

CBio Limited

ABN 76 094 730 417

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2007

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Corporate Directory

Directors

Mr Stephen Jones	Executive Chairman
Mr Stephen Streater	Non-executive director
Dr Michael Monsour	Non-executive director

Company Secretary

Mr Ben Graham

Registered and Principal Office

85 Brandl St
EIGHT MILE PLAINS QLD 4113

Auditors

Ernst & Young
1 Eagle Street
BRISBANE QLD 4000

Share Registry & Register

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Chairman's Letter to Shareholders

Dear Shareholder,

The year under review has been defined by firstly, the failure of the Company to bring to fruition the much anticipated and expected collaboration agreement with a multinational pharmaceutical company, and following that, the significant progress of the XToll™ program that will see the start of a Phase IIa clinical trial in Rheumatoid Arthritis ("RA") patients by the end of this year.

The consequences of the failure to achieve a collaboration have been broad reaching, extending from Board and Management changes to financial pressures. It is a credit to the staff that through these difficult times the XToll™ program has progressed as planned albeit in the face of destabilising activities brought on the Company by third parties. These activities led to a failed rights issue and adverse press which all opined to make capital raising very difficult.

However despite this, your Company has continued down the path of commercialising its XToll™ drug and in doing so transformed itself from a research focused company to a drug development company.

This change is most obvious in Management changes and appointments which addressed the Company's exposed weakness in the areas of drug development, business development and commercialisation.

CBio's focus, structure and activities are all directed at commercialising XToll™ but in a professional and well advised manner rather than in "getting it to market" by what ever means to address shareholder expectations promoted by ill advised investor expectations.

In CBio's Rights Issue document dated 16th March 2007 that was later withdrawn, I set out a number of key matters that needed to be addressed through the ongoing development of XToll™. These were scientific purity, appropriate supportive toxicology studies, an appropriately designed and implemented clinical trial and a more refined intellectual property strategy.

I am pleased to advise that we have made considerable progress on each of these matters.

We now have a far greater understanding of the mode of action of XToll™. Although we can still not say for certain that XToll™ was the exclusive reason for clinical signals that were observed in the RA and Psoriasis clinical trials, CBio has since generated data in both the lab and through animal studies to suggest that XToll™ does have a significant positive effect on the innate immune system when responding to inflammation challenges.

CBio has planned for and has now concluded five toxicology studies in two species so far this year and plans to conclude a sixth toxicology study in November. These studies are supportive studies for the planned Phase IIa RA subcutaneous clinical trial.

Earlier in the year CBio announced the reporting of results from the Rheumatoid Arthritis trial in the prestigious international medical journal "The Lancet" in August 2006 and also the completion of an early clinical trial of subcutaneous administration of XToll™ in humans in December 2006.

CBio has recently submitted the ethics committee submission for the first clinical trial site that, upon acceptance, will allow CBio to start the planned RA clinical trial. We plan to submit ethics submissions for up to 25 sites by the end of this year and plan to dose the first patients in November 2007.

CBio have lodged a number of provisional patents this year that will significantly strengthen the IP position around its core technology.

Detailed discussions with multi-national pharmaceutical companies continue to take place and will continue as we build our credibility both scientifically and commercially and involve both commercial and scientific presentations. I do not expect that the Company will conclude a meaningful financial transaction with a big pharma until the

Chairman's Letter to Shareholders

conclusion of the current Phase IIa clinical study and second specie (primate) longer term toxicology studies are concluded and reported on.

Funding remains an issue for the business with the year seeing the aborted rights issue in April 2007. Funding was generated through the disposal of CBio's ownership interest in BresaGen Limited to Hospira during the first half of the financial year. Proceeds from this sale were \$7,766,219, netting a gain of \$6,699,032. Further funds were raised during the second half of the financial year through the placement of equity with sophisticated investors.

Details of funds raised in the year under review and application of those funds are included in the annual report.

The Board is actively pursuing a number of alternatives to source funds to allow the business to complete its development program and details will be provided at the appropriate time. In the mean time the Board will continue the placement of equity and debt with institutions and professional investors.

I would like to wish well all those many shareholders who have supported the company during a difficult year.

Stephen Jones
Executive Chairman

Director's Report

Your directors submit their report for the financial year ended 30 June 2007.

DIRECTORS

The names of the directors of the company in office as at the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Mr Stephen Jones	Executive Chairman
Mr Stephen Streeter	Non-executive director
Dr Michael Monsour	Non-executive director (appointed 31 January 2007)

DIRECTORS QUALIFICATIONS AND EXPERIENCE

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

Stephen Jones is one of the founding Directors of CBio and was appointed its chairman in 2000. Stephen Jones has extensive hands-on management experience in challenged companies. He has been mainly involved in corporate recovery and reconstruction - examples being International Card Systems Australia Limited, a credit card provider; Greyhound Pioneer Australia Limited (Transport and Tourism); and Bresagen Limited (Biotechnology). He has been involved with several public capital raisings totalling in excess of \$100,000,000 and was a Director of Fortune Advanced Technologies Pty Ltd, Retirewise Capital Australia Ltd, Ingot Capital Management Pty Ltd, and other funds management and venture capital companies. He has served on the Boards of several listed public companies including Greyhound Pioneer Australia Limited, Analytica Limited, Psiron Limited and BresaGen Limited, and is a director of Australian Technology Innovation Fund Limited, CBio's single largest shareholder. His personal bio may be found in Who's Who in Australia 2007 edition.

Mr Stephen Streeter, Non-executive director (appointed 25 November 2005)

Stephen Streeter is an Institutional Stockbroker with seventeen years of experience. He has been a Director - Head of Sales for a number of Broking firms over this period, including James Capel Australia, E L & C Baillieu, CIBC Wold Markets and ABN Amro Australia. Mr Streeter currently holds the position of Executive Director Equities, Novus Capital and is also a non-executive Director of Australian Technology Innovation Fund Limited. Mr Streeter has had extensive exposure to ECM, Equity Capital markets, and has built a very strong client base in this area.

Dr Michael Monsour, Non-executive director (appointed 31 January 2007)

Dr Michael Monsour is a medical practitioner with business interests in Queensland medical centres. He operates a medical management company that provides management support to medical practitioners and is also one of Australia's leading providers of software systems for Occupational Health and Safety and Medical Accounting. Dr Michael Monsour is the chairman of Analytica Limited and Injet Digital Aerosols Limited. Dr Michael Monsour is also a board member of the Australian Technology Innovation Fund Limited and Australia Biofund Investment Limited (Hong Kong).

Director's Report

COMPANY SECRETARY

Mr Ben Graham (appointed 8 August 2007)

Ben Graham commenced with CBio in 2005 and was appointed Company Secretary on 8 August 2007. Ben is an Accountant with six years experience in senior financial positions in the medical device and bio-pharmaceutical industries. Ben is experienced in the administration of both listed and non-listed public companies and is a specialist in financial and corporate compliance matters with particular emphasis on emerging and early commercialisation-stage companies.

PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the consolidated entity were:

- research, product development and clinical trials of the therapeutic drug XToll™ (Cpn10).
- process development and manufacture of protein and peptide therapeutics.

OPERATING RESULTS AND DIVIDENDS

The consolidated entity's after tax loss for the year ended 30 June 2007 was \$9,425,836 (2006:\$ 11,947,255). The loss after tax of the company for the year ended 30 June 2007 was \$11,100,671 (2006:\$11,833,967).

No dividend was proposed or paid.

REVIEW OF OPERATIONS

The Company's focus over the last year comprised of two main activities involving XToll™:

1. increased emphasis on commercialisation; and
2. further research and development.

A number of pharmaceutical companies conducted formal due diligence on CBio during the year and discussions and presentations with numerous other parties also took place. Whilst the Company was not able to secure a commercial collaboration or licensing agreement, CBio was the recipient of feedback from a number of pharmaceutical companies which has been incorporated into its ongoing development program for XToll™. Ongoing discussions with prospective collaborators have taken place and will continue to occur.

The results of our last Rheumatoid Arthritis ("RA") study were reported in the prestigious medical journal "The Lancet" in August 2006. A Phase I subcutaneous clinical trial was conducted in healthy volunteers and was completed during the year. The purpose of this trial was to determine the effectiveness of subcutaneous dosing of XToll™ and to evaluate optimal dosing. Planning for the next Phase IIa clinical trial in RA commenced and it has been designed to incorporate 150 patients, a 6 month dosing period, a placebo and 2 other arms and will be administered subcutaneously across numerous sites in Australia and New Zealand. Dosing of the first patients is expected to commence before December 2007.

Other research and development activities included the commencement of toxicology studies in 2 species to support the upcoming clinical trial, implementation of a more robust intellectual property programme designed to protect now and into the future the company's most important asset, completion of stage 1 of a 4 stage scale-up supply programme with a large overseas contract manufacturing organisation, and production of Cpn10 to meet the needs of our ongoing pre-clinical, clinical and research studies.

CBio disposed of its interest in BresaGen Limited during the year. Proceeds from the sale were \$7,766,219, for a net gain of \$6,699,032.

Director's Report

Funding remains a critical issue for the business and the year saw the aborted rights issue in April 2007. During the year, \$3,999,001 was raised at prices ranging from \$3 per share to \$6 per share through private placements. \$276,533 was also raised from the conversion of 225,511 options at exercise prices ranging from \$1 per option to \$3 per option.

On 29 June 2007 the Company acquired 19,330,843 shares in the listed entity Viralytics Ltd ("VLA") amounting to 8.03% of its issued capital. The cost price of \$1,585,129 was satisfied by the issue of 351,470 shares in CBio.

The Board is actively pursuing a number of alternatives to source funds to allow the business to complete its development programme.

The following changes to the Board and senior Management occurred during the year:

- Dr Michael Monsour was appointed a Director on 31 January 2007
- Mr Jason Yeates was appointed as Chief Executive Officer on 16 November 2006 having previously been the company's Chief Financial Officer and Chief Operating Officer
- Dr Dennis Feeney was appointed President Global Licensing and Development on 16 November 2006 having previously been the company's Chief Scientific Officer
- Mr James Greig was appointed Chief Financial Officer on 16 November 2006 having previously been the company's Financial Controller
- Mr Bryan Dulhunty was appointed a Director on 16 November 2006 and subsequently resigned as a Director on 31 January 2007
- Dr Wolf Hanisch resigned as Chief Executive Officer and Director on 16 November 2006
- Dr Andy Gearing resigned as a Director on 16 November 2006

Subsequent to balance date, on 8 August 2007 Mr Bryan Dulhunty resigned as Company Secretary and Mr Ben Graham was appointed to this position.

FINANCIAL POSITION

Net assets of the Company were \$715,279 (2006: \$3,891,886). The Company had cash on hand at 30 June 2007 of \$155,708 (2006: \$239,116).

During the year, the Company issued a total of 1,459,781 shares, raising a total of \$5,920,662. 882,800 new shares to investors at between \$3 and \$6 per share which raised a total of \$4,059,000. Funding remains a critical issue for the business and the year saw the aborted rights issue in April 2007. \$276,533 was also raised from the conversion of 225,511 options at exercise prices of between \$1 per option and \$3 per option. 351,470 shares were issued as consideration for the acquisition of 19,330,843 shares in Viralytics Limited.

Total revenue for the company for the year was \$6,747,544 (2006: \$2,163,501). Of the total revenue for the year, \$4,929,968 was in relation to the Company's disposal of BresaGen Limited.

The main expenses of the Company continue to relate to its clinical trial and research & development program. The Company incurred expenses of \$10,706,179 during the year on research & development activities (2006: \$8,972,378).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

All significant changes in the state of affairs of the parent entity that occurred during the financial year are discussed in the Review of Operations section of this report.

Director's Report

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Since balance date, \$1,066,515 has been raised in share capital at \$5 per share.

CBio acquired a further 4,649,530 shares in Viralytics Limited in exchange for the issue of 84,540 shares in CBio.

On July 18, 470,000 options were granted with an exercise price of \$5 per option and 250,000 options were granted with an exercise price of \$3 per option. These options all expire on July 18, 2012.

Since the balance date, Australian Technology Innovation Fund Limited has paid the Company \$240,000. \$94,000 was for the repayment of a loan from CBio, \$66,459 the payment of accrued interest on the loan and \$79,541 was a loan to CBio. The loan to CBio is non-interest bearing and is repayable on demand.

Subsequent to balance date, 15 convertible notes were issued under a Convertible Note Deed dated 30 August 2007. The notes have a face value of \$100,000 each and interest of 8% per annum is payable semi-annually.

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:

- commencement of a larger, more comprehensive Phase IIa clinical trial in RA
- further supportive toxicology studies and Cpn10 supply projects to enhance development to date
- commence pilot studies in one or more diseases to determine if there are any efficacy signals
- commence one or more Phase II clinical trials in other disease states where there has been sufficient response by patients to Cpn10
- further research into the understanding of the mode of action of Cpn10
- further commercialisation and licensing discussions with large pharmaceutical companies.

ENVIRONMENTAL ISSUES

The consolidated entity is compliant with all applicable environmental regulations.

CORPORATE STRUCTURE

The consolidated entity as at 30 June 2007 consists solely of CBio Limited. During 2006, CBio disposed of its interest in BresaGen Limited.

Director's Report

DIRECTORS' MEETINGS

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

<u>Directors' Meetings</u>	<u>Number eligible to attend</u>	<u>Number attended</u>
Mr Stephen Jones	12	10
Mr Stephen Streeter	12	12
Dr Michael Monsour (i)	4	4
Mr Bryan Dulhunty (ii)	3	3
Dr Wolfgang Hanisch (iii)	5	3
Dr Andy Gearing (iii)	5	5

(i) Appointed 31 January 2007

(ii) Appointed 16 November 2006 and resigned 31 January 2007

(iii) Resigned 16 November 2006

Due to the size of the Board, each director is invited to participate in all matters of the Company, including audit, remuneration, compliance, finance and treasury issues.

REMUNERATION REPORT

The remuneration report, including remuneration details for directors and executives of the group, is contained in Note 23 Key Management Personnel in the attached 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 expenses shall be caused or contributed to by his own negligence, default, breach of duty or breach of trust.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Director's Report

NON-AUDIT SERVICES

During the year, the Company's auditors have performed a number of non-audit services. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The details of the services provided and their costs are as follows:-

Income Tax Return preparation including R&D tax concession	\$	9,996
General advice on taxation and compliance matters	\$	41,350
P3 Grant Audit	\$	6,798
Total	\$	58,144

AUDITOR'S INDEPENDENCE DECLARATION

A statement of independence has been provided by our auditors, Ernst & Young, and is included in the attached financial report.

Signed in accordance with a resolution of directors

Mr Stephen Jones
Executive Chairman

Date: 28 September 2007

Corporate Governance

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of CBio Limited is responsible for the governance of the consolidated entity. Whilst CBio itself 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 strives to meet the standard expected on a publicly traded entity. The directors are however realistic in acknowledging the size and nature of CBio 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 consolidated group including the setting and the monitoring of the objectives, goals and corporate direction. Due to the size of the companies in the group, there are no formal statements as to the delegated authority of management, however the Board closely interacts with the management of each 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 stage of development of CBio the group does not believe it appropriate to maintain a structure where there is a majority of independent directors. The company's directors include some of 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.

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,

Corporate Governance

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 23 Key Management Personnel.

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.

Income Statement

For the year ended 30 June 2007

	Note	Consolidated Group		Parent Entity	
		2007 \$	2006 \$	2007 \$	2006 \$
Continuing Operations					
Revenue					
Government grants		1,549,166	2,011,600	1,549,166	2,011,600
Sale of investments		-	-	4,929,968	-
Interest Received		209,367	53,285	209,367	53,285
Other income		59,043	98,616	59,043	98,616
		1,817,576	2,163,501	6,747,544	2,163,501
Borrowing costs expense	2	(109)	(32,859)	(109)	(32,859)
Administration expenses	3	(6,141,385)	(3,758,330)	(6,141,385)	(3,758,330)
Research and development		(10,706,179)	(8,972,378)	(10,706,179)	(8,972,378)
Patent costs		(529,502)	(339,173)	(529,502)	(339,173)
Marketing expenses		(471,040)	(894,728)	(471,040)	(894,728)
Loss before income tax		(16,030,639)	(11,833,967)	(11,100,671)	(11,833,967)
Income tax expense	4	-	-	-	-
Loss from continuing operations after income tax expense		(16,030,639)	(11,833,967)	(11,100,671)	(11,833,967)
Discontinued Operations					
Profit/(Loss) from discontinued operations after income tax	5	6,444,497	(291,455)	-	-
Loss for the period		(9,586,142)	(12,125,422)	(11,100,671)	(11,833,967)
Loss attributable to minority equity interest	5	160,306	178,167	-	-
Loss attributable to members of the parent entity	18	(9,425,836)	(11,947,255)	(11,100,671)	(11,833,967)
Basic/Diluted (loss) per share (cents per share) – continuing operations	20	(61.74)	(51.93)	-	-
Basic/Diluted (loss)/earnings per share (cents per share) – discontinuing operations	20	25.44	(0.50)	-	-

The accompanying notes for part of these financial statements

Balance Sheet

As at 30 June 2007

	Note	Consolidated Group		Parent Entity	
		2007 \$	2006 \$	2007 \$	2006 \$
Current assets					
Cash and cash equivalents	21(a)	155,708	419,802	155,708	239,116
Trade and other receivables	6	851,846	1,135,466	851,846	720,771
Inventories	7	-	525,590	-	-
Financial Assets	8(a)	1,585,129	-	1,585,129	-
Other current assets	9	56,346	49,767	56,346	31,725
Total current assets		2,649,029	2,130,625	2,649,029	991,612
Non-Current Assets					
Property, plant and equipment	10	911,239	11,646,999	911,239	927,001
Trade and other receivables	11	175,462	169,533	175,462	169,533
Intangible assets	12	-	-	-	-
Financial Assets	8(b)	-	-	-	2,836,250
Total Non-Current Assets		1,086,701	11,816,532	1,086,701	3,932,784
Total Assets		3,735,730	13,947,157	3,735,730	4,924,396
Current Liabilities					
Trade and other payables	13	2,651,814	1,423,760	2,651,814	898,793
Short-term provisions	15	148,828	545,537	148,828	119,842
Financial liabilities	14(a)	200,000	596,895	200,000	-
Total current liabilities		3,000,642	2,566,192	3,000,642	1,018,635
Non-Current Liabilities					
Financial liabilities	14(b)	-	6,487,699	-	-
Long-term provisions	15	19,809	59,021	19,809	13,875
Total Non-Current Liabilities		19,809	6,546,720	19,809	13,875
Total Liabilities		3,020,451	9,112,912	3,020,451	1,032,510
Net Assets		715,279	4,834,245	715,279	3,891,886
Equity					
Issued Capital	16	36,838,670	31,026,008	36,838,670	31,026,008
Reserves	17	5,494,253	3,671,597	5,494,253	3,382,851
Accumulated Losses	18	(41,617,644)	(32,191,808)	(41,617,644)	(30,516,973)
Parent Entity Interest in Equity		715,279	2,505,797	715,279	3,891,886
Minority Equity Interest in Equity	19	-	2,328,448	-	-
Total Equity		715,279	4,834,245	715,279	3,891,886

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

As at 30 June 2007

CONSOLIDATED	Issued Capital	Accumulated Losses	Other Reserves	Total	Minority Interest	Total Equity
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2005	19,134,858	(20,244,553)	1,848,497	738,802	1,177,448	1,916,250
Cost of share issue	(333,204)	-	-	(333,204)	-	(333,204)
Cost of share based payment	-	-	1,443,169	1,443,169	-	1,443,169
Total income and expense recognised directly in equity	(333,204)	-	1,443,169	1,109,965	-	1,109,965
Issue of share capital	11,268,981	-	366,677	11,635,658	1,308,323	12,943,981
Conversion of convertible note	955,373	-	-	955,373	-	955,373
Adoption on transition to AASB 132 & AASB 139	-	-	13,254	13,254	20,844	34,098
Loss for year	-	(11,947,255)	-	(11,947,255)	(178,167)	(12,125,422)
Balance at 30 June 2006	31,026,008	(32,191,808)	3,671,597	2,505,797	2,328,448	4,834,245
Balance at 1 July 2006	31,026,008	(32,191,808)	3,671,597	2,505,797	2,328,448	4,834,245
Cost of share issue	(108,000)	-	-	(108,000)	-	(108,000)
Cost of share based payment	-	-	2,111,402	2,111,402	-	2,111,402
Total income and expense recognised directly in equity	(108,000)	-	2,111,402	2,003,402	-	2,003,402
Issue of share capital	5,644,129	-	-	5,644,129	-	5,644,129
Conversion of options	276,533	-	-	276,533	-	276,533
Disposal of controlled entity	-	-	(288,746)	(288,746)	(2,168,142)	(2,456,888)
Loss for year	-	(9,425,836)	-	(9,425,836)	(160,306)	(9,586,142)
Balance at 30 June 2007	36,838,670	(41,617,644)	5,494,253	715,279	-	715,279

The accompanying notes for part of these financial statements

Statement of Changes in Equity

As at 30 June 2007

PARENT ENTITY	Issued Capital	Accumulated Losses	Other Reserves	Total Equity
	\$	\$	\$	\$
Balance at 1 July 2005	19,134,858	(18,683,006)	1,997,710	2,449,562
Cost of share issue	(333,204)	-	-	(333,204)
Cost of share based payment	-	-	1,385,141	1,385,141
Total income and expense recognised directly in equity	(333,204)	-	1,385,141	1,051,937
Issue of share capital	11,268,981	-	-	11,268,981
Conversion of convertible note	955,373	-	-	955,373
Loss for year	-	(11,833,967)	-	(11,833,967)
Balance at 30 June 2006	31,026,008	(30,516,973)	3,382,851	3,891,886
Balance at 1 July 2006	31,026,008	(30,516,973)	3,382,851	3,891,886
Cost of share issue	(108,000)	-	-	(108,000)
Cost of share based payment	-	-	2,111,402	2,111,402
Total income and expense recognised directly in equity	(108,000)	-	2,111,402	2,003,402
Issue of share capital	5,644,129	-	-	5,644,129
Conversion of options	276,533	-	-	276,533
Loss for year	-	(11,100,671)	-	(11,100,671)
Balance at 30 June 2007	36,838,670	(41,617,644)	5,494,253	715,279

The accompanying notes for part of these financial statements

Cash Flow Statement

As at 30 June 2007

	Note	Consolidated Group		Parent Entity	
		2007 \$	2006 \$	2007 \$	2006 \$
Cash Flows From Operating Activities					
Payments to suppliers & employees		(14,028,621)	(15,126,547)	(13,835,015)	(12,183,971)
Grant income received		1,422,392	1,626,288	1,422,392	1,626,088
Cash receipts in the course of operations		265,076	2,111,713	244,681	98,616
Interest received		145,309	77,089	143,526	53,285
Interest paid		(59,806)	(556,240)	(109)	(1,372)
Net Cash Flows Used In Operating Activities	21(b)	(12,255,650)	(11,867,697)	(12,024,525)	(10,407,354)
Cash Flows From Investing Activities					
Cash disposed on disposal of controlled entity	21(c)	(284,027)	-	-	-
Purchase of property, plant & equipment		(302,707)	(1,163,227)	(302,707)	(597,267)
Proceeds from sale of investments	5(c)	7,766,219	-	7,766,219	-
Loan to related entity		(1,684,000)	-	(1,684,000)	-
Proceeds from repayment of loan		1,600,000	-	1,600,000	-
Bank guarantee deposit		(5,929)	(7,160)	(5,929)	(7,160)
Proceeds from disposal of equity instruments		-	80,009	-	-
Net Cash Flows Used In Investing Activities		7,089,556	(1,090,378)	7,373,583	(604,427)
Cash Flows From Financing Activities					
Proceeds from issue of shares		3,999,001	11,979,331	3,999,001	11,268,981
Proceeds from conversion of options		276,533	-	276,533	-
Proceeds from issue of convertible note		600,000	900,000	-	-
Proceeds from borrowings		200,000	-	200,000	-
Repayment of borrowings		(65,534)	(554,321)	-	-
Payments of share issue costs		(108,000)	(453,311)	(108,000)	(414,975)
Loan to controlled entity		-	-	200,000	200,000
Proceeds from shares not yet issued		-	58,422	-	58,422
Repayment of convertible note		-	(375,000)	-	(375,000)
Net Cash Flows From Financing Activities		4,902,000	11,555,121	4,567,534	10,737,428
Net Increase/(Decrease) In Cash Held		(264,094)	(1,402,954)	(83,408)	(274,353)
Cash At The Beginning Of The Financial Year		419,802	1,822,756	239,116	513,469
Closing Cash Carried Forward	21(a)	155,708	419,802	155,708	239,116

The accompanying notes for part of these financial statements

Notes to the Financial Statements

For the year ended 30 June 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) General

(i) Statement of Compliance

This financial report is a general-purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian accounting interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the consolidated group of CBio Limited and its controlled entities and CBio Limited as an individual parent entity. CBio Limited is an un-listed public Company, incorporated and domiciled in Australia.

The Financial report of CBio Limited and its controlled entities, and CBio Limited as an individual parent entity, complies with all Australian equivalents to International Financial Reporting Standards (A-IFRS). Compliance with A-IFRS ensures that the financial report, comprising the financial statements and the notes, complies with International Financial Reporting Standards (IFRS). As at 30 June 2007 there were no Australian Equivalents to International Accounting Standards or applicable pronouncements issued and not yet effective that would impact the financial results or position of the group. Issued instruments impact only the disclosure of information in the notes to the financial statements.

The following is a summary of the material accounting policies adopted by the consolidated group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(ii) Corporate Information

CBio Limited is a public Company limited by shares incorporated in Australia. The shares of CBio Limited are not traded on a recognised public stock exchange. The nature of the operations and principal activities of the Company are described in Note 28.

b) 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 and interpretations.

c) 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 inter-Company 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.

Notes to the Financial Statements

For the year ended 30 June 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

d) Going Concern

The report has been prepared on a going concern basis. The Company has net current liabilities of \$351,613 (2006: \$27,023) and incurred an operating loss after income tax of \$11,100,671 (2006: \$11,833,967) for the year ended 30 June 2007.

The directors believe that the going concern basis is appropriate due to the fact that the Company has a strong history of capital raising and has received positive results to date. The success of future capital raising for CBio Limited will depend on the Company achieving positive results in the future clinical trials.

CBio's ongoing research & development program will require additional funding to be raised over the next 12 months. The directors have already commenced raising these funds as noted in Note 30. Should CBio not receive future funds, there is significant uncertainty whether the Company will be able to continue as a going concern and be able to pay its debts as and when they fall due. Accordingly, the Company 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.

e) Property, Plant and Equipment

Plant and equipment is stated at cost less depreciation and impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful life of the asset as follows:

	2007	2006
Buildings	4%	4%
Plant and equipment	10%-50%	10%-50%
Computer equipment	20%-50%	20%-50%
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 flows, 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 the current market assessments of the time value of money and the risks specific to the asset.

Any gains or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amounts of the item) is included in the income statement in the period the item is derecognised.

Notes to the Financial Statements

For the year ended 30 June 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

f) 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.

g) Recoverable Amount of Assets

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company 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 risks specific to the asset.

h) 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. Terms of receivables are 30 days.

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

i) Intangible Assets

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.

Notes to the Financial Statements

For the year ended 30 June 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

j) Research and Development Expenditure

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

k) Income Taxes

Deferred income tax liabilities are recognised for all taxable temporary differences:

- Except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward or unused tax assets and unused tax losses can be utilised:

- Except where the deferred income tax asset relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax asset and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

l) Other Taxes

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

- Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of an asset or as part of an item of expense as applicable; or
- Receivables and payables are stated with the amount of GST included.

Notes to the Financial Statements

For the year ended 30 June 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The net amount of GST recoverable from, or payable to, the taxation authority 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 the GST component of cash arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

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

m) Cash and Cash Equivalents

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 Cash Flow Statement, 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.

n) 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.

o) 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:

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

Notes to the Financial Statements

For the year ended 30 June 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Fee income derived from research & development contracts is recognised when specific milestones are achieved and the consolidated entity becomes entitled to the income under the terms of the relevant contract.

Contract research income is recognised as and when the relevant research expenditure is incurred. When the consolidated entity received income in advance of incurring the relevant expenditure, it is treated as deferred income as the consolidated entity does not control the income until the relevant expenditure has been incurred.

License fees are recognised evenly over the life of the license.

p) Foreign Currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rate of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account in the statement of financial performance as exchange gains or losses, in the financial year in which the exchange rates change.

q) 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.

r) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location. In the case of manufactured inventories, cost includes an appropriate share of both variable and fixed costs. Fixed costs have been allocated on the basis of normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

s) Issued Capital

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.

Notes to the Financial Statements

For the year ended 30 June 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

t) 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 on benefits to be derived from the leased property.

u) Superannuation

Contributions are made to approved employee superannuation funds 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.

v) 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.

w) 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

Notes to the Financial Statements

For the year ended 30 June 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

x) Interest-Bearing Loans and 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 de-recognised and as well as through the amortisation process.

y) Non Interest-Bearing Loans and 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.

z) 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.

aa) 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.

Notes to the Financial Statements

For the year ended 30 June 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

bb) 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.

As the Company and consolidated entity incurred a loss for the current and previous year, potential ordinary shares, being options to acquire ordinary shares, are considered non-dilutive and therefore not included in the diluted earnings per share calculation.

cc) Share-Based Payment Transactions

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

There are currently four plans in place to provide these benefits, a Director Share Option Plan, Executive Share Option Plan, Employee Share Option Plan and an Other Share Option Plan. The costs of the equity settled transactions with participants 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 CBio 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 Company, 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

Notes to the Financial Statements

For the year ended 30 June 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

dd) Comparative Figures

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

	Consolidated		CBio Limited	
	2007 \$	2006 \$	2007 \$	2006 \$
2. BORROWING COSTS EXPENSE				
Interest expense	109	-	109	-
Interest expense on Convertible note	-	32,859	-	32,859
	109	32,859	109	32,859
3. ADMINISTRATION EXPENSES				
Consulting fees	1,050,259	349,332	1,050,259	349,332
Depreciation of non-current assets:				
Leasehold improvements	20,680	14,143	20,680	14,143
Plant & equipment	297,787	214,899	297,787	214,899
Office rental	206,789	272,755	206,789	272,755
Legal & compliance fees	255,035	194,018	255,035	194,018
Insurance	27,527	37,890	27,527	37,890
Repairs & maintenance	14,106	13,486	14,106	13,486
Share registry costs	30,594	13,194	30,594	13,194
Print, post & stationary	29,055	27,963	29,055	27,963
Utilities	49,749	51,085	49,749	51,085
IT support	52,172	50,509	52,172	50,509
Salaries, wages & fees	1,256,719	766,250	1,256,719	766,250
Superannuation	298,911	194,103	298,911	194,103
Payroll tax	194,901	135,199	194,901	135,199
Recruitment costs	62,896	66,897	62,896	66,897
Employee entitlements	33,953	49,598	33,953	49,598
Travel	192,912	212,177	192,912	212,177
Equity-based compensation	1,702,691	829,920	1,702,691	829,920
Other	364,649	264,912	364,649	264,912
	6,141,385	3,758,330	6,141,385	3,758,330

Notes to the Financial Statements

For the year ended 30 June 2007

	Consolidated		CBio Limited	
	2007 \$	2006 \$	2007 \$	2006 \$
4. INCOME TAX				
Income Statement				
<i>Current income tax</i>				
Current income tax charge	3,826,215	4,449,818	3,826,215	4,449,818
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	(110,285)	(100,958)	(110,285)	(100,958)
Future income tax benefits (not recognised)/recognised	(3,715,930)	(4,348,860)	(3,715,930)	(4,348,860)
Income tax expense reported on the income statement	-	-	-	-
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the company's applicable income tax rate is as follows:				
Accounting Profit (Loss) before income tax	(9,425,836)	(11,833,967)	(11,100,671)	(11,833,967)
At the Company's statutory income tax rate of 30%:	(2,827,751)	(3,550,190)	(3,330,201)	(3,550,190)
Non tax deductible/taxable items	(998,464)	(899,628)	(496,014)	(899,628)
Movement in temporary differences not recorded	110,285	100,958	110,285	100,958
Tax assets not recognised	3,715,930	4,348,860	3,715,930	4,348,860
Income tax expense	-	-	-	-
Tax assets (At 30%)				
Domestic tax losses	13,122,099	9,406,169	13,122,099	9,406,169
Temporary differences – including balances in equity	1,233,391	1,110,265	1,233,391	1,110,265
Total unrecorded tax assets	14,355,490	10,516,434	14,355,490	10,516,434

At 30 June 2007 the Company has significant estimated, unconfirmed and unrecouped revenue losses as disclosed above. No future income tax benefit for the tax losses incurred by the company has been recognised as an asset. Because of the complexity of the Company's changing shareholder base and operations,

Notes to the Financial Statements

For the year ended 30 June 2007

4. INCOME TAX (cont'd)

combined with income tax legislation, the amount of the Company's available tax losses as at 30 June 2007 which are available for carry forward use can not be determined with a sufficient degree of probability. Management is currently undertaking a detailed review of the ability to carry forward and use these losses on a needs basis. As a result of this the losses disclosed as available below may not be available in full or part.

The losses disclosed as at 30 June 2007 will only be obtained in future periods if:

- (i) Future assessable income of a nature and of an amount sufficient to enable the benefit to be realised;
- (ii) The conditions for deductibility imposed by tax legislation continue to be complied with; and
- (iii) No changes in tax legislation adversely affect the Company in realising the benefit.

	Consolidated		CBio Limited	
	2007 \$	2006 \$	2007 \$	2006 \$
Temporary differences				
Capital raising costs	121,064	138,032	121,064	138,032
Patent costs	446,690	288,439	446,690	288,439
Research licence	585,000	630,000	585,000	630,000
Provisions and accruals	80,637	53,794	80,637	53,794
	1,233,391	1,110,265	1,233,391	1,110,265

5. DISCONTINUED OPERATIONS

(a) Details of operations disposed

On 11 August 2006, the Company sold a 19.95% stake in BresaGen Limited to Hospira Holdings (S.A.) Pty Ltd at 14 cents per share. Effective from this date, CBio no longer held a controlling interest in BresaGen. The Company subsequently accepted an offer from Hospira Holdings (S.A.) Pty Ltd in October 2006 to purchase its remaining 17.1% stake in BresaGen Ltd at 14 cents per share. The total proceeds from the sale of CBio's holding in BresaGen was \$7,766,219. This represents a profit on sale of \$6,699,032.

(b) Financial performance

Results of discontinued operations for the period until disposal:

Revenues	67,711	2,644,040	-	-
Expenses	(322,246)	(2,935,495)	-	-
Loss before income tax	(254,535)	(291,455)	-	-
Gain on disposal	6,699,032	-	-	-
Income tax expense	-	-	-	-
Net profit/(loss)	6,444,497	(291,455)	-	-
Net loss attributable to minority interest	160,306	178,167	-	-

Notes to the Financial Statements

For the year ended 30 June 2007

	Consolidated		CBio Limited	
	2007 \$	2006 \$	2007 \$	2006 \$
5. DISCONTINUED OPERATIONS (cont'd)				
Net profit/(loss) attributable to members of CBio Limited	6,604,803	(113,288)	-	-
(c) Reconciliation of gain on disposal				
Consideration received on sale of investments	7,766,219	-	-	-
Less net assets disposed (i)	1,067,187	-	-	-
Gain on sale of investment	6,699,032	-	-	-

(i) Included in net assets disposed is cash of \$284,027.

6. TRADE & OTHER RECEIVABLES				
Government grant receivable	512,086	385,512	512,086	385,512
GST receivable	174,302	74,646	174,302	99,029
Other debtors:-				
- Related Entities	94,000	10,000	94,000	219,147
- Non-related entities	71,458	665,308	71,458	17,083
	851,846	1,135,466	851,846	720,771

Terms and conditions

All receivables are non-interest bearing and are usually settled on 30 day terms. Government grants relate to Pharmaceutical P3 Grants.

7. INVENTORIES				
Work in progress at cost	-	187,071	-	-
Finished goods at cost	-	338,519	-	-
	-	525,590	-	-
8. FINANCIAL ASSETS				
(a) Available for sale financial assets				
Investment in listed entity at fair value	1,585,129	-	1,589,129	-
	1,585,129	-	1,589,129	-
(b) Investment in controlled entity				
Investment in controlled entity (i)	-	-	-	2,836,250
	-	-	-	2,836,250

Notes to the Financial Statements

For the year ended 30 June 2007

8. FINANCIAL ASSETS (cont'd)

(i) On 11 August 2006, the Company sold a 19.95% stake in BresaGen Limited to Hopsira Holdings (S.A.) Pty Ltd. Effective from this date, CBio no longer held a controlling interest in BresaGen. Refer Note 5 Discontinued Operations for further information. At 30 June 2007 the Company has no controlled entities.

	Consolidated		CBio Limited	
	2007 \$	2006 \$	2007 \$	2006 \$
9. OTHER CURRENT ASSETS				
Prepayments	56,346	49,767	56,346	31,725
	56,346	49,767	56,346	31,725
10. PROPERTY, PLANT & EQUIPMENT				
Total property, plant & equipment				
At Cost	1,716,102	15,765,742	1,716,102	1,413,395
Accumulated Depreciation	(804,863)	(4,118,743)	(804,863)	(486,394)
Total written down value	911,239	11,646,999	911,239	927,001
Land & Buildings				
At cost	-	10,559,509	-	-
Provision for depreciation	-	(1,423,987)	-	-
	-	9,135,522	-	-
Movement in carrying value				
Carrying value at the beginning of the year	9,135,522	9,583,315	-	-
Disposed on disposal of controlled entity	(9,135,522)	-	-	-
Depreciation	-	(447,793)	-	-
Carrying value at the end of the year	-	9,135,522	-	-
Leasehold Improvements				
At cost	141,261	132,617	141,261	132,617
Provision for depreciation	(36,623)	(15,943)	(36,623)	(15,943)
	104,638	116,674	104,638	116,674
Movement in carrying value				
Carrying value at the beginning of the year	116,674	69,698	116,674	69,698
Additions	8,644	61,119	8,644	61,119

Notes to the Financial Statements

For the year ended 30 June 2007

	Consolidated		CBio Limited	
	2007 \$	2006 \$	2007 \$	2006 \$
10. PROPERTY, PLANT & EQUIPMENT (cont'd)				
Depreciation	(20,680)	(14,143)	(20,680)	(14,143)
Carrying value at the end of the year	104,638	116,674	104,638	116,674
Plant & Equipment				
At cost	1,574,841	5,073,616	1,574,841	1,280,778
Provision for depreciation	(768,240)	(2,678,813)	(768,240)	(470,451)
	806,601	2,394,803	806,601	810,327
Movement in carrying value				
Carrying value at the beginning of the year	2,394,803	1,527,517	810,327	489,078
Additions	294,063	1,296,318	294,061	536,148
Disposed on disposal of controlled entity	(1,584,478)	-	-	-
Depreciation	(297,787)	(429,032)	(297,787)	(214,899)
Carrying value at the end of the year	806,601	2,394,803	806,601	810,327
11. TRADE & OTHER RECEIVABLES				
Bank Guarantee Deposit (i)	175,462	169,533	175,462	169,533
	175,462	169,533	175,462	169,533

(i) Guarantee deposit lodged with the Company's bank as support for the building lease of the facility at Eight Mile Plains which was tenanted by the company in April 2005.

12. INTANGIBLE ASSETS				
Intellectual property	4,125,000	5,055,000	4,125,000	4,125,000
Provision for recoverability (i)	(4,125,000)	(5,055,000)	(4,125,000)	(4,125,000)
	-	-	-	-

(i) 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.

13. TRADE & OTHER PAYABLES				
Trade payables	1,855,016	1,080,472	1,855,016	755,505
Accrued expenses	774,354	-	774,354	-
Director and director related entities	22,444	83,288	22,444	83,288
Shares to be allotted	-	60,000	-	60,000
Deferred Income	-	200,000	-	-
	2,651,814	1,423,760	2,651,814	898,793

Notes to the Financial Statements

For the year ended 30 June 2007

13. TRADE & OTHER PAYABLES (cont'd)

Terms and conditions of Payables

Trade creditors are non-interest bearing and are normally settled on 30-day terms. Director and director related entity payables are non-interest bearing and are payable for services provided in the ordinary course of operations. Details of payments made to directors are set out in Note 23 Key Management Personnel.

	Consolidated		CBio Limited	
	2007 \$	2006 \$	2007 \$	2006 \$
14. FINANCIAL LIABILITIES				
(a) Current				
Loan liabilities (i)	200,000	596,895	200,000	-
	200,000	596,895	200,000	-
(b) Non-current				
Long term loan	-	6,481,387	-	-
Other	-	6,312	-	-
	-	6,487,699	-	-

(i) At 30 June 2007 a finance facility was provided by MPAMM Pty Ltd an entity associated with Dr Michael Monsour. A loan of \$200,000 was provided on unsecured terms at the prevailing Reserve Bank of Australia key lending rate.

15. PROVISIONS

Short-term employment provisions (i)	148,828	545,537	148,828	119,842
Long-term employment provisions (ii)	19,809	59,021	19,809	13,875
	168,637	604,558	168,637	137,817
Movement in carrying value				
At 1 July 2006	604,558	513,925	133,717	84,120
Disposed of in controlled entities	(470,741)	-	-	-
Net movement during the year	34,820	90,633	34,920	49,597
At 30 June 2007	168,637	604,558	168,637	133,717

(i) Short Term Provisions represent the estimated costs in respect of current employment benefits payable to Company employees. The provision for current employment benefits includes accrued annual leave and related on-costs payable on the accrued entitlements. It is expected these costs will be settled by 30 June 2008.

(ii) Long Term Provisions represent the estimated costs in respect of non-current employment benefits payable to Company employees. The provision for non-current employment benefits includes accrued long-service leave and related on-costs payable on the accrued entitlements. Due to the nature of the provision, the company is unable to determine a date by which these costs will be settled, however no costs are expected to be settled prior to 30 June 2008.

Notes to the Financial Statements

For the year ended 30 June 2007

	2007 Number	2007 \$	2006 Number	2006 \$
16. ISSUED CAPITAL				
Issued and paid up capital				
Ordinary shares fully paid	26,526,143	36,838,670	25,066,362	31,026,008
Movements in shares on issue				
The following share issues were made during the year:				
Beginning of the year	25,066,362	31,026,008	20,673,375	19,134,858
Issued during the period:				
- conversion of convertible note	-	-	636,661	955,373
- private placement (i)	882,800	4,059,000	3,756,326	11,268,981
- exercise of \$1 options	200,000	200,000	-	-
- exercise of \$3 options	25,511	76,533	-	-
- in exchange for share capital of Viralytics Limited (ii)	351,470	1,585,129	-	-
- less transaction costs	-	(108,000)	-	(333,204)
End of the year	26,526,143	36,838,670	25,066,362	31,026,008

(i) 386,000 shares were issued to sophisticated investors in the year ending 30 June 2007 at \$3 per share. 417,000 shares were issued to sophisticated investors in the year ending 30 June 2007 at \$6 per share. 79,800 shares were issued to sophisticated investors in the year ending 30 June 2007 at \$5 per share.

(ii) Refer Note 8 (a) for further details.

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.

17. SHARE BASED PAYMENT PLANS AND RESERVES

The following share-based payment arrangements existed as at 30 June 2007:

(a) Director Share Option Plan

2,150,000 share options have been granted to directors to accept ordinary shares at an exercise price of between \$1 and \$3. The options have a maximum life of five years from grant date and are exercisable after the vesting date, which is on issue. Options are unlisted and not transferable and options not exercised within the prescribed period will lapse. Options have no voting or dividend rights. There are no cash settlement alternatives.

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, director share options issued during the year:

Notes to the Financial Statements

For the year ended 30 June 2007

17. SHARE BASED PAYMENT PLANS (cont'd)

	Number 2007	WAEP 2007	Number 2006	WAEP 2006
Outstanding at the beginning of the year	2,950,000	\$1.78	2,400,000	\$1.75
Issued during the year	300,000	\$3.00	-	-
Expired during the year	(300,000)	\$3.00	-	-
Reclassified as Director options during the year	-	-	1,350,000	\$1.81
Reclassified as Other options during the year	(800,000)	\$1.75	(800,000)	\$1.75
Outstanding at the end of the year	2,150,000	\$1.74	2,950,000	\$1.78

The Director share options outstanding at 30 June 2007 had a weighted average exercise price of \$1.78 and a weighted average contractual life of 1.64 years. Options issued during the period had a fair value of \$1.53.

(b) Executive Share Option Plan

2,035,200 share options have been granted to executives to accept ordinary shares at an exercise price of between \$1 and \$3. The options have a maximum life of five years from grant date and are exercisable after the vesting date. Options vest upon milestones being reached. Options are unlisted and not transferable and options not exercised within the prescribed period will lapse. Options have no voting or dividend rights. There are no cash settlement alternatives.

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, executive share options issued during the year:

	Number 2007	WAEP 2007	Number 2006	WAEP 2006
Outstanding at the beginning of the year	2,350,000	\$2.28	2,350,000	\$2.28
Reclassified as Executive options during the year	35,200	\$3.00	-	-
Reclassified as Other options during the year	(350,000)	\$1.00	-	-
Outstanding at the end of the year	2,035,200	\$2.51	2,350,000	\$2.28

The Executive share options outstanding at 30 June 2007 had a weighted average exercise price of \$2.51 and a weighted average contractual life of 2.03 years.

(c) Employee Share Option Plan

718,730 share options have been granted to employees to accept ordinary shares at an exercise price of between \$1 and \$3. Employees are granted options up the dollar value of their annual salary after the successful completion of a three-month probationary period at the commencement of their employment. The options have a maximum life of five years from grant date and are exercisable after the vesting date. Options vest equally over a three year period from grant date. Options are unlisted and not transferable and options not exercised within the prescribed period will lapse. Options have no voting or dividend rights. There are no cash settlement alternatives.

Notes to the Financial Statements

For the year ended 30 June 2007

17. SHARE BASED PAYMENT PLANS (cont'd)

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, employee share options issued during the year:

	Number 2007	WAEP 2007	Number 2006	WAEP 2006
Outstanding at the beginning of the year	1,154,583	\$1.84	731,000	\$1.00
Issued during the year	82,997	\$3.00	524,583	\$2.85
Reclassified as Director options during the year	-	-	(50,000)	\$1.00
Reclassified as Executive options during the year	(35,200)	\$3.00	-	-
Exercised during the year	(225,511)	\$1.23	-	-
Lapsed during the year	(258,139)	\$2.26	(51,000)	\$1.00
Outstanding at the end of the year	718,730	\$1.96	1,154,583	\$1.84

The Employee share options outstanding at 30 June 2007 had a weighted average exercise price of \$1.96 and a weighted average contractual life of 2.10 years. Options issued during the period had a fair value of \$1.37.

(d) Other Option Plan

3,530,000 share options have been granted to persons who are not directors, executives or employees of the company to accept ordinary shares at an exercise price of between \$1 and \$3. The options have a maximum life of five years from grant date and are exercisable after the vesting date. Options vest immediately when granted or equally over a three year period from grant date. Options are unlisted and not transferable and options not exercised within the prescribed period will lapse. Options have no voting or dividend rights. There are no cash settlement alternatives.

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, other share options issued during the year:

	Number 2007	WAEP 2006	Number 2006	WAEP 2006
Outstanding at the beginning of the year	2,080,000	\$1.96	2,420,000	\$1.94
Issued during the year	300,000	\$3.00	160,000	\$2.38
Reclassified as Other options during the year	1,150,000	\$1.52	800,000	\$1.75
Reclassified as Director options during the year	-	-	(1,300,000)	\$1.85
Outstanding at the end of the year	3,530,000	\$1.91	2,080,000	\$1.96

The Other share options outstanding at 30 June 2007 had a weighted average exercise price of \$1.95 and a weighted average contractual life of 1.59 years. Options issued during the period had a fair value of \$3.27.

The following inputs were applied to the option pricing model:

Weighted average exercise price	\$2.03
Weighted average life of the option	4 years

Notes to the Financial Statements

For the year ended 30 June 2007

17. SHARE BASED PAYMENT PLANS (cont'd)

Underlying share price	\$5.00
Expected share price volatility	50 %
Risk free interest rate	6.45 %

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

As at 30 June 2007 there were a total of 8,433,930 (2006: 8,534,583) unissued ordinary shares for which options were outstanding. At 30 June 2007 there were 7,822,587 exercisable options at an average of \$2.18.

(e) Share reserves

	Consolidated		CBio Limited	
	2007 \$	2006 \$	2007 \$	2006 \$
Share options reserve	5,494,253	3,440,879	5,494,253	3,382,851
Other reserves	-	230,718	-	-
	5,494,253	3,671,597	5,494,253	3,382,851

Nature and purpose of share option reserve

The share option reserve records items recognised as an expense with respect to share-based consideration.

18. ACCUMULATED LOSSES

Accumulated losses at the beginning of the year	(32,191,808)	(20,244,553)	(30,516,973)	(18,683,006)
Net loss attributable to members of CBio Limited	(9,425,836)	(11,947,255)	(11,100,671)	(11,833,967)
Accumulated losses at the end of the year	(41,617,644)	(32,191,808)	(41,617,644)	(30,516,973)

19. MINORITY INTEREST

Reconciliation of minority interest in controlled entities:

Issued capital	-	40,259,566	-	-
Reserves	-	157,732	-	-
Accumulated losses	-	(38,088,850)	-	-
Net minority interest	-	2,328,448	-	-

Notes to the Financial Statements

For the year ended 30 June 2007

	Consolidated	
	2007 \$	2006 \$
20. EARNINGS PER SHARE		
Earnings used in the calculation of basic and diluted EPS	(9,425,836)	(11,947,255)
Weighted average number of ordinary shares outstanding during the year used in calculation of basic & diluted EPS	25,964,726	22,786,825

Conversion of options outstanding has not been included in the weighted average number of ordinary shares shown above, as conversion would increase shares issued and reduce the reported loss per share.

21. CASH AND CASH EQUIVALENTS**(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:

	Consolidated		CBio Limited	
	2007 \$	2006 \$	2007 \$	2006 \$
Cash at bank	155,708	419,802	155,708	239,116
(b) Reconciliation of net cash flows from operating activities to operating loss after income tax				
Operating loss after taxation	(9,586,142)	(12,125,422)	(11,100,671)	(11,833,967)
Non cash items				
Depreciation	318,467	890,968	318,467	229,042
Accrued Interest	-	32,859	-	32,859
Equity based compensation	2,111,402	1,443,169	2,111,402	1,385,141
Profit on sale of investment	(6,699,032)	-	-	-
Add/(less) items classified as investing/financing activities				
Sale of investments	-	-	(4,929,968)	-
Change in assets and liabilities				
(Increase)/decrease in receivables	283,620	(863,849)	(271,595)	(290,320)
(Increase)/decrease in inventories	525,590	(525,590)	-	-
Increase/(decrease) in payables	829,687	(810,465)	1,813,020	20,294
Increase/(decrease) in provisions	(39,242)	90,633	34,820	49,597
Net cash flows used in operating activities	(12,255,650)	(11,867,697)	(12,024,525)	(10,407,354)

Notes to the Financial Statements

For the year ended 30 June 2007

21. CASH AND CASH EQUIVALENTS (cont'd)

(c) Disposal of entities

During the year the Company's interest in the controlled entity BresaGen Limited was sold. Aggregate details of the transaction are:

	Consolidated		CBio Limited	
	2007 \$	2006 \$	2007 \$	2006 \$
Disposal price	7,766,219	-	-	-
Cash consideration	7,766,219	-	-	-
Assets and liabilities held at disposal date:				
Cash & cash equivalents	284,027	-	-	-
Receivables	865,774	-	-	-
Property, plant & equipment	10,692,941	-	-	-
Other assets	451,016	-	-	-
Trade & other payables	(1,237,049)	-	-	-
Financial liabilities	(7,119,060)	-	-	-
Other liabilities	(702,320)	-	-	-
Minority equity interest	(2,168,142)	-	-	-
	1,067,187	-	-	-
Net gain on disposal	6,699,032	-	-	-

(d) Non cash investing activities

On 29 June 2007 the Company purchased 19,330,843 shares in Viralytics Limited for consideration of issuing one share in itself for every 55 Viralytics Limited shares acquired. CBio Limited issued 351,470 shares and recorded an investment of \$1,585,129. There was no movement in the fair value of this investment to 30 June 2007.

22. AUDITORS REMUNERATION

Amounts received or due and receivable by the auditors of the company for:

- an audit of the financial report	53,350	110,592	53,350	59,592
- other services	58,144	46,745	58,144	46,745
	111,494	157,337	111,494	106,337

Notes to the Financial Statements

For the year ended 30 June 2007

23. KEY MANAGEMENT PERSONNEL

(a) Names and positions held of consolidated group and parent entity key management personnel in office at any time during the financial year are:

CBio Limited

Mr Stephen Jones	Chairman
Mr Stephen Streeter	Non-executive director
Dr Michael Monsour	Non-executive director (appointed 31 January 2007)
Mr Bryan Dulhunty	Non-executive director (appointed 16 November 2006, resigned 31 January 2007)
Dr Wolfgang Hanisch	Executive director (resigned 16 November 2006)
Dr Andy Gearing	Executive director (resigned 16 November 2006)
Mr Jason Yeates	Chief Executive Officer
Dr Dennis Feeney	President, Global Development & Licensing
Mr James Greig	Chief Financial Officer (appointed 16 November 2006)
Dr Barbara Johnson	Head of Immunology (resigned 28 February 2007)

BresaGen Limited (i)

Mr Stephen Jones	Chairman
Dr Wolfgang Hanisch	Executive director
Dr Meera Verma	Executive director
Dr Michael Monsour	Non-executive director
Mr Geoff Thomas	Non-executive director
Mr Jason Yeates	Chief Financial Officer
Dr Stan Bastiras	Chief Scientific Officer
Mrs Carol Senn	Production Manager
Mr Bob Herrington	Quality Manager

(i) On 11 August 2006, the Company sold a 19.95% stake in BresaGen Limited to Hospira Holdings (S.A.) Pty Ltd. Effective from this date, CBio no longer held a controlling interest in BresaGen. Refer Note 5 for further details.

(b) Compensation of Key Management Personnel

Compensation Structure

In accordance with best practice corporate governance, the structure of non-executive director, executive director and executive compensation is separate and distinct.

Remuneration Committee

The board has not established a remuneration committee. The board has formed the view, given its size and structure that it is more efficient for the board as a whole to deal with matters that would otherwise be dealt with by a remuneration committee.

Non- executive Director Compensation

The board policy is to compensate non-executive directors at a level that provides the Company with the ability to attract and retain directors with the experience and qualification appropriate to the development strategy of

Notes to the Financial Statements

For the year ended 30 June 2007

23. KEY MANAGEMENT PERSONNEL (cont'd)

the Company's Intellectual Property, whilst incurring a cost that is acceptable to shareholders.

The maximum aggregate amount of fees that can be paid to non-executive directors is determined by the company in accordance with its constitution and associated approvals. Directors' fees are reviewed annually.

Non-executive directors' fees are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

Executive Director Compensation

The board policy is to compensate executive directors at a level which provides the Company with the ability to attract and retain executives with the experience and qualification appropriate to the development strategy of the Company's Intellectual Property, whilst incurring a cost that is acceptable to shareholders.

Executive directors are paid a fixed salary per annum and do not receive directors fees. Compensation received by executive directors is not linked to the performance of the Company. However, to align directors interests with shareholder interests, executive directors are encouraged to hold shares in the company.

During the year, Dr Wolfgang Hanisch and Dr Andy Gearing were executive directors of the company. Both Dr Hanisch and Dr Gearing resigned as executive directors on 16 November 2006. Refer to Note 23(c) for further details.

As at the balance sheet date, there were no executive directors employed by the company.

Company Executive Compensation

It is the policy of the company to compensate executives with a level and mix of compensation commensurate with their position and responsibilities within the company. Company Executive salaries are not linked to the performance of the Company due to the Company's current activities only incurring research expenditure.

The employment conditions of all company executives of CBio Limited are formalised in contracts of employment. Other than the President, Global Development & Licensing, all key management personnel are permanent employees of CBio Limited.

Dr Dennis Feeney, President, Global Development & Licensing, is employed as a consultant to the company on an ongoing basis, with the terms of his appointment formalised in a service with the company. The agreement stipulates notice periods on termination of between 6 and 12 months. There is no provision in the agreement for the payment of any amounts on termination.

The employment contracts of CBio executives stipulate a range of resignation periods, between 1 to 12 months. In the instance of serious misconduct the company can terminate employment at any time. There is no provision for the payment of any termination payments other than accrued statutory entitlements.

Notes to the Financial Statements

For the year ended 30 June 2007

23. KEY MANAGEMENT PERSONNEL (cont'd)

(c) Directors Compensation

CBio Limited		Short-Term		Post	Long-	Termi-	Share-	Total
		Salary & Fees	Other	Employment Superannuation	Term	nation Benefit	Based Payment Value of Options	
		\$	\$	\$	\$	\$	\$	\$
S Jones	2007	209,010	-	1,260	-	-	-	210,270
	2006	116,858	-	1,260	-	-	30,000	148,118
S Streeter	2007	81,151	-	-	-	-	-	81,151
	2006	121,827	-	-	-	-	-	121,827
M Monsour (i)	2007	20,833	-	22,708	-	-	-	43,541
	2006	-	-	-	-	-	-	-
B Dulhunty (ii)	2007	10,833	6,000	975	-	-	-	17,808
	2006	-	-	-	-	-	-	-
W Hanisch (iii)	2007	50,258	-	105,113	-	299,750	-	455,121
	2006	207,878	-	93,976	-	-	30,000	331,854
A Gearing (iv)	2007	72,829	-	6,266	-	-	459,000	538,095
	2006	45,457	-	1,391	-	-	-	46,848
Controlled Entity								
S Jones (v)	2007	8,592	-	721	-	-	-	9,313
	2006	74,666	-	6,007	-	-	-	80,673
W Hanisch (v)	2007	13,607	-	793	-	-	-	14,400
	2006	113,394	-	6,606	-	-	-	120,000
M Verma (v)	2007	19,817	280	1,783	-	-	-	21,880
	2006	165,138	2,335	14,862	-	-	-	182,335
M Monsour (v)	2007	4,617	-	416	-	-	-	5,033
	2006	38,479	-	3,463	-	-	-	41,942
G Thomas (v)	2007	3,090	-	278	-	-	-	3,368
	2006	25,747	-	2,317	-	-	-	28,064

(i) M Monsour appointed 31 January 2007

(ii) B Dulhunty appointed 16 November 2006. Resigned 31 January 2007.

(iii) W Hanisch resigned 16 November 2006.

(iv) A Gearing resigned 16 November 2006.

(v) Includes an estimate of remuneration paid to directors from 1 July 2006 to 11 August 2006. On 11 August 2006, CBio ceased to have a controlling interest in BresaGen Limited. Refer Note 5 for further details.

Transactions with directors and director related entities

For details on transactions with directors and director-related entities, refer to Note 29 Related Party Transactions.

Notes to the Financial Statements

For the year ended 30 June 2007

23. KEY MANAGEMENT PERSONNEL (cont'd)

(d) Executive Remuneration

CBio Limited		Short-Term		Post	Long-	Termin-	Share	Total
		Salary & Fees	Other	Employment Superannuation	Term	ation Benefits	Based Payment Value of Options	
		\$	\$	\$	\$	\$	\$	\$
D Feeney	2007	228,319	-	-	-	-	-	228,319
	2006	183,333	-	-	-	-	-	183,333
J Yeates	2007	222,673	-	20,816	-	-	-	243,489
	2006	116,690	-	16,241	-	-	-	132,931
J Greig (i)	2007	93,888	-	8,450	-	-	15,840	118,178
	2006	-	-	-	-	-	-	-
B Johnson (ii)	2007	53,311	-	51,946	-	-	-	105,257
	2006	65,000	-	71,700	-	-	-	136,700
Controlled Entity								
J Yeates (iii)	2007	8,609	-	-	-	-	-	8,609
	2006	71,743	-	-	-	-	-	71,743
S Bastiras (iii)	2007	17,615	216	1,585	-	-	-	19,416
	2006	146,789	1,799	13,211	-	-	-	161,799
C Senn (iii)	2007	11,163	2,248	1,189	-	-	-	14,600
	2006	93,028	18,735	9,908	-	-	-	121,671
R Herrington (iii)	2007	4,679	-	421	-	-	-	5,100
	2006	38,991	-	3,509	-	-	-	42,500

(i) J Greig appointed Chief Financial Officer on 16 November 2006

(ii) B Johnson resigned 28 February 2007

(iii) Includes an estimate of remuneration paid to executives from 1 July 2006 to 11 August 2006. On 11 August 2006, CBio ceased to have a controlling interest in BresaGen Limited. Refer Note 5 for further details.

(e) Shareholdings

Shareholdings in CBio Limited

Director	Balance 1.7.06	Options Exercised	Purchased/ (Sold)	Balance 30.6.07
S Jones	1,190,033	-	-	1,190,033
S Streeter	-	-	-	-
M Monsour	1,094,292	-	619,442	1,713,734
B Dulhanty	-	-	-	-
W Hanisch	1,190,033	-	-	1,190,033
A Gearing	-	-	-	-

Notes to the Financial Statements

For the year ended 30 June 2007

23. KEY MANAGEMENT PERSONNEL (cont'd)

Executive	Balance 1.7.06	Options Exercised	Purchased/ (Sold)	Balance 30.6.07
J Yeates	-	-	-	-
D Feeney	-	-	-	-
J Greig	-	-	-	-
B Johnson	-	-	-	-

Shareholdings in Controlled Entity

On 11 August 2006, the Company sold a 19.95% stake in BresaGen Limited to Hopsira Holdings (S.A.) Pty Ltd. Effective from this date, CBio no longer held a controlling interest in BresaGen. Refer Note 5 Discontinued Operations for further information.

(f) Option Holdings

Options in CBio Limited

Director	Balance 1.7.06	Remuneration Options Granted	Acquired/ (Disposed)	Balance 30.6.07	Total Vested 30.6.07	Total Exercisable 30.6.07
S Jones	800,000	-	(500,000)	300,000	300,000	300,000
S Streeter	1,300,000	-	-	1,300,000	1,300,000	1,300,000
M Monsour	-	-	500,000	500,000	500,000	500,000
B Dulhanty	700,000	-	-	700,000	600,000	600,000
W Hanisch	800,000	-	-	800,000	800,000	800,000
A Gearing (i)	50,000	-	-	50,000	50,000	50,000
Executive						
J Yeates	1,000,000	-	-	1,000,000	1,000,000	1,000,000
D Feeney	1,000,000	-	-	1,000,000	1,000,000	1,000,000
J Greig	35,200	-	-	35,200	11,616	11,616
B Johnson	350,000	-	-	350,000	350,000	350,000

(i) 300,000 options were issued to Dr Andy Gearing during the year. These options were cancelled subsequent to Dr Gearings resignation as a director on 16 November 2006

Options in Controlled Entity

On 11 August 2006, the Company sold a 19.95% stake in BresaGen Limited to Hopsira Holdings (S.A.) Pty Ltd. Effective from this date, CBio no longer held a controlling interest in BresaGen. Refer Note 5 Discontinued Operations for further information.

24. COMMITMENTS

As at the balance date, the Company had unfinalised contracts involving pre-clinical and clinical studies and the production and supply of Cpn10 for use in research and development, pre-clinical and clinical studies. The estimated remaining contracted costs to finalise these contracts amount to approximately \$2,691,000.

Notes to the Financial Statements

For the year ended 30 June 2007

24. COMMITMENTS (cont'd)

\$2,300,000 of this expenditure is denominated in a foreign currency (United States dollars) and is fully unhedged. It is expected that these contracts will be finalised by 30 June 2008.

In 2005, the Company entered into a long-term property lease for purpose built facilities which expires in March 2012. Current lease payments are approximately \$454,000 per annum. A portion of these facilities have been sub-leased until November 2008 at current lease payments of approximately \$73,000 per annum.

On 30 March 2001, the company entered into a Royalty Agreement with CSL Limited (CSL). This agreement was entered into contemporaneously with the Deed of Assignment, an agreement which assigned CSL's rights to its Research Agreement with Uniquest Pty Ltd to CSL for payment of \$125,000. The Royalty Agreements stipulates that CBio is to pay royalties to CSL after commercialisation of products developed under the Research Agreement.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Company's financial instruments are credit risk and interest rate risk. The Board reviews and agrees policies for managing

Each of these risks and they are summarised below.

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.

The Company trades only with recognised, creditworthy third parties. The Company's exposure to credit risk is minimal.

Interest Rate Risk

The Company's exposure to interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates.

The Company's exposure to interest rate risk is minimal.

26. FINANCIAL INSTRUMENTS

Fair Values

The carrying value of financial instruments at 30 June 2007 and 2006 represent fair value.

Interest Rate

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

Notes to the Financial Statements

For the year ended 30 June 2007

26. FINANCIAL INSTRUMENTS (cont'd)

Financial Instruments as at 30 June 2007

	Weighted Average	Floating Interest Rate	Fixed Interest maturing within 1 year	Fixed Interest maturing in 1-5 years	Fixed Interest maturing more than 5 years	Non-Interest bearing	Total
Financial Assets							
- Cash	3.45%	155,708	-	-	-	-	155,708
- Receivables	3.50%	-	-	-	175,462	851,846	1,027,308
- Investments		-	-	-	-	1,585,129	1,585,129
Total Financial Assets		155,708	-	-	175,462	2,436,975	2,768,145
Financial Liabilities							
Trade and other payables		-	-	-	-	2,651,814	2,651,814
Loan	8.90%	200,000	-	-	-	-	200,000
Total Financial Liabilities		200,000	-	-	-	2,651,814	2,851,814

Financial Instruments as at 30 June 2006

	Weighted Average	Floating Interest Rate	Fixed Interest maturing within 1 year	Fixed Interest maturing in 1-5 years	Fixed Interest maturing more than 5 years	Non-Interest bearing	Total
Financial Assets							
- Cash	3.25%	419,802	-	-	-	-	419,802
- Receivables	3.5%	-	-	-	169,533	1,135,466	1,304,999
Total Financial Assets		419,802	-	-	169,533	1,135,466	1,724,801
Financial Liabilities							
Trade and other payables	7.5%	-	-	-	6,312	1,363,760	1,370,072
Long Term Loan	7.47%	-	596,895	-	6,481,387	-	7,078,282
Total Financial Liabilities		-	596,895	-	6,487,699	1,363,760	8,448,354

27. CONTINGENT ASSETS AND LIABILITIES

As a result of the disposal of the controlled entity BresaGen Limited in 2006, no contingency exists with respect to the BresaGen Secured Convertible Note Facility which was previously in existence.

28. SEGMENT REPORTING

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

Notes to the Financial Statements

For the year ended 30 June 2007

28. SEGMENT REPORTING (cont'd)

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Business segments

The consolidated entity comprises the following main business segments, based on the consolidated entity's management reporting system:

Research & Development Research & Development of treatments for inflammatory and autoimmune diseases.

Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographic location of customers. Segment assets are based on the geographical location of the assets.

The consolidated entity's business segments operate geographically as follows:

Australia Income from the consolidated entity's research & development program

Primary Reporting	Research & Development		Consolidated (Continuing Operations)		Discontinued Operations (Protein/Pharmaceutical Operations)	
	2007	2006	2007	2007	2007	2006
Business Segments						
Revenue						
Total Segment Revenue	6,747,544	2,163,501	1,817,576	2,163,501	67,711	2,644,040
Total Revenue	6,747,544	2,163,501	1,817,576	2,163,501	67,711	2,644,040
Result						
Segment Result	(11,100,671)	(11,833,967)	(16,030,639)	(11,833,967)	(254,535)	(291,455)
Net Profit	(11,100,671)	(11,833,967)	(16,030,639)	(11,833,967)	(254,535)	(291,455)
Depreciation and amortisation	318,467	229,042	318,467	229,042	77,686	661,926

Notes to the Financial Statements

For the year ended 30 June 2007

28. SEGMENT REPORTING (cont'd)

	Research & Development		Consolidated (Continuing Operations)		Discontinued Operations (Protein/Pharmaceutical Operations)	
	2007	2006	2007	2006	2007	2006
Non-cash expenses other than depreciation and amortisation	2,000,003	1,661,643	2,000,003	1,661,643	48,383	97,930
Assets						
Segment Assets	3,735,730	4,924,396	3,735,730	4,924,396	-	9,022,761
Consolidated total assets	3,735,730	4,924,396	3,735,730	4,924,396	-	9,022,761
Liabilities						
Segment liabilities	3,020,451	1,032,510	3,020,451	1,032,510	-	8,080,402
Consolidated total liabilities	3,020,451	1,032,510	3,020,451	1,032,510	-	8,080,402
Cash Flow						
Operating	(12,024,525)	(10,407,354)	(12,024,525)	(10,407,354)	(231,125)	(1,460,343)
Investing	7,373,583	(604,427)	7,373,583	(604,427)	(284,027)	(485,951)
Financing	4,567,534	10,737,428	4,567,534	10,737,428	334,466	817,693
Total cash flows	(83,408)	(274,353)	(83,408)	(274,353)	(180,686)	(1,128,601)

29. RELATED PARTY TRANSACTIONS

Mr Stephen Streeter is the principal fundraiser of the Company. During the year, fees totalling \$108,000 (2006: \$333,204) were paid or were payable to S & M Streeter Investments for raising \$3,600,000 (2006: \$12,224,354) in new capital for the company. The balance outstanding at the balance date in relation to these fees was \$nil. (2006: \$9,226)

During the year, the Company paid consulting fees of \$nil (2006: \$67,500) to BioComm International Pty Ltd, and \$50,191 (2006:\$nil) in consulting fees and costs to BioComm Square Pty Ltd, companies associated with Dr Andy Gearing. These fees relate to services provided whilst Dr Gearing was not a director and were charged to the Company on normal commercial terms. Payments are usually settled on 30 day terms and the balance outstanding at the balance date was nil.

During the year, the Company received \$200,000 from MPAMM Pty Ltd, a company associated with Dr Michael Monsour, by way of a non-interest bearing loan. The loan is repayable in full on 30 September 2007 unless otherwise agreed by both parties.

Notes to the Financial Statements

For the year ended 30 June 2007

29. RELATED PARTY TRANSACTIONS (cont'd)

During the year, the Company advanced \$1,684,000 to Australian Technology Innovation Fund Limited ("ATIF") by way of an interest-bearing loan. The amount payable by ATIF as at 30 June 2007 was \$160,459 (2006:\$10,000) which included both principal and accrued interest.

Up until the date of loss of control, the Company was charged \$nil (2006: \$2,929,663) by the controlled entity BresaGen Limited for the production and supply of its clinical trial drug, Cpn10.

Up until the date of loss of control, the Company received consulting revenue of \$12,500 (2006: \$120,204) from BresaGen for the provision by CBio of consulting services by the company's Chief Financial Officer.

In July 2006, the company was repaid in full a \$200,000 loan by BresaGen Limited.

Transactions with BresaGen up until the date of loss of control have been eliminated in the preparation of the consolidated accounts of the company.

30. SUBSEQUENT EVENTS

Since balance date, \$1,066,515 has been raised in share capital at \$5 per share.

CBio acquired a further 4,649,530 shares in Viralytics Limited in exchange for the issue of 84,540 shares in CBio.

On July 18, 470,000 options were granted with an exercise price of \$5 per option and 250,000 options were granted with an exercise price of \$3 per option. These options all expire on July 18, 2012.

Since the balance date, Australian Technology Innovation Fund Limited has paid the Company \$240,000. \$94,000 was for the repayment of a loan from CBio, \$66,459 the payment of accrued interest on the loan and \$79,541 was a loan to CBio. The loan to CBio is non-interest bearing and is repayable on demand.

Subsequent to balance date, 15 convertible notes were issued under a Convertible Note Deed dated 30 August 2007. The notes have a face value of \$100,000 each and interest of 8% per annum is payable semi-annually.

31. CORPORATE STRUCTURE

CBio Limited is a company limited by shares that is incorporated and domiciled in Australia. CBio Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year.

The registered office and principal place of business is:

CBio Limited
85 Brandl St
Eight Mile Plains, QLD, 4113

CBIO LIMITED

For the year ended 30 June 2007

Directors' Declaration

In accordance with a resolution of the directors of CBio Limited, I state that:

(1) In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
 - (ii) complying 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.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2007.

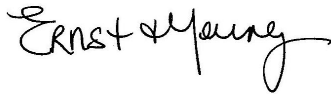
On behalf of the Board

Stephen Jones
Executive Chairman

Date: 28 September 2007

Auditor's Independence Declaration to the Directors of Cbio Limited

In relation to our audit of the financial report of Cbio Limited for the financial year ended 30 June 2007, 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 Brown
Partner
28 September 2007

Independent auditor's report to the members of CBio Limited

We have audited the accompanying financial report of CBio Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

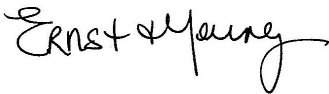
Auditor's Opinion

In our opinion the financial report of CBio Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the financial position of CBio Limited and the consolidated entity at 30 June 2007 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1(d) in the financial report which indicates that the company has net current liabilities of \$351,613 (2006: \$27,023) and incurred operating losses after income tax of \$11,100,671 (2006: \$11,833,967) for the year ended 30 June 2007. These conditions, along with other matters set forth in Note 1(d), indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.



Ernst & Young



Winna Brown
Partner
Brisbane
28 September 2007