

**CBIO LIMITED**

ABN 76 094 730 417

**Half -Year Financial Report**

**31 December 2005**

**CBio Limited**  
**Half-Year Financial Report**  
**31 December 2005**

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**CBio Limited**  
**Half-Year Financial Report**  
**31 December 2005**  
**Directors' Report**

The directors submit their report for the half-year ended 31 December 2005.

**Directors**

The names of the company's directors in office during the period and until the date of this report are as below:

<b>Name</b>	<b>Title</b>
Mr Stephen Jones	Chairman
Dr Wolfgang Hanisch	Chief Executive Officer
Mr Stephen Streeter	Non-executive Director (appointed 25 <sup>th</sup> November 2005)
Mr Stephen Goodall	Non-executive Director (resigned 25 <sup>th</sup> November 2005)
Dr Andy Gearing	Non-executive Director (appointed 9 <sup>th</sup> March 2006)

**Results and Review of Operations**

The consolidated loss after tax attributable to members of CBio Limited for the half-year ended 31 December 2005 was \$6,077,090. For the previous half-year ended 31 December 2004 the consolidated loss after tax of the company was \$3,239,126. The loss after tax attributable to members of CBio Limited relating to the operations of BresaGen Limited was \$48,490. For the previous half-year ended 31 December 2004 the loss after tax attributable to members of CBio Limited relating to the operations of BresaGen Limited were \$771,703.

CBio funds to date have been expended as set out in the original prospectus (2001), on the successful completion of goals that have seen the company start Phase II clinical trials in patients with Multiple Sclerosis, Rheumatoid Arthritis and Psoriasis. These clinical trials are expected to be completed in April 2006. A Phase I subcutaneous clinical trial commenced in January 2006 in healthy volunteers. This clinical trial will be completed in Q2 2006. The results of these clinical trials will determine the Phase IIb clinical trial program and other clinical development work required to meet planned objectives.

BresaGen experienced a significant increase in revenue and markedly improved performance during the half-year, with strong performances achieved by both the ProtEcol and Active Pharmaceutical Ingredients (API) divisions. Sales revenue for the half-year was \$2,238,000 (2004: \$780,000), an increase of 187%, driven by increases in both ProtEcol and Active Pharmaceutical Ingredient (API) sale contracts. 53% of sales revenue derived by BresaGen was contributed by CBio Limited. The net loss for the period was \$107,000 (2004: \$6,363,000), 98.3% lower than the corresponding period last year, reflecting the significant revenue growth in all departments and the reduced corporate and administration expenditure. Further, the write off of a significant investment was reflected in the 31 December 2004 result. There was no such write off in the current year. At 31 December 2005 CBio Limited held 39.9% of the issued capital of BresaGen Limited.

**Capital Raising**

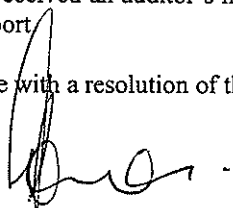
A sum of \$7,235,643 was raised during the period by CBio Limited to fund ongoing research and development programs. These funds were raised through the private placement of 2,411,881 ordinary shares to sophisticated investors at an issue price of \$3 per share. After placement costs the amount of capital raised was \$6,997,301. During the period CBio paid \$375,000 to Uniquist as part repayment of funds received under the convertible note facility. Uniquist provided to CBio in December 2005 a notice to convert to equity all remaining funds outstanding under this facility. During the period Uniquist was issued 636,661 ordinary shares on conversion of its convertible note facility.

**Auditor's Independence Declaration**

The Directors have received an auditor's independence declaration, which is attached on page 3 and forms part of this Directors' report.

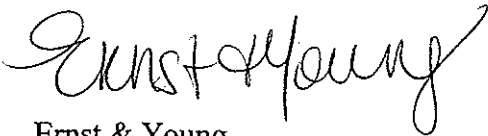
Signed in accordance with a resolution of the Directors.

Stephen Jones  
Chairman  
30 March 2006



## **Auditor's Independence Declaration to the Directors of CBio Limited**

In relation to our review of the financial report of CBio Limited for the half-year ended 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Winna Irschitz

Partner

30 March 2006

**CBio Limited**  
**Half-Year Financial Report**  
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**Income Statement**

		<b>Consolidated</b>	
	<b>Notes</b>	<b>31 December 2005</b>	<b>31 December 2004</b>
		<b>\$</b>	<b>\$</b>
<b>Revenue from continuing operations</b>	2	1,573,619	610,360
Borrowing cost expense	3a	(316,658)	(120,755)
Corporate & administrative expenses	3b	(3,007,305)	(2,506,798)
Research & development		(3,634,302)	(787,262)
Cost of sales		(64,693)	(79,763)
Cost of rendering services		(181,241)	(315,429)
Write down of investments		(39,092)	-
Marketing expenses		(466,029)	(122,422)
Goodwill write off		-	(360,237)
<b>Loss from continuing operations before income tax expense</b>		<b>(6,135,701)</b>	<b>(3,682,306)</b>
Income tax relating to ordinary activities		-	-
<b>Net Loss</b>		<b>(6,135,701)</b>	<b>(3,682,306)</b>
<b>Net loss attributable to minority interest</b>		<b>58,611</b>	<b>443,180</b>
<b>Net loss attributable to members of CBio Limited</b>		<b>(6,077,090)</b>	<b>(3,239,126)</b>
Basic loss per share (cents)		(0.29)	(0.17)
Diluted loss per share (cents)		(0.29)	(0.17)

The Income Statement is to be read in conjunction with the notes to the financial statements.

**CBio Limited**  
**Half-Year Financial Report**  
**31 December 2005**

**Balance Sheet**

	Notes	Consolidated	
		31 December 2005 \$	30 June 2005 \$
<b>Current Assets</b>			
Cash assets		2,812,108	1,822,756
Receivables		379,570	422,254
Other Current Assets		674,334	53,661
<b>Total Current Assets</b>		<b>3,866,012</b>	<b>2,298,671</b>
<b>Non-Current Assets</b>			
Property, plant and equipment		11,464,076	11,180,530
Receivables		166,280	162,373
<b>Total Non-Current Assets</b>		<b>11,630,356</b>	<b>11,342,903</b>
<b>Total Assets</b>		<b>15,496,368</b>	<b>13,641,574</b>
<b>Current Liabilities</b>			
Payables		1,485,997	2,174,225
Provisions		428,095	479,803
Interest-bearing Liabilities		575,210	929,321
<b>Total Current Liabilities</b>		<b>2,489,302</b>	<b>3,583,349</b>
<b>Non-Current Liabilities</b>			
Provisions		53,748	34,122
Interest-bearing liabilities		6,785,360	8,107,853
Non interest-bearing liabilities		5,818	-
Deferred Income		200,000	-
<b>Total Non-Current Liabilities</b>		<b>7,044,926</b>	<b>8,141,975</b>
<b>Total Liabilities</b>		<b>9,534,228</b>	<b>11,725,324</b>
<b>Net Assets</b>		<b>5,962,140</b>	<b>1,916,250</b>
<b>Equity</b>			
Contributed Equity	4	27,101,715	19,134,858
Reserves		3,003,959	1,848,497
Accumulated Losses	5	(26,321,643)	(20,244,553)
<b>Parent Entity Interest</b>		<b>3,784,031</b>	<b>738,802</b>
<b>Total Minority Interest</b>		<b>2,178,109</b>	<b>1,177,448</b>
<b>Total Equity</b>		<b>5,962,140</b>	<b>1,916,250</b>

The Balance Sheet is to be read in conjunction with the notes to the financial statements.

**CBio Limited**  
**Half-Year Financial Report**  
**31 December 2005**

**Cash Flow Statement**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	(7,104,121)	(7,219,688)
Receipts from customers	1,557,241	1,410,441
Interest received	32,455	61,661
Interest paid	(283,591)	(51,012)
	<hr/>	<hr/>
<b>Net cash used in operating activities</b>	<b>(5,798,016)</b>	<b>(5,798,598)</b>
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	47,834	-
Purchase of property, plant & equipment	(603,339)	(112,618)
Proceeds from sale of shares	-	62,530
Cash acquired on acquisition of controlled entity	-	3,043,583
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	<b>(555,505)</b>	<b>2,993,495</b>
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	7,221,462	2,497,874
Proceeds from issue of shares in controlled entity	352,350	200,000
Repayment of borrowings	(672,033)	-
Proceeds from issue of convertible note	900,000	-
Repayment of convertible note	(375,000)	-
Payments of share issue costs	(83,906)	-
Proceeds from share allotments not yet made	-	234,980
	<hr/>	<hr/>
<b>Net cash provided by financing activities</b>	<b>7,342,873</b>	<b>2,932,854</b>
	<hr/>	<hr/>
<b>Net increase in cash held</b>	<b>989,352</b>	<b>127,751</b>
	<hr/>	<hr/>
<b>Cash at beginning of the period</b>	<b>1,822,756</b>	<b>1,196,708</b>
	<hr/>	<hr/>
<b>Cash at end of the period</b>	<b>2,812,108</b>	<b>1,324,459</b>

The Cash Flow Statement is to be read in conjunction with the notes to the financial statements.

**CBio Limited**  
**Half-Year Financial Report**  
**31 December 2005**  
**Changes in Equity Statement**

		Attributable to equity holders of the parent					
		Issued capital	Retained earnings	Other reserves	Total	Minority interest	Total equity
		\$	\$	\$	\$	\$	\$
<b>At 1 July 2004</b>		12,672,540	(12,377,772)	295,775	590,543	-	590,543
<hr/>							
Total income and expense for the period recognised directly in equity							
Profit/(Loss) for the period		-	(3,239,127)	(149,213)	(3,388,340)	(443,180)	(3,831,520)
Total income / expense for the period		-	(3,239,127)	(149,213)	(3,388,340)	(443,180)	(3,831,520)
Cost of share based payment		-	-	615,738	615,738	-	615,738
Issue of Share Capital		3,742,230	-	-	3,742,230	2,562,095	6,304,325
<b>At 31 December 2004</b>		<b>16,414,770</b>	<b>(15,616,899)</b>	<b>762,300</b>	<b>1,560,171</b>	<b>2,118,915</b>	<b>3,679,086</b>
<hr/>							
<b>At 1 July 2005</b>		19,134,858	(20,244,553)	1,848,497	738,802	1,177,448	1,916,250
<hr/>							
Total income and expense for the period recognised directly in equity							
Share issue costs		(224,159)	-	-	(224,159)	-	(224,159)
Profit/(Loss) for the period		-	(6,077,090)	-	(6,077,090)	(58,611)	(6,135,701)
Total income / expense for the period		(224,159)	(6,077,090)	-	(6,301,249)	(58,611)	(6,359,860)
Cost of share based payment		-	-	828,785	828,785	16,634	845,419
Convertible notes issued		955,373	-	-	955,373	-	955,373
Issue of share capital – Parent		7,235,643	-	-	7,235,643	-	7,235,643
Issue of share capital – subsidiary		-	-	326,677	326,677	1,025,323	1,352,000
Other movements		-	-	-	-	17,315	17,315
<b>At 31 December 2005</b>		<b>27,101,715</b>	<b>(26,321,643)</b>	<b>3,003,959</b>	<b>3,784,031</b>	<b>2,178,109</b>	<b>5,962,140</b>

The Changes in Equity Statement is to be read in conjunction with the notes to Financial Statements.

## **Notes to the Accounts**

### **1. Basis of preparation of the Half-Year Financial Report**

The half-year financial report does not include notes of the type normally included within an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of CBio Limited as at 30 June 2005 which was prepared based on Australian Accounting Standards applicable before 1 January 2005 (AGAAP). It is also recommended that the half-year financial report be considered together with any public announcements made by CBio Limited and its controlled entities during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

#### **Basis of Accounting**

The half-year consolidated financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001 and Accounting Standard AASB 1029 "Interim Financial Reporting", the recognition and measurement requirements of applicable AASB standards, other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group consensus views.

The half-year financial report has been prepared on the basis of historical cost convention and except where stated, does not take into account changing money values or current valuations of non-current assets.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

#### **Going Concern**

The report has been prepared on a going concern basis. The directors believe that the going concern basis is appropriate due to the following factors:

- a) CBio Limited has a strong history of capital raising;
- b) the success of future capital raising for CBio Limited will depend on the company achieving positive results in the current clinical trials;
- c) the success of the operations of BresaGen (an entity controlled by CBio) is dependant on -
  - i. obtaining additional funding in the near future;
  - ii. continuing to receive the support of the current creditors; and
  - iii. generating future sales to enable the company to generate a profit and positive cashflows.

The completion of the Phase II trials program will require additional funding to be raised in a future period. Should the consolidated entity not receive future funds, there is significant uncertainty whether the consolidated entity will be able to continue as a going concern and be able to pay their debts as and when they fall due. Accordingly, the consolidated entity may be required to extinguish liabilities other than in the ordinary course of business and at amounts different from those stated in the financial report.

This report does not include any adjustments relating to the recoverability or classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the entity not be able to continue as a going concern.

**CBio Limited**  
**Half-Year Financial Report**  
**for the half-year ended 31 December 2005**

**1. Basis of preparation of the Half-Year Financial Report (cont'd)**

**Basis of Consolidation**

The consolidated financial statements comprise the financial statements of CBio and its subsidiaries ('the Group'). The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which CBio has control.

**Statement of Compliance**

The half-year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and the full-year 30 June 2005 have been restated accordingly.

Reconciliations of:

- AIFRS equity as at 1 July 2004, 31 December 2004, 30 June 2005 and 1 July 2005 and
  - AIFRS profit for the half-year 31 December 2004 and full-year 30 June 2005,
- to the balances reported in the 31 December 2004 half-year report and the 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1(xxvi) below.

Australian Accounting Standards that have recently been amended but are not yet effective have not been adopted for the interim reporting period ending 31 December 2005. The table below outlines each of these amended standards and the expected change in accounting policy when applied, if any.

<b>AASB Amendment</b>	<b>Affected Standard(s)</b>	<b>Nature of change to accounting policy</b>	<b>Application date of standard*</b>	<b>Application date of Group</b>
2005-1	AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-5	AASB 1: <i>First-time adoption of AIFRS</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-6	AASB 3: <i>Business Combinations</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006

## 1. Basis of preparation of the Half-Year Financial Report (cont'd)

### Statement of Compliance (cont'd)

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date of Group
2005-10	AASB 132: <i>Financial Instruments: Presentation</i> , AASB 101: <i>Presentation of Financial Statements</i> , AASB 114: <i>Segment Reporting</i> , AASB 117: <i>Leases</i> , AASB 133: <i>Earnings per Share</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 1: <i>First-time adoption of AIFRS</i> , AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> and AASB 1038: <i>Life Insurance Contracts</i>	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007
New standard	AASB 7 <i>Financial Instruments: Disclosures</i>	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007

The following amendments are not applicable to the Group and therefore have no impact.

AASB Amendment	Affected Standard(s)
2005-2	AASB 1023: <i>General Insurance Contracts</i>
2005-9	AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> and AASB 132: <i>Financial Instruments: Disclosure and Presentation</i>
2005-12	AASB 1038: <i>Life Insurance Contracts</i> and AASB 1023: <i>General Insurance Contracts</i>
2005-13	AAS 25: <i>Financial Reporting by Superannuation Plans</i>
2006-1	AASB 121: <i>The effects of Changes in Foreign Exchange Rates</i>

#### (i) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

##### *Raw materials*

Purchase cost on a first in, first out basis.

##### *Finished goods and work in progress*

Cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

#### (ii) Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank, cash in hand and short term deposits with an original maturity of three months or less.

#### (iii) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

## **1. Basis of preparation of the Half-Year Financial Report (cont'd)**

### **(iv) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measure.

The following specific recognition criteria must also be met before revenue is recognised:

#### *Sales of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

#### *Render of services*

Revenue from performance of ProtEcol services is recognised by reference to the stage of completion of the project. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### *Licence fees*

Licence fee income arising from the sub-licence of laboratory space is accounted for on a straight line basis over the lease term.

### **(v) Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

### **(vi) Other taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:

- where GST incurred on a purchase of goods and services is not recoverable from the Australian Taxation Office ('ATO'), in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivable and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the ATO, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the ATO.

### **(vii) Foreign Currency**

Both the financial and presentation currency of BresaGen Limited and its Australian subsidiaries is Australian dollars (A\$).

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting date are retranslated at the rate of exchange ruling on that date.

## **1. Basis of preparation of the Half-Year Financial Report (cont'd)**

### **(viii) Receivables**

Trade debtors are carried at amounts due, less an allowance for any uncollectable amounts. The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts. Trade debtors are expected to be settled within 30 days. Bad debts are written off when identified.

### **(ix) Investments**

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the income statement.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

For investments that are actively traded in organized financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date i.e. the date that the Group commits to purchase the asset.

### **(x) Leased Assets**

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Payments made under operating leases are expensed on a straight line basis over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

## 1. Basis of preparation of the Half-Year Financial Report (cont'd)

### (xi) Property, Plant and Equipment

#### *Acquisition*

Items of property, plant and equipment are recorded at cost less accumulated depreciation as outlined below and any impairment in value.

External costs incurred in the construction of the consolidated entity's building facility have been capitalised and recorded at cost.

#### *Useful Lives*

All assets have limited useful lives and are depreciated using the straight line method over their estimated useful lives, taking into account estimated residual value, with the exception of freehold land. Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation is expensed.

The depreciation rates or useful lives for each class of assets are as follows:

Property, plant and equipment	2005	2004
Buildings	4%	4%
Plant and equipment	10%-33%	10%-33%
Computer equipment	20%-33%	20%-33%
Furniture and fittings	10%-20%	10%-20%

#### *Impairment*

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### (xii) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company or consolidated entity. Trade accounts payable are normally settled within 60 days.

### (xiii) Superannuation Fund

The Company contributes to an approved employee superannuation fund at the rate of 9% of employees' gross salaries as directed by the Superannuation Guarantee legislation. Contributions are recognised as an expense against income as they are made.

## **1. Basis of preparation of the Half-Year Financial Report (cont'd)**

### **(xiv) Deferred Income**

Under the terms of the consolidated entity's major research contracts and government grants, the consolidated entity does not control the income until it has incurred the relevant research expenditure. Revenue received in advance in relation to such agreements is deferred until the relevant research expenditure is incurred at which time the corresponding revenue is taken to the income statement.

### **(xv) Employee Benefits**

#### *Wages, Salaries and Annual Leave*

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date, including related on-costs, such as workers compensation insurance and payroll tax.

#### *Long Service Leave*

The amount provided for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made in connection with employees' services provided up to reporting date. The provision is calculated using expected wage and salary rates, including related on-costs and expected settlement dates are based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

### **(xvi) Interest Bearing Loans & Borrowings**

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

### **(xvii) Non-interest Bearing Loans & Borrowings**

Long-term non-interest bearing financial liabilities are discounted to their present value, based on the prevailing market rate, in the year the loans are received and the discount taken to the income statement. Each year a notional interest expense is charged against the income statement to accrue the loan to the face value payable in the future.

## **1. Basis of preparation of the Half-Year Financial Report (cont'd)**

### **(xviii) Use and Revision of Accounting Estimates**

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### **(xix) Acquisition of Assets**

All assets acquired including property, plant and equipment and intangibles other than goodwill, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market prices at the date of acquisition are used as fair value, except where the notional price at which they could be placed in the market is a better indication of fair value.

### **(xx) Recoverable Amounts of Assets**

At each reporting date the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### **(xxi) Borrowing Costs**

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement for borrowings, finance charges in respect of finance leases and foreign exchange differences net of the effect of hedges of borrowings.

Interest payments in respect of financial instruments classified as liabilities are included in borrowing costs.

Ancillary costs incurred in connection with the arrangement of borrowings are netted against the relevant borrowings and amortised over their life.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which necessarily takes a substantial period of time to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed specifically for acquisition, construction or production of a qualifying asset, the capitalised amount of the borrowing costs include costs incurred in relation to that borrowing net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

## **1. Basis of preparation of the Half-Year Financial Report (cont'd)**

### **(xxii) Earnings Per Share**

Basic earnings per share ('EPS') is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company outstanding during the year.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares outstanding during the year.

### **(xxiii) Share based payment transactions**

The Group provides benefits to employees (including directors) of the Group in the form of share based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There is currently one plan in place to provide these benefits, namely the Employee Share Option Plan (ESOP), which provides benefits to all qualifying staff. The costs of the equity settled transactions with employees are measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black Scholes option-pricing model.

In valuing equity settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of BresaGen Limited ('market conditions'). The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date.

No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity settled award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

## **1. Basis of preparation of the Half-Year Financial Report (cont'd)**

### **(xxiv) Adoption of Australian Equivalents to International Accounting Standards**

#### **AASB 1 Transitional exemptions**

The Group has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

#### *Share based payment transactions*

AASB2 'Share Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

#### *Exemption from the requirement to restate comparative information for AASB 132 and AASB 139*

The Group has not elected to adopt this exemption and has applied AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 'Financial Instruments: Recognition and Measurement' to its comparative information.

#### **Impact of Adoption of AIFRS**

The impact of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') is illustrated below.

#### **(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS**

	<b>Consolidated</b>		
	30-Jun-05	31-Dec-04	01-Jul-04
	\$	\$	\$
Total equity under AGAAP	1,916,250	3,679,086	590,543
Adjustments to equity:			
- Recognition of Share based payments	(1,447,112)	(911,513)	(295,775)
- Increase in Share Option reserve	1,447,112	911,513	295,775
Total equity under AIFRS	1,916,250	3,679,086	590,543

In consideration for an equity raising the parent entity issued options over shares to the value of \$390,000. The value of these options has not been recorded above as there is no impact on the net equity of the consolidated entity, nor is there any profit and loss impact.

#### **(ii) Reconciliation of profit after tax under AGAAP to that under AIFRS**

	<b>Consolidated</b>	
	Year ended	Half-Year ended
	30-Jun-05	31-Dec-04
	\$	\$
Loss after tax as previously reported	(8,174,373)	(3,215,781)
- Recognition of Share based payments	(1,151,337)	(615,738)
- Gains and losses on dilution of controlled entities now recognized directly in equity	149,213	149,213
Loss after tax under AIFRS	(9,176,497)	(3,682,306)

**CBio Limited**  
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**31 December 2005**

	<b>Consolidated</b>	
	<b>31 December 2005</b>	<b>31 December 2004</b>
	\$	\$
<b>2. Revenue</b>		
<b>Revenue</b>		
Sales Revenues - Goods	791,971	136,444
Government Grants	365,669	-
Disposal of investments	-	233,714
Interest	21,119	61,661
License Fees	57,142	35,864
Contract Research Income	269,902	119,859
Other Income	67,816	22,818
	<hr/>	<hr/>
Total Revenue	1,573,619	610,360
	<hr/>	<hr/>

**3. Expenses From Ordinary Activities**

Expenses from ordinary activities for the consolidated entity before income tax has been determined after:

**(a) Expenses from**

Borrowing costs:-

Interest expense on Convertible Note	31,487	34,998
Borrowing costs attributable to controlled entity	284,141	85,757
Other borrowing costs	1,030	-
	<hr/>	<hr/>
	316,658	120,755
	<hr/>	<hr/>

**(b) Corporate & administrative expenses**

Consulting Fees	415,500	459,490
Depreciation	428,994	412,605
Office Rental	107,836	15,000
Legal & Compliance costs	51,030	295,859
Insurance	121,199	150,687
Repairs & Maintenance	106,033	161,258
Share Registry costs	37,102	34,073
Patent fees	154,826	37,380
Administration salaries	280,956	63,106
Equity based compensation	828,785	615,738
Other costs	475,044	261,602
	<hr/>	<hr/>
Total Corporate & administrative expenses	3,007,305	2,506,798
	<hr/>	<hr/>

**CBio Limited**  
**Half-Year Financial Report**  
**31 December 2005**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
<b>4. Contributed Equity</b>		
Ordinary shares issued and fully paid at the beginning of the half-year	19,134,858	12,672,540
<i>Shares issued this half year</i>		
Shares issued to sophisticated investors	7,235,643	6,660,936
Shares issued via convertible note facility	955,373	-
Share issue costs	(224,159)	(198,618)
Ordinary shares issued and full paid at the end of the half-year	<u>27,101,715</u>	<u>19,134,858</u>
<b>5. Accumulated Losses</b>		
Accumulated losses at the beginning of the period	20,244,553	12,377,772
Net loss attributable to members of the parent entity	6,077,090	7,866,781
Accumulated losses at the end of the period	<u>26,321,643</u>	<u>20,244,553</u>

## **6. Contingent Assets & Liabilities**

### **Secured Credit Note Facility**

A convertible note facility was approved by Shareholders of BresaGen Limited at the Company's shareholders meeting held on 11 October 2004 with CBio Limited. A summary of the principle terms of this facility are set out below -

- (a) CBio will make available to BresaGen Limited a loan facility with a maximum limit of \$3.4m. (subsequently it has been agreed that obligations to the extent of \$900,000 of this facility will be assumed by Australian Technology Innovation Fund Limited (ATIF), see below);
- (b) BresaGen will issue a maximum of 34 Notes (22 notes remain, see below) to CBio at an issue price of \$100,000;
- (c) the maturity date for the facility is 5 years from the commencement of the Convertible Note Facility;
- (d) the notes are transferable at the option of the holder
- (e) the notes are convertible at the option of the holder
- (f) each note will be convertible into that number of shares determined by reference to the amount of the face value of the notes and the following price: the higher of \$0.05 per share and the rolling three month volume weighted average price of BresaGen's ordinary shares, traded on the ASX discounted at 20% (that is the lowest price at which shares will be converted is \$0.05 per share) such that the maximum number of shares which may be issued is 68,000,000;
- (g) Shares issued on conversion of a note will be fully paid ordinary shares in BresaGen Limited; and
- (h) Interest will be payable by BresaGen Limited on the face value of the notes issued at a rate of 8% pa.

### **Charge**

- a) fixed and floating charge over all of BresaGen's assets and undertaking;
- b) secures all monies advanced to BresaGen by CBio from time to time, including under the convertible note facility; and
- c) secured monies are repayable in accordance with the terms of any relevant agreement (such as the convertible note facility) or otherwise on demand by CBio.

### **Convertible Note Facility Amendments**

On the 6 December 2004 the secured convertible note facility with CBio was amended and ATIF agreed to subscribe for up to the first 9 Notes (\$900,000) upon being called to do so by BresaGen. ATIF and BresaGen will be covered by the same terms and conditions as the original facility provided by CBio except that this facility is not secured over the assets of BresaGen Limited. Subsequent to the 6 December 2004 BresaGen Limited called upon 2 notes (\$200,000) provided under this facility. Immediately upon the issue of the notes ATIF exercised their right and converted the notes into 4,000,000 shares. It is the stated intention of all parties that these convertible note facilities will only be drawn upon if required for continued cash solvency of BresaGen Limited.

On 1 June 2005, BresaGen called upon 1 note under the convertible note facility. This note was effectively transferred from CBio to M.Monsour on this date. On 1 July & 2 August 2005, BresaGen called upon 1 note on each date provided under the convertible note facility. These notes were effectively transferred from CBio to MP Monsour Medical Practice Pty Ltd ATF MP Monsour Medical Practice Superannuation Fund. On 2 August 2005, M Monsour exercised his right and converted all 3 notes into 6 million shares in BresaGen.

On 25 July BresaGen called upon a further 2 notes (\$200,000) provided under the facility. CBio transferred these 2 notes to Yarandi Investments Pty Ltd on this date. Yarandi Investments, immediately on the issue of the notes, exercised its right and converted the notes into 4 million shares in BresaGen.

On 15 August 2005, BresaGen called upon 5 notes under the convertible note facility. These notes were effectively transferred from CBio to Paragon Equity Ltd and were immediately converted into 10 million shares.

## **7. Segment Information**

The company operates solely as a research and development company in the biotechnology/ pharmaceutical industry in Australia.

BresaGen Limited specialises in protein & pharmaceutical operations.

## **8. Change In Composition Of Entity**

On 11 October 2004, CBio Limited acquired 51% of the voting share capital of BresaGen Limited, a public Company incorporated in Australia specializing in protein and pharmaceutical operations. This investment assured the security of supply of Cpn10 for the clinical trial program.

As at 30 June 2005, CBio's interest in BresaGen was diluted to 48.14% due to the disposal by CBio of 1,250,000 BresaGen shares and by equity raisings by BresaGen. As 31 December 2005, CBio's interest in BresaGen had been diluted to 39.9% due to further equity raisings by BresaGen. As at the date of this report, CBio's interest in BresaGen had been further diluted to 38.9% due to further equity raisings by BresaGen.

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**Directors' Declaration**

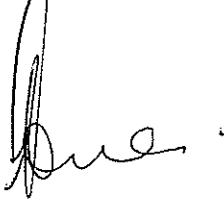
In accordance with a resolution of the directors of CBio Limited (the Company), we make the following statement:

(1) In the opinion of the directors:

- (a) the financial statements, notes and additional disclosures of the consolidated entity are in accordance with the Corporations Act 2001, including:
  - (i) give a true and fair view of the consolidated entity's financial position as at 31 December 2005 and the performance for the half-year ended on that date; and
  - (ii) comply with Australian Accounting Standard Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) subject to the inherent uncertainty regarding continuation as a going concern as expressed in note 1 to the financial report, that is, the ability of the Company to pay its debts as and when they fall due, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Dated this 30th day of March 2006.

On behalf of the Board



Stephen Jones  
Chairman

## **Independent review report to members of CBio Limited**

### **Scope**

#### *The financial report and directors' responsibility*

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the consolidated entity comprising both CBio Limited ("the Company") and the entities it controlled during the six month period, and the directors' declaration for the company, for the period ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 *Interim Financial Reporting*, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Review approach*

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

### **Independence**

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.

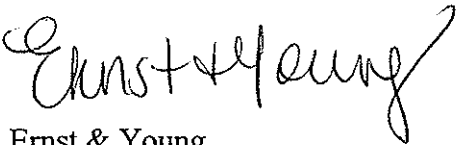
**Statement**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising CBio Limited and the entities it controlled during the six month period is not in accordance with:

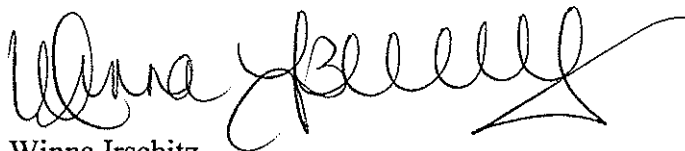
- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the six month period ended on that date; and
  - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

**Inherent Uncertainty Regarding Continuation as a Going Concern**

Without qualification to the statement expressed above, attention is drawn to the following matter. As described in Note 1 "Going Concern" there is significant uncertainty whether the consolidated entity will be able to continue as a going concern and, therefore, whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the consolidated entity not be able to continue as a going concern.



Ernst & Young



Winna Irschitz  
Partner  
Brisbane  
30 March 2006