

6 February 2012

Attention Stephanie So
Advisor (Listings) Sydney
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

Dear Stephanie

CBIO LIMITED ("Company") – RESPONSE TO APPENDIX 4C QUERY

I refer to your letter dated 1 February 2012, regarding the Company's Appendix 4C announcement for the period ended 31 December 2011, and respond to your questions as follows:

1. It is possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the quarter indicated by the Appendix 4C, the Company may only have sufficient cash to fund its activities for less than 2 quarters. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?

During the quarter ended 31 December 2011 a number of factors occurred which were one-off and related only to that period. The total number of one-off activities during that period has been calculated at \$4.139m. The three main activities which were unique to the quarter are as follows:

- Repayment of \$2.0million relating to a convertible note which expired 31 December 2011 and which had an associated effective interest rate of approximately 20%. The Company has no other debt instruments.
- A number of one-off payments were made during the quarter to former directors and an executive who chose to resign from their various roles during the quarter. Payments totalling approximately \$1.6million were made to the former Chairman (\$601,000), the former CEO (\$485,000), the former Company Secretary (\$178,000) and the former CFO (\$278,000). Payroll tax and PAYG tax associated with the payments amounted to an estimated further \$310,000, making a total one-off impact in the quarter of approximately \$1.9million.
- An EGM was held in November and a number of separate legal and PR advisors were employed by the then board in relation to the meeting. Costs associated with the meeting and legal and professional fees make up the bulk of the balance of approximately \$250,000.

There were also extraordinary expenses relating to a capital raising during the quarter. On the basis of the preceding information, it is not anticipated that the Company will be expending cash at the same rate, due to these one-off factors.

The Company advises that the above figures are not audited and remain subject to audit and the Accounting Standards. The Company nevertheless highlights the expenses are not representative of a trend in relation to the Company's anticipated expenses.

2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 4C for the quarter and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?

The Company will not be directing cashflow into non scientific activities at previous rates, due to the unusually high number of one-offs apparent in the Appendix 4C for the second quarter of the financial year 2012, and as articulated in the response to question 1. As a result, it is anticipated that operating cash flows related to non scientific activities will be significantly lower in the third quarter. The timing of cash outflows related to scientific activities will be a function of the timing of future scientific activities. The Board of CBio is currently finalising a strategic plan which will allow tight and directed expenditure, going forward. The strategic plan will include a cashflow expenditure estimate to support the plan. The Board will then update the cashflow forecast for the Company in light of the Business Plan which will be put in place. A financial delegations manual was written and implemented in December 2011, adding a critical financial control document to the Company's corporate governance.

3. What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives Company?

The new Board has instigated an independent review of the science which comprises the Company's Intellectual property assets and which is key to meeting the Company's business objectives. This review is being conducted in parallel with the strategic planning activities. Both these activities will result in a clearly articulated business plan which will enable the Company to meet the clarified business objectives.

4. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?

The Company can confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1. The Company draws attention to the timely and open communications to shareholders and the market since appointment of the new Board, including announcements dated 29 November, 12 December, 16 December, 30 December 2011 and 18 January 2012.

5. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

The Company acknowledges the significant expenditures incurred to the period 31 December 2011. Having regard to the factors noted above, the Company does not believe this represents a trend.

As at the date of this response, the composition of the Company's balance sheet is in real terms strong, with the Company's new Board having acted swiftly and proactively in the December period to appropriately identify and address liabilities. These have included a number of legacy or residual creditor liabilities, including convertible notes which were a significant impost on the Company. The prior period to 31 December included the payment of fund raising fees and commissions, as well as payments to prior executives.

The Company's liabilities are therefore well in hand in relation to its assets (including its Intellectual property portfolio and applicable patents). The Company has reduced its operating expenses. The Board is confident that the Company will be able to access funds if required. It has reached this opinion, based upon its ongoing review and planning, the value of its existing Intellectual property, the infrastructure the Company has in place and liquidity it offers as an ASX listed entity, and the strategic, financial, corporate and governance experience afforded by its new management.

For these reasons, the Company submits that its financial condition is satisfactory for the purposes of Listing Rule 12.2. The Company has had regard in particular to Rules 15 and 27 of Guidance Note 25. The Company respectfully notes that it satisfies the standards of quality, size, operations and disclosure required of it as a listed entity and that the interests of existing shareholders and the market are best served by the ongoing listing of the Company.

Whilst the Company acknowledges it has experienced significant changes in the period to 31 December 2011, indeed reflective of shareholder dissatisfaction (culminating in a shareholder action group requisitioning a new Board), the Company has now progressed to a new phase of stability, transparency and stakeholder engagement, a strong focus on maintenance of listing standards and an emphasis on disciplined financial management. There is therefore currently no basis upon which ASX could consider there are doubts as to the continued existence of the Company.

For and on behalf of the Board of CBio Limited

ROSLYNN SHAND

Company Secretary

Enquiries

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1 February 2012

Mrs Roslynn Shand
Company Secretary
CBio Limited
Brisbane Technology Park
85 Brandl Street
Eight Mile Plains QLD 4113

By Email

Dear Roslynn

CBio Limited (the "Company")

I refer to the Company's Quarterly Report in the form of Appendix 4C for the period ended 31 December 2011, released to ASX Limited ("ASX") on 30 January 2012 (the "Appendix 4C").

ASX notes that the Company has reported the following.

1. Receipts from customers of \$50,000;
2. Negative net operating cash flows for the quarter of \$4,762,000; and
3. Cash at end of quarter of \$7,269,000.

In light of the information contained in the Appendix 4C, please respond to each of the following questions.

1. It is possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the quarter indicated by the Appendix 4C, the Company may only have sufficient cash to fund its activities for less than 2 quarters. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?
2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 4C for the quarter and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?
3. What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives Company?
4. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?
5. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

Listing rule 3.1

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in the rule.

In responding to this letter you should consult listing rule 3.1 and the guidance note titled "Continuous disclosure: listing rule 3.1".

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

Under listing rule 18.7A, a copy of this query and your response may be released to the market, so your response should be in a suitable form and separately address each of the questions asked. If you have any concerns about your response being released, please contact me immediately. Your response should be sent to me by email at stephanie.so@asx.com.au or on facsimile number **(02) 9241 7620**. It should not be sent to the Company Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, not later than half an hour before the start of trading (i.e. **before 9.30 a.m. A.E.S.T.**) on Tuesday, 7 February 2012.

If you are unable to respond by the time requested you should consider a request for a trading halt in the Company's securities.

Yours sincerely

(Sent electronically without signature)

Stephanie So
Adviser, Listings (Sydney)