SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-KSB

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal period ended December 31, 2004

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT**

For the transition period from to

Commission file number 0-12627

MEDICAL DISCOVERIES, INC.

(Exact name of Small Business Issuer as specified in its charter)

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

1338 S. Foothill Drive, #266, Salt Lake City, Utah 84108
(Address of principal executive offices)

(801) 582-9583
(Issuer's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, no par value
(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 ☑ No ☐

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained 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 issuer had no revenues for its most recent fiscal year.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, as of the last business day of the issuer's most recently completed second fiscal quarter, June 30, 2004, was $25,523,334.

As of March 16, 2005, the issuer had 105,653,337 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the issuer's 2005 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-KSB.

Transitional Small Business Disclosure Format (check one): Yes ☐ No ☑

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Report, including the documents incorporated by reference into this Report, contains "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements regarding our products still being in the developmental stage, our lack of operating revenues or profits, our dependence on raising significant additional capital, our auditors' expression of substantial doubt as to our ability to continue as a going concern, the government regulation to which we are subject, our exposure to pricing and reimbursement risks, the competition we face, the potential that our intellectual property is not adequately protected, the fact that we may need to litigate to secure certain of our intellectual property rights, our risk of product liability, our stock being thinly traded and subject to manipulation, the volatility of our stock price, the risk that shareholders could suffer substantial dilution, and the fact that we have not paid dividends to date. All statements other than statements of historical fact are "Forward-Looking Statements" for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. All Forward-Looking Statements included in this document are made as of the date hereof and are based on information available to us as of such date. We assume no obligation to update any Forward-Looking Statement. In some cases, Forward-Looking Statements can be identified by the use of terminology such as "may," "will," "expects," "plans," "anticipates," "intends," "believes," "estimates," "potential," or "continue," or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the Forward-Looking Statements contained herein are reasonable, there can be no assurance that such expectations or any of the Forward-Looking Statements will prove to be correct, and actual results could differ materially from those projected or assumed in the Forward-Looking Statements. Future financial condition and results of operations, as well as any Forward-Looking Statements are subject to inherent risks and uncertainties, including any other factors referred to in the Company's press releases and reports filed with the Securities and Exchange Commission. All subsequent Forward-Looking Statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Additional factors that may have a direct bearing on the Company's operating results are described under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Cautionary Statement for Forward-Looking Information and Factors Affecting Future Results" and elsewhere in this report.

PART I

ITEM 1. *DESCRIPTION OF BUSINESS.*

OVERVIEW

Medical Discoveries, Inc. is a Utah corporation incorporated on November 20, 1991. Our address is 1338 S. Foothill Drive, #266, Salt Lake City, Utah 84108, our telephone number is (801) 582-9583 and our web address is www.medicaldiscoveries.com.

We are a developmental-stage bio-pharmaceutical company engaged in the research, validation, development and ultimate commercialization of two drugs: MDI-P and SaveCream. MDI-P is an anti-infective drug that we believe will be a safe and effective treatment for bacterial infections, viral infections and fungal infections. SaveCream is a breast cancer medication that is applied topically to reduce breast cancer tumors. Both of these drugs are still in development and have not been approved by the U.S. Food and Drug Administration (FDA).

Our initial target indications for MDI-P are Cystic Fibrosis and HIV. We have filed an Investigatory New Drug application (IND) with the FDA seeking permission to begin Phase I human clinical trials of MDI-P as a treatment for Cystic Fibrosis. The FDA has responded to our IND and we are hopeful that we can satisfactorily answer the FDA's questions and satisfy the FDA's follow-up requests for further animal testing, resulting in the FDA approving the application. If the FDA approves that IND, we will begin human trials at St. Luke's Regional Medical Center in Boise, Idaho using a protocol designed by Dr. Henry Thompson. If our Phase I IND for Cystic Fibrosis is successful, we intend to file an IND for Phase I testing of MDI-P as a treatment for HIV at Harvard School of Medicine using a protocol designed by Dr. Bruce Dezube. We also expect to add additional indications for the use of MDI-P in the future as we further our pre-clinical development.

We recently purchased SaveCream from a German biotechnology company. In a European Union study of SaveCream used by over 100 women diagnosed with Stage 4 breast cancer, a significant number of those women experienced a significant tumor reduction. This study, while preliminary, indicates that SaveCream may be substantially more effective and faster acting than similar drugs already on the market. We are in the process of developing a global commercialization strategy for SaveCream.

To date, we have not generated significant revenues from operations or realized a profit. Through December 31, 2004, we had incurred a cumulative net loss since inception of $19,353,933.

RECENT DEVELOPMENTS

Savetherapeutics Asset Acquisition. On March 16, 2005 we announced the completed acquisition of the intellectual property assets of Savetherapeutics AG, a German biotechnology company headquartered in Hamburg. The purchase price was €2,350,000 (approximately $3.1 million). Savetherapeutics (SaveT) has been developing SaveCream, a topical steroidal form of aromatase inhibitor (AI) for breast cancer.

This promising cancer therapeutic product has been tested in the European Union under a unique German regulatory scheme that allows terminal patients to receive novel treatments. In the study, over 100 women diagnosed with Stage 4 breast cancer received special permission to be treated with SaveCream. A significant number of those women experienced significant tumor reduction. This study indicates substantially improved efficacy in reduction of breast tumors, in shorter time frames than the three approved AIs currently on the market. We are in the process of developing a global commercialization strategy for SaveCream.

M.A.G. Capital, LLC (formerly Mercator Advisory Group, LLC), through its designated funds, Mercator Momentum Fund, L.P., and Mercator Momentum Fund III, L.P., provided us with $3 million for the acquisition.

We expect to perform additional CMC (chemistry manufacturing and control) work and expand the clinical trials over 2005, and believe this will open the door to commercialization opportunities for SaveCream

by late 2006, which may be quicker than we can commercialize MDI-P. This acquisition also allows us to diversify our product base.

Cystic Fibrosis IND. We are continuing to prosecute our IND for Cystic Fibrosis with the FDA. We have agreed with the FDA on a large animal model protocol to establish pharmacological safety with relation to cardio and central nervous system toxicity for this IND. We expect to begin that phase of testing in the very near future and to start Phase I clinical trials on Cystic Fibrosis in Q4 of 2005.

BUSINESS STRATEGY

Our highest priorities are to:

- gain FDA approval of our IND for Cystic Fibrosis and commence human clinical trials;
- file an IND for HIV; and
- develop a commercialization strategy for SaveCream.

Our secondary priorities are the completion of a longer-range strategic business plan in which we utilize the intellectual property and analysis that has been developed over the last decade and determine an appropriate direction for future development of the business over the next five years. Some of the issues we will be dealing with will include:

- Listing the Company's common stock on a stock exchange or NASDAQ
- How to provide shareholders with liquidity, transparency and a return on investment
- A decision on whether or when to relocate the Company or maintain its current location
- A decision as to what staffing requirements the Company will have, when to bring additional permanent staff on board and the best route for recruiting those staff members
- Additional target indications and the formulation and development process required for those target indications
- A comprehensive intellectual property strategy
- A potential partnering strategy
- Projected long-term financing requirements

MDI-P: NOVEL ANTI-INFECTIVE TECHNOLOGY

MDI-P is an anti-effective drug that we believe will be a safe and effective treatment for bacterial infections, viral infections and fungal infections. MDI-P appears to work by virtue of the direct virus-, bacteria- and fungus-killing effect of several of the powerful oxidants present in the MDI-P solution. The MDI-P solution contains oxidants such as various hypochlorous acid chains, ozone and dilute hydrogen peroxide. These oxidants, traditionally believed to have a very short half-life in their natural state, seem to exhibit stability of several months or longer in MDI-P.

During the past nine years, we have conducted a variety of cell line testing at the following university and medical research institutions, among others:

Stratton V.A. Medical Center, Albany, New York
Albany Medical College, Albany, New York
Indiana University School Of Medicine And Dentistry
University of California, Los Angeles
Baylor College of Medicine and Dentistry, Dallas, Texas
Dana-Farber Cancer Institute, Boston, Massachusetts
University of Washington Medical School

Highlights from those tests include the following:

- In 1998, we initiated *in vitro* testing, conducted at the Dana-Farber Cancer Institute in Boston, Massachusetts, a major teaching affiliate of the Harvard Medical School. The results of this independent testing confirmed that MDI-P achieved destruction of more than 90% of the HIV virus in cell cultures, with no toxicity to the cells.
- In 2000, data and results published by Dr. Aldonna Baltch, M.D., of the Stratton V.A. Medical Center and Albany Medical College, Albany NY, indicated that MDI-P is a potent antibacterial and anti-fungal agent. Dr. Baltch's work demonstrated that MDI-P was effective in destroying the fungi Candida albicans and Legionella pneumophillia (Legionnaire's Disease) within 60 seconds of exposure to the fungi with no evidence of cell toxicity. This work was published in The American Journal of Infection Control in 2000 and as abstracts of the American Society of Microbiology meetings in 1997 and 1998.
- Toxicity tests completed in 2001 by WIL Research Laboratories demonstrated that various strengths of MDI-P (up to a 50% solution strength) produced no systemic toxicity in laboratory animal tests used to assess potential problems for human application. These studies were conducted following FDA guidelines and have helped establish that MDI-P is reasonably safe for human clinical trials.
- In 2004, Dr. Emil Chi, Chairman of the Department of Histopathology at the University of Washington Medical School conducted a mouse study focused on MDI-P as a potential therapeutic agent for the treatment of sepsis. The results reaffirmed the anti-infective strength and low toxicity profile in preclinical models of MDI-P.
- In 2004, we also commissioned a mouse study by Dr. Chi focused on MDI-P as a potential therapeutic agent for the treatment of the symptoms of asthma. In the study, 36 female mice were examined in a chronic asthma model, using various doses of MDI-P as a therapeutic agent as measured against a saline control. Samples of bronchial lavage lung fluid and tissue were taken from all mice, with assays performed in airway mucus build-up and eosinophil infiltration, a prime blood cell measure of asthmatic attacks. More than 70% of the MDI-P treated mice exhibited no increase in mucus secretions, comparable with saline control animals, with a marked reduction in eosinophil infiltration. Untreated asthmatic mice, in contrast, had more than a nine-fold increase in mucus build-up as compared with saline controls. Further, no toxicity was found in the MDI-P treated mice.
- On July 15, 2004, we announced our receipt from Clagett Consulting of a large mammal toxicity report for MDI-P. The study found no sign of any toxicity from MDI-P in the anatomy, behavior, clinical chemical, hematological, or histopathological measures of adverse events. The study was conducted in a rabbit species (New Zealand white rabbits) because of their acknowledged hyper-reactivity to toxicity in drugs. These results, when combined with our prior toxicological work, suggest that MDI-P should not cause toxic events in humans. Also included in the Clagett Consulting report was a further genomic analysis for toxicology of MDI-P. This genomics analysis indicated that MDI-P had no effect on any of the following: bone marrow function, hematocrit levels in peripheral blood, serum levels for alanine aminotransferase levels and aspartate aminotransferase levels, both of which provide sensitive measures of hepatic toxicity, serum protein and albumin levels, bound urinary nitrogen levels, serum calcium levels or blood glucose levels. In addition, this genomics analysis provided confirmation that various measures of impact on the hundreds of genes controlling toxicity as well as the immuno-regulatory system were neither up-or-down regulated by MDI-P.
- In 2004 Dr. Chi also studied MDI-P as a potential therapeutic agent for the treatment of the symptoms of Cystic Fibrosis. In this study of 48 mice, it was found that MDI-P is a useful agent to reduce primary measures of disease in Cystic Fibrosis, including bacterial infection, mucus secretion, cellular infiltration, lung edema (swelling with excess fluid), lung hemorrhage, and lung infiltration by neutrophils and eosinophils, the principal white blood cells responding to allergic and infectious pathogens. Excessive presence of neutrophils and eosinophils can lead to cell death in surrounding

tissues, causing serious health problems from their over-expression. No overt signs of toxicity were found in the primary organs (lungs, liver, spleen, kidneys, brain) of mice treated with MDI-P.

- In 2004 we conducted a chronic toxicity study of MDI-P. The study involved the weekly injection of MDI-P into the body cavity of test mice for six-months. No statistically relevant changes in body weight, or morphometry or histopathology of vital organs were observed, when compared with mice receiving saline control injections or with untreated animals. The study resulted in no dose-dependency and no toxic effects.

Application of MDI-P to HIV:

Overview. Our pre-clinical research has demonstrated that MDI-P is capable of rapidly killing HIV upon direct contact and preventing infection of cells in a cell culture. MDI-P has also shown it is capable of rapidly killing the HIV virus in an acutely infected cell line. Furthermore, the destruction of the HIV virus by MDI-P in a cell culture or a cell line does not require any additional combination of drugs, and appears to have a low toxicity profile in pre-clinical analysis. If these results can be replicated in human beings, under appropriate clinical protocols, this therapy may represent a significant clinical advance over existing therapies.

Background of HIV/ AIDS. HIV is a retrovirus whose genetic information is encoded by ribonucleic acid (RNA) instead of deoxyribonucleic acid (DNA). It spreads through the body by invading host cells and using the human cells' own protein synthesis process to replicate itself. As the virus replicates, it slowly destroys the immune system by infecting and killing T lymphocytes, so-called "T cells", which are critical for the function of the human immune system.

Existing Therapies for HIV. There are approximately 83 HIV therapies currently on the market and approved by the FDA with a market value of approximately $9.5 billion per year. The primary current therapies for HIV are anti-retroviral products falling into four categories: nucleoside reverse transcriptase inhibitors, non-nucleoside reverse transcriptase inhibitors, protease inhibitors, and anti-fusion of HIV-1 with CD4 cells (Fuzeon®, or enfuvirtide). These therapies are typically taken in combination under a protocol called Highly Active Antiretroviral Therapy (HAART). HAART is effective in controlling the levels of virus and in increasing the number of T cells. However, these combination therapies are also associated with significant toxicity and viral resistance. As a result, current therapy management is characterized by a set of complex issues: when to initiate therapy, what regimen to use, which drugs within each class to use, and when to change therapies. Due to limitations of chronic use of anti-retroviral drug therapies, guidelines issued by the National Institutes of Health suggest starting these therapies later in the disease. Therefore, a need exists for therapies that are useful early in the disease process, that are non-toxic, that are active against resistant strains and that do not give rise to rapid resistance. Even the new best-of-breed therapeutic, Fuzeon®, requires administration with other standard combination antiretroviral therapies, and still exhibits a number of toxicities, including: inflammation/cysts at site of injection (9%/26%), erythema (22%), proritus (4%), ecchymosis (8%), and on a less frequent basis, rashes, fever, nausea, vomiting, chills, hypotension, increased hepatic enzymes, neutropenia, thrombocytomeia, and renal failure.

Benefits of MDI-P. MDI-P appears to have several important characteristics that could provide benefits to both patients and providers alike:

- MDI-P's mechanism of action is not accomplished by enzyme or nucleic acid inhibition, but rather by direct intra-cellular effects. MDI-P is very rapid in effect and destroys viruses without destroying host cells.
- MDI-P's broad-spectrum antiviral effects appear to make it effective against even highly resistant viral strains and not subject to rapid resistance.
- The destruction of bacterial organisms by exposure to MDI-P does not appear to produce any potential harmful effects.
- MDI-P appears to have a low toxicity profile and therefore may be better tolerated by patients.

MDI's HIV Protocol. The HIV virus is known to have a cell replication cycle of approximately 10 days to two weeks. For this reason, the Phase I protocol designed by Dr. Bruce Dezube planned at Harvard Medical School will use daily infusions over fourteen-day infusion cycles of MDI-P, followed by a rest period, followed by subsequent two-week infusions. The selection of the appropriate human dosing regimen will be based upon the dose curve data currently being established at the University of Washington Medical School. Since the best-of-breed therapeutics in HIV (e.g., Fuzeon®) establish an ability to bring the HIV RNA cell count below 400 copies per ml for as much as 65% of HIV patients, the Harvard Phase I studies will be examining toxicity, together with early signs of efficacy in bringing HIV RNA cell copies in blood tests down to or below this level with statistical significance.

In order to expedite MDI's IND for HIV, the Company may pursue an adjunct therapy program for its therapeutic, as in joint dosing with an approved HAART HIV therapeutic with MDI-P as an adjunct therapy to clinically manage the effects of fungal infections which frequently plague HIV patients. Specific pre-clinical studies in common fungi associated with HIV patients would be undertaken to support such a filing, together with the improved toxicity profile for MDI-P currently being established for the Cystic Fibrosis indication.

Application of MDI-P to Cystic Fibrosis:

Overview. Cystic Fibrosis (CF) is a recessive genetic disease that manifests itself in multiple systems of the body. Individuals who suffer from CF produce excessive amounts of thick, sticky mucus that obstructs the airways of the CF patient. If mucus is not reduced in the CF patient, then respiratory failure can occur. Due to the fact that mucus serves as a medium for the growth of bacteria, the CF patient faces a high risk of morbidity and mortality due to frequent pulmonary infection. Currently, there are no FDA approved CF therapeutics that provide a statistically significant mucus-clearing effect. The prospective ability of MDI-P to remove CF patient mucus accumulation may, in fact, provide a significant extension of life for CF patients.

Background of Existing Therapies. With CF being a genetically-determined illness, there is presently no known "cure" for CF. Current treatment standards, which may entail 3-4 hours of treatment per day for the CF patient, include:

- Dietary control to lessen the build-up of fats, proteins (and to a lesser extent, carbohydrates) which can not be readily absorbed and metabolized. Typically, such dietary control is augmented with oral pancreatic enzymes to assist in fat metabolism.
- Treatment of bacterial infection with erythromycin, Tobramycin® (TOBI), and in severe infection cases, vancomycin to eradicate or control the infection. In some cases, daily use of oral antibiotics may be prescribed due to the high frequency of lung infection in CF patients and its risk of mortality.
- Frequent use of mucolytic agents such as N-acetylcysteine and bronchodilator therapy with Pulmozyme®. Clinical response may further indicate bronchial drainage through recombinant human Dnase or flutter devices to assist in mucus airway clearance, together with clapping of the chest to dislodge mucus. In extreme cases, broncho-alveolar lavage may be used, and if necessary, lung transplantation.
- Periodic corticosteroid tablets and inhaled anti-asthma medications (e.g., Advair®, Singulair®, etc.) to combat lung inflammation (frequently resulting from the presence of infection), together with high doses of ibuprofen for its anti-inflammatory effect.
- In addition, the CF patient may have insulin prescribed for CF-related diabetes, as well as medications for CF-associated liver disease, supplements of vitamins A and D, and medication to treat constipation. Oxygen therapy may also be prescribed.

At present, current therapies tend to be more effective in controlling pulmonary infection than in clearance of mucus. However, even with the use of antibiotics, there may be as many as 45% of CF patients with drug-resistant infection that can prove life-threatening. Further, should the more common bacterial infection be complicated through a simultaneous viral infection, the odds of mortality can increase for the infected CF patient. Since CF's build-up of mucus is genetically dependent, and the mucolytic agents and

therapies limited in total mucus-clearing effect, the CF patient lives with a serious threat of respiratory failure from any of the various frequent pulmonary infections. This risk tends to be compounded with the increasing age of the CF patient. Even with the use of all such therapies administered through approved CF disease centers, the common prognosis for life expectancy of a CF patient is currently 31-32 years.

Prospective Benefits of MDI-P. New anti-microbial therapies that would reduce continued mucus build-up would be beneficial to the CF patient to help prevent airway obstruction and frequent pulmonary infection. Should such new anti-microbial therapies also prove less susceptible to drug resistance, together with efficacy on viruses, their value in extending the quality of life and life span of CF patients would be substantial.

Based upon MDI's pre-clinical studies, MDI-P offers CF patients the following:

- to serve as a highly effective anti-microbial agent for CF patients with bacterial pulmonary infection, as well as viral pulmonary infection, with little or no drug resistance probability; and
- to serve as the best-of-breed mucolytic agent in clearing the continuous mucus build-up in CF, when applied by nebulization into the lungs, as an adjunct therapy to TOBI.

The benefit of using MDI-P as an adjunct therapy to TOBI are as follows:

- to avoid the possibility of significant clinical risk of adverse events with CF patients that a lengthy drug-clearance period might introduce through a rebound of the degree of infection with Pseudomonas aeruginosa or other bacterial pulmonary infection; and
- to lessen the likelihood of adverse events due to endotoxin reaction, due to the unparalleled efficacy of MDI-P in killing pathogens, including Pseudomanas.

MDI-P is believed to have the potential, with CF patient compliance, of significantly improving both pulmonary function and longevity of CF patients, due to its unique and potent dual mechanism of action.

MDI's CF Protocols. MDI has established its planned Phase I CF trials at St. Luke's Regional Medical Center, Boise, Idaho, under the supervision of Dr. Henry Thompson, Principal Investigator, who is Director of the Idaho CF Clinic. The Phase I trial is planned on adult CF patients in the latter term of life expectancy (age 21+). There are two arms to the study:

- Arm I-a: a clinical trial will be conducted on a healthy normal adult population consisting of 10-15 individuals to establish the safety of MDI-P as a prospective adjunct therapy,
- Arm I-b: a clinical trial will be conducted on a TOBI-dependent adult CF population consisting of 30 individuals, in which MDI-P is used as an adjunct therapy during TOBI's 28-day rest period on a dose-rising regimen. Fifteen of the 30 patients will undergo each dose regimen, to determine if greater efficacy is achieved on the higher dose of MDI-P.

Nebulization of MDI-P through Pari Research Institute's new FDA-approved e-Flow device is planned. All patients will be hospitalized during the initial 24-hour start of nebulization, to allow monitoring for endotoxic reactions. Patients will then self-nebulize 3 times daily at home, and will come into the CF clinic for weekly physicals, blood tests, pulmonary function tests, and the like.

Other Indications for MDI-P:

Our preclinical testing has also shown efficacy of MDI-P in treating sepsis and asthma. We have filed patent applications on those indications and may in the future pursue opportunities to commercialize MDI-P as a therapeutic for those indications.

SAVECREAM

Overview. MDI acquired substantially all of the assets of a Hamburg, Germany-based biotech company, Savetherapeutics, AG, in March of 2005. The principal assets of Savetherapeutics are its intellectual property, pre-clinical data, and clinical trial data on SaveCream, a novel, topical steroidal form of aromatase inhibitor (AI) indicated for breast cancer. The principal value of SaveCream is its ability to deliver

substantially more therapeutic drug on the site of the breast tumor, as contrasted with systemic ingestion of competing AIs, thereby promoting faster and greater breast tumor reduction with fewer side effects.

This promising cancer therapeutic product has been tested in the European Union under a unique German regulatory scheme that allows terminal patients to receive novel treatments. In the study, over 100 women diagnosed with Stage 4 breast cancer positive for the estrogen receptor received special permission to be treated with SaveCream. A significant number of those women experienced significant tumor reduction. This study indicates substantially improved efficacy in reduction of breast tumors, in shorter time frames than the three approved AIs currently on the market.

Background on the Breast Cancer Market. Breast cancer is one of the leading cancer indications, with an annual incidence in the U.S. of 211,000 new cases per year, with annual mortality of 43,000 per year. For the one third of such breast cancers that are positive for human epidermal growth factor receptor-2, the standard treatment therapies are Herceptin®, followed by doxorubicin or epirubicin.

For the remaining two thirds of breast cancers which are positive for the estrogen receptor ("ER"), the leading therapies over the past several years have become the aromatase inhibitors ("AIs"), recently achieving an estimated $2 billion per year in revenues in 2004. The current three approved AIs on the U.S. market are: Novartis' Femara®, AstraZeneca's Arimidex®, and Pfizer's Aromatase®. All are oral in dosage. Because of significantly improved efficacy and reduced toxicity as compared with the former leading first-line ER-positive therapy, Astra Zeneca's Tamoxifen, the AIs became the preferred first-line therapy for most breast cancers in the fall of 2004.

Background on Aromatase Inhibitors. An aromatase inhibitor is an anti-estrogen therapy, blocking estrogen's ability to activate cancer cells. Aromatase is the enzyme that converts other naturally occurring hormones (such as androgen) into estrogen. The way aromatase inhibitors work is to limit the production of estrogen by blocking its catalysis from other hormones. Approximately 70% of women test positive for estrogen receptors (ER) or progesterone receptors (PR) to which estrogen can dock, activating cancer cells. For this 70% ER/ PR positive patient grouping, the results of anti-estrogen therapy through AIs is strongest.

Aromatase inhibitors represent a preferred approach to anti-estrogen therapy by lowering the amount of estrogen being produced by the body. This method contrasts with that of Tamoxifen and related therapies, which block estrogen's ability to "turn on" cancer cells. Limiting the amount of estrogen produced means there is less estrogen available to reach cancer cells and make them grow.

In post-menopausal women, estrogen is no longer produced by the ovaries, but is converted from androgen, another hormone. Aromatase inhibitors keep androgen from being converted to estrogen. That means less estrogen in the bloodstream, and less estrogen reaching estrogen receptors to trigger a breast tumor.

In about 70-80% of breast cancer cases, the cancer cells have areas on their surface called receptors to which hormones such as estrogen and progesterone attach, providing fuel for the cells' growth into a tumor. Tamoxifen® and AIs both interfere with cancer cells' use of hormones to help them grow, but the drugs work in different ways. Tamoxifen® interferes directly with cancer cells' ability to use estrogen for fuel. AIs block the action of a substance called aromatase, which helps the body to produce estrogen.

Testing at the time breast cancer is diagnosed can determine whether the cancer cells are sensitive to estrogen or progesterone. Neither Tamoxifen® nor AIs are effective in treating breast cancer that is not hormone sensitive, that is, cancer that does not use hormones to help the tumor grow.

Following reduction in tumor size by AI treatment, current treatment regimens usually proscribe surgery to remove the tumor(s), which if tumor size reduction has been substantial, may obviate the need for a mastectomy.

Potential Benefits of SaveCream in Treating ER-Positive Breast Cancers. SaveT has formulated its AI therapeutic in a topical steroidal cream (SaveCream), applied twice daily, unlike the current AI oral formulations. By local administration on the breast, SaveCream effects a stronger down-regulation of estrogen in the local breast tissue — now believed to be key to reduction in ER-positive breast tumors — as contrasted with oral forms, which are constrained to systemic blood levels of active product under recommended dosing.

SaveCream evidenced an average 50%-80% reduction in breast tumor size within two weeks of treatment under its European Union trials, versus 24% over 3-months for the other AI competitor products.

SaveCream appears to offer much less severe, and lower incidence of toxicities (likely due to the limited half-life of the active product). This favorable therapeutic index (efficacy/toxicity ratio) should make the therapeutic amenable to registration with a paper NDA, thereby making the product easier to license. Other AIs are still noted for musculoskeletal complaints and increased risk of osteoporosis and bone fracture, together with mastalagia. Initial clinical experience with SaveCream indicates that these common side-effects of other AIs are largely avoided with this novel AI therapeutic.

SaveCream, because of its higher efficacy and unique mechanism of action, may also prove amenable to:

- pre-menopausal breast cancer patients, thereby expanding the targeted breast cancer indication substantially;
- other cancer indications, including ovarian, uterine, endometrial and skin cancers; and
- osteoporosis, effectively turning the therapeutic into a technology platform for drug development.

MDI's Commercialization Program for SaveCream. MDI believes that the supporting chemistry, manufacturing and control (CMC) data supporting SaveCream may need to be expanded and amplified, particularly in reference to the topical vehicle used as the carrier for its therapeutic agent. While undertaking a program to expand SaveCream's CMC data, the Company will also undertake to expand the clinical trial program, including revised protocols. The CMC expansion is expected to require at least 3-6 months, while newly expanded clinical trials may require an additional year of testing.

PATENTS

MDI-P and Related Technologies.

We hold eight United States Patents, two Japanese patents and a Mexican patent covering various applications for MDI-P, the machinery that manufactures it and the method by which it is manufactured. The U.S. Patents are as follows:

- Patent No. 5,334,383: "Electrically Hydrolyzed Salines as In Vivo Microbicides for the Treatment of Cardiomyopathy and Multiple Sclerosis"

This patent covers a method of treating antigen related infections related to cardiomyopathy and multiple sclerosis in humans and other warm blooded animals. This method of treatment includes the use of an electrolyzed saline solution in conjunction with one or more modulating agents such as ascorbic acid (Vitamin C), with or without concurrent colchicine, to mimic or enhance the body's naturally occurring immune response to bacterial, viral or fungal infection. The duration of this patent is until August 2, 2011, subject to patent term extension for clinical trial time.

- Patent No. 5,507,932: "Apparatus for Electrolyzing Fluids"

This patent covers equipment that exposes a liquid solution to an electrical current, creating an electrolyzed solution. This equipment may be used to produce an electrolyzed saline solution, capable of killing bacterial, viral and fungal agents, for use in medical applications such as the treatment of antigen related infections in humans and other warm blooded animals. The duration of this patent is until August 26, 2014.

- Patent No. 5,560,816: "Method for Electrolyzing Fluids"

This patent covers a method for electrolyzing fluids, by using specialized equipment to expose liquid solutions to an electrical current. Saline, for example, may be treated by this process to yield an electrolyzed saline solution, capable of killing bacterial, viral and fungal agents, for the treatment of antigen related infection in humans and other warm blooded animals. The duration of this patent is until August 26, 2014, subject to patent term extension for clinical trial time.

• Patent No. 5,622,848: “Electrically Hydrolyzed Saline Solution as Microbicides for In Vitro Treatment of Contaminated Fluids Containing Blood”

This patent covers a method of treating whole blood and other blood products with an electrolyzed saline solution to reduce infection with bacterial, viral and fungal agents. The duration of this patent is until April 22, 2014, subject to patent term extension for clinical trial time.

• Patent No. 5,674,537: “An Electrolyzed Saline Solution Containing Concentrated Amount of Ozone and Chlorine Species”

This patent covers a specific electrolyzed saline solution containing a regulated amount of microbicidal agents including ozone and active chlorine species. This solution is intended for use in the treatment of infections in the body of humans and other warm blooded animals, or in blood or blood products. The duration of this patent is until October 7, 2014, subject to patent term extension for clinical trial time.

• Patent No. 5,731,008: “Electrically Hydrolyzed Salines as Microbicides”

This patent covers a method of using a specific electrolyzed saline solution containing a regulated amount of microbicidal agents including ozone and active chlorine species for the treatment of microbial infections, including HIV infection. The method includes intravenous administration of the solution along with one or more modulating agents such ascorbic acid (Vitamin C), with or without concurrent colchicine. The duration of this patent is until May 23, 2010, subject to patent term extension for clinical trial time.

• Patent No. 6,007,686: “System for Electrolyzing Fluids for Use as Antimicrobial Agents”

This patent covers a system for electrolyzing fluids, such as a saline solution, for use in sterilizing dental and medical instruments and other health care equipment. The patent covers the necessary equipment for generating and circulating the electrolyzed saline solution around the instruments to be sterilized, and includes specific claims for equipment designed for use with dental drill handpieces and flexible tubing. The duration of this patent is until August 26, 2014.

• Patent No. 6,117,285: “System for Carrying Out Sterilization of Equipment”

This patent covers a system for cleaning and sterilizing medical and dental instruments to prevent the spread of infection from one patient to another. The covered system bathes the instrument in an electrolyzed saline solution and causes the solution to flow into and sterilize any openings in the equipment. It includes specific claims for systems designed specifically for the sterilization of dental drills and flexible tubing. The duration of this patent is until August 26, 2014.

The Japanese and Mexican patents provide coverage in those countries for various of the U.S. patents. We also have pending applications with the US Patent and Trademark Office for patents on MDI-P as a pharmaceutical treatment for cystic fibrosis, sepsis and asthma.

SaveCream and Related Technologies.

The assets we purchased from Savethearpeutics A.G. included the following patents and patent applications:

• “Medicament for Preventing and/or Treating a mammary Carcinoma Containing a Steroidal Aromatase Inhibitor”

• “Aromatase Marking”

• “Topical Treatment for Mastalgia”

The purchased assets also include U.S. patents on cosmetic products and various international patent applications.

We are in the process of transferring the patents and applications to MDI’s subsidiary. At the time we purchased SaveCream and the other intellectual property assets from SaveT, SaveT had not yet obtained and filed with the appropriate patent offices assignments of the various inventors’ rights to the underlying

inventions. Each of those inventors has agreed and is contractually bound to assign such rights. We are currently in the process of securing the applicable assignments. However, we may need to initiate litigation against the inventors to secure such assignments.

COMPETITION

The biotechnology and pharmaceutical industries are characterized by rapidly evolving technologies and intense competition. Our competitors include major pharmaceutical, and specialized biotechnology companies, many of which have financial, technical, and marketing resources significantly greater than ours. 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 our 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 us in recruiting and retaining highly qualified scientific personnel.

If and when we obtain regulatory approval for any of the potential uses of our technology which require them, we 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 our technology 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 we are able to obtain approval for the commercialization of our technology. 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 our technology will be competitive if and when introduced into the marketplace for any of its possible uses.

GOVERNMENT REGULATIONS

Overview. Our use of MDI-P and SaveCream as pharmaceuticals is subject to extensive regulation by United States and foreign governmental authorities. In particular, pharmaceutical treatments are subject to rigorous pre-clinical 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, ongoing compliance with these requirements can require the expenditure of substantial resources. Difficulties or unanticipated costs may be encountered by us in our efforts to secure necessary governmental approvals, which could delay or preclude us from marketing MDI-P or SaveCream.

FDA. The FDA imposes substantial requirements upon and conditions precedent to the introduction of therapeutic drug products, such as MDI-P or SaveCream, through lengthy and detailed laboratory and clinical testing procedures, sampling activities and other costly and time consuming procedures to demonstrate that such products are both safe and effective in treating the indications for which approval is sought. After testing in animals, an Investigational New Drug, or IND, application must be filed with the FDA to obtain authorization for human testing. When the clinical testing has been completed and analyzed, final manufacturing processes and procedures are in place, and certain other required information is available to the manufacturer, a manufacturer may submit a new drug application, or NDA, to the FDA. No action can be taken to market any therapeutic drug product in the United States until an NDA has been approved by the FDA.

The IND process in the United States is governed by regulations established by the FDA which strictly control the use and distribution of investigational drugs in the United States. The guidelines require that an application contain sufficient information to justify administering the drug to humans, that the application include relevant information on the chemistry, pharmacology and toxicology of the drug derived from chemical, laboratory and animal or *in vitro* testing, and that a protocol be provided for the initial study of the new drug to be conducted on humans.

In order to conduct a clinical trial of a new drug in humans, a sponsor must prepare and submit to the FDA a comprehensive IND. The focal point of the IND is a description of the overall plan for investigating the drug product and a comprehensive protocol for each planned study. The plan is carried out in three phases: Phase I clinical trials, which involve the administration of the drug to a small number of healthy subjects to determine safety, tolerance, absorption and metabolism characteristics; Phase II clinical trials, which involve the administration of the drug to a limited number of patients for a specific disease to determine dose response, efficacy and safety; and Phase III clinical trials, which involve the study of the drug to gain confirmatory evidence of efficacy and safety from a wide base of investigators and patients.

Phase I testing typically takes at least one year, Phase II trials typically take from 1½ to 2½ years, and Phase III trials generally take from 2 to 5 years to complete. Should the FDA grant "fast-track" status to MDI-P based upon its safety profile and early signs of efficacy in Phase I clinical trials, the overall timeline for completion of Phase II-III clinical trials can be compacted to as little as 2-3 years. We can give no assurance that Phase I, Phase II or Phase III testing for MDI-P or SaveCream will be completed successfully within any specified time period, if at all. While we are hopeful that "fast-track" status might be provided MDI-P, there is no assurance that such status will, in fact, be provided. Furthermore, the FDA may suspend clinical trials at any time if the patients are believed to be exposed to a significant health risk.

An investigator's brochure must be included in the IND and the IND must commit the sponsor to obtain initial and continual review and approval of the clinical investigation. A section describing the composition, manufacture and control of the drug substance and the drug product is included in the IND. Sufficient information is required to be submitted to assure the proper identification, quality, purity and strength of the investigational drug. A description of the drug substance, including its physical, chemical, and biological characteristics, must also be included in the IND. The general method of preparation of the drug substance must be included. A list of all components including inactive ingredients must also be submitted. There must be adequate information about pharmacological and toxicological studies of the drug involving laboratory animals and *in vitro* tests on the basis of which the sponsor has concluded that it is reasonably safe to conduct the proposed clinical investigation. Where there has been widespread use of the drug outside of the United States or otherwise, it is possible in some limited circumstances to use well documented clinical experience as a substitute for other pre-clinical work.

The FDA typically takes several months to consider and act on an IND application. We can give no assurance that our IND application will be approved or, if approved following comments or subject to modifications, the length of FDA approval time.

After the FDA approves the IND, the investigation is permitted to proceed, during which the sponsor must keep the FDA informed of new studies, including animal studies, make progress reports on the study or studies covered by the IND, and also be responsible for alerting FDA and clinical investigators immediately of unforeseen serious side effects or injuries.

When all clinical testing has been completed and analyzed, final manufacturing processes and procedures are in place, and certain other required information is available to the manufacturer, a manufacturer may submit an NDA to the FDA. An NDA must be approved by the FDA covering the drug before its manufacturer can commence commercial distribution of the drug. The NDA contains a section describing the clinical investigations of the drug which section includes, among other things, the following: a description and analysis of each clinical pharmacology study of the drug; a description and analysis of each controlled clinical study pertinent to a proposed use of the drug; a description of each uncontrolled clinical study including a summary of the results and a brief statement explaining why the study is classified as uncontrolled; and a description and analysis of any other data or information relevant to an evaluation of the safety and

effectiveness of the drug product obtained or otherwise received by the applicant from any source foreign or domestic. The NDA also includes an integrated summary of all available information about the safety of the drug product including pertinent animal and other laboratory data, demonstrated or potential adverse effects of the drug, including clinically significant potential adverse effects of administration of the drug contemporaneously with the administration of other drugs and other related drugs. A section is included describing the statistical controlled clinical study and the documentation and supporting statistical analysis used in evaluating the controlled clinical studies.

Another section of the NDA describes the data concerning the action of a drug in the human body over a period of time and data concerning the extent of drug absorption in the human body or information supporting a waiver of the submission of such data. Also included in the NDA is a section describing the composition, manufacture and specification of the drug substance including the following: a full description of the drug substance, its physical and chemical characteristics; its stability; the process controls used during manufacture and packaging; and such specifications and analytical methods as are necessary to assure the identity, strength, quality and purity of the drug substance as well as the availability of the drug products made from the substance. NDAs contain lists of all components used in the manufacture of the drug product and a statement of the specifications and analytical methods for each component. Also included are studies of the toxicological actions of the drug as they relate to the drug's intended uses.

The data in the NDA must establish that the drug has been shown to be safe for use under its proposed labeling conditions and that there is substantial evidence that the drug is effective for its proposed use(s). Substantial evidence is defined by statute and FDA regulation to mean evidence consisting of adequate and well-controlled investigations, including clinical investigations by experts qualified by scientific training and experience, to evaluate the effectiveness of the drug involved. We can give no assurance that even if we complete clinical testing that our NDA will be approved.

RESEARCH AND DEVELOPMENT

Our research and development efforts to date have consisted primarily of pre-clinical development of and preparing applications for regulatory approvals for MDI-P for our initial target indications, HIV and Cystic Fibrosis. Our research and development is accomplished by outside scientific researchers under the coordination of Craig Palmer, Ph.D. During the fiscal year ended December 31, 2004, we spent $550,093 on research and development of MDI-P. During fiscal 2003, we spent $100,423 on research and development. From inception through December 31, 2004, we have recorded $3,548,738 in research and development expenses. We are actively pursuing our research efforts of MDI-P and are in the process of establishing a commercialization plan for SaveCream. See "Business Strategy" above.

EMPLOYEES

We currently have two employees, our President and CEO, Judy M. Robinett, and our controller. We have engagements with a number of consultants for communications, investor relations, website development, accounting and other services. Over the past several years, our priority has been the advancement of our therapeutic technology through pre-clinical development and all capital resources have been devoted in that direction. At such time as capital resources permit, we will hire a larger full-time staff of employees.

SCIENTIFIC ADVISORY BOARD

We have a scientific advisory board consisting of the following individuals:

Bruce I. Dezube, M.D.
Director of AIDS Oncology, Beth Israel Deaconess Medical Center, Boston
Associate Professor of Medicine, Harvard Medical School

We retained Dr. Dezube to oversee medical testing, FDA protocol alignment and approvals planning for MDI-P. Dr. Dezube will be the principal investigator for our IND in HIV. Dr. Dezube is a member of the

AIDS Clinical Trial Group (ACTG) where he is principal investigator in more than seven studies involving the testing and evaluation of interferon and newer anti-HIV agents. Additionally, Dr. Dezube has been involved in industry-sponsored studies of other anti-HIV agents, assisting with required FDA approvals. In one such action, Dr. Dezube assisted Fuji Immuno Pharmaceuticals, Inc. in receiving the quickest FDA approval for Phase 1 clinical trials ever granted an anti-HIV drug. Dr. Dezube received his M.A. from Harvard University and his M.D. from Tufts University. Dr. Dezube was a research fellow in hematology and oncology and is board certified in internal medicine, hematology, and oncology.

Robert A. Mastico, Ph.D.
Physical Chemist, Independent Consultant

Dr. Mastico specializes in the chemistry, manufacturing and control of new drug substances required for FDA approval. He has experience submitting INDs to the FDA, handling the manufacturing and analytical data (CMC section) for investigational therapeutics. We have retained Dr. Mastico to determine the chemical characterization requirements for MDI-P, and for planning and compliance with all FDA and other required certifications involving chemical analyses. Dr. Mastico received his Ph.D. from the University of Leeds in genetic biochemistry and has fifteen years experience in the fields of biotherapeutics and pharmaceutical production.

Craig R. Palmer, Ph.D.
Principal, Palmer Capital Group, LLC

Dr. Palmer has served over the past twenty years as a strategic financial advisor to a wide variety of technology platform and biotech companies in their capital formation, management and product licensing arenas. We have retained Dr. Palmer to assist us in managing the pre-clinical and clinical development of MDI-P as well as commercialization. He serves as a director on several biotech and biomedical companies, and has successfully licensed major ethical drugs and biomedical devices. Prior to his involvement as a Principal in Palmer Capital Group LLC, and its predecessor The Palmer Group, he served as a manager and principal in the consulting operations of Ernst & Young (10 years), followed by a brief stint as a VP of Investments for a regional bank and its SBIC. Dr. Palmer has assisted a number of his clients in securing underwriters for their IPOs or secondary offerings. He has also assisted several clients in establishing major strategic partnerships for product development. Dr. Palmer received his Ph.D. from the University of Washington.

ORGANIZATIONAL HISTORY

Medical Discoveries, Inc. was incorporated under the laws of the State of Utah on November 20, 1991. Effective as of August 6, 1992, the Company merged with and into WPI Pharmaceutical, Inc., a Utah corporation (WPI), pursuant to which WPI was the surviving corporation. Pursuant to the MDI-WPI merger, the name of the surviving corporation was changed to Medical Discoveries, Inc. WPI was incorporated under the laws of the State of Utah on February 22, 1984 under the name Westport Pharmaceutical, Inc. Effective as of May 8, 1984, Westport Pharmaceutical, Inc. merged with and into Euripides Technology, Inc., a Utah corporation (Euripides), pursuant to which Euripides was the surviving corporation. Pursuant to the Westport-Euripides merger, the name of the surviving corporation was changed to Westport Pharmaceutical, Inc. Westport Pharmaceutical, Inc. subsequently changed its name to WPI Pharmaceutical, Inc. Euripides was incorporated under the laws of the State of Utah on November 9, 1983.

On July 6, 1998, we incorporated a wholly-owned subsidiary, Regenere, Inc., in the State of Nevada. On October 2, 1998, we incorporated another wholly-owned subsidiary, MDI Healthcare Systems, Inc., in the State of Nevada. Both subsidiaries were incorporated to undertake special purposes, neither of which were pursued by us in recent years. As of December 31, 2003, we dissolved those subsidiaries.

On March 22, 2005, we formed MDI Oncology, Inc., a Delaware corporation, as a wholly-owned subsidiary to acquire and operate the assets and business associated with the Savetherapeutics transaction.

We file annual, quarterly, and current reports, proxy statements, and other information with the Securities and Exchange Commission. You may read and copy any reports, statements, or other information that we file at the Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330 for further information on the Public Reference Room. The Commission also maintains an Internet site (http://www.sec.gov) that makes available to the public reports, proxy statements, and other information regarding issuers, such as us, that file electronically with the Commission. Reports, proxy statements and other information concerning us can be inspected and copied at the Public Reference Room of the National Association of Securities Dealers, 1735 K Street, N.W., Washington, D.C. 20006. We are not required to deliver annual reports to security holders, but we plan to deliver an annual report to all shareholders this year prior to our annual meeting of shareholders.

ITEM 2. *DESCRIPTION OF PROPERTY.*

We do not currently own or lease any real property. Currently, we operate out of the President and CEO's home office. We do not pay any rent to the President and CEO. Over the past several years, our priority has been the advancement of our therapeutic technology through pre-clinical development and all capital resources have been devoted in that direction. At such time as capital resources permit, we will lease dedicated office and laboratory space.

ITEM 3. *LEGAL PROCEEDINGS.*

None.

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. *MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.*

MARKET INFORMATION

Our common stock is traded on the NASD OTC Bulletin Board under the symbol "MLSC." The following table sets forth the range of bid quotations for our common stock for the quarters indicated according to data provided by The NASDAQ Stock Market, Inc. Such quotations reflect inter-dealer prices, without retail mark-ups, markdowns or commissions, and may not represent actual transactions.

Fiscal Year Ended December 31, 2004	**High Bid**	**Low Bid**
First Quarter	$ 0.170	$ 0.100
Second Quarter	0.300	0.115
Third Quarter	0.301	0.150
Fourth Quarter	0.260	0.180

Fiscal Year Ended December 31, 2003	**High Bid**	**Low Bid**
First Quarter	$ 0.085	$ 0.035
Second Quarter	0.090	0.055
Third Quarter	0.075	0.045
Fourth Quarter	0.395	0.060

SHAREHOLDERS

The approximate number of shareholders of record of our common stock as of March 16, 2005 was 1,458. This number does not include shareholders whose shares are held in securities position listings.

DIVIDENDS

We have never paid any cash dividends on our common stock and do not anticipate paying dividends in the foreseeable future. We presently intend to retain any future earnings for financing our growth and expansion.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table contains information regarding our equity compensation plans as of December 31, 2004.

Plan Category	Number of Securities to Be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in the First Column)
Equity compensation plans approved by security holders			
1993 Incentive Plan	3,483,000	$ 0.14	-0-
2002 Stock Incentive Plan	16,000,000	$ 0.02	4,700,000
Equity compensation plans not approved by security holders	—	—	—
Total	19,483,000	$ 0.04	4,700,000

UNREGISTERED SALES OF SECURITIES

We sold the following unregistered securities in the past three years. None of the sales involved an underwriter. We believe these sales were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 because the sales did not involve a public offering.

- On or about March 14, 2005, we sold 30,000 shares of Preferred Stock and warrants to purchase 22,877,478 shares of common stock for a total offering price of $3 million. Each share of Preferred Stock entitles the holder to convert the share of Preferred Stock into the number of shares of common stock resulting from multiplying $100 by the conversion price. The conversion price is 75% of the average of the lowest three intra-day trading prices for the Company's common stock during the 10 trading days immediately preceding the conversion date, but the conversion price may not exceed $0.1967. The number of shares of common stock subject to the warrants and the exercise price are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. The warrants entitle the holder to purchase up to 22,877,478 shares of common stock of the Company on or before the third anniversary of the issuance date of the warrants at $0.1967 per share. The number of shares of common stock subject to the warrants and the exercise price are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. In connection with this financing, we issued to a placement agent warrants that entitle the holder to purchase up to 1,220,132 shares of common stock of the Company on or before the third anniversary of the issuance date of the warrants at $0.1967 per share.
- On or about October 18, 2004, we sold 12,000 shares of Preferred Stock and warrants to purchase 4,575,496 shares of common stock for a total offering price of $1.2 million. Each share of

Preferred Stock entitles the holder to convert the share of Preferred Stock into the number of shares of common stock resulting from multiplying $100 by the conversion price. The conversion price is 85% of the average of the lowest three intra-day trading prices for the Company's common stock during the 10 trading days immediately preceding the conversion date, but the conversion price may not exceed $0.1967 or be lower than $0.05. The number of shares of common stock subject to the warrants and the exercise price are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. The warrants entitle the holder to purchase up to 4,575,496 shares of common stock of the Company on or before the third anniversary of the issuance date of the warrants at $0.1967 per share. The number of shares of common stock subject to the warrants and the exercise price are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. In connection with this financing, we issued to a placement agent 350,000 shares of restricted common stock and warrants that entitle the holder to purchase up to 488,052 shares of common stock of the Company on or before the third anniversary of the issuance date of the warrants at $0.1967 per share.

- During 2004 we sold 5,551,011 shares of restricted common stock at $0.18 per share to various private investors pursuant to a private placement, further terms of which are disclosed in Form D filed with the Commission.
- During 2004 we sold 714,286 shares of restricted common stock at $0.14 per share to various private investors pursuant to a private placement, further terms of which are disclosed in Form D filed with the Commission.
- During 2004 we sold 2,272,727 shares of restricted common stock at $0.11 per share to various private investors pursuant to a private placement, further terms of which are disclosed in Form D filed with the Commission.
- During 2004 we sold 11,600,000 shares of restricted common stock at $0.04 per share to various private investors pursuant to a private placement, further terms of which are disclosed in Form D filed with the Commission.
- During 2004 we issued 9,875,951 shares of common stock upon conversion of certain promissory notes with an aggregate outstanding principal and interest amount of $650,468.
- During 2004 we issued 1,189,465 shares of restricted common stock in lieu of cash finders' fees in connection with equity financings.
- During the fourth quarter of 2003, we sold 26,862,500 shares of restricted common stock at $0.04 per share to various private investors pursuant to a private placement, further terms of which are disclosed in Form D filed with the Commission.
- $195,000 secured promissory note dated February 20, 2003, bearing interest at the rate of 12%.
- $25,000 secured promissory note dated October 25, 2002, bearing interest at the rate of 15%, 12% of which is payable in cash and 3% of which is payable in common stock at a rate equal to the 15-day average market price determined at the date of maturity.
- $125,000 secured promissory note dated October 24, 2002, bearing interest at the rate of 15%, 12% of which is payable in cash and 3% of which is payable in common stock at a rate equal to the 15-day average market price determined at the date of maturity. This note has subsequently been retired.
- $50,000 secured promissory note dated October 24, 2002, bearing interest at the rate of 15%, 12% of which is payable in cash and 3% of which is payable in common stock at a rate equal to the 15-day average market price determined at the date of maturity.
- $50,000 unsecured convertible promissory note dated February 8, 2002, bearing interest at the rate of 18%, convertible to common stock of the Company at the rate of $0.06 per share. This note was subsequently refinanced with a 15% interest rate.

- $50,000 unsecured convertible promissory note dated April 8, 2002, bearing interest at the rate of 18%, convertible to common stock of the Company at the rate of $0.06 per share. This note was subsequently refinanced with a 15% interest rate.
- $50,000 unsecured convertible promissory note dated July 12, 2002, bearing interest at the rate of 18%, convertible to common stock of the Company at the rate of $0.06 per share. This note was subsequently refinanced with a 15% interest rate.
- $50,000 unsecured convertible promissory note dated April 21, 2002, bearing interest at the rate of 18%, convertible to common stock of the Company at the rate of $0.125 per share. This note was subsequently refinanced with a conversion rate of $0.06 per share.
- $55,000 unsecured convertible promissory note dated February 22, 2002, bearing interest at the rate of 18%, convertible to common stock of the Company at the rate of $0.125 per share. This note was subsequently refinanced with a conversion rate of $0.06 per share.

ITEM 6. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.*

The purpose of this section is to discuss and analyze our consolidated financial condition, liquidity and capital resources, and results of operations. This analysis should be read in conjunction with the financial statements and notes thereto at pages 27 through 43.

This section contains certain forward-looking statements that involve risks and uncertainties, including statements regarding our plans, objectives, goals, strategies and financial performance. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of factors set forth under "Cautionary Statement for Forward-Looking Information and Factors Affecting Future Results" below and elsewhere in this report.

RESULTS OF OPERATIONS

Revenues and Gross Profit. We booked no revenues for the year ended December 31, 2004 or for the prior year ended December 31, 2003. As we continue to pursue pre-clinical and clinical testing of our pharmaceuticals, we do not anticipate booking significant revenues in the near future.

Operating Expenses and Operating Loss. We booked $550,093 in research and development expenses during the year ended December 31, 2004, as compared with $100,423 in such expenses for the same period in 2003. Our increased research and development activity reflects our success is raising capital to fund pre-clinical studies of MDI-P. We have continued to be successful in raising capital in 2005 and will likely incur substantially higher research and development expenses during 2005. Our general and administrative expenses were $3,057,429 in 2004, as compared with $1,206,484 during the year ended December 31, 2003. Of that amount, we recorded non-cash charges of $1,741,501 for stock and stock options issued for services, expenses and interest. As a result of the foregoing, we sustained an operating loss of $3,607,522 for the year ended December 31, 2004, as compared with a loss of $1,306,907 for the same period of 2003.

Other Income/ Expense and Net Loss. We recorded other income during 2004 in the amount of $1,408. During 2003, we recorded $611,558 in other income, $610,828 of which was on account of writing off certain liabilities from our balance sheet. We incurred interest expenses of $131,526 in 2004, as compared with $256,694 in such expenses in 2003. Our interest expenses have decreased as we have paid down or converted to equity relatively short-term, high-interest debt incurred in past periods in order to finance operations, research and development. We also recorded $6,165 in interest income in 2004. In sum, our net loss available to common stockholders for 2004 was $4,423,674, or a loss of approximately $0.05 per fully diluted share. In 2003, we sustained a net loss of $952,043, or a loss of approximately $0.02 per fully diluted share.

Income Taxes. We have available net operating losses of approximately $12,830,000 which can be utilized to offset future earnings. See Note C to the Financial Statements for a further explanation of this analysis.

Future Commitment and Expectations. We expect to operate at a loss for several more years while we continue to study, gain regulatory approval of and commercialize our technologies. We will spend more in 2005 in research and development expenses as we continue to implement our commercialization strategy. Similarly, we expect our general and administrative expenses to increase in 2005 as we assimilate the Savetherapeutics assets into our organization and commercialize SaveCream. As a result, we may sustain a greater net loss in 2005, than we have in recent years.

Recently Issued Accounting Statements. In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment," which is an amendment to SFAS No. 123, "Accounting for Stock-Based Compensation." This new standard eliminates the ability to account for share-based compensation transactions using Accounting Principles Board (APB) No. 25, "Accounting for Stock Issued to Employees" (APB 25) and requires such transactions to be accounted for using a fair-value-based method and the resulting cost recognized in the Company's financial statements. This new standard is effective for interim and annual periods beginning after June 15, 2005. The Company intends to implement SFAS No. 123 in the third quarter of 2005 and it will not currently have any effect on the Company's financial statements.

In December 2004, the FASB issued SFAS Statement No. 153, "Exchanges of Non-monetary Assets — an amendment of APB Opinion No. 29' This Statement amends APB Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Statement will be effective in January 2006. The Company does not expect that the adoption of SFAS No. 153 will have a material impact on its Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2004, we had $1,455,397 in cash and had a working capital deficit of $1,887,136. Since our inception, we have financed our operations primarily through private sales of equity and the issuance of convertible and non-convertible notes. We will require significant additional funding to continue to develop, research and seek regulatory approval of our technologies. We do not currently generate any cash from operations and have no credit facilities in place or available. Currently, we are funding operations through issuances of private equity.

We are seeking to raise substantial additional funds in private stock offerings in order to meet our mid-term funding requirements. While we are optimistic that we can raise such funds, we have not always been successful in doing so in recent years. Given that we are still in an early development stage and do not have revenues from operations, raising equity financing is difficult. In addition, any additional equity financing will have a substantial dilutive effect to our current shareholders.

Pursuant to our commercialization strategy, we estimate we will need to expend an additional $550,000 in research and development to conduct additional pre-clinical testing and gain acceptance of our IND as a therapy for Cystic Fibrosis. (See "Description of Business — Commercialization Strategy" above.) In addition, we estimate we will need to expend an additional $300,000 to $350,000 in debt service and general and administrative costs between now and when we hope to receive acceptance of that IND in Q4 2005. Assuming that IND is accepted, we estimate we will need to expend an additional $830,000 in conducting Phase I clinical trials (including general and administrative expenses through our projected completion date of such trials in Q1 of 2006). Additionally, upon acceptance of the Cystic Fibrosis IND, we estimate we will need to expend an additional $300,000 in completing and filing our IND for HIV. Therefore, in total, in order to advance MDI-P through our immediate developmental goals, we estimate to incur expenses of $1,980,000 to $2,030,000. As of the date of this report, we nearly have adequate cash for these purposes. However, we have not yet completed our commercialization strategy for SaveCream or our projections of the associated costs. Clearly, therefore, the near-term costs of advancing MDI-P and SaveCream to the next developmental milestones and funding the remaining €1,850,000 of our SaveCream purchase price obligation, when taken together, exceed our current cash.

Furthermore, we estimate the cost to complete Phase II clinical trials in any one indication to be several million dollars and the cost to complete Phase III testing and obtain approval of an NDA to be in the tens of millions of dollars. While our ability to obtain financing may improve as we continue to advance our technologies, we cannot give assurances that we will have the access to the significant capital required to take a drug through regulatory approvals and to market. We may seek a partner in the global pharmaceutical industry to help us co-develop, license, or even purchase some or all of our technologies.

OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements as defined in Item 303(c) of Regulation S-B.

FOREIGN CURRENCY RISK

The Company bears foreign currency exchange risk because our remaining purchase price obligation for the Savetherapeutic assets is stated in Euros.

CAUTIONARY STATEMENT FOR FORWARD LOOKING INFORMATION AND FACTORS AFFECTING FUTURE RESULTS

Certain information set forth in this report contains “forward-looking statements” within the meaning of federal securities laws. Forward looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, and financing needs and other information that is not historical information. When used in this report, the words “estimates,” “expects,” “anticipates,” “forecasts,” “plans,” “intends,” “believes” and variations of such words or similar expressions are intended to identify forward-looking statements. Additional forward-looking statements may be made by us from time to time. All such subsequent forward-looking statements, whether written or oral and whether made by us or on our behalf, are also expressly qualified by these cautionary statements.

Our forward-looking statements are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith and are believed by us to have a reasonable basis, including without limitation, our examination of historical operating trends, data contained in our records and other data available from third parties, but there can be no assurance that our expectations, beliefs and projections will result or be achieved or accomplished. Our forward-looking statements apply only as of the date made. We undertake no obligation to publicly update or revise forward-looking statements which may be made to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events. There are a number of risks and uncertainties that could cause actual results to differ materially from those set forth in, contemplated by, or underlying the forward-looking statements contained in this report. In addition to the other factors and matters discussed elsewhere in this report, the following factors are among the factors that could cause actual results to differ materially from the forward-looking statements. Any forward-looking statements made by us or on our behalf should be considered in light of these factors.

We Are A Development-Stage Company That Has Not Yet Commercialized A Product. We have not commercialized MDI-P, SaveCream or any other product and our failure to commercialize our drugs would likely cause us to cease operations. While we believe MDI-P and SaveCream may have very broad commercial applications, we do not have any other products under development, nor do we have scientific personnel on staff to develop any further technologies. While our pre-clinical studies of MDI-P and SaveCream to date have been quite favorable, there is no certainty that our drugs will be successful. The results of our pre-clinical studies may not be indicative of future clinical trials. Moreover, unacceptable side effects could occur at any time in the course of human trials or, if our drugs are approved for sales, during commercial use. Even if our drugs do prove to be safe and effective and receive regulatory approvals, we may be unable to successfully.

We Have Incurred Substantial Losses Since Our Inception And May Continue To Operate At A Loss. We have experienced net losses in each twelve-month period since inception, with a retained deficit of

approximately $20,753,510 as of December 31, 2004. Our losses from operations in 2004 were $3,731,475 and our cumulative losses from operations since inception through December 31, 2004 were $18,661,734. We will likely continue to experience a net operating loss until, and if, we can fully commercialize our technologies, which may not be for several years. We are presently investing all of our resources in the testing, development and commercialization of MDI-P and Save-Cream. If MDI-P and SaveCream do not generate revenues or if the revenues do not exceed the costs of research, development, testing, regulatory approval and other costs, then we may never realize a profit from operations.

We May Not Be Able To Raise Sufficient Capital To Meet Present And Future Obligations. As of December 31, 2004, our current liabilities exceeded our current assets by $1,887,136 and we had cash of only $1,455,397. We need substantial additional capital to fund regulatory approvals and to fully commercialize our technologies. We do not anticipate that revenues will satisfy these capital requirements. Furthermore, we may not to be able to obtain the amount of additional capital needed or may be forced to pay an extremely high price for capital.

The timing and amount of our future capital requirements will depend on many factors, including, without limitation the following:

- our ability to raise additional funding and the amounts raised, if any;
- the time and costs involved in obtaining regulatory approvals;
- the results of pre-clinical studies and clinical trials;
- the cost of manufacturing scale-up;
- competing technological and market developments;
- the costs of filing, prosecuting and enforcing patent claims; and
- the effectiveness of our commercialization activities.

Factors affecting the availability and price of capital may include, without limitation, the following:

- market factors affecting the availability and cost of capital generally;
- our performance;
- the size of our capital needs;
- the market's perception and acceptance of our technologies;
- the price, volatility and trading volume of our common shares; and
- the effect of the exercise of outstanding options and warrants exercisable into approximately 58 million shares of common stock.

If we are unable to obtain sufficient capital or are forced to pay a high price for capital, we may be unable to complete testing, regulatory approval and commercialization of our technologies and may never achieve consistent revenues or profitability. In addition, because of their size, resources and other factors, our competitors may have better access to capital than we do and, as a result, may be able to exploit opportunities more rapidly, easily or thoroughly than we can.

*Our Independent Auditors Have Expressed Substantial Doubt As To Our Ability To Continue As A Going Concern.*Our auditors have expressed substantial doubt about our ability to continue as a going concern because of our recurring losses from our development-stage activities in current and prior years. We have not generated any significant revenues to date. We expect to continue to incur substantial net operating losses over the next several years. We may not be able to generate sufficient revenues to become profitable and do not expect to generate any revenues for several years. We struggle with operating and liquidity issues due to our negative cash flows from operations and we have had difficulty in the past with raising capital. As a result of these and other factors, our independent auditors have expressed substantial doubt about our ability to

continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Our Operations Are And Will Be Subject To Extensive Regulation. Our use of MDI-P and SaveCream in the treatment of humans is subject to extensive regulation by United States and foreign governmental authorities. In particular, pharmaceutical treatments are subject to rigorous pre-clinical 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, ongoing compliance with these requirements can require the expenditure of substantial resources. Difficulties or unanticipated costs may be encountered by us in our efforts to secure necessary governmental approvals, which could delay or preclude us from marketing our products.

Our Products Will Be Exposed To Pricing And Reimbursement Risks. Our ability to earn revenue will depend in part on the extent to which reimbursement for the costs of the products and related treatments will be available from government health administration authorities, private health coverage and managed care organizations. Third-party payers are increasingly challenging the prices of drugs and medical services. If purchasers or users of MDI-P or SaveCream are not able to obtain adequate reimbursement, they may forego or reduce their use.

We Face Intense Competition And Competing Products. Competition in the markets for MDI-P and SaveCream is intense and will likely further intensify. The biotechnology and pharmaceutical industries are characterized by rapidly evolving technologies and intense competition. Our competitors include major pharmaceutical, and specialized biotechnology companies, many of which have financial, technical, and marketing resources significantly greater than ours. 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 our 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 us in recruiting and retaining highly qualified scientific personnel.

If and when we obtain regulatory approval for any of the potential uses of our technology which require them, we 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 our technology 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 we are able to obtain approval for the commercialization of our technology. 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.

Our Intellectual Property May Not Be Adequately Protected. We rely heavily on our patent protection to prevent others from using the human therapeutic applications of our technology. It is our policy to protect our intellectual property and proprietary technologies by, among other means, filing patent applications to protect technology that we consider important to the development of our business. We also rely on trade secrets and improvements, unpatented know-how, and continuing technological innovation to develop and maintain our competitive position. Despite our policy to seek patent protection wherever appropriate, we cannot be sure that our patent applications will result in further patents being issued or that, if issued, the patents will afford protection against competitors with similar technology. While we have obtained several United States patents, persons in jurisdictions outside of the United States in which no application has been filed, or which do not honor United States patents, may develop and market infringing technologies. Also, the cost of enforcing

patents outside of North America, as well as other obstacles, may limit our ability to enforce any patents outside of the United States. Finally, our products and processes may infringe on patents of others. If relevant claims of third-party patents are upheld as valid and enforceable, we could be prevented from practicing the subject matter claimed in the claims, or be required to obtain licenses or redesign our products or processes to avoid infringement.

We May Need to Litigate to Secure Our Rights to SaveCream And Related Assets. At the time we purchased SaveCream and the other intellectual property assets from Savethearpeutics A.G. (SaveT), SaveT had not yet obtained and filed with the appropriate patent offices assignments of the various inventors' rights to the underlying inventions. Each of those inventors has agreed and is contractually bound to assign such rights. We are currently in the process of securing the applicable assignments. However, we may need to initiate litigation against the inventors to secure such assignments.

We Face Significant Product Liability. We face an inherent business risk of exposure to product liability and other claims in the event our products results in or is alleged to result in harmful effects. We may not be able to avoid significant liability exposure. We may not have or be able to obtain or maintain sufficient insurance coverage at a reasonable cost. An inability to obtain sufficient insurance coverage at a reasonable cost could prevent or inhibit the commercialization of our technology. Even if we avoid liability exposure, we could incur significant costs that hurt our financial performance. We currently do not have and have not applied for product liability insurance. We intend to purchase product liability insurance prior to commencing clinical trials.

The Market For Our Stock Is Thin And Subject To Manipulation. Our common stock is traded on the NASD OTC Bulletin Board under the symbol "MLSC." The following table sets forth the range of bid quotations for our common stock for the quarters indicated according to data provided by The NASDAQ Stock Market, Inc. Such quotations reflect inter-dealer prices, without retail mark-ups, markdowns or commissions, and may not represent actual transactions.

Period	High Bid	Low Bid
Quarter ended December 31, 2004	$ 0.260	$ 0.180
Quarter ended September 30, 2004	0.301	0.150
Quarter ended June 30, 2004	0.300	0.115
Quarter ended March 31, 2004	0.170	0.100

The Market Price For Our Common Stock Will Likely Be Volatile And May Change Dramatically At Any Time. The market price of our common stock, like that of the securities of other early-stage companies, may be highly volatile. Our stock price may change dramatically as the result of announcements of our quarterly results, the execution or termination of significant customer contracts, significant litigation or other factors or events that would be expected to affect our business or financial condition, results of operations and other factors specific to our business and future prospects. In addition, the market price for our common stock may be affected by various factors not directly related to our business, including the following:

- intentional manipulation of our stock price by existing or future stockholders;
- short selling of our common stock or related derivative securities;
- the interest, or lack of interest, of the market in our business sector, without regard to our financial condition or results of operations;
- the adoption of governmental regulations and similar developments in the United States or abroad that may affect our ability to develop our products or affect our cost structure;
- economic and other external market factors, such as poor economic indicators or investor distrust.

Obtaining Additional Capital Though The Sale Of Common Stock Will Result In Dilution Of Stockholder Interests. We plan to raise additional funds in the future by issuing additional shares of common stock, or securities such as convertible notes, options, warrants or preferred stock that are convertible into

common stock. Any such sale of common stock or other securities will lead to further dilution of the equity ownership of existing holders of our common stock.

We Are Unlikely To Pay Dividends On Our Common Stock In the Foreseeable Future. We have never declared or paid dividends on our stock. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business. We do not anticipate paying any cash dividends in the foreseeable future, and it is unlikely that investors will derive any current income from ownership of our stock. This means that your potential for economic gain from ownership of our stock depends on appreciation of our stock price and will only be realized by a sale of the stock at a price higher than your purchase price.

ITEM 7. ***FINANCIAL STATEMENTS.***

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Accounting Oversight Board

an independent member of
BAKER TILLY
INTERNATIONAL

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Medical Discoveries, Inc. and subsidiaries (a development stage company) as of December 31, 2004, and the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for the year then ended, and for the period from November 20, 1991 (date of inception of the development stage) through December 31, 2004. 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 audit. We did not audit the consolidated financial statements of the Company from November 20, 1991 through December 31, 2003, which statements reflect total revenues and deficit accumulated during the development stage of $157,044 and $14,930,259, respectively. Those statements were audited by other auditors whose report, dated February 18, 2004 (except Note K as to which the date is November 15, 2004), included an explanatory paragraph stating there was substantial doubt regarding the Company's ability to continue as a going concern. Our opinion, insofar as it relates to the consolidated financial statements for the period from November 20, 1991 through December 31, 2003, is based solely on the report of the other auditors.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Medical Discoveries, Inc. and subsidiaries as of December 31, 2004, and the results of their operations and their cash flows for the year then ended and for the period from November 20, 1991 through December 31, 2004, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company is a development stage enterprise engaged in developing bio-pharmaceutical research. As discussed in Note B to the financial statements, the stockholders' deficiency and the operating losses since inception raise substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning these matters are also described in Note B. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/s/ **HANSEN, BARNETT & MAXWELL**

Salt Lake City, Utah
March 28, 2005

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of operations, changes in stockholders' deficit, and cash flows of Medical Discoveries, Inc. and Subsidiaries (a development stage company) for the year ended December 31, 2003, and for the period from inception (November 20, 1991) to December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to report on these consolidated financial statements based on our audit. The Company's financial statements for the period from inception (November 20, 1991) through December 31, 1999 were audited by other auditors whose report, dated March 20, 2000, expressed an unqualified opinion on those statements. The financial statements for the period from inception (November 20, 1991) through December 31, 1999 reflect total revenues and net loss of $150,015 and $9,951,404, respectively, of the related totals. The other auditors' report has been furnished to us, and our report, insofar as it relates to the amounts included for such prior period, is based solely on the report of such other auditors.

We conducted our audit in accordance with U.S. 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 audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, such consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of Medical Discoveries, Inc. and Subsidiaries for the year ended December 31, 2003, and for the period from inception (November 20, 1991) to December 31, 2003, in conformity with U.S. generally accepted accounting principles.

The accompanying 2003 consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company is a development stage enterprise engaged in developing biopharmaceutical research. As discussed in Note B to the financial statements, the stockholders' deficiency and the operating losses since inception raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also described in Note B. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/s/ EIDE BAILLY, LLP (formerly
BALUKOFF, LINDSTROM & CO., P.A. —
joined Eide Bailly November 1, 2004)

Boise, Idaho
February 18, 2004, except Note K as to which the date is November 15, 2004

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED BALANCE SHEET
December 31, 2004

	December 31, 2004
ASSETS	
Current assets	
Cash	$ 1,455,397
Deposit	51,100
Total current assets	1,506,497
Total assets	$ 1,506,497
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current liabilities	
Accounts payable	$ 2,448,454
Accrued interest	415,262
Notes payable	336,717
Convertible notes payable	193,200
Total current liabilities	3,393,633
Stockholders' deficit	
Preferred stock, no par value, 50,000 shares authorized Series A, convertible; 12,000 shares issued and outstanding (aggregate liquidation preference of $1,200,000)	523,334
Common stock, no par value; 250,000 shares authorized; 105,653,335 shares issued and outstanding	14,918,657
Additional paid-in capital	3,424,383
Deficit accumulated prior to the development stage	(1,399,577)
Deficit accumulated during the development stage	(19,353,933)
Total stockholders' deficit	(1,887,136)
Total liabilities and stockholders' deficit	$ 1,506,497

See Notes to Consolidated Financial Statements

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2004 and 2003, and
Cumulative Amounts Since November 20, 1991 (Date of Inception of the Development Stage)

	For the Years Ended December 31,		Cumulative Amounts Since November 20, 1991 (Date of Inception of Development Stage)
	2004	2003	
Revenues	$ —	$ —	$ 157,044
Cost of revenues	—	—	14,564
Gross profit	—	—	142,480
Operating expenses:			
Research and development expenses	550,093	100,423	3,548,738
Inventory write-down	—	—	96,859
Impairment loss	—	—	9,709
License	—	—	1,001,500
General and administrative expenses	3,057,429	1,206,484	15,176,970
Operating loss	(3,607,522)	(1,306,907)	(19,691,296)
Other income (expense)			
Interest income	6,165	—	29,571
Other income	1,408	611,558	881,892
Interest expense	(131,526)	(256,694)	(1,117,437)
Forgiveness of debt	—	—	1,235,536
	(123,953)	354,864	1,029,562
Net loss	(3,731,475)	(952,043)	(18,661,734)
Preferred stock dividend from beneficial conversion feature	(692,199)	—	(692,199)
Net loss applicable to common stockholders	$ (4,423,674)	$ (952,043)	$ (19,353,933)
Basic and diluted loss per share	$ (0.05)	$ (0.02)	
Weighted-average shares outstanding	93,947,646	59,302,562	

See Notes to Consolidated Financial Statements

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
Period From November 20, 1991 (Date of Inception of the Development Stage) through December 31, 2004

	Preferred Stock		Common stock		Additional Paid In Capital	Accumulated Deficit Prior to Development Stage	Deficit Accumulated During the Development Stage	Escrow/ Subscription Receivables	Total
	Shares	Amount	Shares	Amount					
Balance at November 20, 1991 (Date of Inception of the Development Stage)	—	—	11,750,000	$ 135,000	$ —	$ (1,399,577)	$ —	$ —	$ (1,264,577)
Issuance of common stock for:									
Cash									
1992 — $0.50 per share	—	—	200,000	100,000	—	—	—	—	100,000
1992 — $1.50 per share	—	—	40,000	60,000	—	—	—	—	60,000
1993 — $0.97 per share	—	—	542,917	528,500	—	—	—	—	528,500
1994 — $1.20 per share	—	—	617,237	739,500	—	—	—	—	739,500
1995 — $0.67 per share	—	—	424,732	283,200	—	—	—	—	283,200
1996 — $0.66 per share	—	—	962,868	635,000	—	—	—	(60,000)	575,000
1997 — $0.43 per share	—	—	311,538	135,000	—	—	—	60,000	195,000
1998 — $0.29 per share	—	—	2,236,928	650,000	—	—	—	—	650,000
1999 — $0.15 per share	—	—	13,334	2,000	—	—	—	—	2,000
2001 — $0.15 per share	—	—	660,000	99,000	—	—	—	—	99,000
Services and Interest									
1992 — $0.50 per share	—	—	500,000	250,000	—	—	—	—	250,000
1993 — $0.51 per share	—	—	251,450	127,900	—	—	—	—	127,900
1993 — $0.50 per share	—	—	800,000	400,000	—	—	—	—	400,000
1994 — $1.00 per share	—	—	239,675	239,675	—	—	—	—	239,675
1995 — $0.39 per share	—	—	4,333,547	1,683,846	—	—	—	(584,860)	1,098,986
1996 — $0.65 per share	—	—	156,539	101,550	—	—	—	—	101,550
1997 — $0.29 per share	—	—	12,500	3,625	—	—	—	—	3,625
1998 — $0.16 per share	—	—	683,000	110,750	—	—	—	—	110,750
1999 — $0.30 per share	—	—	100,000	30,000	—	—	—	—	30,000
2001 — $0.14 per share	—	—	1,971,496	284,689	—	—	—	—	284,689
2002 — $0.11 per share	—	—	2,956,733	332,236	—	—	—	—	332,236
Conversion of Debt									
1996 — $0.78 per share			239,458	186,958	—	—	—	—	186,958
1997 — $0.25 per share	—	—	100,000	25,000	—	—	—	—	25,000
1998 — $0.20 per share	—	—	283,400	56,680	—	—	—	—	56,680
2002-Debt-$0.03 per share	—	—	17,935,206	583,500	—	—	—	—	583,500
Other Issuances									
1993 — License — $0.50 share	—	—	2,000,000	1,000,000	—	—	—	—	1,000,000
1997 — Settlement of contract	—	—	800,000	200,000	—	—	—	—	200,000
1998 — Issuance of common stock from exercise of warrants, $0.001 per share			200,000	200	—	—	—	—	200
2000 — Reversal of shares issued	—	—	(81,538)	—	—	—	—	—	—

See Notes to Consolidated Financial Statements

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT — (Continued)
Period From November 20, 1991 (Date of Inception of the Development Stage) through December 31, 2004

	Preferred Stock		Common Stock		Additional Paid In Capital	Accumulated Deficit Prior to Development Stage	Deficit Accumulated During the Development Stage	Escrow/ Subscription Receivables	Total
	Shares	Amount	Shares	Amount					
Escrow and Subscription Receivables									
1996 — Common stock canceled — $.34 per share	—	—	(1,400,000)	$ (472,360)	$ —	$ —	$ —	$ 472,360	$ —
2000 — Issuance for escrow receivable $0.09 per share	—	—	5,500,000	500,000	—	—	—	(500,000)	—
2000 — Write-off of subscription receivable	—	—	—	—	—	—	—	112,500	112,500
2000 — Research and development costs	—	—	—	—	—	—	—	115,400	115,400
2001 — Research and development costs	—	—	—	—	—	—	—	132,300	132,300
2001 — Operating expenses	—	—	—	—	—	—	—	25,000	25,000
Exercise of Options and Warrants									
1997 — $0.25 per share	—	—	87,836	21,959	—	—	—	—	21,959
1999 — Waived option price $0.14 per share	—	—	170,000	24,000	—	—	—	—	24,000
Value of Options Issued for Services									
1998	—	—	—	2,336,303	—	—	—	—	2,336,303
1999	—	—	—	196,587	—	—	—	—	196,587
2001	—	—	—	—	159,405	—	—	—	159,405
2002	—	—	—	—	124,958	—	—	—	124,958
Other									
1994 — Cash contributed	—	—	—	102,964	—	—	—	—	102,964
1995 — Issuance of common stock option to satisfy debt restructuring	—	—	—	20,000	—	—	—	—	20,000
Net loss from inception through December 31, 2002	—	—	—	—	—	—	(13,978,216)	—	(13,978,216)
Balance at December 31, 2002	**—**	**—**	55,598,856	11,713,262	284,363	(1,399,577)	(13,978,216)	(227,300)	(3,607,468)
Value of options issued for services	—	—	—	—	295,000	—	—	—	295,000
Issuance of common stock for:									
Cash — $0.04 per share	—	—	20,162,500	790,300	—	—	—	—	790,300
Services and interest — $0.06 per share	—	—	694,739	43,395	—	—	—	—	43,395
Net loss for the year ended December 31, 2003	—	—	—	—	—	—	(952,043)	—	(952,043)
Balance at December 31, 2003	—	—	76,456,095	12,546,957	579,363	(1,399,577)	(14,930,259)	(227,300)	(3,430,816)
Issuance and extension of options for services	—	—	—	—	1,675,000	—	—	—	1,675,000
Termination of escrow agreement	—	—	(2,356,200)	(227,300)	—	—	—	227,300	—
Issuance of preferred stock and warrants for cash (net $130,000, common stock and warrants issued to placement agent)	12,000	523,334	350,000	68,845	477,821	—	—	—	1,070,000
Convertible preferred stock beneficial conversion dividend	—	—	—	—	692,199	—	(692,199)	—	—
Issuance of common stock for:									
Cash $0.09 per share	—	—	20,138,024	1,813,186	—	—	—	—	1,813,186
Debt and interest $0.07 per share	—	—	9,875,951	650,468	—	—	—	—	650,468
Services $0.06 per share	—	—	1,189,465	66,501	—	—	—	—	66,501
Net loss for the year ended December 31, 2004	—	—	—	—	—	—	(3,731,475)	—	(3,731,475)
Balance at December 31, 2004	12,000	$ 523,334	105,653,335	$ 14,918,657	$ 3,424,383	$ (1,399,577)	$ (19,353,933)	$ —	$ (1,887,136)

See Notes to Consolidated Financial Statements

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2004 and 2003, and
Cumulative Amounts Since November 20, 1991 (Date of Inception of the Development Stage)

	For the Year Ended December 31,		Cumulative Amounts Since November 20, 1991 (Date of Inception of Development Stage)
	2004	2003	
Cash flows from operating activities			
Net loss	$ (3,731,475)	$ (952,043)	$ (18,661,734)
Adjustments to reconcile net loss to net cash from operating activities:			
Common stock options issued for services	1,675,000	295,000	4,811,253
Common stock issued for services, expenses, and litigation	66,501	43,395	4,267,717
Reduction of escrow receivable from research and development	—	—	272,700
Reduction of legal costs	—	—	(130,000)
Notes payable issued for litigation	—	—	385,000
Depreciation	—	—	100,271
Write-off of subscription receivables	—	—	112,500
Impairment loss on assets	—	—	9,709
Loss on disposal of equipment	—	—	30,364
Gain on debt restructuring	—	—	(1,235,536)
Write-off of receivables	—	—	193,965
Changes in assets and liabilities			
Prepaid expenses	11,331	24,929	—
Deferred charges	12,077	48,305	—
Accounts receivable	—	—	(7,529)
Inventory	—	—	—
Accounts payable	381,727	(211,311)	2,292,545
Accrued expenses	53,934	176,086	599,709
Net cash from operating activities	(1,530,905)	(575,639)	(6,959,066)
Cash flows from investing activities			
Increase in deposit	(51,100)	—	(51,100)
Purchase of equipment	—	—	(132,184)
Payments received on note receivable	—	—	130,000
Net cash from investing activities	(51,100)	—	(53,284)
Cash flows from financing activities			
Contributed equity	—	—	131,374
Issuance of common stock, preferred stock and warrants	2,883,186	790,300	7,027,845
Payments on notes payable	(270,000)	(25,000)	(501,287)
Proceeds from notes payable	—	220,000	1,336,613
Payments on convertible notes payable	—	—	(98,500)
Proceeds from convertible notes payable	—	—	571,702
Net cash from financing activities	2,613,186	985,300	8,467,747
Net increase in cash	1,031,181	409,661	1,455,397
Cash, beginning of period	424,216	14,555	—
Cash, end of period	$ 1,455,397	$ 424,216	$ 1,455,397
Supplemental disclosure of non-cash activities			
Interest paid	$ 77,592	$ 80,608	
Noncash investing and financing activities			
Retirement of notes payable and interest through issuance of common stock	$ 650,468	—	
Release of shares as part of Perrigrine settlement	$ 227,300	—	
Common stock and warrants issued to placement agent	$ 162,746	—	
Preferred stock dividend as part of beneficial conversion feature	$ 692,199	—	

See Notes to Consolidated Financial Statements

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

NOTE A — SIGNIFICANT ACCOUNTING POLICIES

Medical Discoveries, Inc. ("MDI" or the "Company") was incorporated under the laws of the State of Utah on November 20, 1991. Effective as of August 6, 1992, the Company merged with and into WPI Pharmaceutical, Inc., a Utah corporation ("WPI"), pursuant to which WPI was the surviving corporation. Pursuant to the MDI-WPI merger, the name of the surviving corporation was changed to Medical Discoveries, Inc.

On July 6, 1998, the Company incorporated a wholly owned subsidiary, Regenere, Inc., in the State of Nevada. On October 2, 1998, the Company incorporated another wholly owned subsidiary, MDI Healthcare Systems, Inc., in the State of Nevada. As of December 31, 2003, the Company dissolved those subsidiaries.

On March 22, 2005, the Company formed MDI Oncology, Inc., a Delaware corporation, as a wholly-owned subsidiary to acquire and operate the assets and business associated with the Savetherapeutics transaction, discussed further in Note J.

Principles of Consolidation

The consolidated financial statements include the accounts of Medical Discoveries, Inc. and subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Development Stage Company

The Company has not generated any significant revenue and is, therefore, considered a development stage company as defined in the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 7. The Company has, at the present time, not paid any dividends. Any dividends that may be paid in the future will depend upon the financial requirements of the Company. The primary purpose of the business is the research and development of pharmaceuticals.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments maturing in three months or less to be cash equivalents. At year end, the Company has cash deposits in excess of federally insured limits. The Company had an insured bank balance of $114,564 at December 31, 2004.

Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and the carryforward of operating losses and tax credits and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. An allowance against deferred tax assets is recorded when it is more likely than not that such tax benefits will not be realized. Research tax credits are recognized as utilized.

Research and Development

Research and development has been the principal function of the Company. Expenses in the accompanying financial statements include certain costs which are directly associated with the Company's research and development of the Company's anti-infective pharmaceutical, MDI-P. These costs, which consist primarily of pre-clinical testing activities, amounted to $550,093 and $100,423 and $3,548,738 for the year ended December 31, 2004 and 2003 and for the period November 20, 1991 (date of inception of the development stage) through December 31, 2004, respectively.

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS — (Continued)

Fair Value of Financial Instruments

The Company estimates that the fair value of all financial instruments, at December 31, 2004, do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these financial statements include those assumed in determining the valuation of common stock and stock options. It is at least reasonably possible that the significant estimates used will change within the next year.

Basic and Diluted Loss per Share

Basic loss per share is computed on the basis of the weighted-average number of common shares outstanding during the year. Diluted loss per share is computed on the basis of the weighted-average number of common shares and all dilutive potentially issuable common shares outstanding during the year. Common stock equivalents, stock options and stock warrants have not been included as they are anti-dilutive.

Concentration of Credit

The Company has no significant revenues and, therefore, no significant trade receivables or extensions of credit.

Stock Based Compensation

The Company accounts for its stock-based compensation issued to non-employees using the fair value method in accordance with SFAS No. 123, “Accounting for Stock-Based Compensation.” Under SFAS No. 123, stock-based compensation is determined as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The measurement date for these issuances is the earlier of the date at which a commitment for performance is reached or the date at which the recipient’s performance is complete.

The Company accounts for employee stock option and award plans under the recognition method and measurement principles of APB Opinion No. 25, “Accounting for Stock Issued to Employees,” and the related Interpretations. Under APB Opinion No. 25, compensation related to stock options, if any, is recorded if an option’s exercise price on the measurement date is below the fair value of the Company’s common stock. The compensation is amortized to expense over the vesting period.

These accounting policies resulted in the Company recognizing $1,675,000 and $295,000 in stock-based compensation cost during the years ended December 31, 2004 and 2003. The effect on net loss and

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS — (Continued)

net loss per common share if the Company had applied the fair value recognition provisions of SFAS No. 123 to employee stock-based compensation is as follows:

	Fiscal Year Ended December 31,	
	2004	2003
Net loss applicable to common stockholders, as reported	$ (4,423,674)	$ (952,043)
Add: Stock-based employee compensation expense included in reported net loss	1,675,000	295,000
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards	(1,979,237)	(473,200)
Pro forma net loss applicable to common shareholders	$ (4,727,911)	$ (1,130,243)
Basic and diluted loss per share, as reported	$ (0.05)	$ (0.02)
Basic and diluted loss per share, pro forma	$ (0.05)	$ (0.02)

Recently Issued Accounting Statements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), “Share-Based Payment,” which is an amendment to SFAS No. 123, “Accounting for Stock-Based Compensation.” This new standard eliminates the ability to account for share-based compensation transactions using Accounting Principles Board (APB) No. 25, “Accounting for Stock Issued to Employees” (APB 25) and requires such transactions to be accounted for using a fair-value-based method and the resulting cost recognized in the Company’s financial statements. This new standard is effective for interim and annual periods beginning after June 15, 2005. The Company intends to implement SFAS No. 123 in the third quarter of 2005 and it will not currently have any effect on the Company’s financial statements.

In December 2004, the FASB issued SFAS Statement No. 153, “Exchanges of Non-monetary Assets — an amendment of APB Opinion No. 29’ This Statement amends APB Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Statement will be effective in January 2006. The Company does not expect that the adoption of SFAS No. 153 will have a material impact on its Consolidated Financial Statements.

Reclassifications

Certain 2003 amounts have been reclassified to conform to the 2004 presentation. These reclassifications had no effect on the previously reported net loss.

NOTE B — BASIS OF PRESENTATION AND GOING CONCERN

As shown in the accompanying financial statements, the Company incurred a net loss applicable to common shareholders of $4,423,674 during the year ended December 31, 2004 and has incurred losses applicable to common shareholders since inception of the development stage of $19,353,933. The Company has not had significant revenues and is still in the process of testing and commercializing its technologies. The Company is hopeful, but there is no assurance, that the current product development and research will be economically viable. Those factors raise substantial doubt about the Company’s ability to continue as a going concern.

Management plans to meet its cash needs through the issuance of equity or debt securities and the potential licensure of its technologies. The ability of the Company to continue as a going concern is dependent

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS — (Continued)

on that plan's success. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

NOTE C — INCOME TAXES

Income taxes are provided for temporary differences between financial and tax basis income. The following is a reconciliation of the amount of benefit that would result from applying the federal statutory rate to pretax loss with the benefit from income taxes for the year ended December 31, 2004:

	Years Ended December 31,	
	2004	2003
Federal income tax benefit at statutory rate (34%)	$ 1,268,000	$ 327,000
State income tax, net of federal benefit	224,000	38,000
Revaluation and expiration of options	(631,000)	(108,000)
Change in valuation allowance	(861,000)	(257,000)
	$ —	$ —

The components of net deferred taxes are as follows at December 31 using a combined deferred tax rate of 40%:

	2004
Net operating loss carryforward	$ 5,132,000
Research and development credits	80,000
Stock options	646,000
Accrued compensation	396,000
Valuation allowance	(6,254,000)
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 $12,830,000 which can be utilized to offset future earnings of the Company. The Company also has available approximately $80,000 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 begin to expire between the years 2007 and 2023. Should the Company experience a change of ownership the utilization of net operating losses could be reduced.

NOTE D — NOTES PAYABLE

The Company has the following notes payable at December 31, 2004:

Notes payable to shareholders, which are currently due and in default. Interest is at 12%. The notes are unsecured	$ 336,717

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS — (Continued)

NOTE E — CONVERTIBLE NOTES PAYABLE

The Company has the following convertible notes payable at December 31, 2004:

Convertible notes payable to a trust, which are currently due and in default. Interest is at 12%. Each $1,000 note is convertible into 667 shares of the Company's common stock	$	193,200

NOTE F — STOCKHOLDERS' EQUITY

Series A Convertible Preferred Stock

On October 18, 2004, the Company issued 12,000 shares of Series A Convertible Preferred Stock and warrants to purchase 4,575,495 shares of common stock for a total offering price of $1.2 million. The Company incurred $130,000 of offering costs and issued to the placement agent 350,000 shares of common stock (valued at $0.20 per share) and warrants to purchase 488,052 shares of common stock exercisable at $0.1967 per share which are exercisable for a period of three years. The Company valued these warrants at $0.19 per share using a Black Scholes option pricing model with the following assumptions: risk free rate 2.82%, volatility of 171% and an expected life of three years.

Each share of Preferred Stock entitles the holder to convert the share of Preferred Stock into the number of shares of common stock resulting from multiplying $100 by the conversion price. The conversion price is 85% of the average of the lowest three intra-day trading prices for the Company's common stock during the 10 trading days immediately preceding the conversion date, but the conversion price may not exceed $0.1967 or be lower than $0.05 per share. The warrants are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. The warrants entitle the holder to purchase up to 4,575,495 shares of common stock of the Company on or before the third anniversary of the issuance date of the warrants at $0.1967 per share.

The Company has allocated the proceeds from the issuance of the Series A Convertible Preferred Stock and warrants, based on their relative fair values on the date of issuance which are as follows: $1,200,000 to the Series A Convertible Preferred and $880,325 to the warrants. The warrants were valued using the Black Scholes Pricing model using the following assumptions: volatility of 171%, risk-free interest rate of 2.82% and a term of three years. The allocation of the net proceeds resulted in $523,334 being allocated to the Series A Convertible Preferred Stock and $383,920 being allocated to the warrants. The Company recognized a beneficial conversion dividend of $692,199 on the date of issuance equal to the value allocated to the Series A Convertible Preferred Stock (before offering costs). The actual value of the beneficial conversion option was $719,177, but the dividend was limited to the amount of gross proceeds allocated to the Series A Convertible Preferred Stock.

The Series A Convertible Preferred Stock has no dividend or voting rights. In the event of liquidation, the holders are entitled to a liquidating distribution of $100 per share. The number of shares of common stock subject to the warrants and the exercise price are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. The Company also entered into a Registration Rights Agreement with Monarch Pointe Fund, Ltd. and Mercator Advisory Group, LLC, requiring the Company to file a registration statement with the Securities and Exchange Commission registering the shares of common stock issuable upon conversion of the Preferred Stock and exercise of the warrants.

Commitment Regarding Peregrine Stock

Peregrine Properties, LLC, a Utah limited liability company ("Peregrine"), has entered into an agreement to provide $500,000 to the Company to fund testing and research steps necessary to continue

development of MDI-P. The studies are funded through an escrow agent. As of December 31, 2000, the Company had deposited in escrow a single certificate for 5.5 million shares of common stock for these purposes. Through December 31, 2003, Peregrine had funded $275,800 to the escrow, of which $272,700 had been disbursed and recorded as research and development expense on the financial statements of the Company. The remaining $227,300 to be expended under the agreement was recorded in equity under the caption escrow receivable. As expenditures are made from the escrow for research and development, the expenses are recorded by the Company with a corresponding reduction in the escrow receivable. Under the original agreement, upon completion of the studies, the escrow agent was to disburse the 5.5 million shares to Peregrine and to disburse the research results to the Company. On March 22, 2002, the parties entered into an agreement to partially close the escrow agreement to the extent of Peregrine's funding to date. On that date, 3,143,800 shares were distributed to Peregrine and all research conducted to date was disbursed to the Company. As of February 20, 2004, the Company held Peregrine in breach with respect to its remaining funding obligation and terminated the Peregrine research agreement. The Company and Peregrine resolved the matter during 2004 by the Company agreeing to grant Peregrine a warrant to purchase 2,356,200 shares of restricted common stock at an exercise price of $0.09 per share, exercisable at any time within 3 years. The exchange of the escrow receivable for the warrants was considered a financing transaction, with no additional expense being recorded. The Company reversed the $227,300 escrow receivable and cancelled the remaining 2,356,200 shares held in escrow.

Common Stock and Warrants Issued for Cash

During 2004, as part of a private placement offering, the Company issued 5,551,011 shares of common stock for $0.18 per share or $999,180. In conjunction with the private placement, the Company issued to these investors warrants to purchase 5,551,011 shares of common stock at $0.18 per share. These warrants expire three years from the date of issuance.

Conversion of Notes Payable and Convertible Notes Payable to Common Stock

During the year ended December 31, 2004, the Company converted $487,503 of principal and $162,964 of interest related to notes payable and convertible notes payable into 9,875,951 shares of common stock. The conversion prices ranged from $0.06 to $0.21 per share.

NOTE G — STOCK OPTIONS AND WARRANTS

Stock Options

The Company has two incentive stock option plans wherein 24,000,000 shares of the Company's common stock are reserved for issuance thereunder. The Company granted 700,000 fully vested stock options during the year ended December 31, 2004 to consultants with an exercise price of $0.05. These options were valued at $98,000 using the Black Scholes pricing model using the following weighted average assumptions: risk free interest of 3.8%, expected dividend yield of 0%, volatility of 220% and an expected life of 7 years. During the year ended December 31, 2003, the Company granted 14,800,000 fully vested stock options to an officer and directors with exercise prices ranging from $0.01 to $0.05, the Company recognized stock compensation expense of $295,000 related to this issuance.

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS — (Continued)

The following summarizes option activity for the years ended December 31, 2004 and 2003:

	Number of Options	Option Price per Share
Outstanding at January 1, 2003	4,583,000	$ 0.01 to 0.50
Granted	14,800,000	0.01 to 0.05
Expired	(600,000)	0.25
Outstanding at December 31, 2003	18,783,000	$ 0.01 to 0.50
Granted	700,000	0.05
Outstanding at December 31, 2004	19,483,000	$ 0.01 to 0.50
Exercisable at December 31, 2003	18,783,000	$ 0.01 to 0.50
Exercisable at December 31, 2004	19,483,000	$ 0.01 to 0.50

The following table summarizes information about fixed stock options outstanding at December 31, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.01 to 0.02	16,000,000	8.7	$ 0.02	16,000,000	$ 0.02
$0.05	1,500,000	7.1	$ 0.05	1,500,000	$ 0.05
$0.15 to 0.50	1,983,000	7.1	$ 0.23	1,983,000	$ 0.23
	19,483,000			19,483,000	

Assumptions used to calculate the impact of stock options granted as if the Company had adopted FAS 123 were as follows:

	2004	2003
Expected dividend yield	—	—
Risk free interest rate	3.8%	5.0%
Expected volatility	220%	511%
Expected life	7 years	10 years
Weighted average fair value per share	$ 0.10	$ 0.04

During 2004, the Company extended the expiration date of options to purchase an aggregate amount of 18,603,000 shares of stock. As a result of such extension, such options expire from between 2011 to 2013. These options are subject to a one-time remeasurement of the options as if they were newly granted. The expense associated with the change in expiration date was $1,577,000.

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS — (Continued)

Stock Warrants

The following summarizes warrant activity for the years ended December 31, 2004 and 2003:

	Number of Warrants	Warrant Price per Share
Outstanding at January 1, 2003	3,616,005	$ 0.10 to 1.00
Outstanding at December 31, 2003	3,616,005	0.10 to 1.00
Granted	12,920,751	0.09 to 0.20
Forfeited	(1,666,005)	0.10 to 0.40
Outstanding at December 31, 2004	14,870,751	$ 0.09 to 1.00

The following table summarizes information about warrants outstanding at December 31, 2004:

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$0.09	2,356,200	3.0	$ 0.09
$0.18 to 0.20	10,564,551	2.8	$ 0.19
$1.00	1,950,000	2.0	$ 1.00
	14,870,751		

NOTE H — RELATED PARTY TRANSACTIONS

At December 31, 2004 the Company had accounts payable to current and former officers and directors totaling $1,491,586 for services performed and costs incurred in behalf of the Company, including $902,636 payable to the Company's President and CEO. Also at December 31, 2004, the Company had an account payable to its controller of $87,444.

NOTE I — COMMITMENT REGARDING CONSULTING AGREEMENT

The Company entered into a consulting agreement with Craig R. Palmer (d/b/a Palmer Consulting Group) dated April 7, 2003 and amended as of September 16, 2004, pursuant to which Palmer is to render certain services to the Company relating to the development and commercialization of the Company's technology. Under the agreement, Palmer was paid a consulting fee equal to $20,000 in cash and 500,000 shares of stock. From October 1, 2004, he also accrues a consulting fee of $8,000 per month, $3,500 per month of which is paid monthly and the balance of which is paid in the CEO's discretion as the Company's cash flow permits. The agreement also provides Palmer with the opportunity to earn a contingent fee of 5% of the value of any out-licensing, distribution or co-marketing agreements Palmer secures for the Company and an opportunity to earn 1,500,000 shares of stock upon the successful filing of an investigational new drug application in HIV with the U.S. Food and Drug Administration. The Company has not recorded a liability for the contingent fees due to the uncertainty that such events will occur.

MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS — (Continued)

NOTE J — SUBSEQUENT EVENTS

Formation of MDI Oncology, Inc.

On March 22, 2005, the Company formed MDI Oncology, Inc., a Delaware corporation, as a wholly-owned subsidiary to acquire and operate the assets and business associated with the Savetherapeutics transaction.

Savetherapeutics A.G. Asset Acquisition

On March 16, 2005, Medical Discoveries, Inc. (the "Company") completed the purchase of the intellectual property assets (the "Assets") of Savetherapeutics AG, a German corporation in liquidation in Hamburg, Germany ("SaveT"). The Assets consist primarily of patents, patent applications, pre-clinical study data and clinical trial data concerning SaveCream, SaveT's developmental topical aromatase inhibitor treatment for breast cancer.

The purchase price of the Assets is €2,350,000 (approximately $3.1 million under current exchange rates) payable as follows: €500,000 at closing, €500,000 upon conclusion of certain pending transfers of patent and patent application rights from SaveT's inventors to the Company, and €1,350,000 upon successful commercialization of the Assets. The Company's source of funds for the acquisition is a $3 million equity investment by Mercator Momentum Fund LP and Mercator Momentum Fund III LP, as described below. Neither SaveT nor any employee of SaveT has a material relationship with the Company or any of its affiliates, any director or officer of the Company or any associate of any such director or officer.

Issuance of Series A Preferred Stock

On or about March 14, 2005, the Company issued 30,000 shares of Preferred Stock and warrants to purchase 22,877,478 shares of common stock for a total offering price of $3 million. Each share of Preferred Stock entitles the holder to convert the share of Preferred Stock into the number of shares of common stock resulting from multiplying $100 by the conversion price. The conversion price is 75% of the average of the lowest three intra-day trading prices for the Company's common stock during the 10 trading days immediately preceding the conversion date, but the conversion price may not exceed $0.1967. The number of shares of common stock subject to the warrants and the exercise price are subject to equitable adjustment in connection with a stock split, stock dividend or similar transaction. The warrants entitle the holder to purchase up to 22,877,478 shares of common stock of the Company on or before the third anniversary of the issuance date of the warrants at $0.1967 per share.

NOTE K — CUMULATIVE NET LOSS

The Statements of Operations was amended to correct a previously reported error in the cumulative net loss amount since inception through December 31, 2003 (not presented herein). While the Company previously reported the correct cumulative net loss on the Statements of Cash Flows through December 31, 2003 (not presented herein), the same figure as reported on the Statements of Operations through December 31, 2003 (not presented herein) was erroneous based on an apparent incorrect calculation in the 1999 annual report, which error had been carried forward. The previously reported cumulative net loss amount through December 31, 2003 (not presented herein) of $14,141,763 was corrected to $14,930,259.

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

None.

PART III

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

The information required by this Item is incorporated by reference to the section entitled "Election of Directors" in our definitive proxy statement to be filed with the Commission.

ITEM 10. ***EXECUTIVE COMPENSATION.***

The information required by this Item is incorporated by reference to the section entitled "Executive Compensation" in our definitive proxy statement to be filed with the Commission.

ITEM 11. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.***

The information required by this Item is incorporated by reference to the section entitled "Security Ownership of Certain Beneficial Owners and Management" in our definitive proxy statement to be filed with the Commission.

ITEM 12. ***CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.***

The information required by this Item is incorporated by reference to the section entitled "Certain Relationships and Related Transactions" in our definitive proxy statement to be filed with the Commission.

ITEM 13. ***EXHIBITS.***

The following documents are furnished as exhibits to this Form 10-KSB. Exhibits marked with an asterisk are filed herewith. The remainder of the exhibits previously have been filed with the Commission and are incorporated herein by reference.

Number	Exhibit
2.1	Sale and Purchase Agreement between Attorney Hinnerk-Joachim Müller as liquidator of Savetherapeutics AG i.L. and Medical Discoveries, Inc. regarding the purchase of the essential assets of Savetherapeutics AG i.L. (Exhibits referenced therein will be provided upon request.)*
3.1	Amended and Restated Articles of Incorporation of the Company (filed as Exhibit 3.1 to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1994, and incorporated herein by reference).
3.2	Amended Bylaws of the Company (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1994, and incorporated herein by reference).
4.1	Registration Rights Agreement dated October 18, 2004 among Monarch Pointe Fund, Ltd., Mercator Advisory Group, LLC and Medical Discoveries, Inc.*
4.2	Registration Rights Agreement dated December 3, 2004 among Mercator Momentum Fund, LP, Mercator Momentum Fund III, LP, Mercator Advisory Gropu, LLC and Medical Discoveries, Inc.*
10.1	2002 Stock Incentive Plan adopted by the Board of Directors as of July 11, 2002 (filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-QSB for the quarter ended June 30, 2002, and incorporated herein by reference).
21	Subsidiaries.*
31	Rule 13a-14(a) Certification, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith.

ITEM 14. ***CONTROLS AND PROCEDURES***

Evaluation of Disclosure Controls and Procedures. Under the supervision and with the participation of our management, including our principal executive and financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), within 90 days of the filing date of this report. Based on this evaluation, our principal executive and financial officer concluded that our disclosure controls and procedures are effective in alerting her on a timely basis to material information relating to our Company (including its consolidated subsidiaries) required to be included in our reports filed or submitted under the Exchange Act.

Changes in Internal Controls. There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referenced in the preceding paragraph.

ITEM 15. ***PRINCIPAL ACCOUNTANT FEES AND SERVICES.***

The information required by this Item is incorporated by reference to the section entitled "Principal Accountant Fees and Services" in our definitive proxy statement to be filed with the Commission.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MEDICAL DISCOVERIES, INC.

/s/ Judy M. Robinett

Judy M. Robinett
President and Chief Executive Officer

Date: March 31, 2004

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Position	Date
/s/ Judy M. Robinett Judy M. Robinett	President, Chief Executive Officer and Director (Principal Executive and Financial Officer)	March 31, 2005
/s/ David R. Walker David R. Walker	Chairman of the Board of Directors	March 31, 2005
/s/ Larry Anderson Larry Anderson	Director	March 31, 2005

Fuzeon is a registered trademark of Roche Laboratories, Inc. and Timeris Inc.
Tobramycin is a registered trademark of Chiron Corporation or its subsidiaries.
Pulmozyme is a registered trademark of Genetech, Inc.
Advair is a registered trademark of GlaxoSmithKline.
Singulair is a registered trademark of Merck & Co., Inc.
Herceptin is a registered trademark of Genetech, Inc.
Femara is a registered trademark of Novartis Pharma AG.
Arimidex is a registered trademark of AstraZeneca Pharmaceuticals LP.
Aromasin is a registered trademark of Pfizer, Inc.

INDEX TO EXHIBITS

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* Filed herewith.

Exhibit 2.1

K A U F V E R T R A G

zwischen

RECHTSANWALT HINNERK-JOACHIM MULLER ALS INSOLVENZVERWALTER DER SAVETHERAPEUTICS AG i.L.

und

MEDICAL DISCOVERIES, INC.

betreffend

den Kauf von wesentlichen Vermogensgegenstanden der

SAVETHERAPEUTICS AG i.L.

/s/ Hinnerk J. Muller
/s/ JMR

1. Medical Discoveries, Inc., 1338 S. Foothill Drive, #266, Salt Lake City, Utah, USA

im folgenden: ,,KAUFERIN"

und

2. Rechtsanwalt Hinnerk-Joachim Muller als Insolvenzverwalter der Savetherapeutics AG i.L., Speersort 4-6, 20095 Hamburg, Deutschland

im folgenden: ,,VERKAUFER"

schlie(beta)en den nachfolgenden

K A U F V E R T R A G

I. PRAAMBEL

Die Savetherapeutics AG i.L. mit Sitz in Hamburg (HRB 80715), im Folgenden ,,SCHULDNERIN", betrieb die Entwicklung und Vermarktung von Therapeutika, Diagnostika und Kosmetika, insbesondere aber nicht ausschlie(beta)lich im Bereich Brustkrebs UNd anderen Indikationen. Mit Beschlu(beta) des Amtsgerichts Hamburg vom 14.01.2005 (Az.: 67e IN 294/04) ist uber das Vermogen DEr Schuldnerin am 14.01.2005, 9:57 Uhr, das Insolvenzverfahren eroffnet und der Verkaufer zum Insolvenzverwalter bestellt worden.

Die Kauferin ist an einer Ubernahme wesentlicher Vermogensgegenstande der Schuldnerin interessiert. Zu diesem Zweck sind Kauferin und Verkaufer in Verkaufsverhandlungen eingetreten. Die Kauferin hatte dem Verkaufer bereits ein Erwerbsangebot unterbreitet. Dieses stand in Abhangigkeit von einer mit den Gesellschaftern der Schuldnerin Prof. Dr. Heinrich Wieland und Dr. Alfred Schmidt abzuschlie(beta)enden Vergleichsvereinbarung. Diese Vereinbarung uber die Einbringung und Aufteilung der Schutzrechte (in kosmetische und nicht kosmetische Anwendungen), die Teil des Kaufgegenstandes sind, kam in der Folgezeit nicht zustande, so dass das ursprungliche Angebot der Kauferin erloschen ist. In Kenntnis dieses Umstandes und der Tatsache, dass die Herren Schmidt und Wieland weiterhin behaupten, Inhaber der Schutzrechte zu sein, beabsichtigt die Kauferin, nunmehr nicht nur

/s/ Hinnerk J. Muller
/s/ JMR

den nicht kosmetischen Anwendungsbereich der Schutzrechte, sondern diese insgesamt zu erwerben.

Dabei besteht Einigkeit unter den Parteien, da(beta) es sich um einen Kauf von Vermogensgegenstanden aus der Insolvenzmasse der Schuldnerin handelt. Daher sollen gegen den Verkaufer bzw. die Insolvenzmasse im Hinblick auf den Kaufgegenstand keinerlei Anspruche auf Gewahrleistung, Schadensersatz oder Ruckabwicklung bestehen.

II. KAUF VON BESTIMMTEN VERMOGENSGEGENSTANDEN DER FIRMA SAVETHERAPEUTICS AG i.L.

Der Verkaufer verkauft und ubertragt hiermit samtliche Vertrags-Erfindungen und Vertrags-Schutzrechte, die in den in Anlage 1 und Anlage 2 beigefugten Schutzrechtskaufvertragen definiert sind.

Verkauft und ubertragen werden daher insbesondere die in der Anlage 3 aufgefuhrten Vermogensgegenstande und Rechte (insgesamt der ,,KAUFGEGENSTAND"). Die Materialen und Unterlagen, die der Verkaufer im Besitz hat, sind der Kauferin unmittelbar nach Vertragsunterzeichnung zu ubergeben.

Soweit Vermogensgegenstande und/oder Rechte, welche die Schuldnerin hat, in den Anlagen 1, 2 und 3 nicht genannt werden, aber im Zusammenhang mit der gewerblichen Nutzung des Kaufgegenstandes erforderlich sind, werden auch diese mitverkauft und ubertragen. Sie sind Bestandteil des Kaufgegenstandes. Die Kauferin erwirbt ferner mit dem Kaufgegenstand in Zusammenhang stehendes Know-how sowie alle Materialien, Unterlagen, die im Zusammenhang mit klinischen Studien und Zulassungsverfahren stehen, soweit die Schuldnerin sie in unmittelbarem Besitz hat.

Der Verkaufer verkauft und ubertragt hiermit den Kaufgegenstand und die damit in Zusammenhang stehenden Vermogensrechte an die Kauferin.

Die Kauferin nimmt hiermit den Verkauf und die Ubertragung des Kaufgegenstandes und der damit in Zusammenhang stehenden Vermogensrechte an.

Im Ubrigen werden keine Vermogensgegenstande oder Verbindlichkeiten der Schuldnerin auf die Kauferin ubertragen. Die Kauferin ubernimmt auch keinerlei Verpflichtungen oder Haftungen der Schuldnerin oder des Verkaufers.

/s/ Hinnerk J. Muller
/s/ JMR

III. AUSSCHLU(beta) DER GEWAHRLEISTUNG / FESTSTELLUNG DES EIGENTUMS

Der Verkaufer sichert der Kauferin zu, da(beta) er zum Abschlu(beta) eines Vertrages der vorliegenden Art formell berechtigt ist.

Im Rahmen einer beschrankten, vorvertraglichen Due Diligence hat die Schuldnerin der Kauferin in der Zeit vom 6. Dezember 2004 bis 28. Januar 2005 ausgesuchte zur Evaluierung bestimmter Aspekte des Kaufgegenstandes erforderliche sowie die von der Kauferin angeforderten Unterlagen zur Verfugung gestellt.

Deshalb, und im Hinblick auf die Insolvenz der Schuldnerin, schlie(beta)en die Vertragsparteien im Rahmen des gesetzlich Zulassigen jegliche Gewahrleistung aus diesem Vertrag oder im Zusammenhang damit aus, soweit in diesem Absatz nichts Abweichendes geregelt ist. Daneben sind sich die Vertragsparteien daruber einig, da(beta) auch im Ubrigen keine sonstigen Anspruche aus jedwedem Rechtsgrund, insbesondere Anspruche auf Schadensersatz, Schadloshaltung und/oder Rucktritt vom Vertrag, gegen den Verkaufer bestehen.

Der Verkaufer hat die Kauferin daruber informiert, da(beta) die Gesellschafter der Schuldnerin, Herr Dr. Alfred Schmidt und Herr Prof. Heinrich Wieland, ihren sich aus Section 8 des Beteiligungsvertrages vom 9. November 2000 sowie der in den Schutzrechtkaufvertragen (Anlage 1 und Anlage 2 zu diesem Vertrag) ergebenden Verpflichtungen zur Einlage der in den Schutzrechtskaufvertragen genannten Patente in die Schuldnerin widersprechen. Sie vertreten die Auffassung, die Schutzrechte stunden nach wie vor ihnen zur personlichen Nutzung zu.

Der Verkaufer hat die Kauferin daruber hinaus davon unterrichtet, da(beta) eine Umschreibung der Patente bei den relevanten Patentamtern tatsachlich nicht stattgefunden hat, d.h. bei den Patentamtern die Herren Schmidt/Wieland nach wie vor als Patentinhaber der kaufgegenstandlichen Patente gefuhrt werden.

DIE KAUFERIN ERKLART IN VOLLER KENNTNIS UND WURDIGUNG DIESES SACHVERHALTES FOLGENDES:

Die Kauferin tragt, das Risiko, dass der Einbringung der kaufgegenstandlichen Patente und des Know-hows durch die Herren Schmidt/Wieland widersprochen wird.

Die Kauferin beabsichtigt, mit den Herrn Schmidt/Wieland nochmals eine einvernehmliche Losung uber die Inhaberschaft der Schutzrechte herbeizufuhren.

/s/ Hinnerk J. Muller
/s/ JMR

Sollte dies innerhalb einer angemessenen Frist nach Abschlu(beta) dieses Vertrages nicht moglich sein, wird die Kauferin alle notwendigen Handlungen zur Klarung der Rechtssituation, insbesondere die notigenfalls gerichtliche Feststellung, da(beta) die Patente in die Schuldnerin eingebracht bzw. auf die Kauferin ubertragen wurden, in Eigenverantwortung und auf eigene Kosten durchfuhren. Dies schlie(beta)t auch die Kosten eines etwaigen Rechtsstreites mit ein, welchen die Equicore Beteiligungs GmbH fur die Kauferin als deren Proze(beta)standschafterin fuhrt.

Der Verkaufer versichert im Gegenzuge, da(beta) er sich nach Kraften bemuhen wird, mit der Equicore Beteiligungs GmbH eine Vereinbarung zu treffen, wonach diese die Kauferin bei der Durchsetzung dieses Anspruches auf Einbringung der Patente in die Schuldnerin umfassend, insbesondere auch durch Uberlassung von Unterlagen und, soweit gesetzlich zulassig, durch Abtretung der Anspruche auf Einbringung der kaufgegenstandlichen Patente oder im Wege der Proze(beta)standschaft oder vergleichbarer Weise unterstutzen wird.

Diese Vereinbarung mit Equicore Beteiligungs GmbH ist binnen 60 Tagen nach Unterzeichnung dieses Vertrages abzuschlie(beta)en; andernfalls sind die Parteien zum Rucktritt vom Vertrag berechtigt.

Das von der Equicore Beteiligungs GmbH eingeforderte Mitwirkungsentgelt von 3 % auf den gezahlten Kaufpreis wird von dem Verkaufer getragen.

Sollte die Equicore Beteiligungs GmbH fur die Vorbereitung der Prozessfuhrung zugunsten der Kauferin ein Stundenhonorar ((euro) 250 pro Stunde) beanspruchen, so tragen die Parteien dies jeweils zur Halfte, jedoch bis insgesamt maximal (euro) 10.000.

Die Kauferin erklart weiterhin, da(beta) sie fur den Fall, da(beta) die Einbringung der Patente durch die Herren Schmidt/Wieland in die Kauferin nicht rechtskraftig festgestellt werden kann, keinerlei rechtliche Anspruche gegen den Verkaufer geltend machen wird. Sie tragt insoweit dieses Risiko alleine.

Der Kauferin ist bekannt, dass der Verkaufer uber die der Kauferin zur Verfugung gestellten Unterlagen hinaus keine Kenntnis von und keine Einflussmoglichkeit auf etwaige sonstigen Handlungen der Herren Schmidt/Wieland hat, die zwischenzeitlich vorgenommen wurden oder bis zur rechtskraftigen Feststellung des Eigentumserwerbes durch die Kauferin und die Umschreibung der Patente vorgenommen werden. Die Kauferin verzichtet hiermit auf etwaige ihr insoweit zustehenden Anspruche gegen den Verkaufer, auch soweit die Anspruche aus

/s/ Hinnerk J. Muller
/s/ JMR

Handlungen herruhren, die den Bestand, die Inhaberschaft und die Lastenfreiheit der Patente betroffen haben.

IV. KAUFPREIS, ZAHLUNGSBEDINGUNGEN

Der Kaufpreis fur den Kaufgegenstand betragt (euro) 2.350.000 (in Worten: Euro zwei Millionen dreihundertfunfzigtausend).

Soweit erforderlich stellt der Verkaufer der Kauferin eine Rechung entsprechend den gesetzlichen Vorschriften aus und quittiert den Erhalt des Kaufpreises.

Der Kaufpreises wird nach Ma(beta)gabe der nachfolgenden Bestimmungen fallig:

Ein Teilkaufpreis in Hohe von (euro) 500.000 (in Worten: Euro funfhunderttausend) ist mit der Unterzeichnung dieses Kaufvertrages fallig und binnen 10 Tagen auf das unten genannte Konto des Verkaufers zu zahlen:

Bank:	HSH Nordbank AG
Konto Nr.:	1000 024 670
BLZ:	210 500 00
Inhaber:	RA Hinnerk-Joachim Muller wg. Savetherapeutics AG

Sofern diese Verpflichtung nicht fristgerecht erfullt wird, ist der Verkaufer zum Vertragsrucktritt berechtigt. Das Rucktrittsrecht erlischt binnen zwei Wochen nach Vorliegen des Rucktrittsgrundes. Keine Partei kann gegen die andere im Rucktrittsfall Rechte/Anspruche, gleich welcher Art, wegen des Rucktritts geltend machen.

Der zweite Teilkaufpreis in Hohe von (euro) 500.000 (in Worten: Euro funfhunderttausend) ist zu erbringen, sobald die in Ziffer III

beschriebene Feststellung uber die Einbringung der Patente in die Kauferin entweder im Wege eines Vergleiches mit den Herren Schmidt/Wieland oder aber durch ein rechtskraftiges Urteil eines deutschen Gerichtes festgestellt wurde.

Der dritte Teilkaufpreis in Hohe von (euro) 1.350.000 (in Worten: Euro eine Million dreihundertfunfzigtausend) wird bei erfolgreicher Kommerzialisierung des Kaufgegenstandes fallig, d.h. sobald die Kauferin in Form einer Lizenzierung oder eines Produktverkaufs

/s/ Hinnerk J. Muller
/s/ JMR

Umsatz in Hohe von mindestens (euro) 1.350.000 (in Worten: Euro eine Million dreihundertfunfzigtausend) erzielt hat.

Die Kosten der Transaktion, insbesondere Kosten angefallener Rechtsberatung durch die Sozietat Mayer, Brown, Rowe & Maw LLP, tragt die Kauferin bis zu einem Betrag von (euro) 80.000,00.

V. RUCKTRITTSRECHT DES VERKAUFERS

Die Kauferin verpflichtet sich, gegenuber dem Verkaufer binnen einer Frist von 9 Monaten nach der in Ziffer III beschriebenen Feststellung der Einbringung des Kaufgegenstandes in die Schuldnerin durch Vergleich oder rechtskraftiges Gerichtsurteil in angemessener und nachprufbarer Weise gegenuber dem Verkaufer zu belegen, da(beta) sie uber die fur eine Kommerzialisierung des Kaufgegenstandes notwendigen finanziellen Mittel verfugt und den auf die Kommerzialisierung zielenden Weiterentwicklungsprozess begonnen hat. Fur den Fall, da(beta) die Kauferin diesen Nachweis nicht fristgerecht fuhrt, ist der Verkaufe berechtigt, vom Vertrag zuruckzutreten. Im Rucktrittsfall hat die Kauferin keinen Anspruch auf Ruckzahlung bis dato geleisteter Teilkaufpreiszahlungen.

VI. VERSCHIEDENES

Die Vertragsparteien sind nicht berechtigt, Rechte aus diesem Vertrag oder Anspruche gegen die andere Partei oder andere Parteien an Dritte abzutreten. Sofern die Kauferin die Ubertragung des Kaufvertrages auf eine Zweckgesellschaft oder ein verbundenes Unternehmen beabsichtigt, so wird der Verkaufer seine Zustimmung nur aus wichtigem Grund verweigern. Der Verkaufer ist dabei berechtigt, seine Zustimmung davon abhangig zu machen, da(beta) die Kauferin dem Verkaufer die Zahlung offenen Kaufpreises unter Verzicht auf Aufrechnung/Zuruckhaltung garantiert. Nach Entrichtung des vollstandigen Kaufpreises kann die Kauferin frei uber den Kaufgegenstand verfugen.

Das Recht der Kauferin zur Aufrechnung gegen den Kaufpreisanspruch des Verkaufers ist ausgeschlossen. Uber die in Ziffer IV. vorgesehenen Auszahlungsbedingungen hinaus steht der Kauferin kein Zuruckbehaltungsrecht zu.

/s/ Hinnerk J. Muller
/s/ JMR

Anderungen und Erganzungen dieses Vertrages, einschlie(beta)lich der Anderung dieser Klausel, bedurfen der Schriftform, um gultig zu sein, sofern keine notarielle Beurkundung gesetzlich erforderlich ist.

Sollten einzelne oder mehrere Bestimmungen dieses Vertrages unwirksam, unvollstreckbar, nichtig oder gesetzwidrig sein oder werden, so soll hierdurch die Gultigkeit der ubrigen Bestimmungen nicht beruhrt werden. Anstelle einer solchen unwirksamen, unvollstreckbaren, nichtigen oder gesetzwidrigen Bestimmung gilt zwischen den Parteien eine derartige wirksame, vollstreckbare und gesetzliche Bestimmung als vereinbart, die, sofern die Parteien nichts anderes bestimmen, so weit wie moglich denselben wirtschaftlichen Zweck erfullt wie die unwirksame, unvollstreckbare, nichtige oder gesetzwidrige Bestimmung. Dasselbe gilt entsprechend fur Vertragslucken.

Dieser Vertrag unterliegt dem Recht der Bundesrepublik Deutschland mit Ausnahme des deutschen internationalen Privatrechts sowie unter Ausschlu(beta) der Bestimmungen des UN-Kaufrechts.

Sofern Widerspruche zwischen der ma(beta)geblichen deutschen Fassung dieses Vertrages und der unverbindlichen englischen Ubersetzung bestehen, so geht die deutsche Fassung der englischen Fassung vor.

_____, den 11.03.2005

/s/ Judy M. Robinett
- -------------------------
Medical Discoveries, Inc., vertreten durch ihren CEO Frau Judy Robinett

_____, den 11.03.2005

/s/ Hinnerk J. Muller
- -------------------------
Herr Rechtsanwalt Hinnerk-Joachim Muller als Insolvenzverwalter der
Savetherapeutics AG i.L.

/s/ Hinnerk J. Muller
/s/ JMR

CONVENIENCE TRANSLATION

SALE AND PURCHASE AGREEMENT

between

ATTORNEY HINNERK-JOACHIM MULLER AS LIQUIDATOR OF SAVETHERAPEUTICS AG i.L.

and

MEDICAL DISCOVERIES INC.

regarding

the purchase of the essential assets of

SAVETHERAPEUTICS AG i.L.

CONVENIENCE TRANSLATION

1. Medical Discoveries Inc., 1338 S. Foothill Drive, # 266, Salt Lake City, Utah, USA

hereafter: "BUYER"

and

2. Attorney Hinnerk-Joachim Mueller as liquidator of Savetherapeutics AG i.L.,Speersort 4-6, 20095 Hamburg

hereafter: "SELLER"

enter into the following

SALE AND PURCHASE AGREEMENT

I. PREAMBLE

Savetherapeutics AG i.L., with registered seat in Hamburg (HR B 80 175), hereafter "THE OBLIGOR" carried on the development and marketing of therapeutics, diagnostics and cosmetics, in particular, however not exclusively, in the field of breast cancer and other indications. Following the decision of the Local Court in Hamburg (ref.: 67e IN 294/04) dated January 14, 2005 insolvency proceedings have been opened over the assets of the Obligor as of January 14, 2005, 9:57 a.m. and Seller has been appointed as Liquidator.

Buyer is interested in taking over essential assets of Seller. Buyer and Seller have entered into negotiations for this purpose. Buyer already submitted an offer which depended on the conclusion of a settlement agreement between the shareholders of the Obligor Prof. Dr. Heinrich Wieland and Dr. Alfred Schmidt. This agreement was intended to define the split (into cosmetic and non-cosmetic use) of the patents (Schutzrechte) being part of the

CONVENIENCE TRANSLATION

object of purchase, but was not concluded between the parties concerned; therefore the offer has expired. Being fully aware of these circumstances as well as the fact that Mr. Schmidt and Mr. Wieland still claim to be the owner of the patents, Buyer now intends to purchase the patents entirely and not only the part relating to the non-cosmetic use of such patents.

The parties agree that this agreement relates to a purchase of assets from the insolvency assets (Insolvenzmasse) of Obligor. Therefore all warranty or damage claims as well as claims relating to reversed transactions (Ruckabwicklung) against Seller or the insolvency assets (Insolvenzmasse) with regard to the object of purchase shall be barred.

CONVENIENCE TRANSLATION

II. PURCHASE OF CERTAIN ASSETS

OF THE COMPANY SAVETHERAPEUTICS AG i. L.

Seller hereby sells and assigns all inventions (Vertrags-Erfindungen) and patents (Vertrags-Schutzrechte) as defined in the IP Purchase Agreements attached hereto as Annex 1 and Annex 2.

In particular Seller hereby sells and assigns all assets and rights listed in Annex 3 (hereafter altogether referred to as "OBJECT OF PURCHASE"). Seller shall hand over to Buyer any information and documentation to the extent they are in the possession of the Seller immediately after signing of this agreement.

Assets and rights not mentioned in Annex 1, 2 and 3 which are however necessary in connection with the commercial use of the Object of Purchase are herewith sold and transferred and form part of the Object of Purchase. In connection with the assignment of the Object of Purchase Seller sells and transfers, including but not limited to, associated know-how and all documents relating to clinical studies and marketing authorization procedures (Zulassungsverfahren), to the extent they are in the possession of Seller.

Seller herewith sells and transfers to Buyer the Object of Purchase including the assignment of all associated rights.

Buyer herewith accepts such sale and transfer of the Object of Purchase including the assignment of the associated rights.

NO OTHER ASSETS OR OBLIGATIONS OF OBLIGOR ARE TRANSFERRED TO BUYER. THE BUYER DOES NOT ASSUME ANY OBLIGATION OR LIABILITY OF THE OBLIGOR OR THE SELLER.

III. EXCLUSION OF WARRANTY CLAIMS / ALLOCATION OF PROPERTY

The Seller warrants that he is formally entitled to enter into any contract of the kind of this agreement.

EXHIBIT 4.1

REGISTRATION RIGHTS AGREEMENT

AGREEMENT dated as of October 18, 2004, between MONARCH POINTE FUND, LTD. (the "Fund") and MERCATOR ADVISORY GROUP, LLC ("MAG") (the Fund and MAG are referred to individually as a "Holder" and collectively as the "Holders"), and Medical Discoveries, Inc., a Utah corporation (the "Company").

WHEREAS, the Funds have purchased, for an aggregate of $1,200,000, an aggregate of 12,000 shares of Series A Convertible Preferred Stock (the "Series A Stock") from the Company, and have the right to cause their Series A Stock to be converted into shares of Common Stock, no par value (the "Common Stock"), of the Company, pursuant to the conversion formula set forth in the Certificate of Determination;

WHEREAS, each of Fund and MAG have acquired Warrants (together, the "Warrants") from the Company, pursuant to which the Holders have the right to purchase in the aggregate up to 4,575,496 shares of the Common Stock through the exercise of the Warrants;

WHEREAS, the Company desires to grant to the Holders the registration rights set forth herein with respect to the shares of Common Stock issuable upon the conversion of the Series A Stock and the exercise of the Warrants.

NOW, THEREFORE, the parties hereto mutually agree as follows:

1. REGISTRABLE SECURITIES. As used herein the terms "Registrable Security" means each of the shares of Common Stock (i) issued upon the conversion of the Series A Stock (the "Conversion Shares") or (ii) upon exercise of the Warrants (the "Warrant Shares"), provided, however, that with respect to any particular Registrable Security, such security shall cease to be a Registrable Security when, as of the date of determination that (a) it has been effectively registered under the Securities Act of 1933, as amended (the "Securities Act"), and disposed of pursuant thereto, or (b) registration under the Securities Act is no longer required for the immediate public distribution of such security. The term "Registrable Securities" means any and/or all of the securities falling within the foregoing definition of a "Registrable Security." In the event of any merger, reorganization, consolidation, recapitalization or other change in corporate structure affecting the Common Stock, such adjustment shall be made in the definition of "Registrable Security" as is appropriate in order to prevent any dilution or enlargement of the rights granted pursuant to this Section 1.

2. REGISTRATION.

(a) The Company shall file a registration statement (the "Registration Statement") with the Securities and Exchange Commission (the "SEC") within thirty (30) days after the date of this Agreement in order to register the resale of the Registrable Securities under the Securities Act. Once effective, the Company shall maintain the effectiveness of the Registration Statement until the earlier of (i) the date that all of the Registrable Securities have been sold, or (ii) the date that the Company receives an opinion of counsel to the Company that all of the Registrable Securities may be freely traded without registration under the Securities Act, under Rule 144 promulgated under the Securities Act or otherwise.

(b) The Company will initially include in the Registration Statement as Registrable Securities Twenty-Four Million (24,000,000) shares of Common Stock issuable upon conversion of the Series A Stock and the maximum number of shares of Common Stock issuable upon exercise of the Warrants.

3. COVENANTS OF THE COMPANY WITH RESPECT TO REGISTRATION.

The Company covenants and agrees as follows:

(a) The Company shall use best efforts to cause the Registration Statement to become effective with the SEC as promptly as possible and in no event more than 120 days after the date of this Agreement. If any stop order shall be issued by the SEC in connection therewith, the Company shall use best efforts to obtain promptly the removal of such order. Following the effective date of the Registration Statement, the Company shall, upon the request of any Holder, forthwith supply such reasonable number of copies of the Registration Statement, preliminary prospectus and prospectus meeting the requirements of the Securities Act, and any other documents necessary or incidental to the public offering of the Registrable Securities, as shall be reasonably requested by the Holder to permit the Holder to make a public distribution of the Holder's Registrable Securities. The obligations of the Company hereunder with respect to the Holder's Registrable Securities are subject to the Holder's furnishing to the Company such appropriate information concerning the Holder, the Holder's Registrable Securities and the terms of the Holder's offering of such Registrable Securities as the Company may reasonably request in writing.

(b) The Company shall pay all costs, fees and expenses in connection with the Registration Statement filed pursuant to Section 2 hereof including,

without limitation, the Company's legal and accounting fees, printing expenses, and blue sky fees and expenses; provided, however, that each Holder shall be solely responsible for the fees of any counsel retained by the Holder in connection with such registration and any transfer taxes or underwriting discounts, commissions or fees applicable to the Registrable Securities sold by the Holder pursuant thereto.

(c) The Company will take all actions which may be required to qualify or register the Registrable Securities included in the Registration Statement for the offer and sale under the securities or blue sky laws of such states as are reasonably requested by each Holder of such securities, provided that the Company shall not be obligated to execute or file any general consent to service of process or to qualify as a foreign corporation to do business under the laws of any such jurisdiction.

4. ADDITIONAL TERMS.

(a) The Company shall indemnify and hold harmless the Holders and each underwriter, within the meaning of the Securities Act, who may purchase from or sell for any Holder, any Registrable Securities, from and against any and all losses, claims, damages and liabilities caused by any untrue statement of a material fact contained in the Registration Statement, any other registration statement filed by the Company under the Securities Act with respect to the registration of the Registrable Securities, any post-effective amendment to such registration statements, or any prospectus included therein or caused by any omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages or liabilities are caused by any such untrue statement or omission based upon information furnished or required to be furnished in writing to the Company by the Holders or underwriter expressly for use therein, which indemnification shall include each person, if any, who controls any Holder or underwriter within the meaning of the Securities Act and each officer, director, employee and agent of each Holder and underwriter; provided, however, that the indemnification in this Section 4(a) with respect to any prospectus shall not inure to the benefit of any Holder or underwriter (or to the benefit of any person controlling any Holder or underwriter) on account of any such loss, claim, damage or liability arising from the sale of Registrable Securities by the Holder or underwriter, if a copy of a subsequent prospectus correcting the untrue statement or omission in such earlier prospectus was provided to such Holder or underwriter by the Company prior to the subject sale and the subsequent prospectus was not delivered or sent by the Holder or underwriter to the purchaser prior to such sale and provided further, that the Company shall not be obligated to so indemnify any Holder or any such underwriter or other person referred to above unless the Holder or underwriter or other person, as the case may be, shall at the same time indemnify the Company, its directors, each officer signing the Registration Statement and each person, if any, who controls the Company within the meaning of the Securities Act, from and against any and all losses, claims, damages and liabilities caused by any untrue statement of a material fact contained in the Registration Statement, any registration statement or any prospectus required to be filed or furnished by reason of this Agreement or caused by any omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, insofar as such losses, claims, damages or liabilities are caused by any untrue statement or omission based upon information furnished in writing to the Company by the Holder or underwriter expressly for use therein.

(b) If for any reason the indemnification provided for in the preceding section is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, claim, damage, liability or expense referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party thereunder, shall contribute to the amount paid or payable by the indemnified party as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect the

relative fault of the indemnified party and the indemnifying party, as well as any other relevant equitable considerations.

(c) Neither the filing of a Registration Statement by the Company pursuant to this Agreement nor the making of any request for prospectuses by the Holder shall impose upon any Holder any obligation to sell the Holder's Registrable Securities.

(d) Each Holder, upon receipt of notice from the Company that an event has occurred which requires a Post-Effective Amendment to the Registration Statement or a supplement to the prospectus included therein, shall promptly discontinue the sale of Registrable Securities until the Holder receives a copy of a supplemented or amended prospectus from the Company, which the Company shall provide as soon as practicable after such notice.

(e) If the Company fails to keep the Registration Statement referred to above continuously effective during the requisite period, then the Company shall, promptly upon the request of any Holder, use best efforts to update the Registration Statement or file a new registration statement covering the

Registrable Securities remaining unsold, subject to the terms and provisions hereof.

(f) Each Holder agrees to provide the Company with any information or undertakings reasonably requested by the Company in order for the Company to include any appropriate information concerning the Holder in the Registration Statement or in order to promote compliance by the Company or the Holder with the Securities Act.

(g) The Company agrees that it shall cause each of its directors, officers and shareholders owning ten percent (10%) or more of the Company's outstanding Common Stock to refrain from selling any shares of the Company's Common Stock until the Registration Statement has been declared effective.

(h) Each Holder, on behalf of itself and its affiliates, hereby covenants and agrees not to, directly or indirectly, offer to "short sell", contract to "short sell" or otherwise "short sell" any securities of the Company, including, without limitation, shares of Common Stock that will be received as a result of the conversion of the Series A Stock or the exercise of the Warrants.

5. GOVERNING LAW. The Registrable Securities will be, if and when issued, delivered in California. This Agreement shall be deemed to have been made and delivered in the State of California and shall be governed as to validity, interpretation, construction, effect and in all other respects by the internal substantive laws of the State of California, without giving effect to the choice of law rules thereof.

6. AMENDMENT. This Agreement may only be amended by a written instrument executed by the Company and the Holders.

7. ENTIRE AGREEMENT. This Agreement constitutes the entire agreement of the parties hereto with respect to the subject matter hereof, and supersedes all prior

agreements and understandings of the parties, oral and written, with respect to the subject matter hereof.

8. EXECUTION IN COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same document.

9. NOTICES. All communications hereunder shall be in writing and shall be hand delivered, mailed by first-class mail, couriered by next-day air courier or by facsimile at the addresses set forth below.

If to the Holders, Mercator Advisory Group, LLC
Mercator Momentum Fund, L.P.
Mercator Momentum Fund III, L.P.
Monarch Pointe Fund, Ltd.
555 South Flower Street, Suite 4500
Los Angeles, CA 90071
Attention: David Firestone

With a copy to Sheppard Mullin Richter & Hampton LLP
333 South Hope Street
48th Floor
Los Angeles, CA 90071-1448
Telephone No.: (213) 620-1780
Facsimile No.: (213) 620-1398
Attention: David C. Ulich

If to the Company, Medical Discoveries, Inc.
738 Aspenwood Lane
Twin Falls, Idaho 83301
Telephone No.: (208) 736-1799
Facsimile No.: (208) 733-5877
Attention: Judy M. Robinett

With a copy to Stoel Rives LLP
101 S. Capitol Blvd., Suite 1900
Boise, Idaho 83702
Telephone No.: (208) 389-9000
Facsimile No.: (208) 389-9040
Attention: Stephen R. Drake

All such notices and communications shall be deemed to have been duly given: (i) when delivered by hand, if personally delivered; (ii) five business days after being deposited in the mail, postage prepaid, if mailed certified mail, return receipt requested; (iii) one business day after being timely delivered to a next-day air courier guaranteeing overnight delivery; (iv) the date of transmission if sent via facsimile to the facsimile number as set forth in this Section or the signature page hereof prior to 4:00 p.m. on a business day, or (v) the business day following the date of transmission if sent via facsimile at

a facsimile number set forth in this Section or on the signature page hereof after 4:00 p.m. or on a date that is not a business day. Change of a party's address or facsimile number may be designated hereunder by giving notice to all of the other parties hereto in accordance with this Section.

10. BINDING EFFECT; BENEFITS. Any Holder may assign its rights hereunder. This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their respective heirs, legal representatives, successors and assigns. Nothing herein contained, express or implied, is intended to confer upon any person other than the parties hereto and their respective heirs, legal representatives and successors, any rights or remedies under or by reason of this Agreement.

11. HEADINGS. The headings contained herein are for the sole purpose of convenience of reference, and shall not in any way limit or affect the meaning or interpretation of any of the terms or provisions of this Agreement.

12. SEVERABILITY. Any provision of this Agreement which is held by a court of competent jurisdiction to be prohibited or unenforceable in any jurisdiction(s) shall be, as to such jurisdiction(s), ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

13. JURISDICTION. Each of the parties irrevocably agrees that any and all suits or proceedings based on or arising under this Agreement may be brought only in and shall be resolved in the federal or state courts located in the City of Los Angeles, California and consents to the jurisdiction of such courts for such purpose. Each of the parties irrevocably waives the defense of an inconvenient forum to the maintenance of such suit or proceeding in any such court. Each of the parties further agrees that service of process upon such party mailed by first class mail to the address set forth in Section 9 shall be deemed in every respect effective service of process upon such party in any such suit or proceeding. Nothing herein shall affect the right of either party to serve process in any other manner permitted by law. Each of the parties agrees that a final non-appealable judgment in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on such judgment or in any other lawful manner.

14. ATTORNEYS' FEES AND DISBURSEMENTS. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party or parties shall be entitled to receive from the other party or parties reasonable attorneys' fees and disbursements in addition to any other relief to which the prevailing party or parties may be entitled.

[The balance of this page is intentionally left blank.]

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto as of the date first above written.

MEDICAL DISCOVERIES, INC.

By: /s/ Judy M. Robinett

Name: Judy M. Robinett
Its: President & CEO

HOLDERS:

MONARCH POINTE FUND, LTD.

By: /s/ Harry Aharonian

Name: Harry Aharonian
Its: Director

MERCATOR ADVISORY GROUP, LLC

By: /s/ Harry Aharonian

Name: Harry Aharonian
Its: Portfolio Manager

EXHIBIT 4.2

REGISTRATION RIGHTS AGREEMENT

AGREEMENT dated as of December 3, 2004, between MERCATOR MOMENTUM FUND, LP, and MERCATOR MOMENTUM FUND III, LP. (collectively, the "Fund") and MERCATOR ADVISORY GROUP, LLC ("MAG") (the Fund and MAG are referred to individually as a "Holder" and collectively as the "Holders"), and Medical Discoveries, Inc., a Utah corporation (the "Company").

WHEREAS, the Funds have purchased, for an aggregate of $3,000,000, an aggregate of 30,000 shares of Series A Convertible Preferred Stock (the "Series A Stock") from the Company, and have the right to cause their Series A Stock to be converted into shares of Common Stock, no par value (the "Common Stock"), of the Company, pursuant to the conversion formula set forth in the Certificate of Determination;

WHEREAS, each of Fund and MAG have acquired Warrants (together, the "Warrants") from the Company, pursuant to which the Holders have the right to purchase in the aggregate up to 22,877,478 shares of the Common Stock through the exercise of the Warrants;

WHEREAS, the Company desires to grant to the Holders the registration rights set forth herein with respect to the shares of Common Stock issuable upon the conversion of the Series A Stock and the exercise of the Warrants.

NOW, THEREFORE, the parties hereto mutually agree as follows:

1. REGISTRABLE SECURITIES. As used herein the terms "Registrable Security" means each of the shares of Common Stock (i) issued upon the conversion of the Series A Stock (the "Conversion Shares") or (ii) upon exercise of the Warrants (the "Warrant Shares"), provided, however, that with respect to any particular Registrable Security, such security shall cease to be a Registrable Security when, as of the date of determination that (a) it has been effectively registered under the Securities Act of 1933, as amended (the "Securities Act"), and disposed of pursuant thereto, or (b) registration under the Securities Act is no longer required for the immediate public distribution of such security. The term "Registrable Securities" means any and/or all of the securities falling within the foregoing definition of a "Registrable Security." In the event of any merger, reorganization, consolidation, recapitalization or other change in corporate structure affecting the Common Stock, such adjustment shall be made in the definition of "Registrable Security" as is appropriate in order to prevent any dilution or enlargement of the rights granted pursuant to this Section 1.

2. REGISTRATION.

The Company shall file a registration statement (the "Registration Statement") with the Securities and Exchange Commission (the "SEC") on or before December 15, 2004, in order to register the resale of the Registrable Securities under the Securities Act. Once effective, the Company shall maintain the effectiveness of the Registration Statement until the earlier of

(i) the date that all of the Registrable Securities have been sold, or (ii) the date that the Company receives an opinion of counsel to the Company that all of the Registrable Securities may be freely traded without registration under the Securities Act, under Rule 144 promulgated under the Securities Act or otherwise.

The Company will initially include in the Registration Statement as Registrable Securities Eighty-Two Million Eight Hundred Seventy-Seven Thousand Four Hundred Seventy-Eight (82,877,478) shares of Common Stock issuable upon conversion of the Series A Stock and the maximum number of shares of Common Stock issuable upon exercise of the Warrants.

3. COVENANTS OF THE COMPANY WITH RESPECT TO REGISTRATION.

The Company covenants and agrees as follows:

The Company shall use best efforts to cause the Registration Statement to become effective with the SEC as promptly as possible and in no event more than 120 days after the date of this Agreement. If any stop order shall be issued by the SEC in connection therewith, the Company shall use best efforts to obtain promptly the removal of such order. Following the effective date of the Registration Statement, the Company shall, upon the request of any Holder, forthwith supply such reasonable number of copies of the Registration Statement, preliminary prospectus and prospectus meeting the requirements of the Securities

Act, and any other documents necessary or incidental to the public offering of the Registrable Securities, as shall be reasonably requested by the Holder to permit the Holder to make a public distribution of the Holder's Registrable Securities. The obligations of the Company hereunder with respect to the Holder's Registrable Securities are subject to the Holder's furnishing to the Company such appropriate information concerning the Holder, the Holder's Registrable Securities and the terms of the Holder's offering of such Registrable Securities as the Company may reasonably request in writing.

The Company shall pay all costs, fees and expenses in connection with the Registration Statement filed pursuant to Section 2 hereof including, without limitation, the Company's legal and accounting fees, printing expenses, and blue sky fees and expenses; provided, however, that each Holder shall be solely responsible for the fees of any counsel retained by the Holder in connection with such registration and any transfer taxes or underwriting discounts, commissions or fees applicable to the Registrable Securities sold by the Holder pursuant thereto.

The Company will take all actions which may be required to qualify or register the Registrable Securities included in the Registration Statement for the offer and sale under the securities or blue sky laws of such states as are reasonably requested by each Holder of such securities, provided that the Company shall not be obligated to execute or file any general consent to service of process or to qualify as a foreign corporation to do business under the laws of any such jurisdiction.

4. ADDITIONAL TERMS.

The Company shall indemnify and hold harmless the Holders and each underwriter, within the meaning of the Securities Act, who may purchase from or sell for any Holder, any Registrable Securities, from and against any and all losses, claims, damages and liabilities caused by any untrue statement of a material fact contained in the Registration Statement, any other registration statement filed by the Company under the Securities Act with respect to the registration of the Registrable Securities, any post-effective amendment to such registration statements, or any prospectus included therein or caused by any omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages or liabilities are caused by any such untrue statement or omission based upon information furnished or required to be furnished in writing to the Company by the Holders or underwriter expressly for use therein, which indemnification shall include each person, if any, who controls any Holder or underwriter within the meaning of the Securities Act and each officer, director, employee and agent of each Holder and underwriter; provided, however, that the indemnification in this Section 4(a) with respect to any prospectus shall not inure to the benefit of any Holder or underwriter (or to the benefit of any person controlling any Holder or underwriter) on account of any such loss, claim, damage or liability arising from the sale of Registrable Securities by the Holder or underwriter, if a copy of a subsequent prospectus correcting the untrue statement or omission in such earlier prospectus was provided to such Holder or underwriter by the Company prior to the subject sale and the subsequent prospectus was not delivered or sent by the Holder or underwriter to the purchaser prior to such sale and provided further, that the Company shall not be obligated to so indemnify any Holder or any such underwriter or other person referred to above unless the Holder or underwriter or other person, as the case may be, shall at the same time indemnify the Company, its directors, each officer signing the Registration Statement and each person, if any, who controls the Company within the meaning of the Securities Act, from and against any and all losses, claims, damages and liabilities caused by any untrue statement of a material fact contained in the Registration Statement, any registration statement or any prospectus required to be filed or furnished by reason of this Agreement or caused by any omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, insofar as such losses, claims, damages or liabilities are caused by any untrue statement or omission based upon information furnished in writing to the Company by the Holder or underwriter expressly for use therein.

If for any reason the indemnification provided for in the preceding section is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, claim, damage, liability or expense referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party thereunder, shall contribute to the amount paid or payable by the indemnified party as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect the relative fault of the indemnified party and the indemnifying party, as well as any other relevant equitable considerations.

Neither the filing of a Registration Statement by the Company pursuant to this Agreement nor the making of any request for prospectuses by the Holder shall impose upon any Holder any obligation to sell the Holder's

Registrable Securities.

Each Holder, upon receipt of notice from the Company that an event has occurred which requires a Post-Effective Amendment to the Registration Statement or a supplement to the prospectus included therein, shall promptly discontinue the sale of Registrable Securities until the Holder receives a copy of a supplemented or amended prospectus from the Company, which the Company shall provide as soon as practicable after such notice.

If the Company fails to keep the Registration Statement referred to above continuously effective during the requisite period, then the Company shall, promptly upon the request of any Holder, use best efforts to update the Registration Statement or file a new registration statement covering the Registrable Securities remaining unsold, subject to the terms and provisions hereof.

Each Holder agrees to provide the Company with any information or undertakings reasonably requested by the Company in order for the Company to include any appropriate information concerning the Holder in the Registration Statement or in order to promote compliance by the Company or the Holder with the Securities Act.

(g) The Company agrees that it shall cause each of its directors, officers and shareholders owning ten percent (10%) or more of the Company's outstanding Common Stock to refrain from selling any shares of the Company's Common Stock until the Registration Statement has been declared effective.

(h) Each Holder, on behalf of itself and its affiliates, hereby covenants and agrees not to, directly or indirectly, offer to "short sell", contract to "short sell" or otherwise "short sell" any securities of the Company, including, without limitation, shares of Common Stock that will be received as a result of the conversion of the Series A Stock or the exercise of the Warrants.

5. GOVERNING LAW. The Registrable Securities will be, if and when issued, delivered in California. This Agreement shall be deemed to have been made and delivered in the State of California and shall be governed as to validity, interpretation, construction, effect and in all other respects by the internal substantive laws of the State of California, without giving effect to the choice of law rules thereof.

6. AMENDMENT. This Agreement may only be amended by a written instrument executed by the Company and the Holders.

7. ENTIRE AGREEMENT. This Agreement constitutes the entire agreement of the parties hereto with respect to the subject matter hereof, and supersedes all prior agreements and understandings of the parties, oral and written, with respect to the subject matter hereof.

8. EXECUTION IN COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same document.

9. NOTICES. All communications hereunder shall be in writing and shall be hand delivered, mailed by first-class mail, couriered by next-day air courier or by facsimile at the addresses set forth below.

If to the Holders, Mercator Advisory Group, LLC
Mercator Momentum Fund, L.P.
Mercator Momentum Fund III, L.P.
Monarch Pointe Fund, Ltd.
555 South Flower Street, Suite 4500
Los Angeles, CA 90071
Attention: David Firestone

With a copy to Sheppard Mullin Richter & Hampton LLP
333 South Hope Street
48th Floor
Los Angeles, CA 90071-1448
Telephone No.: (213) 620-1780
Facsimile No.: (213) 620-1398
Attention: David C. Ulich

If to the Company, Medical Discoveries, Inc.
738 Aspenwood Lane
Twin Falls, Idaho 83301
Telephone No.: (208) 736-1799

Facsimile No.: (208) 733-5877
Attention: Judy M. Robinett

With a copy to

Stoel Rives LLP
101 S. Capitol Blvd., Suite 1900
Boise, Idaho 83702
Telephone No.: (208) 389-9000
Facsimile No.: (208) 389-9040
Attention: Stephen R. Drake

All such notices and communications shall be deemed to have been duly given: (i) when delivered by hand, if personally delivered; (ii) five business days after being deposited in the mail, postage prepaid, if mailed certified mail, return receipt requested; (iii) one business day after being timely delivered to a next-day air courier guaranteeing overnight delivery; (iv) the date of transmission if sent via facsimile to the facsimile number as set forth in this Section or the signature page hereof prior to 4:00 p.m. on a business day, or (v) the business day following the date of transmission if sent via facsimile at a facsimile number set forth in this Section or on the signature page hereof after 4:00 p.m. or on a date that is not a business day. Change of a party's address or facsimile number may be designated hereunder by giving notice to all of the other parties hereto in accordance with this Section.

10. BINDING EFFECT; BENEFITS. Any Holder may assign its rights hereunder. This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their respective heirs, legal representatives, successors and assigns. Nothing herein contained, express or implied, is intended to confer upon any person other than the parties hereto and their respective heirs, legal representatives and successors, any rights or remedies under or by reason of this Agreement.

11. HEADINGS. The headings contained herein are for the sole purpose of convenience of reference, and shall not in any way limit or affect the meaning or interpretation of any of the terms or provisions of this Agreement.

12. SEVERABILITY. Any provision of this Agreement which is held by a court of competent jurisdiction to be prohibited or unenforceable in any jurisdiction(s) shall be, as to such jurisdiction(s), ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

13. JURISDICTION. Each of the parties irrevocably agrees that any and all suits or proceedings based on or arising under this Agreement may be brought only in and shall be resolved in the federal or state courts located in the City of Los Angeles, California and consents to the jurisdiction of such courts for such purpose. Each of the parties irrevocably waives the defense of an inconvenient forum to the maintenance of such suit or proceeding in any such court. Each of the parties further agrees that service of process upon such party mailed by first class mail to the address set forth in Section 9 shall be deemed in every respect effective service of process upon such party in any such suit or proceeding. Nothing herein shall affect the right of either party to serve process in any other manner permitted by law. Each of the parties agrees that a final non-appealable judgment in any such suit or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on such judgment or in any other lawful manner.

14. ATTORNEYS' FEES AND DISBURSEMENTS. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party or parties shall be entitled to receive from the other party or parties reasonable attorneys' fees and disbursements in addition to any other relief to which the prevailing party or parties may be entitled.

[The balance of this page is intentionally left blank.]

IN WITNESS WHEREOF, this Agreement has been executed and delivered by

the parties hereto as of the date first above written.

MEDICAL DISCOVERIES, INC.

By: /s/ Judy M. Robinett

Name: Judy M. Robinett
Its: President & CEO

HOLDERS:

MERCATOR MOMENTUM FUND, LP

By: Mercator Advisory Group, LLC
Its: General Partner

By: /s/ David Firestone

Name: David Firestone
Its: Managing Member

MERCATOR MOMENTUM FUND III, LP

By: Mercator Advisory Group, LLC
Its: General Partner

By: /s/ David Firestone

Name: David Firestone
Its: Managing Member

MERCATOR ADVISORY GROUP, LLC

By: /s/ David Firestone

Name: David Firestone
Its: Managing Member

Exhibit 21

SUBSIDIARIES OF MEDICAL DISCOVERIES, INC.

MDI Oncology, Inc., a Delaware corporation

Exhibit 31

CERTIFICATION

I, Judy M. Robinett, certify that:

1. I have reviewed this annual report on Form 10-KSB of Medical Discoveries, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and I have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;

5. I have disclosed, based on my most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2005

/s/ JUDY M. ROBINETT

Judy M. Robinett
President, Chief Executive Officer
and principal financial officer

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Medical Discoveries, Inc. (the "Company") on Form 10-KSB for the annual period ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Judy M. Robinett, President and Chief Executive Officer of the Company and principal financial officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JUDY M. ROBINETT
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Judy M. Robinett
President and Chief Executive Officer
March 31, 2005