

CBio Limited

ABN 76 094 730 417

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2009

Contents

Corporate Directory	1
Chairman's Letter to Shareholders	2
Director's Report	4
Corporate Governance	16
Income Statement	18
Balance Sheet	19
Statement of Changes in Equity	20
Cash Flow Statement	21
Notes to the Financial Statements	22
Directors' Declaration	51
Auditor's Independence Declaration	52
Independent Audit Report	53

Corporate Directory

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
Mr. Stephen Streeter	Non-executive director
Mr. Jason Yeates	Managing director & Chief Executive Officer
Dr. Dennis Feeney	Executive director & President of Global Development and Licensing

Company Secretary

Mr. Ben Graham

Registered and Principal Office

85 Brandl Street
Eight Mile Plains
Qld 4113

Contact Information

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

Auditors

Ernst & Young
1 Eagle Street
Brisbane Qld 4000

Share Registry & Register

Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Tel: 1300 554 474
Fax: (02) 9287 0303

Chairman's Letter to Shareholders

Dear Shareholder,

I am pleased to present to you the CBio Annual Report for the year ending 30 June 2009.

The year under review has been a challenging one for CBio, highlighted by the crisis in equity markets and the slower than anticipated rate of recruitment into the Phase IIa clinical trial in Rheumatoid Arthritis.

CBio has always adopted a conservative approach when raising capital. Given the risk involved in drug development, it has been prudent to raise only sufficient funds to meet the needs of the current program rather than to seek a more significant level of funding from the market. This is a strategy which has served the company well since its inception, having been well supported by its shareholder base.

However the events in the world economy over the past 12 months or more have seen CBio's ability to raise funds, in a sufficient quantity and in a timely manner, come under increasing pressure. The pool of funds from which CBio has successfully tapped in the past is now much smaller than it once was, and the number of investors willing to invest in unlisted entities such as CBio has decreased. This has had a detrimental effect on the company and its ability to progress its clinical and scientific program.

Although fundraising has been difficult, the fact remains that CBio's lead compound, XToll[®], could potentially revolutionise the treatment of diseases such as rheumatoid arthritis. XToll[®] is potentially a very valuable asset.

Given the potential value of XToll[®], the issue in the USA of the Company's core patent and the clinical success the Company has enjoyed in previous clinical trials, the Board has determined that now is an ideal time to pursue the listing of the company's shares on the Australian Securities Exchange (ASX). XToll[®] represents an exciting investment opportunity and one that, in a listed and liquid environment, offers investors substantial upside should the drug prove as successful as expected and make it to market.

Importantly, CBio will have the opportunity to attract support from institutional investors who have previously been unable to invest in CBio due to it being an unlisted public company and its shares as a consequence illiquid.

CBio has recently completed an Information Memorandum which was underwritten by Novus Capital to the extent of \$6 million. A total of \$10.295 million has been raised under the IM, and the level of interest shown by many new investors in the CBio story has encouraged the Board to hold the view that listing the company's shares is the appropriate path to follow to allow the Company to complete raising its capital needs.

A shareholder's meeting was held on October 2 to consider and vote on an updated Constitution for the Company which both complies with the requirements of the ASX and reflects contemporary regulatory expectations. The meeting approved this change in the Constitution by a unanimous show of hands and it is noted that no proxies were received against the resolution.

Prior to the application to ASX for the official quotation of the Company's shares there will be an additional capital raising which will both allow existing shareholders to apply for additional shares and at the same time allow new shareholders such as institutional investors and managed funds previously unable to invest in CBio to become shareholders in the Company.

The Board expects to raise sufficient funds to complete the Company's current clinical program and to place the company in a very solid position to require no further funding prior to the commercialization of XToll[®] by license or trade sale.

Our 150 patient clinical trial in rheumatoid arthritis commenced in May 2008. As at 30 June 2009, 72 of the 150 patients were enrolled in the study. This trial was designed, quite deliberately, with high entry hurdles aimed at

Chairman's Letter to Shareholders

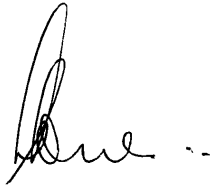
ensuring that those people entering the study have moderate to severe rheumatoid arthritis. The expectation is that the results from these severely effected patients will show that XToll® has a definitive clinical effect in the treatment of the disease with the drug administered subcutaneously. In the short-term however, these high entry hurdles, in addition to competition from other studies, has meant that recruitment has occurred at a slower than expected rate across the 16 sites in Australia and New Zealand.

The recruitment into the trial has also been hampered because CBio was forced to temporarily halt recruitment of new patients in April as a result of impaired drug manufacturing capacity and a higher than expected entry of patients completing the trial then going onto the long term follow study. Those problems are being resolved, although recruitment is not expected to recommence until early 2010. This study will be completed in patients recruited in European sites and is expected to be completed by early 2011.

While it has been disappointing that the trial has been delayed and fundraising has been difficult, it is significant to note that CBio has recently received a 'Notice of Allowance' by the United States Patent Office for our key patent. This was for the Immunosuppression patent, in which the 'composition of matter' for XToll® is claimed, and is a key part of CBio's intellectual property portfolio. This patent is expected to be formally granted in the United States in the coming months.

This Patent signifies and confirms ownership by CBio of the XToll® IP in the largest market in the world. Together with the efficacious clinical studies thus far completed, they add great value to the company's asset values.

There is a detailed Review of Operations from page 4 of the Directors Report which sets out the activities of the company over the past year which I encourage you all to read.



Stephen Jones
Executive Chairman

Director's Report

Your directors present their report for the financial year ended 30 June 2009

DIRECTORS

The names of the directors of the company in office as at the date of this report are as below. Directors have been in office since the start of the financial year to the date of this report 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
Mr. Stephen Streeeter	Non-executive director
Mr. Jason Yeates	Managing director & Chief Executive Officer
Dr. Dennis Feeney	Executive director & President of Global Development & Licensing

PRINCIPAL ACTIVITIES

The principal activities during the year of the company were research, product development and clinical trials of the therapeutic drug XToll™ (Cpn10).

OPERATING RESULTS AND DIVIDENDS

The loss after tax of the company for the year ended 30 June 2009 was \$12,747,758 (2008:\$ 21,015,237 (loss)). A proportion of the loss was non cash in nature and comprised the expensing of Options.

No dividend was proposed or paid.

REVIEW OF OPERATIONS

The loss attributable to members of CBio Limited for the year ending 30 June 2009 was \$12,747,758 (2008:\$ 21,015,237 loss). No dividend was proposed or paid during the period.

During the year, the Company directed most of its resources to its 150-patient Phase IIa clinical trial in Rheumatoid Arthritis, which commenced in May 2008.

This phase IIa double blind, proof-of-principle, placebo controlled three arm study (2 doses of Chaperonin10 or placebo) trial with subcutaneous injection in patients with moderate to severe Rheumatoid Arthritis (RA) is the largest trial so far conducted by CBio, with 72 of the 150 patients (48%) enrolled into the trial as at 30 June.

Fifty-two of the recruited and eligible patients are from Australia and 20 from New Zealand, from a total of 116 patients screened (36% were considered screen failures and ineligible to participate). A total of 14 sites (8 sites in Australia and 6 sites in New Zealand) have recruited patients, with a further 2 sites in Australia granted ethics approval subsequent to the balance date to begin screen patients for the study, resulting in a total of 16 approved sites in Australia and New Zealand.

Subjects completing the six month study were offered the possibility of continuing Chaperonin 10 treatment in an open label extension study (no placebo), in order to gather long term follow up data consisting of efficacy and safety endpoints over an 18 month period. The follow up study has commenced with the first patient enrolled 5th January 2009. 45 subjects have completed the six month study and 33 subjects (24 in Australia and 9 in New Zealand) or 73% have continued into the long term follow up study.

Director's Report

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.

In April 2009 CBio was forced to temporarily suspend recruitment into the trial due to an impaired manufacturing capacity. All patients who were already enrolled in the trial were able to continue on the trial with no interruption to their treatment. However until drug manufacturing and supply issues are resolved we are unable to recruit new patients into the trial. While this has and will cause a delay in the completion of the trial, CBio is investigating the feasibility of utilising additional overseas clinical trial sites once recruitment is able to recommence as a means of minimising any delay to the completion of the trial.

CBio has continued to strengthen its Intellectual Property (IP) position during the year, with the company now having 42 patents granted and 83 patents pending, all in key international markets. 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.

Importantly, CBio received a Notice of Allowability during the year from the US Patent Office for its Chaperonin 10 Immunosuppression patent, in which the 'composition of matter' for XToll® is claimed. This provides very strong patent protection for CBio's lead product XToll® in the key international market. This patent, the Company's cornerstone IP, has already been issued in Australia, New Zealand, India, Singapore and China and is under examination in other jurisdictions including Europe, South Korea and Japan.

Capital raising activities were conducted throughout the year in order to meet working capital requirements. \$1.5 million was raised via a Rights Issue, whilst an Information Memorandum raised a further \$950,000. In addition, \$250,000 was raised via a Share Purchase Agreement with an existing CBio shareholder. The Company has also successfully raised \$4.0 million through the issue of 79 Convertible Notes during the year. Further details on CBio's capital raising activities during the year can be found in Note 11 (Financial Liabilities) and Note 14 (Issued Capital) contained in the Notes to the Financial Statements.

In July 2008, the Company received USD\$2 million (AUD\$2,086,158) 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.

The Company earned \$1,142,108 in grant income during the period, of which NIL was receivable subsequent to the end of the period. Of these funds, \$1,095,600 relate to CBio's P3 Grant, which ended in June 2009. Under this grant, CBio was entitled to receive up to \$5.9 million in funding over a four year period. The balance of grant income (\$46,508) was received as part of the Export Market Development Grant program.

Director's Report

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

SHARE OPTIONS

Unissued Shares

As at the date of this report, and at the reporting date, there were 15,578,697 unissued ordinary shares under options (15,578,697 at the reporting date). Refer to the Remuneration Report for further details of the options outstanding. These options relate to the employee, director and other persons options scheme.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate.

At balance date there were also a further 5,653,412 options which may be issued on conversion of convertible notes to equity.

Post 30 June 2009 the continued issuance of convertible notes increased the number of options which may be issued on conversion by 3,117,647 and resolutions of the Directors on 10 August 2009 issued an additional 1,342,152 options in satisfaction of outstanding liabilities.

Shares Issued as a Result of the Exercise of Options

During the financial year, no options were exercised by employees or executives.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

The Company has continued to raise funds via a number of initiatives subsequent to the balance date.

A further 17 Convertible Notes, raising \$3,200,000, have been issued subsequent to the balance date on the terms outlined in Note 11.

In August the Company issued an Information Memorandum to raise a maximum of \$25 million through the issue of both Convertible Notes and Shares. The offer was underwritten to \$6 million by Novus Capital Limited. The Company has issued 6 convertible note, totalling \$3 million, and received subscriptions for 14,590,000 shares, raising \$7,295,000, as part of the Information Memorandum subsequent to the balance date.

In August the Company announced its intention to list CBio on the Australian Securities Exchange prior to the end of 2009.

FUTURE DEVELOPMENTS

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

- completion of a 150-patient Phase IIa clinical trial in Rheumatoid Arthritis
- further research into the understanding of the mode of action of Cpn10
- further activities supporting and strengthening CBio's IP position
- further commercialisation and licensing discussions and capital raising initiatives

Director's Report

ENVIRONMENTAL ISSUES

The Company's operations are not subject to significant environmental regulation under the law of the Commonwealth or State.

CORPORATE STRUCTURE

CBio Limited is an entity incorporated and domiciled in Australia.

DIRECTORS QUALIFICATIONS AND EXPERIENCE

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

Stephen Jones is a founding director of CBio and was appointed its 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). He has been involved with several public capital raisings totalling in excess of \$100,000,000 and was a director of Fortune Advanced Technologies Pty Ltd, Retirewise Capital Australia Ltd, Ingot Capital Management Pty Ltd, and other funds management and venture capital companies. He has served on the Boards of several listed public companies including Greyhound Pioneer Australia Limited, Analytica Limited, Psiron Limited and Bresagen Limited, and is chairman of Australian Technology Innovation Fund Limited, one of CBio's single largest shareholders.

Mr Jones is also a member of the Audit Committee.

Dr. Peter Corr, Non-executive director (appointed 30 October 2007)

Dr Peter B. Corr is Founder and General Partner, Celtic Therapeutics Management Company LLP, a private equity firm focused on the development of innovative therapeutics. Prior to that appointment Dr Corr served as Senior Vice-President for Science and Technology at Pfizer Inc from 2002 to 2007. Before assuming that role, Dr Corr served as Executive Vice-President, Pfizer Global Research & Development; and President, Worldwide Development. Prior to joining Pfizer in 2000, he was President of Pharmaceutical Research and Development at Warner Lambert/Parke Davis until the merger with Pfizer. Earlier, he served as Senior Vice-President, Discovery Research, at Monsanto/Searle. Dr Corr, who received his doctorate from Georgetown University School of Medicine, spent 18 years as a researcher in molecular biology and pharmacology at Washington University in St Louis. When he left the university, Dr Corr was Professor, Department of Medicine (Cardiology) and Professor, Department of Pharmacology and Molecular Biology. His research has been published in more than 160 scientific manuscripts. Dr Corr is the recipient of numerous awards, including membership in the Alpha Omega Alpha National Medical Honorary Society, an Established Investigator Award from the American Heart Association and a Research Career Development Award from the National Institutes of Health. He received the Washington University School of Medicine Teacher of the Year Award and, in 1990, the Washington University Distinguished Faculty Award. In 2004, Dr Corr was named a William Pitt Fellow at Pembroke College, Cambridge. Dr Corr served on the Board of Governors and was Chairman of the Board of the New York Academy of Sciences, the Board of Regents of Georgetown University and several other non-profit and for-profit boards.

Director's Report

Dr Göran Ando, Non-executive director (appointed 5 October 2007)

Dr Göran Ando qualified as a medical doctor and a specialist in general medicine from Linköping Medical University in Sweden. He is a founding fellow of the American College of Rheumatology in the United States. From 1989 until 1995, Dr Ando was medical director and later R&D director of Glaxo Group in the United Kingdom. From 1995 until 2003 he was executive vice-president and then president of R&D with Pharmacia (Pfizer) and from 2003 until 2004, CEO of Celltech Group plc in the United Kingdom. Dr Ando serves as Chairman of the Boards of Novexel S.A.; is Vice-Chairman of the Boards of Novo Nordisk and S*Bio Pty; and is a member of the Boards of Novo A/S and NicOx S.A.. Dr Ando also serves as a senior advisor to Essex Woodlands Health Ventures UK Ltd.

Professor John Funder, AO, Non-executive director (appointed 5 October 2007)

Professor John Funder, AO, is currently Professor of Medicine at Monash University, Senior Fellow at Prince Henry's Institute of Medical Research, a Professorial Associate at the Centre for Neuroscience at the University of Melbourne. He holds an Honorary Appointment at the Institute for Molecular Biosciences, University of Queensland. Professor Funder has worked for over 40 years in endocrinology with particular interests in steroid hormones and receptors, and hormonal mechanisms in hypertension and heart failure. He has been a member of advisory panels, including PIIP and P3 for the Commonwealth Government, and has a number of roles in Victoria, including chairing the Victorian Health Promotion Foundation and the Hospitals Admission Risk Program (HARP). He has published over 500 scientific papers, 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 Australia, Europe, Japan and the United States.

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

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).

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

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.

Director's Report

Mr Jason Yeates, Managing director & Chief Executive Officer (appointed 5 October 2007)

Jason Yeates joined CBio as Chief Financial Officer in 2004. Soon afterwards he assumed the role of Chief Operating Officer, and was appointed to the position of CEO in 2006. He was appointed Managing Director in 2007. Mr Yeates has forged the Company's transition from a R&D company to a development company, and has overseen its associated growth. His diverse range of skills has been acquired through experience in mergers and acquisitions, fundraising, commercialisation, sales and 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 with MCI Limited during the company's successful expansion into Asia, as well as Asia-Pacific Finance Director with Asia Global Crossing Limited.

Mr Yeates is also a member of the Audit Committee.

Dr Dennis Feeney, Executive director & President Global Development & Licensing (appointed 5 October 2007)

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.

COMPANY SECRETARY

Mr Ben Graham (appointed 8 August 2007)

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

DIRECTORS' MEETINGS

Director's Report

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

	Directors' Meetings		Audit Committee Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr Stephen Jones	6	6	1	1
Dr Peter Corr	6	6	-	-
Dr Göran Ando	6	6	-	-
Prof. John Funder	6	6	-	-
Dr Michael Monsour	6	6	-	-
Mr Stephen Streeter	6	6	-	-
Mr Jason Yeates	6	6	1	1
Dr Dennis Feeney	6	6	-	-

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

REMUNERATION REPORT (AUDITED)

This remuneration report outlines the director and executive remuneration arrangements of the Company in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Company receiving the highest remuneration. The names and positions held of Company key management personnel in office at any time during the financial year are:

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
Mr Stephen Streeter	Non-executive director
Mr Jason Yeates	Managing director and Chief Executive Officer
Dr Dennis Feeney	Executive director and President of Global Development & Licensing
Mr James Greig	Chief Financial Officer

Director's Report

Remuneration Policy

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

The Board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The maximum aggregate amount of fees that can be paid to non-executive directors is determined by the company in accordance with its constitution and associated approvals. Directors' fees are reviewed annually. Executive directors are paid a fixed salary per annum and do not receive directors fees.

The Chairman was paid directors fees of \$14,000 and consulting fees of \$385,000 in the year ending 30 June 2009. Non-executive directors receive directors fees of \$50,000 per annum. 9% statutory superannuation is payable on all fees where applicable. Consulting fees are paid on normal commercial terms. There are no amounts payable on termination other than accrued statutory entitlements. All directors are entitled to participate in the Director Share Option Plan. Directors are not appointed under any fixed term contract, and under the constitution of the company remain a director until their resignation or removal from office.

The Managing Director, Mr Jason Yeates is appointed under a contract of employment with the Company. The Managing Director is on a fixed salary of \$300,000 per annum plus statutory superannuation. There are no benefits payable on termination other than accrued statutory entitlements. The Managing Director is entitled to participate in the Director Share Option Plan.

Dr Dennis Feeney, executive director and President of Global Development & Licensing, is employed under a service agreement with the company. Dr Feeney is paid consulting fees of \$280,000 per annum. There are no benefits payable on termination other than accrued statutory entitlements. Dr Feeney is eligible to participate in the Director Share Option Plan.

Compensation received by executive and non-executive directors is not linked to the performance of the Company. However, to align director's interests with shareholder interests, directors are encouraged to hold shares in the company and are able to participate in the Director Share Option Plan.

Key Management Personnel Remuneration policy

The remuneration structure for key management personnel is based on a number of factors, including length of service and the particular experience of the individual concerned. The contracts of service between the company and key management personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. Upon retirement, key management personnel are paid employee benefit entitlements accrued to the date of retirement.

The Chief Financial Officer, Mr James Greig, is employed under a contract of employment with the Company. Mr Greig is paid a salary of \$220,000 per annum plus statutory superannuation. There are no benefits payable on termination other than accrued statutory entitlements. The Chief Financial Officer is entitled to participate in the Executive Share Option Plan.

No short term incentives are provided by the Company. Additional remuneration is provided to key management personnel through share options. Options are issued at the discretion of the Board to continue development of the Company's research to an end financial realisation and subsequent benefit to employees by increasing share price above option strike prices. Mr Jason Yeates and Dr Dennis Feeney were each issued 500,000 and 300,000 options respectively during the period which vest immediately. Mr James Greig was issued 464,800 options during the period which vested immediately on issue. There are no other performance hurdles to be met prior to

Director's Report

any other options vesting except for the continued general movement forward in the Company's research. CBio has no policy on employees and Directors hedging their economic risk on options.

Directors Remuneration

2009	Short-Term		Post Employment Superannuation	Termination Benefit	Share- Based Payment Value of Options	Total
	Salary & Fees	Other				
	\$	\$	\$	\$	\$	\$
S Jones	399,000	-	1,260	-	-	400,260
P Corr	50,000	-	-	-	-	50,000
G Ando	50,000	-	-	-	-	50,000
J Funder	50,000	-	-	-	-	50,000
M Monsour	59,000	-	4,500	-	-	63,500
S Streater	56,318	-	-	-	-	56,318
J Yeates	300,000	-	27,000	-	300,884	627,884
D Feeney	280,000	-	-	-	231,884	511,884
	1,244,318	-	32,760	-	532,768	1,809,846

2008	Short-Term		Post Employment Superannuation	Termination Benefit	Share- Based Payment Value of Options	Total
	Salary & Fees	Other				
	\$	\$	\$	\$	\$	\$
S Jones	339,389	-	1,260	-	-	340,649
P Corr	-	-	-	-	370,000	370,000
G Ando	50,000	-	-	-	259,000	309,000
J Funder	50,000	-	-	-	351,500	401,500
M Monsour	78,800	-	4,500	-	370,000	453,300
S Streater	77,096	-	-	-	-	77,096
J Yeates	250,000	-	22,500	-	71,154	343,654
D Feeney	265,000	-	-	-	71,154	336,154
	1,110,285	-	28,260	-	1,492,808	2,631,353

No percentage of Director remuneration was at risk.

Executive Remuneration

Director's Report

	Short-Term		Post	Termi-	Share	Total
	Salary & Fees	Other	Employ-ment Superannuation	nation-enefit	Based Payment Value of Options	
2009	\$	\$	\$	\$	\$	\$
J Greig	220,132	-	19,800	-	277,643	517,575
2008						
J Greig	150,152	-	13,500	-	71,154	234,806

No percentage of executive remuneration was at risk.

Remuneration and CBio Limited Performance

No percentage of remuneration in 2009 or 2008 was performance related. Remuneration is not linked to financial performance as CBio is in research and development. Relative movements in Basic EPS and Net tangible assets per share for the last four years presents as follows:

	2006	2007	2008	2009
Earnings/(Loss) Per Share (cents per share)	(51.93)	(61.74)	(73.44)	(31.89)
Net tangible assets per share (cents per share)	19.28	2.70	(8.52)	(28.23)

Options issued as part of remuneration for the year ended 30 June 2009

Options are issued to directors and executives as remuneration. Options are not issued based on performance criteria, but are issued to increase goal congruence between executives, directors and shareholders.

Options Granted As Remuneration

	No. Vested During Year	No. Granted During Year	Grant Dates	Value per Option at Grant Date	Terms & Conditions for Each Grant		
					Exercise Price	First Exercise Date	Expiry Date
2009							
S Jones	-	-	-	-	-	-	-
P Corr	-	-	-	-	-	-	-
G Ando	-	-	-	-	-	-	-
J Funder	-	-	-	-	-	-	-
M Monsour	-	-	-	-	-	-	-
S Streeter	-	-	-	-	-	-	-
J Yeates	500,000	500,000	11/07/08	\$0.345	\$1.00	11/07/08	31/12/12
D Feeney	300,000	300,000	11/07/08	\$0.345	\$1.00	11/07/08	31/12/12
J Greig	464,800	464,800	11/07/08	\$0.345	\$1.00	11/07/08	31/12/12
	1,264,800	1,264,800					
2008							
	No. Vested During	No. Granted During Year	Grant Dates	Value per Option at Grant Date	Exercise Price	First Exercise Date	Expiry Date

Director's Report

	Year						
S Jones	-	-	-	-	-	-	-
P Corr	1,000,000	1,000,000	13.09.2007	\$0.37	\$1.00	13.09.2007	31.12.2012
G Ando	700,000	700,000	13.09.2007	\$0.37	\$1.00	13.09.2007	31.12.2012
J Funder	950,000	950,000	13.09.2007	\$0.37	\$1.00	13.09.2007	31.12.2012
M Monsour	1,000,000	1,000,000	13.09.2007	\$0.37	\$1.00	13.09.2007	31.12.2012
D Feeney	-	500,000	13.09.2007	\$0.37	\$1.00	(i)	31.12.2012
J Yeates	-	500,000	13.09.2007	\$0.37	\$1.00	(i)	31.12.2012
J Greig	-	500,000	13.09.2007	\$0.37	\$1.00	(i)	31.12.2012
	<u>3,650,000</u>	<u>5,150,000</u>					

(i) Options vest upon the delivery of the final clinical study report from the current 150-patient Phase IIa RA clinical trial.

Total Number of Options held by Key Management Personnel

	Balance 1 July	Remunerat- ion Options Granted	Acquired/ (Disposed)	Balance 30 June	Total Vested 30 June	Total Exercisable 30 June	Total Unexercis- able 30 June
2009							
S Jones	300,000	-	-	300,000	300,000	300,000	-
P Corr	1,000,000	-	-	1,000,000	1,000,000	1,000,000	-
G Ando	1,000,000	-	-	1,000,000	1,000,000	1,000,000	-
J Funder	1,000,000	-	-	1,000,000	1,000,000	1,000,000	-
M Monsour	1,500,000	-	-	1,500,000	1,500,000	1,500,000	-
S Streeter	1,300,000	-	-	1,300,000	1,300,000	1,300,000	-
J Yeates	1,500,000	500,000	-	2,000,000	1,500,000	1,500,000	500,000
D Feeney	1,500,000	300,000	-	1,800,000	1,300,000	1,300,000	500,000
J Greig	535,200	464,800	-	1,000,000	800,000	800,000	200,000
	<u>9,635,200</u>	<u>1,264,800</u>	<u>-</u>	<u>10,900,000</u>	<u>9,700,000</u>	<u>9,700,000</u>	<u>1,200,000</u>
2008							
S Jones	300,000	-	-	300,000	300,000	300,000	-
P Corr	-	1,000,000	-	1,000,000	1,000,000	1,000,000	-
G Ando	300,000	700,000	-	1,000,000	1,000,000	1,000,000	-
J Funder	50,000	950,000	-	1,000,000	1,000,000	1,000,000	-
M Monsour	500,000	1,000,000	-	1,500,000	1,500,000	1,500,000	-
S Streeter	1,300,000	-	-	1,300,000	1,300,000	1,300,000	-
J Yeates	1,000,000	500,000	-	1,500,000	1,000,000	1,000,000	500,000
D Feeney	1,000,000	500,000	-	1,500,000	1,000,000	1,000,000	500,000
J Greig	35,200	500,000	-	535,200	23,232	23,232	511,968
	<u>4,485,200</u>	<u>5,150,000</u>	<u>-</u>	<u>9,635,200</u>	<u>8,123,232</u>	<u>8,123,232</u>	<u>1,511,968</u>

Director's Report

INDEMNITY

In accordance with the constitution of CBio Limited:

Every Director, Secretary, Manager, Accountant, Trustee or other person employed in the business of the Company shall be indemnified by the company against, and it shall be the duty of the directors out of the funds of the company to pay, all costs, losses and expenses for which any such Director, Secretary, Manager, Accountant, Trustee or other person as aforesaid may become liable by reason of any contract entered into or act or deed done by him as such Director, Secretary, Manager, Accountant, Trustee or servant in any way in the proper discharge of his duties, unless such costs, losses and expenses shall be caused or contributed to by his own negligence, default, breach of duty or breach of trust. CBio Limited has appropriate directors and officers insurance. A premium was paid in the period, however details of this premium are confidential.

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

NON-AUDIT SERVICES

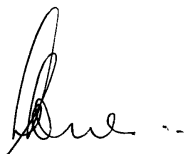
During the year, the Company's auditors have performed a number of non-audit services. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The details of the services provided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

Income Tax Return preparation including R&D tax concession	\$	5,563
General advice on taxation and compliance matters	\$	2,800
P3 Grant Audit	\$	3,000
Total	\$	<u>11,363</u>

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: 15 October 2009

Corporate Governance

CORPORATE GOVERNANCE STATEMENT

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

ROLE OF THE BOARD AND MANAGEMENT

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

STRUCTURE OF THE BOARD

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

The size and structure of the Board was enhanced significantly during the year with the appointment of a number of independent directors. The majority of the Board are now considered to be independent. The Executive Chairman, by virtue of his executive role, is not considered to be independent. As the company grows and the valuation of the company's intellectual property increases it is expected greater levels of independence will be achieved.

Due to the size of the Company, it is not considered necessary to maintain a Nomination Committee. When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the services of a new director with particular skills, the Board considers candidates with the appropriate expertise and experience. The Board then appoints the most suitable person.

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

ETHICAL AND RESPONSIBLE DECISION MAKING

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

SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

An Audit Committee was formed subsequent to the balance date. Mr. Stephen Jones, Mr. Jason Yeates and Mr. James Greig are members of the Audit Committee. The functions of the Audit Committee include the establishment and maintenance of the framework of internal control and appropriate ethical standards for the management of the economic entity.

Corporate Governance

TIMELY AND BALANCED DISCLOSURE

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

SHAREHOLDERS RIGHTS

The Company does not have a formal shareholder communications strategy. However, the Board is conscious of the importance of effective shareholder communication and makes use of its corporate website, periodic shareholder newsletters and requests that the external Auditor attends Annual General Meetings.

RECOGNISE AND MANAGE RISK

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

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

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

REMUNERATION

Directors' and Senior Executive Emoluments are outlined in Note 23 Key Management Personnel.

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

The Board sets the remuneration of the Executive and Non-Executive Directors. The only retirement benefits payable to Non-Executive directors are statutory superannuation payments.

Income Statement

For the year ended 30 June 2009

	Notes	Parent Entity	
		2009 \$	2008 \$
Continuing Operations			
Fair value movement of derivative		144,331	-
Interest received		20,712	12,833
Other income	2	1,177,169	1,200,017
Borrowing costs expense	3	(395,467)	(135,709)
Administration expenses	4	(5,088,395)	(10,466,335)
Research and development		(7,353,717)	(9,574,774)
Patent costs		(702,084)	(532,143)
Loss on disposal of available for sale assets		-	(744,972)
Marketing expenses		(550,307)	(774,154)
Loss before income tax from continuing operations		(12,747,758)	(21,015,237)
Income tax expense	5	-	-
Loss from continuing operations after income tax		(12,747,758)	(21,015,237)
(Loss)/gain per share (cents per share)			
Basic/Diluted – Continuing operations	17	(32.06)	(73.44)

The accompanying notes form part of these financial statements

Balance Sheet

As at 30 June 2009

		Parent Entity	
		2009	2008
		\$	\$
	Notes		
Current assets			
Cash and cash equivalents	18a	40,335	36,367
Trade and other receivables	6a	14,765	2,301,490
Other current assets	7	51,024	55,970
Total current assets		106,124	2,393,827
Non-Current Assets			
Property, plant and equipment	8	454,826	662,691
Trade and other receivables	6b	150,000	181,597
Intangible assets	9	-	-
Total Non-Current Assets		604,826	844,288
Total Assets		710,950	3,238,115
Current Liabilities			
Trade and other payables	10	5,977,398	3,946,121
Short-term provisions	12a	151,982	119,209
Unearned income	13	2,086,158	-
Financial liabilities	11	820,441	272,887
Total current liabilities		9,035,979	4,338,217
Non-Current Liabilities			
Long-term provisions	12b	74,646	39,079
Financial liabilities	11	2,405,136	-
Unearned income	13	-	2,086,158
Total Non-Current Liabilities		2,479,782	2,125,237
Total Liabilities		11,515,761	6,463,454
Net Deficiency		(10,804,811)	(3,225,339)
Equity			
Issued Capital	14	47,947,588	45,306,148
Reserves	16	16,628,240	14,101,394
Accumulated Losses		(75,380,639)	(62,632,881)
Total Deficiency in Equity		(10,804,811)	(3,225,339)

The accompanying notes form part of these financial statements

Statement of Changes in Equity

For the year ended 30 June 2009

	Note	Parent Entity	
		2009 \$	2008 \$
SHARE CAPITAL			
Balance at 1 July		45,306,148	36,838,670
Issue of share capital		2,884,300	8,693,326
Cost of capital raising		(242,860)	(255,848)
Balance at 30 June		47,947,588	45,306,148
ACCUMULATED LOSSES			
Balance at 1 July		(62,632,881)	(41,617,644)
Loss for the period		(12,747,758)	(21,015,237)
Balance at 30 June		(75,380,639)	(62,632,881)
RESERVES			
Balance at 1 July		14,101,394	5,494,253
Convertible note issuance		1,072,295	-
Equity-based compensation		1,454,551	8,607,141
Balance at 30 June		16,628,240	14,101,394

The accompanying notes form part of these financial statements.

Cash Flow Statement

For the year ended 30 June 2009

	Notes	Parent Entity	
		2009 \$	2008 \$
Cash flows from/(used in) operating activities			
Payments to suppliers and employees		(9,809,722)	(11,423,335)
Grant income received		1,245,880	1,378,632
Cash received in the course of operations		2,160,688	135,421
Interest received		20,712	79,744
Interest paid		(124,836)	(30,333)
Net cash used in operating activities	18b	(6,507,278)	(9,859,871)
Cash flows from/(used in) investing activities			
Bank guarantee deposit		31,597	(11,136)
Purchase of Plant and equipment		(60,476)	(25,187)
Proceeds from sale of investments		-	1,406,097
Proceeds from receipt of financial asset		-	94,000
Net cash (used in)/provided by investing activities		(28,879)	1,463,774
Cash flows from/(used in) financing activities			
Proceeds from issue of shares		2,693,735	4,660,215
Proceeds from issue of convertible note		3,210,000	3,580,000
Repayment of borrowings		(24,000)	-
Share issue costs		(141,610)	(53,000)
Proceeds from shares not yet issued		-	10,000
Proceeds from borrowings		802,000	79,541
Net cash provided by financing activities		6,540,125	8,276,756
Net increase/(decrease) in cash held		3,968	(119,341)
Cash at beginning of the financial period		36,367	155,708
Cash at the end of the financial period	18a	40,335	36,367

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) General

(i) Statement of Compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the consolidated financial statements and notes of CBio Limited comply with International Financial Reporting Standards ("IFRS").

As at 30 June 2009 there were no Australian Equivalents to International Accounting Standards or applicable pronouncements issued and not yet effective that are expected to have a material impact on the financial results or position of the Company.

(ii) Corporate Information

CBio Limited is a public Company limited by shares incorporated in Australia. The shares of CBio Limited are not traded on a recognised public stock exchange. The nature of the operations and principal activities of the Company are described in Note 26.

b) Basis of Accounting

The financial statements have been prepared in accordance with the historical cost convention. Cost in relation to assets represents the cash amount paid or the fair value of the assets given in exchange. The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Accounting Interpretations) have also been complied with.

c) Going Concern

The report has been prepared on a going concern basis. The Company incurred an operating loss after income tax of \$12,747,758 (2008: \$21,015,237) for the year ended 30 June 2009. At 30 June 2009 the Company has net current liabilities of \$8,929,855 and an excess of liabilities over total assets of \$10,804,811. 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, current capital raising initiatives underway and the positive clinical results to date. The success of future capital raising for CBio Limited will depend on the Company achieving positive results in the future clinical trials.

CBio's ongoing research & development program will require additional funding to be raised over the next 12 months. The directors have already commenced raising these funds and raised \$2.7 million in cash from the issue of new equity to sophisticated investors during the year and a further \$4.0 million through the issue of convertible notes in the year. Fundraising initiatives have been ongoing subsequent to the balance date, with a further \$200,000 being raised from the issue of Convertible Notes and \$10.295 million being raised through the issue of shares and Convertible Notes as part of an Information Memorandum, underwritten to \$6 million by Novus Capital Limited. The Company has also announced its intention to list CBio on the Australian Securities Exchange late in 2009. It is expected this listing will allow CBio in future to raise funds in a more timely manner from a wider pool of potential retail and institutional investors.

Notes to the Financial Statements

For the year ended 30 June 2009

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

Additionally CBio has 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 year and a further USD\$1 million is expected to be received upon the recruitment of the 75th patient into the current clinical trial. There are currently 73 patients enrolled.

Should CBio not receive future funds, 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.

d) Property, Plant and Equipment

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

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

	2009	2008
Buildings	4%	4%
Plant and equipment	10%-50%	10%-50%
Computer equipment	20%-50%	20%-50%
Furniture and fittings	10%-20%	10%-20%

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

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

e) Acquisition of Assets

All assets acquired including property, plant and equipment and intangibles other than goodwill, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market prices at the date of acquisition are used as fair

Notes to the Financial Statements

For the year ended 30 June 2009

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

value, except where the notional price at which they could be placed in the market is a better indication of fair value.

f) Recoverable Amount of Assets

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

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

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

g) Trade and Other Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. Terms of receivables are between 30 and 45 days.

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

h) Intangible Assets

Intellectual Property

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

i) Research and Development Expenditure

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

j) Income Taxes

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

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

Notes to the Financial Statements

For the year ended 30 June 2009

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

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

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

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

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

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

k) Other Taxes

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

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

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

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

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

l) Cash and Cash Equivalents

Cash on hand and in banks and short term deposits are stated at its fair value.

Notes to the Financial Statements

For the year ended 30 June 2009

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

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

m) Investments

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

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

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

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

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

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

o) Revenue Recognition

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

- Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.
- Fee income derived from research & development contracts is recognised when specific milestones are achieved and the consolidated entity becomes entitled to the income under the terms of the relevant contract.
- Contract research income is recognised as and when the relevant research expenditure is incurred. When the consolidated entity received income in advance of incurring the relevant expenditure, it is treated as deferred income as the consolidated entity does not control the income until the relevant expenditure has been incurred.
- License fees are recognised evenly over the life of the license.

Notes to the Financial Statements

For the year ended 30 June 2009

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

p) Foreign Currency

The functional and presentation currency of CBio is Australian Dollars.

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

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

q) Trade and Other Payables

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

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

r) Issued Capital

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

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

s) Leased Assets

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

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

t) Superannuation

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

u) Employee Benefits

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

When CBio expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is

Notes to the Financial Statements

For the year ended 30 June 2009

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

virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Wages, Salaries and Annual Leave

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

Long Service Leave

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

v) Government Grants

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

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

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

w) Interest-Bearing Loans and Borrowings

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2009

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

Convertible Notes

The component of the convertible note that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs.

On issuance of the convertible notes, the fair value of the conversion option is determined and recorded as a separate component of equity. The net balance of the convertible note is recorded as an interest bearing liability. The liability is increased over the term of the liability using the effective interest rate implicit in the note. Any increase recorded is recognised as interest expense.

Certain convertible notes contain a feature which allows options over ordinary shares to be issued. This option feature is recorded as an embedded derivative liability on issuance of the convertible note at the fair value of the embedded derivative. At each balance date while the convertible note is outstanding the embedded derivative liability is re-measured to fair value through the profit and loss.

x) Use and Revision of Accounting Estimates

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

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

y) Borrowing Costs

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

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2009

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

z) Earnings Per Share

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

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

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

aa) Share-Based Payment Transactions

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

There are currently four plans in place to provide these benefits, a Director Share Option Plan, Executive Share Option Plan, Employee Share Option Plan and an Other Share Option Plan. The costs of the equity settled transactions with participants are measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black Scholes option-pricing model.

In valuing equity settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of CBio Limited ('market conditions').

The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

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

Notes to the Financial Statements

For the year ended 30 June 2009

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

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

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

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

bb) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods. Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined with using a black scholes model, with the assumptions detailed in Note 15(e). The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Convertible Notes

The fair value of equity components contained in convertible notes is determined with using a black scholes model. The accounting estimates and assumptions relating to these equity components would have an impact on the carrying amounts of liabilities within the next annual reporting period, expenses and equity.

As the Company is not a listed entity a proxy of other listed companies is used to determine the volatility assumption used in valuation models for share-based payments, other equity instruments and embedded derivatives.

Notes to the Financial Statements

For the year ended 30 June 2009

	\$	\$
2. OTHER INCOME		
Government grants (i)	1,142,108	1,159,818
Other income	35,061	40,199
	1,177,169	1,200,017

(i) There no unfulfilled conditions or contingencies attached to these grants at balance date.

3. BORROWING COSTS EXPENSE

Cash interest expense on Convertible notes:

- Related entities – Note 24	25,754	12,423
- External	58,687	119,699
Other interest expense	311,026	3,587
	395,467	135,709

4. ADMINISTRATION AND EMPLOYEE EXPENSES*(a) Administration Expenses*

Consulting fees	742,478	508,918
Depreciation of non-current assets:		
Leasehold improvements	22,436	21,767
Plant & equipment	245,906	267,828
Office rental	380,872	352,868
Legal & compliance fees	171,269	269,671
Insurance	92,023	67,568
Share registry costs	9,785	21,508
Print, post & stationary	33,891	47,387
Utilities	92,535	81,052
IT support	34,364	33,956
Salaries, wages & fees	1,027,651	995,027
Superannuation	237,959	214,111
Payroll tax	162,262	160,631
Employee entitlements	68,339	43,285
Travel	67,961	137,191
Equity-based compensation (i)	1,277,592	6,845,334
Other	421,072	398,233
Total Administration expenses	5,088,395	10,466,335

(i) Includes only amounts related to administrative remuneration. Other equity compensation costs are allocated across other profit and loss captions.

2009

2008

Notes to the Financial Statements

For the year ended 30 June 2009

	\$	\$
5. INCOME TAX		
Income Statement		
<i>Current income tax</i>		
Current income tax benefit	3,861,688	4,093,555
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(208,978)	(733,134)
Future income tax benefits (not recognised)/recognised	(3,652,771)	(3,360,421)
Income tax expense reported on the income statement	-	-
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the company's applicable income tax rate is as follows:		
Accounting Profit (Loss) before income tax	(12,747,758)	(21,015,237)
At the Company's statutory income tax rate of 30%:	(3,824,327)	(6,304,571)
Additional deductions – Research and Development	(473,681)	(371,126)
Non tax deductible items - Options	436,365	2,582,142
Movement in temporary differences not recorded	208,872	733,134
Tax assets not recognised	3,652,771	3,360,421
Income tax expense	-	-
Tax assets (At 30%)		
Domestic tax losses	20,135,291	16,482,520
Temporary differences – including balances in equity	2,175,397	1,966,525
Total unrecorded tax assets	22,310,688	18,449,045

At 30 June 2009 the Company has significant estimated, unconfirmed and unrecouped revenue losses as disclosed above. No future income tax benefit for the tax losses incurred by the company has been recognised as an asset. Because of the complexity of the Company's changing shareholder base and operations, combined with income tax legislation, the amount of the Company's available tax losses as at 30 June 2009 which are available for carry forward use can not be determined with a sufficient degree of probability. Management will undertake a detailed review of the ability to carry forward and use these losses on a needs basis. As a result of this the losses disclosed as available below may not be available in full.

Temporary differences		
Capital raising costs	131,891	125,900
Patent costs	766,691	600,907
Research licence	495,000	540,000
Unearned income	625,847	625,847
Provisions and accruals	155,968	73,871
	2,175,397	1,966,525

5. INCOME TAX (cont'd)

Notes to the Financial Statements

For the year ended 30 June 2009

The losses disclosed as at 30 June 2009 will only be obtained in future periods if:
 Future assessable income of a nature and of an amount sufficient to enable the benefit to be realised;
 The conditions for deductibility imposed by tax legislation continue to be complied with; and
 No changes in tax legislation adversely affect the Company in realising the benefit.

	2009 \$	2008 \$
6. TRADE & OTHER RECEIVABLES		
(a) Current		
Government grant receivable	-	103,272
GST receivable	-	77,554
Non- related entity debtors	14,765	2,120,664
	<u>14,765</u>	<u>2,301,490</u>

Terms and conditions

All receivables are non-interest bearing and are usually settled on terms of between 30 and 45 days. Government grants relate to the Pharmaceutical Partnership Program (P3) grant. All receivables are within terms and no amounts are past due or past due and impaired. Credit risk is assessed as low on all receivables as CBio only deals with recognised credit worthy third parties. Credit risk assessments on an individual transaction basis are made by management.

(b) Non-current

Bank Guarantee Deposit (i)	150,000	181,597
	<u>150,000</u>	<u>181,597</u>

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

7. OTHER CURRENT ASSETS

Prepayments	51,024	55,970
	<u>51,024</u>	<u>55,970</u>

8. PROPERTY, PLANT & EQUIPMENT

Total property, plant & equipment		
- At Cost	1,817,618	1,757,141
- Accumulated Depreciation	(1,362,792)	(1,094,450)
Total written down value	<u>454,826</u>	<u>662,691</u>

Leasehold Improvements

At cost	147,201	147,201
Provision for depreciation	(80,826)	(58,390)
	<u>66,375</u>	<u>88,811</u>

	2009 \$	2008 \$

Notes to the Financial Statements

For the year ended 30 June 2009

Movement in carrying value		
Carrying value at the beginning of the year	88,811	104,638
- Additions	-	5,940
- Depreciation	(22,436)	(21,767)
Carrying value at the end of the year	66,375	88,811
Plant & Equipment		
At cost	1,670,417	1,609,940
Provision for depreciation	(1,281,966)	(1,036,060)
	388,451	573,880
Movement in carrying value		
Carrying value at the beginning of the year	573,880	806,601
- Additions	60,477	35,107
- Depreciation	(245,906)	(267,828)
Carrying value at the end of the year	388,451	573,880
9. INTANGIBLE ASSETS		
Intellectual property	4,125,000	4,125,000
Provision for recoverability (i)	(4,125,000)	(4,125,000)
	-	-

(i) The Directors have provided against the notional book value of the intellectual property purchased given the risks and uncertainties associated with the continued research and development and ultimate commercialisation of this asset.

10. TRADE & OTHER PAYABLES

Trade payables	4,557,348	3,457,825
Accrued expenses	921,676	288,333
Director and director related entities	498,124	189,964
Shares to be allotted	250	10,000
	5,977,398	3,946,121

Terms and conditions of Payables

Trade creditors are non-interest bearing and are normally settled on 30-day terms. Director and director related entity payables are non-interest bearing and are payable for services provided in the ordinary course of operations. Details of payments made to directors are set out in Note 24 Key Management Personnel.

2009	2008
\$	\$

Notes to the Financial Statements

For the year ended 30 June 2009

11. FINANCIAL LIABILITIES

Current

Convertible note (i)	710,000	100,000
Interest payable on Convertible Notes	84,441	105,376
Loan liabilities:- Related entity (ii)	26,000	50,000
Loan liabilities:- Other	-	17,511
	820,441	272,887

Non Current

Convertible note (i)	1,746,714	-
Embedded derivative in convertible note (i)	658,422	-
	2,405,136	-

(i) During the year the Company issued 79 Convertible Notes at face values of between \$10,000 and \$100,000, raising a total of \$4,012,000. The Notes are able to be converted to equity at prices shown below and have a coupon rate of 8%.

Notes may be converted to equity during the term of the note by the holder of the note. Cash settlement of the notes by CBio is not required until the termination of the note. The notes mandatorily convert to equity on CBio listing on the Australian Securities Exchange or a similar significant capital raising.

Notes are issued for the periods indicated below and may be re-issued on an "at call" basis post this should no election be made by the holder of the note. Certain notes contain features that allow options in addition to ordinary shares to be issued with an exercise price of \$1 and an expiry date of 31 December 2012. Details of the number of shares and options to be issued are listed below:

Notes Value*	Conversion Rate	Shares to Issue	Options to Issue	Option Ex Price	Expiry Date on Original Issue
\$ 100,000	\$2.50***	40,000	-	NA	July 2008**
\$ 610,000	\$0.85***	717,647	-	NA	May 2009**
\$ 1,785,000	\$0.50	3,570,000	3,570,000	\$1.00	December 2010
\$ 815,000	\$0.85	958,824	479,412	\$1.00	December 2010
\$ 802,000	\$0.50	1,604,000	1,604,000	\$1.00	December 2010
<u>\$ 4,112,000</u>		<u>6,890,471</u>	<u>5,653,412</u>		

* Convertible Notes held by a director and related entity – Refer Note 24.

** Post this date notes are repayable on demand.

*** Notes contain embedded feature that allows for conversion rate to be re-set in the event of a capital raising or listing to the share price at capital raising or listing date.

(ii) Refer Note 24 Related Party Transactions for further details.

Notes to the Financial Statements

For the year ended 30 June 2009

	2009 \$	2008 \$
12. PROVISIONS		
(a) Short-term employment provisions (i)	151,982	119,209
(b) Long-term employment provisions (ii)	74,646	39,079
	226,628	158,288
Movement in carrying value		
At 1 July 2008	158,288	168,637
Accrued in the period	149,663	191,622
Used in the period	(81,324)	(201,971)
At 30 June 2009	226,627	158,288

(i) Short Term Provisions represent the estimated costs in respect of current employment benefits payable to Company employees. The provision for current employment benefits includes accrued annual leave and related on-costs payable on the accrued entitlements. It is expected these costs will be settled by 30 June 2010.

(ii) Long Term Provisions represent the estimated costs in respect of non-current employment benefits payable to Company employees. The provision for non-current employment benefits includes accrued long-service leave and related on-costs payable on the accrued entitlements. Due to the nature of the provision, the company is unable to determine a date by which these costs will be settled, however no costs are expected to be settled prior to 30 June 2010.

13. UNEARNED INCOME

Unearned income - current (i)	2,086,158	-
Unearned income – non-current (i)	-	2,086,158

(i) Unearned income represents the fee paid by Novo Nordisk A/S upon signing the agreement with CBio in 2007. The amount will not be recorded as income until the terms contained in the agreement are satisfied.

Notes to the Financial Statements

For the year ended 30 June 2009

	2009 Number	2009 \$	2008 Number	2008 \$
14. ISSUED CAPITAL				
Ordinary shares fully paid	41,258,424	47,947,588	38,256,269	45,306,148
Movements in shares on issue				
The following share issues were made				
Beginning of the year	38,256,269	45,306,148	26,526,143	36,838,670
Issued during the period:				
- conversion of convertible notes	-	-	6,523,446	3,680,000
- private placement	-	-	1,550,913	1,081,715
- share purchase agreement (i)	350,000	250,000		
- information memorandum (ii)	950,000	950,000	3,578,500	3,578,500
- rights issue (iii)	1,493,735	1,493,735	-	-
- in lieu of payment of accrued interest on convertible notes (iv)	107,170	89,315	-	-
- in lieu of the payment of capital raising costs (v)	101,250	101,250	-	-
- in exchange for share capital of Viralytics Limited	-	-	77,267	353,111
- less transaction costs	-	(242,860)	-	(225,848)
End of the year	41,258,424	47,947,588	38,256,269	45,306,148

- (i) During the year, the Company issued 150,000 shares at \$1 per share and 200,000 shares at \$0.50 per share as part of a Share Purchase Agreement.
- (ii) 950,000 shares were issued at \$1 per share during the year as part of an Information Memorandum.
- (iii) 1,493,735 shares were issued during the year via a Rights Issue at \$1 per share.
- (iv) 107,170 shares were issued in lieu of the payment of \$89,315 in interest accrued in relation to Convertible Notes converted to equity in the prior year.
- (v) 101,250 shares were issued in lieu of the payment of \$101,250 in commission earned on raising \$2,025,000 in the prior year.

Terms and conditions of ordinary shares

Ordinary shares have the right to receive dividends as declared, and in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets.

Capital Management

The Board controls the capital of the company in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern. The company's debt and capital includes ordinary share capital and convertible notes and financial liabilities, supported by financial assets.

14. ISSUED CAPITAL (cont'd)

Notes to the Financial Statements

For the year ended 30 June 2009

There are no externally imposed capital requirements.

The Board effectively manages the company's capital by assessing the company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels and share issues.

There have been no changes in the strategy adopted by the Board to control the capital of the company since the prior year. The gearing ratios for the year ended 30 June 2009 and 30 June 2008 are as follows:

	2009 \$	2008 \$
Total borrowings (at face value)	4,222,441	272,887
Trade and other payables	5,946,398	3,946,121
Less cash and cash equivalents	(40,335)	(36,367)
Net debt	10,128,504	4,182,641
Total equity (including liabilities at face value)	(11,646,675)	(3,255,339)
Total net debt plus equity	(1,518,171)	927,302
Gearing ratio	(667%)	451%

15. SHARE-BASED PAYMENTS

The following share-based payment arrangements existed as at 30 June 2009:

(a) Director Share Option Plan

9,900,000 share options have been granted to directors to accept ordinary shares at an exercise price of \$1. All options have an expiry date of 31 December 2012. Options are unlisted and those options not exercised within the prescribed period will lapse. Options have no voting or dividend rights. There are no cash settlement alternatives.

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

	Number 2009	WAEP 2009	Number 2008	WAEP 2008
Outstanding at the beginning of the year	9,100,000	\$1.00	2,150,000	\$1.00
Issued during the year	800,000	\$1.00	1,000,000	\$1.00
Reclassified during the year	-	-	6,000,000	\$1.00
Reclassified as Other options during the year	-	-	(50,000)	\$1.00
Outstanding at the end of the year	9,900,000	\$1.00	9,100,000	\$1.00

The Director share options outstanding at 30 June 2009 had a weighted average exercise price of \$1.00 and a weighted average contractual life of 3.5 years. Options issued during the period had a fair value of \$0.345.

15. SHARE-BASED PAYMENTS (cont'd)

(b) Executive Share Option Plan

Notes to the Financial Statements

For the year ended 30 June 2009

1,000,000 share options have been granted to executives to accept ordinary shares at an exercise price of \$1. All options have an expiry date of 31 December 2012. Options are unlisted and those options not exercised within the prescribed period will lapse. Options have no voting or dividend rights. There are no cash settlement alternatives.

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

	Number 2009	WAEP 2009	Number 2008	WAEP 2008
Outstanding at the beginning of the year	535,200	\$1.00	2,035,200	\$1.00
Issued during the year	464,800	\$1.00	1,500,000	\$1.00
Reclassified as Director options during the year	-	-	(3,000,000)	\$1.00
Outstanding at the end of the year	1,000,000	\$1.00	535,200	\$1.00

The Executive share options outstanding at 30 June 2009 had a weighted average exercise price of \$1.00 and a weighted average contractual life of 3.5 years. Options issued during the period had a fair value of \$0.345.

(c) Employee Share Option Plan

1,423,697 share options have been granted to employees to accept ordinary shares at an exercise price of \$1. All options have an expiry date of 31 December 2012. Options are unlisted and those options not exercised within the prescribed period will lapse. Options have no voting or dividend rights. There are no cash settlement alternatives.

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

	Number 2009	WAEP 2009	Number 2008	WAEP 2008
Outstanding at the beginning of the year	772,057	\$1.00	718,730	\$1.07
Issued during the year	675,000	\$1.00	200,000	\$1.00
Reclassified during the year	-	-	(25,000)	\$1.00
Lapsed during the year	(23,360)	\$1.00	(121,673)	\$1.44
Outstanding at the end of the year	1,423,697	\$1.00	772,057	\$1.00

The Employee share options outstanding at 30 June 2009 had a weighted average exercise price of \$1.00 and a weighted average contractual life of 3.5 years. Options issued during the period had a fair value of \$0.38.

(d) Other Option Plan

3,255,000 share options have been granted to persons who are not directors, executives or employees of the company to accept ordinary shares at an exercise price of between \$1 and \$3. Other options have various expiry dates of no later than 31 December 2012. Options are unlisted and those options not exercised within the prescribed period will lapse. Options have no voting or dividend rights. There are no cash settlement alternatives.

15. SHARE-BASED PAYMENTS (cont'd)

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

Notes to the Financial Statements

For the year ended 30 June 2009

	Number 2009	WAEP 2009	Number 2008	WAEP 2008
Outstanding at the beginning of the year	3,255,000	\$1.59	3,530,000	\$1.67
Issued during the year	-	-	2,650,000	\$1.00
Reclassified during the year	-	-	75,000	\$1.00
Reclassified as Director options during the year	-	-	(3,000,000)	\$1.00
Outstanding at the end of the year	3,255,000	\$1.59	3,255,000	\$1.59

The Other share options outstanding at 30 June 2009 had a weighted average exercise price of \$1.59 and a weighted average contractual life of 3.5 years. 350,000 options expiring on 9 August 2009 were extended post year end to 31 December 2012.

(e) Other Information

The following inputs were applied to the option pricing model:

	Directors and Executives	Employees
Weighted average exercise price	\$1.00	\$1.00
Weighted average life of the option	2.24 years	2.74 years
Underlying share price	\$1.00	\$1.00
Expected share price volatility	50%	50%
Risk free interest rate	6.57%	6.49%

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

As at 30 June 2009 there were a total of 15,578,697 (2008: 13,662,257) unissued ordinary shares for which options were outstanding. At 30 June 2009 there were 13,630,363 exercisable options at an average of \$1.14.

16. RESERVES**Equity reserve**

	2009 \$	2008 \$
Balance at 1 July	14,101,394	5,494,253
Convertible note issuance	1,072,295	-
Share-based payment expense	1,454,551	8,607,141
Balance at 30 June	16,628,240	14,101,394

Nature and purpose of equity reserve

The equity reserve records items:

- (i) Recognised as an expense with respect to share-based consideration.
- (ii) The initial equity component of convertible notes.

17. EARNINGS PER SHARE

	2009 \$	2008 \$
Basic/Diluted (loss) per share (cents per share) – continuing operations	(32.06)	(73.44)

Notes to the Financial Statements

For the year ended 30 June 2009

Basic/Diluted (loss)/earnings per share (cents per share) – attributable to the members of the company	(32.06)	(73.44)
Income and share data used in the calculation of basic & diluted earnings per share:		
Loss from continuing operations after income tax expense	(12,747,758)	(21,015,237)
Loss attributable to members of the parent entity	(12,747,758)	(21,015,237)
Weighted average number of ordinary shares outstanding during the year used in calculation of basic & diluted EPS	39,762,642	28,614,810
Effect of dilutive securities:		
- Share options	-	-
-Convertible Notes	-	-
Adjusted weighted average number of ordinary shares outstanding during the year used in calculation of basic & diluted EPS (i)	39,762,642	28,614,810

(i) As at the balance date, there are 15,578,697 shares options on issue, 6,890,471 potential shares and 5,653,412 potential options which may be issued upon conversion of outstanding Convertible Notes, giving a total potential shares which may be issued of 28,122,580. These potential ordinary shares have not been taken into account when calculating the diluted loss per share due to their anti-dilutive nature.

18. CASH AND CASH EQUIVALENTS**(a) Reconciliation of cash**

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial period as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

Cash at bank	40,335	36,367
(b) Reconciliation of net cash flows from operating activities to operating loss after income tax		
Operating loss after taxation	(12,747,758)	(21,015,237)
Non cash items		
Interest on convertible note – non cash	219,762	-
Depreciation	268,342	289,588
Equity based compensation	1,454,551	8,607,141
Profit/(loss) on sale of investment	-	532,143
Foreign exchange gain	75,384	(76,573)
Change in assets and liabilities		
(Increase)/decrease in receivables	2,178,339	(1,543,645)

Notes to the Financial Statements

For the year ended 30 June 2009

	2009 \$	2008 \$
18. CASH AND CASH EQUIVALENTS (cont'd)		
Increase/(decrease) in payables	1,975,763	1,272,168
Increase/(decrease) in provisions	68,339	(11,614)
Increase/(decrease) in unearned income	-	2,086,158
Net cash flows used in operating activities	(6,507,278)	(9,859,871)
19. AUDITORS REMUNERATION		
Amounts received or due and receivable by the auditors of the company for:		
- an audit of the financial report	76,223	60,161
- other services	11,363	41,076
	87,586	101,237

20. KEY MANAGEMENT PERSONNEL

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

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
Mr Stephen Streeter	Non-executive director
Mr Jason Yeates	Managing director and Chief Executive Officer
Dr Dennis Feeney	Executive director and President of Global Development & Licensing
Mr James Greig	Chief Financial Officer

(b) Shareholdings**Number of Shares held by Key Management Personnel**

2009	Balance 1 July	Options Exercised	Purchased/ (Sold)	Balance 30 June
S Jones	1,190,033	-	-	1,190,033
P Corr	-	-	-	-
G Ando	-	-	-	-
J Funder	-	-	-	-
M Monsour	2,306,334	-	110,688	2,417,022
S Streeter	-	-	18,182	18,182
J Yeates	-	-	-	-
D Feeney	-	-	-	-
J Greig	-	-	-	-
	3,496,367	-	128,870	3,625,237

Notes to the Financial Statements

For the year ended 30 June 2009

20. KEY MANAGEMENT PERSONNEL (cont'd)

2008	Balance 1 July	Options Exercised	Purchased/ (Sold)	Balance 30 June
S Jones	1,190,033	-	-	1,190,033
P Corr	-	-	-	-
G Ando	-	-	-	-
J Funder	-	-	-	-
M Monsour	1,713,734	-	592,600	2,306,334
S Streeter	-	-	-	-
J Yeates	-	-	-	-
D Feeney	-	-	-	-
J Greig	-	-	-	-
	2,903,767	-	592,600	3,496,367

(c) Option Holdings

Number of Options held by Key Management Personnel

	Balance 1 July	Remunerat- ion Options Granted	Acquired/ (Disposed)	Balance 30 June	Total Vested 30 June	Total Exercisable 30 June	Total Unexercis- able 30 June
2009							
S Jones	300,000	-	-	300,000	300,000	300,000	-
P Corr	1,000,000	-	-	1,000,000	1,000,000	1,000,000	-
G Ando	1,000,000	-	-	1,000,000	1,000,000	1,000,000	-
J Funder	1,000,000	-	-	1,000,000	1,000,000	1,000,000	-
M Monsour	1,500,000	-	-	1,500,000	1,500,000	1,500,000	-
S Streeter	1,300,000	-	-	1,300,000	1,300,000	1,300,000	-
J Yeates	1,500,000	500,000	-	2,000,000	1,500,000	1,500,000	500,000
D Feeney	1,500,000	300,000	-	1,800,000	1,300,000	1,300,000	500,000
J Greig	535,200	464,800	-	1,000,000	800,000	800,000	200,000
	9,635,200	1,264,800	-	10,900,000	9,700,000	9,700,000	1,200,000
2008							
S Jones	300,000	-	-	300,000	300,000	300,000	-
P Corr	-	1,000,000	-	1,000,000	1,000,000	1,000,000	-
G Ando	300,000	700,000	-	1,000,000	1,000,000	1,000,000	-
J Funder	50,000	950,000	-	1,000,000	1,000,000	1,000,000	-
M Monsour	500,000	1,000,000	-	1,500,000	1,500,000	1,500,000	-
S Streeter	1,300,000	-	-	1,300,000	1,300,000	1,300,000	-
J Yeates	1,000,000	500,000	-	1,500,000	1,000,000	1,000,000	500,000
D Feeney	1,000,000	500,000	-	1,500,000	1,000,000	1,000,000	500,000
J Greig	35,200	500,000	-	535,200	23,232	23,232	511,968
	4,485,200	5,150,000	-	9,635,200	8,123,232	8,123,232	1,511,968

20. KEY MANAGEMENT PERSONNEL (cont'd)

Notes to the Financial Statements

For the year ended 30 June 2009

(d) Key Management Personnel Remuneration

2009	Short-Term		Post Employment Superannuation	Termination Benefit	Share- Based Payment Value of Options	Total
	Salary & Fees	Other				
	\$	\$	\$	\$	\$	\$
S Jones	399,000	-	1,260	-	-	400,260
P Corr	50,000	-	-	-	-	50,000
G Ando	50,000	-	-	-	-	50,000
J Funder	50,000	-	-	-	-	50,000
M Monsour	59,000	-	4,500	-	-	63,500
S Streeter	56,318	-	-	-	-	56,318
J Yeates	300,000	-	27,000	-	300,884	627,884
D Feeney	280,000	-	-	-	231,884	511,884
J Greig	220,132	-	19,800	-	277,643	517,575
	1,464,450		52,560		810,411	2,327,421
2008						
S Jones	339,389	-	1,260	-	-	340,649
P Corr	-	-	-	-	370,000	370,000
G Ando	50,000	-	-	-	259,000	309,000
J Funder	50,000	-	-	-	351,500	401,500
M Monsour	78,800	-	4,500	-	370,000	453,300
S Streeter	77,096	-	-	-	-	77,096
J Yeates	250,000	-	22,500	-	71,154	343,654
D Feeney	265,000	-	-	-	71,154	336,154
J Greig	150,152	-	13,500	-	71,154	234,806
	1,260,437		41,760		1,563,962	2,866,159

(f) Summary of Director and Executive Remuneration

	2009 \$	2008 \$
Short-term employee benefits	1,464,450	1,260,437
Post-employment benefits	52,560	41,760
Termination benefits	-	-
Share based payments	810,411	1,563,962
	2,327,421	2,866,159

Notes to the Financial Statements

For the year ended 30 June 2009

21. COMMITMENTS

As at the balance 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 \$1.8million. 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 \$499,000 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 2010 are expected to be \$401,000 and \$874,000 between 30 June 2010 and 31 March 2012, with associated overheads.

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 Uniquist 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.

22. FINANCIAL RISK MANAGEMENT

a) Risk Management Policies

The Company's financial instruments consist mainly of deposits with banks, accounts receivable and payable, loans and convertible notes. The main purpose of financial instruments is to raise finance for company operations. The main risks and related risk management policies arising from the Company's financial instruments are summarised on the following page.

Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for doubtful debts, as disclosed in the balance sheet and notes to and forming part of the financial report. The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments.

Liquidity Risk

The Company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash resources will be available as and when required as well as ensuring capital raising initiatives are conducted in a timely manner as required.

The table below reflects the maturity analysis for financial liabilities and shows the remaining contractual maturities:

	2009 \$	2008 \$
0-1 years	7,038,999	4,298,008
1-5 years	3,538,000	-
Over 5 years	-	-
	10,577,079	4,298,008

22. FINANCIAL RISK MANAGEMENT (cont'd)

Notes to the Financial Statements

For the year ended 30 June 2009

Net Fair Values

The net fair values of financial assets and financial liabilities approximate their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form. The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the balance sheet and in the notes to and forming part of the financial report.

Foreign Currency Risk

The major foreign currency exposure is in US dollars. This is as a result of contracts, both receivable and payable, entered into in this currency. The company has no active foreign currency risk management strategy. The company had a deficit of foreign currency receivables over payables of \$1,637,247 at 30 June 2009 (2008: \$504,644 surplus).

b) Sensitivity Analysis

Interest Rate Risk

The Company has performed a sensitivity analysis relating to its exposure to interest rate risk and foreign currency risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

Interest Rate Sensitivity Analysis

As at 30 June 2009, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant, would be as follows. The table below shows the impact on cash as it is the only asset or liability subject to exposure to variable interest rates:

	2009 \$	2008 \$
Change in profit/(loss) and equity		
- Increase in interest rate by 2%	(14,170)	(25,838)
- Decrease in interest rate by 2%	14,170	25,838

Foreign Currency Risk Sensitivity Analysis

As at 30 June 2009, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar, with all other variables remaining constant, would be as follows. Trade creditors is the only liability exposed to foreign currency risk:

Change in profit/(loss) and equity		
- Improvement in AUD to USD by 15%	(245,587)	(311,656)
- Decline in AUD to USD by 15%	245,587	311,656

The above interest rate and foreign currency risk sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

22. FINANCIAL RISK MANAGEMENT (cont'd)

Financial Instrument Composition & Maturity Analysis at present value

Notes to the Financial Statements

For the year ended 30 June 2009

2009	6-12 months \$	1-5 years \$	>5 years \$	Total \$
Financial Assets				
- Cash	40,335	-	-	40,335
-Receivables/ other assets	189,789	150,000	-	339,789
Total Financial Assets	230,124	150,000	-	380,124
Financial Liabilities				
Trade and other payables	5,946,398	-	-	5,946,398
Convertible note	710,000	1,746,714	-	2,456,714
Loan	26,000	-	-	26,000
Unearned income	2,086,158	-	-	2,086,158
Total Financial Liabilities	8,768,556	1,746,714	-	10,515,270
2008	6-12 months \$	1-5 years \$	>5 years \$	Total \$
Financial Assets				
- Cash	36,367	-	-	36,367
- Receivables/other assets	2,301,490	181,597	-	2,483,087
Total Financial Assets	2,337,857	181,587	-	2,519,454
Financial Liabilities				
Trade and other payables	4,069,008	-	-	4,069,008
Convertible note	100,000	-	-	100,000
Loan	50,000	-	-	50,000
Unearned income	-	2,086,158	-	2,086,158
Total Financial Liabilities	4,219,008	2,086,158	-	6,305,166

Notes to the Financial Statements

For the year ended 30 June 2009

23. SEGMENT REPORTING

The Company operates as a research and development company in the pharmaceutical industry. The activities of the Company take place primarily in Australia.

24. RELATED PARTY TRANSACTIONS

During the year, fees totalling \$5,850 (2008: \$93,194) were paid or payable to S & M Streeter Investments for raising \$195,000 (2007: \$3,600,000) in new equity and Convertible Notes for the company. The balance outstanding at the balance date in relation to these fees was \$5,850 (2008 \$78,798).

The Company received loan funds of \$802,000 from MPAMM Pty Ltd, a company associated with Dr Michael Monsour, during the year. The loans were unsecured, non-interest bearing and repayable on demand.

It was agreed that the loans due and payable to MPAMM Pty Ltd of \$802,000 be applied to the purchase of Convertible Notes from the Company. 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 and will have attached to it an Option with an exercise price of \$1.00 and an expiry of date of 31 December 2012. The right to convert or to redemption is held by the purchaser. Interest of \$15,996 was payable on these notes during the period, and the entire accrued interest balance remained outstanding at the balance date.

MPAMM Pty Ltd and MP Monsour Medical Practice Pty Ltd, companies associated with Dr Michael Monsour, acquired a further three Convertible Notes issued by CBio Limited with a total face value of \$130,000. Interest of \$662 was payable on these notes during the period, and the entire accrued interest balance remained outstanding at the balance date. Analytica Limited, a company of which Dr Monsour is Chairman acquired a convertible note issued by CBio Limited with a total face value of \$500,000. Interest of \$9,096 was payable on these notes during the period, and the entire accrued interest balance remained outstanding at the balance date. Refer to Note 12 for Note terms.

During the year, CBio repaid \$24,000 in loan funds to Australian Technology Innovation Limited, a company associated with Mr Stephen Jones, Mr Stephen Streeter and Dr Michael Monsour. The loan is non-interest bearing and is repayable on demand. The balance outstanding at the balance date is \$26,000.

All related party transactions were conducted under commercial terms and conditions, apart from loans originally made by Dr Mnsour which carried no interest.

25. SUBSEQUENT EVENTS

The Company has continued to raise funds via a number of initiatives subsequent to the balance date. A further 17 Convertible Notes, raising \$3,200,000, have been issued subsequent to the balance date on the terms outlined in Note 11.

In August the Company issued an Information Memorandum to raise a maximum of \$25 million through the issue of both Convertible Notes and Shares. The offer is underwritten to \$6 million by Novus Capital Limited. The Company has issued 6 convertible notes, totalling \$3 million, and received subscriptions for 14,590,000 shares, raising \$7,295,000, as part of the Information Memorandum subsequent to the balance date.

In August the Company announced its intention to list CBio on the Australian Securities Exchange prior to the end of 2009.

Notes to the Financial Statements

For the year ended 30 June 2009

26. CORPORATE STRUCTURE

CBio Limited is a company limited by shares that is Incorporated and domiciled in Australia. CBio Limited has prepared a consolidated financial report incorporating the entities that it controlled & disposed of during the prior financial year. During the year ending 30 June 2009 there were no controlled entities.

The registered office and principal place of business is:

CBio Limited
85 Brandl St

Eight Mile Plains, QLD, 4113

27. SOLD OPTION TRANSACTION

In May 2008, CBio concluded a commercial agreement with Novo Nordisk A/S relating to the future development of its Cpn10 intellectual property. This strategic relationship provides a development pathway for all Cpn10 drug variants, and is commercial validation of CBio's research and development. The agreement provides Novo Nordisk an exclusive option to enter into a license agreement, should both parties agree the on the terms, for the intellectual property rights relating to CBio's XToll® (Cpn10) technology. Under the terms of the agreement Novo Nordisk must pay CBio an Option Fee of US\$3 million under two payments: an upfront payment of US\$2 million, which has been received by CBio and is recorded as unearned income, plus a further US\$1 million on recruitment of the 75th patient into the current trial.

Some of the financial terms relating to a potential license have been pre-agreed including an upfront payment, milestones payments and royalties. The milestone payments pre-agreed for up to four clinical indications total US\$111 million plus royalties on commercial sales of the therapeutic.

28. TOTAL EMPLOYEE COSTS

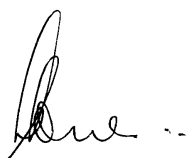
	2009 \$	2008 \$
<i>Total entity employee remuneration</i>		
Wages and salaries	2,581,417	2,227,092
Superannuation	237,959	214,111
Share-based payments	1,454,551	8,607,141
Other	80,317	14,570
	4,354,244	11,062,814

Directors' Declaration

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

- (1) In the opinion of the directors:
- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
 - (b) subject to the inherent uncertainty regarding continuation as a going concern as expressed in note 1 to the financial report, that is, the ability of the company to pay its debts as and when they fall due, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Stephen Jones
Executive Chairman

Date: 15 October 2009



1 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001
Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
www.ey.com/au

Auditor's Independence Declaration to the Directors of CBio Limited

In relation to our audit of the financial report of CBio Limited for the financial year ended 30 June 2009, 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 Ernst & Young firm, written in black ink.

Ernst & Young

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

Winna Brown
Partner
15 October 2009



1 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001
Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
www.ey.com/au

Independent auditor's report to the members of CBio Limited

Report on the Financial Report

We have audited the accompanying financial report of CBio Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

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

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

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

Independence

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

Auditor's Opinion

In our opinion:

1. the financial report of CBio Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of CBio Limited at 30 June 2009 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Material Uncertainty Regarding Continuation as a Going Concern

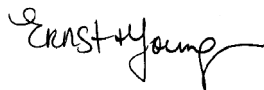
Without qualifying our conclusion, we draw attention to Note 1(c) "Going Concern" in the financial report which indicates that the company incurred a net loss of \$12,747,758 during the year ended 30 June 2009 (2008: loss of \$21,015,237) and has a deficiency in current assets of \$8,929,855 (2008: \$1,944,390), and a deficiency of net assets of \$10,804,811 (2008: \$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.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 10 to 14 in the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of CBio Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

A stylized signature of the Ernst & Young firm.

Ernst & Young

A handwritten signature of Winna Brown.

Winna Brown
Partner
Brisbane
15 October 2009