

CBio Limited

ABN 76 094 730 417

HALF-YEAR FINANCIAL REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2008

CBIO LIMITED

Corporate Information
For the half-year ended 31 December 2008

Directors

Mr. Stephen Jones	Executive Chairman
Dr. Peter Corr	Non-executive director
Dr. Göran Ando	Non-executive director
Prof. John Funder	Non-executive director
Dr. Michael Monsour	Non-executive director
Dr. Dennis Feeney	Executive director
Mr. Jason Yeates	Managing director
Mr. Stephen Streeter	Non-executive director

Company Secretary

Mr. Ben Graham

Registered and Principal Office

85 Brandl Street
Eight Mile Plains
Qld 4113

Auditors

Ernst & Young
1 Eagle Street
BRISBANE QLD 4000

Contact Information

Ph: (07) 3841 4844
Fax: (07) 3341 8189
Email: cbio@cbio.com.au
Web: www.cbio.com.au

Share Registry & Register

Link Market Services Limited
300 Queen Street
Brisbane QLD 4000
Ph: (07) 3220 2249

CBIO LIMITED

Directors' Report

For the half-year ended 31 December 2008

Your directors submit their report for the half-year ended 31 December 2008.

DIRECTORS

The names of the directors of the company in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Mr. Stephen Jones	Executive Chairman
Dr. Peter Corr	Non-executive director
Dr. Göran Ando	Non-executive director
Prof. John Funder	Non-executive director
Dr. Michael Monsour	Non-executive director
Dr. Dennis Feeney	Executive director
Mr. Jason Yeates	Managing director
Mr. Stephen Streeter	Non-executive director

RESULTS AND REVIEW OF OPERATIONS

The loss attributable to members of CBio Limited for the period ending 31 December 2008 was \$7,328,603 (2007: \$13,040,646). No dividend was proposed or paid during the period.

The focus of the Company's activities during the period was on its 150-patient Phase IIa clinical trial in Rheumatoid Arthritis. The trial commenced recruitment in May 2008 and is the largest clinical trial conducted to date by CBio, with up to 25 planned clinical trials sites throughout Australia and New Zealand.

Recruitment into the trial during the period was fair, albeit slower than anticipated. At 31 December, there were 34 patients on trial, with a further 31 patients recruited subsequent to the balance date.

The Company announced in April that it had temporarily suspended recruitment into the trial as a result of impaired manufacturing capacity which directly affected drug supply for the clinical trial. Whilst this temporary recruitment suspension will not impact on the progress of patients who are currently enrolled in the trial, it is expected to cause a delay in the completion of recruitment and therefore the finalisation of the trial.

CBio is currently reviewing the feasibility of increasing the number of overseas clinical trial sites as a means of increasing the rate of recruitment once recruitment into the trial recommences. Should CBio proceed with these additional sites, any delay in the completion of the study resulting from the temporary suspension to recruitment would be minimised.

At this date, 47 patients have reached the week 12 primary efficacy endpoint as determined by the protocol, whilst 26 patients have reached week 24 and have therefore completed the study.

As the trial is blinded, results will not be available until trial completion. However, the Company at this time is satisfied with the blinded data it has collected to date and remains confident in the potential of its XToll® technology.

CBIO LIMITED

Directors' Report

For the half-year ended 31 December 2008

CBio's intensive Intellectual Property program is ongoing, with significant progress made during the period. To date, CBio has been granted 41 patents and has 84 patents pending in all key international markets. In the period, the Company has been granted four patents and has submitted one new patent for examination. This has significantly strengthened CBio's IP position for its lead drug candidate, XToll, and will provide significant protection for its Cpn10 platform technology. CBio continues to implement a targeted Intellectual Property strategy in conjunction with its Patent Attorneys, with numerous patent applications planned for filing later this year.

The Company continues to prosecute and maintain its key patents in major jurisdictions.

A number of fundraising initiatives were ongoing during the period. In the six months to 31 December 2008, the Company raised \$950,000 via an Information Memorandum, \$498,135 via a Rights Issue and \$150,000 via a Share Purchase Agreement with an existing CBio shareholder.

In July, the Company received USD\$2 million (AUD\$2,077,706) from Novo Nordisk A/S in connection with the agreement signed with the company in relation to the Cpn10 intellectual property asset. Accounting standards dictate that this amount remains recorded as unearned income by CBio at this time.

CBio raised \$610,000 from the issue of 11 Convertible Notes during the period.

The Company earned \$972,594 in grant income during the period, of which \$259,373 was received subsequent to the end of the period. These funds relate to CBio's P3 Grant, which will end in June 2009. Under this grant, CBio is entitled to receive up to \$5.9 million in funding over a four year period which concludes in June 2009.

In total, the Company accessed total funds of \$5,258,435 in the 6 month period under review.

SUBSEQUENT EVENTS

Subsequent to the balance date, the Company continued to raise funds via the Rights Issue which opened on 1 November 2008 and closed on 4 March 2009. A total of \$995,600 was raised subsequent to the review date, with a further 995,600 new shares issued. The total number of shares on issue as at the date of signing these accounts is 40,957,174.

The Company has received additional loan funds from MPAMM Pty Ltd, a company associated with Dr Michael Monsour. \$510,000 in new loan funds have been received since the review date, with the total loan liability to MPAMM Pty Ltd now \$772,000. Refer to Note 10 for terms of the loan.

It has been subsequently agreed that the loans due and payable to MPAMM Pty Ltd of \$772,000 be applied to the purchase of Convertible Notes from the Company. This has been effectuated and provides that the loans are no longer at call. The Notes carry an 8% coupon and will convert to 2 Shares in the Company for each \$1 of debt and each Share so issued will have attached to it an Option with an exercise price of \$1.00 and an expiry of date of 31 December 2012. The Notes have a term that will expire by 31 December 2010 and the right to convert or to redemption is held by the purchaser.

Subsequent to the balance date the Company received loan funds of \$30,000 from MP Monsour Medical Practice Pty Ltd, a company associated with Dr Michael Monsour. The loan is unsecured and is interest bearing at 8% per annum.

CBIO LIMITED

Directors' Report

For the half-year ended 31 December 2008

Subsequent to balance date, a further \$100,000 was received under a Share Purchase Agreement with an existing shareholder.

CBio has issued an additional 28 Convertible Notes subsequent to the balance date, raising \$1,665,000. As at the date of this report, there are 40 Convertible Notes on issue with a value of \$2,375,000.

Subsequent to the balance date, the Company has received \$382,879 from the P3 grant funding and \$40,000 from an Export Markets Development Grant.

Thus since balance date the Company has accessed further funds totalling a further \$3,464,106 and so for the financial year to the date of this report (10 months) the Company has accessed a total of \$8,722,541.

Analytica Limited has acquired a Convertible Note of \$500,000 in the Company and may acquire up to \$5.5 million in further Notes by 31 December 2009. Each Convertible Note carries an 8% coupon and will convert to 2 Shares in the Company for each \$1 of debt and each Share so issued will have attached to it an Option with an exercise price of \$1.00 and an expiry of date of 31 December 2012. The Notes have a term that will expire by 31 December 2010 and the right to convert or to redemption is held by the purchaser.

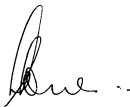
The Company is finalising details of a Rights Issue to raise up to \$15 million (net of costs). The Company will continue to raise funds by Convertible Notes until the Rights Issue is in place.

The Company is negotiating with a European provider for the establishment of a number of clinical trial sites in Europe, to augment the 150 patient trial and ensure its timely conclusion.

AUDITOR'S INDEPENDENCE DECLARATION

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

Signed in accordance with a resolution of directors



Mr Stephen Jones
Executive Chairman

Date: 5 May 2009

CBIO LIMITED

Condensed Income Statement

For the half-year ended 31 December 2008

		December 2008	December 2007
	Notes	\$	\$
Continuing Operations			
Income from Ordinary Activities	2	1,002,730	822,616
Expenses from Ordinary Activities			
Borrowing costs expense	3	(80,802)	(55,409)
Administration expenses	4	(2,394,970)	(7,187,612)
Research and development		(5,047,290)	(5,578,363)
Patent costs		(535,767)	(162,038)
Loss on disposal of available for sale assets		-	(532,143)
Marketing expenses		(272,504)	(347,697)
Loss before income tax from continuing operations		(7,328,603)	(13,040,646)
Income tax expense		-	-
Loss from continuing operations after income tax		(7,328,603)	(13,040,646)
(Loss)/gain per share (cents per share)			
Basic/Diluted – Continuing operations		(18.88)	(49.03)

The Condensed Income Statement is to be read in conjunction with the notes to the Financial Statements

CBIO LIMITED

Condensed Balance Sheet
As at 31 December 2008

	Notes	31 December 2008 \$	30 June 2008 \$
Current assets			
Cash and cash equivalents		37,119	36,367
Trade and other receivables		287,824	2,301,490
Other current assets		55,949	55,970
Total current assets		380,892	2,393,827
Non-Current Assets			
Property, plant and equipment		586,518	662,691
Trade and other receivables		188,484	181,597
Intangible assets	5	-	-
Total Non-Current Assets		775,002	844,288
Total Assets		1,155,894	3,238,115
Current Liabilities			
Trade and other payables		5,711,839	3,946,121
Short-term provisions		136,194	119,209
Financial liabilities	6	1,033,113	272,887
Total current liabilities		6,881,146	4,338,217
Non-Current Liabilities			
Long-term provisions		63,018	39,079
Unearned income		2,086,158	2,086,158
Total Non-Current Liabilities		2,149,176	2,125,237
Total Liabilities		9,030,322	6,463,454
Net Assets		(7,874,428)	(3,225,339)
Equity			
Issued Capital	7	46,830,113	45,306,148
Reserves		15,256,943	14,101,394
Accumulated Losses		(69,961,484)	(62,632,881)
Total Equity		(7,874,428)	(3,225,339)

The Condensed Balance Sheet is to be read in conjunction with the notes to the Financial Statements

CBIO LIMITED

Condensed Statement of Changes In Equity

As at 31 December 2008

	December 2008 \$	December 2007 \$
Notes		
SHARE CAPITAL		
Balance at 1 July	45,306,148	36,838,670
Issue of share capital	1,687,450	1,434,826
Cost of capital raising	(163,485)	(147,557)
Balance at 31 December	<u>46,830,113</u>	<u>38,125,939</u>
ACCUMULATED LOSSES		
Balance at 1 July	(62,632,881)	(41,617,644)
Loss for the period	(7,328,603)	(13,040,646)
Balance at 31 December	<u>(69,961,484)</u>	<u>(54,658,290)</u>
RESERVES		
Balance at 1 July	14,101,394	5,494,253
Equity-based compensation	1,155,549	5,934,586
Balance at 31 December	<u>15,256,943</u>	<u>11,428,839</u>

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

CBIO LIMITED

Condensed Cash Flow Statement

For the half-year ended 31 December 2008

	December 2008 \$	December 2007 \$
Cash flows from/(used in) operating activities		
Payments to suppliers and employees	(6,130,375)	(6,833,422)
Grant income received	898,142	909,588
Cash received in the course of operations	2,858,050	84,804
Interest received	11,351	73,836
Interest paid	(4,011)	-
Net cash used in operating activities	<u>(2,366,843)</u>	<u>(5,765,194)</u>
Cash flows from/(used in) investing activities		
Proceeds from sale of investments	-	1,401,097
Repayment of loan		94,000
Bank guarantee deposit	(6,886)	(3,042)
Purchase of Plant and equipment	(59,331)	(1,027)
Net cash (used in)/provided by investing activities	<u>(66,217)</u>	<u>1,491,028</u>
Cash flows from/(used in) financing activities		
Proceeds from issue of shares	1,411,662	1,081,713
Proceeds from shares not yet issued	160,150	-
Proceeds from issue of convertible note	610,000	3,050,000
Proceeds from borrowings	262,000	79,541
Repayment of borrowings	(10,000)	-
Net cash provided by financing activities	<u>2,433,812</u>	<u>4,211,254</u>
Net increase/(decrease) in cash held	752	(62,912)
Cash at beginning of the financial period	<u>36,367</u>	<u>155,708</u>
Cash at the end of the financial period	<u>37,119</u>	<u>92,796</u>

The Condensed Cash Flow Statement is to be read in conjunction with the notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation of the Half-Year Financial Report

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

The half-year financial report should be read in conjunction with the annual financial report of CBio Limited as at 30 June 2008.

It is also recommended that the half-year financial report be considered together with any public announcements made by CBio Limited during the half-year ended 31 December 2008 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

a) Basis of Accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, applicable Accounting Standards including AASB 134 *Interim Financial Reporting* and other mandatory professional reporting requirements.

The half-year financial report has been prepared in accordance with the historical cost basis and applying the same accounting policies as used in the 30 June 2008 financial report.

For the purposes of preparing the half-year financial report, the half-year has been treated as a discrete reporting period. The financial report is presented in Australian Dollars.

b) Statement of Compliance

The half-year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereon, complies with International Financial Reporting Standards ('IFRS'). There are no AIFRS standards issued but not yet effected that are expected to impact the position and performance of the group.

c) Going Concern

The financial report for the half-year ended 31 December 2008 is prepared on a going concern basis. The Company incurred an operating loss after income tax of \$7,328,603 (2007: \$13,040,646) for the half year. At 31 December 2008 the Company has net current liabilities of \$6,500,254 and an excess of total liabilities over total assets of \$7,874,428. These conditions give rise to significant uncertainty as to whether the Company will be able to continue as a going concern and be able to pay its debts as and when they fall due.

The directors believe that the going concern basis is appropriate due to a strong history of capital raising, and in this respect for the year to date i.e. 1 July 2008 to 30 April 2009 the Company's ongoing capital raising initiatives thus far totalling \$8,722,541 supports the belief in the continuity of this strong

CBIO LIMITED

Notes to the Financial Statements

For the half-year ended 31 December 2008

history, current capital raising initiatives in place at the date of signing of these accounts *and* the positive clinical results to date, noted with respect to blinded data.

The success of future capital raising for CBio Limited, as has been the case in the past, will depend on the Company achieving positive results in this and future clinical trials.

Additionally CBio has signed an agreement with Novo Nordisk A/S in connection with its Cpn10 asset. USD\$2 million was received by the company in relation to this agreement during the period. This amount remains recorded as unearned income at 31 December 2008. This agreement also provides for the receipt of future funds on the achievement of set milestones.

Should CBio not be successful and repeat its strong history of raising capital it may not be able to continue as a going concern and pay its debts as and when they fall due. Accordingly, the Company may be required to realise assets and extinguish liabilities other than in the ordinary course of business and at amounts different from those stated in the financial report. This report does not include any adjustments relating to the recoverability or classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should CBio not be able to continue as a going concern.

	December 2008 \$	December 2007 \$
2. INCOME		
Interest received	11,351	7,377
Government grants	972,594	796,829
Other income	18,785	18,410
	<u>1,002,730</u>	<u>822,616</u>
3. BORROWING COSTS EXPENSE		
Interest expense on convertible notes	9,628	53,622
Other interest expense	71,174	1,787
	<u>80,802</u>	<u>55,409</u>

CBIO LIMITED

Notes to the Financial Statements For the half-year ended 31 December 2008

	December 2008 \$	December 2007 \$
4. ADMINISTRATION EXPENSES		
Consulting fees	379,220	504,292
Depreciation	135,504	149,847
Office rental	161,510	186,388
Legal & compliance costs	146,926	82,886
Administration salaries	257,205	204,480
Director salaries	150,000	125,000
Employment related costs	239,607	253,278
Travel costs	37,695	89,151
Share-based payment expense	243,602	5,351,810
Foreign currency loss	338,947	12,091
Other administration expenses	304,754	228,389
	<u>2,394,970</u>	<u>7,187,612</u>
5. INTANGIBLE ASSETS		
Intellectual property	4,125,000	4,125,000
Provision for recoverability (i)	(4,125,000)	(4,125,000)
	<u>-</u>	<u>-</u>
6. FINANCIAL LIABILITIES		
Convertible notes (i)	710,000	100,000
Accrued interest payable on convertible notes	21,113	105,376
Loan liabilities – related entities (ii)	302,000	50,000
Loan liabilities – other	-	17,511
	<u>1,033,113</u>	<u>272,887</u>

(i) During the period, the Company issued 11 Convertible Notes under a Convertible Note Deed dated 30 August 2007. The notes have varying face values and interest of 8% per annum is payable semi-annually. In addition, notes may be converted to shares in CBio Limited in accordance with the terms of each note. Notes have a life of no greater than six months unless extended for a further period if agreed by CBio and the Note holder. (ii) Refer to Note 10 Related Party Transactions for further details.

CBIO LIMITED

Notes to the Financial Statements

For the half-year ended 31 December 2008

	2008 Number	2008 \$
7. ISSUED CAPITAL		
Ordinary shares issued and fully paid	39,961,574	46,830,113
Movements in ordinary shares on issue		
Ordinary shares issued at the beginning of the half-year	38,256,269	45,306,148
- Shares issued via Information Memorandum	950,000	950,000
- Shares issued via Rights Issue	498,135	498,135
- Shares issued via private placement	150,000	150,000
- Shares issued on conversion of interest to equity	107,170	89,315
Share issue costs	-	(163,485)
Ordinary shares at the end of the half-year	39,961,574	46,830,113

8. SHARE BASED PAYMENT PLANS

During the period, the Company issued 1,939,800 options. The total number of options on issue at the review date, taking into account those options which lapsed during the period, is 15,578,697.

A total of 87,150 share options are issuable to a licensed financial advisor in relation to capital raising activities conducted for CBio Limited.

9. SEGMENT INFORMATION

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

10. RELATED PARTY TRANSACTIONS

During the period, MPAMM Pty Ltd, a company associated with Dr Michael Monsour, provided a loan of \$262,000 to the company. The loan is unsecured, is non-interest bearing and is repayable on demand. At the review date, the balance of the loan owing to MPAMM Pty Ltd was \$262,000.

During the review period, the company repaid loan funds of \$10,000 to Australian Technology Innovation Fund Limited (ATIF), a company associated with Mr Stephen Jones, Mr Stephen Streeter & Dr Michael Monsour. At the review date, the balance of the loan owing to ATIF was \$40,000.

Mr Stephen Streeter provides fundraising services to the company. During the year, fees totalling \$1,350 were paid or payable to S & M Streeter Investments for raising \$45,000 in new capital for the company. The balance outstanding at the balance date in relation to these fees was \$1,350.

Notes to the Financial Statements

For the half-year ended 31 December 2008

11. COMMITMENTS

As at the review date, the Company had unfinalised contracts involving clinical studies and the production and supply of Cpn10 for use in research and development and clinical studies. The estimated remaining contracted costs to finalise these contracts amount to approximately \$5.3 million. It is expected that these contracts will be finalised by 30 June 2010.

In 2005, the Company entered into a long-term property lease for purpose built facilities which will expire in March 2012. Current lease payments are approximately \$471,000 per annum. A portion of these facilities has been sub-leased until March 2010 at current lease payments of approximately \$131,000 per annum. The net cash flows in 2009 are expected to be \$340,000 and \$935,000 between 30 June 2009 and 31 March 2012.

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

12. SUBSEQUENT EVENTS

Subsequent to the balance date, the Company continued to raise funds via the Rights Issue which opened on 1 November 2008 and closed on 4 March 2009. A total of \$995,600 was raised subsequent to the review date, with a further 995,600 new shares issued. The total number of shares on issue as at the date of signing these accounts is 40,957,174.

The Company has received additional loan funds from MPAMM Pty Ltd, a company associated with Dr Michael Monsour. \$510,000 in new loan funds have been received since the review date, with the total loan liability to MPAMM Pty Ltd now \$772,000. Refer to Note 10 for terms of the loan.

It has been subsequently agreed that the loans due and payable to MPAMM Pty Ltd of \$772,000 be applied to the purchase of Convertible Notes from the Company. This has been effectuated and provides that the loans are no longer at call. The Notes carry an 8% coupon and will convert to 2 Shares in the Company for each \$1 of debt and each Share so issued will have attached to it an Option with an exercise price of \$1.00 and an expiry of date of 31 December 2012. The Notes have a term that will expire by 31 December 2010 and the right to convert or to redemption is held by the purchaser.

Subsequent to the balance date the Company received loan funds of \$30,000 from MP Monsour Medical Practice Pty Ltd, a company associated with Dr Michael Monsour. The loan is unsecured and is interest bearing at 8% per annum.

Subsequent to balance date, a further \$100,000 was received under a Share Purchase Agreement with an existing shareholder.

Notes to the Financial Statements

For the half-year ended 31 December 2008

12. SUBSEQUENT EVENTS (cont'd)

CBio has issued an additional 28 Convertible Notes subsequent to the balance date, raising \$1,665,000. As at the date of this report, there are 40 Convertible Notes on issue with a value of \$2,375,000.

Subsequent to the balance date, the Company has received \$382,879 from the P3 grant funding and \$40,000 from an Export Markets Development Grant.

Thus since balance date the Company has accessed further funds totalling a further \$3,464,106 and so for the financial year to the date of this report (10 months) the Company has accessed a total of \$8,722,541.

Analytica Limited has acquired a Convertible Note of \$500,000 in the Company and may acquire up to \$5.5 million in further Notes by 31 December 2009. Each Convertible Note carries an 8% coupon and will convert to 2 Shares in the Company for each \$1 of debt and each Share so issued will have attached to it an Option with an exercise price of \$1.00 and an expiry of date of 31 December 2012. The Notes have a term that will expire by 31 December 2010 and the right to convert or to redemption is held by the purchaser.

The Company is finalising details of a Rights Issue to raise up to \$15 million (net of costs). The Company will continue to raise funds by Convertible Notes until the Rights Issue is in place.

The Company is negotiating with a European provider for the establishment of a number of clinical trial sites in Europe, to augment the 150 patient trial and ensure its timely conclusion.

13. CORPORATE INFORMATION

CBio Limited is a company incorporated in Australia and limited by shares. The nature of the operations and principal activities of the group are contained in Note 9.

CBIO LIMITED

Directors' Declaration

For the half-year ended 31 December 2008

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

In the opinion of the directors:

- (a) the financial statements and notes of the company:
 - (i) give a true and fair view of the company's financial position as at 31 December 2008 and the performance for the half-year ended on that date; and
 - (ii) comply with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) Subject to the inherent uncertainty regarding the continuation as a going concern as expressed in Note 1 to the financial report, that is, the ability of the company to pay its debts as and when they fall due, and based on the statements contained therein relating to funding initiatives currently underway and the possibility of commercial negotiations with major companies, the Board is of the opinion that there are reasonable grounds to believe the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

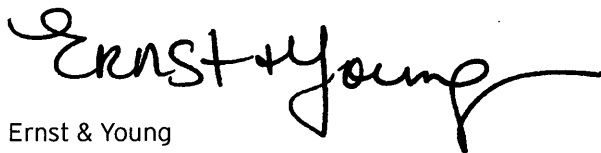


Stephen Jones
Executive Chairman

Date: 5 May 2009

Auditor's Independence Declaration to the Directors of CBio Limited

In relation to our review of the financial report of CBio Limited for the half-year ended 31 December 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

A stylized, handwritten signature of the firm 'Ernst & Young' in black ink.

Ernst & Young

A handwritten signature in black ink, appearing to read 'Winna Brown'.

Winna Brown
Partner
5 May 2009

To the members of CBio Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying condensed half-year financial report of CBio Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of CBio Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. The Auditor's Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this review report was signed.

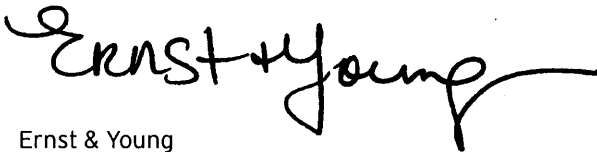
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of CBio Limited is not in accordance with the *Corporations Act 2001*, including:

- i giving a true and fair view of the company's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- ii complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our conclusion, we draw attention to Note 1(c) "Going Concern" in the financial report which indicates that the company incurred a net loss of \$7,328,603 during the half-year ended 31 December 2008 (2007: loss of \$13,040,646) and has a deficiency in current assets of \$6,500,254 (2007: \$1,944,390), and a deficiency of net assets of \$7,874,428 (2007: \$3,225,339) at that date. As described in Note 1(c) "Going Concern", the company will require additional working capital from capital raisings or funding arrangements to continue its operations and pay its debts as and when due. As a result of these matters there is significant uncertainty whether the Company will continue as a going concern, and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts or to the amounts of classification of liabilities that might be necessary should the company not continue as a going concern.

A stylized, handwritten signature of the Ernst & Young firm, written in black ink.

Ernst & Young

A handwritten signature in black ink, appearing to read 'Winna Brown'.

Winna Brown
Partner
Brisbane
5 May 2009