

# RIGHTS ISSUE PROSPECTUS

CBio Limited  
ACN 094 730 417

A non-renounceable rights issue of approximately 3,940,543 New Shares on the basis of one (1) New Share for every ten (10) Shares held at an issue price of \$1.00 per New Share.

This document is important and requires your immediate attention. If after reading this prospectus you have any questions about the new Shares being offered pursuant to this Prospectus or any other matter, you should consult your professional adviser.

This Offer closes at 5.00pm AEST on 28 November 2008
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**An investment in the New Shares offered by this Prospectus should be considered speculative.**



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## LETTER FROM THE CHAIRMAN

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Dear Shareholder

I am pleased to offer you a subscription for New Shares in CBio Limited.

The Company is conducting a non-renounceable rights issue of 1 New Share for every 10 existing Shares at an Issue Price of \$1.00 to raise up to approximately \$3.9 million.

This offer is the first stage of a funding round under which the Directors' currently intend to target raising an aggregate of up to \$10 million. The cumulative raising may for example incorporate further or separate placement offers to existing shareholders, sophisticated and professional investors and overseas institutions outside of the rights issue offer constituted by this Prospectus. The rationale for this capital raising strategy is set out below and in this Prospectus.

Shareholders will be aware that CBio has entered into an agreement with the multi-national pharmaceutical company, Novo Nordisk A/S. The funds raised from this current capital raising will be applied to working capital needs to further progress the 150 patient rheumatoid arthritis clinical trial.

The Directors believe that sufficient positive trial results will be persuasive for Novo Nordisk A/S to in-license CBio's Cpn10 technology and undertake in-house development of XToll®.

The Directors further believe it may be possible that sufficient positive trial results can be generated prior to the full recruitment of 150 patients into the study.

The previous clinical trial in rheumatoid arthritis, though unsatisfactory from a drug development point of view, produced data which if reproduced in the current placebo controlled trial will, in the Directors' opinion, potentially satisfy Novo Nordisk A/S and have them effectuate terms of the transaction agreed with CBio for the continued development of XToll®.

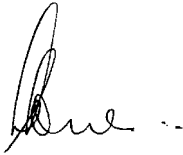
Nothing in drug development is certain and results may not be as hoped and it is this scenario that has dictated the Board's decision to raise approximately \$3.9 million.

Simply put, if the drug produces good data and Novo Nordisk A/S takes on the development of XToll® in-house earlier than trial design completion, then dilution is kept to a minimum because further capital raisings from shareholders will not likely be necessary in relation to the development of XToll®.

If however the results are equivocal or negative then the size of the raising under this Prospectus will minimise the risk of excess capital having been raised. The Directors believe this is the most prudent strategy to balance the financial and commercial risks in the current circumstances. If the results are equivocal or negative then the Board will examine the future prospects of the Company.

I encourage you to read this Prospectus in full and recommend this investment opportunity to you. I hope for your continued participation in the Company's future growth as a shareholder.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Stephen Jones', with a small flourish at the end.

Stephen Jones  
Executive Chairman

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## 1. IMPORTANT INFORMATION

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### **Important Notice**

Investment in the New Shares that are offered under this prospectus should be considered speculative. Applicants should read this Prospectus in its entirety before deciding to apply for the New Shares. If, after reading this Prospectus, you have any questions as to how to deal with this Prospectus, you should contact your stockbroker, solicitor, accountant or professional adviser.

### **Important Information**

This Prospectus is dated 31 October 2008, and was lodged with ASIC on 31 October 2008 with the consent of all the Directors. No New Shares will be allotted or issued on the basis of this Prospectus after the expiry date of this Prospectus, being 13 months after the date of this Prospectus.

Neither ASIC nor its officers take any responsibility for the contents of this Prospectus. This Prospectus has been lodged in Australia and no action has been taken by the Company to lodge this Prospectus in any jurisdiction outside of Australia. The Entitlement and Acceptance Form accompanying this Prospectus is important. Please refer to the instructions in section 8 of this Prospectus regarding the acceptance of your Entitlement. Applications can only be submitted on a valid Entitlement and Acceptance Form (or on the Shortfall Application Form where relevant) that is only available with this Prospectus. This Prospectus is not to be distributed in, and no offer of New Shares is to be made in countries other than Australia. Applicant residents outside Australia should consult their professional adviser as to whether any consents are required or whether any formalities need to be observed in the jurisdiction of their residence to enable them to accept their Entitlement pursuant to the Offer.

This Prospectus does not constitute an offer in any place where, or to any person to whom, it would not be lawful to make an offer. The distribution of this Prospectus in jurisdictions outside the Commonwealth of Australia may be restricted by law and Shareholders in those jurisdictions should seek advice on and observe all applicable restrictions. Any failure to comply with applicable restrictions may constitute a violation of applicable securities laws.

This document is important and should be read in its entirety before deciding to participate in the Offer. This Offer does not take into account your investment objectives, financial or taxation situation or particular needs. Before making any investment in the Company, you should consider whether such an investment is appropriate to your particular needs, objectives and financial circumstances and you should consult your stockbroker, solicitor, accountant or other professional adviser without delay. By returning an Entitlement and Application Form and/or the Shortfall Application Form, you acknowledge that you have received and read this Prospectus and you have acted in accordance with the terms of the Offer detailed in this Prospectus.

All references to currency are to Australian dollars and all references to time are to AEST, unless otherwise indicated. Capitalised terms in this Prospectus are defined in the Glossary.

**Exposure Period**

The Corporations Act prohibits the acceptance of applications under the Offer during the period of 7 days after lodgement of this Prospectus (which may be extended by ASIC to a period of 14 days). This period is referred to as the Exposure Period. The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the opening of the Offer. Entitlement and Application Forms, and Shortfall Application Forms, received during the Exposure Period will not be accepted until after the expiry of that period. No preference will be conferred on applications received during the Exposure Period. This Prospectus (but not the Entitlement and Application Form, and Shortfall Application Form) will be made generally available during the Exposure Period at the Company's website, [www.cbio.com.au](http://www.cbio.com.au).

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## 2. COMPANY UPDATE

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### **Commencement of Phase IIa clinical trial in Rheumatoid Arthritis using lead product, XToll®**

CBio is undertaking a 150 patient Phase IIa clinical trial in rheumatoid arthritis (RA). Dosing commenced in June 2008, and at the date of this Prospectus 19 patients were recruited into the trial. The study is CBio's largest clinical trial undertaken to date and the first subcutaneous dosing clinical trial in patients with RA. This follows from the intravenous dosing RA clinical trial completed in 2006. The study is designed to evaluate the safety and efficacy of XToll® using a randomised, double-blind, placebo-controlled design in subjects with rheumatoid arthritis. Each subject will receive their designated dose of XToll® or placebo twice weekly over the 12 and 24 week treatment period and will be monitored closely throughout. The study is being conducted throughout Australia and New Zealand.

### **Commercial Agreement with multinational pharmaceutical company, Novo Nordisk A/S**

CBio has concluded a commercial agreement with Novo Nordisk A/S relating to the future development of its Cpn10 (XToll®) intellectual property. Should the current Phase IIa clinical trial prove successful, then it is anticipated that this strategic relationship could potentially provide for a development pathway for XToll® and all other possible Cpn10 drug variants.

### **Intellectual Property Portfolio**

CBio continues to strengthen the intellectual property (IP) position surrounding its Cpn10 technology through new provisional patent submissions. CBio's IP portfolio consists of 41 patents in four families that have been granted, and a further 74 patents across six families which are pending. These patents are currently being examined in all key international markets. The "composition of matter" patent for XToll® has been granted in Australia, New Zealand, Singapore and India and is currently being examined in the United States and Europe. This patent has an expiry date of 2023 and is the cornerstone IP of CBio Limited.

### **Recognition of potential therapeutic benefits through peer review in respected medical journals**

To date, phase I and phase IIa clinical trials have been completed in RA, psoriasis and multiple sclerosis. Results from the early RA trial were published in *The Lancet*, ([Vanags et al, Lancet 2006; 368: 855-63](#)). Data for activity in psoriasis was published in *Archives of Dermatology* (2008; 144: 683-685). Multiple sclerosis data has been accepted for publication in the *Multiple Sclerosis* journal.

### **Experienced Board and advisors to the Board**

In 2007, CBio welcomed to its Board of Directors Dr Goran Ando, Vice Chairman at Novo Nordisk; Dr Peter Corr, General Partner at Celtic Therapeutics (formerly Senior Vice President at Pfizer); and Professor John Funder, Professor of Medicine at Monash University. CBio's board is supported by scientific advisors with international reputations in the autoimmune field including Professor Peter Brooks, Executive Dean of Health Sciences at the University of Queensland; Dr Andreas Suhrbier, Head of the Queensland Institute of Medical Research Immunovirology Laboratory; Dr Eicke Latz, Assistant Professor at the Department of Infectious Diseases and Immunology, University of Massachusetts; and Dr Pam McCombe, Senior Research Fellow - Neuroimmunology Research Unit, Department of Medicine, University of Queensland.

“Chaperonin 10 is from the heat shock protein family. Heat shock protein levels in the body automatically rise in conditions of stress, for example a fever or infection, and help the body heal itself. If we can successfully work with the body and its own self-healing processes we can potentially open up a new frontier in medicine.”

**Dr Dean Naylor - Biochemist and Head of CBio's  
Intellectual Property Development**

“This preliminary study, if confirmed, offers exciting new possibilities for therapy.”<sup>1</sup>

**Dr Paul Emery, Leeds Institute of Molecular Medicine,  
University of Leeds**

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<sup>1</sup> On review of the results of the Company's early Phase II rheumatoid arthritis clinical trial, Dr Paul Emery wrote in The Lancet “This preliminary study, if confirmed, offers exciting new possibilities for therapy.” Paul Emery, Frederique Ponchel. Lancet 2006; 368:821-822

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### 3. KEY DETAILS OF THE OFFER

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#### 3.1. Description of the Offer

CBio Limited is seeking to raise approximately \$3.9 million through a non-renounceable rights issue of approximately 3,940,543 New Shares on the basis of 1 New Share for every 10 Shares held, at an issue price of \$1.00 per New Share.

The Offer will provide current eligible Shareholders an opportunity to acquire new Shares in the Company so as to fund further development of CBio's leading drug candidate, XToll<sup>®</sup>. Eligible shareholders have the right to apply for one (1) New Share for every ten (10) held as at the Record Date, being 5.00pm (AEST), 7 November 2008. In addition, shareholders may apply for additional Shares over and above their entitlement. Existing Option holders cannot participate in this Offer unless they have exercised the Options before the Record Date.

#### 3.2. Important Dates

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Event	Date
Lodgement of Prospectus with ASIC	31 October 2008
Record Date to determine entitlement to New Shares	7 November 2008
Prospectus and Entitlement and Acceptance Shortfall Application Forms despatched	12 November 2008
Closing date for acceptance and payment of Issue Price	28 November 2008
Allotment date on or before	5 December 2008
Shortfall Closing date for placement of shortfall New Shares	4 March 2009

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All dates and times are subject to change and are indicative only. All times are AEST. The Company reserves the right to vary these dates and times without prior notice, including the right to close the Offer early, or to withdraw the Offer, or to accept late Applications. Applicants are encouraged to submit their Application Form as soon as possible.

### 3.3. Purpose of the Offer and Utilisation of Funds

The purpose of the Offer is to allow existing shareholders to participate at \$1.00 per New Share to raise up to \$3.9 million to be applied to the working capital requirements to further progress the 150 patient RA clinical trial, with the objective of recruiting sufficient patient numbers to generate sufficient data to cause Novo Nordisk A/S to effectuate terms of the Agreement between Novo Nordisk A/S and CBio and take the drug development of XToll® in-house.

	<b>Funds raised</b>
	<b>\$m</b>
Further progress phase IIa clinical trial in Rheumatoid Arthritis including product costs	2.2
Intellectual Property patent costs	0.3
Research and development and operational costs:	
- Personnel	0.4
- Laboratory, office and administrative costs	0.3
- Compliance and other corporate costs	0.4
Expenses related to this capital raising	0.3
<b>Total Use of Funds</b>	<b>3.9</b>

There is no minimum funding set in this Prospectus. It is intended that funds raised will be part of an overall funding round aggregating to approximately \$10 million. As a public company, CBio has available to it a number of potential debt and equity raising opportunities. It is likely the balance of the \$10 million funding will be raised by further or separate placement offers to existing shareholders, sophisticated and professional investors and overseas institutions outside of the rights issue offer constituted by this Prospectus.

In the event that less than \$3.9 million is raised, the Company will prioritise funding to expenses of the raising and otherwise minimise its working capital costs, with the priority towards progressing the Phase IIa clinical trial in rheumatoid arthritis.

### 3.4. Terms of New Shares

Shares issued under this offer rank *pari passu* with existing Shares on issue. The rights and liabilities attaching to all Shares are detailed in the Company's constitution.

### 3.5. Withdrawal

The Company reserves the right to withdraw the Offer, at any time before the allotment of New Shares. If the Offer does not proceed, Application Monies will be refunded. No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.

### 3.6. Shareholders resident outside Australia

The Company will only extend the Offer to Shareholders with registered addresses in Australia. The Company considers it would be unreasonable to extend the Offer to

Shareholders with registered addresses in other jurisdictions having regard to the small number of such Shareholders, the small number and value of securities that would be offered in such jurisdictions and the costs of complying with legal and regulatory requirements in those jurisdictions.

It is the responsibility of any person who comes into possession of this Prospectus outside Australia to ensure compliance with all laws of any country relevant to their Application. Any person not in Australia considering taking up their entitlement and Shareholders who are resident outside those countries should consult their professional advisers as to whether or not any governmental or other consents are required, or if other formalities need to be observed, to enable them to apply for the New Shares under this Prospectus.

This Prospectus does not constitute an offer in the United States or in any place in which, or to any person to whom, it would not be lawful to make such an offer.

### **3.7. Underwriting**

The Offer is not underwritten.

### **3.8. Allotment**

The date for the New Shares allotted as a result of the Offer is expected to be no later than 5 December 2008. All Shareholders who accept the Offer will receive their Entitlement in full. If more New Shares are applied for than are available from the shortfall under the Offer, the Company will scale back those Applications in its absolute discretion and excess application money will be refunded without interest.

The Company may seek to place Shortfall New Shares which are not applied for by Shareholders under the Offer at its discretion. Such Shortfall New Shares must be issued within 3 months of the Closing Date.

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## 4. DETAILED INVESTMENT INFORMATION

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### 4.1. Company Overview

CBio Limited is an Australian unlisted public biopharmaceutical company with headquarters in Brisbane, Australia. CBio was established in 2000 to develop and commercialise treatments for autoimmune diseases.

In 2001, extended preclinical studies at the University of Queensland concluded that a heat shock protein identified as chaperonin 10 played a key role in down-regulating the innate immune response in patients during pregnancy. Further research suggested that chaperonin 10 appeared to intercede at a very early stage of the inflammatory process to prevent the over-expression of inflammatory cytokines. Based on this research, CBio acquired a worldwide exclusive licence for the chaperonin 10 intellectual property, and now has an extensive IP portfolio surrounding the technology.

The registered trademark for CBio's patented lead molecule is XToll®.

CBio has evolved from a research based operation into a drug specific development organisation. This strategic transformation is the result of the recruitment and appointment of Board, management and staff with drug development expertise and capabilities.

Since incorporation, CBio has achieved a number of significant development milestones, including:

- The development and trial of a biologically active, genetically-modified variation of native chaperonin 10 known as recombinant chaperonin 10 (Cpn10), or XToll® that has shown good safety and efficacy to date.
- Holding the worldwide license over the therapeutic and other uses of the heat shock protein chaperonin 10 and its derivatives.
- A 'composition of matter' patent has been issued in Australia, New Zealand, Singapore and India and is pending in all other key international territories for XToll® which will, if granted in each territory, have an expiry date of 2023, with an extension to 2028 once XToll® is registered.
- Completion of Phase I intravenous administration studies of XToll® in 50 humans. In these studies, biological action was noted with no evidence of a pattern of serious adverse events.
- Completion of three early human Phase IIa trials in rheumatoid arthritis (23 patients), Psoriasis (24 patients), and multiple sclerosis (50 patients) with good safety demonstrated in these studies and determination of clear clinical efficacy in Phase IIa clinical trials in RA and psoriasis.

Results from the early RA and psoriasis clinical trials are published in the leading international medical journals, The Lancet, (Vanags et al, Lancet 2006; 368: 855-63) and

Archives of Dermatology (2008; 144: 683-685). Results from the multiple sclerosis clinical trial have been accepted for publication in the Multiple Sclerosis journal.

- Safe completion of a Phase I subcutaneous dosing clinical trial of XToll® in human volunteers, again with biological action noted whilst being well tolerated.
- The completion of six supportive toxicology studies in two species to support the clinical program.
- A strong science-driven IP portfolio that consists of 41 patents across four families registered or accepted, and a further 74 patents across six families currently being examined.
- The appointments of Dr Goran Ando (Novo Nordisk), Dr Peter Corr (Celtic Therapeutics, New York Academy of Sciences, formerly Pfizer), and Professor John Funder (Professor of Medicine, Monash University) to the Board.
- The commencement of the Phase IIa (proof-of-principle) placebo-controlled subcutaneous dosing clinical trial in rheumatoid arthritis.
- Entering into a commercial agreement with Novo Nordisk A/S regarding to the future development of the Company's Cpn10 (XToll®) intellectual property.

CBio has its headquarters in Brisbane, Australia, with purpose built premises at 85 Brandl Street, Eight Mile Plains. At the date of this Prospectus, the Company employed 27 full-time equivalent staff. CBio contracts its preclinical toxicology studies, some preclinical research, drug substance production and manufacture, and its clinical trial operations to third parties.

## **4.2. Company Strategy**

The strategy of the Company is to continue the development of XToll® through a successful Phase IIa (proof-of-principle) clinical trial in rheumatoid arthritis with the objective being to realise the commercial value of its primary asset. Successful results from the current clinical trial could potentially enable CBio to out-license its Cpn10 technology to Novo Nordisk A/S (or another major pharmaceutical company) to continue the development of XToll® and other potential drug candidates of the Cpn10 technology. Concurrently, the Company continues to strengthen the intellectual property position surrounding its Cpn10 asset by pursuing patent protection in major jurisdictions.

### **Advancement of the XToll® clinical development program**

In May 2008, CBio commenced a placebo-controlled, subcutaneous dosing, Phase IIa (proof-of-principle) clinical trial to assess the efficacy of XToll® administered via a commercially acceptable administration method, in subjects with RA. The clinical end points of this trial will measure the effectiveness of XToll® when administered subcutaneously. External clinical and statistical advice has been sought and received by CBio regarding trial design.

Trial details:

- a multi-centre, randomised, double-blind, placebo-controlled, parallel group Phase IIa (proof of principle) clinical trial
- 3 month dosing; 3 arms, 50 patients per arm
- clinical endpoints based on measurements accepted for measurement of disease severity by regulatory bodies in target territories (ACR, DAS, QOL)
- trial being conducted in Australia and New Zealand

Trial status:

- Principal Investigator is Dr Peter Nash, University of Queensland
- Dosing commenced in June 2008
- 14 trial sites initiated and recruiting, with further sites being considered
- Heavy pre-screening activity across the study
- 19 patients currently on study
- Comprehensive communications campaign implemented to further encourage recruitment into the trial

### **Strengthening of IP Portfolio**

The continual enhancement of CBio's IP portfolio is a primary business objective. CBio has lodged provisional international patent applications in all key international markets to provide protection around genetically modified variants of Cpn10. The Company has designed and continues to implement an enhanced science-driven IP programme that will strengthen patent protection around its platform technology.

### **4.3. XToll® Technology**

Australia has a long history of achievement in health and medical research: of the ten Nobel prizes awarded to Australians, nine have been in the fields of science and medicine.<sup>2</sup>

In the early 1990s, Dr Halle Morton and Dr Alice Cavanagh from the University of Queensland identified a protein which they believed offered a breakthrough for people with autoimmune diseases such as rheumatoid arthritis. The protein was identified as chaperonin 10.

Chaperonin 10 is a naturally occurring protein present in all cells that, in conjunction with chaperonin 60, performs the essential housekeeping role of protein folding, i.e. it helps proteins develop into exactly the right shape required for them to work effectively.

CBio has demonstrated that recombinant chaperonin 10 (Cpn10, or XToll®) has an immunomodulatory function in addition to this well established protein folding activity (Johnson et al., 2005 J.Biol.Chem 280: 4037-4047).

CBio has completed Phase I studies with both intravenous and subcutaneous administration, and three intravenous dosing Phase IIa clinical trials in RA, psoriasis and multiple sclerosis.

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<sup>2</sup> Department Foreign Affairs and Trade "Australia's Nobel Prize Winners"  
[http://www.dfat.gov.au/facts/nobel\\_prize\\_winners.html](http://www.dfat.gov.au/facts/nobel_prize_winners.html) Updated January 2008.

Data from CBio's studies and clinical trials demonstrated that XToll<sup>®</sup> is well tolerated when administered by intravenous injections at doses of 5mg, 7.5mg and 10mg twice per week over 12 weeks.

In the intravenous dosing Phase IIa clinical trials, all of the primary endpoints were met and evidence of clinical efficacy was established in RA and psoriasis. Although the multiple sclerosis study had the lowest doses of XToll<sup>®</sup> of the three clinical studies, a trend towards fewer new lesions was observed and reported.

XToll<sup>®</sup> was well tolerated in all three studies and the results of the RA study were fast-track published in *The Lancet* in September 2006.<sup>3</sup> The psoriasis data was published in *Archives of Dermatology* in May 2008.

No placebo control arm was used in the RA and psoriasis clinical trials as they were intended to form the basis for the design of larger definitive clinical trials in the event that clinical efficacy was determined.

CBio's small Phase IIa clinical trial in RA suggests that XToll<sup>®</sup> may be as efficacious as the leading biologic therapies currently used to treat RA patients, and it has been very well tolerated in all clinical studies to date.

The Board considers these characteristics of efficacy and a promising safety profile target the unmet needs of rheumatoid arthritis patients, and will underpin the commercial success of XToll<sup>®</sup>.

#### **4.4. Positioning in the market**

In 2006, the biotechnology drug market accounted for approximately 25% of the total drugs available in the global drug market, and these generated revenues of over US\$85 billion in that year. This market also accounted for 25% of the 100 top-selling drugs<sup>4</sup>.

One of the largest therapeutic areas in the biotechnology drugs market is in autoimmune and inflammatory diseases.

##### **Autoimmune & inflammatory disease market**

A healthy immune system that is working correctly will defend the body and fight infections caused by bacteria, viruses and other organisms by generating a controlled inflammatory response.

In people suffering from autoimmune diseases however, the body's tissues are mistakenly attacked by the immune system. One of the primary side effects of autoimmune conditions is chronic or uncontrolled inflammation. Examples of the most prevalent autoimmune diseases are rheumatoid arthritis (RA), systemic lupus erythematosus (SLE or lupus), inflammatory bowel disease (IBD), psoriasis and asthma.

In recent years, biological therapeutics for autoimmune diseases have taken significant market share from traditional treatments which use immunosuppressive drugs such as

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<sup>3</sup> Vanags et al, *Lancet* 2006; 368: 855-63

<sup>4</sup> AHC Media LLC, *BioWorld Top 25 Biotechnology Drugs Report*, 2007

corticosteroids (steroids) and cytotoxics. These traditional treatments have shown limited efficacy and severe side effects that in some cases can be as unacceptable as the disease itself. The development of biologics for treatment of autoimmune diseases has therefore had a profound effect for patients.

Biologics are now the leading therapeutics for rheumatoid arthritis, systemic lupus erythematosus and inflammatory bowel disease. This could soon be the case for psoriasis as well.<sup>5</sup>

The value of biological drugs indicated for autoimmune & inflammatory diseases, which affect up to 5% of the world population, was roughly US\$11 billion in 2005.<sup>6</sup> By 2010, estimates are that this market will have grown to roughly US\$23 billion.<sup>7</sup>

### **Rheumatoid Arthritis Market**

The indication with the largest market value in the autoimmune & inflammatory field is RA. Nearly all of the anticipated growth in the autoimmune & inflammatory diseases market is from growth in the RA market.

RA is a systemic disease that is characterised by the inflammation of the synovial membrane lining the joint, which causes pain, stiffness, warmth, swelling and redness. It affects the entire body and is one of the most common forms of arthritis. RA is known to affect between 0.4% and 2% of the world's population.<sup>8</sup>

Global sales for biological therapies for RA were approximately US\$8.6 billion in 2005<sup>9</sup>. An industry report by analysts Lehman Brothers estimates that the biological drugs market for RA would sustain double digit growth per annum<sup>10</sup>, to a projected market value of over US\$20 billion by 2011.<sup>11</sup>

This market is currently dominated by three drugs - Remicade<sup>12</sup>, Enbrel<sup>13</sup> and Humira<sup>14</sup>. In 2007, the combined annual revenues for these drugs was over \$7.8 billion.

### **XToll<sup>®</sup> in the market: efficacy, safety, dosing and price**

CBio's lead product, XToll<sup>®</sup>, is targeted to address the current market of the registered *bDMARD* therapies as a monotherapy or first line combination therapy for RA.

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<sup>5</sup> Winterfield et al. *Annals of the Rheumatic Diseases* 2005;64:ii87-ii90

<sup>6</sup> Arrowhead 'Biotech in Autoimmune/Inflammatory Disease', p22

<sup>7</sup> Arrowhead 'Biotech in Autoimmune/Inflammatory Disease', p23

<sup>8</sup> Arrowhead 'Rheumatoid Arthritis Therapeutics', p13

<sup>9</sup> Arrowhead Publishers *Rheumatoid Arthritis Therapeutics: Market Trends and R&D Insights* 2006, p51

<sup>10</sup> Lehman Brothers Equity Research, *Major Pharmaceuticals*, 2 July 2007, p11

<sup>11</sup> Lehman Brothers, p1

<sup>12</sup> Remicade generated revenues of \$1.6 billion in 2007. Source: Schering Plough 2007 Annual Report.

<sup>13</sup> Enbrel generated revenues of \$3.2 billion in 2007. Source: Amgen 2007 Annual Report.

<sup>14</sup> Humira generated revenues of more than \$3 billion in 2007. Source: Abbott 2007 Annual Report.

Literature supports the view that 30-40% of patients with established RA do not respond clinically to current registered biological therapies<sup>15</sup>, including the blockbuster anti-TNF therapies Enbrel, Remicade and Humira, and that there remains a significant unmet need for new, clinically efficacious therapies for RA.<sup>16</sup>

The Lehman Brothers report further asserts that new therapies that can provide increased efficacy and/or safety, with attractive dosing schedules and delivery methods at the right price can expand the market while gathering market share.<sup>17</sup>

Existing disease modifying treatments for rheumatoid arthritis act as 'blocking agents' or 'antibodies' to inflammatory pathways. This 'blocking' affects the immune system and can leave the body open to infection.

Cpn10 / XToll<sup>®</sup> however has a novel mode of action, and works in a different way to current registered therapies. Rather than completely 'blocking' inflammatory pathways, it acts to 'down-regulate' their activity. By working in this way, XToll<sup>®</sup> appears to treat the disease and relieve associated pain, but continues to keep the immune system active so that it can continue to protect the body.

Further, early data suggests that XToll<sup>®</sup> may potentially present a better safety profile than the current leading registered therapies, whilst being at least as effective. XToll<sup>®</sup> is also cost effective to manufacture, and early research shows that a commercially acceptable delivery method and frequency is possible.

XToll<sup>®</sup> therefore has the potential to address the unmet needs of RA patients, and target other opportunities in the autoimmune & inflammation market.

### **Platform Technology – multiple diseases states, multiple molecules**

In addition to the evidence of clinical effect in rheumatoid arthritis patients with well-established disease,<sup>18</sup> the therapeutic benefits of XToll<sup>®</sup> in another indication, psoriasis, have been recognised<sup>19</sup>, raising the possibility that it may also modulate inflammation in a range of therapeutic areas.

Further, CBio has developed and implemented IP protection associated with other variants of native chaperonin 10, and is pursuing research on a number of these pipeline assets. Pre-clinical studies have shown that these molecules have different immunomodulatory characteristics from XToll<sup>®</sup>, thereby showing potential as therapeutic drug candidates and a potential drug development platform.

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<sup>15</sup> Voll, RE and Kalden, JR. Autoimmune Diseases and Treatment: Organ-Specific and Systemic Disorders, Annals of New York Academy of Sciences. 1051:799–810, 2006, p800

<sup>16</sup> Selective Costimulation Modulators: Addressing Unmet Needs in Rheumatoid Arthritis Management. Emery et al, Medscape General Medicine 2005; 6(4 Suppl):1

<sup>17</sup> Lehman Brothers, p24

<sup>18</sup> Vanags et al, Lancet 2006; 368: 855-63

<sup>19</sup> Arch Dermatol, 2008; 144: 683-685

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## 5. BOARD OF DIRECTORS

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### **Stephen Jones, Executive Chairman**

Stephen Jones is a founding director of CBio and was appointed as chairman in 2001. Mr Jones has extensive hands-on management experience in redirecting unsuccessful companies back onto a positive track. He has primarily been involved in corporate recovery and reconstruction – including International Card Systems Australia Limited, a credit card provider; Greyhound Pioneer Australia Limited (Transport and Tourism); and Bresagen Limited (Biotechnology).

Mr Jones has been involved with several public capital raisings totalling in excess of \$100 million 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. Mr Jones has served on the Boards of several listed public companies including Greyhound Pioneer Australia Limited, Analytica Limited, Psiron Limited and Bresagen Limited, and is chairman of Australian Technology Innovation Fund Limited, CBio's single largest shareholder.

### **Jason Yeates, Managing Director and Chief Executive Officer**

Mr Yeates joined CBio as Chief Financial Officer in 2004. Soon afterwards he assumed the role of Chief Operating Officer, and was then elevated to the position of CEO in 2006. He was appointed Managing Director in 2007.

Mr Yeates has forged the Company's transition from an R&D company to a development company, and has overseen its associated growth. His diverse range of skills have been acquired through experience in mergers and acquisitions, fundraising, commercialisation, sales & marketing and business management. He has worked in a number of industries in senior financial, commercial and company secretarial roles. Mr Yeates has significant international business experience in Europe and Asia. He held the position of Asia-Pacific Finance Director for with MCI Limited during the company's successful expansion into Asia, as well as position of Asia-Pacific Finance Director of Asia Global Crossing Limited.

### **Dr Göran Ando, Non-Executive Director**

Dr Göran Ando is the former Executive Vice President and President of Research & Development of Pharmacia Corporation which was acquired by Pfizer Inc. in 2003. In April 2003, he accepted the appointment as Chief Executive Officer with CellTech Group PLC in the United Kingdom until its acquisition in 2004 by UCB. Dr Ando is currently Chairman of Novoxel SA, Paris, Vice Chairman of Novo Nordisk A/S, Copenhagen, and Vice Chairman of S\*Bio Pte Ltd, Singapore. In addition, Dr Ando is presently a Member of the Board of Directors of the following companies: Novo A/S, Copenhagen, Enzon Pharmaceuticals, Bridgewater, New Jersey, Nicox SA, France, EUSA Pharma, United Kingdom, Bio\*One Capital Pte Ltd, Singapore, CBio Ltd, Brisbane and Albea Pharmaceuticals AG, Switzerland. Dr Ando also serves as a Senior Advisor to Essex Woodlands Health Ventures UK Ltd.

In addition, Dr Ando is Chairman of the Scientific Advisory Board, Southwest Michigan First (SWMF). Dr Ando is a Specialist in General Medicine and is a Founding Fellow of the American College of Rheumatology in the US.

**Dr Peter Corr, Non-Executive Director**

Dr Peter B. Corr, PhD., is a General Partner of Celtic Therapeutics Management Company L.L.P., a private equity firm focused on the development of innovative therapeutics, alliances that advance solutions for diseases of the developing world, and global advocacy for biomedical innovation. Dr. Corr retired from Pfizer Inc in 2007, where he served as Senior Vice President, Science & Technology. Previously, he was Executive Vice President, Pfizer Global Research & Development, and President, Worldwide Development. Prior, Dr. Corr was President of Pharmaceutical Research and Development at Warner Lambert/Parke Davis until the merger with Pfizer) and he previously served as Senior Vice President, Discovery Research, at Monsanto/Searle.

Dr. Corr also spent 18 years as a researcher in molecular biology and pharmacology at Washington University in St. Louis, where he was Professor of Medicine Cardiology and Professor of Pharmacology and Molecular Biology. His research has been published in more than 160 scientific manuscripts.

Dr. Corr serves on the Board of Governors of the New York Academy of Sciences (immediate past Chairman), the Board of Regents of Georgetown University, and several other non-profit and for-profit boards. He is also a member of the IOM's Forum on Drug Discovery, Development, and Translation.

**Professor John Funder, Non-Executive Director**

Professor John Funder, AO, was Director of the Baker Institute from 1990-2001, and is currently Professor of Medicine at Monash University, Senior Fellow at Prince Henry's Institute of Medical Research, and a Professorial Associate at the Centre for Neuroscience at the University of Melbourne. He holds an Honorary Appointment at the Institute for Molecular Bioscience, University of Queensland. Professor Funder has worked for over 40 years in endocrinology, with particular interests in steroid hormones and receptors, in hormonal mechanisms in hypertension and heart failure.

Professor Funder has been a member of advisory panels, including PIIP and P3, for the Commonwealth Government, and has had a number of roles in Victoria, including chairing the Victorian Health Promotion Foundation and the Hospitals Admission Risk Program (HARP). He maintains an active research program, with collaborations in Melbourne, Sydney, San Francisco, St. Louis and Toronto, and acts as a consultant for a number of international pharmaceutical firms in the US, Europe, Japan and Australia.

**Stephen Streeter, Non-Executive Director**

Stephen Streeter is an institutional stockbroker with seventeen years experience. He has been Director and Head of Sales for a number of broking firms including James Capel Australia, E L & C Baillieu, CIBC World Markets and ABN AMRO Australia. Mr Streeter holds the position of Executive Director Equities, Novus Capital Limited, and is also a non-executive

director of Australian Technology Innovation Fund Limited. Mr Streeter has had extensive exposure to equity capital markets and has built a very strong client base in this area.

**Dr Michael Monsour, Non-Executive Director**

Dr Michael Monsour is a medical practitioner with business interests in Queensland based 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 Monsour is the chairman of Analytica Limited and Injet Digital Aerosols Limited. Dr Monsour is also a board member of Australian Technology Innovation Fund Limited and the Australia Biofund Investment Limited (Hong Kong).

**Dr Dennis Feeney, Executive Director and President Global Development and Licensing**

Dr Dennis Feeney joined CBio as Chief Scientific Officer in 2003, was appointed President of Global Development and Licensing in 2006, and became a member of the Board in 2007.

Dr Feeney has worked for over 15 years in the senior management roles of international pharmaceutical industry companies including Sandoz, Marion Merrell Dow and Pharmacia. During this period, Dr Feeney held key corporate functional responsibilities for all phases of clinical research (Phase I to Phase IV), regulatory affairs, health economics and medical services at domestic, regional and international levels. He has served as a member of the Executive Board of Management and corporate officer at Pharmacia. Dr Feeney has held responsibilities for strategic marketing and sales; human resource management; financial planning and accountability; and, legal and corporate affairs.

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## 6. FINANCIAL & MATERIAL INFORMATION

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### 6.1. Financial Statements

The most recent audited Financial Statements are contained in the 30 June 2008 Annual Report, which is available on the Company's website at [www.cbio.com.au](http://www.cbio.com.au). Previous Annual Reports and other financial information are also available on the website.

### 6.2. Pro-Forma Balance Sheet

This pro-forma balance sheet is based on the 30 June 2008 balance sheet adjusted for a fully subscribed issue of New Shares under this Prospectus.

	Actual 30 June 2008	Pro-forma Adjustments	Pro-forma 30 June 2008
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	36,367	3,940,543	3,976,910
Trade and other receivables	2,301,490		2,301,490
Other current assets	55,970		55,970
<b>TOTAL CURRENT ASSETS</b>	<b>2,393,827</b>	<b>3,940,543</b>	<b>6,334,370</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	662,691		662,691
Trade and other receivables	181,597		181,597
Intangible assets	-		-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>844,288</b>		<b>844,288</b>
<b>TOTAL ASSETS</b>	<b>3,238,115</b>	<b>3,940,543</b>	<b>7,178,658</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	3,946,121	291,730	4,237,851
Short-term provisions	119,209		119,209
Financial liabilities	272,887		272,887
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,338,217</b>	<b>291,730</b>	<b>4,629,947</b>
<b>NON-CURRENT LIABILITIES</b>			
Unearned income	2,086,158		2,086,158
Long-term provisions	39,079		39,079
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>2,125,237</b>		<b>2,125,237</b>
<b>TOTAL LIABILITIES</b>	<b>6,463,454</b>	<b>291,730</b>	<b>6,755,184</b>
<b>NET ASSETS/(LIABILITIES)</b>	<b>(3,225,339)</b>	<b>3,648,813</b>	<b>423,474</b>
<b>EQUITY</b>			
Issued capital	45,306,148	3,648,813	48,954,961
Reserves	14,101,394		14,101,394
Accumulated losses	(62,632,881)		(62,632,881)
<b>TOTAL EQUITY/(DEFICIENCY)</b>	<b>(3,225,339)</b>	<b>3,648,813</b>	<b>423,474</b>

### 6.3. Interests of Directors

Other than as set out below or elsewhere in this Prospectus:

- no Director or proposed Director of the Company has, or has had in the two years before lodgement of this Prospectus, any interest in the formation or promotion of the Company, or the offer of Shares, or in any property proposed to be acquired by the Company in connection with information or promotion of the Offer; and
- no amounts have been paid or agreed to be paid and no benefit has been given or agreed to be given, to any Director or proposed Director of the Company either to induce him or her to become, or to qualify him or her as a Director, or otherwise for services rendered by him or her in connection with the promotion or formation of the Company or the Offer.

Mr Stephen Streeter has provided fundraising services to the Company and S&M Streeter Investments Co Pty Ltd (an entity related to Mr Streeter) was paid fees of \$93,194 and \$108,000 in the 2008 and 2007 financial years respectively, for raising new capital for the Company. These payments have been fully disclosed in CBio's Annual Reports.

#### Interests in securities

The Directors (and their associates) have the following interests in securities of the Company as at the date of this Prospectus:

Director	SHARES		OPTIONS	
	Direct	Indirect	Direct	Indirect
Mr Stephen Jones	33	1,190,000		300,000
Mr Jason Yeates			2,000,000	
Dr Goran Ando			1,000,000	
Dr Peter Corr			1,000,000	
Professor John Funder				1,000,000
Mr Stephen Streeter		18,182		1,300,000
Dr Michael Monsour		2,366,522		1,500,000
Dr Dennis Feeney				1,800,000

The Directors reserve their right to participate in the Offer, including any offer of Shortfall New Shares.

### 6.4. Payments to Directors

The constitution of the Company provides that the Directors may be paid, as remuneration for their services, a sum determined from time to time by the Company's shareholders in general meeting, with that sum to be divided amongst the Directors in such manner and proportion as they agree. The current directors' fees are \$75,000 per annum plus statutory superannuation for the Chairman, and \$50,000 per annum plus statutory superannuation for each of the non-executive directors. In addition to Directors fees, consulting fees are paid to non-executive Directors on normal commercial terms.

## 6.5. Interests of Advisors

Except as set out in this Prospectus, no person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus:

- has any interest or has had any interest during the last two years, in the formation or promotion of CBio, or in property acquired or proposed to be acquired by CBio Limited in connection with its formation or promotion, or the Offer of the Shares; and
- no amount has been paid or agreed to be paid, and no benefit has been given, or agreed to be given, to any such person in connection with the services provided by the person in connection with the formation or promotion of CBio Limited, or the Offer of the Shares.

## 6.6. Expenses of the Offer

The total estimated expenses of the Offer, including commissions, that will be payable by the Company are estimated at approximately \$292,000.

It is anticipated that there will be commissions payable of 5% plus GST of the value of any Shortfall New Shares that are placed by the Company,

## 6.7. Issued Capital

Number of existing Shares	39,405,439
Number of New Shares offered under this Prospectus	3,940,543
Number of Shares on issue after this capital raising	43,345,982
Issue Price per New Share	\$1.00
Market capitalisation at Issue Price after this capital raising (undiluted)	\$43 million

The impact on the capital structure of this Offer is that cash will initially increase by up to \$3,940,543 (before expenses of the Offer). The number of Shares on issue will increase by up to 3,940,543 up to 43,345,902. This assumes that none of the Options currently on issue (refer section 6.8) are exercised or that the Convertible Note currently on issue (refer section 6.9) is converted or that no shares under the Share Purchase Agreement (refer section 6.10) are acquired, prior to the Record Date.

## 6.8. Options currently on issue

At the date of this Prospectus there are 15,602,057 Options on issue. Options have varying exercise prices ranging from \$1.00 to \$3.00 per Option and mostly expire on 31 December 2012. If all eligible Options able to be exercised were exercised, then the Company would receive \$15,029,803 and the total number of Shares would increase by 13,109,803.

### **6.9. Convertible Note currently on issue**

At the date of this Prospectus there is one convertible note on issue. If the Convertible Note were to be converted into Shares in CBio, the total number of Shares would increase by 119,990.

### **6.10. Share Purchase Agreement**

As disclosed in the 2008 Annual Report, the Company has a Share Purchase Agreement with an existing Shareholder whereby the Shareholder has, at the date of the Prospectus, a commitment to acquire 400,000 Shares at \$1.00 each at any time prior to 30 April 2009.

### **6.11. Material lodged with ASIC**

In accordance with section 712 of the *Corporations Act*, the Company wishes to identify documents lodged with ASIC containing important information for investors, professional analysts and advisers. Such information is taken to be included in this Prospectus under section 712(3).

The Company is a disclosing entity subject to regular reporting and disclosure obligations (including continuous disclosure under section 675 of the *Corporations Act 2001*). Any person may request, and the Company will provide free of charge, a copy of each of the following documents during the application period of this Prospectus:

<b>Date lodged</b>	<b>Document description</b>
21.10.2008	388C Financial Report Financial Report-Supplementary - Company
17.10.2008	484 Change to Company Details 484O Changes to Share Structure 484G Notification of Share Issue
17.10.2008	5057A Material Including Proposed Notice of Meeting to Approve Giving Financial Benefits
15.10.2008	388A (FR 2008) Financial Report Financial Report - Public Company Or Disclosing Entity
05.09.2008	484 Change to Company Details 484O Changes to Share Structure 484G Notification of Share Issue
05.09.2008	484 Change to Company Details 484O Changes to Share Structure 484G Notification of Share Issue
08.08.2008	484 Change to Company Details 484O Changes to Share Structure 484G Notification of Share Issue
02.07.2008	484 Change to Company Details 484G Notification of Share Issue 484O Changes to Share Structure

<b>Date lodged</b>	<b>Document description</b>
23.06.2008	7053 Disclosure Notice
17.06.2008	7053 Disclosure Notice
12.06.2008	484 Change to Company Details 484G Notification of Share Issue 484O Changes to Share Structure
11.06.2008	484 Change to Company Details 484O Changes to Share Structure 484G Notification of Share Issue
03.06.2008	484 Change to Company Details 484G Notification of Share Issue 484O Changes to Share Structure
30.05.2008	7053 Disclosure Notice
28.05.2008	7053 Disclosure Notice
26.05.2008	484 Change to Company Details 484G Notification of Share Issue 484O Changes to Share Structure
21.05.2008	484 Change to Company Details 484O Changes to Share Structure 484G Notification of Share Issue
20.05.2008	484 Change to Company Details 484G Notification of Share Issue 484O Changes to Share Structure
15.05.2008	484 Change to Company Details 484O Changes to Share Structure 484G Notification of Share Issue
07.05.2008	484 Change to Company Details 484O Changes to Share Structure 484G Notification of Share Issue
01.05.2008	7053 Disclosure Notice
21.04.2008	484 Change to Company Details 484O Changes to Share Structure 484G Notification of Share Issue
10.04.2008	484 Change to Company Details 484O Changes to Share Structure 484G Notification of Share Issue
01.04.2008	492 Request For Correction
31.03.2008	484 Change to Company Details 484O Changes to Share Structure 484G Notification of Share Issue 484O Changes to Share Structure

<b>Date lodged</b>	<b>Document description</b>
18.03.2008	484 Change to Company Details 484G Notification of Share Issue 484O Changes to Share Structure
14.03.2008	484 Change to Company Details 484O Changes to Share Structure 484G Notification of Share Issue
14.03.2008	7051 Half Yearly Reports
19.02.2008	484 Change to Company Details 484O Changes to Share Structure 484G Notification of Share Issue
14.01.2008	902 Supplementary Document

The Annual Report, including audited financial statements for the period to 30 June 2008 may be of particular interest to investors, professional analysts and advisers. This report contains detailed information concerning the financial performance and operations of the Company.

The Directors rely upon section 712(3) of the *Corporations Act* with the inclusion by reference of material referred to above for full disclosure of relevant information to Shareholders for the purposes of section 711 of the *Corporations Act*, including the nature and extent of any Directors' interests of or persons identified in section 711(4) of the *Corporations Act*.

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## **7. RISKS**

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### **7.1. Risk factors**

Investors should be aware that investment in the New Shares does carry particular risks. The Company is subject to all the usual risks associated with emerging companies involved in developing new technologies. Actual events and results could differ significantly from those anticipated in this Prospectus. Accordingly, investment in the New Shares should be considered speculative.

The Board is responsible for ensuring that appropriate strategies, policies and procedures are in place to identify and monitor the risks faced by the Company, and that such risks are managed (where possible) within a level determined by the Board to be prudent. The risks can be categorized as general market risks (matters which relate to business in general), investment risks (matters which related investing in shares) and specific risks (those which relate directly to the Company's business). Other significant issues of which investors should be aware have been identified throughout the Prospectus. Potential investors should read the Prospectus in full before an investment decision is made.

In addition, the Directors consider that the following summary, which is not exhaustive, represents major risk factors of which potential investors need to be aware.

### **7.2. General market risks**

#### **Actual Events**

Actual events and circumstances may differ from those anticipated in this Prospectus so that the Company needs to adapt its operations accordingly.

#### **General economic conditions**

Any prolonged economic slowdown of global economies may impact on the Company.

#### **Managing rapid growth**

As the Company continues to grow, the Company must continue to implement and improve operating and financial systems and controls necessary to ensure effective management of future growth. The Company must continue to expand, train, retain and manage its employee base. No assurance can be given of the ability to manage future growth.

#### **Technology**

Any inability to respond to technological changes in a timely manner may have an adverse impact on the revenues and earnings of the Company.

#### **Financial market volatility**

Markets are volatile. There is a risk that demand for the Company's product could vary with the movements in markets.

#### **Regulation and legal issues**

It is possible laws that may be introduced or amended in Australia or international jurisdictions relating to any aspect of its business, which may have a material adverse effect on the financial position and operating results of the Company. At the present time the Company is

not aware of any such regulatory or legal issues in any of the jurisdictions in which the Company operates or intends to operate.

### **7.3. Investment risk**

Shareholders should be aware there are risks associated with any investment in Shares. The value of the Company's Shares can be expected to fluctuate depending upon various factors including general worldwide economic conditions and general stock market conditions (even though the Company is not listed) as well as the performance of the Company.

The New Shares to be issued pursuant to this Prospectus carry no assurance with respect to the payment of dividends, return of capital or the value of the New Shares. Investment pursuant to this Prospectus should be regarded as speculative and neither the Company nor its Directors can give assurance that any specific objective of the Company will be achieved.

Actual operating performance of the Company may be affected by a number of business risks and economic conditions. There are a number of risk factors, both specific to the Company and relating to the general business environment which may impact upon the operating performance and financial position of the Company. Some of these risks can be mitigated by the use of contingency plans and safeguards, however, many are outside the control of the Company and cannot be mitigated. Inflation, currency fluctuation, interest rates, supply and demand and changes in legislation can affect operating costs and share values.

### **7.4. Risks related to the Company's business**

The details contained in this Prospectus concerning the application of funds are based on estimates and assumptions about certain events and circumstances which have not yet taken place, and are subject to variation and possible non-fulfilment. The Company is involved in technology development. There can be no assurances as to the accuracy of estimated expenditure under the table for the application of funds under this Prospectus.

If this Offer is not fully subscribed then the development of Cpn10 and the drugs clinical development program will be delayed.

#### **Cpn10 risk**

The drug, Cpn10 and its success in testing is important to the prospects of the Company.

If the Company's technology does not lead to products and services being accepted in the markets for which they are intended, it is unlikely that CBio will ever become profitable. Specifically, investors must be aware that, despite the promising results of research and development to date, it is distinctly possible that the Cpn10 drug may ultimately not be capable of human application.

#### **Product acceptance**

Compared with other products, including competitors with similar products, the Company's product is new and unproven, and the use of product by potential customers or alliance partners is limited. In order to be successful, products must meet the requirements of the markets for which they are intended, and potential customers must be convinced to use our product instead of competing technologies. Market acceptance will depend on many factors, including:

- convincing potential customers that our product is a more attractive alternative to other products;

- manufacturing our products in sufficient quantities with acceptable quality and at an acceptable cost;
- even if Cpn10 is found to be, or developed so as to be, capable of human clinical application, Cpn10 may not be efficacious, and may not be capable of commercial development, exploitation and sale; and
- convincing potential customers and alliance partners to purchase the Company's products.

Because of these and other factors, the Company's products may not gain market acceptance.

### **Operational risk**

The operations must grow in years to come. This growth will place a significant strain on operational, human and financial resources. The Company's ability to compete effectively will depend, in large part, on its ability to hire, train and assimilate additional management, professional, scientific and technical personnel and its ability to expand, improve and effectively use operating, management and financial systems to accommodate expanded operations. The Company's ability to compete is also reliant, in part, on the provision of appropriate operating facilities including laboratories, specific laboratory equipment and high technology consumables. The physical expansion of the facilities to accommodate future growth may lead to significant costs and divert management and business development resources. If the Company is unable effectively to anticipate, implement and manage the changes required to sustain growth, the Company may not be able to compete successfully.

### **Development risk**

Pharmaceutical products have lengthy development cycles, which could cause the Company's operating results to fluctuate significantly.

Sales of the Company's products may typically involve significant evaluation and development. Accordingly, the development cycles associated with the products and their optimisation to achieve market penetration are expected to be lengthy and subject to a number of significant risks, including Australian Therapeutic Goods Administration ("TGA") and the United States Food and Drug Administration ("FDA") approval, customers' preferences, the Company's potential strategic research partners' choices as to which types of projects to fund, the Company's competitors' developments and significant regulatory approvals, each of which is beyond the Company's control. Due to this lengthy process, the operating results could fluctuate significantly. The Company expects to continue to experience significant fluctuations as a result of a variety of factors, many of which are outside of the Company's control.

The following factors could affect the Company's operating results:

- FDA and TGA approval processes for the products;
- market acceptance of products; and
- general and industry-specific economic conditions, which may affect the research and development expenditures of our strategic development partners.

The Company will depend in part on third-party products and services and sole or limited sources of supply to manufacture some components of its products.

The Company will rely on outside vendors to manufacture many of the components used in the products. Some of these components will be obtained from a single supplier or a limited group of suppliers. Reliance on outside vendors generally, and a sole or a limited group of suppliers in particular, involves several risks, including:

- the inability to obtain an adequate supply of required components due to manufacturing capacity constraints, a discontinuance of a product by a third-party manufacturer or other supply constraints;
- reduced control over quality and pricing of components; and
- delays and long lead times in receiving materials from vendors.

The Company may not be successful in developing new products and services.

For example, the Company's customers or strategic partners may choose to expend their resources on competing products to such a degree that it does not make economic sense for it to continue its research and development of certain products. If this happens, the Company may not be able to take advantage of opportunities identified in this Prospectus.

### **Funding risk**

There is a risk that the Company may not achieve or sustain profitability and its operating losses will increase in the future.

The Company is at an early stage of executing its business plan. The Company's positive cash position at the time of issue of this Prospectus has resulted primarily from fund raising from investors and the receipt of government grants. The Company's present cash surplus has not resulted from operating revenues. The Company's financial position should be reviewed by prospective investors in light of information in the audited annual financial report, a copy of which can be obtained from the Company on request.

The Company expects to continue to incur operating and net losses and negative cash flow from operations, which may increase, for the foreseeable future, due in part to anticipated increases in expenses for the Phase II clinical trial. The time required for the Company to reach or sustain profitability is highly uncertain and the Company may not be able to achieve or maintain profitability. Moreover, if the Company does achieve profitability, the level of any profitability cannot be predicted and may vary significantly.

The ability of the Company to obtain further funds and the way in which it does so may involve certain risks to the respective proportion or value of a shareholders interest, as described in Section 7.6.

### **Increased or new competition**

Competition may arise from a number of sources and may include companies with greater capital resources and expertise. While CBio's Directors believe that the Company's intellectual property position, depth of services and industry knowledge effectively reduce the impact of future competition, no assurances can be given that such competition will not adversely affect the performance of the Company.

### **Dependence on key personnel**

The success of the Company will depend on the continuing commitment of its key employees. The Company has in place employment contracts with key employees. The Company has an

objective of providing equity incentives and attractive employment conditions to assist in retaining key employees.

### **Strategic Investments and Divestments**

The Company may from time to time make strategic investments and divestments, an example of which was the acquisition and subsequent divestment of a controlling interest in BresaGen Limited, the contract manufacturer of Cpn10. The value of such investments is itself subject to risks, including general market risk and investment risk similar to that described in sections 7.2 and 7.3 above. In particular, the Company may suffer losses in connection with such investments, or the Company's proportional equity interest in such investments may be subject to dilution in the event the relevant entity makes a further issue of shares and the Company is not entitled, or determines not to, take up further shares.

### **Strategic Risks**

Additionally, the Company may itself be required or determine to give funding to support entities in which it has invested. This may, for instance, include loan funding. The amount, timing and rate of such funding may have a serious adverse impact on the Company's own financial situation. The Company may have legal obligations to provide such funding and may have limited or no ability to control these factors.

## **7.5. Risks related to operating in this market**

### **Markets**

The markets in which the Company operates are highly competitive and subject to rapid technological change, and the Company may not have the resources necessary to compete successfully.

The Company competes with companies in the US and abroad that are engaged in the development and production of drug products and services including pharmaceutical companies, contract research companies and academic institutions. Many of the Company's competitors have access to greater financial, technical, research, marketing, sales, distribution, service and other resources than CBio. Academic institutions, governmental agencies and other research organisations also are conducting research in areas in which the Company propose to provide services, either on their own or through collaborative efforts.

### **Technology**

Moreover, the pharmaceutical and biotechnology industries are characterised by rapid and continuous technological innovation. The Company anticipates that it will face increased competition in the future as new companies enter the market and advanced technologies become available. The Company's technology, services and expertise may be rendered obsolete or uneconomical by technological advances or entirely different approaches developed by the Company or one or more of its competitors.

The existing approaches of the Company's competitors or new approaches or technologies developed by its competitors may be more effective than those the Company develop. The Company may not be able to compete successfully with existing or potential competitors and competitive factors may prevent it from becoming successful.

### **Strategic partners**

The Company's success will depend on its strategic development partners and the extent to which these partners are interested in pursuing development and marketing of products.

The Company's revenues will be highly dependent on the research and development decisions of the current and potential strategic partners. Their expenditures are based on a

wide variety of factors, including the resources available, the spending priorities among various types of research and policies regarding expenditures during recessionary periods. General economic downturns in our partners' industries or any decrease in research and development expenditures could materially and adversely affect the Company's operations.

### **Consolidation**

The concentration of the pharmaceutical industry and the current trend towards increasing consolidation could adversely affect our business prospects.

The number of the Company's potential strategic partners could be reduced if the current trend towards consolidation of the pharmaceutical industry continues. Accordingly, the Company expects that a relatively small number of partners will account for a substantial portion of its research, development and marketing activities with third parties.

Additional risks associated with such a highly concentrated industry include:

- larger companies may develop in-house technology and expertise rather than using or helping develop products; and
- larger customers may negotiate price discounts or other terms for the products that are unfavourable to us.

### **Employment risk**

The Company's future success will depend to a significant extent on its ability to attract, retain and motivate highly skilled scientists and other personnel. The ability to maintain, expand or renew existing engagements with current strategic partners, enter into new engagements and provide additional products and services to customers depends, in large part, on the Company's ability to hire and retain scientists with the skills necessary to keep pace with continuing changes in drug development technologies and other personnel.

The Company's employees may leave and the Company may dismiss them. The Company believes that there is a shortage of and significant competition for, scientists with the skills and experience in the sciences necessary to perform the services the Company requires.

The Company competes with the research departments of pharmaceutical companies, biotechnology companies, contract research companies and academic institutions for personnel.

The Company's inability to hire additional qualified personnel could materially and adversely affect its future growth. In addition, the Company's inability to hire additional qualified personnel may require an increase in the level of responsibility for both existing and new personnel. The Company may not be successful in attracting new scientists or other personnel or in retaining or motivating our existing personnel.

### **Intellectual property**

The intellectual property rights on which the Company relies to protect the technology underlying the products and techniques may not be adequate, which could enable third parties to use the Company's technology or very similar technology and thereby reduce its ability to compete in the market.

The Company's success will depend on its ability to obtain, protect and enforce patents on its technology and to protect its trade secrets. Any patents the Company owns or licenses may not afford meaningful protection for its technology and the products.

Others may challenge the patents or the patents of the Company's licensors and, as a result, these patents could be narrowed, invalidated or rendered unenforceable. In addition, current and future patent applications on which the Company depends may not result in the issuance of patents in Australia, the US or foreign countries.

Competitors may develop products similar to ours, which are not covered by our patents. Further, if there is a substantial backlog of patent applications at any Patent and Trademark Office, the approval or rejection of our, or, our competitors' patent applications may take several years.

In addition to patent protection, the Company also relies on copyright protection, trade secrets, know-how, continuing technological innovation and licensing opportunities. In an effort to maintain the confidentiality and ownership of our trade secrets and proprietary information, the Company requires employees, consultants and advisors to execute confidentiality and proprietary information agreements. However, these agreements may not provide adequate protection against improper use or disclosure of confidential information and there may not be adequate remedies in the event of unauthorised use or disclosure.

Furthermore, the Company may from time to time hire scientific personnel formerly employed by other companies involved in one or more areas similar to the activities conducted by us. In some situations, the Company's confidentiality and proprietary information agreements may conflict with, or be subject to, the rights of third parties with whom employees, consultants or advisors have prior employment or consulting relationships. Although the Company requires employees and consultants to maintain the confidentiality of all confidential information of previous employers, the Company or these individuals may be subject to allegations of trade secret misappropriation or other similar claims as a result of their prior affiliations.

Others may independently develop substantially equivalent proprietary information and techniques, or otherwise gain access to Company trade secrets. The inability to protect Company proprietary information and techniques may inhibit or limit the Company's ability to achieve or maintain a competitive position in the market.

The Company may be involved in intellectual property lawsuits, which may be expensive.

High technology companies have a history of patent litigation and will be likely to continue to have patent lawsuits. In order to protect or enforce the Company's patent rights, the Company may have to initiate legal proceedings against third parties. In addition, others may sue the Company for infringing their intellectual property rights or the Company may find it necessary to initiate a lawsuit seeking a declaration from a court that the Company does not infringe the proprietary rights of others.

The patent positions of companies in high technology industries can be uncertain and involve complex legal and factual questions.

Legal proceedings relating to intellectual property could be expensive, take significant time and divert Management's attention from other business concerns, no matter whether the

Company wins or loses. The cost of such litigation could affect the Company's financial position.

Further, if the Company does not succeed in an infringement lawsuit brought against us, in addition to any damages the Company might have to pay, the Company could be required to stop the infringing activity or obtain a licence. Any required licence may not be available to the Company on acceptable terms, or at all. In addition, some licences may be non-exclusive, and therefore, the Company's competitors may have access to the same technology licensed to the Company. If the Company is unable to obtain a required licence or are unable to design around a patent, Company outcomes could be affected.

The Directors of the Company are not presently aware of any fact, matter or circumstance by which any party may claim or be entitled to object to or challenge any of the Company's patents, trade marks or intellectual property. These circumstances, however, do not reduce the importance of the foregoing considerations for investors.

### **Liability regarding hazardous materials**

Our research and development processes involve the controlled use of hazardous materials. CBio is subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of such materials and certain waste products. The risk of accidental contamination or injury from these materials cannot be completely eliminated.

In the event of such an accident, the Company could be held liable for any damages that result, and any such liability could exceed its resources and disrupt the business. In addition, the Company may have to incur significant costs to comply with environmental laws and regulations related to the handling or disposal of such materials or waste products in the future, which could require the Company to spend substantial amounts of money.

## **7.6. Risks related to this Offer**

### **Non-liquid market**

The Shares cannot be traded in a liquid market, and there are significant regulatory hurdles to overcome before such a market will exist. As a result, potential investors will have only a limited opportunity to sell their Shares and may therefore have to bear the economic risk of holding the present investment in the Shares for an indefinite period of time.

Merely because the Company is a public Company does not mean that there will be a free, or indeed any market for trading in such Shares. Generally speaking, Directors of a public Company have no discretion to refuse to register a transfer of Shares. That, however, is essentially a formality. The ability to sell (or buy) Shares in the Company, after the close of this Offer must be regarded as speculative at best. That ability will depend upon the Company's progress and financial performance, the number and spread of Shareholders, and the range of other factors associated with all of the risks highlighted in this Prospectus. The Board urges investors to invest on the basis that in the short to medium term, investors will have practically no opportunity of selling (or buying) Shares in the Company.

### **Use of proceeds of this Offer**

It is intended that funds raised from the Offer will be applied as explained in Section 3.3. Until the Company applies funds raised from this Offer it will be invested in short-term liquid investments. The actual application of the funds raised may vary if it is in the best interests of the Company when assessed by the Directors in the prevailing circumstances. For instance,

the commencement, duration and extent of clinical trials and the ability to negotiate a favourable strategic partnership at the optimum time may impact upon the amounts and timing of actual expenditure compared to budgeted amounts.

### **Control issues**

The Company's executive officers, Directors and major Shareholders own a large percentage of the Company's voting capital and could potentially delay or prevent a change in control, sale of its business, or other matters requiring Shareholder approval, even if favoured by other Shareholders. This may be a disincentive to investment by a major institution and/or prevent Shareholders from realising the value of their investment.

### **Funding**

The Company will need substantial funds to continue to research, develop and enhance its technology. To the extent that the Company's capital resources are insufficient to meet future capital requirements, the Company will have to raise additional funds to continue the development of our technology. The Company may not be able to raise funds on favourable terms, or at all. The current operating plan could change as a result of many factors, and the Company could require additional funding sooner than anticipated. The requirements for additional capital may be substantial and will depend on many factors, some of which are beyond our control, including:

- market acceptance of the products;
- timing of the TGA and/or FDA approval of the products
- continued progress of our research and development of the products;
- competing technological and market developments;
- the cost of protection of patent and other intellectual property rights; and
- progress with commercialisation.

If the Company needs, but is unable to obtain, additional funding to support operations, the Company would have to reduce or cease operations or attempt to sell all or a part of its operations.

To the extent that the Company raises additional capital through the issue of Shares, the issuance of those Shares would result in equity dilution for our existing Shareholders. If adequate funds are not available, the Company may be required to curtail operations significantly or to obtain funds through entering into collaboration agreements on unattractive terms.

Because it is unlikely that the Company will soon pay dividends, you will only be able to benefit from holding our Shares if the share price appreciates and a market exists for the Shares. As outlined above, the board does not expect any significant market for the Shares to be available in the near future.

Technology development is inherently high risk and the above risks are not exhaustive. Other risks may become evident with further development of the technology and commercial relationships. The Company can give no assurance that all the Company's objectives can be satisfactorily achieved.

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## **8. ACTIONS REQUIRED**

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### **8.1. To take up your entitlement in full and/or New Shares in excess of your Entitlement**

If you wish to take up all of your entitlement, please complete the Entitlement and Acceptance Form, which accompanies this Prospectus, in accordance with the instructions set out on the Form.

If you have applied to take up your Entitlement in full, you may apply for additional New Shares in excess of your entitlement by completing the relevant section on the Entitlement and Acceptance Form. CBio will refund any amount not used for the additional New Shares applied for. Subscriptions in excess of entitlements will only be made out of shortfall. The Directors reserve the right to accept, scale back or refuse any application for additional New Shares in excess of a Shareholder's Entitlement.

Forward your completed Entitlement and Acceptance Form, together with your cheque or bank draft for the amount shown on your Form, in the reply paid envelope to reach the Company's share registry by 5.00pm on the Closing Date or such later date as the Directors notify.

Alternatively, you can pay the application money using BPay in accordance with the instructions on the Entitlement and Acceptance Form accompanying this Prospectus. If you do so, you do not need to complete and return the Entitlement and Acceptance Form.

### **8.2. To take up part of your Entitlement**

If you wish to take up part only of your Entitlement, please complete the Entitlement and Acceptance Form, which accompanies this Prospectus, by inserting the number of new Shares for which you wish to accept the Offer under this Prospectus (being less than your entitlement as specified on the Entitlement and Acceptance Form) and forward the completed Form together with your cheque or bank draft for the total amount payable to reach the Company's share registry by 5.00pm on the Closing Date or such later date as the Directors notify.

### **8.3. To decline the Offer**

If you do not wish to take up any part of your Entitlement to new Shares, you are not required to take any action, in which case you will receive no new Shares and your rights will lapse.

If you do not take up your Entitlement you will, as a result of this Offer, have your percentage shareholding in the Company diluted. If you have any queries concerning your entitlement, please contact Link Market Services on 1300 554 474 or +61 2 8280 7454 or contact your stockbroker or professional adviser.

#### **8.4. Shortfall New Shares**

The Company may seek to place Shortfall New Shares for any shares which are not applied for by Shareholders. The Directors reserve the right to issue the Shortfall New Shares at their discretion. The Shortfall New Shares must be applied for before the Shortfall Closing Date. The issue price for the Shortfall New Shares will be \$1.00. New Shares placed by the Company in this manner will be subscribed for under this Prospectus, on the Shortfall Application Form for new shareholders.

If you wish to apply for Shortfall New Shares, please complete the Shortfall Application Form, which accompanies this Prospectus, by inserting the number of New Shares for which you wish to accept under this Prospectus and forward the completed form together with your cheque or bank draft for the total amount payable to reach the Company's share registry by 5.00pm on the Closing Date or such later date as the Directors notify. **Shortfall New Shares are allotted at the Directors discretion. The Company cannot guarantee the availability of Shortfall New Shares for all or any of the applications.**

#### **8.5. Payment**

Payments will only be accepted in Australian dollars as follows:

- cheques drawn on and payable by any Australian bank;
- bank drafts drawn on and payable at any Australian bank or financial institution;
- or
- electronic payment by BPay.

Other currency will not be accepted. Shareholders should not forward cash. Receipts for payments will not be issued. Entitlement and Acceptance Forms and accompanying cheques or bank drafts may be lodged at any time before the Closing Date. Applications received after the Closing Date will not be accepted. The Company will not be responsible for postal or delivery delays. Shortfall Application Forms and accompanying cheques or bank drafts may be lodged at any time before the Shortfall Closing Date. **Cheques should be made payable to 'CBio Limited Share Offer' and crossed 'Not Negotiable'.**

#### **8.6. Consents**

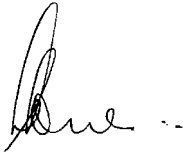
Link Market Services has given, and not withdrawn its written consent to be named as share registrar in the form and context in which it is named. Link Market Services has not caused or authorised the issue of this Prospectus and takes no responsibility for any part of this Prospectus.

Ernst & Young has given, and not withdrawn its written consent to be named as Auditor in the form and context in which it is named. Ernst & Young has not caused or authorised the issue of this Prospectus and takes no responsibility for any part of this Prospectus.

### **8.7. Directors' Statement**

Each Director has given, and has not withdrawn, before the date of this Prospectus, his consent to the lodgement of this Prospectus with ASIC and to the issue of this Prospectus in accordance with the Corporations Act. The Directors report that after due enquiry by them, that they have not become aware of any circumstances which in their opinion will materially affect the Company's position, other than as disclosed in this Prospectus.

This Prospectus is signed for and on behalf of the Directors.

A handwritten signature in black ink, appearing to read 'Stephen Jones', with a long horizontal flourish extending to the right.

Stephen Jones  
Executive Chairman  
31 October 2008

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## 9. GLOSSARY

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AEST	Australian Eastern Standard Time
Applicant	A person or entity who submits an Entitlement and Application Form
Application Money	The money received by the Company pursuant to the Offer, being the Issue Price multiplied by the number of New Shares applied for
ASIC	Australian Securities and Investments Commission
Board	The board of directors of the Company
Closing Date	The date on which the Offer closes, being 28 November 2008, or another date nominated by the Company
Company or CBio	CBio Limited ABN 094 730 417
Corporations Act	Corporations Act 2001 (Cth)
Cpn10	Chaperonin 10, a product which the Company has patent protection around its family
Director Shareholders	The parties associated with each of the Directors
Directors	The directors of the Company
Entitlement	The right to subscribe for New Shares at the Issue Price under the Offer
Entitlement and Acceptance Form	An application form attached to this Prospectus
IP	Intellectual Property – including patents and trademarks
Issue Price	\$1.00 per New Share
New Shares	Means the new ordinary shares in the Company issued under this Offer
Offer	The offer of New Shares under this Prospectus
Option	An option to acquire a fully paid ordinary share in CBio Limited
Option Holder	The holder of an Option
Personnel	Employees and professional services contractors of CBio Limited
Phase I Clinical Trial	A drug dosing study in human subjects to establish that the drug is safe to be used in further clinical evaluations
Phase IIa Clinical Trial	Phase II clinical trials intended to demonstrate whether a new drug will provide any benefit ('efficacy'), and whether that benefit warrants further development
Prospectus	This document, dated 31 October 2008
R&D	Research and Development
Shareholders	Holders of shares in CBio
Shares	Fully paid ordinary shares in CBio
Subcutaneous	A method of drug delivery where an injection is made into the subcutaneous tissue just below the skin
Toxicology Studies	Studies in animals for safety purposes
XToll <sup>®</sup>	XToll <sup>®</sup> is the registered trademark of the Cpn10 variant which CBio is in the process of developing for ultimate commercialisation
You	The investors under this Prospectus

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## 10. CORPORATE DIRECTORY

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### Company

CBio Limited  
ABN 76 094 730 417

### Registered Address

CBio Limited  
85 Brandl Street  
Eight Mile Plains  
Brisbane Qld 4113  
[www.cbio.com.au](http://www.cbio.com.au)

### Directors

Mr Stephen Jones	Executive Chairman
Mr Jason Yeates	Managing Director and CEO
Mr Stephen Streeter	Non-Executive Director
Dr Michael Monsour	Non-Executive Director
Dr Goran Ando	Non-Executive Director
Professor John Funder	Non-Executive Director
Dr Peter Corr	Non-Executive Director
Dr Dennis Feeney	Executive Director & President Global Development & Licensing

### Company Secretary

Mr Ben Graham

### Auditor

Ernst & Young  
1 Eagle Street  
Brisbane Qld 4000  
[www.ey.com/au](http://www.ey.com/au)

### Share Registry

Link Market Services  
Level 12  
300 Queen Street  
Brisbane Qld 4000  
[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)  
Tel 1300 554 474 or +61 2 8280 7454