

20 October 2011

Dear Shareholder

As you know a General Meeting of Shareholders has been called for 4 November 2011 as a result of a notice under section 249D of the Corporations Act. The 4 November meeting will vote on resolutions to remove three existing directors and appoint three new directors to the Board of CBio.

Your directors take this opportunity to write to you about this and also take the opportunity to correct false and/or misleading statements by the six requisitioning shareholders.

Your Board considers that the proposed directors will not add value to the company and may indeed put at risk the considerable progress made by the company with pharmaceutical companies. The Board is most concerned about the proposed new directors having:

- No drug development experience
- Lack of connections with potential licensee pharmaceutical companies
- Absence of experience with a pharmaceutical company partner in bringing a drug to commercialisation
- No history in concluding licensing agreements in the pharmaceutical industry
- Lack of knowledge of the science underpinning XToll.

The existing Board is experienced and credentialed in all of the above and also has:

- Strong relationships with potential pharmaceutical company partners. These have been hard won and we now have strong channels to the most senior decision makers in some large pharmaceutical companies that may ultimately deliver very significant value to CBio
- Depth of understanding of the highly complex XToll protein
- Understanding of the drug commercialisation landscape and is considerably advanced in some of its commercialisation strategies.

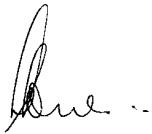
Your Board has considered this action taken by the six requisitioning shareholders and has taken the imputations of this action seriously. Your Board is united in their view that the action of this group represents a slur against the reputations of all directors. Your Board is in no doubt that the proposed directors' credibility and independence comes into question by being associated with the shareholder group that has been false and misleading in their communications regarding CBio. Your Board are united in their view that the actions of the group combined with an evident lack of understanding of clinical development procedures and reporting protocols highlight very clearly the concerns about the experience, judgement and ability of this group.

Your Board therefore wishes to express very clearly to shareholders that all existing directors would find it untenable to work alongside any of the proposed directors and that **should any of the proposed directors be voted into place, each and every existing non-executive director will resign with immediate effect.**

Shareholders are asked to carefully consider their positions in relation to the resolutions to be voted on at the upcoming meeting. For the reasons set out above, we encourage shareholders to vote **AGAINST** all resolutions. If you have already lodged a proxy vote and would like to change your vote, you can do so by following the instructions accompanying this letter. Please note that proxy voting closes at 10:00am, Brisbane time, on Wednesday, 2 November 2011.

On behalf of the Board of CBio I thank our shareholders for their support as we have worked to develop XToll.

Yours faithfully



Stephen Jones  
Chairman

**Correction of false and/or misleading statements**  
**made by the group of six requisitioning shareholders against the company**

The shareholder group has indulged in false and misleading claims about CBio. It is not practical to respond to each, however a number of significant factual inaccuracies must be rectified. In addition, it is known that one member of the group of requisitioning shareholders contacted a consultant to the company seeking operational and confidential information about the company. Not only do actions of this nature bring the credibility of the company into disrepute with its partners and collaborators, they also speak to the business and ethical judgement on the part of the group.

**1. “Because of its strong safety profile and efficacy at the right dose...”**

XToll does have a strong safety profile. However stating that XToll has “efficacy at the right dose” is scientifically unsubstantiated. Clinical development and clinical trial testing is a slow and rigorous process. So far the optimal dose for XToll has not been determined nor has the correct formulation for optimal efficacy been determined. The phase IIa trial missed its primary endpoint, therefore efficacy was not proven unequivocally. Therefore stating that XToll is efficacious “at the right dose” is misleading and a naive statement with potential to damage the credibility of your company.

**2. “We consider that the announcement did not provide investors with full and complete information regarding the trial and has led to the misconception that the trial was not a success...”**

The 31 July announcement contained appropriate information to inform the market and to satisfy the compliance requirements of both the ASX Listing Rules and the Corporations Act. As communicated by the Board, the trial demonstrated biological activity and signals of clinical effect. Failing to clearly and unambiguously report the primary endpoint outcome, or attempting to gloss over or spin the interim results or would have been unethical and unlawful. Statements like this by the shareholder group cause the company concern and demonstrate the group’s inexperience in the precise and highly complex world of clinical development. A group trying to wrest Board positions yet ignorant of the basics of regulatory reporting must be questioned as to their ability to be a constructive influence on CBio at such a crucial time.

**3. “Why did the company make no attempt to issue a clarifying statement (perhaps explaining that the trial’s secondary end points – which were met – were just as important as the primary end point),”**

This statement implies that the trial met all of its secondary endpoints and that secondary endpoints are as important as the primary endpoint. Both of these implications are factually incorrect. This statement speaks again to lack of scientific and drug development expertise of the group.

4. **“The announcement noted that the trial did not meet its primary endpoint at the 12 week mark. However, we consider that this was simply the result of underdosing and does not mean that the trial or the drug will be unsuccessful.” “In our view, the trial demonstrates that the drug works and is safe and that it is now a question of determining the optimum dose for the subcutaneous method of delivery...”**

To claim that missing the primary endpoint was “simply the result of underdosing” and that it is “now a question of determining the optimum dose for the subcutaneous method of delivery” is misleading in its oversimplification. It again demonstrates a lack of scientific knowledge, and again highlights this group’s lack of understanding of drug development.

5. **“We question whether the company has fulfilled its continuous disclosure obligations by neglecting to clarify the meaning of the 31 July announcement before this week (and then only partly) and failing to specifically inform the market of recent presentations the Company has made to several major European pharmaceutical companies.”**

This is an irresponsible, and potentially defamatory, claim. At no point have any directors or managers not complied with continuous disclosure obligations. As shareholders will know, announcements on the ASX are governed by the ASX Listing Rules and the Corporations Act. The Board was obliged by law to cause CBio to publish information regarding the results of the Phase IIa clinical trial. It is absurd to contend that CBio had to (again) inform the market of presentations made to major European pharmaceutical companies. The market had been informed that data from the trial would be provided to interested pharma companies. Further, there are many thousands of Australian life sciences company meetings each year with pharmaceutical companies. These are seldom disclosed for the simple reason that meetings per se don’t have to be. CBio has been diligent in informing the market of new material news and complies with codes that specify what information must be provided.

6. **“The really good news is that we are still confident that CBio should deliver shareholders a windfall gain (of perhaps 10 times from here) after it enters into a licensing and royalty agreement with a major pharmaceutical company, now expected by mid-2012.”**

The Board maintains confidence in the potential of XToll and continues to work to conclude a transaction for the drug’s ultimate commercial development. However a statement such as made above is a loose statement that makes no contribution to advancing CBio’s interests. Further, CBio’s Board of Directors believe that the lack of drug development and commercialisation experience of the proposed directors puts at serious risk the opportunity of concluding a transaction involving XToll.

## INSTRUCTIONS FOR CHANGING YOUR PROXY VOTE

Shareholders who wish to change their proxy vote online may do so by following these instructions:

- STEP 1** Log on to the Link Market Services website [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)
- STEP 2** Click on the 'Investor Login' button on the top right hand side of the page. A new window will open.
- STEP 3** If you have previously registered for online access to your portfolio, enter your login details in the box titled 'Log in to view your portfolio'.  
If you have not registered for online access to your portfolio, you can still access your portfolio by entering the required details in the box titled 'Single Holding' :
- Issuer Name: CBZ- CBio Limited
  - HIN/SRN: You will find this on your holding statement
  - Postcode: The postcode your holding is registered to
  - Security code: Enter the security code on the screen
  - Click the box to accept the terms and conditions
  - Click 'Login'
- STEP 4** Once you have logged in, click the 'Voting' tab at the top of the page
- STEP 5** Click 'vote' under the Action tab
- STEP 6** Review the declaration, then click the box to agree to the declaration and click 'Next'
- STEP 7** Select the option to vote all of your votes on each resolution and click 'Next'
- STEP 8** The Directors recommend you vote **AGAINST** each of the six resolutions. Click 'Next'
- STEP 9** At the next screen you can appoint your proxy. The Directors recommend you appoint the Chairman of the Meeting as your proxy. Click 'Next'
- STEP 10** Review your votes and if they are correct, click 'Confirm'
- STEP 11** The next page is a confirmation that your votes have been successfully lodged. Click 'Done' and then "Logout" to exit your portfolio.

Alternatively, you may contact Link Market Services Limited, on 1300 554 474 (within Australia) or + 61 2 8280 7454 and request a replacement hard copy proxy form for the General Meeting. Please allow up to 3 business days to receive the replacement form.

**PLEASE NOTE THAT ANY SUBSEQUENT ONLINE OR HARD COPY VOTING INSTRUCTIONS WILL OVERRIDE ANY PREVIOUS INSTRUCTIONS. YOUR PROXY VOTE MUST BE RECORDED AT THE SHARE REGISTRY NO LATER THAN 10AM, BRISBANE TIME, ON WEDNESDAY 2 NOVEMBER 2011.**