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FORM 10KSB

HedgePath Pharmaceuticals, Inc. - HPPI

Filed: March 31, 2006 (period: December 31, 2005)

Annual report filed by small businesses

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-13467

COMMONWEALTH BIOTECHNOLOGIES, INC.

(Name of small business issuer in its charter)

Virginia
(State or other jurisdiction of
incorporation or organization)

54-1641133
(I.R.S. Employer Identification No.)

601 Biotech Drive
Richmond, Virginia 23235
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (804) 648-3820

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, without par value per share
NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act:
None

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act .

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB .

The issuer's revenues for the year ended December 31, 2005 were \$7,802,891.

The aggregate market value of the shares of common stock, without par value ("Common Stock"), of the registrant held by non-affiliates on March 17, 2006 was approximately \$10,625,048 based on the closing sales price of the shares of \$3.6184 per share, as reported on the NASDAQ Market on March 17, 2006.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes No

As of March 17, 2006, there were 3,306,184 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its Annual Meeting of Shareholders to be held on May 19, 2006 are incorporated by reference into Part III of this Form 10-KSB.

Portions of the registrant's 2005 Annual Report to Shareholders are incorporated by reference into Part II of this Form 10-KSB.

Transitional Small Business Disclosure Format (check one:) Yes No .

PART I

Item 1. Description of Business.

Overview

Commonwealth Biotechnologies, Inc. (the "Company" or "CBI") is a solutions provider to the global biotechnology industry, academic institutions, government agencies, and pharmaceutical companies. It offers broad ranging expertise and a complete array of the most current analytical and synthetic chemistries and biophysical analysis technologies, many of which are not available from other commercial sources. We have crafted a stimulating, open environment where scientists collaborate among themselves and with our clients, take on interesting challenges and develop creative solutions. Through its Fairfax Identity Labs ("FIL") acquisition, CBI offers comprehensive genetic identity testing, including paternity, forensic, and Convicted Offender DNA Index System ("CODIS") analyses. CBI is accredited by the American Association of Blood Banks, Clinical Laboratory Investigation Act ("CLIA"), and the National Forensic Science Technology Council, and operates fully accredited BSL-3 laboratory. CBI enjoys an excellent reputation with its customers and is valued for its ability to bring novel and imaginative solutions to problems in life-sciences research.

CBI is a preferred provider of early development contract research. We facilitate strategic decisions to both short term and long term clients. The Company offers both Good Laboratory Practices (GLP and non-GLP) rated services, and accommodates all levels of service, from bench to production scale processes. The Company prides itself on its high throughput and fully integrated platform technologies, and over the years, has put in place numerous specialty labs, including Biosafety level 3 labs for bacteriology and virology, a DNA reference Lab, calorimetry and mass spectrometry labs, cell culture and fermentation labs, high throughput DNA sequence labs, and peptide synthesis labs. This arrangement distinguishes the Company from many other biotechnology companies in that the Company's revenues are not dependent on successful commercialization of a new biotechnology product, although early in 2006, the Company out-licensed its lead intellectual property ("HepArrest[®]") for testing as a potential human pharmaceutical. The Company continues to keep pace with new technologies and is able to offer these new services to its customers.

The Company has the experience and expertise usually found in much larger contract research organizations ("CROs"). It has extensive experience in contract and program management work in both the government and private sectors and is well-recognized for expertise in molecular genetics, mass spectrometry, peptide synthesis, DNA sequence analysis and reference lab work.

CBI is vigorously pursuing revenue opportunities in four principal focus areas: bio-defense; laboratory support services for on-going clinical trials; comprehensive contract projects in the private sector; and in DNA reference lab activities. The Company has been operating solely on revenues from day-to-day operations and while revenues generated from government contracts amounted to 54% of the total revenue in 2005; the remainder was derived from non-government sources. Diversifying and growing the Company's our revenue stream continues to be a focus of CBI management.

CBI acts as both prime and subcontractor for bio-defense related work. More often than not, is the prime (if not the only) contractor performing clinical laboratory or comprehensive contracts for its private sector clients.

The Company views commercial and government contracts, as its most important sources of revenue. For this reason, it has moved away from concept of "piece work" for individual investigators.

Further, CBI is now emphasizing its creative solutions approach, rather than its large litany of individual technology offerings. CBI sees its creative solutions approach as an added value for its customers and has determined that its customers are willing to contract with CBI for this premium service. CBI has entirely re-vamped its web page (www.cbi-biotech.com) to help clarify its potential role in solving its customers problems. With all its contracts, CBI generally recognizes revenues as services are rendered or as products are delivered. In some instances, CBI recognizes revenue with performance-based installments payable over the contract as milestones are achieved.

Growth Strategy

The Company is vigorously pursuing revenue opportunities in four principal focus areas: bio-defense; laboratory support services for on-going clinical trials; comprehensive contract projects in the private sector; and DNA reference lab activities which includes paternity testing, forensic case-work analysis, mitochondrial DNA analysis, and CODIS sequence analysis.

To grow these revenue opportunities, the Company responds to formal requests for proposals issued by government and state agencies, and by private sector companies. The Company has a proven track record in securing long-term contracts from these source agencies and in 2005, signed over \$8 million in new contract work. More often than not, contracts signed by the Company extend over several quarters, if not years, of operation.

The Company attracts customers from its presentations at national trade shows and advertisements in profession journals. Most work comes to the Company via the internet and to this end the Company has totally revamped its web page to be more user-friendly. CBI is a well-recognized key player in bio-defense, vaccine development, clinical trial support, and genetic identity work. Management believes that CBI is very well positioned for continued growth in these areas, and that the Company presents an integrated team to deliver what it believes to be the best service possible to its clients.

The Company is committed to growing revenues from the private sector where margins are higher than from government contracts. The Company has formed key alliance with partners who help promote sale of the Company's capabilities, primarily in the private sector. Three such alliances are with Fisher Scientific, LLC, Pittsburgh, PA, Intertek ASG, Manchester, England, and the Center for Functional Genomics, Central New York State Research Foundation, Albany, NY. The principle objectives of these alliances are to use the existing sales forces of our partners to promote CBI's platform technologies with private sector companies.

The Company is recruiting a senior executive at the VP level who will direct the Company's marketing and sales efforts. Together with CBI's existing sales staff, management believes that new customers can be identified and new contracts signed. Further, the sales team is already expanding the Company's marketing efforts into other clinical areas outside of the immediate realm of private paternity and immigration paternity testing; for instance, CBI is making a concerted effort to attract work from physicians and clinics who may wish to use CBI's herpes virus testing platform for diagnosis or to monitor their patient's progress with regard to treatment therapies.

Outside of organic revenue growth in CBI's focus areas, the Company is actively looking at corporate acquisitions which are complimentary to CBI's existing platform technologies and within its corporate expertise. As was done in the acquisition of Fairfax Identity Labs in 2004, any new potential acquisition is carefully analyzed with regard to its revenue and expense impact on the Company, whether it poses significant growth potential for the Company, whether it is accretive to CBI's shareholders, and whether the new company can be readily managed while retaining key personnel.

Regulatory Compliance

The Company is registered under the Clinical Laboratories Improvement Act “CLIA” that enables the Company to accept human samples for analysis and to perform analysis of human clinical samples for the presence of known genetic markers. The Company is also accredited under the guidelines of the National Forensic Science Technology Center (“NFSTC”) to perform DNA identity testing for submission of data into the CODIS data base and to perform forensic analyses. The Company is one of a select few commercial facilities nationwide accredited by the NFSTC to perform criminal (felony) DNA database testing for submission into the FBI CODIS database.

The American Association of Blood Banks (“AABB”) accredits the Company, and the Company has participated in a validation study through the College of American Pathologists (“CAP”). Accreditation by the AABB enables the Company to perform paternity testing on private and public cases.

The Company is also accredited by the Centers for Disease Control to receive and handle select agents. The Company operates and maintains an accredited Biosafety level 3 facility which houses bacteriology and virology laboratories.

The Company operates under strict Good Laboratory Practices (“GLP”) guidelines and has been successfully audited by a number of private companies and governmental agencies.

Analytical Support Services

The Company is a fee-for-service contractor offering integrated programs that span the gamut of state-of-the-art life sciences investigations. Typically, it takes no ownership position in the intellectual property rights resulting from services it performs under contract for its customers. Since commencing operations, the Company has become noted for providing a wide range of services relating to design, synthesis, purification, and analysis of peptides, proteins, and oligonucleotides and in creating unique assay and detection methods.

CBI’s competitive edge resides in its ability to provide a wide range of services in fully integrated research programs. The Company’s competitors may offer selected services, such as DNA sequence analysis, antibody production, or peptide synthesis, but few of the Company’s competitors offer all the same platform technologies in an integrated format. The Company also offers a full range of program management services, is staffed with personnel who hold clearances from the government agencies, and has a fully operational Biosafety level 3 laboratory suite. “One stop biotechnology shopping” with proven program management with creative problem solutions expertise proved attractive in securing long-term contracts with customers ranging from major pharmaceutical industry researchers to major government sponsors of research, including agencies of the Department of Defense.

The services offered by the Company are fully detailed in its promotional brochures, and on its world wide web page. The Company offers “fax-on-demand” for customers who seek technology descriptions and pricing information.

Customers

CBI re-defined its client base to focus on long-term project goals, rather than on individual orders for selected technologies. Its clients are from private companies, academic institutions and government agencies across the globe. Whether the client is a start-up company with research and development

needs, or an established firm wishing to move a product through the regulatory process, CBI stands ready as partner of choice to provide the required services that ensure success.

Over the years, CBI has re-priced its platform technologies to maintain its margins while maintaining its competitive edge. In several instances, CBI ceased to offer a technology service when it became clear that the price needed to pay its overhead and maintain its margin made CBI non-competitive in the market place. CBI management continuously reviews its pricing policies.

Proprietary Research and Development

CBI has developed its own intellectual properties that could potentially add a significant revenue stream to the Company when they are fully commercialized. However, the Company is focused entirely on its core competencies and as such, has more or less abandoned development of intellectual properties. Its focus with regard to its patent portfolio is to find third party licensees who can fully exploit a product's potential.

The Company takes appropriate steps to protect its intellectual property rights and those of its customers. Its practice is to require its employees and consultants to execute non-disclosure and proprietary rights agreements upon commencement of employment or consulting arrangements with the Company. These agreements acknowledge the Company's exclusive ownership of all intellectual property developed by the individual during the course of his work with the Company and require that all proprietary information disclosed to the individual by the Company or its customers remain confidential.

Marketing

The Company has expanded its customer base primarily through word-of-mouth referrals, attendance at a limited number of trade shows, seminars, and on-site meetings with decision makers. Because of its ability to offer a wide range of biotechnology research services, the Company enjoys a favorable reputation among its customers, and many new customers come to the Company by word-of-mouth recommendation. The Company has constructed its own webpage (www.cbi-biotech.com) and is listed with several bio-technical and biomedical oriented sites on the World Wide Web.

The Company has developed a marketing plan which addresses several key issues, including;

- **New web-based initiatives:**

The CBI web page has been re-designed to make it more user friendly and easier to navigate. New web sites will promote the forensics capabilities at CBI, and the herpes virus testing platform web page will be upgraded. CBI's web site prominence will be enhanced through search engine optimization, and finally, the Company is planning on providing periodic, information-based newsletters.

- **A refocus of the Company's media efforts:**

The Company continuously updates its technical brochures, promotional pieces, and trade show booth presentations. Individual sales flyers are distributed which detail the specific technologies available through CBI. The Company's trade show booth is versatile enough to serve our diverse client base.

- **Electronic News Letter**

The Company has instituted an electronic quarterly newsletter which is sent to its data base of email subscribers. The newsletter is intended to keep its customers and its shareholders abreast of current events at the Company and to inform its audience of newsworthy events.

- **Investor Relations**

The Company is committed to presentation of its capabilities in appropriate forums, such as analyst conferences and forums. Presentations made by management at these venues are posted to CBI's web page.

Human Resources

The Company currently has fifty-two full time employees and thirteen part-time employees, including four employees in administration; six in marketing, sales, and/or customer relations; one computer network specialist; and forty-one employees in laboratory operations. Eleven of the Company's employees hold doctorate degrees, and seven have master's degrees. None of the Company's employees are represented by a labor union. The Company has experienced no work stoppages and believes its relations with its employees to be good.

Competition

The Company faces several types of competition, but the Company believes that there are fewer than 5 companies which can be considered direct competitors across multiple technologies. However, there are virtually no other companies which offer the breadth of CBI's services, especially with regard to its expertise in bio-defense related work.

Government Regulation

The Company does not require government regulatory approvals to provide its current services. Numerous federal, state and local agencies, such as environmental, working condition and other similar regulators, have jurisdiction to take action that could have a material adverse effect upon the Company's ability to do business. The Company believes that it is in general compliance with existing federal, state and local laws and regulations and does not anticipate that continuing compliance will have any material effect upon the capital expenditures, earnings or competitive position of the Company.

The Company anticipates that its pursuit of its growth strategy will subject the Company to a heightened level of government regulation of its operations. For example, in pursuing opportunities to provide analytical services to customers seeking the approval of the United States Food and Drug Administration ("FDA") of products, the Company's operations will become subject to compliance with standards established by the FDA, including inspections by the FDA and other federal, state and local agencies regarding work performed by the Company on specific FDA submission projects. If significant violations are discovered during an inspection, the Company may be restricted from undertaking additional work on projects until the violations are remedied. The Company has a license from the Nuclear Regulatory Commission ("NRC") for conduct of work involving radio-nuclides and operates a BSL3 facility under accreditation from the Centers for Disease Control.

Item 2. Description of Property.**Facilities**

Construction of the Company's present facility was completed in November 1998 at an overall cost of approximately \$ 5.1 million financed primarily through the Virginia Small Business Financing Authority "VSBFA" that issued \$ 4,000,000 in tax-exempt industrial revenue bonds (IRBs) for the benefit of the Company. On November 17, 2004, the Company redeemed the IRBs for a conventional note payable to a bank. The note matures in November 2009. On December 5, 2005, The Company renegotiated the mortgage rate from prime +0% to prime -.25%. Estimated monthly payments of principal and interest are \$32,351; collateralized by building and other assets of the Company. The Company also entered into a swap transfer agreement with its lender essentially capping the interest rate paid by the Company to 7.725%

The Company's facility, located in Richmond, VA, encompasses 32,000 square feet of state-of-the-art laboratory and administrative space. The building is designed to facilitate movement of samples throughout each laboratory, and where necessary, to maintain and ensure custody of samples. The building houses expansion space, which was purposefully left undeveloped to accommodate new technologies as they come on board. The Company took possession of its current facility in late November 1998, and all labs were fully operational in the facility by mid December 1998. The Company believes that the facility is adequately insured.

Item 3. Legal Proceedings.

The Company is not subject to any pending legal proceeding required to be disclosed.

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted to a vote of security holders in the fourth fiscal quarter of 2005.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters.

The information set forth on page 6 the Company's 2005 Annual Report to Shareholders under the caption "Market for Common Equity" is incorporated herein by reference.

The following table provides information about our equity compensation plans as of December 31, 2005.

	<u>a</u>	<u>b</u>	<u>c</u>
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	986,919	\$ 5.60	287,309
Equity compensation plans not approved by security holders	0	0	0
Total	986,919	\$ 5.60	287,309

Item 6. Management's Discussion and Analysis or Plan of Operation.

The information set forth on pages 7 through 16 of the Company's 2005 Annual Report to Shareholders under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" is incorporated herein by reference.

Item 7. Financial Statements.

The Company's financial statements and the related notes thereto, together with the report of BDO Seidman LLP for 2005 and 2004, set forth on pages 17 through 34 of the Company's 2005 Annual Report to Shareholders are incorporated herein by reference.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

The Company is not presently involved in any disagreements with its independent auditors on accounting financial disclosures.

Item 8A. Controls and Procedures.

The Company maintains a system of controls and procedures designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures included in this report, as well as to safeguard assets from unauthorized use or disposition. The Company evaluated the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-14(c) and Rule 15a-14(c) under the Securities Exchange Act of 1934) under the supervision and with the participation of management, including the Company's Chief Executive Officer and Controller, within 90 days prior to the filing date of this report. Based upon that evaluation, the Company's Chief Executive Officer and Controller concluded that the Company's disclosure controls and procedures are effective in timely alerting them to information required to be included in the Company's periodic Securities and Exchange Commission filings. There were no significant changes in the Company's internal controls or in other factor that could significantly affect these controls subsequent to the date of their evaluation.

Item 8B. Other Information.

The Company has previously reported all information required to be disclosed during the fourth quarter of 2005 in a report on Form 8-K.

PART III**Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.****Directors**

The information relating to the directors of the Company set forth in the Company's definitive proxy statement relating to the Company's Annual Meeting of Shareholders to be held on May 19, 2006 (the "Proxy Statement") under the caption proposal one is incorporated herein by reference.

Executive Officers

The information relating to the executive officers of the Company set forth in the Proxy Statement under the caption "Management-Business History of Executive Officers" is incorporated herein by reference.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

The information relating to compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, set forth in the Proxy Statement under the caption Section 16(a) Beneficial Ownership Reporting Compliance is incorporated herein by reference.

Code of Conduct

The information relating to the Company's Code of Conduct is set forth in the Proxy Statement under the caption "Code of Conduct" is incorporated herein by reference.

Item 10. Executive Compensation.

The information set forth in the Proxy Statement under the caption "Executive Compensation" is incorporated herein by reference.

Item 11. Security Ownership of Certain Beneficial Owners and Management.

The information set forth in the Proxy Statement under the caption "Beneficial Ownership of Common Stock" is incorporated herein by reference.

Item 12. Certain Relationships and Related Transactions.

Not applicable.

Item 13. Exhibits.

(a) Exhibits.

Exhibit Number	Description of Exhibit
3.1	Articles of Incorporation (1)
3.2	Second Amended and Restated Bylaws (2)
4.1	Form of Common Stock Certificate (1)
10.1	Warrant Agreement between the Company and Richard J. Freer, as amended (1)
10.2	Warrant Agreement between the Company and Thomas R. Reynolds, as amended (1)
10.3	Warrant Agreement between the Company and Robert B. Harris, as amended (1)
10.4	First Amended and Restated Employment Agreement for Thomas R. Reynolds (3)
10.5	First Amended and Restated Employment Agreement for Robert B. Harris (4)
10.6	First Amended and Restated Employment Agreement for James H. Brennan (9)
10.7	First Amended and Restated Employment Agreement for Richard J. Freer, Ph.D. (5)
10.8	Second Amendment to First Amended and Restated Employment Agreement for Richard J. Freer, Ph.D. (9)
10.9	First Amendment to First Amended and Restated Employment Agreement for Thomas R. Reynolds (9)
10.10	First Amendment to First Amended and Restated Employment Agreement for Robert B. Harris, Ph.D. (9)
10.11	First Amendment to First Amended and Restated Employment Agreement for James H. Brennan (9)
10.12	Officer's Severance Agreement for James H. Brennan (6)
13.1	Annual Report to Shareholders for the fiscal year ended December 31, 2005 incorporated into Form 10-KSB (9)
23.1	Consent of BDO Seidman, LLP (9)

31.1	Certification of Robert B. Harris, Ph.D. (9)
31.2	Certification of James H. Brennan (9)
32.1	Section 906 Certification of Robert B. Harris, Ph.D. (9)
32.2	Section 906 Certification of James H. Brennan (9)
99.1	1997 Stock Incentive Plan, as amended (1)
99.2	2000 Stock Incentive Plan (7)
99.3	2002 Stock Incentive Plan, as amended (8)

- (1) Incorporated by reference to the Company's Registration Statement on Form SB-2, Registration No. 333-31731.
- (2) Incorporated by reference to the Company's Form 10-KSB, dated March 30, 2005, File No. 001-13467.
- (3) Incorporated by reference to the Company's Current Report on Form 8-K, dated February 10, 2005, File No. 001-13467.
- (4) Incorporated by reference to the Company's Current Report on Form 8-K, dated February 8, 2005, File No. 001-13467.
- (5) Incorporated by reference to the Company's Current Report on Form 8-K, dated June 28, 2005, File No. 001-13467.
- (6) Incorporated by reference to the Company's Form 10-KSB, dated March 31, 2003, File No. 001-13467.
- (7) Incorporated by reference to the Company's Registration Statement on Form S-8, Registration No. 333-51074.
- (8) Incorporated by reference to the Company's Registration Statement on Form S-8, Registration No. 333-102368.
- (9) Filed herewith.

(b) Reports on Form 8-K

On October 31, 2005, the Company filed on Form 8-K relating to the Company's financial performance.

On November 14, 2005, the Company filed on Form 8-K relating to the announcement of additional contract awards.

On November 22, 2005, the Company filed on Form 8-K relating to the departure of Peter Einselen (Director), and the appointment of Joseph Slay to fill the vacancy.

On December 6, 2005, the Company announced a Joint Marketing Agreement with Intertek ASG, an operating business unit of Intertek Group PLC.

Executive Compensation Plans and Arrangements

The following is a list of all executive compensation plans and arrangements filed as exhibits to this annual report on Form 10-KSB or incorporated herein by reference:

1. Warrant Agreement between the Company and Richard J. Freer, as amended (1)
 2. Warrant Agreement between the Company and Thomas R. Reynolds, as amended (1)
 3. Warrant Agreement between the Company and Robert B. Harris, as amended (1)
 4. First Amended and Restated Employment Agreement between the Company and Thomas R. Reynolds (2)
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Item 14. Principal Accountant Fees and Services.

The information set forth in the Proxy Statement under the captions "Audit Committee Report and Fees Paid to Independent Registered Public Accounting Firm" and "Fees Paid to Independent Registered Public Accounting Firm" is incorporated herein by reference.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMMONWEALTH BIOTECHNOLOGIES, INC.

Date: March 31, 2006

By: /s/ Robert B. Harris, Ph.D.
Robert B. Harris, Ph.D.
President

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title(s)</u>	<u>Date</u>
<u>/s/ Richard J. Freer, Ph.D.</u> Richard J. Freer, Ph.D.	Chairman, COO and Director (Principal Executive Officer)	March 31, 2006
<u>/s/ Robert B. Harris, Ph.D.</u> Robert B. Harris, Ph.D.	President, CEO and Director	March 31, 2006
<u>/s/ Thomas R. Reynolds</u> Thomas R. Reynolds,	Executive Vice President, Secretary and Director	March 31, 2006
<u>/s/ James H. Brennan</u> James H. Brennan	Vice President Financial Operations (Principal Financial and Accounting Officer)	March 31, 2006
<u>/s/ James P. Causey</u> James P. Causey	Director	March 31, 2006
<u>/s/ Samuel P. Sears, Jr.</u> Samuel P. Sears, Jr.	Director	March 31, 2006
<u>/s/ Gerald P. Krueger Ph.D.</u> Gerald P. Krueger Ph.D.	Director	March 31, 2006
<u>/s/ Dr. Donald McAfee</u> Dr. Donald McAfee	Director	March 31, 2006
<u>/s/ Joseph R. Slay</u> Joseph R. Slay	Director	March 31, 2006

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- (8) Incorporated by reference to the Company's Registration Statement on Form S-8, Registration No. 333-102368.
- (9) Filed herewith.

FIRST AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT made as of the 1st day of January, 2005, by and between COMMONWEALTH BIOTECHNOLOGIES, INC., a Virginia corporation (the "Employer"), and JAMES H. BRENNAN (the "Employee").

WHEREAS, the Employer and the Employee previously entered into an Employment Agreement, dated as of December 1, 1997 (the "Initial Agreement");

WHEREAS, the Employer and the Employee wish to (a) amend and restate the Initial Agreement in accordance with their terms.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is acknowledged by the parties hereto, the Employer and the Employee hereby amend and restate the Initial Agreement as follows:

1. **Employment.** The Employer agrees to employ the Employee and the Employee agrees to enter into the employ of the Employer on the terms and conditions hereinafter set forth. The Employee shall serve the Employer in such capacities as may be prescribed from time to time by the President of the Employer.

2. **Effective Date and Term.** The commencement date of this Agreement shall be as of January 1, 2005 (the "Commencement Date"). Subject to the provisions of Section 5, the term of the Employee's employment hereunder shall be December 31, 2005, provided, however, that the term shall be extended automatically for an additional period of one year commencing on the first anniversary of the Commencement Date and on each subsequent anniversary thereafter, unless either the Employee or the Employer gives written notice to the other, at least 30 days prior to the date of any such anniversary, of such party's election not to extend the terms of this Agreement. The last day of such term as so extended from time to time, is herein sometimes referred to as the "Expiration Date."

3. **Compensation and Benefits.** The regular compensation and benefits payable to the Employee under this Agreement shall be as follows:

(a) **Salary.** For all services rendered by the Employee under this Agreement, the Employer shall pay the Employee a total salary at the rate of \$ 120,175 per year, subject to increase from time to time in accordance with the usual practice of the Employer with respect to review of compensation of its employees. The Employee's salary shall be payable in periodic installments in accordance with the Employer's usual practice for its employees.

(b) **Stock Options.** The Employee shall be eligible for Stock Options, if any, in an amount to be determined as recommended by the Employer Management, but at the sole discretion of the Compensation Committee of the Employer's Board of Directors.

(c) **Annual Cash Bonus.** No later than January 31st of each calendar year during the term hereof, the Employer's Management shall set a minimum annual financial threshold (the "Minimum Threshold") and a maximum annual financial threshold (the "Maximum Threshold") by which to judge the performance of the Employee for the upcoming year. The Maximum and Minimum Thresholds for the Employee will be the same as those set for the Employer's Executives by the Board of Directors of the Company. In addition, no later than January 31st of each calendar year during the term hereof, the

Employer's Management shall set a maximum cash bonus that may be allocated to the Employee for such calendar year; provided, however, that such maximum cash bonus (the "Maximum Cash Bonus") shall not be less than \$25,000 per calendar year. The Maximum Cash Bonus for the Employee will be the same as that set for the Employer's Executives by the Board of Directors of the Company. To the extent the Employer's financial performance for any calendar year meets the Minimum Threshold, the Employer shall pay the Employee fifty percent (50%) of the Maximum Cash Bonus. To the extent the Employer's financial performance for any calendar year meets or exceeds the Maximum Threshold, the Employer shall pay the Employee one hundred percent (100%) of the Maximum Cash Bonus. To the extent the Employer's financial performance for any calendar year falls between the Minimum Threshold and the Maximum Threshold, the Employer shall pay the Employee a bonus calculated as follows:

$$A + (A * B) = C$$

Where:

A = 50% of the Employee's Maximum Cash Bonus;

B = The amount calculated by dividing (i) the amount equal to the Maximum Threshold less the Employer's actual financial performance on the factors selected by the Board of Directors for a given calendar year by (ii) the Maximum Threshold less the Minimum Threshold; and

C = The annual cash bonus due the Employee for a given calendar year.

The Employer shall pay the annual cash bonus, if any, to the Employee within ninety (90) days following the completion of the Employer's fiscal year end.

(i) 2005 Annual Cash Bonus Calculation. For 2005, the Employer's Board of Directors has determined that (i) the Minimum Threshold shall be met if the Employer generates \$1,000,000 in earnings before interest, taxes, depreciation and amortization, as determined by the Employer's accountants in accordance with generally accepted accounting principles ("EBITDA"); (ii) the Maximum Threshold shall be met if the Employer generates \$1,750,000 in EBITDA and (iii) the Executive's Maximum Cash Bonus shall be \$25,000.

(d) Regular Benefits. The Employee shall also be entitled to participate in any and all employee benefit plans from time to time in effect for employees of the Employer. Such participation shall be subject to (i) the terms of the applicable plan documents, (ii) generally applicable policies of the Employer and (iii) the discretion of the Management and Board of Directors of the Employer or any administrative or other committee provided for in or contemplated by such plan.

(e) Business Expenses. The Employer shall reimburse the Employee for all reasonable, pre-approved travel and other business expenses incurred by him in the performance of his duties and responsibilities, subject to such reasonable requirements with respect to substantiation and documentation as may be specified by the Employer.

(f) Vacation. The Employee shall be entitled to such number of weeks of vacation per year as shall be provided for in the Employer's employee handbook as the same shall be modified from time to time, to be taken at such times and intervals as shall be determined by the Employee with the approval of the Employer, which approval shall not be unreasonably withheld.

4. Extent of Service. During his employment hereunder, the Employee shall, subject to the direction and supervision of the President of the Employer, devote his full business time, best efforts and

business judgment, skill and knowledge to the advancement of the Employer's interests and to the discharge of his duties and responsibilities hereunder. He shall not engage in any other business activity, except as may be approved by the President of the Employer.

5. Termination and Termination Benefits.

Notwithstanding the provisions of Section 2, the Employee's employment hereunder shall terminate under the following circumstances and shall be subject to the following provisions:

(a) Death. In the event of the Employee's death during the Employee's employment hereunder, the Employee's employment shall terminate on the date of his death.

(b) Termination by the Employer for Cause. The Employee's employment hereunder may be terminated without further liability on the part of the Employer effective immediately by a vote of the Management of the Employer for Cause by written notice to the Employee setting forth in reasonable detail the nature of such Cause. Only the following shall constitute "Cause" for such termination:

(i) gross incompetence, gross negligence, willful misconduct in office or breach of a material fiduciary duty owed to the Employer or any subsidiary or affiliate thereof;

(ii) conviction of a felony, a crime of moral turpitude or commission of an act of embezzlement or fraud against the Employer or any subsidiary or affiliate thereof;

(iii) any material breach by the Employee of a material term of this Agreement, including without limitation material failure to perform a substantial portion of his duties and responsibilities hereunder; or

(iv) deliberate dishonesty of the Employee with respect to the Employer or any subsidiary or affiliate thereof.

(c) Termination by the Employer Without Cause. The Employee's employment with the Employer may be terminated without Cause by the Management of the Employer effective 30 days after the giving of written notice to the Employee.

(d) Termination Benefits. Except as expressly provided in Section 6 with respect to disability, or as may be required by applicable law, the Employee shall not be entitled to any benefits in connection with the termination of this Agreement.

(e) Litigation and Regulatory Cooperation. During the term of this Agreement and the period in which the Employee is subject to the obligations in Section 7, the Employee shall cooperate fully with the Employer in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of the Employer which relate to events or occurrences that transpired while the Employee was employed by the Employer. The Employee's full cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of the Employer at mutually convenient times. The Employee shall also cooperate fully with the Employer in connection with any examination or review of any federal or state regulatory authority as any such examination or review relates to events or occurrences that transpired while the Employee was employed by the Employer. If such cooperation is required after the Employee ceases to receive cash compensation from the Employer under Section 3 or Section 6, the Employer shall pay the Employee for such cooperation a fee of twenty

five dollars (\$25.00) per hour, payable monthly in arrears, and will reimburse the Employee for any reasonable out-of-pocket expenses incurred in connection therewith.

6. **Disability.** If, due to physical or mental illness, the Employee shall be disabled so as to be unable to perform substantially all of his duties and responsibilities hereunder, which disability lasts for an uninterrupted period of at least 90 days or a total of at least 180 days in any calendar year (as determined by the opinion of an independent physician selected by the Employer), the Employer may designate another Employee to act in his place during the period of such disability. Notwithstanding any such designation, the Employee shall continue to receive his full salary and benefits under Section 3 of this Agreement until he becomes eligible for disability income under the Employer's disability income plan.

7. **Noncompetition and Confidential Information.**

(a) **Noncompetition.** During the term of this Agreement and a period of six months following the date of termination of the Employee's employment with the Employer by the Employee, the Employee will not, directly or indirectly, whether individually or as an owner, partner, shareholder, consultant, agent, employee, or co-venturer, serve in the same capacity as for the Employer in a biotechnology service and support facility, in the United States of America, which is in documentable direct commercial competition with the Employer's business of providing analytical services the government, biotechnology, pharmaceutical and agricultural industries or any other business conducted by the Employer during the period of his employment hereunder, nor will he attempt to hire any employee of the Employer, assist in or recommend such hiring by any other Person, encourage any such employee to terminate his or her relationship with the Employer, or solicit or encourage any customer of the Employer to terminate its relationship with the Employer or to conduct with any other Person any business or activity which such customer conducts or could conduct with the Employer. This Section 7 shall not preclude the Employee from owning 5% or less of the outstanding stock of any company that has securities registered under Section 12 of the Securities Exchange Act of 1934, as amended.

(b) **Confidential Information.** The Employee agrees and acknowledges that, by reason of his employment by and service to the Employer, he has had and will have access to confidential information of the Employer (and its affiliates, vendors, customers, and others having business dealings with it) including, without limitation, information and knowledge pertaining to products and services, sales and profit figures, customer and client lists and information related to relationships between the Employer and its affiliates, customers, vendors, and others having business dealings with it (collectively, the "Confidential Information"). The Employee acknowledges that the Confidential Information is a valuable and unique asset of the Employer (and its affiliates, vendors, customers, and others having business dealings with it) and covenants that, both during and after the term of his employment by the Employer, he will not disclose any Confidential Information to any person or use any Confidential Information (except as his duties as an employee of the Employer may require) without the prior written authorization of the Board of Directors of the Employer. The Employee further agrees that all files, computer programs and files, letters, memoranda, reports, records, data, sketches, drawings, program listings or other written, photographic, or other tangible material containing Confidential Information, whether created by the Employee or others, which shall come into his custody or possession, shall be and are the exclusive property of the Employer to be used by the Employee only in the performance of his duties for the Employer. All such records or copies thereof and all tangible property of the Employer in the custody or possession of the Employee shall be delivered to the Employer, upon the earlier of (i) a request by the Employer or (ii) termination of the Employee's employment. After such delivery, the Employee shall not retain any such records or copies thereof or any such tangible property. The obligation of confidentiality imposed by this Section shall not apply to information that is required by

law, regulation or judicial or governmental authorities to be disclosed or that otherwise becomes part of the public domain by means not involving a breach of a covenant of confidentiality owed to the Employer.

(c) **Rights and Remedies Upon Breach.** If the Employee breaches, or threatens to commit a breach of, any of provisions of Section 7 hereof (collectively, the “Restrictive Covenants”), the Employer shall have the following rights and remedies, each of which rights and remedies shall be independent of the other and severally enforceable, and all of which rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to the Employer under law or in equity:

(i) **Specific Performance.** The Employee recognizes and agrees that the violation of the Restrictive Covenants may not be reasonably or adequately compensated in damages and that, in addition to any other relief to which the Employer may be entitled by reason of such violation, it shall also be entitled to permanent and temporary injunctive and equitable relief and, pending determination of any dispute with respect to such violation, no bond or security shall be required in connection therewith. Without limiting the generality of the foregoing, the Employee specifically acknowledges that showing by the Employer of any breach of any provision of any Restrictive Covenant shall constitute, for the purposes of all judicial determinations of the issue of injunctive relief, conclusive proof of all of the elements necessary to entitle the Employer to interim and permanent injunctive relief against the Employee with respect to such breach. If any dispute arises with respect to this Section 7, without limiting in any way any other rights or remedies to which the Employer may be entitled, the Employee agrees that the Restrictive Covenants shall be enforceable by a decree of specific performance.

(ii) **Accounting.** The Employer shall have the right and remedy to require the Employee to account for and pay over to the Employer all compensation, profits, monies, accruals, increments or other benefits (collectively, “Benefits”) derived or received by the Employee as the result of any transactions constituting a breach of any of the Restrictive Covenants, and the Employee shall account for and pay overall such Benefits to the Employer.

(d) **Severability of Covenants.** If any of the Restrictive Covenants, or any part thereof, or any of the other provisions of this Section 7 is held by a court of competent jurisdiction or any other governmental authority to be invalid, void, unenforceable or against public policy for any reason, the remainder of the Restrictive Covenants or such other provisions shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and such court or authority shall be empowered to substitute, to the extent enforceable, provisions similar thereto or other provisions so as to provide to the Employer to the fullest extent permitted by applicable law, the benefits intended by such provisions.

(e) **Enforceability in Jurisdictions.** The parties intend to and hereby confer jurisdiction to enforce the Restrictive Covenants and the other provision of this Section 7 upon the courts of any jurisdiction within the geographical scope of such Restrictive Covenants or other provisions, as the case may be. If the courts of any one or more of such jurisdictions hold the Restrictive covenants or other provisions, as the case may be, wholly invalid or unenforceable by reason of the breadth or scope or otherwise, it is the intention of the parties that such determination not bar or in any way affect the Employer’s right to the relief provided above in the courts of any other jurisdiction within the geographical scope of such Restrictive Covenant or other provisions, as the case may be, as they relate to each jurisdiction being, for this purpose, severable into diverse and independent covenants.

(f) **Definition and Survival.** For purposes of this Section 7 only, the term “Employer” shall mean Commonwealth Biotechnologies, Inc. and any of its subsidiaries and affiliates. All provisions of this Section 7 shall survive termination of this Agreement.

8. Conflicting Agreements. The Employee hereby represents and warrants that the execution of this Agreement and the performance of his obligations hereunder will not breach or be in conflict with any other agreement to which he is a party or by which he is bound, and that he is not subject to any covenants against competition or similar covenants which would affect the performance of his obligations hereunder.

9. Definition of "Person". For all purposes of this Agreement, the term "Person" shall mean an individual, a corporation, an association, a partnership, an estate, a trust and any other entity or organization.

10. Withholding. All payments made by the Employer under this Agreement shall be net of any tax or other amounts required to be withheld by the Employer under applicable law.

11. Arbitration of Disputes. Any controversy or claim arising out of or relating to the employment relationship between the Employee and the Employer, this Agreement or any breach thereof, other than a controversy or claim relating to Section 7 of this Agreement, shall be settled by arbitration in accordance with the laws of the Commonwealth of Virginia by three arbitrators, one of whom shall be appointed by the Employer, one by the Employee and the third by the first two arbitrators. If the first two arbitrators cannot agree on the appointment of a third arbitrator, then the third arbitrator shall be appointed by the American Arbitration Association in the City of Richmond. Such arbitration shall be conducted in the City of Richmond in accordance with the rules of the American Arbitration Association, except with respect to the selection of arbitrators which shall be as provided in this Section 11. Judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. The party against whom the arbitrators shall render an award shall pay the other party's reasonable attorneys' fees and other reasonable costs and expenses in connection with the enforcement of its rights under this Agreement (including the enforcement of any arbitration award in court), unless and to the extent the arbitrators shall determine that under the circumstances recovery by the prevailing party of all or a part of any such fees and costs and expenses would be unjust.

12. Assignment; Successors and Assigns, etc. Neither the Employer nor the Employee may make any assignment of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other party; provided, however, that the Employer may assign its rights under this Agreement without the consent of the Employee in the event that the Employer shall hereafter effect a reorganization, consolidate with or merge into any other Person, or transfer all or substantially all of its properties or assets to any other Person. This Agreement shall inure to the benefit of and be binding upon the Employer and the Employee, their respective successors, executors, administrators, heirs and permitted assigns. In the event of the Employee's death prior to the completion by the Employer of all payments due him under this Agreement, the Employer shall continue such payments to the Employee's beneficiary designated in writing to the Employer prior to his death (or to his estate, if he fails to make such designation).

13. Enforceability. If any portion or provision of this Agreement shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Agreement, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

14. Waiver. No waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of any party to require the performance of any term or obligation

of this Agreement, or the waiver by any party of any breach of this Agreement, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

15. Notices. Any notices, request, demands and other communications provided for by this Agreement shall be sufficient if in writing and delivered in person or sent by registered or certified mail, postage prepaid (in which case notice shall be deemed to have been given on the third day after mailing), or by overnight delivery by a reliable overnight courier service (in which case notice shall be deemed to have been given on the day after delivery to such courier service) to the Employee at the last address the Employee has filed in writing with the Employer or, in the case of the Employer, at its main offices, attention of the President.

16. Entire Agreement; Amendment. This Agreement may be amended or modified only by a written instrument approved by the Management or the Board of Directors of the Employer and the Compensation Committee thereof, signed by the Employee and by a duly authorized representative of the Employer who is the Chairman of the Board or President or an Employee Vice President of the Employer and who is not the Employee. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and no agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement.

17. Governing Law. This is a Virginia contract and shall be construed under and be governed in all respects by the laws of the Commonwealth of Virginia, without giving effect to the choice of law principles of any state.

18. Legal Counsel. This Agreement has been prepared by the Company, with the consent of the Employee. The Employee has reviewed the contents of this Agreement and fully understands its terms. The Employee acknowledges that he is fully aware of his right to the advice of counsel independent from that of the Company, that the Company has advised him of such right and disclosed to him the risks in not seeking such independent advice, and that he understands the potentially adverse interests of the parties with respect to this Agreement. The Employee further acknowledges that no representations have been made with respect to the income or estate tax or other consequences of this Agreement to him and that he has been advised of the importance of seeking independent advice of counsel with respect to such consequences.

SECOND AMENDMENT

TO

FIRST AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS FIRST AMENDMENT TO THE FIRST AMENDED AND RESTATED EMPLOYMENT AGREEMENT, made as of the 27th day of June 2005, by and between COMMONWEALTH BIOTECHNOLOGIES, INC., a Virginia corporation (the “Employer”), and RICHARD J. FREER, PH.D. (the “Executive”).

WHEREAS, the Employer and the Executive previously entered into a First Amended and Restated Employment Agreement, dated as of June 27, 2005 (the “Initial Agreement”); and

WHEREAS, the Initial Agreement contained an equation to determine certain performance-based cash, restricted stock and incentive option bonuses; and

WHEREAS, the Employer and the Executive wish to amend the Initial Agreement to correct a mathematical error contained therein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is acknowledged by the parties hereto, the Employer and the Executive hereby amend the Initial Agreement as follows:

1. The equation contained in Section 4(c) is hereby removed in its entirety and replaced with the following:

$$“A + (A * (1-B)) = C”$$

2. The equation contained in Section 4(f)(i) is hereby removed in its entirety and replaced with the following:

$$“5,000 + (5,000 * (1-A)) = B”$$

3. The equation contained in Section 4(f)(ii) is hereby removed in its entirety and replaced with the following:

$$“2,500 + (2,500 * (1 - A)) = B”$$

4. All other portions of the Initial Agreement remain in effect.

FIRST AMENDMENT

TO

FIRST AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS FIRST AMENDMENT TO THE FIRST AMENDED AND RESTATED EMPLOYMENT AGREEMENT, made as of the 1st day of January 2005, by and between COMMONWEALTH BIOTECHNOLOGIES, INC., a Virginia corporation (the "Employer"), and THOMAS R. REYNOLDS (the "Executive").

WHEREAS, the Employer and the Executive previously entered into a First Amended and Restated Employment Agreement, dated as of January 1, 2005 (the "Initial Agreement"); and

WHEREAS, the Initial Agreement contained an equation to determine certain performance-based cash, restricted stock and incentive option bonuses; and

WHEREAS, the Employer and the Executive wish to amend the Initial Agreement to correct a mathematical error contained therein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is acknowledged by the parties hereto, the Employer and the Executive hereby amend the Initial Agreement as follows:

1. The equation contained in Section 4(c) is hereby removed in its entirety and replaced with the following:

$$"A + (A * (1-B)) = C"$$

2. The equation contained in Section 4(e)(i) is hereby removed in its entirety and replaced with the following:

$$"2,500 + (2,500 * (1 - A)) = B"$$

3. The equation contained in Section 4(e)(ii) is hereby removed in its entirety and replaced with the following:

$$"2,500 + (2,500 * (1 - A)) = B"$$

4. All other portions of the Initial Agreement remain in effect.

FIRST AMENDMENT

TO

FIRST AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS FIRST AMENDMENT TO THE FIRST AMENDED AND RESTATED EMPLOYMENT AGREEMENT, made as of the 1st day of January 2005, by and between COMMONWEALTH BIOTECHNOLOGIES, INC., a Virginia corporation (the "Employer"), and ROBERT B. HARRIS, PH.D. (the "Executive").

WHEREAS, the Employer and the Executive previously entered into a First Amended and Restated Employment Agreement, dated as of January 1, 2005 (the "Initial Agreement"); and

WHEREAS, the Initial Agreement contained an equation to determine certain performance-based cash, restricted stock and incentive option bonuses; and

WHEREAS, the Employer and the Executive wish to amend the Initial Agreement to correct a mathematical error contained therein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is acknowledged by the parties hereto, the Employer and the Executive hereby amend the Initial Agreement as follows:

1. The equation contained in Section 4(b) is hereby removed in its entirety and replaced with the following:

$$"A + (A * (1-B)) = C"$$

2. The equation contained in Section 4(e)(i) is hereby removed in its entirety and replaced with the following:

$$"2,500 + (2,500 * (1 - A)) = B"$$

3. The equation contained in Section 4(e)(ii) is hereby removed in its entirety and replaced with the following:

$$"2,500 + (2,500 * (1 - A)) = B"$$

4. All other portions of the Initial Agreement remain in effect.

Commonwealth
Biotechnologies, Inc.

A Solutions
Provider
to the
Life Sciences
Industry

“From Concept to Clinic”

Annual Report 2005

Commonwealth Biotechnologies, Inc.
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record performance

Commonwealth Biotechnologies Inc. posted a record year in 2005. We had the highest revenue and highest return of cash from operations than ever before in our history as a public corporation.

2005 was our first year of modest profits.

strength

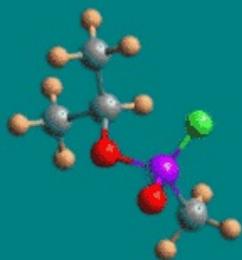
"CBI's strength in helping clients to think through and creatively solve early-stage problems from both a design and implementation standpoint is not only what drives people inside the organization but is also the reason clients choose CBI over the competition."

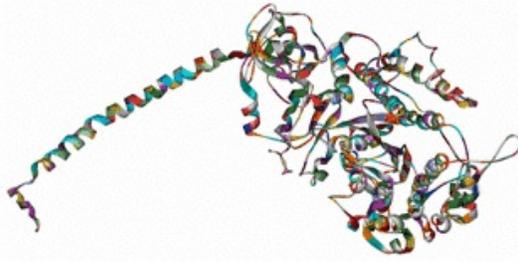
broad ranging expertise

"CBI has assembled an outstanding group of scientist and technicians which encompass a broad spectrum of technology and experience."

breadth of technologies

"CBI has invested in a broad variety of state-of-the-art technologies, providing a range of options to solve almost any problem."





Highlights from 2005

HepArrest™

January, 2006.  CBI and  Prism Pharmaceuticals, Inc., Enter into a License Agreement to Develop Helix-Based Peptide Technologies.

Global Partnership

December, 2005.  CBI and  Intertek ASG Launch Global Marketing Agreement Companies will Co-Promote Services to the Life Sciences Industry with International Focus.

More Contracts signed

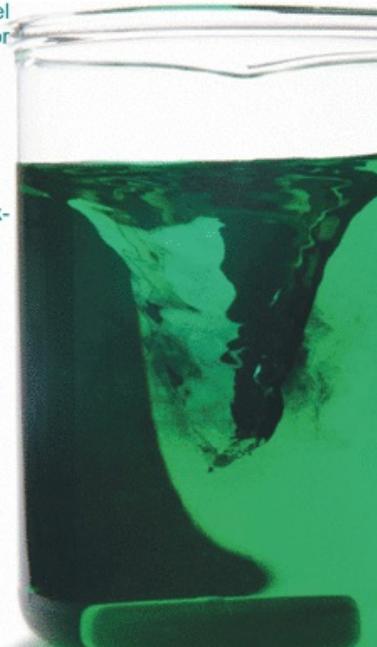
April, 2005.  CBI Announces New Contract Signings Work to begin in the Second and Third Quarters of 2005. Includes protein stability, developing antibodies and novel immuno-assays, and qualifying molecular genetic assays for use in clinical trial work.

Contracts signed

March, 2005.  CBI Announces Contract Signings New contract awards totaling nearly \$2 million. Expands Work-Load at CBI in Support of Vaccine Development.



January, 2005.  CBI Announces Contract Signings Totaling \$1.1 million, Includes First Major Contract for CBI's new division, Fairfax Identity Labs (FIL).



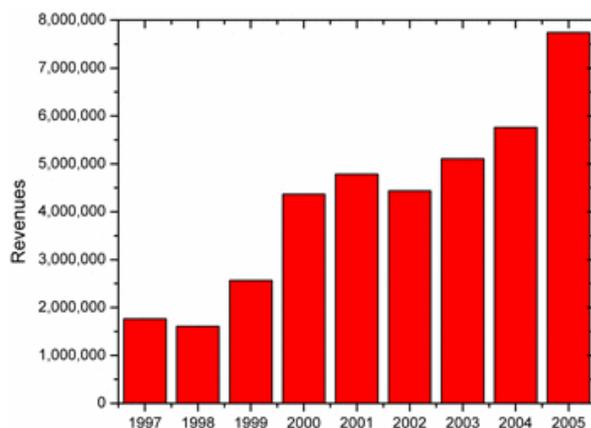
To Our Shareholders:

Our Company recorded many exciting accomplishments in 2005. CBI recorded its highest revenues ever, and it was our first year of profitability, however modest. 2005 marked CBI's re-entrance into the arena of forensic analysis, and it was the year in which CBI's Fairfax Identity Lab (FIL) rapidly transitioned to CBI ownership. FIL quickly captured its first major forensics contract and completed its first year of operations under CBI leadership with a performance that out-paced our budget expectations. In 2005, CBI completed a branding survey and as a consequence, has re-positioned itself as a Solutions Provider, rather than as a purveyor of a menu of individual service offerings. In January, 2006, CBI executed a License and Royalty Agreement for commercialization of HepArrest[®], the premier entry in our IP portfolio. We expanded our presence overseas through a strategic alliance with Intertek ASG, and continue to pursue client leads brought to us by domestic alliance partners, including Fisher Scientific, LLC. The BSL3 laboratory suite was expanded to include virology, and the Company quickly captured several contracts which require BSL3 virology capabilities. We are currently building out a 1,000 sq ft laboratory to house its select agent toxin production activities in support of an on-going contract that will extend into 2008. To accommodate new staff, we have completed the construction of nearly 2,000 sq ft of office space. All of these new labs and offices are housed within our existing facility. CBI added critical new instruments, which enable it to pursue the latest methods in proteomics and high throughput DNA sequence analysis. In addition to these our capital projects, the Company added key scientific staff in virology, mass spectrometry, and in the FIL division. Many of our new clients come to us through the internet, and so, CBI re-vamped its web page to make it more user-friendly and informative. New entry pages for bio-defense, vaccine development, and forensic work were added.

FINANCIAL HIGHLIGHTS

Years Ended December 31,	1997	1998	1999	2000	2001	2002	2003	2004	2005
	in thousands, except per share amounts								
Revenue	\$ 1,761	\$ 1,604	\$ 2,565	\$ 4,366	\$ 4,786	\$ 4,434	\$ 5,104	\$ 5,748	\$ 7,803
Net Income (loss)	\$(1,168)	\$(2,096)	\$(2,091)	\$ (921)	\$(1,673)	\$(625)	\$(80)	\$(367)	79
Net income(loss) per share - basic	\$(3.55)	\$(1.29)	\$(1.27)	\$(0.51)	\$(0.81)	\$(0.29)	\$(0.03)	\$(0.12)	0.02
Net income (loss) per share - diluted	\$(3.55)	\$(1.29)	\$(1.27)	\$(0.51)	\$(0.81)	\$(0.29)	\$(0.03)	\$(0.12)	0.02
At year end:									
Cash, cash equivalents	\$ 6,273	\$ 2,091	\$ 31	\$ 587	\$ 116	\$ 270	\$ 294	\$ 2,742	\$ 2,811
Total Assets	\$ 7,931	\$ 10,401	\$ 8,250	\$ 10,343	\$ 8,348	\$ 7,823	\$ 7,581	\$ 11,003	\$ 11,144
Long Term Debt	\$ 624	\$ 5,000	\$ 4,000	\$ 4,077	\$ 3,890	\$ 3,730	\$ 3,630	\$ 4,081	\$ 4,007
EBITDA	\$ (655)	\$(1,602)	\$(1,252)	\$ 8	\$(729)	\$ 289	\$ 776	\$ 882	\$ 1,285

CBI continues to be a well-recognized key player in bio-defense, vaccine development, clinical trial support, and genetic identity work. We continued to meet the needs of our clients with superior service, and added new clients in 2005 who are industry leaders in our core focus areas. We believe that CBI is very well positioned for continued growth in these areas, and that our Company presents an integrated team to deliver what we believe to be the best service possible to our clients.



Revenue Growth 1997 -2005

CBI posted record revenues of about \$7.80 million for fiscal year 2005, which represents 35.7% revenue growth over 2004. CBI also posted its first ever year-end profit of \$79,123, which compares to a loss of \$367,549 in 2004. 2005 is the first fiscal year since its initial public offering in 1997, that the Company has returned positive earnings per share. These earnings were \$0.02 calculated on a primary and fully diluted basis.

CBI signed over \$8 million in contracts in 2005. The Company has been operating solely on revenues from day-to-day operations. CBI's overall gross revenues have increased from \$5.7 million in 2004 to \$ 7.8 million in 2005. Revenues generated from government contracts amounted to 54% of the total revenue in 2005; the remainder was derived from non-government sources and of these, 25% of our revenues were recognized due to genetic testing. Equalizing our revenue stream has been a focus of CBI management, but clearly our job is not done. We must dramatically increase our revenues in the private sector.

The Company has been EBITDA positive for four consecutive years, and in 2005, recorded EBITDA of about \$1.28 million which compares to \$882 thousand in 2004.

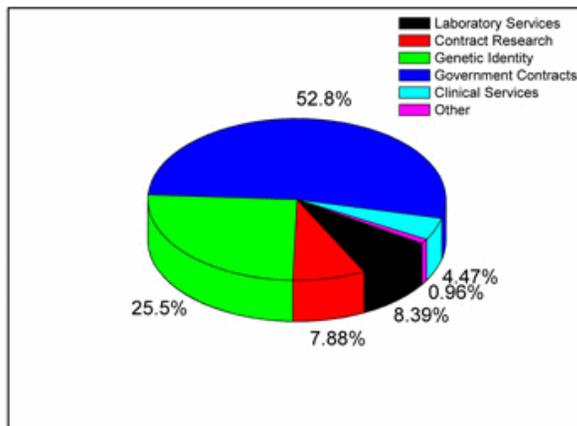
EBITDA CALCULATIONS

	2005	2004
Net Income (Loss)	<u>\$ 79,123</u>	<u>\$(367,549)</u>
Depreciation	\$ 666,106	\$ 586,620
Bond Prepayment Penalties	\$ —	\$ 217,800
Bond Write-off Costs	\$ —	\$ 206,930
Interest/Amortization	<u>\$ 540,208</u>	<u>\$ 238,077</u>
EBITDA	\$1,285,436	\$ 881,878

The Company's financial condition continues to improve through organic growth, CBI will continue to capitalize from its successful acquisition of Fairfax Identity Labs. Through other acquisitions, not only will CBI continue to look for targets that are

compatible with existing capabilities, but will look into expansion of our service offerings into new markets.

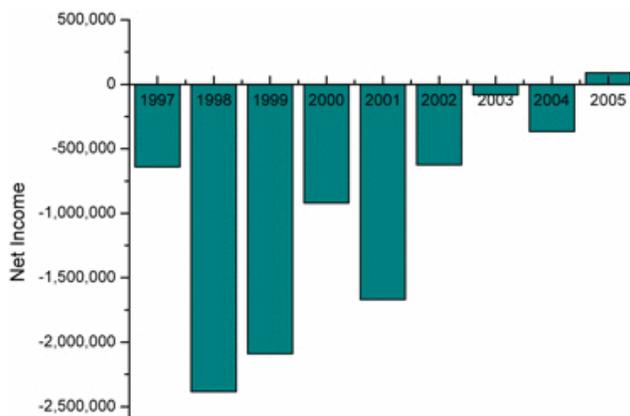
CBI entered 2006 with approximately \$6.3 million in anticipated laboratory work for the year. The Company is actively engaged in on-going contract work and has submitted numerous long-term contract proposals to prospective government and private sector clients, not the least of which is oversight of GMP synthesis of HepArrest, and pre-clinical development work in anticipation of an Investigational New Drug (IND) filing in late 2006.



Sources of CBI Revenue in 2005

Thank You for Your Continued Support

In 2006, CBI welcomed one new Board members, Mr. Joseph Slay, and said goodbye to Mr. Pete Einselen. Pete has been with CBI since its inception, and has weathered all of the same storms that we founders went through. We thank Pete for his efforts on our behalf, and look forward to Joe’s insights and contributions. He is already hard at work in helping to implement CBI’s branding strategy to new potential clients. Management is again beholden to the efforts of its Board of Directors.



P&L 1997 - 2005

Through press releases, 8-K announcements, and now, on-site presentations and quarterly electronic newsletters, CBI endeavors to keep its shareholders informed of new contract signings and significant news of Company’s operations.

CBI’s continued improvement is testament to our employee’s productivity. Fully 34% of our employees hold advanced degrees in various life science disciplines, and it is their commitment to excellence that has brought us our diverse client base.

You are cordially invited to attend CBI's 2005 Annual Meeting of Shareholders on May 19, 2006 at 11:00 a.m. at the Company's facility.

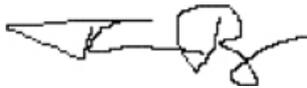
With best regards,



Richard J. Freer, Ph.D.
Chairman of the Board, COO



Robert B. Harris, Ph.D.
President, CEO



Thomas R. Reynolds
Executive Vice-President,
Science and Technology



James H. Brennan
Vice President, Financial Operations

CBI is a premiere solutions provider

In the private sector, a client will look to CBI in the early stage of research and development work because we offer:

- Innovative approaches and Optimized Technology
- Depth and breath of expertise needed
- Exceptional Problem-Solving Abilities
- Wide range of options for complex questions
- Faster, cheaper, and innovative solutions and tools
- CBI is accredited by the CDC, the AABB, the USDA, the NFSTC and operates accredited CLIA laboratories
- A partner and

In the government sector, our clients

- Appreciate CBI's sophisticated level of expertise
- Value CBI's breadth of service offerings
- Benefit from CBI's flexibility and cooperative management style.

CBI offers innovative and custom services

- CBI facilitates one-time and strategic decisions
- Accommodates short term and long term clients
- Offers flexibility in services options
- Offers GLP and non-GLP rated services

CBI accommodates ALL levels of service

- Bench to production scales
- High throughput, automation
- Operates Specialty labs, including
 - ✓ Biosafety level 3 labs
 - ✓ DNA Identity labs
 - ✓ Calorimetry and mass spectrometry labs
 - ✓ Cell culture/fermentation labs
 - ✓ High throughput DNA sequence labs
 - ✓ Peptide synthesis labs

Stockholder Matters

Market for Common Equity

The Company completed its initial public offering on October 28, 1997 at a price per share of \$6.00. Since that time, the common stock has traded on the NASDAQ Capital Market ("NASDAQ"). The following table sets forth the range of high and low sales price per share of common stock for 2005 and 2004. These market quotations reflect inter-dealer prices, without retail mark-up, markdown, or commission and may not necessarily represent actual transactions.

<u>Period</u>	<u>High Stock Price</u>	<u>Low Stock Price</u>
1 st Quarter, 2005	\$ 6.27	\$ 3.59
2 nd Quarter, 2005	\$ 4.78	\$ 3.69
3 rd Quarter, 2005	\$ 5.70	\$ 4.05
4 th Quarter, 2005	\$ 5.14	\$ 3.80
<u>Period</u>	<u>High Stock Price</u>	<u>Low Stock Price</u>
1 st Quarter, 2004	\$ 10.41	\$ 3.00
2 nd Quarter, 2004	\$ 10.12	\$ 4.66
3 rd Quarter, 2004	\$ 7.66	\$ 3.78
4 th Quarter, 2004	\$ 7.47	\$ 5.74

On March 17, 2006, the last reported sales price for a share of the Company's Common Stock on NASDAQ was \$ 3.62. As of March 17, 2006 there were 32 holders of record of the Company's Common stock and 1208 beneficial holders.

The Company has not paid any cash dividends on its Common Stock. The Company intends to retain its earnings to finance the growth and development of its business and does not expect to declare or pay dividends in the foreseeable future. The declaration of dividends is within the discretion of the Company.

Selected Financial Data

Set forth below is selected financial data with respect to the Company for the years ended December 31, 2005, December 31, 2004, and December 31, 2003, which has been derived from the audited financial statements of the Company. The selected financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Conditions and Results of Operation."

For the years Ended December 31,

	2005	2004	2003
Operational Data			
Revenues	\$ 7,802,891	\$ 5,748,704	\$5,104,056
Net Income (loss)	\$ 79,123	\$ (367,549)	\$ (80,601)
Net income (loss) per common share - basic	\$ 0.02	\$ (0.12)	\$ (0.03)
Net income (loss) per common share - diluted	\$ 0.02	\$ (0.12)	\$ (0.03)
Weighted average common shares outstanding	3,229,243	3,001,682	2,488,699
Balance Sheet Data:			
Total Current Assets	\$ 4,276,348	\$ 4,139,195	\$1,155,839
Total Assets	\$11,143,632	\$11,003,008	\$7,581,213
Total Current Liabilities	\$ 1,120,522	\$ 959,747	\$ 579,920
Total Liabilities	\$ 5,127,032	\$ 5,041,200	\$4,209,920
Total Stockholders equity	\$ 6,016,600	\$ 5,961,808	\$3,371,293

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following should be read in conjunction with "Selected Financial Data" and the Company's Audited Financial Statements and Notes thereto included herein.

Overview

CBI (The Company) is a solutions provider to the global biotechnology industry, academic institutions, government agencies, and pharmaceutical companies. It offers broad ranging expertise and a complete array of the most current analytical and synthetic chemistries and biophysical analysis technologies, many of which are not available from other commercial sources. The Company has crafted a stimulating, open environment where scientists collaborate among themselves and with our clients, take on interesting challenges and develop creative solutions. CBI offers comprehensive genetic identity testing, including paternity, forensic, and Convicted Offender DNA Index System ("CODIS") analyses. We are accredited by the American Association of Blood Banks, Clinical Laboratory Investigation Act ("CLIA"), and the National Forensic Science Technology Council, and operates fully accredited BSL-3 laboratory. The results of a recent branding analysis done by CBI shows that it enjoys an excellent reputation with its customers and that CBI is valued for its ability to bring novel and imaginative solutions to problems in life-sciences research.

CBI is a preferred provider of early development contract research. We facilitate strategic decisions to both short term and long term clients. CBI offers both Good Laboratory Practices (GLP and non-GLP) rated services, and accommodates all levels of service, from bench to production scale processes. The Company prides itself on its high throughput and fully integrated platform technologies, and over the years, has put in place numerous specialty labs, including Biosafety level 3 labs for bacteriology and virology, a DNA reference Lab, calorimetry and mass spectrometry labs, cell culture and fermentation labs, high throughput DNA sequence labs, and peptide synthesis labs.

CBI has the experience and expertise usually found in much larger contract research organizations (“CROs”). CBI has extensive experience in contract and program management work in both the government and private sectors and is well recognized for expertise in molecular genetics, mass spectrometry, peptide synthesis, DNA sequence analysis and reference lab work.

We are vigorously pursuing revenue opportunities in four principal focus areas: bio-defense; laboratory support services for on-going clinical trials; comprehensive contract projects in the private sector; and DNA reference lab activities. Our revenues are equally divided between the government and private sectors. The bulk of CBI’s government derived revenues are from government contracts dealing with bio-defense related matters.

CBI acts as both prime and subcontractor for bio-defense related work. More often than not, we are the prime (if not the only) contractor performing clinical laboratory or comprehensive contracts for its private sector clients.

The Company views commercial and government contracts as its most important sources of revenue. For this reason, it is beginning to move away from concept of “piece work” for individual investigators. Further, We are now emphasizing its creative solutions approach, rather than its large litany of individual technology offerings. The branding analysis shows that the Company’s customers see its creative solutions approach as a value added, and are willing to contract with CBI for this premium service. CBI has entirely re-vamped its web page (www.cbi-biotech.com) to help clarify its potential role is solving its customers problems. With all its contracts, revenues are generally recognized as services are rendered or as products are delivered. In some instances, revenue is also recognized with performance-based installments payable over the contract as milestones are achieved.

Results of Operations

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004.

Revenues

Gross revenues increased by \$2,054,187 or 35.7% from \$5,748,704 during the year ended December 31, 2004 ("2004") to \$7,802,891 during the year ended December 31 2005 ("2005").

The Company experiences fluctuations in all revenue categories. Continuation of existing projects or engagement for future projects is usually dependent upon the customer's satisfaction with the scientific results provided in initial phases of the scientific program. Continuation of existing projects or engagement of future projects also often depends upon factors beyond the Company's control, such as the timing of product development and commercialization programs of the Company's customers. The Company is unable to predict for more than a few months in advance the volume and dollar amount of future projects. The combined impact of commencement and termination of research contracts from several large customers and unpredictable fluctuations in revenue for laboratory services can result in very large fluctuations in financial performance.

Revenues realized from various government contracts increased by \$140,290 or 3.4%, from \$4,083,264 during 2004 to \$4,223,554 during 2005. This increase was primarily due to the startup of additional work and continuation of additional contracts with the DynPort Company and various government entities during the year.

Revenues realized from genetic identity increased by \$1,894,109 or 2,560.3%, from \$73,981 during 2004 to \$1,968,090 during 2005. This increase was primarily due to The Company acquiring Fairfax Identity Labs in December 2004.

Revenues realized from various commercial contracts decreased by \$304,384 or 33.9%, from \$897,437 during 2004 to \$593,053 during 2005. This decrease is primarily due to (1) work being completed with two major clients and (2) increased focus in government contracts awarded to the Company. Of the \$593,053 in commercial contracts, three major clients represented 15.6%, 14.7% and 14.2% respectively of the revenue earned during 2005. The Company will continue to work with these clients in 2006.

Revenues realized from various clinical services increased by \$133,799 or 66.8%, from \$194,473 during 2004 to \$328,272 during 2005. This increase is a direct result of the of startup of two major contracts in performing genetic identity analysis.

Cost of Services

Cost of services consists primarily of materials, labor, subcontractor costs and overhead. The cost of services increased by \$1,725,387 or 45.8%, from \$3,768,278 during 2004 to \$5,493,665 during 2005. The cost of services as a percentage of revenue was 70.4% and 65.5% during 2005 and 2004, respectively.

Direct labor costs increased by \$651,420, or 53.5%, from \$1,217,386 during 2004 to \$1,868,806 during 2005. This increase is a direct result of additional projects initialized during 2005 compared to 2004 as well as the hiring of additional lab support personnel and additional employees retained from the acquisition of FIL.

The costs for direct materials increased by \$353,155, or 37.5%, from \$939,788 during 2004, to \$1,292,943 during 2005. This increase is directly attributable to additional projects in 2005 compared to 2004.

Overhead cost consists of indirect labor, amortization costs associated with the acquisition of Fairfax Identity Labs, depreciation, freight charges, repairs, travel and miscellaneous supplies not directly related to a particular project. Total overhead costs increased by \$731,881 or 46.0%, from \$1,590,496 during 2004 to \$2,322,377 during 2005. Increased costs directly associated with the acquisition of FIL were amortization costs (\$297,889), and postage (\$98,450). Other increases included maintenance and repairs (\$24,099), depreciation (\$66,019), and utilities (\$94,732).

Sales, General and Administrative

Sales, general and administrative expenses ("SGA") consist primarily of compensation and related costs for administrative, facility expenditures, professional fees, consulting, taxes, and depreciation and marketing. Total SGA costs increased by \$337,314, or 19.6%, from \$1,718,874 during 2004 to \$2,056,188 during 2005. As a percentage of revenue, these costs were 26.3% and 29.9% during 2005 and 2004, respectively.

Total compensation and benefits decreased by \$18,962 or 3.5% from \$546,525 during 2004 to \$527,563 during 2005. This decrease is primarily due to the allocation of corporate compensation charged to marketing. Depreciation expense increased by \$13,467 or 14.4%, from \$93,859 during 2004 to \$107,326 during 2005. This increase is primarily due to additional administrative equipment needed to support the acquisition of FIL. Equipment repairs and leases increased by \$12,282 or 16.6% from \$73,953 during 2004 to \$86,235 during 2005. This increase is a result of the additional leased equipment used to support the administrative staff. Professional fees decreased by \$98,581, or 26.9%, from \$367,056 during 2004 to \$268,475 during 2005. This decrease is due to a reduction in consulting fees, which is primarily a result of one-time costs associated with the elimination of the Industrial Revenue Bonds that were charged in 2004. Taxes increased by \$12,282 or 16.6% from \$73,953 during 2004 to \$86,235

during 2005. This increase is due to additional sales tax paid for materials purchased. Office expenses increased by \$24,227 or 18.2%, from \$133,193 during 2004 to \$157,420 during 2005. This increase is primarily due to additional costs associated with travel expenses for employees attending meetings with potential clients.

Other costs decreased by \$18,086, or 16.6% from \$108,921 during 2004 to \$90,825 during 2005. Decreases in this category were from expenses associated with the relocation of employees from the acquisition of Fairfax Identity Labs as well as increasing the allowance for potential write-offs in bad debt in 2004 that did not occur in 2005.

Marketing costs increased by \$422,000 or 143.4%, from \$294,347 during 2004 to \$716,347 during 2005. This increase was primarily due to staff brought on by the FIL acquisition and the allocation of salaries and benefit costs to marketing (\$371,657). Additional increases included consulting costs (\$13,008), advertising (\$11,108), public relations (\$11,224) and trade shows (\$16,612).

Other Income (Expenses)

Other income during the 2004 Period compared to the 2005 Period increased by \$45,441 or 197.8% from \$22,963 during 2004 to \$68,404 during 2005. This increase represents interest earned from the Company's investments.

Other expenses decreased by \$409,745 or 62.8% from \$652,064 during 2004 to \$242,319 during 2005. Other expenses include (1) interest expense paid in 2005 for the refinance of the facility with Branch Banking and Trust, and in 2004 (1) interest paid for the Company's IRBs; (2) prepayment penalty for the refinancing of the industrial revenue bonds to a variable rate mortgage and (3) write-off of remaining unamortized bond issuance costs.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003.

Revenues

Gross revenues increased by \$644,648 or 12.6% from \$5,104,056 during the year ended December 31, 2003 ("2003") to \$5,748,704 during the year ended December 31 2004 ("2004").

Revenues realized from various commercial contracts decreased by \$100,243 or 10.1%, from \$997,680 during 2003 to \$897,437 during 2004. This decrease is primarily due to (1) work being completed with two major clients and (2) increased focus in government contracts awarded to the Company. Of the \$897,437 in commercial contracts, two major clients represented 59.8% and 11.0%, respectively of the revenue earned during 2004. The Company continued to work with both of these clients in 2005.

Revenues realized from various government contracts increased by \$929,574 or 29.5%, from \$3,153,690 during 2003 to \$4,083,264 during 2004. This increase was primarily due to eight new contracts awarded to the Company in 2004. Revenue in 2004 amounted to \$1,916,620 for these projects. In addition work that is being performed on fourteen projects that were awarded in prior years, are still continuing to bring revenue into the Company.

Revenues realized from various genetic testing decreased by \$156,441 or 67.9%, from \$230,422 during 2003 to \$73,981 during 2004. This decrease is a direct result of the ending of two major contracts in performing genetic identity analysis.

Cost of Services

Cost of services consists primarily of materials, labor, subcontractor costs and overhead. The cost of services increased by \$239,779 or 6.8% from \$3,528,499 during 2003 to \$3,768,278 during 2004. The cost of services as a percentage of revenue was 65.6% and 69.2% during 2004 and 2003, respectively.

Direct labor costs increased by \$75,835, or 6.6%, from \$1,141,551 during 2003 to \$1,217,386 during 2004. This increase is a direct result of additional projects initialized during the year.

The costs for direct materials increased by \$3,583, or 0.4%, from \$936,205 during 2003, to \$939,788 during 2004. Costs in materials remained constant due to the more efficient utilization of the purchasing of materials from the Company's suppliers.

Overhead cost consists of indirect labor, depreciation, freight charges, repairs, travel and miscellaneous supplies not directly related to a particular project. Total overhead costs increased by \$151,788 or 10.6%, from \$1,438,708 during 2003 to \$1,590,496 during 2004. This increase is primarily due additional staff added to the Company in the last month from the Fairfax Identity Labs acquisition and additional repairs needed to equipment throughout the course of the year.

Sales, General and Administrative

Sales, general and administrative expenses ("SGA") consist primarily of compensation and related costs for administrative, marketing, facility expenditures, professional fees, consulting, taxes, and depreciation. Total SGA costs increased by \$297,995, or 21.0%, from \$1,420,879 during 2003 to \$1,718,874 during 2004. As a percentage of revenue, these costs were 29.9% and 27.8% during 2004 and 2003, respectively.

Total compensation and benefits increased by \$40,847 or 8.1% from \$505,678 during 2003 to \$546,525 during 2004. This increase is primarily due to corporate bonuses accrued in 2004.

Professional fees increased by \$133,768 or 57.3% from \$233,288 during 2003 to \$367,056 during 2004. This increase is primarily due one-time costs associated with the elimination of the Industrial Revenue Bonds. Additional costs associated with recruitment charges for the hiring of additional personnel. Office expenses increased by \$32,843 or 32.7%, from \$100,350 during 2003 to \$133,193 during 2004. This increase is primarily due to additional costs associated with travel expenses for employees attending meetings with potential clients. Other costs increased by \$36,105 or 49.6% from \$72,816 during 2003 to \$108,921 during 2004. Increases in this category were from expenses associated with the relocation of employees from the acquisition of Fairfax Identity Labs as well as increasing the allowance for potential write-offs in bad debt.

Marketing costs increased by \$61,395 or 26.4%, from \$232,950 during 2003 to \$294,345 during 2004. This increase was primarily due to consulting fees. Additional costs associated with press releases for the Company also led to the increase over 2003.

Other Income (Expenses)

Other income remained relatively flat from 2004 compared to 2003.

Other expenses includes (1) interest expense paid in the fourth quarter for the refinance of the facility with Branch Banking and Trust, (2) interest paid for the Company's IRBs; (3) prepayment penalty for the refinancing of the industrial revenue bonds to a variable rate mortgage and (4) write-off of remaining unamortized bond issuance costs. Interest costs increased by \$197,629 or 79.8% from \$247,505 during 2003 to \$445,134 during 2004. Amortization costs increased by \$196,186 or 1,826.0% from \$10,744 during 2003 to \$206,930 during 2004. This increase is due to paying off the Industrial Revenue Bonds in November 2004.

Liquidity and Capital Resources

The 2005 Period reflected cash provided by operating activities of \$1,007,757, as compared to cash used in operating activities of \$40,334 during the 2004 Period. This increase was the result of the Company's positive cash flow changes in the working capital accounts, primarily in accounts receivable and accounts payable. The 2005 Period reflected a use of cash from investing activities of \$479,658, as compared to \$1,089,690 during the 2004 Period. This decrease is due to the FIL acquisition in 2004, partially offset by an increase in the purchase of equipment in 2005 needed to maintain and begin servicing new contract work. The 2005 Period reflected net cash used in financing activities of \$459,005, as compared to net cash provided by financing

activities of \$3,577,136 during the 2004 Period, primarily due to issuance of common stock for proceeds of \$2,979,905, net during the 2004 Period.

Net working capital as of December 31, 2005 and December 31, 2004 was \$3,115,826 and \$3,179,448 respectively. The current ratio for the 2005 Period is 3.81 as compared to 4.31 during the 2004 Period.

Critical Accounting Policies

A summary of the Company's accounting policies follows:

Estimates: The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of asset and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Revenue Recognition: The Company recognizes revenue upon the completion of laboratory service projects, or upon the delivery and acceptance of biologically relevant materials that have been synthesized in accordance with project terms. Laboratory service projects are generally administered under fee for service contracts. Any revenues from research and development arrangements, including corporate contracts and research grants, are recognized pursuant to the terms of the related agreements as work is performed, or scientific milestones, if any are achieved. Amounts received in advance of the performance of services or acceptance of a milestone, are recorded as deferred revenue.

Accounts receivable: Accounts receivable are carried at original invoice amount less an estimate for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

CBI has met the SEC and NASDAQ Corporate Governance Rules.

As a consequence of the Sarbanes-Oxley Act, the NASDAQ imposed certain changes in the rules of corporate governance which are aimed at strengthening its listing standards. The Securities and Exchange Commission (SEC) approved the rules imposed by NASDAQ which include

- Independent Directors. CBI's Board is composed of 5 independent and 3 employee directors.

-
- The Independent Directors serve on the three principal committees; Audit, Compensation, and Nominations.
 - The Independent Directors meet in executive session at each quarterly Board meeting.
 - At least one Independent Director, Mr. Sam Sears, who serves on the Audit Committee, meets all of the requirements as defined by the SEC for being a “financial expert.”
 - The Audit Committee reviews and approves all related-party transactions. CBI has adapted a formal Corporate Code of Conduct. Copies are available on request from Dr. Robert B. Harris, President and Chief Executive Officer, and on the Company’s website at www.cbi-biotech.com.

Forward Looking Statements

Management has included herein certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. When used, statements that are not historical in nature, including the words “anticipated”, “estimate”, “should”, “expect”, “believe”, “intend”, and similar expressions are intended to identify forward-looking statements. Such statements are, by their nature, subject to certain risks and uncertainties.

Among the factors that could cause the actual results to differ materially from those projected are the following:

- business conditions and the general economy,
- the development and implementation of the Company’s long-term business goals,
- federal, state, and local regulatory environment,
- lack of demand for the Company’s services,
- the ability of the Company’s customers to perform services similar to those offered by the Company “in-house,”
- potential cost containment by the Company’s customers resulting in fewer research and development projects,
- the Company’s ability to receive accreditation to provide various services, including, but not limited to paternity testing, and

-
- the Company's ability to hire and retain highly skilled employees,

Other risks, uncertainties, and factors that could cause actual results to differ materially from those projected are detailed from time to time in reports filed by the company with the Securities and Exchange Commission, including Forms 8-K, 10-QSB, and 10-KSB.

Controls and Procedures

The Company's Chief Executive Officer and Controller have concluded that the Company's controls and other procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods as specified in the Commission's rules and forms are effective, based upon their evaluation of these controls and procedures as of December 31, 2005.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date of this evaluation, including any corrective actions with regard to significant deficiencies and weaknesses.

Report of Independent Registered Public Accounting Firm

Board of Directors
Commonwealth Biotechnologies, Inc.
Richmond, Virginia

We have audited the accompanying balance sheets of Commonwealth Biotechnologies, Inc. as of December 31, 2005 and 2004, and the related statements of operations, comprehensive income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Commonwealth Biotechnologies, Inc. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



BDO Seidman, LLP

Richmond, Virginia
February 6, 2006

Commonwealth Biotechnologies, Inc.

Balance Sheets

<i>December 31,</i>	2005	2004
Assets		
Current Assets (Note 2)		
Cash and cash equivalents	\$ 2,811,129	\$ 2,742,034
Accounts receivable, net of allowance for doubtful accounts of approximately \$90,000 and \$92,000 (Note 5)	1,342,292	1,331,940
Prepaid expenses and other current assets	122,927	65,221
Total current assets	<u>4,276,348</u>	<u>4,139,195</u>
Property and equipment, net (Notes 1 and 2)	<u>5,971,730</u>	<u>5,701,158</u>
Other Assets		
Intangible assets (Note 9)	317,879	561,569
Mortgage costs (Note 2)	87,675	111,086
Goodwill (Note 9)	490,000	490,000
Total other assets	<u>895,554</u>	<u>1,162,655</u>
	<u>\$11,143,632</u>	<u>\$11,003,008</u>

See accompanying summary of accounting policies and notes to financial statements.

Commonwealth Biotechnologies, Inc.

**Balance Sheets
(continued)**

<i>December 31,</i>	2005	2004
Liabilities and Stockholders' Equity		
Current liabilities		
Current maturities of long-term debt (Note 2)	\$ 512,729	\$ 409,541
Accounts payable and other current liabilities	406,370	377,862
Deferred compensation	126,830	—
Deferred revenue	57,904	161,511
Interest payable	16,689	10,833
Total current liabilities	<u>1,120,522</u>	959,747
Long-term debt , less current maturities (Notes 2)	4,006,510	4,081,453
Total liabilities	<u>5,127,032</u>	5,041,200
Commitments and contingencies (Notes 3 and 4)		
Stockholders' equity		
Common stock, no par value, 10,000,000 shares authorized, 2005 – 3,253,556; 2004 – 3,203,556, shares issued and outstanding (Notes 7 and 8)	—	—
Additional paid-in capital	15,489,370	15,273,870
Restricted Stock (Note 7)	(191,556)	—
Other Comprehensive Income/(Loss)	(48,275)	—
Accumulated deficit	<u>(9,232,939)</u>	(9,312,062)
Total stockholders' equity	<u>6,016,600</u>	5,961,808
	<u>\$11,143,632</u>	<u>\$11,003,008</u>

See accompanying summary of accounting policies and notes to financial statements.

Commonwealth Biotechnologies, Inc.

Statements of Operations

<i>Year Ended December 31,</i>	2005	2004
Revenues (Note 5)		
Government contracts	\$4,223,554	\$4,083,264
Genetic identity	1,968,090	73,981
Laboratory services	623,473	486,719
Commercial contracts	593,053	897,437
Clinical services	328,272	194,473
Other revenue	66,449	12,830
Total revenues	<u>7,802,891</u>	<u>5,748,704</u>
Cost of services		
Overhead	2,322,377	1,590,496
Direct labor	1,868,806	1,217,386
Direct materials	1,292,943	939,788
Other direct costs	9,539	20,608
Total cost of services	<u>5,493,665</u>	<u>3,768,278</u>
Gross profit	2,309,226	1,980,426
Selling, general and administrative expenses	<u>2,056,188</u>	<u>1,718,874</u>
Operating income	<u>253,038</u>	<u>261,552</u>
Other income (expense)		
Interest expense and financing costs	(242,319)	(652,064)
Other income	68,404	22,963
Total other income (expense)	<u>(173,915)</u>	<u>(629,101)</u>
Net income (loss)	<u>\$ 79,123</u>	<u>\$ (367,549)</u>
Income (loss) per common share, basic and diluted	<u>\$ 0.02</u>	<u>\$ (0.12)</u>

See accompanying summary of accounting policies and notes to financial statements

Commonwealth Biotechnologies, Inc.

Statements of Changes in Stockholders' Equity

	Number of Shares Outstanding	Additional Paid-in Capital	Restricted Stock	Other Comprehensive Income(Loss)	Accumulated Deficit	Total
Balance, December 31, 2003	2,534,928	\$12,315,806	\$ —	\$ —	\$(8,944,513)	\$3,371,293
Stock options exercised	668,628	2,958,064	—	—	—	2,958,064
Net loss	—	—	—	—	(367,549)	(367,549)
Balance, December 31, 2004	3,203,556	15,273,870	—	—	(9,312,062)	5,961,808
Restricted Stock	50,000	215,500	(191,556)	—	—	(23,944)
Net income	—	—	—	—	79,123	79,123
Change in unrealized gain (loss) on interest rate swap	—	—	—	(48,275)	—	(48,275)
Total comprehensive income	—	—	—	—	—	30,848
Balance, December 31, 2005	<u>3,253,556</u>	<u>\$15,489,370</u>	<u>\$(191,556)</u>	<u>\$ (48,275)</u>	<u>\$(9,232,939)</u>	<u>\$6,016,600</u>

See accompanying summary of accounting policies and notes to financial statements.

Commonwealth Biotechnologies, Inc.

Statement of Cash Flows

<i>Years Ended December 31,</i>	2005	2004
Operating activities		
Net income (loss)	\$ 79,123	\$ (367,549)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities		
Depreciation and amortization	963,526	793,082
Changes in assets and liabilities		
Accounts receivable	(10,353)	(531,958)
Prepaid expenses and inventory	(57,707)	(4,286)
Accounts payable and accrued expenses	136,865	(76,929)
Deferred revenue	(103,698)	147,306
Cash provided by (used in) operating activities	<u>1,007,757</u>	<u>(40,334)</u>
Investing activities		
Purchases of property and equipment	(450,711)	(551,272)
Purchase of FIL, net	(28,947)	(538,418)
Cash used in investing activities	<u>(479,658)</u>	<u>(1,089,690)</u>
Financing activities		
Decrease (increase) in restricted cash	—	569,255
Principal payments on debt obligations, including capital lease obligations	(457,634)	(100,000)
Increase in loan costs, net	(1,371)	(111,086)
Proceeds from debt obligations, net	—	260,903
Proceeds from issuance of common net stock	—	2,958,064
Cash provided by (used in) financing activities	<u>(459,005)</u>	<u>3,577,136</u>
Net increase in cash and cash equivalents	69,094	2,447,112
Cash and cash equivalents, beginning of year	2,742,035	294,922
Cash and cash equivalents, end of year	<u>\$2,811,129</u>	<u>\$ 2,742,034</u>
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 248,175	\$ 247,505
Non cash investing and financing activities, purchase of equipment through a capitalized lease	\$ 485,968	—

See accompanying summary of accounting policies and notes to financial statements.

Commonwealth Biotechnologies, Inc.

Summary of Significant Accounting Policies

Nature of Business

Commonwealth Biotechnologies, Inc., (the "Company"), was formed on September 30, 1992, for the purpose of providing specialized analytical laboratory services for the life scientist. As the Company matured, it re-focused its core business activities and now provides integrated contract research support in four principal areas; bio-defense; laboratory support services for on-going clinical trials; comprehensive contract projects in the private sector; and through FIL, paternity testing, forensic case-work analysis and CODIS work. In each of these areas, the Company provides sophisticated macromolecular synthetic and analytical services, integrating individual platform technologies so as to provide a comprehensive approach to solving complex problems in life science research.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue upon the completion of laboratory service projects, or upon the delivery and acceptance of biologically relevant materials that have been synthesized in accordance with project terms. Laboratory service projects are generally administered under fee-for-service contracts or purchase orders. Any revenues from research and development arrangements, including corporate contracts and research grants, are recognized pursuant to the terms of the related agreements as work is performed, or as scientific milestones, if any, are achieved. Amounts received in advance of the performance of services or acceptance of a milestone, are recorded as deferred revenue.

Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable through the estimated undiscounted future cash flows from the use of those assets. When any such impairment exists, the related assets will be written down to fair value. No impairment losses have been recorded through December 31, 2005.

Commonwealth Biotechnologies, Inc.

**Summary of Significant Accounting Policies
(continued)**

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. At times, the Company maintains cash balances in excess of FDIC insured amounts. As of December 31, 2005 the excess over the FDIC amount was approximately \$2,400,000.

Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivable and considering a customer's financial condition, credit history, and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed principally by the straight-line method over the following estimated useful lives providing depreciation and amortization for financial reporting purposes. The cost of repairs and maintenance is expensed as incurred. The estimated useful lives of the assets are as follows:

	<u>Years</u>
Buildings	39.5
Laboratory and computer equipment	3 – 10
Furniture and fixtures and office equipment	7

Intangible assets

Intangible assets consist of a covenant not to compete, commercial contracts, listing of draw sites, listing of providers to assist in paternity testing and other related intangibles acquired in the purchase of Fairfax Identity Labs (FIL) which are being amortized over 2 to 3 years.

Commonwealth Biotechnologies, Inc.

**Summary of Significant Accounting Policies
(continued)**

Loan Costs

Loan costs are being amortized on a straight-line basis over the expected term of the mortgage.

Goodwill

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is evaluated at least annually for impairment by comparing its fair value with its recorded amount and is written down when appropriate. Projected net operating cash flows are compared to the carrying amount of the goodwill recorded and if the estimated net operating cash flows are less than the carrying amount, a loss is recognized to reduce the carrying amount to fair value. The goodwill as of December 31, 2005 is a result of the acquisition by the Company of Fairfax Identity Labs during 2004.

Income Taxes

Deferred taxes are provided on the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Income (Loss) Per Common Share

Basic income (loss) per share has been computed on the basis of the weighted-average number of common shares outstanding. Common shares which can be issued upon exercise of stock options and warrants (see Note 7) have not been included in the computation because their inclusion would have been antidilutive in 2004. Weighted average shares outstanding for basic and diluted income (loss) per common share were 3,229,243 and 3,001,682 for the years ended December 31, 2005 and 2004, respectively.

Commonwealth Biotechnologies, Inc.

**Summary of Significant Accounting Policies
(continued)**

Employee Stock Plans

The Company adopted a Stock Incentive Plan on June 24, 1997. The Plan provides for granting to employees, officers, directors, consultants and certain other non-employees of the Company options to purchase shares of common stock. A maximum of 410,000 shares of common stock may be issued pursuant to the Plan. Of the maximum number of shares to be issued under the Plan, 270,000 have been reserved for incentive awards to be granted to the founders of the Company, and 140,000 are reserved for incentive awards to be granted to others.

A 2000 Stock Incentive Plan was adopted by the Board of Directors and approved by the shareholders. The Plan makes up to 300,000 shares of common stock available for grants of restricted stock awards and stock options in the form of incentive stock options and non-qualified options to employees, directors and consultants of the Company.

A 2002 Stock Incentive Plan was adopted by the Board of Directors and approved by the shareholders. The Plan makes up to 600,000 shares of common stock available for grants of restricted stock awards and stock options in the form of incentive stock options and non-qualified options to employees, directors and consultants of the Company.

Incentive awards may be in the form of stock options, restricted stock, incentive stock or tax offset rights. In the case of incentive stock options (within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended), the exercise price will not be less than 100% of the fair market value of shares covered at the time of the grant, or 110% for incentive stock options granted to persons who own more than 10% of the Company's voting stock. Options granted under the Plans generally vest over a five-year period from the date of grant and are exercisable for ten years, except that the term may not exceed five years for incentive stock options granted to persons who own more than 10% of the Company's outstanding common stock. Options granted in 2005 were vested immediately.

Commonwealth Biotechnologies, Inc.**Summary of Significant Accounting Policies
(continued)**

The Company applies Accounting Principles Board Opinion No. 25 and related accounting interpretations in accounting for its plan and for management warrants and, accordingly, no compensation cost has been recognized. Had compensation cost for the Company's plan been determined based on the fair value at the grant dates for awards under the plan consistent with the method prescribed by FASB No. 123, *Accounting for Stock-Based Compensation*, the Company's net income (loss) and income (loss) per share would have increased to the pro-forma amounts indicated below:

	2005	2004
Net income (loss)		
As reported	\$ 79,123	\$(367,549)
Proforma effect of recognizing stock-based compensation in accordance with FASB No. 123	<u>(670,927)</u>	<u>(144,964)</u>
Proforma net income (loss)	<u>\$ (591,804)</u>	<u>\$(512,513)</u>
Basic and diluted income (loss) per common share		
As reported	\$ 0.02	\$ (0.12)
Proforma effect of recognizing stock-based compensation in accordance with FASB No. 123	<u>(0.18)</u>	<u>(0.17)</u>
Proforma	<u>\$ (0.16)</u>	<u>\$ (0.29)</u>

Under FASB No. 123, the fair value of each stock option and warrant is estimated on the date of grant using the Black-Scholes option pricing model. The following weighted-average assumptions were used for grants in 2005 and 2004, respectively: No dividend yield, expected volatility of 42% and 93%, risk-free interest rate of 4.39% and 4.28%, and expected lives of 10 years. In 2005, the Company vested all outstanding options of employees, excluding certain members of senior management.

Fair Value of Financial Instruments

The Company has determined, based on available market information and appropriate valuation methodologies, that the fair value of its financial instruments approximates carrying value. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturity of the instruments. The carrying amount of debt approximates fair value because the interest rates under the credit agreement are predominantly variable, based on current market conditions.

Derivative Instruments and Hedging Activities

The Company uses interest rate swap agreements to manage variable interest rate exposure on the majority of its long-term debt. The Company's objective for holding these derivatives is to decrease the volatility of future cash flows associated with interest payments on its variable rate debt. The Company does not issue derivative instruments for trading purposes. The Company accounts for its interest rate swap agreements as cash flow hedges. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in "accumulated other comprehensive income or loss" on the consolidated balance sheets and subsequently reclassified to interest expense when the hedged exposure affects income (i.e. as interest expense accrues on the related outstanding debt). Differences between the amounts paid and amounts received under the swap agreements are recognized in interest expense.

Changes in the ineffective portion of the fair value of the derivative are accounted for through interest expense. The notional principal value of the Company's swap agreement outstanding as of December 31, 2005 is equal to the outstanding principal balance of the corresponding debt instrument.

New Accounting Pronouncements

SFAS No. 123 (Revised 2004), "Share-Based Payment," issued in December 2004, is a revision of FASB Statement 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. The Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123 (Revised 2005) requires an entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. This statement is effective as of the beginning of the interim or annual reporting period that begins after June 15, 2007. The Company estimates the impact on the financial position or results of operations will be approximately \$81,000, \$48,000 and \$41,000 in 2006, 2007 and 2008 respectively.

Commonwealth Biotechnologies, Inc.

Notes to Financial Statements

1. Property and Equipment

Property and equipment consisted of the following:

<i>December 31,</i>	2005	2004
Land	\$ 403,919	\$ 403,919
Building	5,107,006	4,999,496
Laboratory equipment	5,043,837	3,851,501
Furniture, fixtures and office and computer equipment	618,638	498,737
	<u>11,173,400</u>	<u>9,753,653</u>
Less accumulated depreciation	5,201,670	4,052,495
	<u>\$ 5,971,730</u>	<u>\$5,701,158</u>

Depreciation expense was \$666,106 and \$586,620 for the years ended December 31, 2005 and 2004, respectively.

Commonwealth Biotechnologies, Inc.

**Notes to Financial Statements
(continued)**

2. Long-Term Debt

Long-term debt consists of:

<i>December 31,</i>	2005	2004
Mortgage note payable to bank with interest at prime minus 0.25%. The note payable will mature in November 2009; with estimated monthly payments of principal and interest of \$32,351; collateralized by building and other assets of the Company. The Company also entered into a swap transfer agreement with the Bank essentially locking the interest rate paid by the Company to 7.725%	\$3,825,433	\$3,890,994
Note payable to Genetics & IVF Institute due on two installments due December 15, 2005 and December 15, 2006. The note is secured by letter of credit.	300,000	600,000
On January 20, 2005, the Company entered into a capitalized leasing agreement with Technology Leasing Concepts for leasing of two pieces of laboratory equipment. The monthly principal and interest payments are \$11,378. Both leases are for a 48 month period.	393,806	—
	<u>4,519,239</u>	4,490,994
Less current maturities	<u>512,729</u>	409,541
	<u>\$4,006,510</u>	<u>\$4,081,453</u>

Scheduled maturities of long-term debt are as follows:

2006	\$ 512,729
2007	224,457
2008	238,979
2009	3,543,074
2010	—
	<u>\$4,519,239</u>

Commonwealth Biotechnologies, Inc.

Notes to Financial Statements
(continued)

2. Long Term Debt (continued):

The mortgage agreements required the Company to maintain a reserve fund for a period of one year which is held in a certificate of deposit. This reserve fund, in the amount of \$360,345 is included in the balance sheet as a cash equivalent at December 31, 2005.

3. Leasing Commitments

The Company leases equipment under non-cancelable operating leases. Total expense for the years ended December 31, 2005 and 2004 was \$28,636 and \$37,236, respectively. Future minimum rental commitments under operating leases as of December 31, 2005 are as follows:

2006	\$ 42,394
2007	41,302
2008	40,159
2009	11,924
	<u>\$135,779</u>

4. Retirement Plan

The Company maintains a 401(k) Plan (the "Plan") which covers substantially all employees. Under the Plan, employees may elect to defer a portion of their salary, up to the maximum allowed by law, and the Company can elect to match the contribution up to 1% of the employee's salary. Company contributions in 2005 and 2004 were \$6,331 and \$5,231 respectively.

5. Major Customers

Revenues for the years ended December 31, 2005 and 2004 include revenues from five major customers in 2005 of approximately \$3,534,004 or 45% and 2004 of approximately \$2,779,278 or 48% of total revenues. Trade receivables due from these customers as of December 31, 2005 and 2004 were \$775,079 and \$938,714, respectively.

Commonwealth Biotechnologies, Inc.

**Notes to Financial Statements
(continued)**

6. Income Taxes

The difference between expected income tax benefits and actual income tax benefits recorded in the financial statements is explained below:

<i>Year Ended December 31,</i>	2005	2004
Income taxes (benefit) computed at 34% statutory rate	\$ 26,900	\$(124,900)
State income tax benefit, net	4,000	(18,400)
Change in valuation allowance	7,500	117,400
Other	(38,400)	25,900
	<u>\$ —</u>	<u>\$ —</u>

The significant components of deferred income tax assets and liabilities consist of the following:

<i>December 31,</i>	2005	2004
Deferred tax assets		
Net operating loss carryforward	\$3,595,000	\$3,625,900
Research and development credit carryforward	52,600	52,600
Deferred compensation	—	20,800
Goodwill	173,800	186,200
Allowance for doubtful accounts	34,200	34,900
Interest rate swap	48,200	—
Other	106,600	96,300
	<u>4,010,400</u>	<u>4,016,700</u>
Deferred tax liabilities		
Tax depreciation in excess of book depreciation	302,300	301,100
Net deferred tax asset before valuation allowance	3,708,100	3,715,600
Less valuation allowance	<u>3,708,100</u>	<u>3,715,600</u>
	<u>\$ —</u>	<u>\$ —</u>

Operating loss carryforwards of approximately \$9,105,000 may be used to offset future taxable income and expire in various years through 2023. The Company also has research and development credit carryforwards of approximately \$53,000 that expire in various years through 2020.

Commonwealth Biotechnologies, Inc.

**Notes to Financial Statements
(continued)**

7. Stock Compensation

During 2005, the Company issued 50,000 restricted shares to an executive officer at the fair market value at the date of grant.

In addition to employee stock option awards, the Company has reserved an aggregate of 57,811 shares of common stock for issuance upon exercise, management warrants (71,053), warrants issued in connection with the 2002 private placement (34,445) and in 2004 the private investment in a public entity (124,000).

Stock option transactions are summarized as follows:

	2005	Weighted Average Exercise Price	2004	Weighted Average Exercise Price
Options and warrants outstanding, beginning of year	889,598	\$ 5.03	1,186,572	\$ 5.01
Granted	286,021	4.98	177,903	6.47
Exercised	—	—	(268,628)	2.69
Expired	(188,700)	6.45	(206,249)	3.40
Options and warrants outstanding, end of year	<u>986,919</u>	<u>5.60</u>	<u>889,598</u>	<u>6.34</u>
Options and warrants exercisable, end of year	<u>916,331</u>	<u>6.01</u>	<u>889,598</u>	<u>6.34</u>
Weighted-average fair value per option and warrants for options and warrants granted during the year		<u>\$ 2.35</u>		<u>\$ 2.79</u>

Commonwealth Biotechnologies, Inc.

**Notes to Financial Statements
(continued)**

7. Stock Compensation (continued):

The following table summarizes information about stock options and warrants outstanding at December 31, 2005:

Exercise Prices Per Share	Outstanding			Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price Per Share	Number Exercisable	Weighted Average Exercise Price Per Share
\$0.90 – 2.00	77,882	8	\$ 1.16	77,882	\$ 1.16
\$2.01 – 5.49	424,615	7	4.12	364,027	4.10
\$5.50 – 7.00	215,663	3	6.28	118,063	5.98
\$7.01 – 9.49	139,000	6	7.56	139,000	7.56
\$9.50 – 12.50	217,359	4	9.95	217,359	9.95
\$0.90 – 12.50	<u>986,919</u>		<u>\$ 5.60</u>	<u>916,331</u>	<u>\$ 6.01</u>

8. Private Placement Offering

On May 27, 2004, the Company completed an offering of 400,000 shares of its common stock, without par value per share, and warrants to purchase an additional 100,000 shares of common stock to several accredited investors. The shares were sold for a cash consideration of \$6.25 per share, for a total of \$2,500,000. Net proceeds to the Company were \$2,299,842. The exercise price for the warrants, which are exercisable for a period of five years were set at 110% of the closing price of the Company's common stock on the closing date of the transaction.

9. Purchase of Fairfax Identity Labs

In December, 2004, the Company purchased the assets of Fairfax Identity Labs, (FIL), a division of Genetics and In-Vitro Fertilization Institute for total consideration, including associated costs of \$1,149,000, which includes a \$600,000 note payable due in equal installments on December 16, 2005 and December 16, 2006. The principal focus of the purchase was to increase the revenue base of private paternity, contract paternity testing, and forensic DNA analysis. The acquisition has been accounted for by the purchase method of accounting.

Commonwealth Biotechnologies, Inc.

Notes to Financial Statements
(continued)

9. Purchase of Fairfax Identity Labs

A Summary of the transaction was as follows:

Purchase Price	\$1,149,000
Less fair value of assets acquired	
Equipment	97,000
Draw Sites	307,000
Physicians Listing	145,000
Covenant Not to Compete	110,000
Total fair value of assets acquired	659,000
Goodwill	\$ 490,000

The pro forma, unaudited 2004 financial information below is presented as if the acquisition had occurred at the beginning of the respective period. It is not necessarily indicative of the operating results that would have actually occurred and is not indicative of future operating results.

	Year Ended December 31, 2004
Operating revenue	\$ 7,355,989
Net loss	(791,806)
Basic and diluted loss per common share	\$ (.25)

The above proforma results for 2004 include FIL's operating results through September 30, 2004, the last interim date prior to the consummation of the acquisition.

Corporate Information

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Patent Counsel

Burns Doan Swecker and Mathis, LLP
1737 King Street
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Transfer Agent and Registrar³⁵

Computershare Trust Co.
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Golden, CO 80401

Independent Auditors

BDO Seidman, LLP
300 Arboretum Place
Suite 520
Richmond, VA 23236

Executive Officers

Richard J. Freer, Ph.D.
Chairman of the Board; COO

Thomas R. Reynolds
Executive Vice President,
Science and Technology;
Secretary

Richard J. Freer, Ph.D.
Chairman of the Board; COO

Thomas R. Reynolds
Executive Vice President
Science and Technology;
Secretary

James Causey
VP, Consumer Industry Magazines
Trader Publications

Joseph Slay
President
Slay Public Relations

Robert B. Harris, Ph.D.
President; CEO

James H. Brennan, MBA
Vice President, Financial Operations

Robert B. Harris, Ph.D.
President, CEO

Samuel P. Sears, Jr., Esq.
Attorney at Law

Donald A. McAfee, Ph.D.
VP New Product Development
Cardiome Pharma Corp

Gerald P. Krueger, Ph.D., CPE
Director, Human Factors and Ergonomics
The Wexford Group International

CONSENT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements Form S-8 (No. 333-51074) and S-3 (No. 333-51078) of Commonwealth Biotechnologies, Inc. of our report dated February 6, 2006, relating to the financial statements, which appears in the Annual Report to Shareholders, which is incorporated by reference in this Form 10-KSB.



BDO Seidman, LLP

Richmond, Virginia
March 30, 2006

CERTIFICATION

I, Robert B. Harris, Ph.D., certify that:

- (1) I have reviewed this Annual Report on Form 10-KSB of Commonwealth Biotechnologies, Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
- (4) The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
- (5) The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business

issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: March 31, 2006

/s/ Robert B. Harris, Ph.D.

Robert B. Harris, Ph.D.

President and Chief Executive Officer

CERTIFICATION

I, James H. Brennan, certify that:

- (6) I have reviewed this Annual Report on Form 10-KSB of Commonwealth Biotechnologies, Inc.;
- (7) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (8) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
- (9) The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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- (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
- (10) The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: March 31, 2006

/s/ James H. Brennan

James H. Brennan

Vice President, Financial Operations

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Commonwealth Biotechnologies, Inc.(the “Company”) on Form 10-KSB for the period ending December 31, 2005 as filed with the Securities and Exchange Commission on March 31, 2006 (the “Report”), I Robert B. Harris, Ph.D., President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 31, 2006

/s/ Robert B. Harris, Ph.D.

Robert B. Harris, Ph.D.

President and Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Commonwealth Biotechnologies, Inc.(the “Company”) on Form 10-KSB for the period ending December 31, 2005 as filed with the Securities and Exchange Commission on March 31, 2006 (the “Report”), I, James H. Brennan, Vice President, Financial Operations of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 31, 2006

/s/ James H. Brennan

James H. Brennan

Vice President, Financial Operations