As filed with the Securities and Exchange Commission on June 2, 2005

Registration No. 0333-121635

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**Amendment No. 2 to**

# FORM SB-2

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

# MEDICAL DISCOVERIES, INC.

(Exact Name of Small Business Issuer in its Charter)

| **Utah** | **2834** | **87-0407858** |
|---|---|---|
| (State or Jurisdiction of Incorporation or Organization) | (Primary Standard Industrial Classification Code Number) | (I.R.S. Employer Identification No.) |

**1338 S. Foothill Drive, #266**
**Salt Lake City, Utah 84108**
**Telephone: (801) 582-9583**

(Address and telephone number of principal executive offices and principal place of business)

Judy M. Robinett
President and Chief Executive Officer
Medical Discoveries, Inc.
1338 S. Foothill Drive, #266
Salt Lake City, Utah 84108
Telephone: (801) 582-9583

**Copies to:**

**Stephen R. Drake, Esq.**

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**Chicago, Illinois 60601**
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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after this Registration Statement becomes effective.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If any of the securities being registered on this form are to be offered on a delayed or continuing basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☑

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.☐

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

**SUBJECT TO COMPLETION DATED JUNE 2, 2005**

**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

# Medical Discoveries, Inc.

# 113,511,158 shares of common stock

This prospectus relates to the offering and sale of 113,511,158 shares of common stock offered for resale by the selling security holders identified on page 10 of this prospectus.

We will not receive any of the proceeds from the sale of the shares offered hereunder. Our common stock is traded on the NASD OTC Bulletin Board under the symbol "MLSC." On June 1, 2005, the closing sales price of our common stock, as reported by the OTC Bulletin Board, was $0.14 per share.

***Consider carefully the risk factors beginning on page 2 of this prospectus before investing in the offered shares being sold with this prospectus***

**This prospectus shall not constitute an offer to sell, or the solicitation of an offer to buy, in any state in which such offer or sale would be unlawful before or absent qualification under the securities laws of such state.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

Dated June 2, 2005

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## ABOUT THIS PROSPECTUS

This prospectus provides you with a description of our company, certain risk factors associated with investment in our common shares, a description of the contemplated offering and certain financial information. 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.

## PROSPECTUS SUMMARY

The following is a summary that highlights what we believe to be the most important information regarding Medical Discoveries, Inc. and the securities being offered herein. Because it is a summary, however, it may not contain all of the information that is important to you. To understand our business and this offering fully, you should read carefully this entire prospectus, including our financial statements and related notes and the risks of investing in our common stock discussed under "Risk Factors."

### Our Company

Medical Discoveries, Inc. was incorporated on November 20, 1991 as a Utah corporation and maintains its principal offices at 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).

### The Offering

| | |
|---|---|
| Securities offered by the Selling Stockholders | 350,000 shares restricted common stock<br><br>84,000,000[1] shares of common stock issuable upon conversion of Series A convertible preferred stock<br><br>29,161,158 shares of common stock issuable upon exercise of warrants |
| Shares of our common stock outstanding prior to this offering | 107,101,947[2] |
| Shares of common stock outstanding following this offering, if all shares are sold | 220,263,105 |
| Use of Proceeds | All net proceeds of this offering will be received by the Selling Stockholders. |
| Risk Factors | You should read the "Risk Factors" beginning on page 2 as well as other cautionary statements throughout this prospectus before investing in any shares offered hereunder. |

(1) This registration statement covers, in part, the estimated number of shares of common stock issuable upon conversion of two issuances of Series A convertible preferred stock. On October 18, 2004 we issued 12,000 shares of Series A preferred stock to Monarch Pointe Fund, Ltd. Under the terms of that issuance, each share of Series A stock entitles the holder to convert the share 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 our 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. For purposes of this filing, we have assumed a conversion price of $0.05 per share for purposes of the 12,000 share Series A issuance. Thus, for that issuance we are registering 24,000,000 shares of common stock (which is the number of shares required to be registered pursuant to the applicable registration rights agreement with Monarch Pointe Fund, Ltd.). On March 14, 2005 we issued 30,000 shares of Series A preferred stock to Mercator Momentum

Fund, LP and Mercator Momentum Fund III, LP. Under the terms of that issuance, each share of Series A stock entitles the holder to convert the share 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 our common stock during the 10 trading days immediately preceding the conversion date, but the conversion price may not exceed $0.1967. For purposes of this filing, we have assumed a conversion price of $0.05 per share for purposes of the 30,000 share Series A issuance. Thus, for that issuance we are registering 60,000,000 shares of common stock (which is the number of shares required to be registered pursuant to the applicable registration rights agreement with Mercator Momentum Fund, LP and Mercator Momentum Fund III, LP).

(2) Excludes up to 19,483,000 shares of common stock authorized for issuance upon exercise of outstanding options granted pursuant to our stock option plans, 4,000,000 shares of our common stock reserved for the future grant of stock options under such plans, and 40,312,806 shares of our common stock issuable upon exercise of warrants (which 40,312,806 includes the 29,161,158 shares of common stock subject to outstanding warrants being registered in this offering).

In addition, pursuant to Rule 416 of the Securities Act, this prospectus, and the registration statement of which it is a part, covers a presently indeterminate number of shares of stock issuable upon the occurrence of a stock split, stock dividend or other similar transaction.

**Selling Security Holders**

All of the offered shares are to be sold by existing security holders. The selling stockholders acquired the rights to their shares and warrants (i) in a private placement of Series A Convertible Preferred Stock and warrants in October 2004; (ii) in a private placement of Series A Convertible Preferred Stock and warrants in March 2005; and (iii) in exchange for placement agent services and consulting in connection with the foregoing financings.

Of the shares of our common stock offered hereby, 350,000 shares consist of restricted common stock, an estimated 84,000,000 shares are issuable upon the conversion of Series A Convertible Preferred Stock , and 29,161,158 shares are issuable upon the exercise of outstanding warrants to purchase our common stock.

In addition, pursuant to Rule 416 of the Securities Act, this prospectus and the registration statement of which it is a part cover a presently indeterminate number of shares of common stock issuable upon the occurrence of a stock split, stock dividend, or other similar transaction.

## RISK FACTORS

An investment in our common stock involves a high degree of risk. You should consider the following discussion of risks in addition to the other information in this prospectus before making an investment in Medical Discoveries. If any of the following risks actually occurs, our business, financial condition or results of operations could be materially adversely affected. In such a case, you may lose all or part of your investment. The risks below address some of the factors that may affect our future operating results and financial performance.

### Risks Relating to Our Business

***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 sale, during commercial use. Even if our drugs do prove to be safe and effective and receive regulatory approvals, we may be unable to successfully commercialize them.

***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 $23,812,335 as of March 31, 2005. Our losses from operations were $3,731,475 for the fiscal year ended December 31, 2004, $1,794,416 for the three months ended March 31, 2005, and $20,456,150 from inception through March 31, 2005. We will likely continue to experience a net operating loss until, and if, we can fully commercialize our technologies, which will 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 March 31, 2005, our current liabilities exceeded our current assets by $760,802. We need additional capital in order to satisfy current liabilities and meet basic operational needs. We also will 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 60 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. We are unaware of any current or past infringement of our patented technologies; however, if such infringement were to occur, sufficient funds may not be available to adequately pursue an action for infringement. 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 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 Savetherapeutics 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 result in or are 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, and have incorporated the costs of insurance coverage into our budget for the trials.

Risks Specific to the Purchase of Common Stock in This Offering

***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 March 31, 2005 | $ 0.220 | $ 0.130 |
| 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 |

***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.

## FORWARD-LOOKING STATEMENTS

This prospectus, any supplement to this prospectus and the documents incorporated by reference contains statements that constitute "forward-looking statements" within the meaning of section 27A of the Securities Act and section 21E of the Securities Exchange Act. To the extent that the information presented in this prospectus discusses financial projections, information or expectations about our business plans, results of operations, products or markets, or otherwise makes statements about future events, such statement are forward-looking. Such statements can be identified by the use of the forward-looking words such as "intends," "anticipates," "believes," "estimates," "projects," "forecasts," "expects," "plans," and "proposes" and variations of such words or similar expressions. Additional forward-looking statements may be made by us from time to time.

Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, expressed in good faith and 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, there can be no assurance that our expectations, beliefs and projections will result or be achieved or accomplished. There are a number of risks and uncertainties that could cause actual results to differ materially from such forward-looking statements. These include, among others, the cautionary statements in the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of this prospectus. When considering forward-looking statements in this prospectus, you should keep in mind the cautionary statements in the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other sections of this prospectus.

In addition, these forward-looking statements speak only as of the date of this prospectus. 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.

## USE OF PROCEEDS

The aggregate proceeds to the selling stockholders from the sale of the common stock offered by them will be the purchase price of the common stock, less any applicable discounts or commissions. We will not receive any of the proceeds from this offering. Upon any exercise of the warrants by payment of cash, however, we will receive the exercise price of the warrants.

## DETERMINATION OF OFFERING PRICE

The offering price of the shares of common stock offered by this prospectus is being determined by each of the selling stockholders on a transaction-by-transaction basis based upon factors that such selling stockholder considers appropriate. The offering prices determined by the selling stockholders may, or may not, relate to a current market price but should not, in any case, be considered an indication of the actual value of the shares of common stock. We do not have any influence over the price at which selling stockholders offer or sell the shares of common stock offered by this prospectus.

## DILUTION

Our net tangible book value (tangible assets less total liabilities) at March 31, 2005 was $(760,802) or approximately $(0.007) per each of the 107,101,947 shares of common stock then outstanding. Accordingly, new investors who purchase shares will suffer an immediate, total dilution of their investment.

As of March 31, 2005, there were outstanding options to purchase up to 19,483,000 shares of our common stock as well as warrants to purchase up to 40,312,806 shares of our common stock (including the 29,161,158 shares of common stock subject to outstanding warrants being registered in this offering). The existence of those options and conversion rights may hinder future equity offerings by us, and the exercise of those options and conversion rights may have an adverse effect on the value of shares of our common stock. Furthermore, the holders of those options and conversion rights may exercise them at a time when we would otherwise be able to obtain additional equity capital on terms more favorable to us.

## SELLING SECURITY HOLDERS

All of the offered shares are to be sold by existing security holders. The selling stockholders acquired the rights to their shares and warrants (i) in a private placement of Series A Convertible Preferred Stock and warrants in October 2004; (ii) in a private placement of Series A Convertible Preferred Stock and warrants in March 2005; and (iii) in exchange for placement agent services and consulting in connection with the foregoing financings.

Of the shares of our common stock offered hereby, 350,000 shares consist of restricted common stock, 84,000,000 shares are issuable upon the conversion of Series A Convertible Preferred Stock, and 29,161,158 shares are issuable upon the exercise of outstanding warrants to purchase our common stock.

In addition, pursuant to Rule 416 of the Securities Act, this prospectus and the registration statement of which it is a part cover a presently indeterminate number of shares of common stock issuable upon the occurrence of a stock split, stock dividend, or other similar transaction.

For purposes of this prospectus, we have assumed that the number of shares issuable upon exercise of each of the warrants is the number stated on the face thereof. The number of shares issuable upon exercise of the warrants, and available for resale

hereunder, is subject to adjustment and could materially differ from the estimated amount depending on the occurrence of a stock split, consolidation stock dividend, or similar transaction resulting in an adjustment in the number of shares subject to the warrants.

The table below sets forth, as of June 2, 2005:

- the name of each selling stockholder;
- certain beneficial ownership information with respect to the selling stockholders;
- the number of shares that may be sold from time to time by each selling stockholder pursuant to this prospectus; and
- the amount (and, if 1% or more, the percentage) of shares of common stock to be owned by each selling stockholder if all offered shares are sold.

Beneficial ownership is determined in accordance with SEC rules and generally includes voting or investment power with respect to securities. Shares of common stock that are issuable upon the

conversion of Preferred stock or exercise of outstanding warrants held by a selling stockholder, to the extent exercisable before June 2, 2005, are treated as outstanding for purposes of computing each selling stockholder's ownership of outstanding shares of common stock and percentage ownership (but not the percentage ownership of other selling stockholders).

| | Beneficial Ownership Before Offering | | | Beneficial Ownership upon Completion of the Offering | |
|---|---|---|---|---|---|
| Beneficial Owner | Number of Shares | Percent | Number of Shares Being Offered | Number of Shares | Percent |
| Monarch Pointe Fund, Ltd. | 27,660,396(1) | 20.53(6) | 27,660,397 | — | — |
| Mercator Momentum Fund, LP | 42,248,856(2)(5) | 28.29(6) | 42,248,856 | — | — |
| Mercator Momentum Fund III, LP | 29,189,883(3)(5) | 21.42(6) | 29,189,883 | — | — |
| Mercator Advisory Group, LLC | 12,353,838(4) | 10.34(6) | 12,353,838 | — | — |
| Ascendiant Securities, LLC | 1,708,184 | 1.57 | 1,708,184 | — | — |
| Ascendiant Capital Group, LLC | 350,000 | 0.33 | 350,000 | — | — |

(1) Includes 3,660,396 shares that may be acquired upon exercise of currently exercisable warrants and includes an estimated number of shares of common stock issuable upon conversion of Series A convertible preferred stock. On October 18, 2004 we issued 12,000 shares of Series A preferred stock to Monarch Pointe Fund, Ltd. Under the terms of that issuance, each share of Series A stock entitles the holder to convert the share 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 our 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. For purposes of this filing, we have assumed a conversion price of $0.05 per share for purposes of the 12,000 share Series A issuance. Thus, for that issuance we are registering 24,000,000 shares of common stock (which is the number of shares required to be registered pursuant to the applicable registration rights agreement with Monarch Pointe Fund, Ltd.). Mercator Advisory Group, LLC controls the investments of Monarch Pointe Fund, Ltd. and David F. Firestone is the managing member of Mercator Advisory Group, LLC.

(2) Includes 6,748,856 shares that may be acquired upon exercise of currently exercisable warrants and includes an estimated number of shares of common stock issuable upon conversion of 17,750 shares of Series A convertible preferred stock. Mercator Advisory Group, LLC is the general partner of this partnership and David F. Firestone is the managing member of Mercator Advisory Group, LLC.

(3) Includes 4,689,883 shares that may be acquired upon exercise of currently exercisable warrants and includes an estimated number of shares of common stock issuable upon conversion of 12,250 shares of Series A convertible preferred stock. Mercator Advisory Group, LLC is the general partner of this partnership and David F. Firestone is the managing member of Mercator Advisory Group, LLC.

(4) Represents shares that may be acquired upon exercise of currently exercisable warrants. David F. Firestone is the managing member of this LLC.

(5) We determined the estimated number of shares of common stock issuable upon conversion of Series A convertible preferred stock as follows: On March 14, 2005 we issued 30,000 shares of Series A preferred stock to Mercator Momentum Fund, LP and Mercator Momentum Fund III, LP. Under the terms of that issuance, each share of Series A stock entitles the holder to convert the share 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 our common stock during the 10 trading days immediately preceding the conversion date, but the conversion price may not exceed $0.1967. For purposes of this filing, we have assumed a conversion price of $0.05 per share for purposes of the 30,000 share Series A issuance. Thus, for that issuance we are registering 60,000,000 shares of common stock (which is the number of shares required to be registered pursuant to the applicable registration rights agreement with Mercator Momentum Fund, LP and Mercator Momentum Fund III, LP). That 60,000,000 share estimate is allocated between them as follows: 35,500,000 shares issuable to Mercator Momentum Fund, LP, and 24,500,000 shares issuable to Mercator Momentum Fund III, LP.

(6) Notwithstanding these percentages, each of these entities is limited by the terms of the Series A Preferred Stock and by the applicable warrants to owning no more than 9.99% of our outstanding common stock at any given time.

## PLAN OF DISTRIBUTION

The selling stockholders, which as used herein includes donees, pledgees, transferees or other successors-in-interest selling shares of common stock or interests in shares of common stock received after the date of this prospectus from a selling stockholder as a gift, pledge, partnership distribution or other transfer, may, from time to time, sell, transfer or otherwise dispose of any or all of their shares of common stock or interests in shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices.

The selling stockholders may use any one or more of the following methods when disposing of shares or interests therein:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling stockholders may, from time to time, pledge or grant a security interest in some or all of the shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock, from time to time, under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus. The selling stockholders may also transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling stockholders may also sell shares by means of short sales to the extent permitted by United States securities laws. Short sales involve the sale by a selling shareholder, usually with a future delivery date, of shares of common stock that the seller does not own. Covered short sales are sales made in an amount not greater than the number of shares subject to the short seller's warrant, exchange right or other right to acquire shares of common stock. A selling shareholder may close out any covered short position by either exercising its warrants or exchange rights to acquire shares of common stock or purchasing shares in the open market. In determining the source of shares to

close out the covered short position, a selling shareholder will likely consider, among other things, the price of shares of common stock available for purchase in the open market as compared to the price at which it may purchase shares of common stock pursuant to its warrants or exchange rights.

Naked short sales are any sales in excess of the number of shares subject to the short seller's warrant, exchange right or other right to acquire shares of common stock. A selling shareholder must close out any naked position by purchasing shares. A naked short position is more likely to be created if a selling shareholder is concerned that there may be downward pressure on the price of the shares of common stock in the open market.

The existence of a significant number of short sales generally causes the price of the shares of common stock to decline, in part because it indicates that a number of market participants are taking a position that will be profitable only if the price of the shares of common stock declines. Purchases to cover naked short sales may, however, increase the demand for the shares of common stock and have the effect of raising or maintaining the price of the shares of common stock.

The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities that require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling stockholders also may resell all or a portion of the shares in open market transactions in reliance upon Rule 144 under the Securities Act, provided that they meet the criteria and conform to the requirements of that rule.

The selling stockholders and any underwriters, broker-dealers or agents that participate in the sale of the common stock or interests therein may be "underwriters" within the meaning of Section 2(11) of the Securities Act. Any discounts, commissions, concessions or profit they earn on any resale of the shares may be underwriting discounts and commissions under the Securities Act. Selling stockholders who are "underwriters" within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act.

To the extent required, the shares of our common stock to be sold, the names of the selling stockholders, the respective purchase prices and public offering prices, the names of any agents, dealers or underwriters, and any applicable commissions or discounts with respect to a particular offer will be set forth in an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement that includes this prospectus.

***Expenses, Indemnification and Registration Obligations.*** We are paying the expenses incurred in connection with preparing and filing this prospectus and the registration statement to which it relates, other than selling commissions. We have not retained any underwriter, broker or dealer to facilitate the offer or sale of the shares offered hereby. We will pay no underwriting commissions or discounts in connection therewith.

We have agreed to indemnify the selling stockholders against liabilities, including liabilities under the Securities Act and state securities laws, relating to the registration of the shares offered by this prospectus. The selling stockholders may indemnify any broker-dealers that participate in transactions involving the sale of the shares against certain liabilities, including liabilities arising under the Securities Act.

We have agreed with the selling stockholders to keep the registration statement of which this prospectus constitutes a part effective until the earlier of (i) such time as all of the shares covered by this prospectus have been disposed of pursuant to and in accordance with the registration statement or (ii) the date on which the shares may be sold pursuant to Rule 144(k) of the Securities Act.

***Passive Market Making.*** We have advised the selling stockholders that while they are engaged in a distribution of the shares offered pursuant to this prospectus, they are required to comply with Regulation M promulgated under the Securities Exchange Act of 1934, as amended. With certain exceptions, Regulation M precludes the selling stockholders, any affiliate purchasers and any broker-dealers or other persons who participate in the distribution from bidding for or purchasing, or attempting to induce any person to bid for or purchase, any security that is subject to the distribution until the entire distribution is complete. Regulation M also restricts bids or purchases made in order to stabilize the price of a security in connection with the distribution of that security. We do not intend to engage in any passive market making or stabilization transactions during the course of the distribution described in this prospectus. All of the foregoing may affect the marketability of the shares offered pursuant to this prospectus.

***Limitations.*** We have advised the selling stockholders that, to the extent necessary to comply with governing state securities laws, the offered securities should be offered and sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, we have advised the selling stockholders that the offered securities may not be offered or sold in any state unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available with respect to such offers or sales.

## LEGAL PROCEEDINGS

We are not aware of any legal proceedings against us. We may however be involved, from time to time, in various legal proceedings and claims incident to the normal conduct of our business.

## DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

The following table sets forth certain information regarding the executive officers and directors of Medical Discoveries, Inc. as of June 2, 2005.

| Name | Age | Title | Term of |
|---|---|---|---|
| David R. Walker | 59 | Chairman of the Board of Directors | 7 Years |
| Judy Robinett | 52 | President and Chief Executive Officer, Director | 4 Years |
| Larry Anderson | 55 | Director | 1 Year |
| Stephen R. Drake | 36 | Secretary | 1 Year |

**David R. Walker**

David R. Walker joined the Board of Directors on May 2, 1996, and was appointed Chairman of the Board of Directors on May 10, 1998. He has served as Chairman of the Audit Committee since its inception in 2001. For over 20 years, Mr. Walker has held the office of General Manager of Sunheaven Farms, the largest onion growing and packing entity in the State of Washington with annual revenues in excess of $50 million. In the capacity of General Manager, Mr. Walker performs the functions of a traditional chief financial officer. Mr. Walker holds a Bachelor of Arts degree in economics from Brigham Young University with minors in accounting and finance.

**Judy Robinett**

Judy M. Robinett has held the office of President and Chief Executive Officer since November, 2000, and joined the Board of Directors on February 9, 2001. Since 1994, she has owned and operated an international consulting company focused on strategic planning, finance, marketing, and distribution for entrepreneurs and established companies. Prior to that, Ms. Robinett's employment positions included Vice President for Quality Improvement for a regional hospital, Division Manager for Universal Foods, Group Manager for EG&G's Nuclear Training Facility in Idaho, and a Planner for the State of Idaho. Ms. Robinett has published more than 50 articles on business finance and operations and is a recognized authority on quality control. Ms. Robinett holds a Bachelors of Sciences degree in psychology and a Masters degree in labor economics from Utah State University.

**Larry Anderson**

Larry Anderson has a wide range of investment banking, sales and entrepreneurial experience. He has held investment banking and stock broker positions with Merrill Lynch (1984 to 1987), Oppenheimer (1987) and Kidder Peabody (1992), managing up to $300 million in accounts. Mr. Anderson has significant sales experience including holding national sales leader awards while at Automatic Data Processing and Qantel Computer Corporation. Mr. Anderson is an entrepreneur with numerous start-ups and turn-arounds to his credit. Within the last 5 years he has owned and operated or currently owns and operates, among other companies, C Innovation Inc, a 36-employee K-12 educational software company located in Claremont, California; Success Finance, a small contract financing company based in Utah; Complete Nursing Services a 28-employee terminally ill child care company in the State of Washington; All Home Care, a 65-employee aged home care company in California; and Future Now Enterprises, LLC in Utah. The combined yearly payroll of his businesses is over $6 million. Anderson currently lives in Salt Lake City, Utah.

**Stephen R. Drake**

Stephen R. Drake was elected Secretary of the Company effective as of April 1, 2004. He has served as legal counsel to the Company since November 2000. Mr. Drake is an attorney in private practice with Epstein Becker and Green, P.C. in Chicago, Illinois, where he practices corporate and securities law. Mr. Drake received a Bachelors of Arts degree, *cum laude,* from Albertson College in 1991 and a Juris Doctor degree,*cum laude,* from Willamette University College of Law in 1996.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding persons known by the Company to beneficially own, as defined by Rule 13d-3 under the Securities Exchange Act of 1934, more than 5% of Common Stock as of June 2, 2005, based solely on information regarding such ownership available to the Company in filings by such beneficial owners with the SEC on Schedules 13D and 13G. The following table also sets forth information regarding beneficial ownership of Common Stock as of June 2, 2005, by the Directors and the Named Executive Officer and by the Directors and Named Executive Officer as a group.

| Name and Address of Beneficial Owner(a) | Number of Shares and Nature of Beneficial Ownership (b) | Percent of Class |
|---|---|---|
| **Certain Beneficial Owners:** | | |
| Monarch Pointe Fund, Ltd.<br>555 S. Flower St., Suite 4500<br>Los Angeles, CA 90071 | 27,660,396(c) | 20.53(k) |
| Mercator Momentum Fund, LP<br>555 S. Flower St., Suite 4500<br>Los Angeles, CA 90071 | 42,248,856(d)(j) | 28.29(k) |
| Mercator Momentum Fund III, LP<br>555 S. Flower St., Suite 4500<br>Los Angeles, CA 90071 | 29,189,883(e)(j) | 21.42(k) |
| Mercator Advisory Group, LLC<br>555 S. Flower St., Suite 4500<br>Los Angeles, CA 90071 | 12,353,838(f) | 10.34(k) |
| Judy M. Robinett | 16,030,000(g) | 13.02 |
| **Directors/Named Executive Officer:** | | |
| David R. Walker | 1,153,539(h) | 1.07 |
| Judy M. Robinett | 16,030,000(g) | 13.02 |
| Larry Anderson | 250,000 | * |
| **All Directors and Executive Officers as a Group (3 persons)** | 17,433,539(i) | 14.00 |

* Less than 1%

(a) Unless otherwise indicated, the business address of each person listed is c/o Medical Discoveries, Inc., 1338 S. Foothill Drive, #266, Salt Lake City, Utah 84108.

(b) For purposes of this table, shares are considered to be beneficially owned if the person directly or indirectly has the sole or shared power to vote or direct the voting of the securities or the sole or shared power to dispose of or direct the disposition of the securities. Shares are also considered beneficially owned if a person has the right

to acquire the beneficial ownership of the shares within 60 days of June 2, 2005. Unless otherwise indicated in these footnotes, each shareholder has sole voting and investment power with respect to the shares beneficially owned.

(c) Includes 3,660,396 shares that may be acquired upon exercise of currently exercisable warrants and includes an estimated number of shares of common stock issuable upon conversion of Series A convertible preferred stock. On October 18, 2004 we issued 12,000 shares of Series A preferred stock to Monarch Pointe Fund, Ltd. Under the terms of that issuance, each share of Series A stock entitles the holder to convert the share 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 our 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. For purposes of this filing, we have assumed a conversion price of $0.05 per share for purposes of the 12,000 share Series A issuance. Thus, for that issuance we are registering 24,000,000 shares of common stock (which is the number of shares required to be registered pursuant to the applicable registration rights agreement with Monarch Pointe Fund, Ltd.).

(d) Includes 6,748,856 shares that may be acquired upon exercise of currently exercisable warrants and includes an estimated number of shares of common stock issuable upon conversion of 17,750 shares of Series A convertible preferred stock.

(e) Includes 4,689,883 shares that may be acquired upon exercise of currently exercisable warrants and includes an estimated number of shares of common stock issuable upon conversion of 12,250 shares of Series A convertible preferred stock.

(f) Represents shares that may be acquired upon exercise of currently exercisable warrants.

(g) Includes an estimated 16,000,000 shares that may be acquired upon the exercise of currently exercisable stock options.

(h) Includes an estimated 750,000 shares that may be acquired upon the exercise of currently exercisable stock options.

(i) Includes an estimated 16,750,000 shares that may be acquired upon the exercise of currently exercisable stock options.

(j) We determined the estimated number of shares of common stock issuable upon conversion of Series A convertible preferred stock as follows: On March 14, 2005 we issued 30,000 shares of Series A preferred stock to Mercator Momentum Fund, LP and Mercator Momentum Fund III, LP. Under the terms of that issuance, each share of Series A stock entitles the holder to convert the share 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 our common stock during the 10 trading days immediately preceding the conversion date, but the conversion price may not exceed $0.1967. For purposes of this filing, we have assumed a conversion price of $0.05 per share for purposes of the 30,000 share Series A issuance. Thus, for that issuance we are registering 60,000,000 shares of common stock (which is the number of shares required to be registered pursuant to the applicable registration rights agreement with Mercator Momentum Fund, LP and Mercator Momentum Fund III, LP). That 60,000,000 share estimate is allocated between them as follows: 35,500,000 shares issuable to Mercator Momentum Fund, LP, and 24,500,000 shares issuable to Mercator Momentum Fund III, LP.

(k) Notwithstanding these percentages, each of these entities is limited by the terms of the Series A Preferred Stock and by the applicable warrants to owning no more than 9.99% of our outstanding common stock at any given time.

## DESCRIPTION OF SECURITIES

The following description of our authorized capital stock is subject to the detailed provisions of our Articles of Incorporation. Our Articles of Incorporation are included as Exhibit 2.1 to the registration statement.

The aggregate number of shares of capital stock authorized for issuance by our Articles of Incorporation is 300,000,000, of which 250,000,000 are shares of common stock, no par value, and 50,000,000 are shares of preferred stock, no par value.

**Common Stock**.

As of June 2, 2005, there were 107,101,947 shares of common stock issued and outstanding and 1,461 stockholders of record.

***Dividend Rights.*** We have never declared or paid any cash dividends on our voting ordinary shares. Any future payment of dividends will be made at the discretion of our Board of Directors based upon conditions then existing, including earnings, financial condition and capital requirements as well as such economic and other conditions as our Board of Directors may deem relevant. Our By-Laws provide that the Board of Directors may, from time to time declare, and we may pay dividends on our outstanding shares in the manner and upon the terms and conditions provided by law.

***Voting***. Holders of our common stock are entitled to cast one vote in person or by proxy for each share of such common stock standing in his name on the stock transfer records of the Corporation. No shareholder has the right to cumulate votes in the election of directors. Currently, there are three members on our Board of Directors.

***Dissolution Rights***. In the event of any liquidation, dissolution or winding up of the affairs of the Company, after any preferential amount with respect to the Preferred Stock has been paid or reserved, the holders of Common Stock and the holders of any series of Preferred Stock entitled to participate in the distribution of assets are entitled to receive the net assets of the Company.

***Preemptive Rights*.** There are no preemptive rights authorized by our Articles of Incorporation or our By-Laws.

***Redemption*.** There are no redemption provisions applicable to our common stock.

***Certain Provisions of the Articles of Incorporation.*** Our Articles of Incorporation provide that we may indemnify and advance expenses to its directors, officers, employees, fiduciaries or agents and to any person who is or was serving at the Corporation's request as a director, officer, partner, trustee, employee, fiduciary or agent of another domestic or foreign corporation or other person or of an employee benefit plan (and their respective estates or personal representatives) to the fullest extent as from time to time permitted by Utah law.

**Preferred Stock**.

As of June 2, 2005, there were 42,000 shares of Series A Convertible Preferred Stock issued and outstanding.

***Dividend Rights.*** The holders of Series A Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of any assets of the Company legally available therefore, such dividends as may be declared from time to time by the Board of Directors.

***Voting***. The Series A preferred stock is non-voting.

***Dissolution Rights.*** In the event of any liquidation, dissolution or winding up of the Company, the holders of Series A Preferred Stock are entitled to be paid first out of the assets of the Company available for distribution to shareholders an amount equal to the $100.00 per share purchase price of each share of Series A Preferred Stock held, plus any declared but unpaid dividends on such share, before payment is to be made to the holders of the Common Stock.

***Other Preferred Stock.*** Our Articles of Incorporation authorize the issuance of Preferred Stock in one or more series, from time to time, by the Board of Directors without further vote of the shareholders, except as may be provided for under applicable law or the rules of any stock exchange or other market system on

which the preferred tock may then be listed or traded. The rights of the Board of Directors to designate and issue specific series of Preferred Stock will include, without limitation, the right to determine or designate the following with respect to each series:

- The distinctive designation and number of shares comprising such series, which number may (except where otherwise provided by the Board of Directors in creating such series) be increased or decreased (but not below the number of shares then outstanding) from time to time by like action of the Board of Directors;
- The dividend rate of such series, the conditions and times upon which such dividends shall be payable, the relation which such dividends shall bear to the dividends payable on any other class or classes of stock or series thereof, or on the other series of the same class, and whether dividends shall be cumulative or non-cumulative;
- The conditions upon which the shares of such series shall be subject to redemption by the Company and the times, prices and other terms and provisions upon which the shares of the series may be redeemed;
- Whether or not the shares of the series shall be subject to the operation of retirement or sinking fund provisions to be applied to the purchase or redemption of such shares and, if such retirement or sinking fund be established, the annual amount thereof and the terms and provisions relative to the operation thereof;
- Whether or not the shares of the series shall be convertible into or exchangeable for shares of any other class or classes, with or without par value, or of any other series of the same class and, if provision is made for conversion or exchange, the times, prices, rates, adjustments and other terms and conditions of such conversion or exchange;
- Whether or not the shares of the series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;
- The rights of the shares of the series in the event of voluntary or involuntary liquidation, dissolution or upon distribution of assets of the Company; and
- Any other designations, preferences, limitations and relative rights of the shares of such series, as the Board of Directors may deem advisable.

## INTEREST OF NAMED EXPERTS AND COUNSEL

The validity of the common stock offered hereby will be passed upon for us by Epstein Becker & Green, P.C. Our Secretary, Stephen R. Drake, is a member of Epstein Becker & Green, P.C. As of the date of this prospectus, a member of Epstein Becker & Green, P.C. holds an aggregate of 33,000 shares of our common stock and an option to purchase 300,000 shares of our common stock at $0.05 per share.

## LIMITATION OF LIABILITY AND INDEMNIFICATION

Our Articles of Incorporation provide that we will indemnify and advance expenses to our directors, officers, employees, fiduciaries or agents and to any person who is or was serving at our request as a director, officer, partner, trustee, employee, fiduciary or agent

of another domestic or foreign corporation or other person or of an employee benefit plan (and their respective estates or personal representatives) to the fullest extent as from time to time permitted by Utah law. The personal liability of our directors and officers to us or our shareholders, or to any third person, will be eliminated or limited to the fullest extent as from time to time permitted by Utah law.

Our Bylaws provide that we shall indemnify any director or officer if a determination has been made that the director or officer acted in good faith, he or she reasonably believed that his or her conduct was in, or not opposed to, the Company's best interests. The Bylaws provide that we shall not indemnify a director or officer if the director or officer, in connection with any proceeding by or in the right of the Company in which he or she was adjudged liable to the Company or any other proceeding he or she was adjudged liable on the basis that he or she derived an improper benefit.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

## DESCRIPTION OF BUSINESS

Medical Discoveries, Inc. was incorporated on November 20, 1991 as a Utah corporation and maintains its principal offices at 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. We further believe that MDI-P will be a safe and effective treatment for cystic fibrosis. 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 Investigational 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 March 31, 2005, we had incurred cumulative net losses since inception of $20,456,150.

***Recent Developments.***

SaveCream. On March 16, 2005 we announced the purchase of intellectual property assets from the liquidation estate of Savetherapeutics AG, a defunct German biotechnology company headquartered in Hamburg. The purchase price was #eu#2,350,000 (approximately $3.1 million). Before it ceased business in 2004, Savetherapeutics (SaveT) had been developing SaveCream, a topical steroidal form of aromatase inhibitor (AI) for breast cancer that never generated revenues for SaveT. This promising cancer therapeutic product has been tested in the European Union under a unique German regulatory scheme that allows patients with limited treatment options to receive novel treatments. In the study, over 100 women diagnosed with 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 purchase, pursuant to terms described below.

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 purchase also allows us to diversify our product base.

We analyzed whether the intellectual property purchased was a business within the contemplation of Regulation S-X, and concluded that no such business had been acquired.

Series A Preferred Stock Financings. On or about March 14, 2005, we closed the second of two rounds of Series A Preferred Stock financing with M.A.G. Capital, LLC (formerly Mercator Advisory Group, LLC). In this round, 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 for this round is 75% of the average of the lowest three intra-day trading prices for our 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 our common stock 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 our common stock 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 closed the first of two rounds of Series A Preferred Stock financing with M.A.G. Capital, LLC (formerly Mercator Advisory Group, LLC). In this round, 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 for this round is 85% of the average of the lowest three intra-day trading prices for our 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 our common stock 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 our common stock on or before the third anniversary of the issuance date of the warrants at $0.1967 per share.

In connection with the Series A Preferred Stock financings, we agreed with the investors to register the shares of common stock into which the Preferred Stock is convertible and the warrants are exercisable. This prospectus relates to our registration of those shares.

Cystic Fibrosis IND. We are continuing to pursue 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 cardiovascular 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 second priorities are the completion of a longer-range strategic business plan in which we utilize the intellectual property that has been developed over the last decade and determine an appropriate direction for future development of the business over the next five to ten 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 purchased intellectual property assets from the liquidation estate of Savetherapeutics AG in March of 2005. The assets related to 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 affects 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. As existing patents and pending patent applications are method patents covering the use of MDI-P for particular indications, we believe they are adequate to protect the proposed indications for use.

***Patents: SaveCream and Related Technologies.*** The intellectual property assets we purchased from the liquidation estate of Savetherapeutics A.G. include the following U.S. patent applications:

- "Medicament for Preventing and/or Treating a mammary Carcinoma Containing a Steroidal Aromatase Inhibitor"
- "Aromatase Marking"
- "Topical Treatment for Mastalgia"

The intellectual property assets purchased from the liquidation estate of Savetherapeutics, A.G. 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.*** 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.

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 1-1/2 to 2-1/2 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.

***Raw Materials.*** The components of both MDI-P and SaveCream are readily available from a number of sources. Therefore, once we are in the production stage with respect to these drugs, we do not anticipate raw materials acquisition difficulties or supplier identification or relations problems.

***Research and Development Expenditures***. 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 year 2003, we spent $100,423 on research and development. From inception through March 31, 2005, we have recorded $5,100,724 in research and development expenses including expenditures relating to the purchase of the SaveCream intellectual property. We are actively pursuing our research efforts of MDI-P and are in the process of establishing a commercialization plan for SaveCream.

***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 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. 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.

*Dr. Henry R. Thompson, M.D.*
*Director, Cystic Fibrosis Program Therapeutics Center, St. Luke's Health Center, Boise, Idaho*

On September 23, 2004, Dr. Thompson agreed to serve as Project Manager and Principal Investigator for MDI's Phase I trials in late-term adult Cystic Fibrosis (CF) patients. Dr. Thompson is a gastroentologist, and received his M.D. from Oregon Health Sciences University. He held a Fellowship in pediatric gastroenterology at Children's Hospital in Denver, at the University of Colorado Health Science's unit, where he also participated in clinical studies. Dr. Thompson has been an Assistant Professor at the University of Utah's Medical School, and is a Board certified Fellow in the American Association of Pediatrics. He has previously received grants from both the Cystic Fibrosis Foundation and the NIH.

***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 certain intellectual property assets from the liquidation estate of Savetherapeutics, A.G.

***Reports to Security Holders***. We have filed with the Securities and Exchange Commission, a Registration Statement on Form SB-2 under the Securities Act of 1933 with respect to the common stock offered by this prospectus. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. For further information with respect to us and the common stock offered by this prospectus, reference is made to the registration statement and the exhibits and schedules filed as a part of the registration statement. Additionally, we file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission. You may read and copy any materials we file with the Securities and Exchange Commission at the Securities and Exchange Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission also maintains a World Wide Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. The address of the Securities and Exchange Commission's Web site is http://www.sec.gov. You may also find more information about us, and any recent developments at our Web site at http://medicaldiscoveries.com.

## 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 F-1 through F-25.

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 "Forward-Looking Statements above and elsewhere in this prospectus.

**Results of Operations**

***Three months ended March 31, 2005 compared to three months ended March 31, 2004.***

***Revenues and Gross Profit —*** We did not book any revenue for the three-month periods ended March 31, 2005 or March 31, 2004. 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 incurred $1,551,986 in research and development expenses for the quarter ended March 31, 2005, $1,345,000 of which related to our acquiring the patents and patent rights relating to SaveCream. We incurred $38,643 in research and development expenses for the same period of 2004. Our general and administrative expenses were $251,996 during the first quarter of 2005, as compared to $2,047,693 during the quarter ended March 31, 2004. As a result of the foregoing, we sustained an operating loss of $1,803,982 for the quarter ended March 31, 2005, as compared with an operating loss of $2,086,336 for the same period of 2004.

***Other Income/Expense and Net Loss —*** We booked $5,564 in interest income and incurred interest expenses of $15,898 for the quarter ended March 31, 2005, as compared with interest income of $1,700 and $53,676 in interest expenses for the same period of 2004. The decrease in interest expense is a result of our successful efforts to convert high-interest debt to equity. In addition, we realized a gain of $19,900 on the foreign currency adjustment relating to our obligations in the SaveCream asset purchase. We recognized a net loss for the period of $1,794,416, compared to a net loss of $2,138,312 in the first quarter of 2004. In addition, we recognized a preferred stock dividend of $1,264,409 during the quarter as a result of the beneficial conversion feature of the preferred shares issued during the period. There was no such dividend recognized during the first quarter of 2004. In sum, our net loss applicable to common shareholders for the first quarter of 2005 was $3,058,825 or a loss of $0.03 per fully diluted share. For the quarter ended March 31, 2004 we incurred a net loss applicable to common shareholders of $2,138,312, making a loss of $0.03 per fully diluted share.

***Year ended December 31, 2004 compared to year ended December 31, 2003.***

***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.

***Future Expectations —*** We expect to operate at a loss for several more years while we continue to research, gain regulatory approval of, and commercialize our technologies. We will spend more in the remainder of the 2005 fiscal year in research and development expenses than we did over the prior year as we continue to implement our commercialization strategy. Similarly, we expect our general and administrative expenses to continue to increase for the remainder of 2005 as we continue to expand the scope of our operations. As a result, we expect to sustain a greater net loss in 2005 than we have in recent years.

**Liquidity and Capital Resources**

As of March 31, 2005, we had $3,158,525 in cash and had a working capital deficit of $760,802. Since our inception, we have financed our operations primarily through private sales of equity and the issuance of convertible and non-convertible notes. We continue to require significant supplementary 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 private issuances of equity.

During the three months ended March 31, 2005, we issued 30,000 shares of our Series A Preferred Stock to an unrelated third-party in exchange for $3 million in cash, less offering costs of $340,000. We intend to use this cash for additional research and development, including making the second installment on our purchase of the SaveCream assets.

We are seeking to raise substantial additional funds in private stock offerings in order to meet our near-term and mid-term funding requirements. While we are optimistic that we can raise such funds, we cannot provide positive assurances that we will be successful in our efforts. Given that we are still in an early development stage and do not have revenues from operations, raising equity financing can, at times, be difficult. In addition, any additional equity financing will have a substantial dilutive effect to our current shareholders.

We believe we have sufficient capital on hand to complete Phase I clinical trials for Cystic Fibrosis once the FDA approves our IND. We also believe we have sufficient capital to file our IND for HIV.

Once an IND application for HIV is submitted, and assuming it is approved, we will need additional capital to initiate Phase I clinical trials. We estimate the cost to complete Phase I and Phase II clinical trials to be several million dollars per indication and the cost to complete Phase III testing and obtain approval of an NDA to be in the tens of millions of dollars per indication.

While our ability to obtain financing may improve in the event our IND application is approved, we cannot give assurances that we will have 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.*** We bear foreign currency exchange risk because our remaining purchase price obligation for the Savetherapeutic assets is stated in Euros.

## 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.

## RELATED PARTY TRANSACTIONS

At March 31, 2005 we had accounts payable to our President and CEO totaling $827,636 for services performed on behalf of the Company. Also at March 31, 2005, we had an account payable to our bookkeeper of $73,000. We had notes payable to our stockholders aggregating $529,917 at March 31, 2005. Accrued interest payable recorded on these notes at March 31, 2005 was $431,160.

## 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, 2005 | HIGH BID | LOW BID |
|---|---|---|
| First Quarter | $ 0.220 | $ 0.130 |

| 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 June 2, 2005 was 1,461. 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 March 31, 2005.

| 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 | 4,000,000 |
| Equity compensation plans not approved by security holders | — | — | — |
| Total | 19,483,000 | $ 0.04 | 4,000,000 |

## EXECUTIVE COMPENSATION

***Director Compensation.*** Directors who are not officers of the Company do not receive any regular compensation for their service on the board of directors, and directors who are officers of the Company receive no additional compensation for their service as a director of the Company. Directors are entitled to receive compensation for services unrelated to their service as a director to the extent that they provide such unrelated services to the Company. See "Related Party Transactions" above.

Directors of the Company and its subsidiaries are entitled to participate in our 2002 Stock Incentive Plan. During the year ended December 31, 2004, we did not grant any options to directors.

***Summary Compensation Table.*** The following table sets forth certain summary information concerning compensation paid by the Company to the President and Chief Executive Officer (the "Named Executive Officer") for the years ended December 31, 2004, 2003, and 2002. No other executive officer of the Company received a total annual salary and bonus in excess of $100,000 during the year ended December 31, 2004. As of March 1, 2005, we increased Ms. Robinett's salary to $350,000 per year pursuant to an unwritten arrangement. We are in the process of negotiating a written employment agreement with Ms. Robinett.

| Name and Principal Position(s) | Year | Salary ($)(a) | Bonus ($) | Securities Underlying Options (#) |
|---|---|---|---|---|
| Judy M. Robinett | 2004 | 220,000 | — | — |
| President and Chief | 2003 | 220,000 | — | 14,500,000 |
| Executive Officer | 2002 | 193,336 | 300,000 | 500,000 |

(a) Represents total amounts accrued for the period, whether or not actually paid. As of December 31, 2004, the Company had a total payable to Ms. Robinett of $902,636. During the year ended December 31, 2004, Ms. Robinett was actually paid $101,500 by the Company.

The Named Executive Officer was not granted options during the year ended December 31, 2003.

The following table sets forth certain summary information concerning options exercised by the Named Executive Officer during 2004, and the value of options held by such person at December 31, 2004 measured in terms of the average sale price reported for Common Stock on December 31, 2004 ($.20, as reported by OTC Bulletin Board).

**Aggregate Option Exercises in 2004 and Option Values at 12/31/2004**

| Name | Shares Acquired on Exercise (#) | Value Realized ($) | Number of Securities Underlying Unexercised Options at December 31, 2004 (#) Exercisable/Unexercisable | Value of Unexercised In-the-Money Options at December 31, 2004 ($) Exercisable/Unexercisable |
|---|---|---|---|---|
| Judy M. Robinett | — | — | 16,000,000/0 | 3,200,000 |

The Company has never granted any freestanding stock appreciation rights.

## EXPERTS

Our financial statements included in this prospectus as of December 31, 2004 and for each of the two years then ended have been audited by Hansen Barnett and Maxwell, Eide Bailly LLP (formerly Balukoff Lindstrom & Co., P.A. — joined Eide Bailly November 1, 2004), and Tanner + Co., independent certified public accountants, as stated in their report appearing elsewhere in this prospectus and in the registration statement, and are included in reliance upon that report given upon the authority of that firm as experts in accounting and auditing.



## FINANCIAL STATEMENTS TABLE OF CONTENTS

HANSEN, BARNETT & MAXWELL
A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS
5 Triad Center, Suite 750
Salt Lake City, UT 84180-1128
Phone: (801) 532-2200
Fax: (801) 532-7944

Registered with the Public Company 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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of Medical Discoveries, Inc. and Subsidiary, (a development stage company) as of December 31, 1998 and 1997, and the related statements of operations, stockholders' deficit and cash flows for the two years ended December 31, 1998 and cumulative amounts since inception. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Medical Discoveries, Inc. and Subsidiary, (a development stage company) as of December 31, 1998 and 1997, and the results of their operations and their cash flows for the two years then ended and cumulative amounts since inception in conformity with generally accepted accounting principles.

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

TANNER + Co.

Salt Lake City, Utah
March 6, 1999

**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, 50,000,000 shares authorized; 12,000 shares designated Series A, convertible; 12,000 shares issued and outstanding (aggregate liquidation preference of $1,200,000) | 523,334 |
| Common stock, no par value; 250,000,000 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.

**MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES**
(A Development Stage Company)
Condensed Consolidated Balance Sheets
(Unaudited)

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | $ 3,158,525 | $ 1,455,397 |
| Deposits | 51,100 | 51,100 |
| Total Current Assets | 3,209,625 | 1,506,497 |
| TOTAL ASSETS | $ 3,209,625 | $ 1,506,497 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 2,363,550 | $ 2,448,454 |
| Accrued interest payable | 431,160 | 415,262 |
| Notes payable | 336,717 | 336,717 |
| Convertible notes payable | 193,200 | 193,200 |
| Research and development obligation | 645,800 | — |
| Total Current Liabilities | 3,970,427 | 3,393,633 |
| TOTAL LIABILITIES | 3,970,427 | 3,393,633 |
| STOCKHOLDERS' DEFICIT | | |
| Preferred stock, no par value; 50,000,000 shares authorized; 42,000 shares designated Series A, convertible; 42,000 and 12,000 shares issued and outstanding, respectively; (aggregate liquidation preference of $4,200,000 and $1,200,000, respectively) | 1,570,109 | 523,334 |
| Common stock, no par value; 250,000,000 shares authorized; 107,101,947 and 105,653,335 shares issued and outstanding, respectively | 15,179,407 | 14,918,657 |
| Additional paid-in capital | 6,302,017 | 3,424,383 |
| Deficit accumulated prior to the development stage | (1,399,577) | (1,399,577) |
| Deficit accumulated during the development stage | (22,412,758) | (19,353,933) |
| Total Stockholders' Deficit | (760,802) | (1,887,136) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | $ 3,209,625 | $ 1,506,497 |

See notes to condensed consolidated financial statements.

**MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES**
(A Development Stage Company)
Condensed Consolidated Statements of Operations
(Unaudited)

| | For the Three Months Ended March 31, | | From Inception of the Development Stage on November 20, 1991 Through March 31, |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| REVENUES | $ — | $ — | $ 157,044 |
| COST OF GOODS SOLD | — | — | 14,564 |
| GROSS PROFIT | — | — | 142,480 |
| OPERATING EXPENSES | | | |
| General and administrative | 251,996 | 2,047,693 | 15,428,966 |
| Research and development | 1,551,986 | 38,643 | 5,100,724 |
| Inventory write-down | — | — | 96,859 |
| Impairment loss | — | — | 9,709 |
| License fees | — | — | 1,001,500 |
| Total Expenses | 1,803,982 | 2,086,336 | 21,637,758 |
| LOSS FROM OPERATIONS | (1,803,982) | (2,086,336) | (21,495,278) |
| OTHER INCOME (EXPENSES) | | | |
| Interest income | 5,564 | 1,700 | 35,135 |
| Interest expense | (15,898) | (53,676) | (1,133,335) |
| Foreign currency transaction gain | 19,900 | — | 19,900 |
| Gain on forgiveness of debt | — | — | 1,235,536 |
| Other income | — | — | 881,892 |
| Total Other Income (Expenses) | 9,566 | (51,976) | 1,039,128 |
| NET LOSS | (1,794,416) | (2,138,312) | (20,456,150) |
| Preferred stock dividend from beneficial conversion feature | (1,264,409) | — | (1,956,608) |
| NET LOSS APPLICABLE TO COMMON SHAREHOLDERS | $ (3,058,825) | $ (2,138,312) | $ (22,412,758) |
| BASIC AND DILUTED LOSS PER COMMON SHARE | $ (0.03) | $ (0.03) | |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 106,506,793 | 84,830,304 | |

See notes to condensed consolidated financial statements.

**MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES**
(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows
(Unaudited)

| | For the Three Months Ended March 31, | | From Inception of the Development Stage on November 20, 1991 Through March 31, |
|---|---|---|---|
| | 2005 | 2004 | 2005 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net loss | $ (1,794,416) | $ (2,138,312) | $ (20,456,150) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | | |
| Foreign currency transaction gain | (19,900) | — | (19,900) |
| Common stock issued for services, expenses, and litigation | 18,750 | 1,727,466 | 4,286,467 |
| Acquired research and development costs | 665,700 | — | 665,700 |
| Depreciation | — | — | 100,271 |
| Reduction of escrow receivable from | — | — | — |
| research and development | — | — | 272,700 |
| Stock options and warrants granted for services | — | — | 4,811,253 |
| Reduction of legal costs | | — | (130,000) |
| Write-off of subscriptions receivable | — | — | 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 accounts receivable | — | — | 193,965 |
| Note payable issued for litigation | — | — | 385,000 |
| Changes in operating assets and liabilities: | | | |
| Increase in accounts receivable | — | — | (7,529) |
| Decrease in prepaid expenses | — | 11,331 | — |
| Decrease in deferred charges | — | 12,077 | — |
| Increase (decrease) in accounts payable | (84,904) | 133,292 | 2,207,641 |
| Increase (decrease) in accrued expenses | 15,898 | (3,264) | 615,607 |
| Net Cash Used by Operating Activities | (1,198,872) | (257,410) | (8,157,938) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Increase in deposits | — | — | (51,100) |
| Purchase of equipment | — | — | (132,184) |
| Payments received on note receivable | — | — | 130,000 |
| Net Cash Used by Investing Activities | — | — | (53,284) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Issuance of common stock, preferred stock and warrants for cash | 2,902,000 | 441,504 | 9,929,845 |
| Contributed equity | — | — | 131,374 |
| Proceeds from notes payable | — | — | 1,336,613 |
| Payments on notes payable | — | — | (501,287) |
| Proceeds from convertible notes payable | — | — | 571,702 |
| Payments on convertible notes payable | — | — | (98,500) |
| Net Cash Provided by Financing Activities | 2,902,000 | 441,504 | 11,369,747 |
| NET INCREASE IN CASH | 1,703,128 | 184,094 | 3,158,525 |
| CASH AT BEGINNING OF PERIOD | 1,455,397 | 424,216 | — |
| CASH AT END OF PERIOD | $ 3,158,525 | $ 608,310 | $ 3,158,525 |

See notes to condensed consolidated financial statements.

**MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES**
(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows (Continued)
(Unaudited)

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2005 | 2004 |
| SUPPLEMENTAL DISCLOSURES OF | | |
| CASH FLOW INFORMATION | | |
| Preferred stock dividend as part of beneficial conversion feature | $ 1,264,409 | $ — |
| Retirement of notes payable with common stock | $ — | $ 175,000 |

See notes to condensed consolidated financial statements.

**MEDICAL DISCOVERIES, INC. AND SUBSIDIARIES**
**(A Development Stage Company)**
**Notes to the Unaudited Condensed Consolidated Financial Statements**

**Note 1 — Basis of Presentation**

*Unaudited Interim Consolidated Financial Statements*

The accompanying unaudited consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments and disclosures necessary to a fair presentation of these financial statements have been included. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2004 Annual Report on Form 10-KSB for the year ended December 31, 2004, as filed with the Securities and Exchange Commission. Certain reclassifications and other corrections for rounding have been made in prior-period financial statements to conform to the current-period presentation. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

*Loss Per Common Share*

Loss per share is computed by dividing net loss applicable to common shareholders by the weighted-average number of shares outstanding. Potential common shares from convertible notes payable, warrants and stock options have not been included as they are anti-dilutive.

**Note 2 — Going Concern Considerations**

The Company's recurring losses from development-stage activities in current and prior years raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible effects on the recoverability and classification of assets or amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern. The Company is attempting to raise additional capital to fund research and development costs until it is able to consistently generate revenues and sustain profitable operations. However, there can be no assurance that these plans will be successful.

**Note 3 — Issuance of Common Stock, Preferred Stock, and Warrants**

*Common Stock*

During the three months ended March 31, 2005, the Company issued 1,448,612 shares of restricted common stock, 104,167 of which were issued for services valued at $18,750 and 1,344,445 of which were issued for cash totaling $242,000. In connection with the sales for cash, the Company also issued warrants to purchase 1,344,445 shares of restricted common stock at $0.18 per share, expiring 3 years from the date of issuance.

*Preferred Stock and Warrants*

During the three months ended March 31, 2005, the Company issued 30,000 shares of Series A Convertible Preferred Stock and warrants to purchase 22,877,478 shares of common stock for a total offering price of $3.0 million. The Company incurred $340,000 of offering costs and issued to the placement agent warrants to purchase 1,220,132 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 $213,889 ($0.18 per share) using a Black

Scholes option pricing model with the following assumptions: risk free rate 2.82%, volatility of 203% 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. 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 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 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: $3,000,000 to the Series A Convertible Preferred and $4,010,422 to the warrants. The warrants were valued using the Black Scholes Pricing model using the following assumptions: volatility of 203%, risk-free interest rate of 2.82% and a term of three years. The allocation of the net proceeds resulted in $1,046,775 being allocated to the Series A Convertible Preferred Stock and $1,399,336 being allocated to the warrants. The Company recognized a beneficial conversion dividend of $1,264,409 on the date of issuance equal to the value allocated to the Series A Convertible Preferred Stock (before offering costs). The actual amount of the beneficial conversion was $4,037,917 but the dividend is limited to the amount of gross proceeds allocated to the Series A Convertible Preferred Stock.

The Series A Convertible Preferred Stock has no 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 the investors 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.

**Note 4 – Other Significant Events**

*SaveCream Asset Purchase*

On March 16, 2005, 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-stage topical aromatase inhibitor treatment for breast cancer. SaveCream never generated revenues for SaveT. The Company's analysis as to whether the intellectual property purchased constituted a business resulted in the conclusion that no such business had been acquired.

The purchase price of the Assets was negotiated to be€2,350,000 (approximately $3.1 million under current exchange rates), payable as follows:€500,000 at closing, €500,000 (approximately $645,800 using the March 31, 2005 exchange rates) upon conclusion of certain pending transfers of patent and patent application rights from SaveT's inventors to the Company, and the remaining €1,350,000 (approximately $1.74 million at current exchange rates) upon successful commercialization of the Assets. The Company's source of funds for the acquisition was a $3 million investment in the Company's Series A Preferred Stock by an unrelated third party, as described in Note 3.

SaveT inventors have yet to assign the patent and application rights to the Company, management has deemed the assignment of the rights to be reasonably likely because the inventors are contractually bound to execute and deliver the assignments; therefore, the Company has recorded the second €500,000 payment as a current liability in these financial statements. At present it is undeterminable whether the intellectual property will ever be commercialized; therefore, the final €1,350,000 under this acquisition has

not been accrued as a liability as of March 31, 2005. The Company determined the intellectual property purchased should be expensed as research and development costs

*Formation of MDI Oncology, Inc.*

On March 22, 2005, the Company formed MDI Oncology, Inc., a Delaware Corporation, as a wholly-owned subsidiary for the purpose of acquiring and operating the assets and associated business ventures associated with the SaveCream purchase.

**Note 5 – Subsequent Event**

In April, 2005, the Company negotiated a settlement regarding notes payable totaling $336,717 and accrued interest of $269,364, by payment of $300,000 in cash. The Company will recognize a gain on settlement of debt totaling $306,081.

**No dealer, salesman or other person is authorized to give any information or to make any representations not contained in this prospectus in connection with the offer made hereby, and, if given or made, such information or representations must not be relied upon as having been made by us.**

**This prospectus does not offer to sell or buy any securities in any jurisdiction where it is unlawful.**

**The information in this prospectus is current as of the date hereof. Neither the delivery of this prospectus nor any sale made hereunder shall create any implication that the information contained herein is correct as of any time subsequent to the date hereof.**

Table of Contents

**113,511,158 shares common stock**

**Medical Discoveries, Inc.**

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Prospectus

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June 2, 2005

## PART II
## INFORMATION NOT REQUIRED IN THE PROSPECTUS

### Item 24. Indemnification of Officers and Directors

Part 9 of the Utah Business Corporation Act empowers a corporation to indemnify its directors and officers, advance or reimburse expenses to its directors and officers, and to purchase insurance with respect to liability arising out of their capacity or status as directors and officers. Such indemnification is permissible in certain situations and mandatory in other situations. In cases where indemnification or advancing or reimbursing of expenses is permissible, authorization and a determination of qualification must be made in each specific case. The Registrant's articles of incorporation and bylaws provide for the indemnification of its directors and officers to the fullest extent permitted by law.

### Item 25. Other Expenses of Issuance and Distribution

The following table sets forth the various expenses of the offering, sale and distribution of the offered securities being registered pursuant to this registration statement (the "Registration Statement"). We will bear all of the expenses listed below. All of the amounts shown are estimates except the SEC registration fees.

| Item | Amount |
|---|---|
| SEC registration fees | $ 2,760.01 |
| Accounting and legal fees and expenses | $ 35,000 |
| Printing expenses | $ 5,000 |
| Miscellaneous expenses | $ 1,000 |
| **Total:** | $ 43,760.01 |

### Item 26. Recent Sales of Unregistered 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.

- During the three months ended March 31, 2005, we issued 1,344,445 restricted shares of common stock to unrelated private investors for a cash inflow of $242,000, in accordance with Rule 144 of the Securities Exchange Act of 1934. In addition, we issued 30,000 shares of our Series A Preferred Stock in March 2005, in exchange for $3,000,000 in cash. Neither of these issuances involved an underwriter. We believe these issuances were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 because the sales did not involve a public offering. The investment proceeds were utilized toward the purchase of the SaveCream assets, and will help complete our Phase I clinical trials in cystic fibrosis which we plan to commence in the first quarter of 2005 once our IND is accepted with the FDA. In addition, we intend to utilize a significant portion of these proceeds in further research, development, and commercialization of the patents and patent rights acquired in the SaveCream purchase.

- 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 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.

**Item 27. Exhibits**

The following exhibits required by Item 601 of Regulation S-B promulgated under the Securities Act have been included with the Registration Statement as indicated below.

**EXHIBIT INDEX**

| Exhibit No. | Exhibit |
|---|---|
| 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 | Certificate of Designations of Preferences and Rights of Series A Convertible Preferred Stock of Medical Discoveries, Inc.+ |
| 4.2 | Amendment to Certificate of Designations of Preferences and Rights of Series A Convertible Preferred Stock of Medical Discoveries, Inc.+ |
| 4.3 | Registration Rights Agreement dated October 18, 2004 among Monarch Pointe Fund, Ltd, Mercator Advisory Group, LLC and Medical Discoveries, Inc.+ |
| 4.4 | Registration Rights Agreement dated December 3, 2004 among Mercator Momentum Fund, LP, Mercator Momentum Fund III, LP, Mercator Advisory Group, LLC and Medical Discoveries, Inc.+ |
| 5.1 | Opinion of Epstein Becker & Green, P.C.* |
| 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). |
| 10.2 | Subscription Agreement dated October 18, 2004 among Monarch Pointe Fund, Ltd., Mercator Advisory Group, LLC, and Medical Discoveries, Inc.** |
| 10.3 | Subscription Agreement dated December 3, 2004 among Mercator Momentum Fund, LP, Mercator Momentum Fund III, LP, Mercator Advisory Group, LLC, and Medical Discoveries, Inc.** |
| 23.1 | Consent of Hausen, Barnett & Maxwell* |
| 23.2 | Consent Eide Bailly LLP* |
| 23.3 | Consent of Tanner & Co.* |
| 23.4 | Consent of Epstein Becker & Green, P.C.++ |

* To be filed by subsequent amendment prior to effectiveness

** Filed herewith

\+ Previously filed

++ Included in Item 5.1

**Item 28. Undertakings**

The Registrant hereby undertakes:

(1) To file during any period in which offers or sales are being made, a post-effective amendment to this registration statement to:

(i) Include any prospectus required by Section 10(a)(3) of the Securities Act.

(ii) Reflect in the prospectus any facts or events that, individually or together, represent a fundamental change in the information. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement.

(iii) Include any additional or changed material information on the plan of distribution.

(2) That for determining liability under the Securities Act, to treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

(3) To file a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

**SIGNATURES**

In accordance with the requirements of the Securities Act, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form SB-2 and authorized this registration statement to be signed on its behalf by the undersigned, in Salt Lake City, Utah, on June 2, 2005.

**Medical Discoveries, Inc.**

By: /s/ Judy M. Robinett
Judy M. Robinett
President, Chief Executive Officer and principal financial officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Judy M. Robinett his or her attorney-in-fact and agent, with full power of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any or all amendments to this Registration Statement on Form SB-2, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection with this Registration Statement, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that any of said attorney-in-fact and agent, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Act, this registration Statement was signed by the following persons in the capacities and on the dates stated:

| | | |
|---|---|---|
| /s/ Judy M. Robinett<br>Judy M. Robinett | President, Chief Executive Officer and principal financial officer | June 2, 2005 |
| /s/ David R. Walker<br>David R. Walker | Chairman of the Board of Directors | June 2, 2005 |
| /s/ Larry Anderson<br>Larry Anderson | Director | June 2, 2005 |

## EXHIBIT INDEX

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* To be filed by subsequent amendment prior to effectiveness

** Filed herewith

\+ Previously filed

++ Included in Item 5.1

EXHIBIT 10.2

MEDICAL DISCOVERIES, INC.
SHARES OF SERIES A CONVERTIBLE PREFERRED STOCK AND COMMON STOCK WARRANTS

SUBSCRIPTION AGREEMENT

October 18, 2004

Mercator Advisory Group LLC
Monarch Pointe Fund Ltd.
555 South Flower Street, Suite 4500
Los Angeles, California 90071

Ladies and Gentlemen:

Medical Discoveries, Inc. a Utah corporation (the "COMPANY"), hereby confirms its agreement with Monarch Pointe Fund, Ltd., a British Virgin Islands international business company (the "PURCHASER") and Mercator Advisory Group, LLC, a California limited liability company ("MAG"), as set forth below.

1. The Securities. Subject to the terms and conditions herein contained, the Company proposes to issue and sell to the Purchaser an aggregate of: (a) Twelve Thousand (12,000) shares of its Series A Convertible Preferred Stock (the "SERIES A STOCK"), which shall be convertible into shares (the "CONVERSION SHARES") of the Company's Common Stock (the "COMMON STOCK") in accordance with the formula set forth in the Certificate of Designations further described below and (b) warrants calculated by dividing $900,000 by the Ceiling Price (as defined in the Certificate of Designations), substantially in the form attached hereto at Exhibit A (the "WARRANTS"), to acquire an equal number of shares of Common Stock (the "WARRANT SHARES"). The rights, preferences and privileges of the Series A Stock are as set forth in the Certificate of Designations of Preferences and Rights of Series A Convertible Preferred Stock as filed with the Secretary of State of the State of Utah (the "CERTIFICATE OF DESIGNATIONS") in the form attached hereto as Exhibit B. The number of Conversion Shares and Warrant Shares that Purchaser may acquire at any time are subject to limitation in the Certificate of Designations and in the Warrants, respectively, so that the aggregate number of shares of Common Stock of which Purchaser and all persons affiliated with Purchaser have beneficial ownership (calculated pursuant to Rule 13d-3 of the Securities Exchange Act of 1934, as amended) does not at any time exceed 9.99% of the Company's then outstanding Common Stock.

The Series A Stock and the Warrants are sometimes herein collectively referred to as the "SECURITIES." This Agreement, the Certificate of Designations, Registration Rights Agreement and the Warrant Agreements are sometimes herein collectively referred to as the "TRANSACTION DOCUMENTS."

The Securities will be offered and sold to the Purchaser without such offers and sales being registered under the Securities Act of 1933, as amended (together with the rules and



regulations of the Securities and Exchange Commission (the "SEC") promulgated thereunder, the "SECURITIES ACT"), in reliance on exemptions therefrom.

In connection with the sale of the Securities, the Company has made available (including electronically via the SEC's EDGAR system) to Purchaser its periodic and current reports, forms, schedules, proxy statements and other documents (including exhibits and all other information incorporated by reference) filed with the SEC under the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"). These reports, forms, schedules, statements, documents, filings and amendments, are collectively referred to as the "DISCLOSURE DOCUMENTS." All references in this Agreement to financial statements and schedules and other information which is "contained," "included" or "stated" in the Disclosure Documents (or other references of like import) shall be deemed to mean and include all such financial statements and schedules, documents, exhibits and other information which is incorporated by reference in the Disclosure Documents.

2. Representations and Warranties of the Company. Except as set forth on the Disclosure Schedule (the "DISCLOSURE SCHEDULE") delivered by the Company to Purchaser on the Closing Date (as defined in Section 3 below), the Company represents and warrants to and agrees with Purchaser and MAG as follows:

(a) The Disclosure Documents as of their respective dates did not, and will not (after giving effect to any updated disclosures therein) as of the Closing Date, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Disclosure Documents and the documents incorporated or deemed to be incorporated by reference therein, at the time they were filed or hereafter are filed with the

SEC, complied and will comply, at the time of filing, in all material respects with the requirements of the Securities Act and/or the Exchange Act, as the case may be, as applicable.

(b) Schedule A attached hereto sets forth a complete list of the subsidiaries of the Company (the "SUBSIDIARIES"). Each of the Company and its Subsidiaries has been duly incorporated and each of the Company and the Subsidiaries is validly existing in good standing as a corporation under the laws of its jurisdiction of incorporation, with the requisite corporate power and authority to own its properties and conduct its business as now conducted as described in the Disclosure Documents and is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions where the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified would not, individually or in the aggregate, have a material adverse effect on the business, condition (financial or other), properties, prospects or results of operations of the Company and the Subsidiaries, taken as a whole (any such event, a "MATERIAL ADVERSE EFFECT"); as of the Closing Date, the Company will have the authorized, issued and outstanding capitalization set forth in on Schedule B attached hereto (the "COMPANY CAPITALIZATION"); except as set forth in the Disclosure Documents or on Schedule A, the Company does not have any subsidiaries or own directly or indirectly any of the capital stock or other equity or long-term debt securities of or have any equity interest in any other person; all of the outstanding shares of capital stock of the Company and the Subsidiaries have been duly authorized and validly issued,



are fully paid and nonassessable and were not issued in violation of any preemptive or similar rights and are owned free and clear of all liens, encumbrances, equities, and restrictions on transferability (other than those imposed by the Securities Act and the state securities or "Blue Sky" laws) or voting; except as set forth in the Disclosure Documents, all of the outstanding shares of capital stock of the Subsidiaries are owned, directly or indirectly, by the Company; except as set forth in the Disclosure Documents, no options, warrants or other rights to purchase from the Company or any Subsidiary, agreements or other obligations of the Company or any Subsidiary to issue or other rights to convert any obligation into, or exchange any securities for, shares of capital stock of or ownership interests in the Company or any Subsidiary are outstanding; and except as set forth in the Disclosure Documents or on Schedule C, there is no agreement, understanding or arrangement among the Company or any Subsidiary and each of their respective stockholders or any other person relating to the ownership or disposition of any capital stock of the Company or any Subsidiary or the election of directors of the Company or any Subsidiary or the governance of the Company's or any Subsidiary's affairs, and, if any, such agreements, understandings and arrangements will not be breached or violated as a result of the execution and delivery of, or the consummation of the transactions contemplated by, the Transaction Documents.

(c) The Company has the requisite corporate power and authority to execute, deliver and perform its obligations under the Transaction Documents. Each of the Transaction Documents has been duly and validly authorized by the Company and, when executed and delivered by the Company, will constitute a valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms except as the enforcement thereof may be limited by (A) bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar laws now or hereafter in effect relating to or affecting creditors' rights generally or (B) general principles of equity and the discretion of the court before which any proceeding therefore may be brought (regardless of whether such enforcement is considered in a proceeding at law or in equity) (collectively, the "ENFORCEABILITY EXCEPTIONS").

(d) The Series A Stock and the Warrants have been duly authorized and, when issued upon payment thereof in accordance with this Agreement, will have been validly issued, fully paid and non-assessable. The Conversion Shares issuable have been duly authorized and validly reserved for issuance, and when issued upon conversion of the Series A Stock in accordance with the terms of the Certificate of Designations, will have been validly issued, fully paid and non-assessable. The Warrant Shares have been duly authorized and validly reserved for issuance, and when issued upon exercise of the Warrants in accordance with the terms thereof, will have been validly issued, fully paid and non-assessable. The Common Stock of the Company conforms to the description thereof contained in the Disclosure Documents. The stockholders of the Company have no preemptive or similar rights with respect to the Common Stock.

(e) No consent, approval, authorization, license, qualification, exemption or order of any court or governmental agency or body or third party is required for the performance of the Transaction Documents by the Company or for the consummation by the Company of any of the transactions contemplated thereby, or the application of the proceeds of the issuance of the Securities as described in this Agreement, except for such consents,

approvals, authorizations, licenses, qualifications, exemptions or orders (i) as have been obtained on or prior to the Closing Date, (ii) as are not required to be obtained on or prior to the Closing Date that will be obtained when required, or (iii) the failure to obtain which would not, individually or in the aggregate, have a Material Adverse Effect.

(f) Except as set forth on Schedule D, none of the Company or the Subsidiaries is (i) in material violation of its articles of incorporation or bylaws (or similar organizational document), (ii) in breach or violation of any statute, judgment, decree, order, rule or regulation applicable to it or any of its properties or assets, which breach or violation would, individually or in the aggregate, have a Material Adverse Effect, or (iii) except as described in the Disclosure Documents, in default (nor has any event occurred which with notice or passage of time, or both, would constitute a default) in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan agreement, note, lease, license, franchise agreement, permit, certificate or agreement or instrument to which it is a party or to which it is subject, which default would, individually or in the aggregate, have a Material Adverse Effect.

(g) The execution, delivery and performance by the Company of the Transaction Documents and the consummation by the Company of the transactions contemplated thereby and the fulfillment of the terms thereof will not (a) violate, conflict with or constitute or result in a breach of or a default under (or an event that, with notice or lapse of time, or both, would constitute a breach of or a default under) any of (i) the terms or provisions of any contract, indenture, mortgage, deed of trust, loan agreement, note, lease, license, franchise agreement, permit, certificate or agreement or instrument to which any of the Company or the Subsidiaries is a party or to which any of their respective properties or assets are subject, (ii) the Certificate of Incorporation or bylaws of any of the Company or the Subsidiaries (or similar organizational document) or (iii) any statute, judgment, decree, order, rule or regulation of any court or governmental agency or other body applicable to the Company or the Subsidiaries or any of their respective properties or assets or (b) result in the imposition of any lien upon or with respect to any of the properties or assets now owned or hereafter acquired by the Company or any of the Subsidiaries; which violation, conflict, breach, default or lien would, individually or in the aggregate, have a Material Adverse Effect.

(h) The audited consolidated financial statements included in the Disclosure Documents present fairly the consolidated financial position, results of operations, cash flows and changes in shareholders' equity of the entities, at the dates and for the periods to which they relate and have been prepared in accordance with generally accepted accounting principles applied on a consistent basis; the interim un-audited consolidated financial statements included in the Disclosure Documents present fairly the consolidated financial position, results of operations and cash flows of the entities, at the dates and for the periods to which they relate subject to year-end audit adjustments and have been prepared in accordance with generally accepted accounting principles applied on a consistent basis with the audited consolidated financial statements included therein; the selected financial and statistical data included in the Disclosure Documents present fairly the information shown therein and have been prepared and compiled on a basis consistent with the audited financial statements included therein, except as otherwise stated therein; and each of the auditors previously engaged by the Company or to be



engaged in the future by the Company is an independent certified public accountant as required by the Securities Act for an offering registered thereunder.

(i) Except as described in the Disclosure Documents, there is not pending or, to the knowledge of the Company, threatened any action, suit, proceeding, inquiry or investigation, governmental or otherwise, to which any of the Company or the Subsidiaries is a party, or to which their respective properties or assets are subject, before or brought by any court, arbitrator or governmental agency or body, that, if determined adversely to the Company or any such Subsidiary, would, individually or in the aggregate, have a Material Adverse Effect or that seeks to restrain, enjoin, prevent the consummation of or otherwise challenge the issuance or sale of the Securities to be sold hereunder or the application of the proceeds therefrom or the other transactions described in the Disclosure Documents.

(j) The Company and the Subsidiaries own or possess adequate licenses or other rights to use all patents, trademarks, service marks, trade names, copyrights and know-how that are necessary to conduct their businesses as described in the Disclosure Documents. None of the Company or the Subsidiaries has received any written notice of infringement of (or knows of any such infringement of) asserted rights of others with respect to any patents, trademarks, service marks, trade names, copyrights or know-how that, if such assertion of infringement or conflict were sustained, would, individually or in

the aggregate, have a Material Adverse Effect.

(k) Each of the Company and the Subsidiaries possesses all licenses, permits, certificates, consents, orders, approvals and other authorizations from, and has made all declarations and filings with, all federal, state, local and other governmental authorities, all self-regulatory organizations and all courts and other tribunals presently required or necessary to own or lease, as the case may be, and to operate its respective properties and to carry on its respective businesses as now or proposed to be conducted as set forth in the Disclosure Documents ("PERMITS"), except where the failure to obtain such Permits would not, individually or in the aggregate, have a Material Adverse Effect and none of the Company or the Subsidiaries has received any notice of any proceeding relating to revocation or modification of any such Permit, except as described in the Disclosure Documents and except where such revocation or modification would not, individually or in the aggregate, have a Material Adverse Effect.

(l) Subsequent to the respective dates as of which information is given in the Disclosure Documents and except as described therein, (i) the Company and the Subsidiaries have not incurred any material liabilities or obligations, direct or contingent, or entered into any material transactions not in the ordinary course of business or (ii) the Company and the Subsidiaries have not purchased any of their respective outstanding capital stock, or declared, paid or otherwise made any dividend or distribution of any kind on any of their respective capital stock or otherwise (other than, with respect to any of such Subsidiaries, the purchase of capital stock by the Company), (iii) there has not been any material increase in the long-term indebtedness of the Company or any of the Subsidiaries, (iv) there has not occurred any event or condition, individually or in the aggregate, that has a Material Adverse Effect, and (v) the Company and the Subsidiaries have not sustained any material loss or interference with respect to their respective businesses or properties from fire, flood, hurricane, earthquake,



accident or other calamity, whether or not covered by insurance, or from any labor dispute or any legal or governmental proceeding.

(m) There are no material legal or governmental proceedings nor are there any material contracts or other documents required by the Securities Act to be described in a prospectus that are not described in the Disclosure Documents. Except as described in the Disclosure Documents, none of the Company or the Subsidiaries is in default under any of the contracts described in the Disclosure Documents, has received a notice or claim of any such default or has knowledge of any breach of such contracts by the other party or parties thereto, except for such defaults or breaches as would not, individually or in the aggregate, have a Material Adverse Effect.

(n) Each of the Company and the Subsidiaries has good and marketable title to all real property described in the Disclosure Documents as being owned by it and good and marketable title to the leasehold estate in the real property described therein as being leased by it, free and clear of all liens, charges, encumbrances or restrictions, except, in each case, as described in the Disclosure Documents or such as would not, individually or in the aggregate, have a Material Adverse Effect. All material leases, contracts and agreements to which the Company or any of the Subsidiaries is a party or by which any of them is bound are valid and enforceable against the Company or any such Subsidiary, are, to the knowledge of the Company, valid and enforceable against the other party or parties thereto and are in full force and effect.

(o) Each of the Company and the Subsidiaries has filed all necessary federal, state and foreign income and franchise tax returns, except where the failure to so file such returns would not, individually or in the aggregate, have a Material Adverse Effect, and has paid all taxes shown as due thereon; and other than tax deficiencies which the Company or any Subsidiary is contesting in good faith and for which adequate reserves have been provided in accordance with generally accepted accounting principles, there is no tax deficiency that has been asserted against the Company or any Subsidiary that would, individually or in the aggregate, have a Material Adverse Effect.

(p) None of the Company or the Subsidiaries is, or immediately after the Closing Date will be, required to register as an "investment company" or a company "controlled by" an "investment company" within the meaning of the Investment Company Act of 1940, as amended (the "INVESTMENT COMPANY ACT").

(q) None of the Company or the Subsidiaries or, to the knowledge of any of such entities' directors, officers, employees, agents or controlling persons, has taken, directly or indirectly, any action designed, or that might reasonably be expected, to cause or result in the stabilization or manipulation of the price of the Common Stock.

(r) None of the Company, the Subsidiaries or any of their respective Affiliates (as defined in Rule 501(b) of Regulation D under the Securities Act) directly, or through any agent, engaged in any form of general

solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) in connection with the offering of the Securities or engaged in any other conduct that would cause such offering to be constitute a



public offering within the meaning of Section 4(2) of the Securities Act. Assuming the accuracy of the representations and warranties of the Purchaser in Section 6 hereof, it is not necessary in connection with the offer, sale and delivery of the Securities to the Purchaser in the manner contemplated by this Agreement to register any of the Securities under the Securities Act.

(s) There is no strike, labor dispute, slowdown or work stoppage with the employees of the Company or any of the Subsidiaries which is pending or, to the knowledge of the Company or any of the Subsidiaries, threatened.

(t) Each of the Company and the Subsidiaries carries general liability insurance coverage comparable to other companies of its size and similar business.

(u) Each of the Company and the Subsidiaries maintains internal accounting controls which provide reasonable assurance that (A) transactions are executed in accordance with management's authorization, (B) transactions are recorded as necessary to permit preparation of its financial statements and to maintain accountability for its assets, and (C) access to its material assets is permitted only in accordance with management's authorization and (D) the values and amounts reported for its material assets are compared with its existing assets at reasonable intervals.

(v) Except for a due diligence fee payable to MAG and a brokerage commission payable to Ascendiant Securities, LLC, the Company does not know of any claims for services, either in the nature of a finder's fee or financial advisory fee, with respect to the offering of the Securities and the transactions contemplated by the Transaction Documents.

(w) The Common Stock is traded on the Over-the-Counter Bulletin Board (the "OTC BB"). Except as described in the Disclosure Documents, the Company currently is not in violation of, and the consummation of the transactions contemplated by the Transaction Documents will not violate, any rule of the National Association of Securities Dealers.

(x) The Company is eligible to use SB-2 for the resale of the Conversion Shares and the Warrant Shares by Purchaser or their transferees and the Warrant Shares by Purchaser, MAG or their transferees. The Company has no reason to believe that it is not capable of satisfying the registration or qualification requirements (or an exemption therefrom) necessary to permit the resale of the Conversion Shares and the Warrant Shares under the securities or "blue sky" laws of any jurisdiction within the United States.

(y) Set forth on Schedule E is the Company's intended use of the proceeds from this transaction.

(z) Except as set forth on Schedule F, none of the officers or directors of the Company (i) has been convicted of any crime (other than traffic violations or misdemeanors not involving fraud) or is currently under investigation or indictment for any such crime, (ii) has been found by a court or governmental agency to have violated any securities or commodities law or to have committed fraud or is currently a party to any legal proceeding in which either is alleged, (iii) has been the subject of a proceeding under



the bankruptcy laws or any similar state laws, or (iv) has been an officer, director, general partner, or managing member of an entity which has been the subject of such a proceeding.

3. Purchase, Sale and Delivery of the Securities. On the basis of the representations, warranties, agreements and covenants herein contained and subject to the terms and conditions herein set forth, the Company agrees to issue and sell to the Purchaser, and Purchaser agree to purchase from the Company, 12,000 shares of Series A Stock at $100.00 per share in the amounts shown on the signature page hereto. In connection with the purchase and sale of Series A Stock, for no additional consideration, the Purchaser and MAG will receive Warrants to purchase up to an aggregate number of shares of Common Stock as set forth in the Registration Rights Agreement attached hereto as Exhibit D, subject to adjustment as set forth in paragraph 1 above.

The closing of the transactions described herein (the "CLOSING") shall take place at a time and on a date (the "CLOSING DATE") to be specified by the parties, which will be no later than 5:00 p.m. (Pacific time) on October 29, 2004. On the Closing Date, the Company shall deliver (a) certificates in definitive form for the Series A Stock in the names and amounts set forth on the

signature page hereto, (b) Warrants, in the names and amounts set forth on the signature page hereto, (c) the Subscription Agreement, Certificate of Designation and Registration Rights Agreement, each duly executed on behalf of the Company, and (d) the Opinion of Counsel in the form attached hereto as Exhibit C. On the Closing Date, Purchaser shall deliver (i) 50% of the Purchase Price or $600,000 by wire transfer of immediately available funds to an escrow account mutually acceptable to the parties, and (ii) the Subscription Agreement and Registration Rights Agreement, each duly executed on behalf of the Purchaser and MAG. The Closing will occur when all documents and instruments necessary or appropriate to effect the transactions contemplated herein are exchanged by the parties and all actions taken at the Closing will be deemed to be taken simultaneously.

Upon receipt of written confirmation from MAG that all documents and instruments have been duly executed and delivered, the escrow holder shall release (a) to the Company, the sum of $470,000, (b) to MAG, the Due Diligence Fee or $60,000, and the legal fees in the amount of $10,000, and (c) to Ascendiant Securities, LLC, the sum of $60,000.

Provided that Company is not in default under Paragraph 10(i) (iv) or (v) hereof, the Purchaser covenants and agrees to pay, within two trading days after Company files the Registration Statement (as defined in Paragraph 9 below), the balance of the Purchase Price or $600,000, to the Company.

4. Certain Covenants of the Company. The Company covenants and agrees with Purchaser as follows:

(a) None of the Company or any of its Affiliates will sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any "security" (as defined in the Securities Act) which could be integrated with the sale of the Securities in a manner which would require the registration under the Securities Act of the Securities.



(b) The Company will not become, at any time prior to the expiration of three years after the Closing Date, an open-end investment company, unit investment trust, closed-end investment company or face-amount certificate company that is or is required to be registered under the Investment Company Act.

(c) None of the proceeds of the Series A Stock will be used to reduce or retire any insider note or convertible debt held by an officer or director of the Company.

(d) Subject to Section 10 of this Agreement, the Conversion Shares and the Warrant Shares will be eligible for trading on the OTC BB or such market on which the Company's shares are subsequently listed or traded, immediately following the effectiveness of the Registration Statement.

(e) The Company will use best efforts to do and perform all things required to be done and performed by it under this Agreement and the other Transaction Documents and to satisfy all conditions precedent on its part to the obligations of the Purchaser to purchase and accept delivery of the Securities.

(f) Until the first anniversary of this Agreement, the Purchaser shall have a right of first refusal on any financing in which the Company is the issuer of debt or equity securities.

5. Conditions of the Purchaser' Obligations. The obligation of Purchaser to purchase and pay for the Securities is subject to the following conditions unless waived in writing by the Purchaser:

(a) The representations and warranties of the Company contained in this Agreement shall be true and correct in all material respects (other than representations and warranties with a Material Adverse Effect qualifier, which shall be true and correct as written) on and as of the Closing Date; the Company shall have complied in all material respects with all agreements and satisfied all conditions on its part to be performed or satisfied hereunder at or prior to the Closing Date.

(b) None of the issuance and sale of the Securities pursuant to this Agreement or any of the transactions contemplated by any of the other Transaction Documents shall be enjoined (temporarily or permanently) and no restraining order or other injunctive order shall have been issued in respect thereof; and there shall not have been any legal action, order, decree or other administrative proceeding instituted or, to the Company's knowledge, threatened against the Company or against Purchaser relating to the issuance of the Securities or Purchaser's activities in connection therewith or any other transactions contemplated by this Agreement, the other Transaction Documents or the Disclosure Documents.

(c) The Purchaser shall have received certificates, dated the

Closing Date and signed by the Chief Executive Officer and the Chief Financial Officer of the Company, to the effect of paragraphs 5(a) and (b).



(d) The Purchaser shall have received an opinion of Stoel Rives LLP with respect to the authorization of the Series A Stock, the Conversion Shares, the Warrants and the Warrant Shares and other customary matters in the form attached hereto as Exhibit C.

(e) Execution by each Company officer and director to a lock-up agreement in the form of Exhibit "E" restricting trades of Company Common Stock until 120 days after the Registration Statement is deemed effective by the SEC.

6. Representations and Warranties of the Purchaser.

(a) Each of Purchaser and MAG represents and warrants to the Company that the Securities to be acquired by it hereunder (including the Conversion Shares and the Warrant Shares that it may acquire upon conversion or exercise thereof, as the case may be) are being acquired for its own account for investment and with no intention of distributing or reselling such Securities (including the Conversion Shares and the Warrant Shares that it may acquire upon conversion or exercise thereof, as the case may be) or any part thereof or interest therein in any transaction which would be in violation of the securities laws of the United States of America or any State. Nothing in this Agreement, however, shall prejudice or otherwise limit a Purchaser's right to sell or otherwise dispose of all or any part of such Conversion Shares or Warrant Shares under an effective registration statement under the Securities Act and in compliance with applicable state securities laws or under an exemption from such registration. By executing this Agreement, Purchaser further represents that Purchaser does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to any Person with respect to any of the Securities.

(b) Each of Purchaser and MAG understands that the Securities (including the Conversion Shares and the Warrant Shares that it may acquire upon conversion or exercise thereof, as the case may be) have not been registered under the Securities Act and may not be offered, resold, pledged or otherwise transferred except (a) pursuant to an exemption from registration under the Securities Act (and, if requested by the Company, based upon an opinion of counsel acceptable to the Company) or pursuant to an effective registration statement under the Securities Act and (b) in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Each of Purchaser and MAG agrees to the imprinting, so long as appropriate, of the following legend on the Securities (including the Conversion Shares and the Warrant Shares that it may acquire upon conversion or exercise thereof, as the case may be):

> THE SHARES OF STOCK EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ("TRANSFERRED") IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. IN THE ABSENCE OF SUCH REGISTRATION, SUCH SHARES MAY NOT BE TRANSFERRED UNLESS, IF THE COMPANY REQUESTS, THE COMPANY HAS RECEIVED A WRITTEN OPINION FROM COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY STATING THAT SUCH TRANSFER IS BEING MADE IN COMPLIANCE WITH ALL APPLICABLE FEDERAL AND STATE SECURITIES LAWS.



The legend set forth above may be removed if and when the Conversion Shares or the Warrant Shares, as the case may be, are disposed of pursuant to an effective registration statement under the Securities Act or in the opinion of counsel to the Company experienced in the area of United States Federal securities laws such legends are no longer required under applicable requirements of the Securities Act. The Series A Stock, the Warrants, the Conversion Shares and the Warrant Shares shall also bear any other legends required by applicable Federal or state securities laws, which legends may be removed when in the opinion of counsel to the Company experienced in the applicable securities laws, the same are no longer required under the applicable requirements of such securities laws. The Company agrees that it will provide Purchaser, upon request, with a substitute certificate, not bearing such legend at such time as such legend is no longer applicable. Purchaser agrees that, in connection with any transfer of the Conversion Shares or the Warrant Shares by it pursuant to an effective registration statement under the Securities Act, Purchaser will comply with all prospectus delivery requirements of the Securities Act. The Company makes no representation, warranty or agreement as to the availability of any exemption from registration under the Securities Act with respect to any resale of the Series A Stock, the Warrants, the Conversion Shares or the Warrant Shares.

(c) Each of Purchaser and MAG is an "accredited investor"

within the meaning of Rule 501 (a) of Regulation D under the Securities Act. Neither Purchaser nor MAG learned of the opportunity to acquire Securities or any other security issuable by the Company through any form of general advertising or public solicitation.

(d) Each of Purchaser and MAG represents and warrants to the Company that it has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, having been represented by counsel, and has so evaluated the merits and risks of such investment and is able to bear the economic risk of such investment and, at the present time, is able to afford a complete loss of such investment.

(e) Purchaser represents and warrants to the Company that (i) the purchase of the Securities to be purchased by it has been duly and properly authorized and this Agreement has been duly executed and delivered by it or on its behalf and constitutes the valid and legally binding obligation of the Purchaser, enforceable against the Purchaser in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights generally and to general principles of equity; (ii) the purchase of the Securities to be purchased by it does not conflict with or violate its charter, by-laws or any law, regulation or court order applicable to it; and (iii) the purchase of the Securities to be purchased by it does not impose any penalty or other onerous condition on the Purchaser under or pursuant to any applicable law or governmental regulation.

(f) Each of Purchaser and MAG represents and warrants to the Company that neither it nor any of its directors, officers, employees, agents, partners, members, controlling persons or shareholders holding 5% or more of the Common Stock outstanding on the Closing Date, has taken or will take, directly or indirectly, any actions designed, or might



reasonably be expected to cause or result in the stabilization or manipulation of the price of the Common Stock.

(g) Each of Purchaser and MAG acknowledges it or its representatives have reviewed the Disclosure Documents and further acknowledges that it or its representatives have been afforded (i) the opportunity to ask such questions as it has deemed necessary of, and to receive answers from, representatives of the Company concerning the terms and conditions of the offering of the Securities and the merits and risks of investing in the Securities; (ii) access to information about the Company and the Company's financial condition, results of operations, business, properties, management and prospects sufficient to enable it to evaluate its investment in the Securities; and (iii) the opportunity to obtain such additional information which the Company possesses or can acquire without unreasonable effort or expense that is necessary to verify the accuracy and completeness of the information contained in the Disclosure Documents.

(h) Each of Purchaser and MAG represents and warrants to the Company that it has based its investment decision solely upon the information contained in the Disclosure Documents and such other information as may have been provided to it or its representatives by the Company in response to their inquiries, and has not based its investment decision on any research or other report regarding the Company prepared by any third party ("THIRD PARTY REPORTS"). Purchaser understands and acknowledges that (i) the Company does not endorse any Third Party Reports and (ii) its actual results may differ materially from those projected in any Third Party Report.

(i) Each of Purchaser and MAG understands and acknowledges that (i) any forward-looking information included in the Disclosure Documents supplied to Purchaser by the Company or its management is subject to risks and uncertainties, including those risks and uncertainties set forth in the Disclosure Documents; and (ii) the Company's actual results may differ materially from those projected by the Company or its management in such forward- looking information.

(j) Each of Purchaser and MAG understands and acknowledges that (i) the Securities are offered and sold without registration under the Securities Act in a private placement that is exempt from the registration provisions of the Securities Act and (ii) the availability of such exemption depends in part on, and that the Company and its counsel will rely upon, the accuracy and truthfulness of the foregoing representations and Purchaser hereby consents to such reliance.

(k) Purchaser has been duly formed and is validly existing in good standing as an international business company under the laws of its jurisdiction of incorporation. MAG has been duly organized and is validly existing in good standing as a limited liability company under the laws of its jurisdiction of organization.

7. Covenants of Purchaser Not to Short Stock. Purchaser, on behalf of themselves and their affiliates, hereby covenant and agree not to, directly or indirectly, offer to "short sell", contract to "short sell" or otherwise "short sell" the 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.



8. Termination.

(a) This Agreement may be terminated in the sole discretion of the Company by notice to Purchaser if at the Closing Date:

(i) the representations and warranties made by Purchaser in Section 6 are not true and correct in all material respects; or

(ii) as to the Company, the sale of the Securities hereunder (i) is prohibited or enjoined by any applicable law or governmental regulation or (ii) subjects the Company to any penalty, or in its reasonable judgment, other onerous condition under or pursuant to any applicable law or government regulation that would materially reduce the benefits to the Company of the sale of the Securities to Purchaser, so long as such regulation, law or onerous condition was not in effect in such form at the date of this Agreement.

(b) This Agreement may be terminated by Purchaser or MAG by notice to the Company given in the event that the Company shall have failed, refused or been unable to satisfy all material conditions on its part to be performed or satisfied hereunder on or prior to the Closing Date, or if after the execution and delivery of this Agreement and immediately prior to the Closing Date, trading in securities of the Company on the OTC BB shall have been suspended.

(c) This Agreement may be terminated by mutual written consent of all parties.

9. Registration. Within 30 days after the Closing Date, the Company shall prepare and file with the SEC a Registration Statement covering the resale of the maximum number of Conversion Shares issuable upon conversion of the Series A Stock and the Warrant Shares (collectively, the "REGISTRABLE SECURITIES"), as set forth in the Registration Rights Agreement attached hereto as Exhibit D. Within 90 days after filing the Registration Statement, such Registration Statement must be declared effective by the SEC.

10. Event of Default. If an Event of Default (as defined below) occurs and remains uncured for a period of 5 days, the Purchaser and MAG shall have the right to exercise any or all of the rights given to the Purchaser and MAG relating to the Securities, as further described in the Certificate of Designations. In addition, the price at which the shares of Series A Stock may be converted into Common Stock shall be reduced from 85% of the Market Price (as defined in the Certificate of Designations) to 75% of the Market Price, subject to the Ceiling Price and Floor Price as those terms are defined in the Certificate of Designations.

An "EVENT OF DEFAULT" shall include the commencement by the Company of a voluntary case or proceeding under the bankruptcy laws or the Company's failure to: (i) discharge or stay a bankruptcy proceeding within 60 days of such action being taken against the Company, (ii) file the Registration Statement with the SEC within 30 days after the Closing Date, (iii) have the Registration Statement deemed effective by the SEC within 90 days after the



date of filing of the Registration Statement; (iv) maintain trading of the Company's Common Stock on the OTC BB except for any periods when the stock is listed on the NASDAQ Small Stock Market, the NASDAQ National Stock Market, the AMEX or the NYSE, (v) pay the expenses referred to below or the Due Diligence Fee within three (3) days after the Closing; or (vi) deliver to Purchaser, or Purchaser(1) broker, as directed, Common Stock that Purchaser have converted within three (3) business days of such conversions.

IN THE EVENT THAT THE COMPANY FAILS TO FILE THE REGISTRATION STATEMENT WITH THE SEC WITHIN 30 DAYS AFTER THE CLOSING DATE, AS A REMEDY FOR SUCH AN EVENT OF DEFAULT, COMPANY SHALL PAY TO PURCHASER, IN CASH, $800.00 FOR EACH DAY THAT THE REGISTRATION STATEMENT FILING IS DELAYED. PURCHASER AND COMPANY ACKNOWLEDGE AND AGREE THAT THEY HAVE MUTUALLY DISCUSSED THE IMPRACTICALITY AND EXTREME DIFFICULTY OF FIXING THE ACTUAL DAMAGES PURCHASER WOULD INCUR IN THE CASE OF SUCH AN EVENT OF DEFAULT, AND THAT AS A RESULT OF SUCH DISCUSSION THE PARTIES AGREE THAT $800.00 FOR EACH DAY THAT THE REGISTRATION STATEMENT FILING IS DELAYED REPRESENTS A REASONABLE ESTIMATE OF THE ACTUAL DAMAGES WHICH PURCHASER WOULD INCUR IN THE CASE OF SUCH AN EVENT OF DEFAULT. BY SIGNING IN THE SPACES WHICH FOLLOW, PURCHASER AND COMPANY SPECIFICALLY AND EXPRESSLY AGREE TO ABIDE BY THE TERMS AND PROVISIONS OF THIS PARAGRAPH CONCERNING LIQUIDATED DAMAGES.

Company:

Medical Discoveries, Inc.,
a Utah corporation

By: /s/ J. M. Robinett
---
Judy M. Robinett, President and CEO

[Printed Name and Title]

Monarch Pointe Fund, Ltd.,
a BVI Company

/s/ Harry Aharonian
---
By: Harry Aharonian
Its: Director

11. 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 and



confirmed in writing (i) if to the Company, at the addresses set forth below, or (ii) if to a Purchaser or MAG, to the address set forth for such party on the signature page hereto.

If to the Company:

Medical Discoveries, Inc.
738 Aspenwood Lane
Twin Falls, Idaho 83301
Attention: Judy M. Robinett
Telephone: (208) 736-1799
Facsimile: (208) 733-5877

with a copy to:

Stoel Rives LLP
101 S. Capitol Blvd., Suite 1900
Boise, Idaho 83702
Attn: Stephen R. Drake
Telephone: (208) 387-4286
Facsimile: (208) 389-9040

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 6:00 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 6:00 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.

12. Survival Clause. The respective representations, warranties, agreements and covenants of the Company and the Purchaser set forth in this Agreement shall survive until the first anniversary of the Closing.

13. Fees and Expenses. Within three (3) days of Closing, the Company agrees to pay Purchaser' legal expenses incurred in connection with the preparation and negotiation of the Transaction Documents up to $10,000. Any amounts paid by Company upon execution of the Term Sheet will be credited against this amount.

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



15. Successors. This Agreement shall inure to the benefit of and be binding upon Purchaser, MAG and the Company and their respective successors

and legal representatives, and nothing expressed or mentioned in this Agreement is intended or shall be construed to give any other person any legal or equitable right, remedy or claim under or in respect of this Agreement, or any provisions herein contained; this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of such persons and for the benefit of no other person. Neither the Company nor Purchaser may assign this Agreement or any rights or obligation hereunder without the prior written consent of the other party.

16. No Waiver; Modifications in Writing. No failure or delay on the part of the Company, MAG or Purchaser in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies provided for herein are cumulative and are not exclusive of any remedies that may be available to the Company, MAG or Purchaser at law or in equity or otherwise. No waiver of or consent to any departure by the Company, MAG or Purchaser from any provision of this Agreement shall be effective unless signed in writing by the party entitled to the benefit thereof, provided that notice of any such waiver shall be given to each party hereto as set forth below. Except as otherwise provided herein, no amendment, modification or termination of any provision of this Agreement shall be effective unless signed in writing by or on behalf of each of the Company, MAG and the Purchaser. Any amendment, supplement or modification of or to any provision of this Agreement, any waiver of any provision of this Agreement, and any consent to any departure by the Company, MAG or Purchaser from the terms of any provision of this Agreement shall be effective only in the specific instance and for the specific purpose for which made or given. Except where notice is specifically required by this Agreement, no notice to or demand on the Company in any case shall entitle the Company to any other or further notice or demand in similar or other circumstances.

17. Entire Agreement. This Agreement, together with Transaction Documents, constitutes the entire agreement among the parties hereto and supersedes all prior agreements, understandings and arrangements, oral or written, among the parties hereto with respect to the subject matter hereof and thereof.

18. Severability. If any provision of this Agreement is held to be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Agreement shall not in any way be affected or impaired thereby.

19. APPLICABLE LAW. THE VALIDITY AND INTERPRETATION OF THIS AGREEMENT, AND THE TERMS AND CONDITIONS SET FORTH HEREIN SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA, WITHOUT GIVING EFFECT TO PROVISIONS RELATING TO CONFLICTS OF LAW TO THE EXTENT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY. THE PARTIES HEREBY IRREVOCABLY AND UNCONDITIONALLY AGREE THAT ACTIONS, SUITS OR PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT MAY BE



BROUGHT ONLY IN STATE OR FEDERAL COURTS LOCATED IN THE CITY OF LOS ANGELES, CALIFORNIA AND HEREBY SUBMIT TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS FOR SUCH PURPOSE.

20. Counterparts. This Agreement may be executed in two or more counterparts and may be delivered by facsimile transmission, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

21. If the foregoing correctly sets forth our understanding, please indicate your acceptance thereof in the space provided below for that purpose, whereupon this Agreement shall constitute a binding agreement among the Company, the Purchaser and MAG.

Very truly yours,

Medical Discoveries, Inc.

By: /s/ J. M. Robinett
---
Name: Judy M. Robinett
Title: President & CEO



ACCEPTED AND AGREED:

MERCATOR ADVISORY GROUP, LLC

By: /s/ Harry Aharonian
---

Harry Aharonian
Portfolio Manager

MONARCH POINTE FUND, LTD.

/s/ Harry Aharonian
---
By: Harry Aharonian
Its: Director

Shares of Series A Stock Purchased: 12,000

Purchase Price: $1,200,000

Addresses for Notice to Purchaser and MAG:

Mercator Advisory Group, LLC
555 South Flower Street, Suite 4500
Los Angeles, California 90071
Attention: David Firestone
Facsimile: (213) 533-8285

with copy to:

David C. Ulich, Esq.
Sheppard, Mullin, Richter & Hampton LLP
333 South Hope Street, 48th Floor
Los Angeles, California 90071
Facsimile: (213) 620-1398



Schedule A

Direct and Indirect Subsidiaries of Medical Discoveries, Inc.

None.



Schedule B

Company Capitalization
(Fully Diluted)

<TABLE>
<S> <C>
Common Stock issued and outstanding 95,605,178
Common Stock pending issuance 8,954,888
Options outstanding under 1993 Stock Option Plan 3,483,000
Options outstanding under 2002 Stock Incentive Plan 16,000,000
Shares available under 2002 Stock Incentive Plan 3,500,000
Warrants Outstanding 4,306,200
---
Total 131,849,266
===
</TABLE>



Schedule C

Other Arrangements

None other than outstanding warrants and option grants.



Schedule D

Violations

None.



Schedule E

Use of Proceeds

<TABLE>
<S> <C>
Cash (on hand and committed in prior PIPE) $ 790,000

Mercator funds 1,200,000
</TABLE>

| | |
|---|---|
| Less transaction fees | 130,000 |
| Net Mercator funds | 1,070,000 |
| Total Cash | 1,860,000 |

| Budget | |
|---|---|
| Pre-Clinical (CF and HIV) | 387,000 |
| Phase I Clinical (CF) | 830,000 |
| Working Capital (12 months) | 600,000 |
| Contingency | 43,000 |
| Total | $1,860,000 |

</TABLE>



Schedule F

Criminal Records and Bankruptcies

None.

EXHIBIT 10.3

MEDICAL DISCOVERIES, INC.
SHARES OF SERIES A CONVERTIBLE PREFERRED STOCK AND COMMON STOCK WARRANTS

SUBSCRIPTION AGREEMENT

December 3, 2004

Mercator Advisory Group LLC
Mercator Momentum Fund, LP
Mercator Momentum Fund III, LP
555 South Flower Street, Suite 4500
Los Angeles, California 90071

Ladies and Gentlemen:

Medical Discoveries, Inc. a Utah corporation (the "COMPANY"), hereby confirms its agreement with Mercator Momentum Fund, LP, a California limited partnership and Mercator Momentum Fund III, LP, a California limited partnership (collectively, the "PURCHASER") and Mercator Advisory Group, LLC, a California limited liability company ("MAG"), as set forth below.

1. The Securities. Subject to the terms and conditions herein contained, the Company proposes to issue and sell to the Purchaser an aggregate of: (a) Thirty Thousand (30,000) shares of its Series A Convertible Preferred Stock (the "SERIES A STOCK"), which shall be convertible into shares (the "CONVERSION SHARES") of the Company's Common Stock (the "COMMON STOCK") in accordance with the formula set forth in the Certificate of Designations further described below and (b) 22,877,478 warrants, substantially in the form attached hereto at Exhibit A (the "WARRANTS"), to acquire an equal number of shares of Common Stock (the "WARRANT SHARES"). The rights, preferences and privileges of the Series A Stock are as set forth in the Certificate of Designations of Preferences and Rights of Series A Convertible Preferred Stock as filed with the Secretary of State of the State of Utah (the "CERTIFICATE OF DESIGNATIONS") in the form attached hereto as Exhibit B. The number of Conversion Shares and Warrant Shares that Purchaser may acquire at any time are subject to limitation in the Certificate of Designations and in the Warrants, respectively, so that the aggregate number of shares of Common Stock of which Purchaser and all persons affiliated with Purchaser have beneficial ownership (calculated pursuant to Rule 13d-3 of the Securities Exchange Act of 1934, as amended) does not at any time exceed 9.99% of the Company's then outstanding Common Stock.

The Series A Stock and the Warrants are sometimes herein collectively referred to as the "SECURITIES." This Agreement, the Certificate of Designations, Registration Rights Agreement and the Warrant Agreements are sometimes herein collectively referred to as the "TRANSACTION DOCUMENTS."

The Securities will be offered and sold to the Purchaser without such offers and sales being registered under the Securities Act of 1933, as amended (together with the rules and



regulations of the Securities and Exchange Commission (the "SEC") promulgated thereunder, the "SECURITIES ACT"), in reliance on exemptions therefrom.

In connection with the sale of the Securities, the Company has made available (including electronically via the SEC's EDGAR system) to Purchaser its periodic and current reports, forms, schedules, proxy statements and other documents (including exhibits and all other information incorporated by reference) filed with the SEC under the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"). These reports, forms, schedules, statements, documents, filings and amendments, are collectively referred to as the "DISCLOSURE DOCUMENTS." All references in this Agreement to financial statements and schedules and other information which is "contained," "included" or "stated" in the Disclosure Documents (or other references of like import) shall be deemed to mean and include all such financial statements and schedules, documents, exhibits and other information which is incorporated by reference in the Disclosure Documents.

2. Representations and Warranties of the Company. Except as set forth on the Disclosure Schedule (the "DISCLOSURE SCHEDULE") delivered by the Company to Purchaser on the Closing Date (as defined in Section 3 below), the Company represents and warrants to and agrees with Purchaser and MAG as follows:

(a) The Disclosure Documents as of their respective dates did not, and will not (after giving effect to any updated disclosures therein) as of the Closing Date, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Disclosure Documents and the documents incorporated or deemed to be incorporated by reference therein, at the time they were filed or hereafter are filed with the SEC, complied and will comply, at the time of filing, in all material respects

with the requirements of the Securities Act and/or the Exchange Act, as the case may be, as applicable.

(b) Schedule A attached hereto sets forth a complete list of the subsidiaries of the Company (the "SUBSIDIARIES"). Each of the Company and its Subsidiaries has been duly incorporated and each of the Company and the Subsidiaries is validly existing in good standing as a corporation under the laws of its jurisdiction of incorporation, with the requisite corporate power and authority to own its properties and conduct its business as now conducted as described in the Disclosure Documents and is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions where the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified would not, individually or in the aggregate, have a material adverse effect on the business, condition (financial or other), properties, prospects or results of operations of the Company and the Subsidiaries, taken as a whole (any such event, a "MATERIAL ADVERSE EFFECT"); as of the Closing Date, the Company will have the authorized, issued and outstanding capitalization set forth in on Schedule B attached hereto (the "COMPANY CAPITALIZATION"); except as set forth in the Disclosure Documents or on Schedule A, the Company does not have any subsidiaries or own directly or indirectly any of the capital stock or other equity or long-term debt securities of or have any equity interest in any other person; all of the outstanding shares of capital stock of the Company and the Subsidiaries have been duly authorized and validly issued,



are fully paid and nonassessable and were not issued in violation of any preemptive or similar rights and are owned free and clear of all liens, encumbrances, equities, and restrictions on transferability (other than those imposed by the Securities Act and the state securities or "Blue Sky" laws) or voting; except as set forth in the Disclosure Documents, all of the outstanding shares of capital stock of the Subsidiaries are owned, directly or indirectly, by the Company; except as set forth in the Disclosure Documents, no options, warrants or other rights to purchase from the Company or any Subsidiary, agreements or other obligations of the Company or any Subsidiary to issue or other rights to convert any obligation into, or exchange any securities for, shares of capital stock of or ownership interests in the Company or any Subsidiary are outstanding; and except as set forth in the Disclosure Documents or on Schedule C, there is no agreement, understanding or arrangement among the Company or any Subsidiary and each of their respective stockholders or any other person relating to the ownership or disposition of any capital stock of the Company or any Subsidiary or the election of directors of the Company or any Subsidiary or the governance of the Company's or any Subsidiary's affairs, and, if any, such agreements, understandings and arrangements will not be breached or violated as a result of the execution and delivery of, or the consummation of the transactions contemplated by, the Transaction Documents.

(c) The Company has the requisite corporate power and authority to execute, deliver and perform its obligations under the Transaction Documents. Each of the Transaction Documents has been duly and validly authorized by the Company and, when executed and delivered by the Company, will constitute a valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms except as the enforcement thereof may be limited by (A) bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar laws now or hereafter in effect relating to or affecting creditors' rights generally or (B) general principles of equity and the discretion of the court before which any proceeding therefore may be brought (regardless of whether such enforcement is considered in a proceeding at law or in equity) (collectively, the "ENFORCEABILITY EXCEPTIONS").

(d) The Series A Stock and the Warrants have been duly authorized and, when issued upon payment thereof in accordance with this Agreement, will have been validly issued, fully paid and non-assessable. The Conversion Shares issuable have been duly authorized and validly reserved for issuance, and when issued upon conversion of the Series A Stock in accordance with the terms of the Certificate of Designations, will have been validly issued, fully paid and non-assessable. The Warrant Shares have been duly authorized and validly reserved for issuance, and when issued upon exercise of the Warrants in accordance with the terms thereof, will have been validly issued, fully paid and non-assessable. The Common Stock of the Company conforms to the description thereof contained in the Disclosure Documents. The stockholders of the Company have no preemptive or similar rights with respect to the Common Stock.

(e) No consent, approval, authorization, license, qualification, exemption or order of any court or governmental agency or body or third party is required for the performance of the Transaction Documents by the Company or for the consummation by the Company of any of the transactions contemplated thereby, or the application of the proceeds of the issuance of the Securities as described in this Agreement, except for such consents,



approvals, authorizations, licenses, qualifications, exemptions or orders (i) as

have been obtained on or prior to the Closing Date, (ii) as are not required to be obtained on or prior to the Closing Date that will be obtained when required, or (iii) the failure to obtain which would not, individually or in the aggregate, have a Material Adverse Effect.

(f) Except as set forth on Schedule D, none of the Company or the Subsidiaries is (i) in material violation of its articles of incorporation or bylaws (or similar organizational document), (ii) in breach or violation of any statute, judgment, decree, order, rule or regulation applicable to it or any of its properties or assets, which breach or violation would, individually or in the aggregate, have a Material Adverse Effect, or (iii) except as described in the Disclosure Documents, in default (nor has any event occurred which with notice or passage of time, or both, would constitute a default) in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan agreement, note, lease, license, franchise agreement, permit, certificate or agreement or instrument to which it is a party or to which it is subject, which default would, individually or in the aggregate, have a Material Adverse Effect.

(g) The execution, delivery and performance by the Company of the Transaction Documents and the consummation by the Company of the transactions contemplated thereby and the fulfillment of the terms thereof will not (a) violate, conflict with or constitute or result in a breach of or a default under (or an event that, with notice or lapse of time, or both, would constitute a breach of or a default under) any of (i) the terms or provisions of any contract, indenture, mortgage, deed of trust, loan agreement, note, lease, license, franchise agreement, permit, certificate or agreement or instrument to which any of the Company or the Subsidiaries is a party or to which any of their respective properties or assets are subject, (ii) the Certificate of Incorporation or bylaws of any of the Company or the Subsidiaries (or similar organizational document) or (iii) any statute, judgment, decree, order, rule or regulation of any court or governmental agency or other body applicable to the Company or the Subsidiaries or any of their respective properties or assets or (b) result in the imposition of any lien upon or with respect to any of the properties or assets now owned or hereafter acquired by the Company or any of the Subsidiaries; which violation, conflict, breach, default or lien would, individually or in the aggregate, have a Material Adverse Effect.

(h) The audited consolidated financial statements included in the Disclosure Documents present fairly the consolidated financial position, results of operations, cash flows and changes in shareholders' equity of the entities, at the dates and for the periods to which they relate and have been prepared in accordance with generally accepted accounting principles applied on a consistent basis; the interim un-audited consolidated financial statements included in the Disclosure Documents present fairly the consolidated financial position, results of operations and cash flows of the entities, at the dates and for the periods to which they relate subject to year-end audit adjustments and have been prepared in accordance with generally accepted accounting principles applied on a consistent basis with the audited consolidated financial statements included therein; the selected financial and statistical data included in the Disclosure Documents present fairly the information shown therein and have been prepared and compiled on a basis consistent with the audited financial statements included therein, except as otherwise stated therein; and each of the auditors previously engaged by the Company or to be



engaged in the future by the Company is an independent certified public accountant as required by the Securities Act for an offering registered thereunder.

(i) Except as described in the Disclosure Documents, there is not pending or, to the knowledge of the Company, threatened any action, suit, proceeding, inquiry or investigation, governmental or otherwise, to which any of the Company or the Subsidiaries is a party, or to which their respective properties or assets are subject, before or brought by any court, arbitrator or governmental agency or body, that, if determined adversely to the Company or any such Subsidiary, would, individually or in the aggregate, have a Material Adverse Effect or that seeks to restrain, enjoin, prevent the consummation of or otherwise challenge the issuance or sale of the Securities to be sold hereunder or the application of the proceeds therefrom or the other transactions described in the Disclosure Documents.

(j) The Company and the Subsidiaries own or possess adequate licenses or other rights to use all patents, trademarks, service marks, trade names, copyrights and know-how that are necessary to conduct their businesses as described in the Disclosure Documents. None of the Company or the Subsidiaries has received any written notice of infringement of (or knows of any such infringement of) asserted rights of others with respect to any patents, trademarks, service marks, trade names, copyrights or know-how that, if such assertion of infringement or conflict were sustained, would, individually or in the aggregate, have a Material Adverse Effect.

(k) Each of the Company and the Subsidiaries possesses all licenses, permits, certificates, consents, orders, approvals and other

authorizations from, and has made all declarations and filings with, all federal, state, local and other governmental authorities, all self-regulatory organizations and all courts and other tribunals presently required or necessary to own or lease, as the case may be, and to operate its respective properties and to carry on its respective businesses as now or proposed to be conducted as set forth in the Disclosure Documents ("PERMITS"), except where the failure to obtain such Permits would not, individually or in the aggregate, have a Material Adverse Effect and none of the Company or the Subsidiaries has received any notice of any proceeding relating to revocation or modification of any such Permit, except as described in the Disclosure Documents and except where such revocation or modification would not, individually or in the aggregate, have a Material Adverse Effect.

(l) Subsequent to the respective dates as of which information is given in the Disclosure Documents and except as described therein, (i) the Company and the Subsidiaries have not incurred any material liabilities or obligations, direct or contingent, or entered into any material transactions not in the ordinary course of business or (ii) the Company and the Subsidiaries have not purchased any of their respective outstanding capital stock, or declared, paid or otherwise made any dividend or distribution of any kind on any of their respective capital stock or otherwise (other than, with respect to any of such Subsidiaries, the purchase of capital stock by the Company), (iii) there has not been any material increase in the long-term indebtedness of the Company or any of the Subsidiaries, (iv) there has not occurred any event or condition, individually or in the aggregate, that has a Material Adverse Effect, and (v) the Company and the Subsidiaries have not sustained any material loss or interference with respect to their respective businesses or properties from fire, flood, hurricane, earthquake,



accident or other calamity, whether or not covered by insurance, or from any labor dispute or any legal or governmental proceeding.

(m) There are no material legal or governmental proceedings nor are there any material contracts or other documents required by the Securities Act to be described in a prospectus that are not described in the Disclosure Documents. Except as described in the Disclosure Documents, none of the Company or the Subsidiaries is in default under any of the contracts described in the Disclosure Documents, has received a notice or claim of any such default or has knowledge of any breach of such contracts by the other party or parties thereto, except for such defaults or breaches as would not, individually or in the aggregate, have a Material Adverse Effect.

(n) Each of the Company and the Subsidiaries has good and marketable title to all real property described in the Disclosure Documents as being owned by it and good and marketable title to the leasehold estate in the real property described therein as being leased by it, free and clear of all liens, charges, encumbrances or restrictions, except, in each case, as described in the Disclosure Documents or such as would not, individually or in the aggregate, have a Material Adverse Effect. All material leases, contracts and agreements to which the Company or any of the Subsidiaries is a party or by which any of them is bound are valid and enforceable against the Company or any such Subsidiary, are, to the knowledge of the Company, valid and enforceable against the other party or parties thereto and are in full force and effect.

(o) Each of the Company and the Subsidiaries has filed all necessary federal, state and foreign income and franchise tax returns, except where the failure to so file such returns would not, individually or in the aggregate, have a Material Adverse Effect, and has paid all taxes shown as due thereon; and other than tax deficiencies which the Company or any Subsidiary is contesting in good faith and for which adequate reserves have been provided in accordance with generally accepted accounting principles, there is no tax deficiency that has been asserted against the Company or any Subsidiary that would, individually or in the aggregate, have a Material Adverse Effect.

(p) None of the Company or the Subsidiaries is, or immediately after the Closing Date will be, required to register as an "investment company" or a company "controlled by" an "investment company" within the meaning of the Investment Company Act of 1940, as amended (the "INVESTMENT COMPANY ACT").

(q) None of the Company or the Subsidiaries or, to the knowledge of any of such entities' directors, officers, employees, agents or controlling persons, has taken, directly or indirectly, any action designed, or that might reasonably be expected, to cause or result in the stabilization or manipulation of the price of the Common Stock.

(r) None of the Company, the Subsidiaries or any of their respective Affiliates (as defined in Rule 501(b) of Regulation D under the Securities Act) directly, or through any agent, engaged in any form of general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) in connection with the offering of the Securities or engaged in any other conduct that would cause such offering to be constitute a

public offering within the meaning of Section 4(2) of the Securities Act. Assuming the accuracy of the representations and warranties of the Purchaser in Section 6 hereof, it is not necessary in connection with the offer, sale and delivery of the Securities to the Purchaser in the manner contemplated by this Agreement to register any of the Securities under the Securities Act.

(s) There is no strike, labor dispute, slowdown or work stoppage with the employees of the Company or any of the Subsidiaries which is pending or, to the knowledge of the Company or any of the Subsidiaries, threatened.

(t) Each of the Company and the Subsidiaries carries general liability insurance coverage comparable to other companies of its size and similar business.

(u) Each of the Company and the Subsidiaries maintains internal accounting controls which provide reasonable assurance that (A) transactions are executed in accordance with management's authorization, (B) transactions are recorded as necessary to permit preparation of its financial statements and to maintain accountability for its assets, and (C) access to its material assets is permitted only in accordance with management's authorization and (D) the values and amounts reported for its material assets are compared with its existing assets at reasonable intervals.

(v) Except for a due diligence fee payable to MAG and a brokerage commission payable to Ascendiant Securities, LLC, the Company does not know of any claims for services, either in the nature of a finder's fee or financial advisory fee, with respect to the offering of the Securities and the transactions contemplated by the Transaction Documents.

(w) The Common Stock is traded on the Over-the-Counter Bulletin Board (the "OTC BB"). Except as described in the Disclosure Documents, the Company currently is not in violation of, and the consummation of the transactions contemplated by the Transaction Documents will not violate, any rule of the National Association of Securities Dealers.

(x) The Company is eligible to use SB-2 for the resale of the Conversion Shares and the Warrant Shares by Purchaser or their transferees and the Warrant Shares by Purchaser, MAG or their transferees. The Company has no reason to believe that it is not capable of satisfying the registration or qualification requirements (or an exemption therefrom) necessary to permit the resale of the Conversion Shares and the Warrant Shares under the securities or "blue sky" laws of any jurisdiction within the United States.

(y) Set forth on Schedule E is the Company's intended use of the proceeds from this transaction.

(z) Except as set forth on Schedule F, none of the officers or directors of the Company (i) has been convicted of any crime (other than traffic violations or misdemeanors not involving fraud) or is currently under investigation or indictment for any such crime, (ii) has been found by a court or governmental agency to have violated any securities or commodities law or to have committed fraud or is currently a party to any legal proceeding in which either is alleged, (iii) has been the subject of a proceeding under



the bankruptcy laws or any similar state laws, or (iv) has been an officer, director, general partner, or managing member of an entity which has been the subject of such a proceeding.

3. Purchase, Sale and Delivery of the Securities. On the basis of the representations, warranties, agreements and covenants herein contained and subject to the terms and conditions herein set forth, the Company agrees to issue and sell to the Purchaser, and Purchaser agree to purchase from the Company, 30,000 shares of Series A Stock at $100.00 per share in the amounts shown on the signature page hereto. In connection with the purchase and sale of Series A Stock, for no additional consideration, the Purchaser and MAG will receive Warrants to purchase up to an aggregate number of shares of Common Stock as set forth in the Registration Rights Agreement attached hereto as Exhibit D, subject to adjustment as set forth in paragraph 1 above.

The execution of definitive documents relating to the transactions described herein (the "EXECUTION") shall take place at a time and on a date (the "EXECUTION DATE") to be specified by the parties, which will be no later than 5:00 p.m. (Pacific time) on December 7, 2004. On the Execution Date, the Company shall deliver (a) certificates in definitive form for the Series A Stock in the names and amounts set forth on the signature page hereto, (b) Warrants, in the names and amounts set forth on the signature page hereto, (c) the Subscription Agreement, Certificate of Designation and Registration Rights Agreement, each duly executed on behalf of the Company, and (d) the Opinion of Counsel in the form attached hereto as Exhibit C. On the Execution Date, Purchaser shall deliver (i) the Subscription Agreement and Registration Rights Agreement, each duly executed on behalf of the Purchaser and MAG. The closing ("CLOSING") will

occur when the following contingencies (the "CONTINGENCIES") have been satisfied: (a) all documents and instruments necessary or appropriate to effect the transactions contemplated herein are exchanged by the parties, (b) no default has occurred or exists under the terms of this Subscription Agreement, (c) the officer certificates required pursuant to Section 5(c) of this Subscription Agreement have been delivered to Purchaser and MAG, and (d) Company has delivered to MAG and Purchaser copies of executed definitive documents relating to the Acquisition by the Company of substantially all of the assets of SaveTherapeutics AG (as further described in Schedule E Use of Proceeds) and certified that such Acquisition has closed. All actions taken at the Closing will be deemed to be taken simultaneously and the date on which such actions take place shall be the "CLOSING DATE".

Upon satisfaction of the all of the Contingencies, Purchaser shall deliver to the escrow holder via wire transfer the Purchase Price or $3,000,000. Upon receipt of the funds, the escrow holder shall release (a) to the Company, the sum of $2,750,000 (b) to MAG, the Due Diligence Fee of $90,000, and the legal fees in the amount of $10,000, and (c) to Ascendiant Securities, LLC, the sum of $150,000. In the event that all of the Contingencies are not satisfied on or before January 31, 2004, then (x) the escrow holder shall return all funds to Purchaser, (y) MAG shall return the Series A Stock certificates and the Warrants to the Company, and (z) this Agreement and cancel and be of no further force or effect.

4. Certain Covenants of the Company. The Company covenants and agrees with Purchaser as follows:



(a) None of the Company or any of its Affiliates will sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any "security" (as defined in the Securities Act) which could be integrated with the sale of the Securities in a manner which would require the registration under the Securities Act of the Securities.

(b) The Company will not become, at any time prior to the expiration of three years after the Closing Date, an open-end investment company, unit investment trust, closed-end investment company or face-amount certificate company that is or is required to be registered under the Investment Company Act.

(c) None of the proceeds of the Series A Stock will be used to reduce or retire any insider note or convertible debt held by an officer or director of the Company.

(d) Subject to Section 10 of this Agreement, the Conversion Shares and the Warrant Shares will be eligible for trading on the OTC BB or such market on which the Company's shares are subsequently listed or traded, immediately following the effectiveness of the Registration Statement.

(e) The Company will use best efforts to do and perform all things required to be done and performed by it under this Agreement and the other Transaction Documents and to satisfy all conditions precedent on its part to the obligations of the Purchaser to purchase and accept delivery of the Securities.

(f) Until the first anniversary of this Agreement, the Purchaser shall have a right of first refusal on any financing in which the Company is the issuer of debt or equity securities.

5. Conditions of the Purchaser' Obligations. The obligation of Purchaser to purchase and pay for the Securities is subject to the following conditions unless waived in writing by the Purchaser:

(a) The representations and warranties of the Company contained in this Agreement shall be true and correct in all material respects (other than representations and warranties with a Material Adverse Effect qualifier, which shall be true and correct as written) on and as of the Closing Date; the Company shall have complied in all material respects with all agreements and satisfied all conditions on its part to be performed or satisfied hereunder at or prior to the Closing Date.

(b) None of the issuance and sale of the Securities pursuant to this Agreement or any of the transactions contemplated by any of the other Transaction Documents shall be enjoined (temporarily or permanently) and no restraining order or other injunctive order shall have been issued in respect thereof; and there shall not have been any legal action, order, decree or other administrative proceeding instituted or, to the Company's knowledge, threatened against the Company or against Purchaser relating to the issuance of the Securities or Purchaser's activities in connection therewith or any other transactions contemplated by this Agreement, the other Transaction Documents or the Disclosure Documents.

(c) The Purchaser shall have received certificates, dated the Closing Date and signed by the Chief Executive Officer and the Chief Financial Officer of the Company, to the effect of paragraphs 5(a) and (b).

(d) The Purchaser shall have received an opinion of Stoel Rives LLP with respect to the authorization of the Series A Stock, the Conversion Shares, the Warrants and the Warrant Shares and other customary matters in the form attached hereto as Exhibit C.

6. Representations and Warranties of the Purchaser.

(a) Each of Purchaser and MAG represents and warrants to the Company that the Securities to be acquired by it hereunder (including the Conversion Shares and the Warrant Shares that it may acquire upon conversion or exercise thereof, as the case may be) are being acquired for its own account for investment and with no intention of distributing or reselling such Securities (including the Conversion Shares and the Warrant Shares that it may acquire upon conversion or exercise thereof, as the case may be) or any part thereof or interest therein in any transaction which would be in violation of the securities laws of the United States of America or any State. Nothing in this Agreement, however, shall prejudice or otherwise limit a Purchaser's right to sell or otherwise dispose of all or any part of such Conversion Shares or Warrant Shares under an effective registration statement under the Securities Act and in compliance with applicable state securities laws or under an exemption from such registration. By executing this Agreement, Purchaser further represents that Purchaser does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participation to any Person with respect to any of the Securities.

(b) Each of Purchaser and MAG understands that the Securities (including the Conversion Shares and the Warrant Shares that it may acquire upon conversion or exercise thereof, as the case may be) have not been registered under the Securities Act and may not be offered, resold, pledged or otherwise transferred except (a) pursuant to an exemption from registration under the Securities Act (and, if requested by the Company, based upon an opinion of counsel acceptable to the Company) or pursuant to an effective registration statement under the Securities Act and (b) in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Each of Purchaser and MAG agrees to the imprinting, so long as appropriate, of the following legend on the Securities (including the Conversion Shares and the Warrant Shares that it may acquire upon conversion or exercise thereof, as the case may be):

> THE SHARES OF STOCK EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED ("TRANSFERRED") IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. IN THE ABSENCE OF SUCH REGISTRATION, SUCH SHARES MAY NOT BE TRANSFERRED UNLESS, IF THE COMPANY REQUESTS, THE COMPANY HAS RECEIVED A WRITTEN OPINION FROM COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY STATING THAT SUCH TRANSFER IS BEING MADE IN COMPLIANCE WITH ALL APPLICABLE FEDERAL AND STATE SECURITIES LAWS.



The legend set forth above may be removed if and when the Conversion Shares or the Warrant Shares, as the case may be, are disposed of pursuant to an effective registration statement under the Securities Act or in the opinion of counsel to the Company experienced in the area of United States Federal securities laws such legends are no longer required under applicable requirements of the Securities Act. The Series A Stock, the Warrants, the Conversion Shares and the Warrant Shares shall also bear any other legends required by applicable Federal or state securities laws, which legends may be removed when in the opinion of counsel to the Company experienced in the applicable securities laws, the same are no longer required under the applicable requirements of such securities laws. The Company agrees that it will provide Purchaser, upon request, with a substitute certificate, not bearing such legend at such time as such legend is no longer applicable. Purchaser agrees that, in connection with any transfer of the Conversion Shares or the Warrant Shares by it pursuant to an effective registration statement under the Securities Act, Purchaser will comply with all prospectus delivery requirements of the Securities Act. The Company makes no representation, warranty or agreement as to the availability of any exemption from registration under the Securities Act with respect to any resale of the Series A Stock, the Warrants, the Conversion Shares or the Warrant Shares.

(c) Each of Purchaser and MAG is an "accredited investor" within the meaning of Rule 501(a) of Regulation D under the Securities Act. Neither Purchaser nor MAG learned of the opportunity to acquire Securities or any other security issuable by the Company through any form of general advertising or public solicitation.

(d) Each of Purchaser and MAG represents and warrants to the Company that it has such knowledge, sophistication and experience in business

and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, having been represented by counsel, and has so evaluated the merits and risks of such investment and is able to bear the economic risk of such investment and, at the present time, is able to afford a complete loss of such investment.

(e) Purchaser represents and warrants to the Company that (i) the purchase of the Securities to be purchased by it has been duly and properly authorized and this Agreement has been duly executed and delivered by it or on its behalf and constitutes the valid and legally binding obligation of the Purchaser, enforceable against the Purchaser in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights generally and to general principles of equity; (ii) the purchase of the Securities to be purchased by it does not conflict with or violate its charter, by-laws or any law, regulation or court order applicable to it; and (iii) the purchase of the Securities to be purchased by it does not impose any penalty or other onerous condition on the Purchaser under or pursuant to any applicable law or governmental regulation.

(f) Each of Purchaser and MAG represents and warrants to the Company that neither it nor any of its directors, officers, employees, agents, partners, members, controlling persons or shareholders holding 5% or more of the Common Stock outstanding on the Closing Date, has taken or will take, directly or indirectly, any actions designed, or might



reasonably be expected to cause or result in the stabilization or manipulation of the price of the Common Stock.

(g) Each of Purchaser and MAG acknowledges it or its representatives have reviewed the Disclosure Documents and further acknowledges that it or its representatives have been afforded (i) the opportunity to ask such questions as it has deemed necessary of, and to receive answers from, representatives of the Company concerning the terms and conditions of the offering of the Securities and the merits and risks of investing in the Securities; (ii) access to information about the Company and the Company's financial condition, results of operations, business, properties, management and prospects sufficient to enable it to evaluate its investment in the Securities; and (iii) the opportunity to obtain such additional information which the Company possesses or can acquire without unreasonable effort or expense that is necessary to verify the accuracy and completeness of the information contained in the Disclosure Documents.

(h) Each of Purchaser and MAG represents and warrants to the Company that it has based its investment decision solely upon the information contained in the Disclosure Documents and such other information as may have been provided to it or its representatives by the Company in response to their inquiries, and has not based its investment decision on any research or other report regarding the Company prepared by any third party ("THIRD PARTY REPORTS"). Purchaser understands and acknowledges that (i) the Company does not endorse any Third Party Reports and (ii) its actual results may differ materially from those projected in any Third Party Report.

(i) Each of Purchaser and MAG understands and acknowledges that (i) any forward-looking information included in the Disclosure Documents supplied to Purchaser by the Company or its management is subject to risks and uncertainties, including those risks and uncertainties set forth in the Disclosure Documents; and (ii) the Company's actual results may differ materially from those projected by the Company or its management in such forward-looking information.

(j) Each of Purchaser and MAG understands and acknowledges that (i) the Securities are offered and sold without registration under the Securities Act in a private placement that is exempt from the registration provisions of the Securities Act and (ii) the availability of such exemption depends in part on, and that the Company and its counsel will rely upon, the accuracy and truthfulness of the foregoing representations and Purchaser hereby consents to such reliance.

(k) Purchaser has been duly formed and is validly existing in good standing as an international business company under the laws of its jurisdiction of incorporation. MAG has been duly organized and is validly existing in good standing as a limited liability company under the laws of its jurisdiction of organization.

7. Covenants of Purchaser Not to Short Stock. Purchaser, on behalf of themselves and their affiliates, hereby covenant and agree not to, directly or indirectly, offer to "short sell", contract to "short sell" or otherwise "short sell" the 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.

8. Termination.

(a) This Agreement may be terminated in the sole discretion of the Company by notice to Purchaser if at the Closing Date:

(i) the representations and warranties made by Purchaser in Section 6 are not true and correct in all material respects; or

(ii) as to the Company, the sale of the Securities hereunder (i) is prohibited or enjoined by any applicable law or governmental regulation or (ii) subjects the Company to any penalty, or in its reasonable judgment, other onerous condition under or pursuant to any applicable law or government regulation that would materially reduce the benefits to the Company of the sale of the Securities to Purchaser, so long as such regulation, law or onerous condition was not in effect in such form at the date of this Agreement.

(b) This Agreement may be terminated by Purchaser or MAG by notice to the Company given in the event that the Company shall have failed, refused or been unable to satisfy all material conditions on its part to be performed or satisfied hereunder on or prior to the Closing Date, or if after the execution and delivery of this Agreement and immediately prior to the Closing Date, trading in securities of the Company on the OTC BB shall have been suspended.

(c) This Agreement may be terminated by mutual written consent of all parties.

9. Registration. On or before December 15, 2004, the Company shall prepare and file with the SEC a Registration Statement covering the resale of the maximum number of Conversion Shares issuable upon conversion of the Series A Stock and the Warrant Shares (collectively, the "REGISTRABLE SECURITIES"), as set forth in the Registration Rights Agreement attached hereto as Exhibit D. Within 90 days after filing the Registration Statement, such Registration Statement must be declared effective by the SEC.

10. Event of Default. If an Event of Default (as defined below) occurs and remains uncured for a period of 5 days, the Purchaser and MAG shall have the right to exercise any or all of the rights given to the Purchaser and MAG relating to the Securities, as further described in the Certificate of Designations. In addition, the price at which the shares of Series A Stock may be converted into Common Stock shall be reduced from 85% of the Market Price (as defined in the Certificate of Designations) to 75% of the Market Price, subject to the Ceiling Price and Floor Price as those terms are defined in the Certificate of Designations.

An "EVENT OF DEFAULT" shall include the commencement by the Company of a voluntary case or proceeding under the bankruptcy laws or the Company's failure to: (i) discharge or stay a bankruptcy proceeding within 60 days of such action being taken against the Company, (ii) file the Registration Statement with the SEC on or before December 15, 2004, (iii) have the Registration Statement deemed effective by the SEC within 90 days after the date



of filing of the Registration statement (iv) maintain trading of the Company's Common Stock on the OTC BB except for any periods when the stock is listed on the NASDAQ Small Stock Market, the NASDAQ National Stock Market, the AMEX or the NYSE, (v) pay the expenses referred to below or the Due Diligence Fee within three (3) days after the Closing; or (vi) deliver to Purchaser, or Purchaser broker, as directed, Common Stock that Purchaser have converted within three (3) business days of such conversions.

IN THE EVENT THAT THE COMPANY FAILS TO FILE THE REGISTRATION STATEMENT WITH THE SEC ON OR BEFORE DECEMBER 15, 2004, AS A REMEDY FOR SUCH AN EVENT OF DEFAULT , COMPANY SHALL PAY TO PURCHASER, IN CASH, $2,000.00 FOR EACH DAY THAT THE REGISTRATION STATEMENT FILING IS DELAYED. PURCHASER AND COMPANY ACKNOWLEDGE AND AGREE THAT THEY HAVE MUTUALLY DISCUSSED THE IMPRACTICALITY AND EXTREME DIFFICULTY OF FIXING THE ACTUAL DAMAGES PURCHASER WOULD INCUR IN THE CASE OF SUCH AN EVENT OF DEFAULT, AND THAT AS A RESULT OF SUCH DISCUSSION THE PARTIES AGREE THAT $2,000.00 FOR EACH DAY THAT THE REGISTRATION STATEMENT FILING IS DELAYED REPRESENTS A REASONABLE ESTIMATE OF THE ACTUAL DAMAGES WHICH PURCHASER WOULD INCUR IN THE CASE OF SUCH AN EVENT OF DEFAULT. BY SIGNING IN THE SPACES WHICH FOLLOW, PURCHASER AND COMPANY SPECIFICALLY AND EXPRESSLY AGREE TO ABIDE BY THE TERMS AND PROVISIONS OF THIS PARAGRAPH CONCERNING LIQUIDATED DAMAGES.

Company:

Medical Discoveries, Inc.,
a Utah corporation

By: /s/ J. M. Robinett
    ---------------------------------

Judy M. Robinett, President and CEO

[Printed Name and Title]

Mercator Momentum Fund, L.P.

By: Mercator Advisory Group, LLC
Its: General Partner

By: /s/ David Firestone
---
Name: David Firestone
Its: Managing Member



Mercator Momentum Fund III, L.P.

By: Mercator Advisory Group, LLC
Its: General Partner

By:_____
Name: David Firestone
Its: Managing Member

11. 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 and confirmed in writing (i) if to the Company, at the addresses set forth below, or (ii) if to a Purchaser or MAG, to the address set forth for such party on the signature page hereto.

If to the Company:

Medical Discoveries, Inc.
738 Aspenwood Lane
Twin Falls, Idaho 83301
Attention: Judy M. Robinett
Telephone: (208) 736-1799
Facsimile: (208) 733-5877

with a copy to:

Stoel Rives LLP
101 S. Capitol Blvd., Suite 1900
Boise, Idaho 83702
Attn: Stephen R. Drake
Telephone: (208) 387-4286
Facsimile: (208) 389-9040

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 6:00 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 6:00 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.



12. Survival Clause. The respective representations, warranties, agreements and covenants of the Company and the Purchaser set forth in this Agreement shall survive until the first anniversary of the Closing.

13. Fees and Expenses. Within three (3) days of Closing, the Company agrees to pay Purchaser' legal expenses incurred in connection with the preparation and negotiation of the Transaction Documents up to $10,000. Any amounts paid by Company upon execution of the Term Sheet will be credited against this amount.

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

15. Successors. This Agreement shall inure to the benefit of and be

binding upon Purchaser, MAG and the Company and their respective successors and legal representatives, and nothing expressed or mentioned in this Agreement is intended or shall be construed to give any other person any legal or equitable right, remedy or claim under or in respect of this Agreement, or any provisions herein contained; this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of such persons and for the benefit of no other person. Neither the Company nor Purchaser may assign this Agreement or any rights or obligation hereunder without the prior written consent of the other party.

16. No Waiver; Modifications in Writing. No failure or delay on the part of the Company, MAG or Purchaser in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies provided for herein are cumulative and are not exclusive of any remedies that may be available to the Company, MAG or Purchaser at law or in equity or otherwise. No waiver of or consent to any departure by the Company, MAG or Purchaser from any provision of this Agreement shall be effective unless signed in writing by the party entitled to the benefit thereof, provided that notice of any such waiver shall be given to each party hereto as set forth below. Except as otherwise provided herein, no amendment, modification or termination of any provision of this Agreement shall be effective unless signed in writing by or on behalf of each of the Company, MAG and the Purchaser. Any amendment, supplement or modification of or to any provision of this Agreement, any waiver of any provision of this Agreement, and any consent to any departure by the Company, MAG or Purchaser from the terms of any provision of this Agreement shall be effective only in the specific instance and for the specific purpose for which made or given. Except where notice is specifically required by this Agreement, no notice to or demand on the Company in any case shall entitle the Company to any other or further notice or demand in similar or other circumstances.

17. Entire Agreement. This Agreement, together with Transaction Documents, constitutes the entire agreement among the parties hereto and supersedes all prior



agreements, understandings and arrangements, oral or written, among the parties hereto with respect to the subject matter hereof and thereof.

18. Severability. If any provision of this Agreement is held to be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Agreement shall not in any way be affected or impaired thereby.

19. APPLICABLE LAW THE VALIDITY AND INTERPRETATION OF THIS AGREEMENT. AND THE TERMS AND CONDITIONS SET FORTH HEREIN SHALL BE GOVERNED BY AND CONSTRURD IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA, WITHOUT GIVING EFFECT TO PROVISIONS RELATING TO CONFLICTS OF LAW TO THE EXTENT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY. THE PARTIES HEREBY IRREVOCABLY AND UNCONDITIONALLY AGREE THAT ACTIONS, SUITS OR PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT MAY BE BROUGHT ONLY IN STATE OR FEDERAL COURTS LOCATED IN THE CITY OF LOS ANGELES. CALIFORNIA AND HEREBY SUBMIT TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS FOR SUCH PURPOSE.

20. Counterparts. This Agreement may be executed in two or more counterparts and may be delivered by facsimile transmission, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

21. If the foregoing correctly sets forth our understanding, please indicate your acceptance thereof in the space provided below for that purpose, whereupon this Agreement shall constitute a binding agreement among the Company, the Purchaser and MAG.

Very truly yours.

Medical DISCOVERIES, INC.

By: /s/ Judy M. Robinett
---
Name: Judy M. Robinett
Title: President & CEO



ACCEPTED AND AGREED:

MERCATOR ADVISORY GROUP, LLC

By: /s/ David Firestone

---
David Firestone
Managing Member

MERCATOR MOMENTUM FUND III, L.P.

By: Mercator Advisory Group, LLC
Its: General Partner

By: /s/ David Firestone
---
Name: David Firestone
Its: Managing Member

MERCATOR MOMENTUM FUND, L.P.

By: Mercator Advisory Group, LLC
Its: General Partner

By: /s/ David Firestone
---
Name: David Firestone
Its: Managing Member

Addresses for Notice to Purchaser and MAG:

Mercator Advisory Group, LLC
555 South Flower Street, Suite 4500
Los Angeles, California 90071
Attention: David Firestone
Facsimile: (213)533-8285

with copy to:

David C. Ulich, Esq.
Sheppard, Mullin, Richter & Hampton LLP
333 South Hope Street, 48th Floor
Los Angeles, California 90071
Facsimile: (213) 620-1398

<TABLE>
<CAPTION>

| | MERCATOR MOMENTUM FUND, LP | MERCATOR MOMENTUM FUND III, LP | MERCATOR ADVISORY GROUP, LLC | TOTAL |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| INVESTMENT | $ 1,775,000 | $ 1,225,000 | - | $ 3,000,000 |
| PREFERRED SHARES | 17,750 | 12,250 | - | 30,000 |
| WARRANTS | 6,748,856 | 4,689,883 | 11,438,739 | 22,877,478 |

</TABLE>



Schedule A

Direct and Indirect Subsidiaries of Medical Discoveries, Inc.

None.



Schedule B

Company Capitalization
(Fully Diluted)

<TABLE>

| <S> | <C> |
|---|---|
| Common Stock issued and outstanding | 104,581,669 |
| Common Stock pending issuance | 1,950,000 |
| Options outstanding under 1993 Stock Option Plan | 3,483,000 |
| Options outstanding under 2002 Stock Incentive Plan | 16,000,000 |
| Shares available under 2002 Stock Incentive Plan | 3,500,000 |
| Warrants Outstanding | 8,437,488 |
| Total Common stock and equivalents | 137,952,157 |
| Series A Preferred Stock | 42,000 |

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</TABLE>



Schedule C

Other Arrangements

None other than outstanding warrants and option grants.



Schedule D

Violations

None.



Schedule E
Use of Proceeds

The proceeds shall be used by the Company for the acquisition of substantially all of the assets of Save Therapeutics AG on terms acceptable to the Company.



Schedule F

Criminal Records and Bankruptcies

None.



Exhibit A

Warrant



Exhibit B

Certificate of Designations of
Series A Convertible Preferred Stock
of
Medical Discoveries, Inc.



Exhibit C

Form of Legal Opinion

Mercator Advisory Group
555 S. Flower St., Suite 4500
Los Angeles, CA 90071

Re: Private Placement of Securities of Medical Discoveries Inc.

Ladies and Gentlemen:

This opinion is furnished to you pursuant to Section 5(d) of that certain Subscription Agreement dated as of November 29,2004 (the "SUBSCRIPTION AGREEMENT") by and among you, Monarch Pointe Fund, Ltd. ("PURCHASER"), and Medical Discoveries Inc. (the "COMPANY").

We have acted as counsel to the Company in connection with the proposed issuance and sale of (a) (30,000 shares of Series A Convertible Preferred Stock (the "SERIES A STOCK") convertible into shares of Common Stock of the Company and (b) stock purchase warrants (the "WARRANTS") sold pursuant to the Subscription Agreement.

DOCUMENTS REVIEWED

In connection with rendering the opinions set forth herein, we

examined the Company's Amended and Restated Articles of Incorporation and its By-Laws, each as amended to date, and the proceedings of the Company's Board of Directors and shareholders taken in connection with issuing the Securities, and the following additional documents:

1. The Subscription Agreement;

2. The Certificate of Designations of Preferences and Rights of Series a Convertible Preferred Stock (the "CERTIFICATE OF DESIGNATIONS");

3. The Warrant to Purchase Common Stock (together with the Subscription Agreement and the Certificate of Designations, the "TRANSACTION DOCUMENTS"); and

4. A Good Standing Certificate, dated_____, 2004, issued by the Utah Department of Commerce.

ASSUMPTIONS

In conducting our examination, we have assumed the following: (i) the genuineness of all signatures, the legal capacity of natural persons, the authenticity and accuracy of all documents submitted to us as originals, and the conformity to originals of all documents submitted to us as copies, and (ii) that the Subscription Agreement has been duly and validly authorized, executed, and delivered by the parties thereto other than the Company.



OPINIONS

Based upon and subject to the assumptions, qualifications and limitations set forth in this letter, we are of the opinion that:

1.The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Utah, with corporate power to own its properties and to conduct its business.

2.The Company has the corporate power to execute, deliver and perform the Transaction Documents, including the Exhibits, thereto. The Transaction Documents have been duly authorized by all requisite corporate action by the Company and constitute the valid and binding obligations of the Company, enforceable in accordance with their terms except as rights to indemnification thereunder may be limited by applicable law and except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally or by equitable principles.

(a) The authorized capital stock of the Company consists of 50,000,000 shares of Preferred Stock, and 250,000,000 shares of Common Stock.

(b) The shares of the Company's Series A Stock have been duly authorized and, upon issuance, delivery, and payment therefor as described in the Subscription Agreement, will be validly issued, folly paid and non-assessable.

(c) The shares of the Company's Common Stock initially issuable upon conversion of the shares of Series A Stock sold have been duly authorized and reserved for issuance and, upon issuance and delivery upon conversion of the Series A Stock as described in the Certificate of Designations, will be validly issued, fully paid and non-assessable.

(d) The shares of the Company's Common Stock issuable upon exercise of the Warrants have been duly authorized and reserved for issuance, and upon issuance, delivery, and payment therefor in accordance with the Warrants, will be validly issued, fully paid and non-assessable.

3. The Company's execution and delivery of the Transaction Documents and the issue and sale of the Series A Stock and the Warrants, on the terms and conditions set forth in the Subscription Agreement, will not violate any law of the United States or the State of Utah, any rule or regulation of any governmental authority or regulatory body of the United States or the State of Utah, or any provision of the Company's Articles of Incorporation or Bylaws.

4. No consent, approval, order or authorization of, and no notice to or filing with, any governmental agency or body or any court is required to be obtained or made by the Company for the issuance and sale of the Series A Stock and the Warrants pursuant to the Transaction Documents, except such as have been obtained or made and such as may be required under applicable securities laws.



5. On the assumption that the representations of the Purchaser and

you in the Subscription Agreement are correct and complete, the offer and sale of the Series A Stock and the Warrants pursuant to the terms of the Subscription Agreement are exempt from the registration requirements of Section 5 of the Securities Act of 1933, as amended, and from the qualification requirements of California securities statutes and regulations, and, under such securities laws as they presently exist, the issuance of the Company's Common Stock upon conversion of the Series A Stock and exercise of the Warrants would also be exempt from such registration and qualification requirements.

6. To our knowledge there is no pending or overtly threatened action, proceeding or governmental investigation with respect to the Company's sale of Series A Stock and Warrants pursuant to the Transaction Documents.

LIMITATIONS

Whenever a statement herein is qualified by "to our knowledge," or similar phrase, it is intended to indicate that, during the course of our representation of the Company, no information that would give us current actual knowledge of the inaccuracy of such statement has come to the attention of Stephen R. Drake, the attorney in this firm who has rendered legal services in connection with the transaction described in the first two paragraphs of this letter. However, we have not undertaken any independent inquiry to determine the accuracy of such statement, and any limited inquiry undertaken by us should not be regarded as such an investigation. No inference as to our knowledge of any matters bearing on the accuracy of such statement should be drawn from the fact of our representation of the Company.

This opinion is based solely upon the laws of the United States and the State of Utah, as currently in effect, and does not include an interpretation or statement concerning the laws of any other state or jurisdiction.

This opinion is subject to the following additional qualifications:

- We express no opinion as to the effects or availability of rules of law governing specific performance, injunctive relief or other equitable remedies (regardless of whether any such remedy is considered in a proceeding at law or in equity); and

- This opinion is qualified by the limitations imposed by statutes and principles of law and equity that provide that certain covenants and provisions of agreements are unenforceable where such covenants or provisions are unconscionable or contrary to public policy or where enforcement of such covenants or provisions under the circumstances would violate the enforcing party's implied covenant of good faith and fair dealing.

This opinion is rendered as of the date set forth above solely for your benefit and the benefit of your counsel and may not be reviewed, relied upon, used, circulated, referred to or quoted to any party without our prior written consent.



We make no undertaking to supplement this opinion if, after the date hereof, facts or circumstances come to our attention or changes in the law occur which could affect such opinion.

Very truly yours

STOEL RIVES LLP



Exhibit D

Registration Rights Agreement

Stephen R. Drake
Tel: 312.499.1423
Fax: 312.845.1998
sdrake@ebglaw.com

June 2, 2005

VIA EDGAR

Jeffery P. Riedler

United States Securities and Exchange Commission
Division of Corporation Finance
450 Fifth Street, N.W.
Mail Stop 0309
Washington, D.C. 20549-0306

Re: Medical Discoveries, Inc.
Amendment No. 2 to Form SB-2 Registration Statement
File No. 333-121635

Dear Mr. Riedler:

We are writing on behalf of our client, Medical Discoveries, Inc. (the "Company"), in response to the letter of comments from the United States Securities and Exchange Commission (the "Commission") to the Company, dated January 21, 2005, with respect to the Company's Amendment No. 1 to Form SB-2, File No. 333-121635 (the "Registration Statement"). The Company is filing concurrently herewith via EDGAR a second amendment to the Registration Statement in response to the letter of comments. The numbered paragraphs below restate the numbered paragraphs in the Commission's letter of comments to the Company, and the discussion set out below each such paragraph is the Company's response to the Commission's comment.

REGISTRATION FEE TABLE

1. FOOTNOTE 1 TO THE PROSPECTUS SUMMARY INDICATES THAT THE NUMBER OF SHARES BEING REGISTERED INCLUDES A NUMBER OF SHARES ISSUABLE UPON CONVERSION OF A "CONTINGENT ISSUANCE OF SERIES A CONVERTIBLE PREFERRED STOCK." WE UNDERSTAND THAT 60,000,000 OF THE 113,511,158 SHARES BEING REGISTERED ARE ALLOCATED TO SHARES UNDERLYING THIS CONTINGENT ISSUANCE OF STOCK. YOU ALSO STATE THAT THE SALE OF THE



PREFERRED STOCK IS CONTINGENT ON YOU ENTERING INTO AND CLOSING A DEFINITIVE AGREEMENT TO PURCHASE "CERTAIN ASSETS IN A PROPOSED, ACQUISITION, THE DETAILS OF WHICH HAVE NOT YET BEEN DISCLOSED AND REGARDING WHICH NO DEFINITIVE AGREEMENT IS YET EXECUTED." PLEASE PROVIDE US WITH YOUR ANALYSIS EXPLAINING WHY REGISTRATION OF THESE SHARES IS APPROPRIATE AT THE PRESENT TIME. ALSO, PLEASE FILE THE SUBSCRIPTION AND/OR PURCHASE AGREEMENTS FOR ALL OF THE SHARES BEING REGISTERED, AS EXHIBITS TO THIS REGISTRATION STATEMENT. THE MATERIAL TERMS OF THESE AGREEMENTS SHOULD BE DISCLOSED AND DISCUSSED AT AN APPROPRIATE PLACE IN THE PROSPECTUS.

Since December 30, 2004, when Amendment No. 1 was filed, the definitive agreement to purchase assets was entered into and completed. As a result, the contingency in the subscription agreement was satisfied and the Series A convertible preferred stock was sold and issued. Thus, the shares being registered are no longer subject to a contingent issuance of Series A convertible preferred stock and the prospectus has been revised accordingly. In addition, the applicable subscription agreements have been filed as exhibits to the amended registration statement, and the sales are described in "Description of Business-Recent Developments".

PROSPECTUS COVER PAGE

2. PLEASE LIMIT THE DISCLOSURE ON YOUR COVER PAGE TO THE INFORMATION SPECIFIED IN ITEM 501 (A) OF REGULATION S-B, FOR EXAMPLE, PLEASE REPLACE THE FIRST PARAGRAPH WITH A SENTENCE INDICATING THAT YOU ARE REGISTERING _____ SHARES FOR RESALE BY THE SELLING SHAREHOLDERS IDENTIFIED ON PAGE _____ OF THE PROSPECTUS. NONE OF THE REMAINING INFORMATION IN THAT PARAGRAPH IS INFORMATION SPECIFIED IN ITEM 501(A).

The prospectus has been revised in response to the Staff's comment.

3. PLEASE ELIMINATE YOUR ADDRESS AND PHONE NUMBER ON THE COVER PAGE. WHERE YOU INCLUDE THEM UNDER THE CAPTION "OUR COMPANY" IN THE PROSPECTUS

SUMMARY, PLEASE ALSO INCLUDE YOUR WEB ADDRESS.

The prospectus has been revised in response to the Staff's comment.

TABLE OF CONTENTS PAGE

4. PLEASE DELETE THE LAST SENTENCE OF THE PARAGRAPH BELOW THE TABLE OF CONTENTS AS THERE IS NO INFORMATION INCORPORATED BY REFERENCE IN A FORM SB-2 REGISTRATION STATEMENT.

The prospectus has been revised in response to the Staff's comment.



SUMMARY

5. IN A NUMBER OF PLACES IN YOUR DOCUMENT YOU HAVE USED TECHNICAL LANGUAGE OR JARGON THAT IS NOT LIKELY TO BE UNDERSTOOD BY YOUR READERS. PLEASE REPLACE THEM WITH A "PLAIN ENGLISH" TERM. IF YOU CANNOT CONVEY THE MEANING WITHOUT THEM, PLEASE EXPLAIN WHAT THE TERM MEANS AT THE FIRST PLACE THEY APPEAR. HERE ARE SOME EXAMPLES OF THE TYPE OF LANGUAGE THAT YOU SHOULD EITHER REPLACE OR EXPLAIN.

- PATENTED ANTI-INFECTIVE TECHNOLOGY
- ELECTROLYZED SOLUTION OF FREE RADICALS
- CELL-BASED ASSAYS
- ANTI-INFECTIVE THERAPEUTIC PRODUCT FOR IN-VITRO AND IN-VIVO APPLICATIONS

We have taken the Staff's comment into account and have revised the prospectus to eliminate or explain as much technical language as possible while ensuring the disclosures are as complete and scientifically accurate as possible.

RISK FACTORS - PAGE 2

6. IN YOUR RISK FACTORS, AND OTHER PLACES IN YOUR DOCUMENT, YOU USE PHRASES SUCH AS "WE CAN GIVE YOU NO ASSURANCE THAT" AND "THERE CAN BE NO ASSURANCE THAT" VARIOUS THINGS WILL OR WILL NOT HAPPEN. THIS LANGUAGE IS LEGALISTIC AND REDUNDANT. PLEASE DELETE THESE AND SIMILAR PHRASES AND INSTEAD, BE SURE THAT YOU HAVE ADEQUATELY EXPLAINED WHY YOU CANNOT, ASSURE THESE THINGS.

The prospectus has been revised in response to the Staff's comment.

OUR OPERATIONS ARE AND WILL BE SUBJECT TO EXTENSIVE GOVERNMENT REGULATION, - PAGE 4

7. THE INFORMATION YOU INCLUDED IN THIS RISK FACTOR, WHICH CONTINUES OVER THREE PAGES, IS TOO DETAILED FOR RISK FACTOR DISCLOSURE. PLEASE REVISE IT TO INCLUDE A DESCRIPTION OF THE RISK AND ITS CONSEQUENCES AND ENOUGH ADDITIONAL INFORMATION TO PUT THE RISK INTO CONTEXT. IF YOU ARE DISCUSSING MULTIPLE RISKS UNDER ONE HEADING, BREAK THEM OUT INTO SEPARATE RISK FACTORS. THE REMAINDER OF THE INFORMATION SHOULD BE DISCLOSED IN THE BUSINESS SECTION OF THE DOCUMENT.

The prospectus has been revised in response to the Staff's comment.



8. CURRENTLY, THE LAST SENTENCE OF THE RISK FACTOR STATES THAT YOU HAVE NOT COMPLETED ALL TESTING NECESSARY TO PREPARE AND SUBMIT AN IND TO THE FDA, AND THAT YOU DO NOT HAVE THE FINANCIAL RESOURCES NECESSARY TO DO SO. HOWEVER, ON THE FIRST PAGE OF THE SUMMARY, YOU STATE THAT YOU FILED AN IND WITH THE FDA ON NOVEMBER 1, 2004 AND THAT YOU EXPECT TO FILE A SECOND ONE IN EARLY 2005, PLEASE RECONCILE THESE INCONSISTENCIES.

The prospectus has been revised in response to the Staff's comment.

OUR INTELLECTUAL PROPERTY MAY NOT BE ADEQUATELY PROTECTED. - PAGE 7

9. PLEASE BE MORE SPECIFIC ABOUT WHAT YOUR PATENTS COVER. FOR EXAMPLE, DO THEY COVER THE SUBSTANCE OF MDI-P, OR DO THEY COVER SPECIFIC USES OF THAT SUBSTANCE? WHAT IS THE DURATION OF YOUR PATENTS? HOW MANY DO YOU HAVE? CURRENTLY, THE INFORMATION IN YOUR RISK FACTOR IS TOO GENERIC AND AMBIGUOUS TO BE MEANINGFUL TO AN INVESTOR. ALSO, WHAT DO YOU MEAN WHEN YOU SAY THAT YOUR TECHNOLOGY "IS NOT NECESSARILY NOVEL?" DO YOU HAVE THE FUNDS TO PROSECUTE PATENT INFRINGEMENTS? ARE YOU AWARE OF ANY INFRINGEMENTS? YOU NEED TO EXPAND THE RISK FACTOR TO PROVIDE ENOUGH

FACTS FOR AN INVESTOR TO ANALYZE THE RISK.

The prospectus has been revised in response to the Staff's request for more specific information about the Company's patents.

WE FACE SIGNIFICANT PRODUCT LIABILITY, - PAGE 8

10. PLEASE REVISE THE RISK FACTOR TO CLEARLY INDICATE WHETHER YOU CURRENTLY HAVE LIABILITY INSURANCE. IF YOU DO, PLEASE DISCLOSE THE AMOUNT AND EXTENT OF THE COVERAGE. IF YOU DON'T, PLEASE DISCLOSE WHETHER YOU HAVE ADEQUATE FUNDS TO OBTAIN COVERAGE, WHETHER YOU HAVE BEEN DENIED COVERAGE, AND THE CONSEQUENCES FOR THE CLINICAL TRIALS YOU ARE BEGINNING.

The prospectus has been revised in response to the Staff's comment.

SELLING SECURITY HOLDERS - PAGE 10

11. PLEASE REVISE TO INCLUDE THE IDENTITIES OF THE NATURAL PERSONS HAVING BENEFICIAL OWNERSHIP OF THE SECURITIES REGISTERED FOR SALE. ALSO, TELL US WHETHER ANY OF THEM ARE BROKER/DEALERS OR ARE AFFILIATED WITH BROKER/DEALERS.



The prospectus has been revised in response to the Staff's comment.

DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS - PAGE 14

12. PLEASE EXPAND THE INFORMATION REGARDING MR. ANDERSON TO MORE SPECIFICALLY HIS BUSINESS EXPERIENCE DURING THE PAST FIVE YEARS.

The prospectus has been revised in response to the Staff's comment.

13. PLEASE PROVIDE FACTUAL SUPPORT FOR THE CLAIM MADE IN THE FIFTH SENTENCE OF THE DESCRIPTION OF DR. DEZUBE'S EXPERIENCE. IN THE ALTERNATIVE, IT SHOULD BE DELETED.

The prospectus has been revised in response to the Staff's comment.

14. PLEASE PROVIDE FACTUAL SUPPORT FOR THE CLAIM MADE IN THE SECOND SENTENCE OF THE DESCRIPTION OF DR. MASTICO'S EXPERIENCE. IN THE ALTERNATIVE, IT SHOULD BE DELETED.

The prospectus has been revised in response to the Staff's comment.

15. IN THE LAST SENTENCE OF DR. PALMER'S DESCRIPTION, PLEASE EXPLAIN WHAT AN "NDEA TITLE IV FELLOW" IS.

We deleted this reference in response to the Staff's comment as the reference did not add any substantive information to the Company's disclosure.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT - PAGE 16

16. IF YOUR OUTSTANDING PREFERRED STOCK IS CURRENTLY CONVERTIBLE, OR WILL BECOME CONVERTIBLE WITHIN THE NEXT 60 DAYS, PLEASE PROVIDE OWNERSHIP INFORMATION FOR IT IN THE TABLE ON AN "AS CONVERTED" BASIS. PLEASE REVISE OR ADVISE AS APPROPRIATE.

The prospectus has been revised in response to the Staff's comment.

PREFERRED STOCK - PAGE 17

17. YOU STATE THAT THE SERIES A PREFERRED STOCK HAS A DIVIDEND PREFERENCE BUT DO NOT DESCRIBE IT. USUALLY PREFERRED SHAREHOLDERS ACQUIRE A DIVIDEND PREFERENCE BECAUSE THEY ARE DESIGNATED THE PAYMENT OF A DIVIDEND WHICH MUST BE PAID PRIOR TO THE PAYMENT OF DIVIDENDS ON COMMONS SHARES. PLEASE REVISE TO DISCLOSE THE SPECIFIC DIVIDEND PREFERENCE. SIMILARLY, YOU STATE THAT THE PREFERRED SHAREHOLDERS ARE ENTITLED TO A RETURN OF THEIR ORIGINAL INVESTMENT UPON



DISSOLUTION OF THE REGISTRANT. PLEASE QUANTIFY WHAT HOLDERS OF OUTSTANDING SHARES OF PREFERRED STOCK ARE ENTITLED TO UPON DISSOLUTION OF THE COMPANY.

The prospectus has been revised in response to the Staff's comment.

RELATED PARTY TRANSACTIONS, - PAGE 19

18. YOU STATE THAT THE REGISTRANT HAS ACCRUED A TOTAL OF $879,136 PAYABLE

TO MS. ROBINETT FOR SERVICES RENDERED AND EXPENSES ACCRUED ON BEHALF OF THE COMPANY. IT IS NOT CLEAR AS TO WHETHER THESE AMOUNTS INCLUDE THE ACCRUED AND UNPAID SALARY REFERRED TO IN THE EXECUTIVE COMPENSATION TABLE OR ARE IN ADDITION TO IT. PLEASE PROVIDE ADDITIONAL DISCLOSURE. ALSO, ON PAGE 21 UNDER THE CAPTION ENTITLED "EMPLOYEES", YOU STATE THAT THE REGISTRANT HAS NO EMPLOYEES AND THAT MS. ROBINETT IS AN INDEPENDENT CONTRACTOR. THIS SUGGESTS THAT MS. ROBINETT DOES NOT RECEIVE A SALARY. PLEASE RECONCILE THE DISCLOSURE IN ALL THREE OF THESE SECTIONS OF THE PROSPECTUS.

The prospectus has been revised in response to the Staff's comment.

19. PLEASE BREAK OUT THE AMOUNTS ACCRUED FOR SERVICES RENDERED AND FOR EXPENSES ACCRUED SEPARATELY. ALSO, IDENTIFY THE NATURE OF THE SERVICES AND EXPENSES AND DISCLOSE THE PERIOD OF TIME OVER WHICH THEY WERE RENDERED OR ACCRUED, RESPECTIVELY.

All of the amounts accrued are solely for services rendered. The prospectus has been revised accordingly.

20. FILE THE AGREEMENT(S) REGARDING THE COMPENSATION OF MS. ROBINETT BY THE COMPANY AS EXHIBIT(S) TO THE REGISTRATION STATEMENT AND DESCRIBE THE TERMS WHEREBY SHE IS COMPENSATED FOR SERVICES RENDERED AND EXPENSES ACCRUED. IF THERE ARE NO WRITTEN AGREEMENTS DESCRIBE THE TERMS OF ANY ORAL AGREEMENTS BETWEEN THE REGISTRANT AND MS. ROBINETT.

The registration statement has been revised in response to the Staff's comments.

DESCRIPTION OF BUSINESS - PAGE 19

21. PLEASE INCLUDE A DISCUSSION OF THE SOURCES AND AVAILABILITY OF RAW MATERIALS NEEDED TO MAKE YOUR PRODUCT, AND THE NAMES OF YOUR PRINCIPAL SUPPLIERS.

The components of both MDI-P and SaveCream are readily available from a number of sources. MDI-P requires only pure water, lab grade salt and electricity for its



production, while the main component of the active ingredient in SaveCream is a by-product of the wood processing industry, available in mass quantities. As the Company's products are not currently in the manufacturing stage, no significant arrangements have been made to procure these materials from a specific source. The prospectus has been revised to indicate that these materials are readily available and that we do not anticipate materials acquisition difficulties or supplier identification or relations problems.

22. PLEASE PROVIDE SUPPORT FOR THE STATEMENT IN THE THIRD PARAGRAPH OF THIS SECTION WHERE YOU INDICATE THAT YOU BELIEVE YOU HAVE SUFFICIENT CAPITAL TO COMPLETE PHASE I OF YOUR CYSTIC FIBROSIS TRIALS.

The prospectus has been revised in response to the Staff's comment.

23. PLEASE EXPAND THE DISCUSSION OF YOUR PATENTS ON PAGE 20 TO INCLUDE SUCH INFORMATION AS THE DURATION OF THE PATENTS AND WHETHER THEY ARE USE PATENTS FOR A PREVIOUSLY PATENTED SUBSTANCE, OR A PATENT FOR THE SUBSTANCE. YOU ALSO NEED TO DISCUSS THEIR ADEQUACY FOR PROTECTING YOUR PROPOSED INDICATIONS FOR USE.

The prospectus has been revised in response to the Staff's comment.

EXECUTIVE COMPENSATION - PAGE 26

24. PLEASE UPDATE THE INFORMATION THROUGH THE FISCAL YEAR ENDED DECEMBER 31, 2004.

The prospectus has been revised in response to the Staff's comment.

FINANCIAL STATEMENTS - DECEMBER 31, 2003

INDEPENDENT AUDITORS' REPORT, PAGE F-2

25. WE NOTE THAT YOU MAKE REFERENCE TO THE PREDECESSOR AUDITOR FOR THEIR WORK PERFORMED FROM INCEPTION (NOVEMBER 20, 1991) THROUGH DECEMBER 31, 1999. IF IT IS YOUR PREFERENCE TO CONTINUE TO MAKE SUCH REFERENCE, PLEASE PROVIDE THEIR AUDIT REPORT AND RELATED CONSENT. REFER TO RULE 2-05 OF REGULATION S-X.

The prospectus has been revised in response to the Staff's comment.

CONSOLIDATED STATEMENTS OF OPERATIONS, F-4

26. PLEASE RECLASSIFY ALL FORGIVEN DEBT THAT HAS BEEN UNDER EXTRAORDINARY ITEM SINCE INCEPTION TO OTHER INCOME IN ACCORDANCE WITH PARAGRAPH 10 OF SAFS 145.

The prospectus has been revised in response to the Staff's comment.

NOTES TO FINANCIAL STATEMENTS, PAGE F-8

NOTE A - SIGNIFICANT ACCOUNTING POLICIES, PAGE F-8
OTHER INCOME, PAGE F-1Q

27. PLEASE TELL US THE AMOUNT OF AND CLARIFY FOR US FORGIVEN DEBT FOR THOSE LIABILITIES THAT WERE "UNCOLLECTIBLE BY THE CREDITOR FOR A VARIETY OF REASONS" AS TO HOW YOU WERE LEGALLY RELEASED BY THE CREDITORS WHICH IS REQUIRED BY PARAGRAPH 16 OF FAS 14Q BEFORE A LIABILITY CAN BE CONSIDERED EXTINGUISHED. FURTHER, PLEASE SEPARATELY QUANTIFY FOR US THE AMOUNTS THAT RELATE TO FORGIVEN DEBT THAT WAS "INACCURATELY BOOKED" AND TELL US HOW YOU DETERMINED THE ADJUSTMENT FOR THESE LIABILITIES WAS NOT A CORRECTION OF ERROR THAT REQUIRES RESTATEMENT OF PRIOR FINANCIAL STATEMENTS.

The "inaccurately booked" statement referred to an amount of $219,000 that at one time had been owing to an individual but which was subsequently released by that individual. The only potential inaccuracy may have been in keeping the amount on the books after the date of the release. The remaining amount of $319,828 was deemed extinguished pursuant to FAS140 because the associated liabilities had been extinguished by the running of the applicable statutes of limitation without action by the creditors.

NOTE G - STOCK PURCHASE WARRANTS, PAGE F-13

28. WE NOTE THAT THERE WAS A CHANGE IN THE TERMS OF CERTAIN WARRANTS OUTSTANDING. PLEASE INCLUDE A DISCUSSION OF THE ACCOUNTING CONSEQUENCES OF THIS CHANGE AND WHEN IT OCCURRED. SUPPLEMENTALLY, TELL US THE ACCOUNTING LITERATURE SUPPORTING YOUR TREATMENT.

The prospectus has been revised in response to the Staff's comment.

SIGNATURES

29. PLEASE IDENTIFY AND PROVIDE THE SIGNATURE OF THE CONTROLLER OR CHIEF ACCOUNTING



OFFICER.

Section 302 of the Sarbanes-Oxley Act of 2002, codified at 15 U.S.C. Section 7241, provides that the certification of financial reports provided by the Act may be required of "the principal executive officer or officers and the principal financial officer or officers, OR PERSONS PERFORMING SIMILAR FUNCTIONS." Section 906 of the Act, codified at 18 U.S.C. Section 1350 similarly provides that financial statements submitted to the United States Securities and Exchange Commission "shall be accompanied by a written statement by the chief executive officer and chief financial officer (OR EQUIVALENT THEREOF) of the issuer."

The Company does not have an executive officer serving in the capacity of financial officer, nor is it required to have such an officer by the laws of the state of Utah under which it is incorporated. As President and Chief Executive Officer of the Company, Judy M. Robinett is the only executive officer serving in the accounting function; thus, she signed the registration statement in her dual capacities as the chief executive officer and the person performing the function of the principal financial officer. The other employee of the Company who serves as the controller is not a corporate officer. We do not read the Act to require the certification of the registration statement by a non-officer such as the controller and believe that Ms. Robinett's certifications are sufficient to meet the Company's certification obligations under the Act.

Very truly yours,

/s/ Stephen R. Drake
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Stephen R. Drake

SRD:yp

cc: Judy M. Robinett