

APPENDIX 4D

And Half Yearly Report

SUN BIOMEDICAL LIMITED
ABN 18 001 285 230

31 December 2008

INDEX

PAGE

Market announcement	2
Commentary on Results and Explanatory Information	2
Directors' Report	5
Consolidated Income Statement	7
Consolidated Balance Sheet	8
Consolidated Statement of Changes in Equity	9
Consolidated Cash Flow Statement	10
Notes to the Financial Statements	11
Directors' Declaration	16
Independent Review Report	17
Auditors' Independence Declaration	18

APPENDIX 4D

And Half Yearly Report

Results for announcement to the market

1	Reporting period	Current 31 Dec 2008	Previous 31 Dec 2007	\$
2.1	Revenues from continuing activities	up	55%	to 500,909
2.2	Loss before tax	down	19%	to (1,255,215)
2.3	Net loss for the period attributable to members	down	19%	to (1,255,215)
2.4	Dividend	Amount per ordinary share 2008	Amount per ordinary share 2007	
	Interim distribution	-	-	
	Final distribution	-	-	
2.5	Record date for determining entitlements to the final distribution	N/A	N/A	
	Date the final distribution is payable	N/A	N/A	
2.6	Commentary on Results and Explanatory Information			

The Consolidated Entity loss for the six months ended 31 December 2008 was \$1,255,215 compared to a loss of \$1,543,017 for the six months ended 31 December 2007. The loss of \$1,255,215 was split between the legal entity operating costs of \$604,883 and the loss incurred in the drug screening segment of \$650,332 as denoted in the segment results.

The major components in the half year loss are the amortisation of Sun Biomedical Laboratories Inc. intellectual property and patents of \$201,350 and the foreign exchange loss on the final payment of the Promissory Note of \$150,297.

On 27 June 2008 the Company advised that it had lodged a prospectus with ASIC to raise a minimum amount of \$2,000,000 by way of a Renounceable Rights Issue of four New Ordinary Shares for every five Shares held at a price of \$0.01 plus one free attaching Option for every two New Ordinary Shares subscribed for. The Rights Issue closed on 14 August 2008 raising \$2,000,000. The Company then raised an additional \$1,178,963 via the placement of Shortfall Securities bringing the total raising to \$3,178,963. Rights issue costs totaled \$436,180.

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 18 001 285 230

In June 2008, the Company reached an agreement with Dr Ming and Alice Sun, the founders of Sun Biomedical Laboratories Inc. (SBL), in relation to payment of US\$980,000 as final consideration for the acquisition of SBL. The Suns agreed to:

- convert US\$490,000 into Shares at \$0.01 per Share, the same issue price as under the Rights Issue for an Australian dollar value of A\$561,862;
- be issued with Options on the basis of one Option for every two Shares issued to the Suns under paragraph (a) above, the same ratio as offered under the Rights Issue; and
- receive a US\$490,000 payment following the Rights Issue,

as settlement for the payment of US\$980,000. The cash payment of US\$490,000 was made in September 2008 for an Australian dollar value of A\$607,780.

Shares to the value of \$57,708 were issued in payment of directors fees. The exercise of share options raised an additional \$1,812.

Net share capital raised after issue costs of \$436,180 was \$3,364,165.

During the six months ended 31 December 2008 the Consolidated Entity has focused its efforts on the continued development of the China, Oraline VIII and BioScreens initiatives.

Subsequent to balance date, in the light of the continuing US economic downturn and the delay in commencement of the Chinese field trials, the Board decided to implement a cost reduction plan. The Board believes this is necessary in order to ensure that the Company effectively manages its existing cash reserves and is able to focus its resources upon bringing the major initiatives to fruition. This plan involved:

- Reducing the headcount of the United States operation to 8 from 22. These staff cuts were predominantly in the administration and product assembly areas. Product assembly will be outsourced to certified contract manufacturers;
- Reducing SBL's day-to-day operating expenses by imposing a salary freeze and restrictions on discretionary expenditure; and
- Focusing on US and international opportunities, including OraLine VIII, that can be achieved with limited resources.

In addition, the Board is currently seeking a strategic partner to assist the Company in capitalizing on its future prospects.

Some of the major components in the half year loss for the head office sector were the amortisation of SBL's intellectual property and patents \$201,350 and costs associated with being a listed entity of \$145,566.

Some of the major components in the half year loss for the drug screening segment included employment expenses of \$641,337, marketing expenses of \$82,052 and consulting fees of \$58,239.

In addition, the Consolidated Entity had provided benefits to officers (including directors) and some payments to consultants of the Group in the form of share based payment transactions, whereby officers and consultants render services in exchange for shares or rights over shares ('equity settled transactions'). The cost of these equity settled transactions with officers and consultants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by applying a Black - Scholes pricing model and \$15,927 has been brought to account in the six month period ended 31 December 2008. During the period, previously granted equity settled transactions expired. The amount standing to the credit in the share based payment reserve of \$61,366 has been transferred to accumulated losses in accordance with AASB 2 "Share Based Payments".

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 18 001 285 230

	2008	2007
3 Net tangible assets per security (cents)	0.002	-0.004
4 Details of entities over which control has been gained or lost during the period	N/A	N/A
5 Details of individual and total dividends or distributions and dividend or distribution payments	N/A	N/A
6 Distribution reinvestment plan	N/A	N/A
7 Details of associates and joint venture entities	N/A	N/A
8 Foreign entities		
Sun Biomedical Laboratories Inc.	100%	100%
Harrington Group USA Inc.	100%	100%
9 Audit dispute or qualification		
This report is based on accounts which have been reviewed and the review report is attached to the half year report attached to this Appendix 4D.		

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ABN 18 001 285 230

REPORT OF THE DIRECTORS – 31 December 2008

Your Directors present their report on the company and its controlled entities for the half year ended 31 December 2008.

The names of Directors in office at any time during the half year and until the date of this report are below. All directors were in office for the entire period, unless otherwise stated.

Mr. Peter King – Chairman
Mr. Andrew Paice – Non Executive Director
Mr. Jim Hallam – Non Executive Director

Review of Results of Operations

The Consolidated Entity loss for the six months ended 31 December 2008 was \$1,255,215 compared to a loss of \$1,543,017 for the six months ended 31 December 2007.

During the six months ended 31 December 2008 the Consolidated Entity has focused its efforts on the continued progression of the Siyi Joint Venture, the development of OraLine VIII and BioScreens.

During this reporting period, the Consolidated Entity has experienced a slow down in sales as a result of the current economic downturn in the United States and associated uncertainty in the employment market. Priority is being given to distributors who have the capacity to grow demand in the US market. OraLine competes in a well established urine market in the US and requires an effective sales focus to highlight the advantages of a saliva product and the potential for a more efficient and cost effective employee testing program. OraLine's growth in a slowing US economy in 2009 will come from these distributors who have proactive selling operations and a compelling value proposition that can take advantage of the benefits of OraLine.

In addition, the Consolidated Entity has provided benefits to officers (including directors) and some payments to consultants of the Group in the form of share based payment transactions, whereby officers and consultants render services in exchange for shares or rights over shares ('equity settled transactions'). The cost of these equity settled transactions with officers and consultants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by applying a Black - Scholes pricing model and \$15,927 has been brought to account in the six month period ended 31 December 2008. During the period, previously granted equity settled transactions expired. The amount standing to the credit in the share based payment reserve of \$61,366 has been transferred to accumulated losses in accordance with AASB 2 "Share Based Payments".

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 18 001 285 230

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 18.

Signed in accordance with a resolution of directors.



Jim Hallam
Director

Melbourne
27 February 2009

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SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 18 001 285 230

Consolidated Income Statement
for the Half-Year Ended 31 DECEMBER 2008

	Note	Consolidated Entity	
		6 mths to 31 Dec 2008	6 mths to 31 Dec 2007
Revenues from continuing operations	2	500,909	322,945
Other income		117,415	95,516
Total Revenue		618,324	418,461
Raw materials and consumables used		(152,278)	(213,470)
Employee benefits expense		(641,337)	(569,469)
Consulting fees		(101,100)	(297,246)
Travel and accommodation expense		(2,883)	(58,269)
Insurance		(15,810)	(34,145)
Advertising and marketing expense		(82,052)	(85,525)
Administration expense		(496,569)	(346,213)
Equity based payments		(15,927)	(55,269)
Finance costs		(12,921)	(26,857)
Foreign exchange loss on Promissory Note		(150,297)	-
Depreciation and amortisation expense		(202,365)	(275,015)
Loss before income tax		(1,255,215)	(1,543,017)
Income tax expense		-	-
Loss attributable to members of the parent entity		(1,255,215)	(1,543,017)
		Cents per share	Cents per share
Basic and diluted earnings (loss) per share		(0.002)	(0.005)

The above Consolidated Income Statement should be read in conjunction with the accompanying notes.

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 18 001 285 230

Consolidated Balance Sheet
for the Half Year Ended 31 December 2008

	Note	Consolidated Entity	
		31 Dec 2008	30 Jun 2008
		\$	\$
Current Assets			
Cash and cash equivalents		1,167,866	118,223
Receivables		217,820	270,890
Inventories		301,670	210,096
Total Current Assets		1,687,356	599,209
Non Current Assets			
Property, plant and equipment		182,562	16,988
Intangible assets	7	1,659,923	1,832,410
Total Non-Current Assets		1,842,485	1,849,398
Total Assets		3,529,841	2,448,607
Current Liabilities			
Trade and other payables		295,402	422,372
Promissory Note		-	1,018,076
Total Current Liabilities		295,402	1,440,448
Total Liabilities		295,402	1,440,448
Net Assets		3,234,439	1,008,159
Equity			
Contributed equity	6	27,847,589	24,483,424
Reserves		84,361	28,397
Accumulated losses		(24,697,511)	(23,503,662)
Total Equity		3,234,439	1,008,159

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
 ABN 18 001 285 230

**Consolidated Statement of Changes in Equity
 for the Half-Year Ended 31 December 2008**

	Share Capital Ordinary \$	Accumulated Losses \$	Share Based Payment Reserve \$	Foreign Currency Translation Reserve \$	Total \$
Balance at 1 July 2007	21,300,481	(20,125,947)	244,212	(3,974)	1,414,772
Shares issued during the half year	3,539,285	-	-	-	3,539,285
Cost of share based payments	-	-	53,854	-	53,854
Transfers to/(from) reserves	-	179,675	(179,675)	-	-
Transaction costs	(356,342)	-	-	-	(356,342)
Currency translation differences	-	-	-	(86,020)	(86,020)
Loss attributable to members of parent entity	-	(3,557,390)	-	-	(3,557,390)
<i>Sub-total</i>	24,483,424	(23,503,662)	118,391	(89,994)	1,008,159
Dividends paid or provided for	-	-	-	-	-
Balance at 30 June 2008	24,483,424	(23,503,662)	118,391	(89,994)	1,008,159
Balance at 1 July 2008	24,483,424	(23,503,662)	118,391	(89,994)	1,008,159
Shares issued during the half year	3,800,345	-	-	-	3,800,345
Cost of share based payments	-	-	15,927	-	15,927
Transfers to/(from) reserves	-	61,366	(61,366)	-	-
Transaction costs	(436,180)	-	-	-	(436,180)
Currency translation differences	-	-	-	101,403	101,403
Loss attributable to members of parent entity	-	(1,255,215)	-	-	(1,255,215)
<i>Sub-total</i>	27,847,589	(24,697,511)	72,952	11,409	3,234,439
Dividends paid or provided for	-	-	-	-	-
Balance at 31 December 2008	27,847,589	(24,697,511)	72,952	11,409	3,234,439

Note

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The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 18 001 285 230

Consolidated Cash Flow Statement
for the Half-Year Ended 31 December 2008

	Consolidated Entity	
	2008	2007
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	454,644	344,243
Payments to suppliers and employees	(1,497,123)	(1,647,093)
Interest received	21,669	56,998
Interest paid	(12,948)	(26,857)
Other income	111,479	-
Net cash outflow from operating activities	(922,279)	(1,272,709)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	-	30,000
Payment for property, plant and equipment	(135,508)	(8,240)
Payment for Sun Biomedical Laboratories acquisition	(607,780)	(236,690)
Net cash outflow from investing activities	(743,288)	(214,930)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of new shares	3,178,963	3,363,486
Repayment of borrowings	-	(478,310)
Share issue costs	(436,180)	(332,064)
Net cash inflow from financing activities	2,742,783	2,553,112
Net (decrease)/increase in cash held	1,077,216	1,065,473
Cash at the beginning of the financial period	118,223	446,334
Effect of exchange rates on cash holdings in foreign currencies	(27,573)	(11,756)
NET CASH AT END OF PERIOD	1,167,866	1,500,051

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 18 001 285 230

NOTES TO THE FINANCIAL STATEMENTS FOR HALF YEAR ENDED 31 DECEMBER 2008

Note 1: Basis of Preparation of Half-Year Financial Statements

This general purpose financial report for the half-year reporting period ended 31 December 2008 has been prepared in accordance with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Act 2001.

The half-year financial report covers Sun Biomedical Limited and controlled entities as a Consolidated Entity ('consolidated financial statements'). Sun Biomedical Limited is a company limited by shares, incorporated and domiciled in Australia.

The historical cost basis has been used, except for investment properties, land and buildings, derivatives and available-for-sale financial assets which have been measured at fair value.

This interim report does not include all the notes of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. Accordingly, this interim financial report is to be read in conjunction with the annual report for the year ended 30 June 2008 and any public announcements made by Sun Biomedical Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001. Where necessary, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

The same accounting policies and methods of computation have generally been followed in this interim financial report as compared with the most recent annual financial report.

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 18 001 285 230

Note 2: Segment Information

Half-year ended 31 December 2008	Drug Screening \$	Other \$	Consolidated \$
Total sales revenue	500,909	-	500,509
Segment result	(650,332)	(604,883)	(1,255,215)
Unallocated expenses			-
Loss before income tax			(1,255,215)
Half-year ended 31 December 2007			
Total sales revenue	265,947	56,998	322,945
Segment result	(740,308)	(802,709)	(1,543,017)
Unallocated expenses			-
Loss before income tax			(1,543,017)

Note 3: Individually Specific Items

Specific Items

Loss before income tax expense includes the following expenses whose disclosure assists to explaining the current period and comparative period performance of the entity:

Expense	2008 \$	2007 \$
Depreciation and amortisation expense	(202,365)	(275,015)

The depreciation and amortisation expense includes amortisation for Intellectual Property and Patents acquired with the Sun Biomedical Laboratories Inc. business.

Note 4: Dividends

There were no dividends declared or paid in the respective reporting periods.

Note 5: Revisions in estimates

There are no significant revisions in estimates during the six month reporting period.

SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 18 001 285 230

Note 6: Equity Securities Issued

	31 December 2008	30 June 2008
	\$	\$
775,179,380 (June 2008: 397,370,388) fully paid ordinary shares	27,847,589	24,483,424
<hr/>		
(a) Ordinary shares – number	Number	Number
At the beginning of the reporting period	397,370,388	183,965,378
Issue of shares at 1.0 cents per Rights Issue in Aug 2008	374,082,527	-
Issue of shares from Options conversion at 2.0 cents	90,608	-
Issue of shares in lieu of payment of directors' fees	3,635,857	-
Issue of shares at 1.3 cents per Rights Issue in July 2007	-	183,965,378
Issue of shares from Option conversion at 1.3 cents	-	4,753,457
Issue of shares to Burke and Grill at 10 cents	-	428,675
Issue of shares at 4.3 cents in December 2007	-	21,235,000
Issue of shares at 4.3 cents in January 2008	-	3,022,500
Balance at end of reporting period	775,179,380	397,370,388
<hr/>		
	\$	\$
(b) Ordinary shares – value		
At the beginning of the reporting period	24,483,424	21,300,481
Issue of shares at 1.0 cents per Rights Issue in Aug 2008	3,740,825	-
Issue of shares from Option conversion at 2.0 cents	1,812	-
Issue of shares in lieu of payment of directors' fees	57,708	-
Issue of shares at 1.3 cents per Rights Issue in July 2007	-	2,391,550
Issue of shares from Option conversion at 1.3 cents	-	61,795
Issue of shares to Burke and Grill at 10 cents	-	42,868
Issue of shares at 4.3 cents in December 2007	-	913,105
Issue of shares at 4.3 cents in January 2008	-	129,968
Less share issue costs	(436,180)	(356,343)
Balance at end of reporting period	27,847,589	24,483,424

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ABN 18 001 285 230

Note 7: Intangibles

	Shockrounds	SBL Intellectual Property	Total
	\$	\$	\$
At 30 June 2008			
Cost	8,110,484	3,851,324	11,961,808
Accumulated amortisation	(8,110,484)	(1,018,914)	(9,129,398)
Impairment	-	(1,000,000)	(1,000,000)
Net book amount	-	1,832,410	1,832,410
Movement			
Opening balance as at 1 July 2007	-	3,324,116	3,324,116
Additions	-	50,586	50,586
Amortisation charge	-	(542,292)	(542,292)
Impairment	-	(1,000,000)	(1,000,000)
Closing balance 30 June 2008	-	1,832,410	1,832,410
At 31 December 2008			
Cost	8,110,484	3,880,785	11,991,269
Accumulated amortisation	(8,110,484)	(1,220,862)	(9,331,346)
Impairment	-	(1,000,000)	(1,000,000)
Net book amount	-	1,659,923	1,659,923
Movement			
Opening balance 1 July 2008	-	1,832,410	1,832,410
Additions	-	28,863	28,863
Amortisation charge	-	(201,350)	(201,350)
Impairment	-	-	-
Closing balance 31 December 2008	-	1,659,923	1,659,923

The intellectual property relates to patents for the design of drug testing products. There is 5.5 (2007: 6.5) years remaining to the useful life of the intellectual property.

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SUN BIOMEDICAL LIMITED AND CONTROLLED ENTITIES
ABN 18 001 285 230

Note 8: Events Subsequent to Balance Date

In the light of the continuing US economic downturn and the delay in commencement of the Chinese field trials, the Board decided to implement a cost reduction plan. The Board believes this is necessary in order to ensure that the Company effectively manages its existing cash reserves and is able to focus its resources upon bringing the major initiatives to fruition. This plan involved:

- Reducing the headcount of the United States operation to 10 from 22. These staff cuts were predominantly in the administration and product assembly areas. Product assembly will be outsourced to certified contract manufacturers;
- Reducing SBL's day-to-day operating expenses by imposing a salary freeze and restrictions on discretionary expenditure; and
- Focusing on US and international opportunities, including OraLine VIII, that can be achieved with limited resources.

In addition, the Board is currently seeking a strategic partner to assist the Company in capitalizing on its future prospects.

Note 9: Going Concern

Sun Biomedical Laboratories Inc. (SBL), the U.S. subsidiary of the Company, continues to incur losses in the ongoing development of its products. SBL remains wholly reliant on the Company to fund its ongoing operations but has no contractual commitment to do so. The Company continues to seek a joint venture partner and the ongoing American operations are dependant on the success of this initiative.

Declaration by Directors

The directors of the Company declare that:

1. The financial statements and accompanying notes have been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001 and:
 - (a) give a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date;and
 - (b) comply with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and behalf of the directors by:



Jim Hallam
Director

Melbourne
27 February 2009

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Armstrong Partners

CHARTERED ACCOUNTANTS

Independent Auditor's review report to the members of Sun Biomedical Limited A.B.N. 18 001 285 230

Report on the half year financial report

We have reviewed the accompanying half-year financial report of Sun Biomedical Ltd which comprises the Consolidated Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, accompanying notes to the financial statements, and the directors' declaration for the Sun Biomedical Group for the half-year ended 31 December 2008. The Sun Biomedical Group comprises Sun Biomedical Limited ("the Company") and the entities it controlled at the half year end or from time to time during that half year.

Directors Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and the fair presentation of the half year financial report in accordance with the *Corporations Act 2001* and *Australian Accounting Standards (including the Accounting Standards Interpretations)*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of an Interim Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Sun Biomedical Group's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001 and other mandatory financial reporting requirements in Australia. As the auditor of Sun Biomedical Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of the Sun Biomedical Group is not in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the financial position of the Sun Biomedical Group at 31 December 2008 and of its performance for the half year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualification to our conclusion expressed above, attention is drawn to the comments regarding going concern in Note 9 to the financial statements.

Should the events referred to in Note 9 not eventuate as disclosed there would be significant uncertainty whether the consolidated entity would be able to continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report

Armstrong Partners



**David Armstrong
Partner**

Melbourne

27 February 2009

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**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

To: the directors of Sun Biomedical Limited I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2008 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contravention of any applicable code of professional conduct in relation to the review.

Armstrong Partners



**David Armstrong
Partner**

Melbourne

27 February 2009