

20 December 2011

Stephanie So
Adviser, Listings
ASX Limited
20 Bridge Street
Sydney NSW 2000

Via email: stephanie.so@asx.com.au

Dear Stephanie

CBIO LIMITED ("Company") – QUERY

We refer to your correspondence dated 16 December 2011. We respond utilising the same paragraph numbering as your letter for convenient reference.

1. Yes.
2. Not applicable.
3. Correspondence from Novo Nordisk dated 14 December 2011 was addressed and sent to the Acting Managing Director who read the correspondence at approximately 10.35 am Sydney time on Thursday 15 December 2011. This correspondence from Novo Nordisk was the first communication with the Company regarding its decision not to exercise its Option to negotiate a licence for XToll. The Company's Acting Managing Director, who was appointed on 1 December 2011 and who had no previous interaction with Novo Nordisk regarding the Option Agreement, received the letter on behalf of CBio in the first instance.

Given the scientific rationale included in the release and the consequences of clarifying the future development of XToll as a result of information in the correspondence, the Acting Managing Director immediately forwarded the Novo Nordisk correspondence to the other four directors. Two of the Directors (the scientific experts on the board) are based in Europe (where it was late evening), for their input and scientific translation of the content to clarify the nature of the 'information' received.

At 7am on Friday 16 December 2011 (Brisbane time), which was 9pm Thursday 15 December (London time), the full board met to discuss how the consequences of the release on XToll was to be communicated. The input of the two overseas directors' was critical as they are the scientific experts on the board, and the Company was unable to fully communicate the nature of the release without their input.

Given that the correspondence was insufficiently definite to warrant disclosure of future action concerning the XToll molecule without further discussion and clarification, the process undertaken by the Company was prudent, in the best interests of shareholders and the market to form a considered view on the correspondence and therefore, the actual nature of the Information to ensure any disclosure announcement was correct.

Following editing of the draft disclosure announcement to ensure it would not be misleading in any way, and discussion as to the meaning of a scientific paragraph, the release was immediately forwarded to the ASX.

4. There was no earlier announcement from the Company disclosing the Decision, as the Company was previously not aware of any 'information' to the effect that the Decision had been made.

In a shareholder update announced on 13 December, the Company noted 'we await notice from Novo Nordisk regarding their desire to enter into negotiations with your Company concerning a licensing agreement for the further development of XToll'.

As noted in paragraph 1 above, an announcement was made immediately the Company became aware of the 'information' and the nature of the Decision was able to be clarified.

5. Within the meaning of Listing Rule 3.1A the correspondence was confidential, was not something a reasonable person would expect to be disclosed and either it was incomplete, comprised matters of supposition or was insufficiently definite to warrant disclosure, or was for internal management purposes.

Biotechnology is a complex area: hence the need to clarify the exact implications in the correspondence in order to make a disclosure announcement that would be in no way misleading to investors. If the information had been immediately released upon receipt, then subsequently had to be corrected, this would have created even greater confusion around a Company which has recently had a complete exodus of its corporate staff, and risked higher price volatility as a result. A reasonable person should expect a disclosure announcement from a biotechnology company to be accurate the first time. Given that the correspondence was insufficiently definite to warrant disclosure of future action concerning the XToll molecule without further discussion and clarification, this was deemed by the Company to be in the best interests of shareholders and the market to form a view on the correspondence and therefore, the actual nature of the Information to ensure any announcement was correct, rather than generate a rushed and inaccurate announcement.

The correspondence from Novo Nordisk remained confidential at all material times. In particular, it should be noted that on 15 December 2011 the Company's share price opened at 16 cents, with an intra-day high of 16 cents and low of 14 cents and closing price of 15.5 cents. The volume of 390,364 shares was representative of normal volumes.

The reporting of the scientific and technical nature of the information involved with the Novo Nordisk issues required discussion and clarification, as they were not simply a matter of contract but were tied to clinical trial results using the XToll molecule, and satisfactory delivery of certain data and reports. As a consequence, it was also necessary to give detailed consideration as to whether by Novo Nordisk declining the option, the Company was able to make a statement concerning its future strategy and ability to pursue other commercialization strategies for some or all of its intellectual property.

6. The Company is in compliance with the ASX listing rules, in particular listing rule 3.1.

For and on behalf of the Board of CBio Limited

ROSLYNN SHAND
Company Secretary

Enquiries

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