

CBio Limited

ABN 76 094 730 417

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2011

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company & market information

XTOLL® - A POTENTIAL BREAKTHROUGH IN THE TREATMENT OF AUTOIMMUNE DISEASES.

XToll® is a variant of chaperonin 10 - a naturally occurring protein present in all cells. Unlike current registered anti-inflammatory drugs which "block" immune responses and can increase the risk of infection and the development of cancers, XToll® has a novel mechanism of action that appears to dampen excessive inflammatory responses thereby working to restore balance to the immune system, leaving it capable of surveillance for infections, viruses and cancer. It is this ability of XToll® to work with the body's immune system rather than against it that offers the potential for therapeutic benefit with a strong safety profile. XToll® is being developed as a therapy to treat rheumatoid arthritis (RA). However it has shown signs of having a wide application in a number of autoimmune diseases.

Phase I and early Phase II clinical trials have been completed in RA, psoriasis and multiple sclerosis, with a good safety profile demonstrated in all trials, and no pattern of serious adverse events linked to treatment.

In Q2 2011, CBio completed a 155-patient phase IIa clinical trial aimed to demonstrate the safety and efficacy of XToll® in patients with moderate to severe rheumatoid arthritis despite treatment with methotrexate. The preliminary results of this trial indicate that XToll® is showing biological activity and signals of clinical effect. An announcement regarding the preliminary results was made on 1 August 2011. Final results are expected in Q4 2011.

RHEUMATOID ARTHRITIS: CURRENT GLOBAL MARKET INFORMATION

Global sales for biological therapies for RA were US\$8.6 billion in 2005¹, anticipated to be over US\$12 billion in 2009, and forecast to reach over US\$18.5 billion by 2013.²

This RA market is currently dominated by the anti-TNF therapies Remicade, Enbrel and Humira. Whilst the primary market for these drugs is in the treatment of RA, they are used as therapies for other autoimmune diseases including Crohn's disease, ulcerative colitis, psoriatic arthritis and ankylosing spondylitis. In 2008, sales from RA in these top 3 drugs were US\$10.9 billion.³ However, the total global sales of these 3 drugs in all disease states were in excess of US\$17 billion.⁴

Despite the success of these blockbuster drugs, up to 30-40% of patients with established RA do not respond clinically to the current leading therapies. Further, there are significant safety side effects associated with their use and therefore there remains a significant unmet need for new, safer, clinically efficacious therapies for RA.⁵ In addition, in 2010, the American College of Rheumatology (ACR) and the European League against Rheumatism (EULAR) revised the 1987 classification criteria for RA to enable early detection. The new classification facilitates the early diagnosis of RA patients and has given a boost to the global treatment market.

The pipeline for rheumatoid arthritis therapies therefore remains strong.

¹ Arrowhead Publishers Rheumatoid Arthritis Therapeutics: Market Trends and R&D Insights 2006, p51

² Arrowhead Publishers, 2009. The Rheumatoid Arthritis Market Competitive Landscape and Clinical Stage Analysis. p124

³ Mehta Partners Morning Meeting, 24 April 2009. p4

⁴ Arrowhead Publishers, 2009. The Rheumatoid Arthritis Market Competitive Landscape and Clinical Stage Analysis. p67

⁵ Selective Costimulation Modulators: Addressing Unmet Needs in Rheumatoid Arthritis Management. Emery et al, Medscape General Medicine 2005; 6(4 Suppl):1

company & market information

RHEUMATOID ARTHRITIS: GLOBAL TREATMENT TRENDS

Since their emergence in the market Biological Disease Modifying Anti-Rheumatic Drugs (bDMARDS) have revolutionised the treatment of RA throughout the world. bDMARDS help to treat pain, reduce symptoms, and slow the progression of joint damage. The leading biological DMARDS for the treatment of RA have been the tumor necrosis factor TNF inhibitors (or anti-TNF therapies).

Until now, anti-TNFs have been the mainstay of early management of RA with 86% of patients receiving these products.⁶ However, rheumatologists predict that TNF use is set to change and estimate that first-line use of anti-TNFs will fall to 64% by 2015 in the face of higher usage of drugs that work by other mechanisms of action. Indeed, 2010 saw a general decline in the use of anti-TNFs across treatment lines.⁷

This provides an indication of the future direction of the rheumatoid arthritis market suggesting that physicians will introduce drug therapies that act via other mechanisms of action earlier at an earlier stage of the disease.⁸ Rheumatologists predict that by 2015, more patients will be prescribed products that work by alternative mechanisms and they anticipate earlier usage of non-TNF biologics at first-line going forward, predicting a rise from 14% of first-line RA patients to potentially 36% in 2015.⁹

In all countries, across all lines of therapy research shows that rheumatologists believe that TNF inhibitors will be used in fewer RA patients in 2015.¹⁰ The US market appears to offer the biggest opportunity for therapies that do not act on TNF targets.¹¹

This is promising for companies developing therapies with novel mechanisms of action.

LUPUS: DISEASE AND MARKET INFORMATION

Lupus is a chronic, potentially life-threatening disease in which the body's immune system attacks healthy tissue causing debilitating joint pain, organ damage and skin rashes. The Lupus Foundation of America estimates that at least 5 million people worldwide have a form of lupus.¹² Systemic lupus erythematosus (SLE) accounts for approximately 70 percent of all cases of lupus and in approximately half of these cases, a major organ such as the heart, lungs, kidneys or brain, will be affected. About 5% of children born to individuals with lupus will develop the illness, and it is believed that between 10-15 percent of people with lupus will die prematurely due to complications of the disease.¹³ The mainstay treatment for lupus is the steroid prednisone, which has serious side effects, and doctors and patient advocates say patients are desperate for new medicines.

⁶ Datamonitor, 2010. Stakeholder Insight: Rheumatoid Arthritis.

⁷ Datamonitor, 2010. Stakeholder Insight: Rheumatoid Arthritis.

⁸ Datamonitor, 2010. Stakeholder Insight: Rheumatoid Arthritis

⁹ Datamonitor, 2010. Stakeholder Insight: Rheumatoid Arthritis

¹⁰ Datamonitor, 2010. Stakeholder Insight: Rheumatoid Arthritis

¹¹ Datamonitor, 2010. Stakeholder Insight: Rheumatoid Arthritis

¹² Lupus Foundation of America <http://www.lupus.org>

¹³ Lupus Foundation of America <http://www.lupus.org>

company & market information

GlobalData estimate the SLE lupus market to be worth \$350 million in 2009 with a projected compound annual growth rate of 6% and projected market value to exceed \$2.5 billion in 2017.¹⁴ Products for lupus in the developmental pipeline are strong and pipeline molecules have a distinct advantage over the currently used off-label marketed drugs in that they are primarily first-in-class molecules, as in the case of XToll®.

In March 2011 the FDA approved the first new drug for lupus in more than 50 years – a reflection of the complexity of the disease and also a clear indication of a major unmet clinical need. Analysts expect the new drug, Benlysta, to reach blockbuster status, with sales eventually topping \$1 billion a year.¹⁵

¹⁴ Global Data. Systemic Lupus Erythematosus - Pipeline Assessment and Market Forecasts to 2017. November 2010.

¹⁵ Wall Street Journal "Gene Work Yields New Treatment For Lupus" 10 March 2011

chairman's address

Dear Shareholder,

I am pleased to introduce CBio's Annual Report for 2011.

The 2011 year has been an eventful one for CBio, highlighted by the completion in April of the phase IIa clinical trial in rheumatoid arthritis.

This clinical trial was a phase IIa study evaluating the safety and efficacy of XToll® in patients with moderate to severe rheumatoid arthritis despite treatment with methotrexate. The primary endpoint of the trial was the comparison at the end of 12 weeks of the number of patients in each treatment group who showed at least a 20% improvement in their disease based on the American College of Rheumatology composite or combined scoring system (ACR20). A number of secondary endpoints, all chosen because of their importance as clinical measures of disease, were also monitored and evaluated throughout the trial.

The company released headline results from the trial on 1 August. Initial analysis of the data indicated that while the numbers of patients achieving an ACR20 at week 12 were not statistically significant between the treatment groups, there were a higher number of patients achieving an ACR20 in the XToll® groups than in the placebo (methotrexate) group. Further, statistically significant and clinically meaningful results were achieved in a number of the secondary endpoints. These results indicate that XToll® is showing a real clinical effect whilst also continuing to demonstrate an excellent safety profile.

The encouraging results also showed that the longer patients were receiving XToll® treatment the greater improvement they experienced.

XToll® has previously shown clinical or biological effect in a number of disease states – rheumatoid arthritis, psoriasis, multiple sclerosis and lupus - and as such has demonstrated potential as a broad-ranging immunomodulatory compound. In the most recent phase II trial, XToll® has demonstrated that it has both clinical and biological activity and a unique method of action, and CBio was pleased to note the confirmation of XToll® as a potential first-in-class drug in a recent report on new treatments for rheumatoid arthritis by the global publication *Scrip Clinical Research*.

So what do these results mean for CBio? Will we do a deal with pharma major pharmaceutical company? Will there be another trial? Will we need to raise more money? These are all questions the company has received since the headline results were announced.

The strategic direction of the company remains unchanged. We believe we have solid grounds to indicate that in XToll® we have a potential new therapy for RA with a novel method of action and from this base we have released the data to several major pharmaceutical companies to elicit interest in the onward development and commercialisation of XToll®.

The Option Agreement remains in place with Novo Nordisk. We have presented the interim data to them and will provide the final clinical report including analysis of all data in October. Interim data has also been released to other interested pharmaceutical companies. It is unlikely that CBio can reasonably expect a response from all of these companies until they have had time to review the final report.

Will we 'do a deal with pharma'? The results we have received to date, whilst not conclusive, demonstrate XToll®'s potential as a new first-in-class selective modulator of the immune system. Based on these results, the company remains confident. Although some licensing and royalty terms have been pre-agreed as part of the Option Agreement with Novo Nordisk, it is far too premature to speculate on exactly what any future commercial agreement may look like.

Will there be another trial? Regardless of the outcome of the current phase IIa study, there have always been further studies required prior to registration. The phase IIa trial was to determine safety and efficacy. Further clinical trials would be carried out in collaboration with a partner and these studies would be directed to identifying the optimum dose regime and providing further information on XToll®'s safety profile.

chairman's address

In the immediate term, CBio has a continued focus on understanding and elucidating the method of action of XToll[®], while at the same time planning for registration clinical trials. CBio will also plan for the commencement of a small phase I lupus study as a potential further indication for the use of XToll[®].

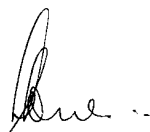
The company will require additional capital, both to allow the Board to pursue commercial opportunities with pharma companies over the coming months, and to continue the development of XToll[®]. The Board has already commenced raising these funds and earlier this month announced a Rights Issue to raise up to \$10.8 million, and is underwritten to this amount. The company has been well supported by its shareholders over a long period of time and I hope that support can continue with this current capital raising.

The Board continues to believe that XToll[®] may be useful in a number of disease states and therefore remains committed to building CBio as an early-stage drug development company in order to exploit any and all commercial opportunities available for XToll[®] or new drugs that may become available.

It is disappointing to report that the company has received a notice pursuant to s249D of the Corporations Act, which calls for the removal of three current directors. A small group of shareholders who hold around 5.5% of the issued capital of the company have issued the notice and are seeking the appointment of three of their own candidates as directors. This shareholder group has made a number of false claims, both in the press and in their client newsletters. The company will respond to these false claims and a general meeting of members will be held in accordance with the requirements of the Corporations Act to vote on the removal and appointment of directors.

Your Board underwent a number of changes during the year, with Dr Terje Kalland, Dr Thomas Lönngrén and Mr James Greig all appointed as directors, while both Stephen Streeter and Dr Dennis Feeney left the Board during the year. In addition to the new appointments, the Board recently formed a Remuneration Committee and a Nominations and Governance Committee, details of which can be found in the Corporate Governance Statement in this Report.

I take this opportunity to thank the staff, the management team, the Board and of course you, our shareholders, whose continued support has enabled the company to reach this point.



Stephen Jones
Executive Chairman

ceo review

Dear Shareholder,

The period under review has seen CBio reach a number of critical milestones including the completion in April of this year of the phase IIa clinical trial in rheumatoid arthritis (RA) and the release, subsequent to the balance date, of the headline clinical trial results. Significantly the trial results showed that XToll® is demonstrating biological and clinically meaningful activity in patients. Analysis of patient samples taken during the clinical trial has revealed data that supports the view that XToll® is a novel immunomodulator, and it also supports the finding that the longer the patients were using XToll® the greater improvement they saw with their RA symptoms.

The final clinical trial report is not due until October, however the interim data has provided enough evidence for your Board to believe that there are very encouraging signals from the clinical trial to support the continued development of XToll®.

We have released interim trial data to numerous pharmaceutical companies, including Novo Nordisk with whom we have an Option Agreement. Interactions with these companies will be ongoing over the coming months, and I look forward to updating you in due course on these interactions.

Now to the other operations of the Company in the 2011 financial year.

The company has continued to work to milestone targets – namely the completion of the clinical trial and the progression of the prioritised set of development activities that will add the greatest value to our primary asset, XToll®. To this end, funds have been applied to the completion of the clinical study, the further strengthening of the patent portfolio, the commencement of regulatory filing processes, scale-up of drug substance activities to address future manufacturing requirements, preparations for long-term toxicology studies, and studies into the mechanism of action.

During the year CBio completed an animal study into the effectiveness of XToll® in treating systemic lupus erythematosus (SLE). The results from the lupus study, conducted with the University of Munich, show significant potential for the treatment of SLE and strengthen the company's view that its lead compound XToll® has utility beyond a single indication of RA. An abstract from the study was accepted for and subsequently presented at the 74th Scientific Meeting of the American College of Rheumatologists (ACR), held in Atlanta in November 2010. We have now commenced planning for a small phase I study in lupus patients in order to continue to add to the volume of data we have on XToll®.

Work on the scale-up of the manufacture of XToll® from the current small-scale production to commercially viable quantities has continued throughout the year and is a project that is likely to be ongoing for some time. CBio has utilised the specialist manufacturing facilities at Hospira (Australia) Pty Ltd in Adelaide for the manufacture of XToll® through to this point. However, the ability to manufacture XToll® in significantly larger quantities will be critical to the commercial success of the drug.

Preclinical and mechanism of action studies have also been ongoing throughout the year to 30 June. The company is currently engaged with a number of third-party research institutions and contractors who are conducting a number of studies into the mechanism of action of XToll®. The way in which XToll® works inside the body to combat inflammation is currently unknown and discovering the mechanism of action is essential, not only for commercial reasons but also to better understand XToll®'s potential application in a range of other disease states.

Regulatory preparations have advanced significantly and CBio will seek a meeting with the US Food and Drug Administration following the receipt of the final study report from the phase IIa RA clinical trial, and has engaged a leading European-based regulatory consulting firm to advise on its submission to the European Medicines Agency. Both regulatory submissions will require commercial manufacturing solutions and a full pre-clinical and clinical development plan through to registration.

Critical to the potential future value of CBio is a robust and extensive portfolio of intellectual property assets and the company has continued to expand its geographically diverse patent portfolio. In this past year, ten patent

ceo review

applications proceeded to “granted” making a total of 80 patents issued and a further 91 patents currently pending. This comprehensive patent protection is wider and stronger than the protection the company had when it listed on the ASX in February 2010 (42 granted and 86 pending). One of the new patents that have been filed is for the “prevention and treatment of cutaneous lupus erythematosus”. Also of note, “modified Cpn10 and PRR signalling” has proceeded to national phase in 15 jurisdictions. During the year the Company also reported that its cornerstone ‘immunosuppression’ patent, which includes the ‘composition of matter’ claim on XToll®, was granted in both Europe and Japan, and the life of the patent in the United States has been officially extended by 911 days in the US market, providing key protection through to May 2026.

The company has continued to raise capital in order to have sufficient funding for its clinical program and to provide for other development and commercialisation activities. \$14.4 million was raised during the year from a Rights Issue (\$9.3 million) and a share placement (\$5.1 million). In addition, the company issued 11 \$150,000 Convertible Notes during the year under a \$12.45 million funding facility with the SpringTree Special Opportunities Fund, LP. Of the Notes issued during the year, 9 were repaid in cash and 2 were converted to shares and options in accordance with the agreement. The facility with SpringTree was terminated by mutual consent following the end of the financial year.

Subsequent to the end of the financial year, the company has announced an underwritten Rights Issue to raise up to \$10.8 million. These funds will enable CBio to progress commercial discussions with pharma, to continue the development of XToll®, and to commence a phase I clinical trial in lupus. Further details on the funds raised and shares issued during the year can be found in Note 15 Issued Capital in the attached Notes to the Financial Statements.

The focus for the coming period remains the receipt of the clinical trial final report and continuing commercialisation discussions, and I look forward to reporting to you updates against these milestones.

I would like to thank the entire staff of CBio for their commitment and tireless efforts in a very demanding year. For their guidance and leadership this year, I would like to thank the Board of Directors For your continued support I thank you, our shareholders.

A handwritten signature in cursive script that reads "J Yeates". The signature is written in dark ink on a light-colored background.

Jason Yeates
Managing Director and Chief Executive Officer

corporate governance statement

CBio Limited is committed to protecting and enhancing shareholder value and adopting best practice governance policies and procedures. At a minimum, CBio will ensure that all regulatory requirements are met and ethical standards are maintained. CBio Limited adheres to recommendations of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2010 Amendments (2nd Edition)(Principles). Any deviations by the Company from these Recommendations are outlined below.

The Directors are responsible for the corporate governance practices of the Company. This statement sets out the main corporate governance practices of the Company that the Directors, management and employees are required to follow.

Role of the Board

The Board of Directors is ultimately responsible for the success of the Company through setting its strategic goals, establishing resources and overseeing its management processes. Its aim is to create and deliver shareholder value by maximising the performance of the business.

The primary roles of the Board include:

- (a) chart strategy and set financial targets for the Company;
- (b) monitor the implementation and execution of strategy;
- (c) monitor performance against financial targets;
- (d) appoint and oversee the performance of executive management; and
- (e) generally take and fulfill an effective leadership role in relation to the Company.

Power and authority in certain areas is specifically reserved to the Board – consistent with its function as outlined above. These areas include:

- (i) composition of the Board itself including appointment and removal of Directors;
- (ii) oversight of the Company including its control and accountability systems;
- (iii) appointing and removing the CEO;
- (iv) reviewing and overseeing systems of risk management and internal compliance and control, codes of conduct, and legal and regulatory compliance;
- (v) monitoring senior management's performance and implementation of the approved strategy;
- (vi) approving and monitoring financial and other reporting;
- (vii) overall corporate governance of CBio including the strategic direction, establishing goals for management and monitoring the achievement of these goals; and
- (viii) oversight of the Audit & Risk Management Committee.

Responsibility for the operational conduct of the Company's business has been delegated to the Chief Executive Officer who reports to the Board.

Composition of the Board

The CBio Board has nine Directors, comprising three executive Directors (including the Chairman) and six non-executive Directors. Details of each Directors skills and experience are set out in the Director's Report.

Directors (except for the Chief Executive Officer) are subject to re-election by rotation at annual general meetings as stipulated by the Corporations Act 2001 and the Company's constitution. There are no maximum terms for Non-Executive Director appointments. Newly elected Directors must seek re-election at the first general meeting of shareholders following their appointment.

corporate governance statement

The Board assesses Director Independence on an annual basis, or as it feels necessary, depending on disclosure made by individual Directors.

The Board considers Dr Peter Corr, Professor John Funder, Dr Terje Kalland and Dr Thomas Lönngrén to be independent Directors.

Due to the early stage of development of CBio, the Company does not believe it appropriate to maintain a structure where there is a majority of independent Directors. The Company's Directors include some of the founders of the Company and significant shareholders. As the Company grows and the valuation of the Company's intellectual property increases, the structure of the Board will change and greater levels of independence will be achieved.

The Board operates in such a manner as to facilitate the effective contribution of all Directors and promote constructive and respectful relations among Board members and between Board and management. To ensure that the principles inherent in good Board practice are adhered to, the Chairman implements the following:

- (a) Proper meeting procedure ensuring that all members of the Board are given a proper opportunity to put forward views and discuss in a constructive and robust environment. This ensures that effective communication and contribution can be achieved.
- (b) The requirement that detailed Board papers be prepared and distributed, ensuring that Board members are fully informed on relevant issues in a timely manner.
- (c) If a potential conflict of interest arises, the Director concerned does not receive the relevant Board papers and leaves the Board meeting while the matter is being considered. Directors must advise the Board immediately of any interests that could potentially conflict with those of CBio.

The roles of the Chairman and Chief Executive Officer are exercised by different individuals, providing for clear division of responsibility at the head of the Company. Their roles and responsibilities, and the division of responsibilities between them, are clearly understood and there is regular communications between them.

The Board does not undertake a structured process to review its performance as a whole or that of individual Directors. The performance of individual Directors is monitored on an informal basis by the Board as a whole and is facilitated by robust and open communications between all Directors.

Non-executive Directors are permitted to participate in the share option plans of the Company. The provision of equity awards is a means by which the Company is able to attract and retain suitably qualified non-executive Directors, and given the size and stage of development of the Company, the Board considers this to be appropriate. Where required, any equity awards issued to non-executive Directors are approved by shareholders.

Ethical and responsible decision making

The Board and management ensure that the business processes of CBio are conducted according to sound ethical principles. The Board has established a formal code of conduct in this regard for Directors, management and staff.

The objective of this code is to give Directors, management and staff directions to follow when performing their duties, to enable them to achieve the highest possible standards in meeting their obligations.

The Board has established a share trading policy which applies to all Directors, management and staff. The policy permits trading in company securities within the parameters allowed by the relevant laws and regulations, including the Corporations Act 2001 and ASX Listing Rules.

The Company Secretary reports monthly to the Board on share trades conducted by Directors, management and staff to ensure that the Board is fully aware of any such trading and that it is conducted in a manner in which the Board believes is appropriate and inline with good governance practices.

corporate governance statement

Risk management

The Board, together with the Audit & Risk Management Committee, is responsible for satisfying itself that the Company's risk management systems are effective, and for ensuring that:

- (a) The principal strategic, operational and financial risks are identified;
- (b) Effective systems are in place to monitor and manage risks; and
- (c) Reporting systems, internal controls and arrangements for monitoring compliance with laws and regulations are adequate.

In addition to maintaining appropriate insurance and other risk management measures, the Board has taken the following steps to identify risks:

- (a) Established a management-based Occupational Health & Safety committee to monitor and act on health & safety matters;
- (b) Implemented policies in relation to the protection of the company's intellectual property; and
- (c) Implemented procedures requiring significant capital and revenue expenditure is approved at an appropriate level of management or by the Board.

The identified risks are monitored by regular reports to the Board and, where appropriate, by management presentations to the Board and to the Audit & Risk Management committee during the year. The Board determines the Company's risk profile and is ultimately responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.

The tasks of undertaking and assessing risk management and internal control effectiveness are delegated by the Board to management through the CEO, including responsibility for the day to day design and implementation of the Company's risk management and internal control system. Management then reports to the Board on the Company's key risks and the extent to which it believes these risks are being managed and adequate systems are in place.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include:

- (a) Board approval of a strategic business plan, designed to meet stakeholder needs and manage business risk; and
- (b) Implementation of Board approved budgets and operating plans and Board monitoring of progress against these budgets.

The key operational risks faced by CBio Limited include (but are not limited to):

- (a) Scientific or clinical trial failure;
- (b) Changes in technology which make CBio's technology redundant or uncommercial;
- (c) Increasing costs of operation;
- (d) Changes to market or regulatory environments; and
- (e) Timely availability of new capital.

The Company's policy on the hedging of risk associated with equity awards is disclosed on page 25 of the Directors' Report.

corporate governance statement

Diversity

The Board has not established measurable objectives for achieving gender diversity at present, although it is committed to considering the issue of diversity at least annually. The Company has 23 full-time equivalent employees from a wide variety of cultural and ethnical backgrounds and of various age groups. Of the 23 full-time equivalent employees of the Company, 12 are female, including 5 in senior management positions. There are currently no female board members.

Board Committees

The Board has established an Audit and Risk Management committee, a Remuneration committee and a Nominations and Governance committee. Directors receive no additional fees for their role on any committee.

1. Audit and Risk Management Committee

The Audit and Risk Management Committee operates to an approved Charter, which governs responsibilities of the Committee and provides a forum for the effective communication between the Board and the external auditors. The Audit and Risk Management Committee reviews the annual and half-yearly financial statements prior to their approval by the Board and release to the ASX, the effectiveness of management information systems and systems of internal control, and the efficiency and effectiveness of the external audit functions.

The Company does not believe it is appropriate at this time for the Audit committee to comprise only non-executive directors, the majority of which are independent, as recommended by the ASX Corporate Governance Council. However, the Company is satisfied that the members of the audit committee are suitably qualified to discharge their duties as required.

Membership of the committee currently comprises:

- (a) Stephen Jones (Executive Chairman); and
- (b) Dr. Michael Monsour (Non-Executive Director).

The Audit & Risk Management Committee invites the Chief Executive Officer, the Chief Financial Officer and External Auditor to attend meetings. The Chief Executive Officer and Chief Financial Officer sign a statement to the half yearly and yearly accounts to the effect that the Company's financial reports present a true and fair view in all material respects of the Company's financial condition and operational results, and are in accordance with the relevant accounting standards.

Minutes from Audit Committee meetings are circulated to the entire Board. In order to ensure that all Directors have access to the Company's Auditor and in the spirit of good governance, the Board has agreed that Non-executive directors of the Company will schedule an annual meeting with the Company's Auditor, which will not be attended by members of the Audit Committee, to discuss any matters relating to the audit of the Company.

2. Remuneration Committee

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the remuneration committee links the nature and amount of executive directors' and officers' remuneration to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- Retention and motivation of key executives.
- Attraction of high quality management to the Company.
- Performance incentives that allow executives to share in the success of CBio Limited.

corporate governance statement

For a full discussion on the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period, please refer to the remuneration report, which is contained in the directors' report.

There is no scheme to provide retirement benefits to non-executive directors.

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves, the CEO and executive team. In September 2011, the Board established a remuneration committee, comprising three non-executive directors:

- (a) Dr. Michael Monsour (Non-Executive Director);
- (b) Professor John Funder (Non-Executive Director); and
- (c) Dr Göran Ando (Non-Executive Director).

As the Committee was only formed in September 2011, it has not yet formally met. However, it is expected the remuneration committee will meet periodically, or as often as required.

3. Nomination and Governance Committee

The Board has established a Nomination and Governance Committee, which will meet periodically, to ensure that the board continues to operate within appropriate corporate governance guidelines, including when necessary, selecting and recommending candidates for the position of Director.

The Nomination and Governance Committee was formed in September 2011 and comprises three executive directors and one non-executive director:

- (a) Professor John Funder (Non-Executive Director);
- (b) Mr Stephen Jones (Executive Chairman);
- (c) Mr Jason Yeates (Managing Director); and
- (d) Mr James Greig (Finance Director).

As the Committee was only formed in September 2011, it has not yet formally met, however it is expected the Nomination and Governance committee will meet at periodically, or as often as required.

CEO and CFO certification

In accordance with section 295A of the Corporations Act, the CEO and CFO have provided a written statement to the board that:

- Their view provided on the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the board
- The Company's risk management and internal compliance and control system is operating effectively in all material respects

The board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the CEO and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

corporate governance statement

Reporting to stakeholders

The Board is committed to keeping all shareholders and other legitimate stakeholders informed in a timely manner of material developments that affect the Company.

All Company announcements are posted on the Company's website after release to ASX. The Company Secretary is responsible for communications with the ASX.

The Company website is regularly updated with current information in relation to the activities of the Company and CBio encourages stakeholders to receive regular electronic communications.

While the Board does not have a formal disclosure policy, the ASX continuous disclosure obligations are known and understood by the Board and continuous disclosure requirements are discussed at each Board meeting. Regular communications between the Company Secretary, management and the Chairman ensure continuous disclosure obligations are met.

The Company holds general meetings at an appropriate time and place in order to facilitate attendance by as many shareholders as possible. The Company encourages all shareholders to participate in such meetings.

directors' report

Your Directors present their report for the financial year ended 30 June 2011.

DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

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

Stephen Jones is a founding Director of CBio and was appointed its chairman in 2000. Mr Jones has extensive hands-on management experience in corporate recovery and reconstruction – including for 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 million.

Mr Jones is a non-executive Director of Injet Digital Aerosols Ltd and Australia Biofund Investment Limited (Hong Kong); and is chairman of Australian Technology Innovation Fund Limited.

Previously, Mr Jones was a Director of the listed companies Greyhound Pioneer Australia Limited, Analytica Limited, Psiron Limited and Bresagen Limited, and of Fortune Advanced Technologies Pty Ltd, Retirewise Capital Australia Ltd, Ingot Capital Management Pty Ltd, and other funds management and venture capital companies. Mr Jones is a member of the Audit & Risk Management Committee and the Nominations and Governance Committee.

During the past three years, Mr Jones has not served as a Director of another listed company.

Mr Jason Yeates, Managing Director and Chief Executive Officer
(Appointed 5 October 2007)

Jason Yeates oversees the implementation of the strategic planning involved in the commercial and clinical development of CBio's key product XToll® and its targeted use as a treatment for chronic autoimmune diseases such as rheumatoid arthritis. Jason joined CBio in 2004 and soon after was named Chief Operating Officer before being appointed CEO in 2006. A year later he was named Managing Director. Jason has held senior financial and commercial positions in Australia, Europe, and Asia with significant experience gained in mergers and acquisitions, fundraising, commercialisation, sales & marketing and business management. Before joining CBio, he was Asia-Pacific Finance Director with MCI Limited during the company's successful expansion into Asia and held the same position at Asia Global Crossing Limited. Earlier commercial management and accounting expertise was gained in the United Kingdom in roles at Harrods, Paramount/Universal and Rutland Trust. Jason holds a Bachelor of Business Degree from Queensland University of Technology. Mr Yeates is a member of the Nominations and Governance Committee.

During the past three years, Mr Yeates has not served as a Director of another listed company.

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 also previously served as Chairman of the Board of Novoxel S.A.

directors' report

Dr. Ando is Chairman of the Board of Symphogen A/S and is Vice-Chairman of the Boards of Novo Nordisk A/S and S*Bio Pte. Ltd.

Dr. Ando is a member of the Boards of Archimedes Pharma Ltd, UK (appointed 2010), Chroma Therapeutics, UK (appointed 2010), EDBI Pte Ltd, Singapore (appointed 2011), EUSA Pharma, UK (appointed 2006), Molecular Partners, Zurich (appointed 2010) and Novo A/S, Denmark (appointed 2006).

Dr Ando also serves as a Senior Advisor to Essex Woodlands Health Ventures UK Ltd. Dr Ando serves as a member of the CBio Limited Remuneration Committee.

During the past three years, Dr Ando has served as a Director of the following listed companies:

Novo Nordisk A/S (Denmark)- appointed a Director and subsequently Vice Chairman.

NicOx S.A. (France)- appointed a Director.

Enzon Pharmaceutical, Inc. (US) – appointed a Director

Dr Peter B. Corr, Non-Executive Director
(Appointed 30 October 2007)

Dr Peter B. Corr is Co-Founder and Managing General Partner, Celtic Therapeutics, a private equity firm focused on the development of innovative therapeutics. Prior to that appointment Dr Corr served as Corporate Senior Vice-President for Science and Technology at Pfizer Inc from 2003 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 cardiology, 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 University.

Dr Corr served on the Board of Regents of Georgetown University, and was Chairman of the Board of Trustees of the New York Academy of Sciences and is currently on the Boards of Furiex Pharmaceuticals, the Critical Path Institute (C-Path) and the International Partnership for Microbicides as Chariman of the Board.

In the past three years, Dr Corr has served as a director of the following listed companies:

Furiex Pharmaceuticals (USA)- appointed a Director.

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 and an Honorary Professor at the Institute for Molecular Biosciences at the 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, has had a number of roles in Victoria, including chairing the Victorian Health Promotion Foundation and the Hospitals Admission Risk Program

directors' report

(HARP), and is currently Executive Chairman of Obesity Australia. Currently he sits on the Boards of the Finkel Foundation, the Harold Mitchell Foundation, and the Garnett Passe and Rodney Williams Memorial Foundation.

He has published over 500 scientific papers, maintains an active research program nationally and internationally, and acts as a consultant for a number of international pharmaceutical firms in Australia, Europe, Japan and the United States. In 2008 he received the Novartis Award from the American Heart Association for his contributions to research on hypertension, and chaired the Endocrine Society's taskforce on Recommendations for the Management of Primary Aldosteronism. Professor Funder is a member of the Nominations and Governance Committee and Remuneration Committee.

During the past three years, Professor Funder has not served as a Director of another listed company.

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 the unlisted entity InJet Digital Aerosols Limited and is also a Director of Australian Technology Innovation Fund Limited and the Australia Biofund Investment Limited (Hong Kong). Dr Monsour was appointed to the Audit & Risk Management Committee in November 2009 and is a member of the Remuneration Committee.

During the past three years Dr Monsour has also served as a Director of the following listed company:

Analytica Limited- appointed as a Director (2004) and subsequently as Chairman (2006).

Dr Terje Kalland, Non- Executive Director
(Appointed 1 December 2010)

Dr Terje Kalland, MD, PhD, is Chief Scientific Officer at Karolinska Development. He is a former professor of tumour immunology and has served 22 years in the pharmaceutical industry. From 2005-2011 he was senior vice president of the Biopharmaceuticals Research Unit at Novo Nordisk. His leadership has been with a focus on discovery and preclinical development, and he also has experience in phase I/II clinical development. He has brought more than 40 large and small molecule-based drug candidates into development.

Prior to his appointment at Novo Nordisk, Dr Kalland was Chief Scientific Officer at Biovitrium AB in Stockholm, Sweden. From 1988 to 2001, he worked at Pharmacia, where he spent the last seven years of his appointment as the global head of Oncology Research.

During the past three years, Dr Kalland has served as a Director of the following listed company:
Innate Pharma S.A., France

Dr Thomas Lönngren, Non-Executive Director
(Appointed 27 January 2011)

Dr Thomas Lönngren served as the Executive Director of the European Medicines Agency (EMA) from 2001 through to his retirement in December 2010. He qualified as a pharmacist from the University of Uppsala in 1976 and holds a MSc in social and regulatory pharmacy. From 1976-78 he was a lecturer at Uppsala University, Sweden.

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He served with the Swedish National Board of Health and Welfare from 1976-90 with responsibilities including herbal medicines, cosmetics, medical devices, narcotics and contraceptives. During 1982-94 he acted as senior pharmaceutical consultant for the Swedish International Development Agency's health cooperation programme in Vietnam. In 1990 he was appointed Director of Operations of the Swedish Medical Products Agency, later becoming Deputy Director-General of the Agency.

He was an Honorary Member of the Royal Pharmaceutical Society of Great Britain in 2003 and made an Honorary Fellow of the Royal College of Physicians in 2004. He was granted an Honorary Doctorate from the University of Uppsala and received Drug Information Associations Distinguished Career Award in 2008.

During the past three years, Dr Lönngren has not served as a Director of another listed company.

Mr James Greig, Executive Finance Director
(Appointed 31 January 2011)

James Greig joined CBio as Financial Controller in February 2006 and was appointed Chief Financial Officer in November 2006. He was appointed executive Finance Director in January 2011.

James is a Chartered Accountant whose business insight was gained as an auditor with Peat Marwick, now KPMG. Subsequently undertaking commercial roles, he now has over 20 years commercial experience in senior financial and commercial manager positions, and has specialised in facilitating the growth of small and medium sized businesses. James has experience across a broad range of industries including property, oil & gas, insurance and biotechnology. Mr Greig is a member of the Nominations and Governance Committee.

During the past three years, Mr Greig has not served as a Director of another listed company.

Dr Dennis Feeney, Non-Executive Director
(Resigned 24 November 2010)

Dr Dennis Feeney joined CBio as Chief Scientific Officer in 2003, was appointed President of Global Development and Licensing in 2006, and was appointed 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, where he served as a member of the Executive Board of Management and corporate officer at Pharmacia.

During the past three years Dr Feeney has not served as a Director of another listed company.

Mr Stephen Streeter, Non-Executive Director
(Resigned 20 April 2011)

Stephen Streeter is an institutional stockbroker with 22 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 non-executive Director of Australia Biofund Investment Limited (Hong Kong) and Australian Technology Innovation Fund Limited.

During the past three years Mr Streeter has not served as a Director of another listed company.

directors' report

DIRECTORS RELEVANT INTERESTS IN CBIO SECURITIES

In accordance with s300(11) of the Corporations Act 2001, the relevant interests of the Directors in the shares and options of CBio Limited, as at the date of this report were:

	Number of Ordinary Shares	Options	Performance Rights
S Jones (i)	1,819,196	300,000	-
P Corr	-	1,000,000	200,000
G Ando	-	1,000,000	200,000
J Funder	100,000	1,000,000	200,000
M Monsour (i)	9,357,534	3,104,000	200,000
J Yeates	-	2,000,000	-
T Kalland	-	1,000,000	200,000
T Lönngren	-	1,000,000	200,000
J Greig	20,000	1,000,000	-

(i) In addition to the holdings listed above, Mr Jones and Dr Monsour have relevant interests in the CBio Limited shareholder Australian Biofunds Investments Limited. This entity held 194,280 shares at the date of this report.

COMPANY SECRETARY

Mr. Ben Graham (appointed 8 August 2007)

Ben Graham commenced with CBio in 2005 and was appointed Company Secretary in 2007. He is a qualified Accountant with ten years experience in senior financial positions in the bio-pharmaceutical and medical device industries. Ben is experienced in the administration of both listed and non-listed public companies, and also serves as the company's Financial Accountant.

PRINCIPAL ACTIVITIES

The principal activities during the year of the company were research, product development and clinical trials of the therapeutic drug XToll® and development of variants to the Company's Cpn10 technology.

OPERATING RESULTS AND DIVIDENDS

The loss after tax of the company for the year ended 30 June 2011 was \$13,679,994 (2010 \$16,787,189 loss). A proportion of the loss was non cash in nature and comprised the expensing of options, non-cash interest expense and fair-value movements of derivative instruments. No dividend was proposed or paid.

REVIEW OF OPERATIONS

A review of the operations of CBio during the year ended 30 June 2011 is set out in the CEO review.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

All significant changes in the state of affairs of the Company that occurred during the financial year are discussed in the CEO Review.

DIRECTORS' MEETINGS

Board meetings are generally scheduled six times per year, while comprehensive Board Papers are circulated to Directors each month. During the year, the Board held 5 meetings. The Audit & Risk Management Committee met twice.

directors' report

The attendances of Directors at meetings of the Board and its Audit & Risk Management Committee were:

	Board of Directors		Audit & Risk management Committee	
	Held	Attended	Held	Attended
S Jones	5	5	2	2
P Corr	5	5	-	-
G Ando	5	5	-	-
J Funder	5	5	-	-
M Monsour	5	5	2	2
J Yeates	5	5	-	-
T Kalland (i)	3	3	-	-
T Lönngren (ii)	3	3	-	-
J Greig (iii)	2	2	-	-
D Feeney (iv)	2	2	-	-
S Streeter (v)	4	-	-	-

(i) Appointed a Director on 1 December 2010

(ii) Appointed a Director on 27 January 2011

(iii) Appointed a Director on 31 January 2011

(iv) Resigned as a Director on 24 November 2010

(v) Resigned as a Director on 20 April 2011

The Remuneration committee and the Nomination and Governance Committee were formed in September 2011 and have not yet met.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

The Company issued \$150,000 Convertible Notes on 6 July pursuant to the funding agreement with SpringTree Special Opportunities Fund, LP. The Note was repaid in cash on 3 August.

In July the Company issued 100,000 shares to entities associated with Dr Michael Monsour as commission on the firm commitment to subscribe for shares under the Rights Issue conducted by the Company in 2010. The share issue was approved by shareholders in a general meeting on July 15.

In July the Company issued 1,900,000 performance rights to employees of the Company and 1,200,000 performance rights to Non-Executive Directors of the Company. The issue of performance rights was approved by shareholders in a general meeting on July 15.

In July the Company announced the headline results from its phase IIa clinical trial in Rheumatoid Arthritis.

In July, SpringTree Special Opportunities Fund, LP exercised 200,000 of 1,900,000 options issued upon the signing of the funding agreement at \$0.517 per share.

On 5 September, the Company issued a Rights issue information booklet to raise up to \$10.8 million through the issue of up to 60,058,036 shares at \$0.18 per share. The Offer is underwritten and will close on 7 October 2011.

In August, the Company announced the termination by mutual consent of the Convertible Loan facility with the SpringTree Special Opportunities Fund, LP. SpringTree made a payment to CBio on termination of \$180,160 in connection with shares issued as security upon execution of the Agreement in 2010.

On 5 September the Company received a notice pursuant to s249D of the Corporations Act requisitioning the Company to hold a meeting to consider the removal of three current directors and the appointment of three new directors.

directors' report

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:

- (a) receipt of final study report from Phase IIa clinical trial in Rheumatoid Arthritis;
- (b) further research into the understanding of the method of action of Cpn10;
- (c) further activities supporting and strengthening CBio's IP position;
- (d) clinical trials of XToll in other disease states, and
- (e) further commercialisation and licensing discussions and capital raising initiatives.

SHARE OPTIONS

Unissued Shares

As at the date of this report there were 36,884,849 unissued ordinary shares under options (37,084,849 at the balance date). Refer to Note 20 for further details of the options outstanding. These options relate to the employee, Director and other persons options scheme, as well as options issued pursuant to a Convertible Loan Agreement.

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 2,500,000 potential options which may be issued on conversion of convertible notes to equity. 2,500,000 options were issued subsequent to the balance date in connection with the conversion of convertible notes to equity, however these were recorded in equity as at 30 June 2011 in accordance with Australian Accounting Standards.

Additional shares and options may be issued under the SpringTree facility as disclosed in Note 12 (i). Given the formula required to determine shares and options to be issued relies on future share prices, estimates of issuable shares and options cannot be made and will depend on future use of the facility.

Shares Issued as a Result of the Exercise of Options

During the year ended 30 June 2011, the following ordinary shares of CBio Limited were issued on the exercise of share options granted:

	Grant Date	Exercise Price	Number of Shares Issued
SpringTree Convertible Loan Facility	16/06/2010	\$0.3510	148,148
SpringTree Convertible Loan Facility	15/07/2010	\$0.3060	127,443
SpringTree Convertible Loan Facility	16/08/2010	\$0.2340	166,667
SpringTree Convertible Loan Facility	17/01/11	\$0.2306	169,109

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. CBio is listed on the Australian Securities Exchange. CBio's ASX code is CBZ.

The Company had 23 full-time equivalent employees as at 30 June 2011 (2010: 25).

directors' report

REMUNERATION REPORT (AUDITED)

This remuneration report summarises the remuneration arrangements applicable to key management personnel of the Company in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The information provided in this report has been audited as required by section 308(C) of the Corporations Act 2001.

Key Management Personnel

For the purposes of this report, key management personnel (KMP) are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, and include:

- (a) All executive and non-executive Directors of CBio Limited; and
- (b) Those executives who have the authority and responsibility for planning, directing and controlling the activities of the Company.

The Company has determined that there are no non-Director executives who meet the criteria for a KMP.

For the purposes of this report, the term 'executive' includes the Chief Executive Officer (CEO), Executive Directors (including executive chairman), the Secretary of the Company and the term 'Director' refers to Non-Executive Directors only.

Details of the KMP of the Company are set out below.

Mr. S Jones	Executive Chairman,
Mr. J Yeates	Managing Director and CEO,
Dr. G Ando	Non-executive Director,
Dr. P Corr	Non-executive Director,
Prof. J Funder	Non-executive Director,
Dr. M Monsour	Non-executive Director,
Mr. J Greig	Executive Director and Chief Financial Officer, (appointed 31 January 2011)
Dr T Kalland	Non-executive Director, (appointed 1 December 2010)
Dr T Lonngren	Non-Executive Director, (appointed 27 January 2011)
Dr. D Feeney	Executive Director, (resigned 24 November 2010) and
Mr. S Streeter	Non-executive Director.(resigned 20 April 2011).

In accordance with the requirements of the Corporations Act 2001 remuneration details for the Company Secretary, Mr. Ben Graham, are also included in the Remuneration Report, as a group executive of the Company.

Board Remuneration Responsibilities

CBio's remuneration strategy is designed to attract, motivate and retain Directors and employees by identifying and rewarding high performers and recognising the contribution of each employee to the continues growth and success of the Company.

The Board has various responsibilities in relation to the Company's human resource and remuneration framework. During the year under review, the Board as a whole was responsible for all matters relating to remunerations which would otherwise be attended to by a remuneration committee. Subsequent to the end of the year, the Board formed a Remuneration Committee which will now be responsible for making recommendations to the Board on the remuneration arrangements for non-executive directors, executives and employees.

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The Board approves the aggregate remuneration paid to Directors, which is subject to shareholder approval. An aggregate Non-Executive Director Fee pool of \$750,000 was approved by shareholders on 15 July 2011.

The Board is responsible for reviewing and approving policy recommendations from the CEO in relation to employee remuneration. Such policy should aim to set remuneration which:

- (a) Is competitive, equitable and designed to attract and retain high quality employees;
- (b) Motivates executives to pursue the long-term growth of the Company; and
- (c) Establishes a clear relationship between executive's performance and their remuneration.

Non-executive Director Remuneration Arrangements

Remuneration policy

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The Company's constitution and the ASX Listing Rules specify that the Non-Executive Director (NED) aggregate fee pool shall be determined from time to time by shareholders in a general meeting. The latest determination was on 15 July 2011 when shareholders approved an aggregate fee pool of \$750,000 per year.

The Board will not seek any increase for the NED pool at the 2011 AGM.

Structure

The remuneration of NED's consists only of Directors fees. NED's do not receive committee fees or any retirement benefits. However, they are able to participate in incentive plans in which share options and performance rights may be issued.

In addition to the payment of Director fees, the Company's constitution provides that the Board may approve additional amount of remuneration to individual Directors for extra services rendered from time to time. Consulting services provided by entities associated with NED's are not considered to be remuneration in nature and are disclosed in Note 22 Related Party Transactions. It also provides that Directors can be reimbursed for reasonable expenses incurred by them in the course of discharging their duties.

For the year ending 30 June 2011, each NED was entitled to receive Directors fees totalling \$50,000 (plus appropriate on-costs) per year.

The remuneration of NED's for the year ended 30 June 2011 and 30 June 2010 is details on page 27 of this report.

Executive Remuneration Arrangements

Remuneration levels and mix

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company.

In order to attract and retain high calibre employees, the Company aims to provide each individual executive with a market competitive remuneration package that is commensurate with their position and responsibilities and which is geared towards aligning their interests with those of shareholders. As such, executive remuneration packages include a fixed element and at-risk elements in the form of long-term equity based incentives. The Company may make discretionary payments to key management personnel and other staff, although it does not have a formal policy on the payment of discretionary amounts.

directors' report

Structure

In the 2011 financial year, the executive remuneration framework consisted of the following components:

- ▶ Fixed remuneration
- ▶ Variable remuneration

Fixed Remuneration

Fixed remuneration includes base salary, superannuation contributions and other benefits. In the case of Executive Chairman, fixed remuneration includes Directors fees. For the year ending 30 June 2011, the Chairman was entitled to receive directors fees of \$75,000 (plus appropriate on costs). Consulting fees paid to entities associated with the Executive Chairman are not considered to be remuneration in nature and are detailed in Note 22 Related Party Transactions.

Executive contracts of employment do not include any guaranteed base pay increase. Fixed remuneration is reviewed annually.

The fixed component of executives' remuneration is detailed on page 25 of this report.

Variable Remuneration- short-term incentives (STI)

The Company operates an annual STI program that is available to executives and employees and awards a cash bonus subject to the attainment of certain objectives.

The total potential STI available is set at a level as to provide sufficient incentive to executives and employees to achieve the operational objectives and such that the cost to the Company is reasonable in the circumstances.

Actual STI payments awarded to each executive or employee depend on the extent to which operational targets are met. The targets consist of a number of financial and non-financial operational objectives, and corporate and individual measures of performance, including:

- ▶ Capital raising;
- ▶ Strategy implementation;
- ▶ Risk management;
- ▶ Compliance; and
- ▶ Leadership

These measures were chosen as they represent the key drivers for the short-term success of the business and provide a framework for delivering long-term value. No STI payment is available to be made to executives or employees of the Company without the approval of the Chairman.

For the 2011 financial year, 100% of the STI cash bonus of \$95,000 accrued in that period vested to executives and employees and was paid in that year. There were no forfeitures or alterations to the STI program during the year.

Variable remuneration- long-term incentives (LTI)

Long-term incentives (LTI) are reserved for Directors, executives and employees who have performed to a required performance level and who are regarded as being of strategic and/or operational importance to the Company. The issue of LTI's increases the market competitiveness of remuneration packages and facilitates the attraction and retention of high calibre executives and employees.

The Company currently offers LTI's in the form of share options, under an Employee Share Option Plan (ESOP), and performance rights.

directors' report

Options

Options issued to employees generally vest over a three year period of continuous employment, unless determined otherwise by the Board. Options issued to Directors and executives generally vest immediately. All options held by Directors, executives and employees expire 31 December 2012.

2,000,000 share options were issued as remuneration during the year as an incentive for Dr Terje Kalland and Dr Thomas Lönngren to join the CBio Limited Board as Non-Executive Directors. Both Dr Kalland and Dr Lonngren bring considerable scientific expertise to the CBio Board and the offer of LTI's enabled the Company to secure their services without incurring a considerable cash outlay. There were no other share options issued as remuneration during the year.

Details of share options issued during the year are set out in Note 20 of the Financial Report with those issued to Directors detailed on page 26 of this report.

Performance Rights

Performance rights operate in a similar manner to share options, and grant the performance right holder the right to acquire one share per performance right held based on the occurrence of a vesting event. While no performance rights were issued during the 2011 financial year, 1.2 million performance rights were granted to Non-Executive Directors on 15 July. A further 1.9 million performance rights were granted to employees on 15 July also. No performance rights were granted to executive Directors or the Company Secretary.

Performance rights vest on the occurrence of any one of the following events:

- a) if, under a Takeover Bid or otherwise, a person (together with his or her Associates) acquires Shares or a relevant interest (within the meaning of the Corporations Act) in Shares that, when aggregated with Shares already acquired by such person (and their associates), constitute at least 19.9% of the issued Shares of the Company and, in the case of a Takeover Bid, the Takeover Bid is or has become unconditional; or
- b) pursuant to an application made to the court under section 411 of the Corporations Act, the court orders a meeting to be held in relation to a proposed compromise or arrangement for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company; or
- c) The Company enters into a major collaboration (which may include any joint research & development agreement), license transaction or sale of the operations of the Company's business, or
- d) The CBio Limited share price reaching \$1.00 at any time during the life of the Performance Right.

These performance conditions were chosen as they represent the point at which a significant increase in shareholder value is expected to occur (subject to a successful phase IIa clinical trial) and in the case of (d) equals the 2010 IPO share price. The Board will determine whether a vesting event has occurred as and when required.

There were no performance rights issued during the year, however details of the performance rights issued subsequent to the year end can be found in Note 23 Subsequent Events and at page 19 of this report.

Employment Contracts

Non-Executive Directors are subject to ordinary election and rotation requirements as stipulated in the ASX Listing Rules and the Company's constitution. Accordingly, there are no specific employment contracts with non-executive Directors.

All executive key management personnel are employed under individual service contracts. Each contract outlines key terms of employment, including the executives fixed remuneration. It is the Company's general practice that

directors' report

employment contracts do not have a fixed term. In certain circumstances, a termination payment of not more than one years' salary may be payable on termination. No other benefits are payable on termination other than accrued statutory entitlements.

Key management personnel may terminate their contract with the Company following the provision of the required notice period stipulated in their employment contract. Notice periods vary depending on the period of service and the level of seniority of the executive. An executives' employment may also be terminated by the Company without notice and without payment in lieu for serious misconduct and breach of contract.

To align Directors and executives interests with shareholder interests, Directors and executives are encouraged to hold shares in the company and are able to participate in the Company's share option plans.

Directors Remuneration

2011	Short-Term		Post Emplo-	Termi-nation	Share- Based	Total
	Salary & Fees	Other	yment Superann-uation	Benefit	Payment Value of Options	
	\$	\$	\$	\$	\$	\$
S Jones (i)	75,000	-	1,260	-	-	76,260
P Corr	50,000	-	-	-	-	50,000
G Ando	50,000	-	-	-	-	50,000
J Funder	50,000	-	-	-	-	50,000
M Monsour	50,000	-	4,500	-	-	54,500
J Yeates (x)	300,000	79,961	27,000	-	-	406,961
T Kalland (ii)	29,167	-	-	-	1,528	30,695
T Lonngren (iii)	21,505	-	-	-	14,868	36,373
J Greig (iv) (x)	220,000	50,691	19,800	-	-	290,491
D Feeney (i)(v)	78,333	-	-	-	-	78,333
S Streeter (vi)	37,500	-	-	-	-	37,500
	961,505	130,652	52,560	-	16,396	1,161,113
2010						
S Jones	75,000	-	1,260	-	-	76,260
P Corr (vii)	100,000	-	-	-	-	100,000
G Ando	50,000	-	-	-	-	50,000
J Funder	50,000	-	-	-	-	50,000
M Monsour	50,000	-	4,500	-	-	54,500
S Streeter	50,000	-	-	-	-	50,000
J Yeates (viii) (ix)	300,000	75,000	27,000	-	67,094	469,094
D Feeney (viii)	280,000	-	-	-	67,094	347,094
	955,000	75,000	32,760	-	134,188	1,196,948

(i) Details of consulting fees paid to entities associated with Mr Jones and Mr Feeney are disclosed in Note 22.

(ii) Appointed a Director 1 December 2010.

(iii) Appointed a Director 27 January 2011.

(iv) Appointed a Director 31 January 2011.

(v) Resigned as a Director 24 November 2010.

(vi) Resigned as a Director 20 April 2011.

(vii) Dr Corr received Director Fees of \$50,000 in relation to the prior period

(viii) Accounting expense relating to the share options issued in prior periods

(ix) Discretionary payment

(x) STI payment of \$50,000 for J Yeates and \$30,000 for J Greig with residual payments for vehicle operating costs taken up by the Company during the year

Details of related party transactions including the payment of consulting fees is disclosed within Note 22 to the Financial Statements.

directors' report

Executive Remuneration

2011	Short-Term		Post Employ- ment Superannu- ation	Termi- nation enefit	Share Based Payment Value of Options	Total
	Salary & Fees	Other				
	\$	\$	\$	\$	\$	\$
B Graham (i)	157,000	15,000	12,883	-	-	184,883
	157,000	15,000	12,883	-	-	184,883
2010						
J Greig	220,000	50,000	19,800	-	13,319	303,119
B Graham	119,154	-	10,717	-	-	129,871
	339,154	50,000	30,517	-	13,319	432,990

(i) STI payment

No percentage of Director or executive remuneration was at risk other than STI and LTI payments.

Remuneration and CBio Limited Performance

No remuneration in 2011 or 2010 was related to the results reported by CBio Limited. Remuneration is not linked to financial performance as CBio is in research and development. Relative movements in Basic EPS, Net tangible assets per share and Dividend per share for the last four years presents as follows:

	2007	2008	2009	2010	2011
Earnings/(Loss) Per Share (cents per share)	(61.74)	(73.44)	(32.06)	(24.90)	(11.32)
Net tangible assets per share (cents per share)	2.70	(8.52)	(28.23)	(0.06)	(0.01)
Dividend per share (cents per share)	-	-	-	-	-

The closing share price for the Company on 30 June 2011 was \$0.63 (2010: \$0.265).

Options issued as part of remuneration for the year ended 30 June 2011

Options granted to key management personnel as remuneration in the year ending 30 June 2011 are shown in the table below:

2011	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
T Kalland (i)	1,000,000	1,000,000	30/11/2010	\$0.002	\$1.00	30/11/2010	31/12/2012
T Lönngrén (i)	1,000,000	1,000,000	27/01/2011	\$0.0015	\$1.00	27/01/2011	31/12/2012
	2,000,000	2,000,000					

(i) Options were granted prior to the appointment of Dr Kalland and Dr Lönngrén as Directors.

There were no options granted to key management personnel as remuneration in the year ended 30 June 2010. Details of shares and options held by Key Management Personnel can be found in Note 19.

directors' report

Hedging of equity awards

The Company may, from time to time, issue equity awards to Directors, executives and employees as part of their remuneration. These equity awards include the issue of share options. While the Board does not currently prohibit executives, Directors and employees from entering into arrangements to protect the value of unvested share options, any such arrangements are expected to be undertaken within the bounds of the Company's Share Trading Policy, satisfy regulatory requirements and operate in the spirit of good governance and accepted industry practice.

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

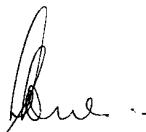
During the year, the Company's auditors have performed a number of non-audit services. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The details of the services provided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

	\$
Taxation and other services	19,084
	<hr/> 19,084 <hr/>

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: 21 September 2011

statement of comprehensive income

for the year ended 30 June 2011

	Note	2011 \$	2010 \$
Continuing Operations			
Interest received		66,173	85,261
Rental revenue		142,952	140,260
Total revenue		209,125	225,521
Fair value movement of derivatives		(564,049)	569,583
Unrealised / realised foreign exchange gain		341,044	-
Other income		2,203	24,666
Capital raising costs	5a	(260,990)	(1,764,430)
Borrowing costs expense	5b	(1,665,638)	(3,173,145)
Administration & corporate expenses		(1,794,792)	(1,766,199)
Depreciation & amortisation	5c	(144,420)	(232,689)
Staff costs	5d	(3,092,805)	(3,293,734)
Rent & occupancy expense		(605,945)	(572,653)
Share based payment expense		(16,396)	(373,655)
Research and development costs	5e	(5,144,075)	(5,429,117)
Patent costs		(543,550)	(293,920)
Business development		(399,706)	(707,417)
Loss before income tax from continuing operations		(13,679,994)	(16,787,189)
Income tax expense	6	-	-
Loss from continuing operations after income tax		(13,679,994)	(16,787,189)
Other comprehensive income		-	-
Total comprehensive income for the year		(13,679,994)	(16,787,189)
(Loss)/gain per share (cents per share)			
Basic/Diluted – Continuing operations	17	(11.32)	(24.90)

The Statement of Comprehensive Income is to be read in conjunction with the notes to the Financial Statements.

statement of financial position

as at 30 June 2011

	Notes	2011 \$	2010 \$
Current assets			
Cash and cash equivalents	18a	3,909,426	3,433,448
Trade and other receivables	7a	28,030	55,807
Other current assets	8	340,598	271,403
Total current assets		4,278,054	3,760,658
Non-Current Assets			
Property, plant and equipment	9	132,556	232,856
Trade and other receivables	7b	150,000	155,967
Intangible assets	10	-	-
Other non-current assets	8	169,074	338,148
Total Non-Current Assets		451,630	726,971
Total Assets		4,729,684	4,487,629
Current Liabilities			
Trade and other payables	11	1,369,158	2,195,305
Financial liabilities	12	2,326,681	3,616,921
Short-term provisions	13a	219,369	158,851
Unearned income	14	2,805,736	3,182,848
Total current liabilities		6,720,944	9,153,925
Non-Current Liabilities			
Long-term provisions	13b	151,156	110,597
Total Non-Current Liabilities		151,156	110,597
Total Liabilities		6,872,100	9,264,522
Net Deficiency		(2,142,416)	(4,776,893)
Equity			
Issued Capital	15	84,302,952	68,291,037
Reserves	16	19,402,454	19,099,898
Accumulated Losses		(105,847,822)	(92,167,828)
Total Deficiency in Equity		(2,142,416)	(4,776,893)

The Statement of Financial Position is to be read in conjunction with the notes to the Financial Statements.

statement of changes in equity

for the year ended 30 June 2011

	Note	2011 \$	2010 \$
ISSUED CAPITAL			
Balance at 1 July		68,291,037	47,947,588
Gross issue of share capital		17,657,658	22,308,111
Cost of capital raising		(1,645,743)	(1,964,662)
Balance at 30 June	15	<u>84,302,952</u>	<u>68,291,037</u>
ACCUMULATED LOSSES			
Balance at 1 July		(92,167,828)	(75,380,639)
Loss for the year		(13,679,994)	(16,787,189)
Other comprehensive income		-	-
Total comprehensive income for the year		<u>(13,679,994)</u>	<u>(16,787,189)</u>
Balance at 30 June		<u>(105,847,822)</u>	<u>(92,167,828)</u>
RESERVES			
Balance at 1 July		19,099,898	16,628,240
Net convertible note issuance/conversion to equity		286,160	2,098,003
Equity-based compensation		16,396	373,655
Balance at 30 June	16	<u>19,402,454</u>	<u>19,099,898</u>

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

statement of cash flows

for the year ended 30 June 2011

	Notes	2011 \$	2010 \$
Cash flows from/(used in) operating activities			
Payments to suppliers and employees		(13,203,838)	(16,375,922)
Cash received in the course of operations		340,964	1,549,259
Interest received		66,173	85,261
Interest paid		(659,410)	(460,633)
Net cash used in operating activities	18b	(13,456,111)	(15,202,035)
Cash flows from/(used in) investing activities			
Purchase of Plant and equipment		(44,120)	(10,719)
Net cash (used in)/provided by investing activities		(44,120)	(10,719)
Cash flows from/(used in) financing activities			
Proceeds from issue of shares		14,611,362	15,066,717
Proceeds from issue of convertible notes		1,650,000	5,550,000
Repayment of convertible notes		(1,475,000)	-
Repayment of borrowings		(300,000)	(146,000)
Share issue costs		(1,130,884)	(2,240,965)
Proceeds from borrowings		300,000	376,115
Net cash provided by financing activities		13,655,478	18,605,867
Net increase/(decrease) in cash held		155,247	3,393,113
Net foreign exchange differences		320,731	-
Cash at beginning of the financial period		3,433,448	40,335
Cash at the end of the financial period	18a	3,909,426	3,433,448

The Statement of Cash Flows is to be read in conjunction with the notes to the Financial Statement

notes to the financial statements

for the year ended 30 June 2011

1. CORPORATE INFORMATION

The financial report of CBio Limited for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the Directors on 19 September 2011.

CBio Limited is a company limited by shares incorporated in Australia whose shares have been publicly traded on the Australian Securities Exchange (ASX) since its listing on 15 February 2010.

The nature of the operations and principal activities of the Company are described in the Directors' report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) General

Statement of Compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards as issued by the Australian Accounting Standards Board and International Accounting Standards Board.

As at 30 June 2011 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.

b) Basis of Accounting

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value.

New accounting standards and interpretations, including those issued but not yet effective, are detailed in Note 26. The effect of adopting new standards and interpretations effective this year are also disclosed at Note 26.

c) Going Concern

The report has been prepared on a going concern basis. The Company incurred an operating loss after income tax of \$13,679,994 (2010: \$16,787,189) for the year ended 30 June 2011. At 30 June 2011 the Company has net current liabilities of \$2,442,890 (2010: \$5,393,267) and an excess of liabilities over total assets of \$2,142,416 (2010: \$4,776,893). 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 promising clinical results to date. The success of future capital raisings for CBio Limited will depend on the Company achieving positive results in the future clinical trials.

The Company listed on the Australian Securities Exchange in February 2010. This listing provides CBio with access to capital 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 2011

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

c) Going Concern (cont'd)

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 subsequent to the balance date issued an underwritten Rights Issue Prospectus to raise up to \$10.8m. Further, the Company had access (at the balance date) to a \$12.45 million funding facility through to May 2013. The Company received \$1,650,000 via this facility during the year, with a potential \$7.70 million available over the remainder of the facility term as at 30 June 2011. The Company has received a further \$150k under this facility subsequent to the balance date, although the facility was terminated by mutual agreement in August 2011.

Additionally, CBio has an agreement with Novo Nordisk A/S in connection with its Cpn10 asset. USD\$3 million was received by the company in relation to this agreement during prior years upon the achievement of milestones in relation to the current RA clinical trial.

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:

	2011	2010
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.

notes to the financial statements

for the year ended 30 June 2011

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

d) Property, Plant and Equipment (cont'd)

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 statement of comprehensive income 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 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 balance 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.

notes to the financial statements

for the year ended 30 June 2011

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

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.

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 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 date.

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

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 statement of financial position.

notes to the financial statements

for the year ended 30 June 2011

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

k) Other Taxes (cont'd)

Cash flows are included in the statement of cash flows 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.

For the purpose of the statement of cash flows, 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) 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 company 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.

Should the Company earn any income which is dependant on the satisfaction of certain contractual conditions, then such income will be treated as unearned income and be recorded as a liability until any conditions are met, at which time the income will be recognised.

o) 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 balance date are translated at the rate of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies, and cash held 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.

notes to the financial statements

for the year ended 30 June 2011

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

p) 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.

q) 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.

r) 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.

s) 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.

t) 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 virtually certain. The expense relating to any provision is presented in the statement of comprehensive income 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 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.

notes to the financial statements

for the year ended 30 June 2011

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

t) Employee Benefits (cont'd)

Wages, Salaries and Annual Leave

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

u) 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 statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

v) 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 statement of comprehensive income when the liabilities are de-recognised and as well as through the amortisation process.

Convertible Notes

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

On issuance of the convertible notes, the fair value of the embedded derivative and convertible note is determined and the residual (being the conversion option) is 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.

notes to the financial statements

for the year ended 30 June 2011

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

v) Interest-Bearing Loans and Borrowings (cont'd)

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.

w) 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.

x) 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.

y) 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

notes to the financial statements

for the year ended 30 June 2011

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

y) Earnings Per Share (cont'd)

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.

z) 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 balance 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 based on the best available information at balance date.

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

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.

aa) 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.

notes to the financial statements

for the year ended 30 June 2011

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

aa) Significant accounting judgements, estimates and assumptions (cont'd)

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 standard model, with the assumptions detailed in Note 20(c). 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 the embedded derivative and the convertible notes is determined using a Black Scholes standard model. The accounting estimates and assumptions relating to these components would have an impact on the carrying amounts of liabilities within the next annual reporting period, expenses and equity.

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.

3. FINANCIAL RISK MANAGEMENT

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.

a) *Risk exposures and responses*

The Company manages its exposure to key financial risk, including interest rate risk and currency risk in accordance with the Company's financial risk management policy. The objective of the policy is to ensure that financial risks faced by the company are known and can be managed appropriately.

Primary responsibility for identification and control of financial risks rests with the Board as a whole.

b) *Interest Rate Risk*

The Company's exposure to market interest rates relates primarily to its cash holdings and the convertible notes on issue.

The Company regularly monitors its exposure to interest rate risk to ensure that such exposure is within an acceptable range given prevailing market conditions at the time.

notes to the financial statements

for the year ended 30 June 2011

3. FINANCIAL RISK MANAGEMENT (cont'd)

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

As at 30 June 2011, 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 to exposure to variable interest rates:

Change in profit/(loss) and equity	2011 \$	2010 \$
Increase in interest rate by 2%	(66,874)	(56,074)
Decrease in interest rate by 2%	66,874	56,074

c) Foreign Currency Risk

The major foreign currency exposures are in US dollars, Pound Sterling (GBP) and Euro dollars. This is as a result of cash funds held and both receivable and payable contracts entered into in these currencies. The company maintains foreign currency bank accounts denominated in both US dollars and GBP in order to minimize foreign currency risk exposure. The company had a deficit of foreign currency receivables over payables of \$158,608 at 30 June 2011 (2010: \$734,826 deficit).

Cash held in USD and GBP are the only assets exposed to foreign currency risk at the balance date. The Company does not hold any Euro dollars. Trade creditors are the only liability exposed to foreign currency risk at the balance date.

As at 30 June 2011, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the US Dollar, GBP and Euro Dollars, with all other variables remaining constant, would be as follows:

Change in profit/(loss) and equity	2011 \$	2010 \$
Improvement in AUD by 15%	450,207	347,033
Decline in AUD by 15%	(569,124)	(276,770)

d) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to standardised financial assets, is the carrying amount, net of any provisions for doubtful debts, as disclosed in the statement of financial position 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.

e) Liquidity Risk

Liquidity risk arises from the financial liabilities of the Company and the Company's subsequent ability to meet its obligations to repay its financial liabilities as and when they fall due.

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.

notes to the financial statements

for the year ended 30 June 2011

3. FINANCIAL RISK MANAGEMENT (cont'd)

f) Equity Risk

Equity risk arises as a result of the \$12.45 million Convertible Loan Agreement entered into by the Company in May 2010. Under the Agreement, convertible notes issued by the Company may be converted into shares and options by the Noteholder. The number of shares and options issued is determined by the prevailing share price at the conversion date. Should the share price decline over time, a greater number of shares and options may be issued as repayment of the note liability.

The company is able to minimise its exposure to equity risk by enacting certain terms under the Agreement, which allow the Company to repay the note in cash if certain conditions are satisfied.

The Agreement was terminated by mutual consent in August 2011.

g) Net Fair Values

The financial liabilities of the Company at the balance date are classified as Level 2 financial instruments. Their fair value is estimated using inputs other than quoted prices in active markets that are observable for the liability, either directly (as prices) or indirectly (derived from prices)

The net fair values of financial assets approximate their carrying value. No financial assets and financial liabilities are readily traded on standardised markets in standardised form.

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

Financial Instrument Composition & Maturity Analysis at present value

2011	1-6 months \$	6-12 months \$	1-5 years \$	>5 years \$	Total \$
Financial Assets					
Cash	3,909,426	-	-	-	3,909,426
Receivables/ other assets	28,030	-	150,000	-	178,030
Total Financial Assets	3,937,456	-	150,000	-	4,087,456
Financial Liabilities					
Trade and other payables	1,369,158	-	-	-	1,369,158
Convertible note (i)	2,250,959	-	-	-	2,250,959
Unearned income (ii)	12,180	2,793,556	-	-	2,805,736
Total Financial Liabilities	3,632,297	2,793,556	-	-	6,425,853

notes to the financial statements

for the year ended 30 June 2011

3. FINANCIAL RISK MANAGEMENT (cont'd)

g) Net Fair Values (cont'd)

2010	1-6 months \$	6-12 months \$	1-5 years \$	>5 years \$	Total \$
Financial Assets					
Cash	3,433,448	-	-	-	3,433,448
Receivables/ other assets	55,807	-	155,967	-	211,774
Total Financial Assets	3,489,255	-	155,967	-	3,645,222
Financial Liabilities					
Trade and other payables	2,195,305	-	-	-	2,195,305
Convertible note (i)	431,250	2,300,000	2,200,000	-	4,931,250
Unearned income (ii)	-	3,182,848	-	-	3,182,848
Total Financial Liabilities	2,626,555	5,482,848	2,200,000	-	10,309,403

(i) Fair Value

The Company uses various methods in estimating the fair value of a financial instrument. The methods comprise:

- Level 1- the fair value is calculated using quoted prices in active markets.
- Level 2- the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3- the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The Convertible notes issued by the Company are deemed to be a Level 2 financial instrument. The Company uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use other observable and unobservable market inputs.

- (ii) Provided the terms of the Option Agreement with Novo Nordisk A/S are satisfied this unearned income is expected to be released into revenue during the next financial year. Refer to Note 24 for further details.

4. 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.

notes to the financial statements

for the year ended 30 June 2011

	2011 \$	2010 \$
5. EXPENSES		
<i>(a) Capital Raising Costs</i>		
Advisor fees	260,990	-
Initial public offer costs	-	1,303,422
Commission expense	-	461,008
	<u>260,990</u>	<u>1,764,430</u>
<i>(b) Borrowing Costs</i>		
Interest expense on Convertible notes:		
- Related entities	-	24,717
- External	659,452	476,897
Non cash interest on convertible notes	794,828	2,391,429
Other borrowing costs	211,358	280,102
	<u>1,665,638</u>	<u>3,173,145</u>
<i>(c) Depreciation and amortisation</i>		
Depreciation of non-current assets:		
- Leasehold improvements	22,636	22,436
- Plant and equipment	121,784	210,253
	<u>144,420</u>	<u>232,689</u>
<i>(d) Staff Costs</i>		
Salaries, wages & fees	2,557,030	2,835,839
Superannuation	224,686	223,627
Payroll tax	149,427	165,638
Employee entitlements	101,076	42,821
Other staff costs	60,586	25,809
	<u>3,092,805</u>	<u>3,293,734</u>
<i>(e) Research and development</i>		
Clinical trial costs	3,107,971	2,949,545
Drug production and supply	1,580,497	2,156,379
Other research and development costs	455,607	323,193
	<u>5,144,075</u>	<u>5,429,117</u>

notes to the financial statements

for the year ended 30 June 2011

	2011 \$	2010 \$
6. INCOME TAX		
(a) Statement of comprehensive income		
<i>Current income tax</i>		
Current income tax benefit	4,488,243	5,080,313
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(146,191)	(787,614)
Deferred tax assets (not recognised)/recognised	(4,342,052)	(4,292,699)
Income tax expense reported on the statement of comprehensive	-	-
(b) 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	(13,679,994)	(16,787,189)
At the Company's statutory income tax rate of 30%:	(4,103,998)	(5,036,156)
Additional deductions – Research and Development	(549,353)	(786,838)
Non tax deductible items	457,490	913,556
Non-assessable items	-	(170,875)
Movement in temporary differences not recorded	(146,191)	787,614
Tax assets not recognised	4,342,052	4,292,699
Income tax expense	-	-
Tax assets (At 30%)		
Domestic tax losses	28,504,079	24,162,028
Temporary differences – including balances in equity	3,333,290	3,179,899
Total unrecorded tax assets	31,837,369	27,341,927

At 30 June 2011 the Company has significant estimated, unconfirmed and un-recouped 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 2011 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.

notes to the financial statements

for the year ended 30 June 2011

	2011	2010
	\$	\$
6. INCOME TAX (cont'd)		
(c) Temporary differences		
Capital raising costs	793,712	548,815
Patent costs	1,015,863	852,798
Research licence	405,000	450,000
Unearned income	838,067	954,854
Provisions and accruals	280,648	373,432
	<u>3,333,290</u>	<u>3,179,899</u>

The losses disclosed as at 30 June 2011 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.

7. TRADE & OTHER RECEIVABLES

(a) Current

Trade debtors	<u>28,030</u>	<u>55,807</u>
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Terms and conditions

All receivables are non-interest bearing and are usually settled on terms of between 30 and 45 days. 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. At 30 June 2011, \$2,997 of trade debtors are past due but not impaired (2010: \$8,780).

(b) Non-current

Bank Guarantee Deposit (i)	<u>150,000</u>	<u>155,967</u>
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(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.

8. OTHER ASSETS

Current – Prepayments	340,598	271,403
Non current – Prepayments	169,074	338,148
	<u>509,672</u>	<u>609,551</u>

9. PROPERTY, PLANT & EQUIPMENT

Total property, plant & equipment		
- At Cost	1,872,457	1,828,337
- Accumulated Depreciation	(1,739,901)	(1,595,481)
Total written down value	<u>132,556</u>	<u>232,856</u>

notes to the financial statements

for the year ended 30 June 2011

	2011 \$	2010 \$
9. PROPERTY, PLANT & EQUIPMENT(cont'd)		
Leasehold Improvements		
At cost	152,056	147,201
Provision for depreciation	(125,898)	(103,262)
	<u>26,158</u>	<u>43,939</u>
Movement in carrying value		
Carrying value at the beginning of the year	43,939	66,375
- Additions	4,855	-
- Depreciation	(22,636)	(22,436)
Carrying value at the end of the year	<u>26,158</u>	<u>43,939</u>
Plant & Equipment		
At cost	1,720,401	1,681,136
Provision for depreciation	(1,614,003)	(1,492,219)
	<u>106,398</u>	<u>188,917</u>
Movement in carrying value		
Carrying value at the beginning of the year	188,917	388,451
- Additions	39,265	10,719
- Depreciation	(121,784)	(210,253)
Carrying value at the end of the year	<u>106,398</u>	<u>188,917</u>
10. INTANGIBLE ASSETS		
Intellectual property	4,125,000	4,125,000
Provision for recoverability (i)	(4,125,000)	(4,125,000)
	<u>-</u>	<u>-</u>
11. TRADE & OTHER PAYABLES		
Trade payables	793,968	1,123,605
Accrued expenses	564,890	996,735
Director and Director related payables (i)	10,300	74,965
	<u>1,369,158</u>	<u>2,195,305</u>

(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.

notes to the financial statements

for the year ended 30 June 2011

11. TRADE & OTHER PAYABLES (cont'd)

- (i) The Director and Director related payables relates to fees and expense reimbursements payable at 30 June 2011.

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 19 Key Management Personnel.

	2011 \$	2010 \$
12. FINANCIAL LIABILITIES		
Convertible notes (i)	1,780,006	3,227,740
Embedded derivative in convertible notes (i)	497,360	338,838
Interest payable on Convertible Notes	49,315	50,343
	<u>2,326,681</u>	<u>3,616,921</u>

(i) *SpringTree Notes*

During the year the Company issued 11 Convertible Notes (SpringTree Notes) under a Convertible Loan Agreement dated 17 May 2010, raising a total of \$1,650,000. These notes have a face value of \$150,000 each and are non-interest bearing. The notes are repayable on the following terms:

- On maturity, the Note shall convert into new Ordinary Shares of the Company determined by dividing the Principal Amount to be converted by the lesser of:
- - 140% of the average of the daily VWAPs per Share for the twenty (20) consecutive Trading Days immediately prior to 16 May 2010; and
 - 90% of the lowest daily VWAP per Share during the twenty (20) Trading Days immediately prior to the Repayment Date of that Repayment, (the Conversion Price)

Under certain conditions, the Note is also repayable in cash. The penalty for repaying the note in cash is equal to 5% (Jul-Feb) and 2.5% (Mar-Jun) of the Note face value.

On each repayment date, the Company shall grant the Investor, Options in the number equal to 20% of the number of the new Ordinary Shares issued or issuable on that repayment date, exercisable at a price equal to 130% of the Conversion Price applicable to the repayment.

During the year, 3 SpringTree Notes were converted to equity (one of which was outstanding at 30 June 2010) and 9 SpringTree Notes were repaid in cash. There were no Notes outstanding at the balance date. The facility has mandatory monthly draw down amounts of \$150,000 to be converted/repaid in one month. A liability of \$250,000 was recorded in the prior year to represent the fair value of this obligation.

The SpringTree Agreement was terminated by mutual consent in August 2011.

notes to the financial statements

for the year ended 30 June 2011

12. FINANCIAL LIABILITIES (cont'd)

Other Notes

During prior years, the Company issued a number of Convertible Notes ("Other Notes") under a Convertible Note Deed dated 30 August 2007. The notes had varying face values and interest of between 10% and 20% per annum is payable monthly. In addition, notes may be converted to shares and options in CBio Limited in accordance with the terms of each note.

Notes have a life of no greater than six months unless extended for a further period if agreed by CBio and the Note holder. During the year, one Note, with a face value of \$125,000, was repaid in cash. On 30 June 2011, the Company received a notice from the holder of two Notes, with a face value of \$2,000,000, electing to convert their Notes to equity. Subsequent to the Balance Date, 4,000,000 shares and 2,500,000 share options were issued in relation to these notes. These notes were recorded as equity at 30 June 2011. Two other notes, with a combined face value of \$2,000,000, remain outstanding at the balance date.

(a) *Key convertible note terms*

Face Value \$	Conversion Rate \$	Shares issued if converted	Options issued if converted	Option exercise price \$	Note expiry
2,000,000	0.286	7,000,000	2,500,000	1.00	31/12/11

(b) *Financial Liability reconciliation*

	Convertible Note	Embedded Derivative	Interest Accrual
Opening balance at 1 July 2010	3,227,740	338,838	50,343
Issue of convertible notes	1,650,000	-	-
Interest accretion	794,828	-	-
Conversion of convertible notes	(2,450,000)	(258,966)	-
Repayment of convertible notes	(1,475,000)	(1,661)	-
Interest charge on convertible notes	-	-	606,301
Interest paid on convertible notes	-	-	(607,329)
Fair value adjustment	32,438	419,149	-
	1,780,006	497,360	49,315

notes to the financial statements

for the year ended 30 June 2011

	2011 \$	2010 \$
13. PROVISIONS		
(a) Short-term employment provisions (i)	219,369	158,851
(b) Long-term employment provisions (ii)	151,156	110,597
	<u>370,525</u>	<u>269,448</u>
Movement in carrying value		
At 1 July	269,448	226,627
Accrued in the period	222,331	247,945
Used in the period	(121,254)	(205,124)
At 30 June	<u>370,525</u>	<u>269,448</u>

(ii) 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 and long-service leave and related on-costs payable on the accrued entitlements. It is expected these costs will be settled by 30 June 2012.

(iii) 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 2012.

	2011 \$	2010 \$
14. UNEARNED INCOME		
Option agreement (i)	2,793,556	3,182,848
Other	12,180	-
	<u>2,805,736</u>	<u>3,182,848</u>

(i) Unearned income represents the fees received from Novo Nordisk A/S in relation to the agreement with CBio in 2007. The amount will not be recorded as income until the terms contained in the agreement are satisfied.

	2011 Number	2011 \$	2010 Number	2010 \$
15. ISSUED CAPITAL				
Ordinary shares fully paid	159,854,762	84,302,952	80,104,905	68,291,037

notes to the financial statements

for the year ended 30 June 2011

15. ISSUED CAPITAL (cont'd)	2011 Number	2011 \$	2010 Number	2010 \$
Movements in shares on issue				
As at 1 July	80,104,905	68,291,037	41,258,424	47,947,588
SpringTree convertible loan agreement (i)	2,316,093	551,882	2,777,778	686,000
Exercise of share options (ii)	611,367	168,994		
Consideration for provision of services (iii)	51,282	33,846	900,000	400,000
Consideration for payment of capital raising costs (iv)	2,854,770	460,569	700,250	535,125
Share placement (v)	11,627,687	5,116,182	-	-
Rights issue (vi)	58,288,658	9,326,185	-	-
Information memorandum	-	-	15,126,000	7,563,000
IPO	-	-	7,101,717	7,101,717
Share Purchase Plan	-	-	1,148,566	401,998
Repayment of loan	-	-	520,590	260,295
Consideration for accrued interest on convertible notes	-	-	397,578	198,789
Conversion of convertible notes (vii)	4,000,000	2,000,000	10,174,002	5,161,187
Transaction costs		(1,645,743)	-	(1,964,662)
As at 30 June	159,854,762	84,302,952	80,104,905	68,291,037

- (i) 2,316,093 shares were issued at prices of between \$0.1774 and \$0.2354 pursuant to a Convertible Loan Agreement with SpringTree Special Opportunities Fund LP.
- (ii) 611,367 shares were issued upon the exercise of share options at exercise prices of between \$0.2323 and \$0.3510.
- (iii) 51,282 shares were issued to a supplier for the provision of service at \$0.195 per share
- (iv) 2,826,100 shares were issued as commission in connection with the Rights Issue conducted by the company at \$0.16 per share with the remaining 28,670 shares issued as commission at \$0.2927 per share.
- (v) 11,627,687 shares were issued at \$0.44 per share in a share placement
- (vi) 58,288,658 shares were issued at \$0.16 in a Rights Issue.
- (vii) 4,000,000 shares were issued at \$0.50 in accordance with convertible note terms. These shares were recognised as equity at 30 June in accordance with Accounting Standards, however the shares were not issued until 7 July 2011.

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.

notes to the financial statements

for the year ended 30 June 2011

15. ISSUED CAPITAL (cont'd)

Capital Management

The Board controls the capital of the company in order to ensure that it 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.

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 2011 and 30 June 2010 are as follows:

	2011 \$	2010 \$
Total borrowings (at face value)	2,000,000	4,275,000
Trade and other payables	1,369,158	2,195,305
Less cash and cash equivalents	(3,909,426)	(3,433,448)
Net debt	(540,268)	3,036,857
Total equity (including liabilities at face value)	(1,865,050)	(5,485,315)
Total net debt plus equity	(2,405,318)	(2,448,458)
Gearing ratio	(22%)	(124%)

16. RESERVES

Equity reserve

Balance at 1 July	19,099,898	16,628,240
Convertible note issue	286,160	1,221,419
Repayment of convertible notes	-	(21,690)
Share option expense	16,396	846,758
Adjustment to convertible notes on modification	-	425,171
Balance at 30 June	19,402,454	19,099,898

Nature and purpose of equity reserve

The equity reserve records items:

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

notes to the financial statements

for the year ended 30 June 2011

	2011 \$	2010 \$
17. EARNINGS PER SHARE		
Basic/Diluted (loss) per share (cents per share) – continuing operations	(11.32)	(24.90)
Basic/Diluted (loss)/earnings per share (cents per share) – attributable to the members of the company	(11.32)	(24.90)
Income and share data used in the calculation of basic & diluted earnings per share:		
Loss from continuing operations after income tax expense	(13,679,994)	(16,787,189)
Loss attributable to members of the parent entity	(13,679,994)	(16,787,189)
Weighted average number of ordinary shares outstanding during the year used in calculation of basic & diluted EPS	120,891,672	67,425,696
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)	120,891,672	67,425,696

(i) As at the balance date, there were 37,084,849 share options on issue, 7,000,000 potential shares and 2,500,000 potential options which may be issued upon conversion of outstanding Convertible Notes, giving a total potential shares which may be issued of 46,584,849. These potential ordinary shares have not been taken into account when calculating the diluted loss per share due to their anti-dilutive nature.

(ii) In addition to amounts disclosed in Note (i) additional shares and options may be issued under the SpringTree facility as disclosed in Note 12(a). The facility is a \$12.45 million AUD facility. Given the formula required to determine shares and options to be issued relies on future share prices, estimates of issuable shares and options cannot be made and will depend on future use of the facility. 800,000 shares have been issued as security for this facility. The SpringTree Agreement was terminated in August 2011 and SpringTree made a payment of \$103,400 to CBio on termination of the agreement in connection with these shares.

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 statement of financial position as follows:

Cash at bank	3,909,426	3,433,448
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notes to the financial statements

for the year ended 30 June 2011

	2011 \$	2010 \$
18. CASH AND CASH EQUIVALENTS (cont'd)		
<i>(b) Reconciliation of net cash flows from operating activities to operating loss after income tax</i>		
Operating loss after taxation	(13,679,994)	(16,787,189)
Non cash items		
Interest	794,828	2,391,429
Transaction cost	211,400	-
Termination fee	-	250,000
Depreciation	144,420	232,698
Equity based compensation	16,396	373,655
Capital raising costs	-	535,125
Realised foreign exchange gain	(341,044)	68,543
Change in assets and liabilities		
(Increase)/decrease in receivables and prepayments	133,623	(376,037)
Increase/(decrease) in payables	(824,637)	(3,781,843)
Increase/(decrease) in provisions	101,077	42,820
Increase/(decrease) in unearned income	(12,180)	1,096,690
Net cash flows used in operating activities	<u>(13,456,111)</u>	<u>(15,202,035)</u>

19. KEY MANAGEMENT PERSONNEL

(a) Compensation for key management personnel

Short-term employee benefits	1,264,157	1,419,154
Post-employment benefits	65,443	63,277
Termination benefits	-	-
Share based payments	16,396	147,507
	<u>1,345,996</u>	<u>1,629,938</u>

(b) Shareholdings of key management personnel

2011	Balance 1 July	Options Exercised	Net Acquired/ (Disposed)	Balance 30 June
S Jones (i)	1,614,559	-	204,637	1,819,196
P Corr	-	-	-	-
G Ando	-	-	-	-
J Funder	100,000	-	70,000	170,000
M Monsour (i)	6,081,702	-	3,530,298	9,612,000
S Streeter (i) (ii)	256,589	-	(50,000)	206,589
J Yeates	-	-	-	-
D Feeney (iii)	-	-	-	-
T Kalland (iv)	-	-	-	-
T Lonngren (v)	-	-	-	-

notes to the financial statements

for the year ended 30 June 2011

19. KEY MANAGEMENT PERSONNEL (cont'd)

	Balance 1 July	Options Exercised	Net Acquired/ (Disposed)	Balance 30 June
2011				
J Greig (vi)	25,714	-	(5,714)	20,000
B Graham	18,181	-	-	18,181
	8,096,745	-	3,749,221	11,845,966
2010				
S Jones (i)	1,190,033	-	424,526	1,614,559
P Corr	-	-	-	-
G Ando	-	-	-	-
J Funder	-	-	100,000	100,000
M Monsour (i)	2,417,022	-	3,664,680	6,081,702
S Streeter (i)	18,182	-	238,407	256,589
J Yeates	-	-	-	-
D Feeney	-	-	-	-
J Greig	-	-	25,714	25,714
B Graham	-	-	18,181	18,181
	3,625,237	-	4,471,508	8,096,745

(c) Option holdings of key management personnel

	Balance 1 July	Remuneration Options Granted	Acquired/ (Disposed)	Balance 30 June	Total Vested 30 June	Total Exercisable 30 June	Total Unexercisable 30 June
2011							
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	3,104,000	-	-	3,104,000	3,104,000	3,104,000	-
J Yeates	2,000,000	-	-	2,000,000	1,500,000	1,500,000	500,000
J Greig(vi)	1,000,000	-	-	1,000,000	800,000	800,000	200,000
T Kalland (iv)	-	1,000,000	-	1,000,000	1,000,000	1,000,000	-
T Lonngren (v)	-	1,000,000	-	1,000,000	1,000,000	1,000,000	-
B Graham	78,350	-	-	78,350	78,350	78,350	-
D Feeney (iii)	1,800,000	-	-	1,800,000	1,300,000	1,300,000	500,000
S Streeter (ii)	1,550,000	-	-	1,550,000	1,550,000	1,550,000	-
	12,832,350	2,000,000	-	14,832,350	13,632,350	13,632,350	1,200,000
2010							
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	-	1,604,000	3,104,000	1,500,000	1,500,000	-
S Streeter	1,300,000	-	250,000	1,550,000	1,550,000	1,550,000	-
J Yeates	2,000,000	-	-	2,000,000	1,500,000	1,500,000	500,000

notes to the financial statements

for the year ended 30 June 2011

19. KEY MANAGEMENT PERSONNEL (cont'd)

2010	Remuneration			Balance 30 June	Total Vested 30 June	Total Exercisable 30 June	Total Unexercisable 30 June
	Balance 1 July	Options Granted	Acquired/ (Disposed)				
D Feeney	1,800,000	-	-	1,800,000	1,300,000	1,300,000	500,000
J Greig	1,000,000	-	-	1,000,000	800,000	800,000	200,000
B Graham	78,350	-	-	78,350	78,350	78,350	-
	10,978,350	-	250,000	12,832,350	10,025,350	10,025,350	1,200,000

The disclosure of shares and options held by Key Management Personnel (KMP) are determined in accordance with the requirements of AASB 124, which requires that KMP holdings also include the holdings of 'close family members'. Disclosure of 'close family member' holdings is not required by the Corporations Act 2001 and therefore the figures shown at Note 19 (above) may differ from those holdings reported in the Directors' Report.

- (i) Mr Jones, Dr Monsour & Mr Streeter have relevant interests in the CBio Limited shareholder Australian Biofunds Investments Limited. This entity held 234,280 shares at the 2011 balance date.
- (ii) Mr Streeter resigned as a Director on 20 April 2011.
- (iii) Dr Feeney resigned as a Director on 24 November 2010.
- (iv) Dr Kalland was appointed as a Director on 1 December 2010.
- (v) Dr Lonngren was appointed as a Director on 27 January 2011.
- (vi) Mr Greig was appointed as a Director on 31 January 2011.

20. SHARE-BASED PAYMENTS

(a) Recognised share-based payment expense

	2011 \$	2010 \$
Expenses arising from equity-settled share-based payment transactions	16,396	373,655
Expenses arising from cash-settled share-based payment transactions	-	-
	16396	373,655

(b) Types of share-based payment plans

Director Share Option Plan

9,800,000 share options have been granted to Directors as remuneration to accept ordinary shares at an exercise price of \$1. All options have an expiry date of 31 December 2012. 3,000,000 Director share options are quoted on the Australian Securities Exchange (ASX). 6,800,000 Director options are not quoted on the ASX but are held in escrow until 15 February 2012, after which time they will be quoted. Those options not exercised within the prescribed period will lapse. Options have no voting or dividend rights. There are no cash settlement alternatives.

The Director share options outstanding at 30 June 2011 had a weighted average exercise price of \$1.00 and a weighted average contractual life of 1.5 years.

notes to the financial statements

for the year ended 30 June 2011

20. SHARE-BASED PAYMENTS (cont'd)

Employee share option plan

1,483,697 share options have been granted to employees as remuneration to accept ordinary shares at an exercise price of \$1. All options have an expiry date of 31 December 2012. Employee options are quoted on the Australian Securities Exchange 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 Employee share options outstanding at 30 June 2011 had a weighted average exercise price of \$1.00 and a weighted average contractual life of 1.5 years. There were no share options issued during the year under the Employee share option plan.

Other Option Plan

25,801,152 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 \$0.52 and \$3. Other options have various expiry dates of no later than 16 May 2015. 14,303,658 Other options are quoted on the Australian Securities Exchange. This includes 2,500,000 share options treated as equity at 30 June but not issued until after the balance date. 11,497,494 Other options are unquoted. Those options not exercised within the prescribed period will lapse. Options have no voting or dividend rights. There are no cash settlement alternatives.

The Other share options outstanding at 30 June 2011 had a weighted average exercise price of \$1.05 and an average remaining contractual life of 1.8 years.

(c) *Summary of options granted*

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

	Number 2011	WAEP 2011	Number 2010	WAEP 2010
Outstanding at the beginning of the year	32,732,997	\$1.03	15,578,697	\$1.12
Issued during the year	4,963,219	\$0.93	17,154,300	\$0.78
Exercised during year	(611,367)	\$0.28	-	-
Outstanding at the end of the year	37,084,849	\$1.03	32,732,997	\$1.03

The following inputs were applied to the option pricing model:

Weighted average exercise price	\$0.93
Weighted average life of the option	1.83 years
Underlying share price	\$0.20 - \$0.63
Expected share price volatility	50% - 70%
Risk free interest rate	4.56% - 5.29%

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.

The weighted average fair value of options granted during the year was \$0.10.

As at 30 June 2011 there were a total of 37,084,849 (2010: 32,732,997) unissued ordinary shares for which options were outstanding. At 30 June 2011 there were 35,884,849 (2010: 30,188,197) exercisable options at an average of \$1.03 (2010: \$1.05).

notes to the financial statements

for the year ended 30 June 2011

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 \$728,152. It is expected that these contracts will be finalised by 30 June 2012.

The Company has leasing commitments in connection with the supply of motor vehicles totalling \$97,557. The lease payments within 12 months are expected to total \$36,166 with the remaining payments made within the next 5 years to the value of \$62,550. The commitments relate to novated lease costs met by the Company.

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 \$554,000 per annum. A portion of these facilities has been sub-leased until March 2012 at current lease payments of approximately \$145,000 per annum. The net cash flows through to the end of the lease term in March 2012 are expected to be \$307,000, 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. RELATED PARTY TRANSACTIONS

During the period, entities associated with Dr Michael Monsour provided a loan of \$300,000 to the company. The loan was unsecured, non-interest bearing, and repayable on demand. The loan was repaid in full during the period. The balance outstanding at the review date was \$nil.

Dr Michael Monsour (and associated entities) received a commission payment of \$24,000 in connection with the provision of a firm commitment to subscribe for up to \$400,000 in new shares under a Rights Issue conducted by the Company (2010: \$nil). In addition, Dr Monsour is entitled, subject to shareholder approval, to 100,000 shares in CBio Limited as part of the commission on his firm commitment under the Rights Issue. This commission was provided on the same commercial terms and conditions as the commissions paid to non-related parties. The balance outstanding at the review date in relation to the cash commission paid was \$nil. The balance outstanding, subject to future shareholder approval, at the review date in relation to the share commission payable was 100,000 shares. Shareholder approval was obtained on 15 July for the issue of these shares. Refer Note 23 Subsequent Events.

The Company received loan funds of \$276,115 from MPAMM Pty Ltd, a company associated with Dr Michael Monsour, during the year ended 30 June 2010. The loans were unsecured, interest bearing and repayable on demand. \$20,000 of this loan was repaid in cash during the prior year. The balance of \$260,295 (including interest of \$4,180) was settled through the issue of 520,590 shares at \$0.50 each. There was no balance outstanding at the prior year balance date in relation to these loans.

Consulting fees of \$432,000 were paid or payable to SGB Jones Pty Ltd during the period in connection with the provision of consulting services by Mr Stephen Jones (2010: \$399,600). SGB Jones Pty Ltd is a company associated with Mr Jones. These services relate to commercial consultation rather than director duties and therefore deemed consultation services. The balance outstanding at the review date was \$nil.

During the prior year, Mr Stephen Jones made a loan of \$100,000 available to the company. The loan was unsecured, interest bearing and repayable on demand. The loan and accrued interest & bank fees of \$1,035 was repaid in full during the prior year.

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for the year ended 30 June 2011

22. RELATED PARTY TRANSACTIONS (cont'd)

Consulting fees of \$5,400 were paid or payable to Zogo Pty Ltd during the period in connection with the provision of consulting services by Dr Dennis Feeney in addition to duties as a Director (2010: \$nil). Zogo Pty Ltd is a company associated with Dr Feeney. The balance outstanding at the balance date was \$nil.

Consulting fees of €70,000 (2010: nil) were paid or payable to NDA Advisory Services during the period in connection with the provision of regulatory consulting services to the Company. NDA is a Company associated with Dr Thomas Lönngren. The balance outstanding at the balance date is €70,000.

During the year ended 30 June 2010, fees totalling \$4,979 were paid or payable to S & M Streeter Investments Pty Ltd for raising \$165,967 in new equity and Convertible Notes for the company. S & M Streeter Investments Pty Ltd is a company associated with Mr Stephen Streeter. The balance outstanding at the balance date in relation to these fees was \$nil.

Novus Capital Limited, a company associated with Mr Stephen Streeter, acted as Sponsoring Broker to the IPO and underwriter to an Information Memorandum issued during the prior year. During the year ending 30 June 2010, 700,000 ordinary shares and 2,000,000 options were issuable to Novus Capital Limited, and fees totalling \$1,617,023 (inclusive of GST) were paid to Novus Capital Limited in connection with these capital raising activities. Novus Capital instructed CBio to issue 250,000 of the 2,000,000 options issuable to Novus Capital Limited, and 87,500 of the 700,000 ordinary shares issuable to Novus Capital Limited to S & M Streeter Investments Pty Ltd, a company associated with Mr Stephen Streeter. The options have an exercise price of \$1 per option and an expiry date of 31 December 2012.

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

23. SUBSEQUENT EVENTS

The Company issued \$150,000 Convertible Notes on 6 July pursuant to the funding agreement with SpringTree Special Opportunities Fund, LP. The Note was repaid in cash on 3 August.

In July the Company issued 100,000 shares to entities associated with Dr Michael Monsour as commission on the firm commitment to subscribe for shares under the Rights Issue conducted by the Company in 2010. The share issue was approved by shareholders in a general meeting on July 15.

In July the Company issued 1,900,000 performance rights to employees' of the Company and 1,200,000 performance rights to Non-Executive Directors of the Company. The issue of performance rights was approved by shareholders in a general meeting on July 15.

In July the Company announced the headline results from its phase IIa clinical trial in Rheumatoid Arthritis.

In July, SpringTree Special Opportunities Fund, LP exercised 200,000 of 1,900,000 options issued upon the signing of the funding agreement at \$0.517 per share.

On 5 September, the Company issued a Rights issue information booklet to raise up to \$10.8 million through the issue of up to 60,058,036 shares at \$0.18 per share. The Offer is underwritten and will close on 7 October 2011.

In August, the Company announced the termination by mutual consent of the Convertible Loan facility with the SpringTree Special Opportunities Fund, LP. SpringTree made a payment to CBio on termination of \$180,160 in connection with shares issued as security upon execution of the Agreement in 2010.

notes to the financial statements

for the year ended 30 June 2011

23. SUBSEQUENT EVENTS (cont'd)

On 5 September the Company received a notice pursuant to s249D of the Corporations Act requisitioning the Company to hold a meeting to consider the removal of three current directors and the appointment of three new directors.

24. 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 terms, for the intellectual property rights relating to CBio's XToll® (Cpn10) technology. Under the terms of the option agreement Novo Nordisk must pay CBio an Option Fee of US\$3 million under two payments: an upfront payment of US\$2 million, plus a further US\$1 million on recruitment of the 75th patient into the current trial. Both payments have been received by CBio and are recorded as unearned income.

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.

25. AUDITORS REMUNERATION

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

	2011 \$	2010 \$
- an audit of the financial report	85,968	61,395
- IPO related services	-	96,063
- other services	19,084	23,500
	<u>105,052</u>	<u>180,958</u>

notes to the financial statements

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26. CHANGES IN ACCOUNTING POLICY

The Company has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as at 1 July 2010.

Reference	Title & Summary	Application date of standard	Application date for Company
AASB 2009-5	<p>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project – The subject of amendments to the standards are set out below:</p> <ul style="list-style-type: none"> • AASB 5 – Disclosures in relation to non-current assets (or disposal groups) classified as held for sale or discontinued operations • AASB 8 – Disclosure of information about segment assets • AASB 101 – Current/non-current classification of convertible instruments • AASB 107 – Classification of expenditures that does not give rise to an asset • AASB 117 – Classification of leases of land • AASB 118 – Determining whether an entity is acting as a principle or an agent • AASB 136 – Clarifying the unit of account for goodwill impairment test is not larger than an operating segment before aggregation <p>AASB 139 – Treating loan prepayment penalties as closely related embedded derivatives, and revising the scope exemption for forward contracts to enter into a business combination contract</p>	1 January 2010	1 July 2010
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	1 January 2010	1 July 2010
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]	1 February 2010	1 July 2010
AASB 2010-3	<p>Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]</p> <p>Limits the scope of the measurement choices of non-controlling interest to instruments that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of NCI are measured at fair value.</p> <p>Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), in a consistent manner i.e., allocate between consideration and post combination expenses.</p> <p>Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated.</p> <p>Clarifies that the revised accounting for loss of significant influence or joint control (from the issue of IFRS 3 Revised) is only applicable prospectively.</p>	1 July 2010	1 July 2010
Interpretation 19	<p>Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments</p> <p>This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability.</p> <p>The interpretation states that equity instruments issued as payment of a debt should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.</p>	1 July 2010	1 July 2010

notes to the financial statements

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26. CHANGES IN ACCOUNTING POLICY (cont'd)

When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Company, its impact is described below. There were no standards adopted during the period which were deemed to have an impact on the financial statements in the current year.

Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company for the reporting period ending 30 June 2011. The Company has not yet assessed the financial impact to either the statement of comprehensive income or the statement of financial position once these accounting standards are adopted. These are outlined in the table below.

Reference	Title & Summary	Application date of standard	Application date for Company
AASB 9	<p>Financial Instruments</p> <p>AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.</p> <p>(a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria.</p> <p>(b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p>	1 January 2013	1 July 2013
AASB 2009-11	<p>Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]</p> <ul style="list-style-type: none"> ▶ These amendments arise from the issuance of AASB 9 <i>Financial Instruments</i> that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i>. ▶ <u>This Standard shall be applied when AASB 9 is applied.</u> 	1 January 2013	1 July 2013

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for the year ended 30 June 2011

Reference	Title & Summary	Application date of standard	Application date for Company
AASB 124 (Revised)	<p>Related Party Disclosures (December 2009)</p> <p>The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:</p> <ul style="list-style-type: none"> (a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other (b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other (c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other <p>A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.</p>	1 January 2011	1 July 2011
AASB 2009-12	<p>Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]</p> <p>This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations.</p> <p>In particular, it amends AASB 8 <i>Operating Segments</i> to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.</p>	1 January 2011	1 July 2011
AASB 2009-14	<p>Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement</p> <p>These amendments arise from the issuance of Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit.</p> <p>The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made.</p>	1 January 2011	1 July 2011
AASB 1053	<p>Application of Tiers of Australian Accounting Standards</p> <p>This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:</p> <ul style="list-style-type: none"> (a) Tier 1: Australian Accounting Standards (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements <p>Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.</p> <p>The following entities apply Tier 1 requirements in preparing general purpose financial statements:</p> <ul style="list-style-type: none"> (a) For-profit entities in the private sector that have public accountability (as defined in this Standard) (b) The Australian Government and State, Territory and Local Governments <p>The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:</p> <ul style="list-style-type: none"> (a) For-profit private sector entities that do not have public accountability (b) All not-for-profit private sector entities <p>Public sector entities other than the Australian Government and State, Territory and Local Governments</p>	1 July 2013	1 July 2013

notes to the financial statements

for the year ended 30 June 2011

26. CHANGES IN ACCOUNTING POLICY (cont'd)

Reference	Title & Summary	Application date of standard	Application date for Company
AASB 1054	<p>Australian Additional Disclosures</p> <p>This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB.</p> <p>This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:</p> <ul style="list-style-type: none"> (a) Compliance with Australian Accounting Standards (b) The statutory basis or reporting framework for financial statements (c) Whether the financial statements are general purpose or special purpose (d) Audit fees <p>Imputation credits</p>	1 July 2011	1 July 2011
AASB 2010-4	<p>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]</p> <p>Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.</p> <p>Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.</p> <p>Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions.</p> <p>Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.</p>	1 January 2011	1 July 2011
AASB 2010-5	<p>Amendments to Australian Accounting Standards</p> <p>[AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]</p> <p>This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.</p> <p>These amendments have no major impact on the requirements of the amended pronouncements.</p>	1 January 2011	1 July 2011
AASB 2010-6	<p>Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]</p> <p>The amendments increase the disclosure requirements for transactions involving transfers of financial assets. <i>Disclosures</i> require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.</p>	1 July 2011	1 July 2011

notes to the financial statements

for the year ended 30 June 2011

26. CHANGES IN ACCOUNTING POLICY (cont'd)

Reference	Title & Summary	Application date of standard	Application date for Company
AASB 2010-7	<p>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127]</p> <p>The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows:</p> <ul style="list-style-type: none"> ▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ▶ The remaining change is presented in profit or loss <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p>	1 January 2013	1 July 2013
AASB 2010-8	<p>Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]</p> <p>These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recoverable through sale. The amendments also incorporate SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.</p>	1 January 2012	1 July 2012
AASB 2011-1	<p>Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113]</p> <p>This Standard amends many Australian Accounting Standards, removing the disclosures which have been relocated to AASB 1054.</p>	1 July 2011	1 July 2011
AASB 2011-2	<p>Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project – Reduced disclosure regime [AASB 101, AASB 1054]</p> <p>This Standard makes amendments to the application of the revised disclosures to Tier 2 entities, that are applying AASB 1053.</p>	1 July 2013	1 July 2013
Consolidated Financial Statements	<p>IFRS 10 establishes a new control model that applies to all entities. It replaces parts of IAS 27 <i>Consolidated and Separate Financial Statements</i> dealing with the accounting for consolidated financial statements and SIC-12 <i>Consolidation – Special Purpose Entities</i>.</p> <p>The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This is likely to lead to more entities being consolidated into the group.</p>	1 January 2013	1 July 2013

notes to the financial statements

for the year ended 30 June 2011

26. CHANGES IN ACCOUNTING POLICY (*cont'd*)

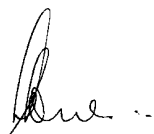
Reference	Title & Summary	Application date of standard	Application date for Company
Joint Arrangements	IFRS 11 replaces IAS 31 <i>Interests in Joint Ventures</i> and SIC-13 <i>Jointly- controlled Entities – Non-monetary Contributions by Ventures</i> . IFRS 11 uses the principle of control in IFRS 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the group.	1 January 2013	1 July 2013
Disclosure of Interests in Other Entities	IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	1 July 2013
Fair Value Measurement	IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under IFRS when fair value is required or permitted by IFRS. Application of this definition may result in different fair values being determined for the relevant assets. IFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.	1 January 2013	1 July 2013

Directors' declaration

In the opinion of the directors:

- (a) the financial statements and notes of the Company are in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Company's financial position as at 30 June 2011 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*;
- (b) the financial statements and notes also comply with international Financial Reporting Standards as disclosed in Note 2(a); and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (d) This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2011.

On behalf of the Board

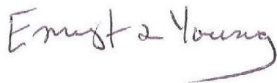


Stephen Jones
Executive Chairman

Brisbane, 21 September 2011

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 2011, 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 handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Brad Tozer'.

Brad Tozer
Partner
21 September 2011

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 statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's 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, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view 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 complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

- a) the financial report of CBio Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(a).

Report on the remuneration report

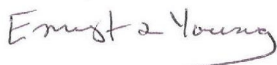
We have audited the Remuneration Report included in pages 22 to 28 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

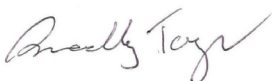
In our opinion, the Remuneration Report of CBio Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 2(c) in the financial report which indicates that the company incurred a loss from continuing operations after income tax of \$13,679,994 in the year ended 30 June 2011 (2010: \$16,787,189) and has current liabilities in excess of current assets of \$2,442,890 as at 30 June 2011 (2010: \$5,393,267) and is therefore dependent on the raising of additional funds to continue activities. As a result of this matter 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 and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Brad Tozer'.

Brad Tozer
Partner
Brisbane
21 September 2011

shareholder information

CBio Limited ACN 094 730 417

Registered Office
85 Brandl St
Eight Mile Plains, QLD, 4113

Postal Address
PO Box 8104
Sunnybank, QLD, 4109
Tel: (07) 3841 4844
Fax: (07) 3841 8189
www.cbio.com.au

Share Registry

Shareholder information in relation to shareholding or share transfer can be obtained by contacting the Company's share registry:

Link Market Services, Locked Bag A14,
Sydney South, NSW, 1235
Tel: (02) 8280 7454
Fax: (02) 9287 0303
Email: registrars@linkmarketservices.com.au
www.linkmarketservices.com.au

For all correspondence to the share registry, please provide your Security-holder Reference Number (SRN) or Holder Identification Number (HIN).

Change of address

Changes to your address can be updated online at www.linkmarketservices.com.au or by obtaining a Change of Address Form from the Company's share registry. CHESS sponsored investors must change their address details via their broker.

Annual General Meeting

The Annual General Meeting will be held on Tuesday 29 November in the East Auditorium, BTP Technology & Conference Centre, 1 Clunies Ross Court, Eight Mile Plains, QLD, commencing at 3pm.

Annual report mailing list

All shareholders are entitled to receive the Annual Report. In addition, shareholders may nominate not to receive an annual report by advising the share registry in writing, by fax, or by email, quoting their SRN/HIN.

Securities exchange listing.

CBio's shares are listed on the Australian Securities Exchange and trade under the ASX code CBZ. The securities of the Company are traded on the ASX under CHESS (Clearing House Electronic Sub-register System)

ASX Shareholder Disclosures

The following additional information is required by the Australian Securities Exchange in respect of listed public companies. The information is current as at 15 September 2011.

Distribution of equity securities

	Ordinary shares		Convertible Notes	
	Number of holders	Number of ordinary shares	Number of holders	Number of convertible notes
1 - 1,000	279	118,081	1	2
1,001 - 5,000	559	1,750,521	-	-
5,001 - 10,000	398	3,167,837	-	-
10,001 - 100,000	1,027	38,476,942	-	-
100,001 and over	236	116,641,381	-	-
	2,499	160,154,762	1	2

shareholder information

Distribution of equity securities (cont'd)

Share options:

	Option class							
	1	1	2	2	3	3	4	4
	Number of holders	Number of Share options	Number of holders	Number of Share options	Number of holders	Number of Share options	Number of holders	Number of Share options
1 - 1,000	2	2,000	-	-	-	-	-	-
1,001 - 5,000	8	25,000	-	-	-	-	-	-
5,001 – 10,000	10	100,000	1	10,000	-	-	-	-
10,001 – 100,000	56	2,472,157	-	-	-	-	-	-
100,001 and over	41	31,275,692	1	700,000	2	600,000	1	1,700,000
	117	33,874,849	2	710,000	2	600,000	1	1,700,000

Option classes:

- Options with an exercise price of \$1 and expiring 31 December 2012.
- Options with an exercise price of \$2 and expiring 31 December 2012.
- Options with an exercise price of \$3 and expiring 31 December 2012.
- Options with an exercise price of \$0.517 and expiring 16 May 2015.

Performance rights

	Number of holders	Number of performance rights
1 - 1,000	-	-
1,001 - 5,000	-	-
5,001 – 10,000	-	-
10,001 – 100,000	13	825,000
100,001 and over	16	2,275,000
	29	3,100,000

The number of security investors holding less than a marketable parcel of 2,381 securities (\$.210 on 15/09/2011) is 481 and they hold 472,268 securities

Voting rights

Shareholders in CBio Limited have a right to attend and vote at general meetings. At a general meeting, individual shareholder may vote in person or by proxy. All quoted and unquoted share options, and convertible notes, have no voting rights.

shareholder information

Substantial shareholders

Substantial holders in the Company are set out below:

Name	Shares	
	Number	Percentage
Dr Michael Monsour (i)	9,457,289	5.91
Himstedt & Co Pty Ltd	8,579,614	5.36
Basildene Pty Ltd as trustee for the Warren Brown & Associates Pty Ltd Superannuation Fund (ii)	4,713,688	2.94
Warren Thomas Brown and Roslyn Una Brown as trustee of the WT & RU Brown Family Trust (ii)	929,243	0.58
Retirewell Commercial Services Pty Ltd as trustee for the Gillett Superannuation Fund (ii)	1,294,181	0.80
White Turtle Pty Ltd (ii)	1,165,000	0.72
Pella Comino as trustee for the Pelagia Family Trust (ii)	480,399	0.29
Alan Grahame Baker and Julie Ann Baker as trustee for the Baker Family Trust (ii)	235,538	0.14

- (i) Includes shares held by other entities in which Dr Monsour holds a relevant interest.
(ii) Substantial shareholders by association.

Share buy-back

There is no current or planned buy-back of the Company's shares.

Statement in accordance with ASX Listing Rule 4.10.19

The Company confirms that it has used the cash and assets in a form readily convertible to cash at the time of admission in a way consistent with its business objectives.

Twenty largest shareholders- Ordinary shares¹

Name	A/C Designation	Total Shares	Percentage
HIMSTEDT & CO PTY LTD	THE HIMSTEDT FAMILY	6,979,614	4.36%
M P A M M PTY LTD		6,162,746	3.85%
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED		5,145,161	3.21%
MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED	<NO 1 ACCOUNT>	4,900,000	3.06%
BASILDENE PTY LTD	<WARREN BROWN SUPER FUND A/C>	4,713,688	2.94%
EXELMONT PTY LTD		4,000,000	2.50%
MR WARWICK JOHN SPILLER & MRS CAROL ANN SPILLER	<THE MMD FUND A/C>	3,750,000	2.34%
HIMSTEDT SUPERANNUATION PTY LTD	<HIMSTEDT SUPER FUND A/C>	2,623,636	1.64%
HAWKINS & BIRTHWRIGHT LTD		2,289,543	1.43%
M P MONSOUR MEDICAL PRACTICE PTY LTD	<SUPERANNUATION FUND A/C>	2,055,989	1.28%
BLECTOR PTY LTD	DAVIES FAMILY NO. 2	2,000,000	1.25%
RON MEDICH PROPERTIES PTY LIMITED	<CAPTAIN COOK A/C>	2,000,000	1.25%
MR GRAEME EDMUND MOIR		2,000,000	1.25%
ROBERT DUNCAN MCLEOD & DEBORAH LEIGH MCLEOD	TAKKZO	1,994,395	1.25%
MR EGON KAISER	SPYDER FOUNDATION	1,542,312	0.96%
RETIREWELL COMMERCIAL SERVICES PTY LTD	GILLETT SUPER FUND	1,500,948	0.94%
YELLOWROCK PTY LTD	GLR SUPERANNUATION	1,480,000	0.92%
W BROOKS INVESTMENTS PTY LTD	<B & P SUPER FUND A/C>	1,300,000	0.81%
HALLE MORTON	<MORTON RETIREMENT FUND A/C>	1,190,000	0.74%
STEPHEN GEORGE BURCH JONES & NADINE JONES	<S & N SUPER FUND A/C>	1,190,000	0.74%
		58,818,012	36.73%

shareholder information

Twenty largest shareholders- Quoted share options ¹

Name	A/C Designation	Total options	Percentage
BLB NOMINEES PTY LTD		3,000,000	8.86%
EXELMONT PTY LTD		2,500,000	7.38%
DENNIS J FEENEY & AH FEENEY	<FEENEY FAMILY A/C>	1,800,000	5.31%
MPAMM PTY LTD		1,614,000	4.76%
MR JASON RICHARD YEATES		1,500,000	4.43%
NOVUS CAPITAL LIMITED		1,500,000	4.43%
M P MONSOUR MEDICAL PRACTICE PTY LTD	SUPERANNUATION FUND	1,490,000	4.40%
S & M STREETER INVESTMENTS CO PTY LTD		1,300,000	3.84%
DR JOHN FUNDER & MS VALERIE FUNDER	VAL DIAMOND SUPER FUND	1,000,000	2.95%
ROBERT DUNCAN MCLEOD & DEBORAH LEIGH MCLEOD	TAKKZO	1,000,000	2.95%
JAMES GREIG		1,000,000	2.95%
INOV8 LLC		1,000,000	2.95%
DR THOMAS LONNGREN		1,000,000	2.95%
DR TERJE KALLAND		1,000,000	2.95%
ANALYTICA LIMITED		1,000,000	2.95%
GORAN ANDO		1,000,000	2.95%
ALAN GRAHAME BAKER & JULIE ANN BAKER	BAKER SUPER FUND	837,844	2.47%
PT EQUITIES PTY LTD		800,000	2.36%
RETIREWELL COMMERCIAL SERVICES PTY LTD	GILLETT SUPER FUND	745,650	2.20%
GERARD KEEGMAN & TANIA KEEGMAN	G & T SUPERANNUATION FUND>	500,000	1.48%
		25,587,494	75.54%

1- Includes restricted and un-restricted securities

Restricted Securities

Details of the securities subject to voluntary escrow are as follows:

Class restricted equity security	Number of securities subject to voluntary escrow	Date escrow period ends
Ordinary shares	3,359,744	15 February 2012
Share options	15,087,494	15 February 2012

Unquoted securities

The number of unquoted equity securities on issue and the number of holders of those securities is as follows:

Class of unquoted equity security	Number of unquoted equity securities on issue	Number of holders
Share options exercisable at \$1.00 each on or before 31 December 2012	15,087,494	15
Ordinary shares	3,359,744	11
Performance rights	3,100,000	29
Share options exercisable at \$0.517 each on or before 16 May 2015	1,700,000	1
Share options exercisable at \$2.00 each on or before 31 December 2012	710,000	2
Share options exercisable at \$3.00 each on or before 31 December 2012	600,000	2
Convertible note with a face value of \$1,000,000 each expiring 31 December 2011	2	1

shareholder information

The following shareholders hold greater than 20% or more of the following unquoted equity securities (by class) of the Company:

Class of unquoted equity security	Holders with >20% of the equities securities in each class	Number of equity securities held
Share options exercisable at \$2.00 each on or before 31 December 2012	DFCT Pty Ltd	700,000
Share options exercisable at \$3.00 each on or before 31 December 2012	IJONG Pty Ltd	300,000
Share options exercisable at \$3.00 each on or before 31 December 2012	Stephen Francis Goodall	300,000
Share options exercisable at \$0.517 each on or before 16 May 2015	SpringTree Special Opportunities Fund, LP	1,700,000
Convertible note with a face value of \$1,000,000 each expiring 31 December 2011	BLB Nominees Pty Ltd	2

corporate directory

Directors

Mr. Stephen Jones (Executive Chairman)
Mr. Jason Yeates (Managing Director & CEO)
Dr. Peter Corr
Dr. Göran Ando
Prof. John Funder, AO
Dr. Michael Monsour
Dr. Terje Kalland
Dr Thomas Lönngren
Mr James Greig

Company Secretary

Mr. Ben Graham

Registered Office

85 Brandl St
Eight Mile Plains QLD 4113
Australia
(07) 3841 4844
(07) 3841 8189
contact@cbio.com.au
www.cbio.com.au

Auditors

Ernst & Young
Brisbane
Australia

Securities Exchange Listing

Australian Securities Exchange
ASX Code: CBZ

Share Register

Link Market Services Limited
Locked Bag A14
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