500,000	250,000	-	-	250,000
Common stock issued for cash	40,000	60,000	-	-	60,000
Net loss October 31, 1992	-	-	(370,398)	-	(370,398)
Balance, October 31, 1992	12,490,000	545,000	(1,769,975)	-	(1,224,975)
Net loss two months ended December 31, 1992	-	-	(65,140)	-	(65,140)
Balance, December 31, 1992	12,490,000	545,000	(1,835,115)	-	(1,290,115)
Common stock issued for license	2,000,000	1,000,000	-	-	1,000,000
Common stock issued for cash	542,917	528,500	-	-	528,500

See accompanying notes to financial statements.

MEDICAL DISCOVERIES, INC.
(A Development Stage Company)
Statement of Stockholders Deficit
Continued

	Common Stock Shares	Common Stock Amount	Accumulated Deficit	Subscription Receivables	Total
Common stock issued for services	251,450	127,900	-	-	127,900
Common stock issued for $100,000 cash plus services	800,000	400,000	-	-	400,000
Net loss	-	-	(2,271,999)	-	(2,271,999)
Balance, December 31, 1993	16,084,367	2,601,400	(4,107,114)	-	(1,505,714)
Common stock issued for cash	617,237	739,500	-	-	739,500
Common stock issued for services	239,675	239,675	-	-	239,675
Cash contributed	-	102,964	-	-	102,964
Net loss	-	-	(1,223,162)	-	(1,223,162)
Balance, December 31, 1994	16,941,279	3,683,539	(5,330,276)	-	(1,646,737)
Common stock issued for cash	424,732	283,200	-	-	283,200
Common stock issued for services	4,333,547	1,683,846	-	(584,860)	1,098,986
Common stock option issued to satisfy debt restructuring	-	20,000	-	-	20,000
Net loss	-	-	(1,007,522)	-	(1,007,522)
Balance, December 31, 1995	21,699,558	5,670,585	(6,337,798)	(584,860)	(1,252,073)
Common stock issued for cash	962,868	635,000	-	(60,000)	575,000

See accompanying notes to financial statements.

MEDICAL DISCOVERIES, INC.
(A Development Stage Company)
Statement of Stockholders Deficit
Continued

	Common Stock Shares	Common Stock Amount	Accumulated Deficit	Subscription Receivables	Total
Common stock issued for services	156,539	101,550	-	-	101,550
Common stock canceled	(1,400,000)	(472,360)	-	472,360	-

Common stock issued in settlement of obligations	239,458	186,958	-	-	186,958
Net loss	-	-	(456,466)	-	(456,466)
Balance, December 31, 1996	21,658,423	$6,121,733	$(6,794,264)	$(172,500)	$ (845,031)

</TABLE>

See accompanying notes to financial statements. F-6

MEDICAL DISCOVERIES, INC.
(A Development Stage Company)
Statement of Cash Flows

	Year Ended December 31, 1996	1995	Cumulative Amounts Since November 20, 1991 (Date of Inception)
Cash flows from operating activities:			
Net loss	$(456,466)	$(1,007,522)	$(5,394,687)
Adjustments to reconcile net loss to net cash used in operating activities:			
Common stock issued for services, license, and litigation	199,050	1,098,986	3,215,611
Reduction of legal costs	-	(130,000)	(130,000)
Depreciation	12,948	3,233	17,641
Loss on disposal of property and equipment	-	-	6,330
Gain on debt restructuring	(673,486)	(562,050)	(1,235,536)
Write-off of receivables	-	-	193,965
Increase in receivables	-	-	(7,529)
Decrease (increase) in prepaid expenses	55,080	(65,860)	(10,780)
Increase in other assets	-	(1,170)	(1,170)
Increase (decrease) in:			
Advance to shareholders'	-	(2,660)	-
Accounts payable	223,130	131,913	514,257
Accrued expenses	18,943	7,097	47,520
Net cash used in operating activities	(620,801)	(528,033)	(2,784,378)
Cash flows from investing activities:			
Purchase of property and equipment	(21,760)	(44,310)	(73,860)
Payments received on note receivable	42,591	10,038	52,629
Net cash provided by (used in) investing activities	20,831	(34,272)	(21,231)
Cash flows from financing activities:			
Payment of notes payable	(2,556)	(802)	(3,358)
Increase in convertible note payable	15,000	301,700	316,700
Contributed equity	-	-	131,374
Common stock issued for cash	575,000	283,200	2,386,200
Net cash provided by financing activities	587,444	584,098	2,830,916

See accompanying notes to financial statements F-7

MEDICAL DISCOVERIES, INC.
(A Development Stage Company)
Statement of Cash Flows
Continued

	Cumulative Amounts Since

	Year Ended December 31, 1996	1995	November 20, 1991 (Date of Inception)
Net (decrease) increase in cash	(12,526)	21,793	25,307
Cash, beginning of period	37,833	16,040	-
Cash, end of period	$ 25,307	$ 37,833	$ 25,307

Supplemental disclosure of non-cash investing and financing activities

In 1996, the Company issued common stock for settlement of accounts payable totaling $89,458.

In 1995, the Company acquired furniture and equipment with a cost of $8,161 for notes payable.

On August 6, 1992, the Company and WPI Pharmaceutical, Inc. (WPI) entered into an agreement which has been accounted for as if the Company acquired WPI. At the time of the acquisition WPI had the following balance sheet:

Receivables	186,436
Accounts payable	(245,367)
Accrued interest	(49,826)
Advances shareholders	(284,230)
Notes payable	(900,000)
Stockholders' Deficit	$(1,292,987)

See accompanying notes to financial statements

Actual amounts paid for interest and income taxes are as follows:

	Year Ended December 31, 1996	1995	Cumulative Amounts Since November 20, 1991 (Date of Inception)
Interest	$ -	$ 236	$ 236
Income taxes	$ -	$ -	$ -

See accompanying notes to financial statement

1. Summary of Significant Accounting Policies

Organization
Medical Discoveries, Inc. (the Company) was organized under the laws of the state of Utah on November 20, 1991, date of inception. On August 6,

1992, the Company entered into an agreement whereby the shareholders of the Company exchanged 100 percent of their common stock for 10,000,000 shares of common stock of WPI Pharmaceutical, Inc. (WPI). The WPI shareholders had 1,750,000 shares following a reverse stock split of one share for two shares. At the time of the transaction the name of WPI was changed to Medical Discoveries, Inc. (MDI). Inasmuch as the 10,000,000 shares of common stock are in excess of 80 percent of the total outstanding common stock of WPI, the transaction is accounted for as a reverse acquisition. The Company is, therefore, deemed to have acquired WPI. At the time of the merger the entity previously known as Medical Discoveries, Inc., ceased. The development stage commenced on November 20, 1991 which is the date of the inception of MDI.

The Company has not generated any significant revenue and is, therefore, considered a development stage company as defined in SFAS No. 7. The Company has, at the present time, not paid any dividends and any dividends that may be paid in the future will depend upon the financial requirements of the Company and other relevant factors.

Cash and Cash Equivalents
For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Furniture and Equipment
Furniture and equipment are carried at cost. Depreciation is computed using the straight-line method over 3 to 7 years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized. Deduction is made for retirements resulting from renewals or betterments.

Income (Loss) Per Common Share
Income (loss) per share of common stock is calculated based on the weighted average number of shares outstanding during the periods. Common stock equivalents and stock options have not been included as they are antidilutive.

1. Summary of Significant Accounting Policies- Continued

Business and Concentration of Credit
The primary purpose of the business is the research and development of the sterilization of medical equipment and an anti-viral treatment for infectious diseases. The Company has no significant revenues and, therefore, no trade receivables or extensions of credit.

Fair Value of Financial Instruments
The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. Financial instruments subject to possible material market variations from the recorded book value are notes payable to related parties and advances from related parties. There are no material differences in these financial instruments from the recorded book value as of December 31, 1996.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications
Certain amounts in the 1995 financial statements have been reclassified in order to conform to the 1996 presentation.

2. Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has not had significant revenues and is still in the process of developing anti-viral treatments for infectious diseases and the sterilization of medical equipment. The Company is hopeful but there is no assurance that the current product development and research will be economically viable.

The Company has incurred substantial operating losses in the development of the product.

The Company is dependent upon the sale of its common stock to satisfy its current cash operating needs. The Company is also looking into the possibility of licensing its technology to an outside unrelated party. Although, management has been successful thus far in raising the needed capital there can be no assurance that the Company and its management will be able to continue to sell sufficient amounts of common stock or enter into license agreements to bring the current product development to a point where it is economically viable. Management intends to meet its cash needs through the issuance of additional shares of common stock and licensing its technology.

3. Note Receivable Related Party

In 1995, the Company entered into an agreement to recover costs which had been expended in a dispute with a former officer. The Company received a 0% interest rate note in the amount of $150,000. The note was discounted to $130,000 to realize a 9.5% return for financial statements. The note requires quarterly payments of $13,125.

The balance of the note receivable at December 31, 1996 and 1995 are as follows:

	1996	1995
Current	$ 46,785	$ 20,796
Noncurrent	30,586	99,166
Total	$ 77,371	$ 119,962

4. License Agreement

In July 1992, the Company entered into an agreement to acquire the license for the exclusive rights to certain technology and patents. The agreement was amended in January 1993 and October 1995. The amended agreement called for the Company to make royalty payments of 1% for all sales made by the Company using the technology, and should the Company sublicense the technology, the Company will make royalty payments of 3% for all sublicense sales. The term of the licensing agreement was ten years. The Company issued 2,000,000 shares of its restricted common stock as consideration for the exclusive world wide licensing agreement. The Company has not had any revenues which are applicable to the license agreement. In March 1996, the Company entered into an agreement which terminated the licensing agreement. In 1996, the Company paid cash of $1,500 for the termination of the licensing agreement.

5. Advances Payable to Shareholders

The Company had advances payable to two shareholders totaling $286,890 at December 31, 1994. The advances were non interest bearing. Effective December 31, 1995, the Company entered into an agreement which resolved litigation relating to the advances and other matters. As part of the settlement agreement the shareholder forgave $284,230 of the advances payable from the Company and received an option to purchase 100,000 shares of the Company's common stock for $.25 per share (see note 11).

6. Notes Payable

The Company has the following notes payable at December 31, 1995:

	1996	1995
Note payable to a company requiring monthly payments of $260 including interest		

at an implied rate of 9% secured by equipment	$ 4,803	$ 7,359
Note payable to a financial institution which is in default and currently due. At the time of the merger with WPI, the Company was unaware of the debt. In 1996, the Company resolved litigation relating to the note payable where in the Company was forgiven of the note payable and related accrued interest.	-	650,000
	4,803	657,359
Less current maturity	2,795	652,556
Total long-term	$ 2,008	$ 4,803

Current maturities are as follows:

Year	Amount
1997	$ 2,795
1998	2,008
	$ 4,803

7. Convertible Notes Payable

The Company has $316,700 at December 31, 1996 and $301,700 at December 31, 1995 of notes payable to a trust. The notes have an interest rate of 12%, have a term of three years and are due in 1998. Each $1,000 note is convertible into 667 shares of the Company's common stock.

8. Related Party Transactions

During 1995, the Company settled litigation relating to a former officer of the Company where in the officer forgave the Company of advances payable of $284,230 and assumed the liability for notes payable of $250,000 plus related accrued interest in exchange for an option to purchase 100,000 shares of the Company's common stock for $.25 per share. The Company recognized a $20,000 expense from the option as it was issued for less than the market value of the stock. The expense was offset against the gain on the forgiveness of debt.

The Company has at December 31, 1995 made a prepaid advance of $65,860 to an officer shareholder and his entity relating to development of the technology and at December 31, 1996, has an accounts payable to the officer shareholder and his entity of $58,500 and another officer of $102,000. During 1996 and 1995, the Company incurred costs relating primarily to the development of the technology of $91,816 and $79,877, respectively, from the officer shareholder and his related entity.

The Company has agreed to make the payments on a vehicle lease for an officer of the Company. The annual payments totaled $2,680 and $4,320 during 1996 and 1995, respectively.

9. Income Taxes

The provision for income taxes for the years ended December 31, 1996 and 1995, is different than amounts which would be provided by applying the statutory federal income tax rate to income before provision for income taxes for the following reasons:

	Year Ended December 31, 1996	1995	Cumulative Amounts Since November 20, 1991 (Date of Inception)
Federal income tax benefit (provision) at statutory rate	$ 155,000	$ 342,000	$ 1,800,000
Change in valuation allowance	(155,000)	(342,000)	(1,800,000)
	$ -	$ -	$ -

The net timing differences for deferred income tax assets are as follows:

Net operating loss carryforward	$ 1,800,000
Valuation allowance	(1,800,000)
Net deferred tax asset	$ -

Inasmuch as it is not possible to determine when or if the net operating losses will be utilized, a valuation allowance has been established to offset the benefit of the utilization of the net operating losses.

The Company has available net operating losses of approximately $5,394,000 which can be utilized to offset future earnings of the Company. The Company also has available approximately $43,000 in research and development credits which expire in 2008. The utilization of the net operating losses and research and development credits are dependent upon the tax laws in effect at the time such losses can be utilized. The losses expire between the years 2007 and 2011. Should the Company experience a change of ownership the utilization of net operating losses could be reduced.

10. Gain on Debt Forgiveness

At December 31, 1994, the Company was involved in litigation regarding notes payable of $900,000 and corresponding related accrued interest. In 1995, the litigation was partially resolved and the Company was relieved of $250,000 principal portion of its obligation on the notes payable and accrued interest. In March 1996, the Company was notified that it had been released from all obligations relating to the debt and related accrued interest. To resolve the litigation including repayment of the advances payable of $284,230, the Company agreed to issue options to a former officer to purchase 100,000 shares of Company stock at $.25 per share. The Company did not accrue interest for the notes payable in 1995 as its contention that it was not liable was up held and the $900,000 of notes payable and accrued interest of $71,306 were written off as an extraordinary gain on debt forgiveness in 1995 and 1996. The gain on the debt forgiveness in 1995 was $562,050 and $673,486 in 1996.

11. Stock Options

The Company has an incentive stock option plan wherein 4,000,000 shares of the Company's common stock can be issued. The Company has granted stock options to certain officers and shareholders of the Company to purchase shares of the Company's common stock. In addition, the Company granted 2,658,604 warrants to individuals who had purchased shares of the Company's common stock. The warrants have a purchase price of $3.00 per share. A schedule of the options at December 31, 1996 is as follows:

	Number of Options	Option Price Per Share
Outstanding at December 31, 1995	1,454,000	$ .25 TO 1.00
Granted	3,602,604	.25 to 3.00
Exercised	(25,000)	1.00
Expired	(425,000)	1.00

Outstanding at December 31, 1996	4,606,604	$ .25 TO 3.00

11. Stock Options - Continued

Options exercisable and shares available for future grant are as follows:

	December 31, 1996	December 31, 1995
Options exercisable	4,596,604	1,484,000
Shares available for grant	2,052,000	2,546,000

In October 1995, the Financial Accounting Standards Board issued Statement of financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (FAS 123) which established financial accounting and reporting standards for stock-based compensation. The new standard defines a fair value method of accounting for an employee stock option or similar equity instrument. This statement gives entities the choice between adopting the fair value method or continuing to use the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25 with footnote disclosures of the pro forma effects if the fair value method had been adopted. The Corporation has opted for the latter approach. Had compensation expense for the Corporation's stock option plan been determined based on the fair value at the grant date for awards in 1996 and 1995 consistent with the provisions of FAS No. 123, the Corporation's results of operations would have been reduced to the pro forma amounts indicated below:

	December 31, 1996	December 31, 1995
Net loss - as reported	$ (456,466)	$ (1,007,522)
Net loss - pro forma	$ (1,622,499)	$ (1,021,255)
Loss per share - as reported	$ (.02)	$ (.05)
Loss per share - pro forma	$ (.07)	$ (.05)

11. Stock Options - Continued

The fair value of each option grant is estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

	December 31, 1996	December 31, 1995
Expected dividend yield	$ -	$ -
Expected stock price volatility	97.5%	97.5%
Risk-free interest rate	5.5%	5.5%
Expected life of options	1-5 years	2-3 years

The weighted average fair value of options granted during 1996 and 1995 are $.32 and $.83, respectively.

The following table summarized information about fixed stock options outstanding at December 31, 1996:

Options Outstanding			Options Exercisable	
Number	Weighted Average Remaining	Weighted	Number	Weighted

Range of Exercise Prices	Outstanding at 12/31/96	Contractual Life (Years)	Average Exercise Price	Exercisable at 12/31/96	Average Exercise Price
$ .25 to .65	1,034,000	3.30	$ 0.39	1,024,000	$ 0.39
1.00	914,000	3.00	1.00	914,000	1.00
3.00	2,658,604	2.30	3.00	2,658,604	3.00
$ .25 to 3.00	4,606,604	2.70	$ 2.02	4,596,604	$ 2.02

12. Commitments

The Company leases its office facility under an operating lease. The lease requires monthly payments of $895 through the year 1998. Approximate future commitments under this lease are as follows:

Year	Amount
1997	$ 11,600
1998	6,900
	$ 18,500

Annual rent expense totaled approximately $10,000 for the years ended December 31, 1996 and 1995.

13. Contingency

The Company in 1995, engaged an entity to raise capital. As part of the agreement the Company issued shares of its stock to the entity, placed an officer of the other entity on the Company's Board of Directors and appointed another individual related to the entity to be the Company's Chief Financial Officer. In 1996, both individuals resigned from their positions with the Company and have made numerous allegations. The Company is in discussion with the entity and these individuals to determine the extent and validity of these allegations. The Company has canceled 1,400,000 shares of the common stock issued as a fee for to raise the capital. The corresponding subscription receivable was also canceled. The Company is unable at this time to determine the validity, extent or financial importance these items may or will have on the financial condition of the Company, no adjustment has been made in these financial statements for this item.

<TABLE> <S> <C>

<ARTICLE> 5
<LEGEND>
THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MEDICAL DISCOVERIES, INC. DECEMBER 31, 1996 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS
</LEGEND>

<S>	<C>	
<PERIOD-TYPE>	YEAR	
<FISCAL-YEAR-END>		DEC-31-1996
<PERIOD-END>		DEC-31-1996
<CASH>		25,307
<SECURITIES>		0
<RECEIVABLES>		77,371
<ALLOWANCES>		0
<INVENTORY>		0
<CURRENT-ASSETS>		82,871
<PP&E>		74,231
<DEPRECIATION>		16,181
<TOTAL-ASSETS>		172,677
<CURRENT-LIABILITIES>		699,000
<BONDS>		0
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		6,121,733
<OTHER-SE>		(6,966,764)
<TOTAL-LIABILITY-AND-EQUITY>		172,677
<SALES>		0
<TOTAL-REVENUES>		11,974
<CGS>		0
<TOTAL-COSTS>		1,095,360
<OTHER-EXPENSES>		0
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		46,566
<INCOME-PRETAX>		(1,129,952)
<INCOME-TAX>		0
<INCOME-CONTINUING>		(1,129,952)
<DISCONTINUED>		0
<EXTRAORDINARY>		673,486
<CHANGES>		0
<NET-INCOME>		(456,466)
<EPS-PRIMARY>		(.02)
<EPS-DILUTED>		(.02)

</TABLE>