

ITEM 1. FINANCIAL STATEMENTS

The following financial statements are filed with this report:

Balance Sheets as of September 30, 1996 (unaudited) and September 30, 1995 (unaudited)

Statements of Operations for the Three-Month and Nine-Month Periods ended September 30, 1996 (unaudited) and September 30, 1995 (unaudited) and since inception through September 30, 1996 (unaudited).

Statements of Cash Flows for the Nine-Month Periods ended September 30, 1996 (unaudited) and September 30, 1995 (unaudited) and since inception through September 30, 1996 (unaudited).

Notes to Unaudited Financial Statements

Medical Discoveries, Inc.
(A Development Stage Company)

Balance Sheet

As of September 30, 1996 and September 30, 1995
(UNAUDITED)

Sept. 30, 1996 Sept. 30, 1995

	Sept. 30, 1996	Sept. 30, 1995
Current Assets		
Cash	43,539	13,454
Accounts Receivable	45,700	130,350
Prepaid Expenses	14,825	0
Total Current Assets	104,064	143,804
Property, Plant, and Equipment		
Equipment	72,082	65,989
Less: Accumulated Depreciation	(12,544)	(19,895)
Net PP&E	59,538	46,094
Other Assets		
Deposits	1,170	1,170
Note receivable	42,697	0
Deferred Federal R&D Tax Credits	0	118,561
License Agreement and Mkt Rights	0	10,000
Total Other Assets	43,867	129,731

Total Assets	207,469	319,629
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Current Liabilities		
Accounts Payable	588,721	233,137
Medical care deposits	0	1,367
Accrued interest	16,536	0
Current maturities of Notes Payable	2,795	0
Total Current Liabilities	608,052	234,504
Long Term Liabilities		
Notes payable	319,048	750,000
Total Long Term Liabilities	319,048	750,000
Total Liabilities	927,101	984,504
Stockholders' Equity		
Common Stock, no par value, authorized 1,00,000,000 shares; issued and outstanding 21,431,324 shares at September 30, 1996	5,971,733	4,685,022
Stock subscriptions receivable	(87,500)	(472,360)
Retained Deficit	(6,603,865)	(4,877,537)
Total Equity	(719,632)	(664,875)
Total Liabilities and Equity	207,469	319,629

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Statement of Operations
For the periods ended September 30, 1996 and September 30, 1995
(UNAUDITED)

<TABLE>
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<S>	for the quarter ended Sept. 30,		Cumulative Amts. since Nov. 20, 91 (date inception)	for the nine months ended Sept. 30,	
	1996	1995		1996	1995
<C>	<C>	<C>	<C>	<C>	<C>
Revenue					
Clinical Fees	0	5,466	108,200	0	6,833
Total Revenue	0	5,466	0	0	6,833
Expenses					
License Agreement	0	0	1,000,000	0	0
R&D	49,794	28,966	2,303,601	200,042	71,443
G&A	134,298	728,972	3,182,332	707,909	874,464
Depreciation	3,396	2,575	14,311	9,311	6,618
Total Expenses	187,488	760,513	6,500,244	917,262	952,525
Net Oper. Loss	(187,488)	(755,047)	(6,392,044)	(917,262)	(945,692)
Other Income or Exp.	(10,225)	0	(47,781)	(22,292)	0
Loss before income tax and extraordinary item	(197,713)	(755,047)	(6,439,824)	(939,553)	(945,692)
Income taxes	0	0	0	0	0
Loss before extraordinary item	(197,713)	(755,047)	(6,439,824)	(939,533)	(945,692)
Forgiveness of debt	0	0	1,235,536	673,486	0
Net income	(197,713)	(755,047)	(5,204,288)	(266,067)	(945,692)

</TABLE>

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<TABLE>

<S>	<C>	<C>	<C>	<C>	<C>
Income / (loss) per share					
Loss from Operations	(0.01)	(0.04)	(0.42)	(0.04)	(0.05)
Gain from debt forgiveness	0.00	0.00	0.08	0.03	0.00
Income/(loss) per share	(0.01)	(0.04)	(0.34)	(0.01)	(0.05)
Weighted average number of shares	1,598,715	21,524,329	15,488,098	22,066,709	18,516,831

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Medical Discoveries, Inc.
(A Development Stage Company)
Statement of Cash Flows

For the periods ended September 30, 1996 and September 30, 1995
(UNAUDITED)

	For the 9 months ended Sept. 30, 1996	1995	Cumulative Amounts since November 20, 1991 (date of inception)
Operating Activities			
Net Income (Loss) for the period	(266,067)	(945,692)	(5,204,288)
Add non-cash items			
Depreciation	9,311	6,618	14,004
Common stock for services & royalty repurchase	313,508	708,540	3,330,069
Disposal of equipment	0	0	6,330
Gain on Debt Restructure	(673,486)	0	(1,235,536)
Net Cash from Operations	(616,734)	(230,534)	(3,089,421)
Working Capital Changes			
Decreases (increases) in:			
Accounts Receivable	31,566	(130,350)	98,040
Prepaid Expenses	51,035	0	(14,825)
Other Assets	0	0	(1,170)
Increases (decreases) in:			
Accounts Payable	52,227	100,278	343,354
Accrued Interest	9,678	0	9,678
Accrued Expenses	0	1,367	28,577
Net Cash - Working Capital Changes	144,506	(28,705)	463,654
Investing Activities			
Purchases of Equipment	(19,611)	(26,897)	(71,711)
Net Cash - Investing Activities	(19,611)	(26,897)	(71,711)

Financing Activities

Payment of Notes Payable	0	0	(802)
Increase in Notes Payable	12,545	0	314,245
Equity contributed	0	0	131,374
Proceeds from issuance of common stock	485,000	283,200	2,296,200
Net Cash - Financing Activities	497,545	283,200	2,741,017
Net Increase / (Decrease) in Cash	5,706	(2,936)	43,539

Cash, Beginning Period	37,833	16,040	0
Cash Ending Period	43,539	13,104	43,539

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MEDICAL DISCOVERIES, INC.
September 30, 1996

NOTES TO UNAUDITED FINANCIAL STATEMENTS

The unaudited financial statements include the accounts of Medical Discoveries, Inc. and include all adjustments which are, in the opinion of management, necessary to present fairly the financial position as of September 30, 1996 and the results of operations and changes in financial position for the three-month and nine-month periods ended September 30, 1996. The results of operations for the nine months ended September 30, 1996 are not necessarily indicative of the results to be expected for the entire year. Certain balance sheet items have been reclassified to properly and consistently present account balances.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

CONTINUING RESEARCH. The Company is continuing its research and development of MDI-P. The Company's current focus is 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-microbial agent. At the same time, the Company will continue its joint research into removing or inactivating infectious agents in blood-derived products. These objectives are 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 for this priority is that such use can be approved by the FDA relatively quickly. The Company will likely seek an alliance with a large pharmaceutical /biotech 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 refusal to negotiate 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-MICROBIAL 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/biotech company in this regard to market and distribute MDI-P for this purpose. That partner would also assist the Company in obtaining FDA approval for such use.

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PATENT APPLICATIONS. Recently, the Company filed a patent application for a method of treating blood and blood products in vitro to inactivate bacteria and viruses. On August 27, 1996, the Company received a Notice of Allowance from the U.S. Patent office. 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.

SCIENTIFIC ADVISORY BOARD. Ned Weinshanker, Ph.D. was named to the Company's Scientific Advisory Board. Dr. Weinshanker is currently president, chief executive officer and a director of IOMED, Inc. (Salt Lake City, Utah). IOMED designs, manufactures, and distributes iontophoretic drug delivery systems, a method of transdermal delivery using electrical current to enhance drug transport. He received his doctorate in organic chemistry from the Massachusetts Institute of Technology (MIT) and pursued postdoctoral research at Harvard University. His background includes tenure with NYSE-listed ALZA Corporation (Palo Alto, California) and ALZA-spinoff, Dynapol (Palo Alto, California).

Thomas Asher, Ph.D., founder and former chairman of HemaCare Corporation (Sherman Oaks, California) was also named to the Company's Scientific Advisory Board. Dr. Asher received his doctorate from the University of London's Imperial College of Science and Technology in "mechanisms of antibiosis," which involves the eradication of microbes in general. Following a distinguished career with the Centers for Disease Control, Dr. Asher served on the executive management teams of Hyland Laboratories, which was then the largest manufacturer of fractionated blood products in the United States, and Immuno-Science, a manufacturer of blood-related biological and diagnostic products.

During his seventeen year tenure with HemaCare, Asher successfully led efforts to provide specialized blood components, such as concentrated platelets and immunoglobulins, to the health care industry. In addition, he has served on the board of directors for a number of national and regional biotechnology organizations, including Alpha Therapeutics Corporation, Southern California Hemophilia Foundation, Steri-Kem Corporation, Association of Personal Blood Services, and the American Blood Resources Association.

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. MDI has retained two investment banking firms to seek additional capital.

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Management intends to raise substantial additional funds in both private and possibly public stock offerings in the future to meet its future funding requirements. The company is technically in default in the payment of interest related to certain notes payable. However, the note holder has not taken any action in this regard. 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.

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PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There has been no change any legal proceedings since the Form 10-QSB filed by the Company for the quarter ended June 30, 1996.

ITEM 2. CHANGES IN SECURITIES

N/A

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

N/A

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

N/A

ITEM 5. OTHER INFORMATION

N/A

ITEM 6. 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-QSB.

EXHIBIT NUMBER	DESCRIPTION
27	Financial Data Schedule.

- (b) Reports on Form 8-K

N/A

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SIGNATURES

In accordance with the requirements of the Exchange Act, the

registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MEDICAL DISCOVERIES, INC.

November 13, 1996

MARLIN TOOMBS

Vice President (Principal Financial Officer)

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