

CBio Limited

**FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2004
ACN 094 730 417**

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CBio Limited

Corporate Directory

Directors

Stephen Jones - Chairman
Dr Wolfgang Hanisch - Managing Director
Stephen Goodall - Executive Director

Company Secretary

Bryan Dulhunty

Registered Office

17 Wakefield Street
Alderley QLD 4051

Share Register

ASX Perpetual Registrars Ltd
300 Queen Street
Brisbane QLD 4000
Ph: (07) 3228 4219

Auditors

Ernst & Young
Level 5 Waterfront Place
1 Eagle Street
Brisbane QLD 4000
Telephone (07) 3011 3333

Contact details

Tel: (07) 3252 1022
Fax: (07) 3252 1305
E-mail: cbio@cbio.com.au

CBio Limited

Chairman's Letter to Shareholders

The year under review has been a stand out one from both Scientific and Commercial points of view.

Scientifically, CBio has successfully produced Clinical Trial quantities of Cpn10 and successfully conducted both Phase I(a) (healthy volunteers) and Phase I(b) (patients with Multiple Sclerosis which is in remission) in humans at CMax, an Australian TGA and FDA approved facility in Australia.

These studies show that Cpn 10 (in both patient) cohorts produces a measurable biological effect in 100% of patients. This in itself is quite unusual and mimics what the company was able to prove in its animal studies.

The Company is well advanced in its discovery of the mode of action of Cpn10 and at the time of writing is commencing PhaseII(a) trials in humans.

CBio has ethics committee approval for the study at PhaseII(a) level in patients with Multiple Sclerosis, the purpose of these trials is to seek both biological and clinical effects of Cpn10 in these patients.

Commercially, CBio in achieving these Phase I results has met its original Prospectus objectives on time and under budget.

The Company undertook 2 capital raisings in the year under review, the first a placement at \$1.00 per share which raised \$262,500 the second a rights issue which sought \$3.2 million at \$2.00 per share but closed oversubscribed at a little over \$4 million raised.

CBio has also acquired, subject to BresaGen shareholder approval on 11 October 2004, 51% of BresaGen Limited (54 million shares) by paying \$2.9 million to its administrators and which was offered to BresaGen's Administrators, Ferrier Hodgson to pay out unsecured creditors totalling \$1.9 million via a Deed of Company Arrangement (DOCA) and to provide working capital to the Company whilst it underwent reconstruction.

BresaGen is a Protein Engineering Company which at the time its Directors sought the shelter of Voluntary Administration was optimising and producing Cpn10 for CBio.

CBio had budgeted \$6.4 million to provide facilities to produce Cpn10 in, and thus BresaGen offered an irresistible acquisition on both:

- a cost displacement basis and
- because it converted CAPEX and some expenses into a liquid asset (BresaGen Shares which are ASX Listed) thus strengthening the Balance Sheet of CBio Limited by at least \$2.9 million (approx 5 cents per BGN Share)

Clearly, as BresaGen is relisted on the ASX and should its share price rise above 5 cents then the investment will make a super normal profit.

At the time of writing, CBio is successfully completing a \$7 million private placement capital raising to institutions and Professional Investors at \$3.00 per share to conduct the Phase II(a) trials in MS patients and commence similar trials in patients afflicted with Irritable Bowel (Crohn's) Disease.

CBio Limited

Chairman's Letter to Shareholders (continued)

Because of these successes the Company is in serious commercial discussions with several multi national pharmaceutical companies.

The year ahead is very exciting.

Stephen Jones
Chairman

Directors' Report

Your directors submit their report on the company for the financial year ended 30 June 2004.

DIRECTORS

The names of the directors of the Company in office during the year and until the date of this report were Stephen Jones (Chairman), Wolfgang Hanisch (Managing Director) and Stephen Goodall (Executive Director).

PRINCIPAL ACTIVITIES

The principal activities during the year of the company were research, product development and clinical trials of the therapeutic drug Cpn10. There was no significant change in the nature of these activities during the year.

RESULTS AND DIVIDENDS

The loss after tax of the company for the year ended 30 June 2004 was \$4,073,924. For the previous year ended 30 June 2003 the loss after tax of the company was \$2,123,814.

No dividend was proposed or paid.

REVIEW OF OPERATIONS

This year has witnessed tremendous advances in the development of the company with significant milestones having been achieved.

Foremost has been the execution and completion of the first in man (Phase I) clinical trials. These demonstrated that not only does Chaperonin 10 (Cpn10) have a very good safety profile but that it has reproducible biological effect on the immune system when administered above a critical dose level. This effect on the immune system was consistent from animals to healthy humans and, most encouraging, in multiple sclerosis patients.

The positive outcome from the Phase I trials has set the stage for an aggressive Phase II clinical development program in which we anticipate looking at up to 5 auto-immune or chronic inflammation disease states. The first trial in multiple sclerosis has commenced at the same institution that carried out the Phase I studies. We anticipate more trials in other diseases coming on line in the latter half of 2004.

As we move into the Phase II studies there is a greater demand on supply of drug. This necessitated changing the contract manufacturer from Acyte in Sydney to BresaGen in Adelaide. BresaGen Ltd, a listed company, went into Voluntary Administration during the course of the supply contract to CBio. It had been CBio's intent to assure security of Phase II drug supply by investing capital in its own medium scale production plant over the next 2 years. The situation with BresaGen precipitated the need to control drug supply and CBio therefore made an offer to the Administrators which was accepted. CBio is likely to have a controlling interest in BresaGen given all approvals and will bring a significant asset onto the balance sheet.

As we move into the next financial year CBio will have a secure supply of drug to achieve its Phase II clinical trial milestones. We will see scientific and clinical staffing levels increase as we expand into new research facilities at Eight Mile Plains. The expansion of the development efforts necessitates a growth in the staff levels and expenditures.

The board would like to thank Dr Andrew Gearing for his significant contributions as he leaves the Scientific Advisory Board. Dr Gearing will remain associated with the company in an official capacity

Directors' Report (continued)

as an advisor through BioComm Ltd. We welcome Professor John Funder AO onto our Scientific Advisory Board. Professor Funder is a distinguished Australian and an eminent medical researcher in the field of cardio-vascular research.

Last but by no means least, as we embark on an exciting and challenging year ahead, it is appropriate to acknowledge the efforts of the staff in achieving the Company's goals in often less than optimal conditions over the past year.

CAPITAL RAISING

During July to October 2003 \$262,500 of capital was raised through the private placement of 262,500 shares at \$1.00 per share.

In November 2003 the company undertook a successful capital raising program through a rights issue, which resulted in 2,014,797 shares being subscribed at \$2.00 per share, raising \$4,029,594 before costs and \$3,873,179 after costs.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of the company's affairs during the financial year other than discussed in the Review of Operations.

SIGNIFICANT AFTER THE BALANCE DATE EVENTS

Other than the matters listed below, there have not been any matters or circumstances that have arisen since the end of the year, that have significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in financial years after the financial year.

Phase II trials: Following the successful completion of Phase I trials, CBio has received ethics committee approval for the study at PhaseII(a) level in patients with Multiple Sclerosis , the purpose of these trials is to seek both biological and clinical effects of Cpn10 in these patients.

Acquisition Of BresaGen: On 24 May 2004 the company entered into a Deed of Company Arrangement with Ferrier Hodgson, the administrators of BresaGen Limited (ABN 60 007 988 767), whereby BresaGen would be restructured. BresaGen is an Adelaide-based biotechnology company with a commercial focus on the development of products using growth factors and growth hormones for the treatment of human disease and productivity improvement in animal production, and the emerging field of embryonic stem cells. The principal terms of the Deed of Company Arrangement are:

- CBio shall fund the net operating cash shortfall of BresaGen from the period 1 April 2004 to the completion date (expected to be October 2004). The maximum cash shortfall payable by CBio is \$1.2 million.
- CBio to pay the Deed Administrators up to \$1.7 million within two days of completion to permit the Administrators to pay a dividend of 100 cents in the dollar to BresaGen creditors (of which CBio has already paid \$500,000 to the Deed Administrators' solicitors' trust account).
- In consideration of the \$1.2 million and \$1.7 million payments by CBio, BresaGen shall issue 56,722,994 ordinary shares representing 51% of BresaGen at an issue price of 5.1 cents per share.
- The subscription for 51% of BresaGen's shares by CBio is conditional upon BresaGen issuing a \$3.4 million Convertible Note Facility to CBio, which shall be secured by fixed and floating charge over the assets and undertakings of BresaGen.
- On completion CBio will assume a controlling interest in BresaGen, which will require BresaGen shareholder approval, which will be sought on the 11th October 2004.

CBio Limited

Directors' Report (continued)

Capital Raisings: Between 18 August and 2 September 2004 the Company has raised \$2,109,000 by issuing 703,000 ordinary shares at \$3 per share raising. On 18 August an additional \$750,000 was raised by the exercise of 750,000 \$1 options.

FUTURE DEVELOPMENTS

The likely developments in the operations of the company and the expected results from those operations in future financial years are as follows:

- Completion of up to 5 Phase IIa clinical trials in various diseases.
- A more detailed understanding of the mode of action of Cpn10.

Advances in any of the points above will trigger more definitive licensing discussions with large pharmaceutical companies.

ENVIRONMENTAL ISSUES

The company's operations are compliant with all applicable environmental regulations.

DIRECTORS' MEETINGS

The number of meetings of directors held during the year and the number of meetings attended by each director were as follows:

Number of Meetings held:	10
Number of Meetings attended	
Stephen Jones (Chairman)	10
Wolf Hanisch	9
Stephen Goodall	9

DIRECTORS' AND OFFICERS QUALIFICATIONS AND EXPERIENCE

Mr. Stephen Jones, Non-Executive Chairman (appointed 11 October 2000)

Mr Jones is a corporate recovery and turn-around specialist. Mr Jones retired as Chairman of Greyhound Pioneer Australia Ltd, a position he held from July 1996 to September 1999. Initially as CEO, he took this loss maker to its maiden profit in 1998. Previously, he turned around credit card provider International Card Systems Australia Ltd, where he took control and was Executive Chairman in 1992, leaving the company profitable in 1994. He is Chairman of listed entities Psiron Ltd and Analytica Ltd and Chairman of Australia Technology Innovation Fund Limited and Australian Biofund Limited (Hong Kong), InJet Digital Aerosols Ltd and a former member of the Queensland Governments Innovation Council and the Bioindustries Advisory Group.

CBio Limited

Directors' Report (continued)

Dr Wolfgang Hanisch, CEO and Executive Director (appointed 11 October 2000)

Dr Hanisch's background is in the biotech healthcare industry in California and Australia. He has a broad background in product and project commercialisation, new product and process development complemented by extensive knowledge of international regulatory requirements.

He was directly involved in the successful Initial Public Offering (IPO) of IDEC Pharmaceuticals Inc (now a \$7 billion company) as well as having had significant exposure to a number of other IPOs through his linkages to the California biotechnology and venture community. He has worked on the clinical development of a number of biotech drugs now approved for use worldwide including beta-Interferon (Betaseron), interleukin (Proleukin), TNF and monoclonal antibodies.

He maintains close contact with the international biotechnology and pharmaceutical industry. He is a non-executive director of the listed entities Analytica Ltd and Psiron Ltd and a non executive director of Australia Technology Innovation Fund Limited and Australian Biofund Limited (Hong Kong).

Mr Stephen Goodall MBA, MASc COO and Executive Director (appointed 11 October 2000)

Mr Goodall has been involved in biotechnology product design and development for the past 17 years. He was with Agen Biomedical Ltd for 11 years where he managed the development and manufacture of a range of immunoassays for the medical and veterinary world markets including products for Human DVT and Canine Heartworm, both of which have been world leading products. He has worked with Gradipore in Sydney to establish their production and quality systems for precast gel products and Buderim Ginger Ltd to establish a trial enzyme product. He recently established the R&D programs for Vapotronics Ltd and assisted in establishing the company in the US.

He has considerable experience in project and organisation management for biotechnology products and programs and has experience in regulatory compliance.

Mr Bryan Dulhunty Company Secretary (appointed 25 September 2002)

Mr Dulhunty is a Chartered Accountant with over 25 years corporate experience in emerging small to medium size public companies, having held the positions of CEO, CFO and Company Secretary.

He is Managing Director of CoSA Pty Ltd which provides Financial Management and Company Secretarial services to a number of listed and non-listed biotechnology companies.

Mr Dulhunty's other public company Directorships include Analytica Ltd, Psiron Ltd and InJet Digital Aerosols Limited.

Directors' Relevant Interest and Emoluments

Disclosure relating to directors' and executive officers' emoluments has been included in Note 18 of the financial report.

INDEMNITY

In accordance with the constitution of CBio Limited:

Every Director, Secretary, Manager, Accountant, Trustee or other person employed in the business of the company shall be indemnified by the company against, and it shall be the duty of the directors out of the funds of the company to pay, all costs, losses and expenses for which any such Director, Secretary, Manager, Accountant, Trustee or other person as aforesaid may become liable by reason of any contract entered into or act or deed done by him as such Director, Secretary, Manager, Accountant, Trustee or servant in any way in the proper discharge of his duties, unless such costs, losses and

CBio Limited

Directors' Report (continued)

expenses shall be caused or contributed to by his own negligence, default, breach of duty or breach of trust.

Signed in accordance with a resolution of the Board of Directors.

S. Jones
Chairman
Brisbane

Date: 9 September, 2004

Corporate Governance

Corporate Governance Statement

Whilst the company is not listed on a stock exchange the Board strongly agrees with the Principles of Good Corporate Governance and Best Practice Recommendations developed by the ASX Corporate Governance Council and strived to meet the standard expected on a publicly traded entity. The directors are however realistic in acknowledging the size and nature of the company and have modified where they deem applicable the best practice standards as laid down by the ASX. The Best Practice Recommendations not adopted or specific comments thereon are as follows:

Role of the Board and Management

The Board is responsible for the Corporate Governance of the company including the setting and the monitoring of the objectives, goals and corporate direction. Due to the size of the company with 2 of the 3 directors being executive directors, there are no formal statements as to the delegated authority of management, however the Board closely interacts with the management of the company and has established adequate systems of internal control, assesses, monitors and manages business risk, and ensures adherence to appropriate ethical standards.

Structure of the Board

Directors' qualifications and experience are outlined in the Directors' Report.

Due to the early phase in development of the company the company does not believe it appropriate to maintain a structure where there is a majority of independent directors. The company's directors are the founders of the company and significant shareholders. As the company grows and the valuation of the company's intellectual property increases the structure of the board will change and greater levels of independence will be achieved.

Due to the size of the company, it is not considered necessary to maintain a Nomination Committee. When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the services of a new director with particular skills, the Board considers candidates with the appropriate expertise and experience. The Board then appoints the most suitable person who shall hold office until the conclusion of the next following annual general meeting of the company and shall be eligible for election at such annual general meeting. One third of the directors shall retire from office and be eligible for re-election at every general meeting and there are no share qualifications for a director.

Each Director has the right to seek independent professional advice regarding material matters concerning the Company at the Company's expense after notifying the Chairman.

Ethical and Responsible Decision making

The Company does not have a formal code of conduct however it recognises the need for Directors and employees to observe the highest standards of behaviour and business ethics. Directors and officers are expected to act in accordance with the law and with the highest standards of propriety.

Safeguard Integrity in Financial Reporting

The Company does not have a formally constituted Audit Committee of the Board of Directors. The Board undertakes the functions of the Audit Committee, such as the establishment and maintenance of the framework of internal control and appropriate ethical standards for the management of the economic entity.

Timely and Balanced Disclosure

The Board through the production of regular shareholder newsletters, the maintenance of a web site, the distribution of the annual report to all shareholders, and the holding of an annual shareholders meeting where shareholders are encouraged to participate, strives to keep shareholders fully informed of developments within the company in a cost effective manner.

Shareholders' Rights

The Company does not have a formal shareholder communications strategy. However, the Board is conscious of the importance of effective shareholder communication and makes use of its Corporate Website and requests that the External Auditor attends general meetings.

Recognise and Manage Risk

No formal Risk Management profiles, policies and procedures have been adopted. However, the Board meets on a regular basis and as part of the ongoing review of performance, current and possible future business risks are identified. Once a business risk is identified, appropriate action is planned and instigated by the Board. The results of the action plan are constantly reviewed and corrective action is taken as required.

Due to the size of the Company, an Internal Audit function has not been implemented.

The Chief Executive Officer and Chief Financial Officer report to the Board on the integrity of financial statements and the effectiveness of internal compliance and control systems.

Performance Enhancement

The Board does not have a Nomination Committee and has not adopted formal Performance Enhancement procedures, as the Board undertakes ongoing performance reviews as part of its regular review of Company activities.

Remuneration

Directors' and Senior Executive Emoluments are outlined in Note 18 of the financial statements.

Due to the size of the Company a Remuneration Committee has not been established. The Board determines the remuneration packages for Executive Directors and senior employees. Remuneration levels are competitively set to attract and retain the most qualified and experienced directors and senior employees. Remuneration packages currently paid include, fixed, performance-based and equity based components.

The Company in general meeting sets the remuneration of the Non-Executive Directors. The only retirement benefits payable to Non-Executive Directors are statutory superannuation payments.

Interests of Stakeholders

The Company does not have a formal Code of Conduct covering obligations to legitimate stakeholders. However, the Board is fully aware of its obligations for Public or Social Accountability based on notions of legitimacy, fairness and ethics.

CBio Limited

Directors' Declaration

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

In the opinion of the directors:

- (a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:
 - (i) give a true and fair view of the company's financial position as at 30 June 2004 and of their performance for the year ended on that date; and
 - (ii) comply with Accounting Standards and 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.

On behalf of the Board

S. Jones
Chairman

Brisbane
Date: 9 September, 2004

Independent audit report to members of CBio Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for CBio Limited (the company), for the year ended 30 June 2004.

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 company, and that complies with Accounting Standards in Australia, 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.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Audit opinion

In our opinion, the financial report of CBio Limited is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of CBio Limited at 30 June 2004 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia 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 opinion expressed above, attention is drawn to the following matter. As described in Note 1 there is significant uncertainty whether the company will be able to continue as a going concern and, therefore, whether it will 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 entity not be able to continue as a going concern.

Ernst & Young

Michael J. Reid
Partner
Brisbane
9 September 2004

Statement of Financial Performance

Year ended 30 June 2004

	Notes	2004 \$	2003 \$
Revenues from Ordinary Activities	2	24,090	22,036
Borrowing costs expense	3 a	(70,000)	(70,000)
Administrative expenses	3 b	(1,071,829)	(750,590)
Research and development		(2,617,545)	(1,214,316)
Patent costs		(71,705)	(28,092)
Marketing expenses		(266,935)	(82,852)
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(4,073,924)	(2,123,814)
Income tax expense relating to ordinary activities	4	-	-
LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE AND NET LOSS		(4,073,924)	(2,123,814)
Share Issue costs	13(a)	(156,415)	10,642
TOTAL REVENUES AND EXPENSES ATTRIBUTABLE TO MEMBERS OF CBIO LIMITED AND RECOGNISED DIRECTLY IN EQUITY		(156,415)	10,642
Changes in equity reserves during the year		-	-
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF CBIO LIMITED		(4,230,339)	(2,113,172)
Basic earnings/(loss) per share (cents per share)	15	(25.76)	(16.66)

The accompanying notes form part of these financial statements.

Statement of Financial Position
Year ended 30 June 2004

	Notes	2004 \$	2003 \$
CURRENT ASSETS			
Cash assets	16(a)	1,196,708	136,605
Receivables	5	159,747	1,757,089
Other Current Assets	6	-	31,632
TOTAL CURRENT ASSETS		<u>1,356,455</u>	<u>1,925,326</u>
NON-CURRENT ASSETS			
Plant and equipment	7	206,421	138,611
Receivables	8	963,962	-
Intangible Assets	9	-	-
TOTAL NON-CURRENT ASSETS		<u>1,170,383</u>	<u>138,611</u>
TOTAL ASSETS		<u>2,526,838</u>	<u>2,063,937</u>
CURRENT LIABILITIES			
Payables	10	921,042	529,028
Provisions	11	15,253	6,121
TOTAL CURRENT LIABILITIES		<u>936,295</u>	<u>535,149</u>
NON-CURRENT LIABILITIES			
Interest bearing liabilities	12	1,000,000	1,000,000
TOTAL NON-CURRENT LIABILITIES		<u>1,000,000</u>	<u>1,000,000</u>
TOTAL LIABILITES		<u>1,936,295</u>	<u>1,535,149</u>
NET ASSETS		<u>590,543</u>	<u>528,788</u>
EQUITY			
Contributed equity	13	12,672,540	8,536,861
Accumulated losses	14	(12,081,997)	(8,008,073)
TOTAL EQUITY		<u>590,543</u>	<u>528,788</u>

The accompanying notes form part of these financial statements.

Statement of Cash Flows
Year ended 30 June 2004

	Notes	2004 \$	2003 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(3,648,557)	(2,098,713)
Interest received		24,090	22,611
NET CASH FLOWS USED IN OPERATING ACTIVITIES	16(b)	<u>(3,624,467)</u>	<u>(2,076,102)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(153,726)	(127,022)
Bank Guarantee Deposit		(53,000)	-
Funds advanced to the Administrator of BresaGen for the acquisition of shares in the company, subject to shareholder approval		(910,962)	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		<u>(1,117,688)</u>	<u>(127,022)</u>
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Proceeds from short term deposits		-	1,067,488
Proceeds from issue of shares		4,292,094	1,178,000
Proceeds from underwriter		1,665,000	-
Proceeds from share issue overpayments		1,579	-
Payments for convertible note repayment		-	(125,000)
Payments of share issue costs		(156,415)	(29,677)
NET CASH FLOWS FROM FINANCING ACTIVITIES		<u>5,802,258</u>	<u>2,090,811</u>
NET INCREASE/(DECREASE) IN CASH HELD		1,060,103	(112,313)
CASH AT BEGINNING OF THE FINANCIAL PERIOD		<u>136,605</u>	<u>248,918</u>
CLOSING CASH CARRIED FORWARD	16(a)	<u>1,196,708</u>	<u>136,605</u>

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

Year ended 30 June 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared in accordance with the historical cost convention. Cost in relation to assets represents the cash amount paid or the fair value of the assets given in exchange.

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report is prepared on a going concern basis. The Company has incurred operating losses and operating cash outflows since inception in the conduct of research and development activities and has relied on raising additional capital to fund its operations. CBio has a strong history of raising sufficient capital and other funding to meet the company's expenditure needs. As the company expects to commence Phase 2 studies in the 2004/05 financial year it will be required to raise further capital to meet its research and development expenditure needs. The directors remain confident that all required funding will be raised. Should sufficient operating cash flows not be raised, operations will be downgraded until funding is achieved. Accordingly, the company may be required to realise assets to extinguish liabilities other than in the ordinary course of business and at amounts different from those 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 entity not be able to continue as a going concern.

Recoverable Amount

Non-current assets are not revalued to an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount the expected net cash flows have not been discounted to their present value.

Plant and Equipment

Cost: Items of property, plant and equipment are carried at cost less accumulated depreciation.

Depreciation: Depreciation is provided on a straight line basis on all property, plant and equipment. Major depreciation periods are:

Plant and equipment: 2 to 5 years

Trade and Other Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

Notes to the Financial Statements (continued)

Year ended 30 June 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangibles

Intellectual Property

Amounts incurred in acquiring and extending patents are expensed as incurred, except to the extent that such costs are expected beyond any reasonable doubt to be recoverable.

Patents and licences are expensed when incurred.

Research and Development Expenditure

Amounts incurred on research and development activities are expensed as incurred, except to the extent that such costs are expected beyond any reasonable doubt to be recoverable.

Taxes

Income Tax

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the accounts and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except:

1. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
2. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

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

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

Cash

Cash on hand and in banks and short term deposits are stated at the lower of cost and net realisable value.

For the purpose of the Statement of Cash Flow, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts. Bank overdrafts are carried at the principal amount. Interest is charged as an expense on an accrual basis.

Notes to the Financial Statements (continued)

Year ended 30 June 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised:

Interest

Control of the right to receive consideration for the provision of, or investment in, assets has been attained.

Trade and Other Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

Contributed equity

Ordinary share capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

Adoption of Australian Equivalents to International Financial Reporting Standards

Australia is currently preparing for the introduction of International Financial Reporting Standards (IFRS) effective for financial years commencing 1 January 2005. This requires the production of accounting data for future comparative purposes at the beginning of the next financial year.

The economic entity's management, along with its auditors, are assessing the significance of these changes and preparing for their implementation.

Notes to the Financial Statements (continued)

Year ended 30 June 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Adoption of Australian Equivalents to International Financial Reporting Standards (continued)**

The directors are of the opinion that the proposed changes will have no material effect on the financial reports of the Company. The key differences in the economic entity's accounting policies which will arise from adoption of IFRS are:

- Impairment of Assets

The entity currently determines the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the assets use and subsequent disposal. In terms of the pending AASB 136 Impairment of Assets, the recoverable amount of an asset will be determined as the higher of fair value less costs to sell and value in use. It is likely that this change in accounting policy will have no material financial effect on the Company.

- Income Tax

Currently, the Company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future tax benefit. Under the Australian equivalent to IAS 12, the entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit. It is likely that this change in accounting policy will have no material financial effect on the Company.

	2004	2003
	\$	\$
2. REVENUES FROM ORDINARY ACTIVITIES		
Revenues from non-operating activities		
Interest- other persons/corporations	24,090	20,408
Other income	-	1,628
Total revenues from ordinary activities	<u>24,090</u>	<u>22,036</u>

3. LOSS FROM ORDINARY ACTIVITIES

Loss from ordinary activities before income tax has been determined after:

(a) Expenses from

Borrowing costs:

Interest expense on Convertible Note	70,000	70,000
	<u>70,000</u>	<u>70,000</u>

Notes to the Financial Statements (continued)

Year ended 30 June 2004

3. LOSS FROM ORDINARY ACTIVITIES (continued)	2004	2003
	\$	\$
(b) Administration expenses		
Consulting fees	551,002	367,112
Depreciation	85,916	51,661
Office rental	45,833	68,309
Legal and compliance costs	201,938	79,700
Other costs	187,140	183,808
	<u>1,071,829</u>	<u>750,590</u>

4. INCOME TAX

The prima facie tax on operating loss differs from the income tax provided in the financial statements as follows:

Prima facie tax on operating loss at 30% (2003: 30%)	(1,222,177)	(637,144)
Tax effect of permanent differences	(217,315)	(138,742)
Over/under provision in prior period	(201,374)	(282,917)
Tax losses not recognised	1,640,866	1,058,803
Total income tax provided on operating loss	<u>-</u>	<u>-</u>
Future income tax benefits arising from tax losses are not brought to account at balance date as realisation of the benefit is not regarded as virtually certain.	2,922,401	1,281,535

The future income tax benefit will be obtained if:

- a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- b) the conditions for deductibility imposed by tax legislation continue to be complied with; and
- c) no changes in tax legislation adversely affect the company in realising the benefit.

5. RECEIVABLES (Current)

GST Receivable	94,214	41,334
Amount owing by Underwriter	-	1,665,000
Other debtors	65,533	50,755
	<u>159,747</u>	<u>1,757,089</u>

Terms and conditions

All receivables are non-interest bearing.

Notes to the Financial Statements (continued)

Year ended 30 June 2004

	2004	2003
	\$	\$
6. OTHER CURRENT ASSETS (Current)		
Consumables at cost	-	31,632
7. PLANT AND EQUIPMENT		
Plant and Equipment		
At cost	347,516	193,790
Accumulated depreciation	(141,095)	(55,179)
	<u>206,421</u>	<u>138,611</u>
Movement in carrying value		
Carrying value at the beginning of the year	138,611	63,250
Additions	153,726	127,022
Depreciation	(85,916)	(51,661)
Carrying value at the end of the year	<u>206,421</u>	<u>138,611</u>
8. RECEIVABLES (Non-current)		
Bank Guarantee Deposit (i)	53,000	-
Advance payment to Administrators of BresaGen (ii)	910,962	-
	<u>963,962</u>	<u>-</u>

- (i) Guarantee deposit lodged with the bank to support a building lease for planned new premises that the Company expects to move into in November 2004.
- (ii) On 24 May 2004 the company entered into a Deed of Company Arrangement with Ferrier Hodgson, the administrators of BresaGen Limited (ABN 60 007 988 767), whereby BresaGen would be restructured. The restructuring deed required the company to provide secured financial support to BresaGen, pending a meeting of shareholders which would consider the proposal for the company to inject a total of \$2.9m of capital and thus acquire 51% of BresaGen, together with the provision of a 5 year Convertible Note facility of \$3.4m by the company. A BresaGen shareholders meeting is expected to be held on the 11th October 2004. Further details are noted in the "Significant After The Balance Date Event" section of the Directors' Report.

Notes to the Financial Statements (continued)

Year ended 30 June 2004

9. INTANGIBLES	2004	2003
	\$	\$
Intellectual property	4,125,000	4,125,000
Provision for recoverability (i)	(4,125,000)	(4,125,000)
	<u>-</u>	<u>-</u>

(i) On 14 May 2001, the company entered into a Deed of Assignment with CSL Limited and a Deed of Agreement and Variation with UniQuest Pty Limited. Under the Deed of Agreement and Variation, CBio's obligations relating to the payment of future royalty streams and milestone payments were varied in return for a convertible note with a face value of \$1,125,000 (refer note 12 for further details) and the issue of 3,000,000 CBio shares. The Directors have provided against the notional book value of the intellectual property purchased given the risks and uncertainties associated with the continued research and development and ultimate commercialisation of this asset.

10. PAYABLES (Current)

Trade payables	883,213	445,611
Directors and director related entities	36,250	83,417
Overpayments on share subscriptions	1,579	-
	<u>921,042</u>	<u>529,028</u>

Terms and conditions of Payables

Trade creditors are non-interest bearing and are normally settled on 30-day terms.

Directors and Director related entities are non-interest bearing and are payable for services provided in the course of ordinary activities. Details of payments made to directors are set out in Note 18.

11. PROVISIONS (Current)

Provisions for employee benefits (i)	15,253	6,121
	<u>15,253</u>	<u>6,121</u>

(i) The entity had 12 employees as at 30 June 2004 (12 at June 03)

Notes to the Financial Statements (continued)

Year ended 30 June 2004

12. INTEREST BEARING LIABILITIES (Non-current)	2004	2003
	\$	\$
Convertible note	1,000,000	1,000,000

On 14 May 2001 a convertible note with a face value of \$1,125,000 was issued as part consideration for the purchase of intellectual property. Refer Note 9 for further details. Interest is payable at a rate of 7% per annum. The holder may convert the whole or any part of any sum outstanding from time to time under the convertible note to ordinary shares in the capital of CBio Limited. The convertible note is convertible to CBio shares on a one dollar per share basis, subject to adjustments for fluctuations in the Australian dollar exchange rate to United States currency. CBio Limited is required to make payments to the holder under certain terms and conditions as outlined in the Deed of Agreement between the holder and CBio Limited.

	2004	2003
	\$	\$
13. CONTRIBUTED EQUITY		
Issued and paid up capital		
Ordinary shares fully paid (a)	12,672,540	8,536,861

Options

Employee share scheme options (b)

Other options issued (c)

(a) Movements in ordinary shares on issue

	2004		2003	
	Number of shares	\$	Number of shares	\$
The following share issues were made during the year				
Beginning of the financial period	15,274,099	8,536,861	12,311,099	5,623,219
Issued during the period				
- rights issues subscriptions (i)	2,014,797	4,029,594	328,000	328,000
- private placement (ii)	212,500	212,500	100,000	100,000
- exercise of \$1 options (refer note 13 (c) (1))	50,000	50,000	-	-
- underwriter shortfall (iii)	-	-	810,000	810,000
- underwriters shortfall (iv)	-	-	1,665,000	1,665,000
less transaction costs (v)	-	(156,415)	-	10,642
- bonus issue (vi)	-	-	60,000	-
End of the financial period	17,551,396	12,672,540	15,274,099	8,536,861

Notes to the Financial Statements (continued)

Year ended 30 June 2004

13. CONTRIBUTED EQUITY (continued)**(a) Movements in ordinary shares on issue (continued)**

- (i) Under a prospectus issued in November 2003 the company issued shares \$2 per share (2003: \$1.00 per share).
- (ii) During July to October 2003 private placements totalling 262,500 (2003, 100,000) shares were issued at \$1 per share.
- (iii) Shares issued under an underwriting agreement in year ended June 2003 at \$1 per share
- (iv) Shares issued under an underwriting agreement on 26 June 2003 at \$1 per share on a restricted basis and were held in escrow until consideration of \$1,665,000 was paid by the underwriter. Under the terms of the revised underwriting agreement, the \$1,665,000 was payable in minimum monthly instalments of \$150,000, commencing 1 July 2003 and was paid in full during the year ended 30 June 2004
- (v) Current year cost of raising capital was \$156,415. Prior year transaction costs of \$10,642 comprise \$29,677 less write back of prior year provision for underwriting costs of \$40,319.
- (vi) A 1:1 bonus share issue at nil consideration was made to two shareholders in accordance with the 1: 1 bonus issue made to all shareholders in June 2001. This bonus issue should have been made in a prior period.

Terms and Conditions of Ordinary shares:

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number and amounts paid up on shares held

(b) Options - Employee share scheme

	\$ 2004	\$ 2003	Number 2004	Number 2003
Movements in options issued under the employee share scheme during the year				
Number at the beginning of the reporting period			896,000	-
- Issued			305,000	896,000
Number at the end of the reporting period			1,201,000	896,000

Employee share scheme options – Date issued	Number of options	Expiry date	Exercise Price
26 July 2002	51,000	26 July 05	\$1.00
1 December 2002	680,000	1 Dec 07	\$1.00
23 June 2003	165,000	26 June 08	\$1.00
3 November 2003	255,000	26 June 08	\$1.00
24 June 2004	<u>50,000</u>	24 June 09	\$2.00
Total on issue	<u>1,201,000</u>		

Notes to the Financial Statements (continued)

Year ended 30 June 2004

13. CONTRIBUTED EQUITY (continued)
(b) Options - Employee share scheme (continued)

The options are issued on the following terms

- (i) the options have a maximum life of five years from the time they are granted;
- (ii) Options vest at the rate of one third after each 12 months of service following grant date;
- (iii) Options are exercisable after vesting date;
- (iv) each option entitles the participant to acquire an unissued ordinary share in the Company;
- (v) options are unlisted and are not transferable;
- (vi) options not exercised within the prescribed period will lapse;
- (vii) each option has no voting or dividend rights;

c) Other options issued**1) Movements in options issued during the year**

Number at the beginning of the reporting period

- Issued

- Exercised during the year

Number at the end of the reporting period

	Number 2004	Number 2003
Number at the beginning of the reporting period	2,100,000	1,500,000
- Issued	3,800,000	600,000
- Exercised during the year	(50,000)	-
Number at the end of the reporting period	5,850,000	2,100,000

2) Details of Other unlisted options issued

Issued in current year

		Number of options issued	Number of options exercised	Number of options to be exercised	Expiry date	Exercise Price
MPAMM Pty Ltd	(1)	800,000	50,000	750,000	18 August 05	\$1.00
S and M Streeter Investments	(2)	500,000	-	500,000	14 April 09	\$1.00
S and M Streeter Investments	(3)	500,000	-	500,000	14 April 09	\$2.00
DJ and AH Feeney – Feeney Family Trust	(4)	500,000	-	500,000	14 April 09	\$2.00
DJ and AH Feeney – Feeney Family Trust	(5)	500,000	-	500,000	14 April 09	\$2.00
DFCT Pty Ltd – Dulhunty Family Trust	(6)	300,000	-	300,000	14 April 09	\$2.00
DFCT Pty Ltd – Dulhunty Family Trust	(7)	400,000	-	400,000	14 April 09	\$2.00
R Willis	(8)	150,000	-	150,000	14 April 09	\$2.00
R Willis	(8)	150,000	-	150,000	14 April 09	\$2.00

Notes to the Financial Statements (continued)

Year ended 30 June 2004

13. CONTRIBUTED EQUITY (continued)**c) Other options issued (continued)**

	Number of options issued	Number of options exercised	Number of options to be exercised	Expiry date	Exercise Price
Issued in prior years					
Psiron Limited		-	600,000	25 Feb 05	\$1.00
Stephen Jones		-	500,000	15 June 06	\$1.00
Wolfgang Hanisch		-	500,000	15 June 06	\$1.00
Stephen Goodall		-	500,000	15 June 06	\$1.00
	<u>3,800,000</u>	<u>50,000</u>	<u>5,850,000</u>		

- 1) These options were issued in August 2003 to meet future funding raising plans and cash needs of the Company. 50,000 options were exercised in August 03 and all remaining options were exercised in August 2004.
- 2) 500,000 options were issued to S and M Streeter, Mr Streeter is an investment advisor to the Company.
- 3) 500,000 options were issued to S and M Streeter, an investment advisor to the Company, the options vest at the rate of 125,000 options on the completion of each of four planned fund raisings totalling \$30m.
- 4) 500,000 options were issued to DJ and AH Feeney as trustees for the Feeney Family Trust, Mr Feeney is a consultant to the Company, the options vest on the commencement of a Phase 2a trial.
- 5) 500,000 options were issued to DJ and AH Feeney as trustees for the Feeney Family Trust, Mr Feeney is a consultant to the Company, the options vest on the completion of a Phase 2a trial.
- 6) 300,000 options were issued to DFCT Pty Ltd an entity associated with Bryan Dulhunty the Company Secretary.
- 7) 400,000 options were issued to DFCT Pty Ltd an entity associated with Bryan Dulhunty the Company Secretary. His options vest at the rate of 100,000 options on the completion of each of four planned fund raisings totalling \$30m.
- 8) 150,000 options to R Willis vest immediately and the other 150,000 vest on either of two events occurring. Either investment from a USA pharmaceutical or biotechnology company or the completion of the planned \$30m fund raising.

The following terms and conditions apply to all options issued

- (a) options issued entitle the holder to acquire an unissued ordinary share in the Company;
- (b) the options are unlisted and not transferable;
- (c) options not exercised in the prescribed period will lapse;
- (d) each option has no voting or dividend rights.

At 30 June 2004 there were 7,051,000 (30 June 03: 2,996,000) unissued ordinary shares for which options were outstanding.

Notes to the Financial Statements (continued)

Year ended 30 June 2004

	2004	2003
	\$	\$
14. ACCUMULATED LOSSES		
Accumulated losses at the beginning of the year:	8,008,073	5,884,259
Loss for the year	4,073,924	2,123,814
Accumulated losses at the end of the year	<u>12,081,997</u>	<u>8,008,073</u>
15. EARNINGS PER SHARE		
Earnings used in the calculation of EPS	<u>(4,073,924)</u>	<u>(2,123,814)</u>
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	15,812,736	12,748,979
16. CASH FLOWS		
(a) Reconciliation of cash		
For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial period as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:		
Cash at Bank	<u>1,196,708</u>	<u>136,605</u>
(b) Reconciliation of net cash flows from operating activities to operating loss after income tax		
Operating loss after taxation	(4,073,924)	(2,123,814)
Non Cash items		
Depreciation	85,916	51,661
Change in assets and liabilities		
(Increase)/decrease in current receivables	(67,658)	(8,381)
(Increase)/decrease in inventories	31,632	(12,468)
Increase/(decrease) in payables	390,435	30,572
Increase/(decrease) in provisions	9,132	(13,672)
Net cash flows used in operating activities	<u>(3,624,467)</u>	<u>(2,076,102)</u>

Notes to the Financial Statements (continued)

Year ended 30 June 2004

	2004 \$	2003 \$
17. AUDITORS' REMUNERATION		
Amounts received or due and receivable by the auditors of the company for:		
- an audit of the financial report of the company	17,430	13,338
- other services in relation to the company	47,580	20,000
	65,010	33,338

18. DIRECTORS' AND EXECUTIVES' REMUNERATION**(a) (i) The directors of CBio Limited at any time during the financial year were:**

Stephen Jones (Chairman), Wolfgang Hanisch (Executive Director), Stephen Goodall (Executive Director)

(ii) The specified executives of CBio Limited at any time during the financial year were:

Dennis Feeney (Consultant)

(b) Directors' Remuneration:

2004	Directors Fees	Superannuation	Consulting	Options	Total
S Jones	12,833	1,155	76,500	-	90,488
S Goodall	-	-	148,750	-	148,750
W Hanisch	-	-	167,500	-	167,500
Total	12,833	1,155	392,750	-	406,738

2003	Directors Fees	Superannuation	Consulting	Options	Total
S Jones	11,667	1,050	2,333	-	15,050
S Goodall	-	-	140,000	-	140,000
W Hanisch	-	-	140,000	-	140,000
Total	11,667	1,050	282,333	-	295,050

(c) Transactions with Directors and Director Related Entities

Included in (b) above were the following payments to directors. Consultant fees of \$76,500 were paid to Mr Stephen Jones during the period under normal commercial terms (prior period \$2,333). Consultant fees of \$167,500 were paid to Ijong Pty Ltd during the period ended 30 June, 2004 under normal commercial terms (prior period \$140,000). Ijong Pty Ltd is a company of which Mr Wolf Hanisch is a director. Consultant fees of \$148,750 were paid to Process Biotech during the period. These were made under normal commercial terms (prior period \$140,000). Process Biotech is a company in which Mr Stephen Goodall is a director.

At 30 June 2004, the balance outstanding to related parties is \$36,250 (prior period \$83,417). These payables are in relation to consulting fees outstanding to director related entities and were made under normal commercial terms.

Notes to the Financial Statements (continued)

Year ended 30 June 2004

18. DIRECTORS' AND EXECUTIVES' REMUNERATION (continued)**(d) Specified Executives' Remuneration:**

2004	Salary	Superannuation	Consulting	Options	Total
D Feeney	-	-	81,666	190,000	271,666
Total	-	-	81,666	190,000	271,666

2003	Salary	Superannuation	Consulting	Options	Total
-	-	-	-	-	-
Total	-	-	-	-	-

Consultant fees of \$81,666 were paid to Zogo Pty Ltd a company associated with Mr Dennis Feeney during the period from 1 December 2003 to 30 June 2004 under normal commercial terms.

(e) Shareholdings:

	Balance 1.7.03	Options Exercised	Purchase (Sold)	Balance 30.6.04
Directors				
S Jones	1,190,033	-	-	1,190,033
W Hanisch	1,190,033	-	-	1,190,033
S Goodall	1,190,033	-	-	1,190,033
Specified Executives				
Dennis Feeney	-	-	-	-
Total	3,570,099	-	-	3,570,099

(f) Option Holdings:

	Balance 1.7.03	Remuneration Options Granted	Issued (Forfeited)	Balance 30.6.04	Total Vested	Total Exercisable
Directors	1.7.03			30.6.04	30.6.04	30.6.04
S Jones	500,000	-	-	500,000	500,000	500,000
W Hanisch	500,000	-	-	500,000	500,000	500,000
S Goodall	500,000	-	-	500,000	500,000	500,000
Specified Executives						
D Feeney	-	1,000,000	-	1,000,000	-	-
Total	1,500,000	1,000,000	-	2,500,000	1,500,000	1,500,000

Notes to the Financial Statements (continued)

Year ended 30 June 2004

18. DIRECTORS' AND EXECUTIVES' REMUNERATION (continued)**(g) Remuneration Options – Options Granted as Remuneration**

	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date	Exercise Price	First Exercise Date	Last Exercise Date
Specified Executives							
D Feeney	-	1,000,000	14 April 04	\$0.00	\$2.00	Vesting Date	14 April 09
	-	1,000,000					

(h) Shares Issued on Exercise of Remuneration Options – Options Granted as Remuneration

	No. of Ordinary Shares Issued	Amount Paid Per Share	Amount Unpaid per Share
Directors	-		
Specified Executives	-		
	-		

(i) Remuneration Practices

The company's policy for determining the nature and amount of emoluments of board members and senior executives of the company is to pay rates commensurate necessary to attract and retain the superior skills required to grow an early stage research and development company into a significant international company.

19. SUBSEQUENT EVENTS**a) Acquisition Of BresaGen:**

On 24 May 2004 the company entered into a Deed of Company Arrangement with Ferrier Hodgson, the administrators of BresaGen Limited (ABN 60 007 988 767), whereby BresaGen would be restructured. BresaGen is an Adelaide-based biotechnology company with a commercial focus on the development of products using growth factors and growth hormones for the treatment of human disease and productivity improvement in animal production, and the emerging field of embryonic stem cells. The principal terms of the Deed of Company Arrangement are:

- CBio shall fund the net operating cash shortfall of BresaGen from the period 1 April 2004 to the completion date (expected to be October 2004). The maximum cash shortfall payable by CBio is \$1.2 million.
- CBio to pay the Deed Administrators up to \$1.7 million within two days of completion to permit the Administrators to pay a dividend of 100 cents in the dollar to BresaGen creditors (of which CBio has already paid \$500,000 to the Deed Administrators' solicitors' trust account).

Notes to the Financial Statements (continued)

Year ended 30 June 2004

19. SUBSEQUENT EVENTS (continued)

- In consideration of the \$1.2 million and \$1.7 million payments by CBio, BresaGen shall issue 56,722,994 ordinary shares representing 51% of BresaGen at an issue price of 5.1 cents per share.
- The subscription for 51% of BresaGen's shares by CBio is conditional upon BresaGen issuing a \$3.4 million Convertible Note Facility to CBio, which shall be secured by fixed and floating charge over the assets and undertakings of BresaGen.
- On completion CBio will assume a controlling interest in BresaGen, which will require BresaGen shareholder approval, which will be sought on the 11th October 2004.

b) Capital Raisings:

- 1) 750,000 \$1 options held by MPAMM were exercised on the 18th August 2004.
- 2) 703,000 ordinary shares were issued at \$3 per share raising \$2,109,000 between 18 August and 2 September 2004.

c) Issue of options

- 1) 50,000 \$1.00 options over ordinary shares were issued to Mr J Walsh on 29 July 2004 for support provided to the company. These options expire of 29 July 2009.
- 2) 300,000 \$3.00 options over ordinary shares were issued to S and M Streeter Investments for support provided to the company. These options expire of 29 July 2009.

d) Phase II trials: Following the successful completion of Phase I trials, CBio has received ethics committee approval for the study at Phase11(a) level in patients with Multiple Sclerosis, the purpose of these trials is to seek both biological and clinical effects of Cpn 10 in these patients.

Other than the matters listed in the Directors' Report, there have not been any matters or circumstances that have arisen since the end of the period, that have significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in financial years after the financial period.

20. SEGMENT INFORMATION

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

21. COMMITMENTS

1) The Company has entered into a Deed of Company Arrangement with the Administrators of BresaGen Limited. Should the shareholders of BresaGen Limited approve the restructure, the company will become obligated to make payments in terms of the Deed of Company Arrangement as outlined in the "Significant After The Balance Date Event" section of the Directors' Report.

2) The Company has entered into initial contracts to commence Phase II trials. These contracts total \$150,000.

3) The Company has entered into a 7 year property lease for new purpose built facilities. It is not expected that any lease payments will be made in the financial year ended 30 June 2005. Annual lease payments will be \$180,000.

Notes to the Financial Statements (continued)

Year ended 30 June 2004

22. FINANCIAL INSTRUMENTS**a) Credit Risk**

The company's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the balance sheet.

b) Net Fair Values

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the balance sheet and in the notes to and forming part of the financial report.

c) Interest Rate Risk

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate on those financial assets and financial liabilities is as follows:

Financial Instruments as at 30 June 2004

	Weighted Average	Floating Interest rate	Fixed Interest maturing within 1 year	Fixed Interest maturing within 1-2 years	Non- Interest Bearing	Total
Financial Assets						
- Cash	3.25%	1,196,708	-	-	-	1,196,708
- Receivables	-	-	-	-	159,747	159,747
Total Financial Assets		<u>1,196,708</u>	<u>-</u>	<u>-</u>	<u>159,747</u>	<u>1,356,455</u>
Financial Liabilities						
Trade and other payables		-	-	-	921,042	921,042
Convertible Note	7%	-	-	1,000,000	-	1,000,000
Total Financial Liabilities		<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>921,042</u>	<u>1,921,042</u>

Notes to the Financial Statements (continued)

Year ended 30 June 2004

Financial Instruments as at 30 June 2003

	Weighted Average	Floating Interest rate	Fixed Interest maturing within 1 year	Fixed Interest maturing within 1-2 years	Non- Interest Bearing	Total
Financial Assets						
- Cash	3.25%	136,605	-	-	-	136,605
- Receivables	-	-	-	-	1,757,089	1,757,089
Total Financial Assets		<u>136,605</u>	<u>-</u>	<u>-</u>	<u>1,757,089</u>	<u>1,893,694</u>
Financial Liabilities						
Trade and other payables		-	-	-	529,028	529,028
Convertible Note	7%	-	-	1,000,000	-	1,000,000
Total Financial Liabilities		<u>-</u>	<u>-</u>	<u>1,000,000</u>	<u>529,028</u>	<u>1,529,028</u>

The company has minimal exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at period end.

23. CORPORATE INFORMATION

CBio Limited is a company limited by shares that is incorporated and domiciled in Australia.

The registered office of CBio Limited is located at:

17 Wakefield Street, Alderley, Brisbane, Qld 4051

The principal activities during the period were the research and development of the Cpn10 and associated technologies.