

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter and six month period ended June 30, 2009

TRANSITION REPORT PURSUANT TO 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.**

(Exact name of small business issuer as specified 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)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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 August 14, 2009, 8,171,796 shares of common stock, no par value per share, of the registrant were outstanding.

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CONDENSED CONSOLIDATED BALANCE SHEETS

## ITEM 1. FINANCIAL STATEMENTS

PART 1  
FINANCIAL INFORMATION

	June 30, 2009 (Unaudited)	December 31, 2008
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 360,453	\$ 243,751
Investments	325	64,790
Accounts receivable	1,249,440	1,447,615
Other current assets	79,501	89,426
Total current assets	<u>1,689,719</u>	<u>1,845,582</u>
Property and Equipment, net	<u>6,381,868</u>	<u>6,357,752</u>
Other Assets		
Restricted cash	85,847	72,469
Deferred financing fees	404	93,050
Total other assets	<u>86,251</u>	<u>165,519</u>
<b>Total Assets</b>	<b><u>\$ 8,157,838</u></b>	<b><u>\$ 8,368,853</u></b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Accounts payable	\$ 1,140,701	\$ 1,119,409
Current maturities of long term debt	5,084,448	5,212,498
Other current liabilities	133,941	246,896
Accrued payroll liabilities	539,423	417,827
Deferred revenue	—	2,331
Interest payable	91,521	102,676
Total current liabilities	<u>6,990,034</u>	<u>7,101,637</u>
Long-term debt less current maturities	<u>—</u>	<u>3,937</u>
<b>Total Liabilities</b>	<b><u>6,990,034</u></b>	<b><u>7,105,574</u></b>
Commitments, and contingencies		
<b>Stockholders equity</b>		
Preferred stock, no par value, 1,000,000 shares authorized - none outstanding	—	—
Common stock, no par value, 100,000,000 shares authorized; June 30, 2009 - 8,042,996 December 31, 2008 - 6,465,734 shares issued and outstanding	—	—
Additional paid-in-capital	25,185,211	24,453,298
Restricted stock	(50,167)	(100,333)
Other comprehensive income (loss)	583,297	(83,251)
Accumulated deficit	<u>(24,550,537)</u>	<u>(23,006,435)</u>
Total stockholders' equity	<u>1,167,804</u>	<u>1,263,279</u>
<b>Total Liabilities and Stockholders' Equity</b>	<b><u>\$ 8,157,838</u></b>	<b><u>\$ 8,368,853</u></b>

See Notes To Financial Statements

**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	(Unaudited)		(Unaudited)	
<b>Revenues</b>				
Genetic identity	\$ 492,436	\$ 440,705	\$ 1,023,707	\$ 899,780
Government contracts	418,597	505,443	805,322	690,575
Clinical services	37,161	37,837	57,804	315,857
Commercial contracts	1,084,294	1,643,399	2,037,897	3,087,782
Other revenue	<u>249,421</u>	<u>108,739</u>	<u>309,835</u>	<u>150,822</u>
<b>Total revenues</b>	2,281,909	2,736,123	4,234,565	5,144,816
<b>Cost of services</b>				
Direct materials	454,136	536,007	976,398	1,051,548
Direct labor	514,237	572,369	970,911	1,096,687
Overhead	<u>678,850</u>	<u>805,435</u>	<u>1,361,772</u>	<u>1,520,208</u>
<b>Total cost of services</b>	<u>1,647,223</u>	<u>1,913,811</u>	<u>3,309,081</u>	<u>3,668,443</u>
<b>Gross profit</b>	634,686	822,312	925,484	1,476,373
<b>Selling, general and administrative</b>	<u>768,598</u>	<u>1,090,066</u>	<u>1,540,370</u>	<u>2,416,345</u>
<b>Operating loss</b>	<u>(133,912)</u>	<u>(267,754)</u>	<u>(614,886)</u>	<u>(939,972)</u>
<b>Other income (expense)</b>				
Realized losses	(124,976)	—	(193,474)	—
Interest expense	(127,646)	(80,036)	(223,771)	(273,266)
Amortization/Private Placement	(170,668)	(331,913)	(341,336)	(549,203)
Other income	<u>97</u>	<u>1,366</u>	<u>1,259</u>	<u>10,368</u>
<b>Total other income (expense)</b>	<u>(423,193)</u>	<u>(410,583)</u>	<u>(757,322)</u>	<u>(812,101)</u>
<b>Loss from continuing operations</b>	(557,105)	(678,337)	(1,372,208)	(1,752,073)
<b>Loss from discontinued operations (Note 10)</b>	<u>—</u>	<u>(132,022)</u>	<u>—</u>	<u>(170,265)</u>
<b>Net loss</b>	<u>\$ (557,105)</u>	<u>\$ (810,359)</u>	<u>\$ (1,372,208)</u>	<u>\$ (1,922,338)</u>
Basic and diluted loss per common share from continued operations	\$ (0.08)	\$ (0.12)	\$ (0.20)	\$ (0.31)
Basic and diluted loss per common share before discontinued operation	\$ —	\$ (0.02)	\$ —	\$ (0.03)
Basic and diluted loss per common share after discontinued operation	<u>\$ (0.08)</u>	<u>\$ (0.14)</u>	<u>\$ (0.20)</u>	<u>\$ (0.34)</u>

See Notes to Financial Statements

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**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six Months Ended	
	June 30, 2009	June 30, 2008
<b>Cash flows from operating activities:</b>		
Net loss	\$ (1,372,208)	\$ (1,922,338)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	710,716	953,294
Unrealized loss (gain) on interest rate swap agreement	(79,400)	16,952
Realized loss on investments	253,699	—
Stock-based compensation	156,366	103,669
Changes in:		
Accounts receivable	259,249	1,146,764
Prepaid expenses and inventory	(1,043)	(323,697)
Accounts payable and other current liabilities	88,786	(653,491)
Deferred revenue	—	(251,393)
Net cash provided by (used in) operating activities	<u>16,165</u>	<u>(930,240)</u>
<b>Cash flows from investing activities:</b>		
Proceeds from the sale of investments	64,465	—
Purchases of property and equipment	—	(6,142)
Net cash provided by (used in) investing activities	<u>64,465</u>	<u>(6,142)</u>
<b>Cash flows from financing activities:</b>		
Issuance of common stock	172,613	—
Principal payments on long term debt	(136,359)	(1,133,296)
Change in restricted cash	(1,178)	193,570
Net cash provided by (used in) financing activities	<u>35,076</u>	<u>(939,726)</u>
<b>Effects of exchange rates</b>	996	(2,600)
<b>Net increase (decrease) in cash and cash equivalents</b>	116,702	(1,878,708)
<b>Cash and cash equivalents, beginning of period</b>	243,751	2,533,910
<b>Cash and cash equivalents, end of period</b>	<u>\$ 360,453</u>	<u>\$ 655,202</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash payments for interest	\$ 163,697	\$ 203,482
<b>Non-cash investing and financing activities</b>		
Purchase of equipment through capital lease	\$ 140,000	\$ 29,986
Reduction of convertible debt through issuance of common stock	\$ 308,088	\$ 100,000

See Notes to Financial Statements

**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. GOING CONCERN**

The accompanying financial statements have been prepared on a going concern basis which contemplates realization of assets and satisfaction of liabilities in the normal course of business. If the Company is unable to improve operating results and meet its debt obligations, it may have to cease operations. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Losses for the Company were \$557,105 and \$810,359 for the quarter ended June 30, 2009 and 2008 respectively. For the quarter ended June 30, 2009 and 2008, losses from continuing operations were \$557,105 and \$678,337 respectively. Losses resulting from the discontinued operations were \$0 and \$132,022 for the quarter ended June 30, 2009 and 2008, respectively.

Total losses for the Company for the six months ended June 30, 2009 and 2008 were \$1,372,208 and 1,922,338 respectively. Recent operating losses may continue into future periods and there can be no assurance by management that the Company's financial outlook will improve. For the six months ended June 30, 2009 and 2008, losses from continuing operations were \$1,372,208 and \$1,752,073 respectively. Losses resulting from the discontinued operations were \$0 and \$170,265 for the six months ended June 30 2009 and 2008, respectively.

The Company generated positive cash flows in 2009 of \$116,702 and negative cash flows in 2008 of \$1,878,708. Net working capital as of June 30, 2009 and 2008 was (\$5,300,315) and (\$5,256,055) respectively.

The 2009 Period reflects cash provided by operating activities of \$16,165 as compared to cash used in operating activities of \$930,240 during the 2008 Period. The reduction over the prior period resulted from savings in selling, general and administrative costs by the Company. Cash provided by investing activities for the 2009 Period was \$64,465 in comparison to used in investing activities of \$6,142 in the 2008 Period. The net change relates primarily to the proceeds from the sale of the VenturePharm Stock. Cash provided by financing activities for the 2009 Period was \$35,076 as compared to cash used in financing activities of \$939,726 in the 2008 Period. This change reflects the exercising of stock from convertible debt.

During 2009, the Company expects to re-negotiate the terms of its outstanding mortgage debt which becomes due in November 2009, including any non compliance with covenants which causes the Company to be in default. The mortgage includes certain restrictive covenants, which require the Company to maintain minimum levels of the current ratio, debt to net worth and cash flow ratio's. At June 30, 2009, the Company was in violation of the covenants, however, the Company was granted a waiver of the covenants by the bank for six months to June 30, 2009. The Company plans to renegotiate the existing mortgage with either the same financial institution or another one. However there is no certainty that the Company will be successful in renegotiating its outstanding mortgage. The Company also believes that it will be able to satisfy its current debt obligations with LH Financial and Fornova through the issuance of common stock in lieu of cash payment. Subject to compliance with NASDAQ listing standards, the Company believes it will be able to satisfy its debt obligations.

The cash position of the Company will again remain uncertain in 2009. However, the Company will continue to address the immediate needs for cash and liquidity through an aggressive approach on a number of fronts. As indicated previously, when confronted with static revenues and declining cash reserves, management reduced staffing through layoffs and attrition and reduced or eliminated non-production related expenditures. Fiscal practices have been strictly enforced which restricts all material purchases to service on-going work only and serve to minimize all material inventories. Management will continue adhering to these policies for the foreseeable future.

The lack of adequate cash resulting from the inability to generate cash flow from operations or to raise capital from external sources would force the Company to substantially curtail or cease operations and would, therefore, have a material adverse effect on its business. The Company is actively exploring the availability of varying financial and strategic transactions, which, if consummated, would address the Company's need to improve its financial condition and/or its operations.

On June 16, 2009, LH Financial exercised it options on the principal and interest outstanding in the amount of 750,447 shares reducing the liability owed to LH Financial from \$1,805,000 to \$1,315,900.

**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. GOING CONCERN (continued)**

On June 22, 2009, the registrant completed the issuance of an aggregate principal amount of \$369,950 of subordinated notes (the "Notes") convertible into shares of the registrant's common stock, without par value per share ("Common Stock"), to 6 institutional investors (the "Investors"). The Notes mature on December 31, 2009, and have an interest rate of 8% per annum. The registrant will pay any interest and principal on the maturity date. Prior to maturity, a holder of a Note may convert such Note into shares of the registrant's Common Stock at a conversion price of \$0.50 per share. The purchase price for the Notes was paid by the partial surrender of certain outstanding promissory notes and deemed payment of interest in connection therewith. According to the registrant's transfer agent, on June 22, 2009, the registrant had issued and outstanding 7,416,896 shares of common stock. The amount of common stock underlying the Notes represents less than 9.99% of the registrant's issued and outstanding common stock on June 22, 2009. Total shares exercised amounted were 750,447.

On July 16, 2009 the Company announced that an agreement has been signed with Bostwick Laboratories, Inc. ("Bostwick") for the sale of the assets of CBI's Fairfax Identity Laboratories ("FIL") and CBI Services divisions. Bostwick has agreed to purchase such assets for a purchase price of \$1,075,000, in cash and certain royalty payments to CBI over a five-year period. In addition, CBI will lease to Bostwick the building located at 601 Biotech Drive, Richmond, Virginia, housing the CBI Services and Fairfax Identity Laboratories. Subject to Bostwick's satisfaction of its two week due diligence inspection and approval of the sale by CBI's shareholders and lenders, the sale is expected to close in the third fiscal quarter of 2009.

On July 22, 2009, the Company reached an agreement with its PIPE investors to extend for 6 months its convertible note facilities of approximately \$1.3M that matured on June 30 and has also received consent to suspend the financial covenants under such note facilities through the 3<sup>rd</sup> Quarter.

On July 22, 2009, the Company entered into a definitive agreement with Biosignal Ltd., an Australian biotechnology company, pursuant to which Biosignal will complete a \$1,600,000 investment in the Company and will agree to assign its biofilm technology to the Company. The biofilm technology is based around a family of natural products which disrupt bacterial colonization and thereby inhibit growth. Such biofilm disrupters are expected to be commercialized to support a variety of medical and industrial application.

Pursuant to the terms of a Share Subscription Agreement, Biosignal will purchase 1,600,000 shares of the Company's common stock, without par value, for the purchase price of \$1,600,000, paid in the form of a 12 month unsecured convertible note bearing interest at 10% per annum. To the extent Biosignal obtains shareholder approval, Biosignal may, at its option, convert the note and all accrued interest into the aggregate of 65,339,458 shares of Biosignal.

In addition, the Company and Biosignal will enter into a Deed of Assignment to which Biosignal will convey certain intellectual property and contracts related to the development and possible exploitation of Biosignal's biofilm technology to the Company subject to the satisfactory completion of due diligence and other conditions. Biosignal will retain licensed rights to use this intellectual property to service some contracts that are not assigned to the company.

There can be no assurance that any funds required during the next twelve months or thereafter can be generated from operations or that if such required funds are not internally generated that funds will be available from external sources, such as debt or equity financing or other potential sources.

During the last year, the Company's business has undergone substantial change in relation to size, scale and scope of activities. The Company has developed significant capacity in peptide chemistry through the acquisition of Mimotopes. This strategic transaction compliments the core capabilities in genomics and proteomics at CBI Services and FIL. In addition, resources have been invested in the establishment of VenturePharm Asia. The Company views this relationship as a key strategy in expanding production capabilities and services which will further the Company's ability to compete in the global market.

As a result of the above, there is substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability or classification of asset carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. GOING CONCERN (concluded)**

The Company's independent auditors have included a paragraph emphasizing "going concern" in their report on the 2008 financial statements. These financial statements do not include any adjustments relating to the recoverability or classification of asset carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of the Business**

Commonwealth Biotechnologies, Inc., (the "Company" or "CBI"), was formed on September 30, 1992, for the purpose of providing specialized analytical laboratory services for the life scientist. 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 its Fairfax Identity Labs (FIL) division, for paternity testing, forensic case-work analysis and Convicted Offender Data Base Index System CODIS work. During 2007, the Company acquired Mimotopes Pty, Ltd. which has developed a number of proprietary and patented technologies and is an industry leader in the synthesis of research grade peptides. Exelgen, formally known as Tripos Discovery Research Ltd was acquired June 2007 and was a leading drug discovery services business that provided pharmaceutical and biotechnology companies with novel approaches to drug discovery. In September 2008, the decision was made to discontinue the operation. (see Note 10).

**Consolidation Policy**

The consolidated financial statements include the accounts of Commonwealth Biotechnologies, Inc. and its wholly owned subsidiaries' Mimotopes Pty, Ltd, Australia and Exelgen, England, until Exelgen was deconsolidated on September 23, 2008 (see Note 10). All inter-company accounts and transactions have been eliminated in consolidation.

**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 assets 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 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. Product sales are recognized when shipped. Amounts received in advance of the performance of services or acceptance of a milestone, are recorded as deferred revenue and recognized when completed.

**Foreign Currency Translation**

The Company's consolidated financial statements are reported in U.S. dollars. Assets and liabilities of foreign subsidiaries are translated using rates of exchange as of the balance sheet dates, and related revenues and expenses are translated at average rates of exchange in effect during the periods. Cumulative translation adjustments have been recorded as a separate component within accumulated other comprehensive income (loss) of stockholders' equity. Realized gains and losses from foreign currency translations are included in other income (expense).

**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair Value Measurements**

On January 1, 2008, the Company adopted the provisions of SFAS No. 157 "Fair Value Measurements". Fair value is defined as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

In February 2008, the FASB issued FSP No. FAS No. 157-2, Partial Deferral of the Effective Date of Statement 157, ("FSP No. 157-2"). FSP No. 157-2 delays the effective date of SFAS No. 157, Fair Value Measurements ("SFAS No. 157") for all non financial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact of SFAS No. 157 on nonfinancial liabilities, but does not expect the adoption to have a material impact on its consolidated financial position, results of operations or cash flows.

Assets and liabilities recorded at fair value in the Consolidated Balance Sheets are categorized based upon the level of judgment associated with the inputs used to measure the fair value. Hierarchical levels, defined by SFAS 157 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 - Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets and liabilities carried at Level 1 fair value generally are listed in active markets.

Level 2 - Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instruments anticipated life. Fair value assets and liabilities that are generally included in this category are certain corporate debt securities, and certain financial instruments classified as derivatives where fair value is based on observable market inputs.

Level 3 - Unobservable Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the inputs to the model.

**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.

**Restricted Cash**

Restricted cash in Mimotopes represents the amount that is held by a third party in escrow as required under the terms of the Company's land lease agreement. The total amount held in escrow as of June 30, 2009 is \$85,847. Interest income earned on restricted cash is recorded in other interest income.

**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Investments**

The Company classifies its investments in securities as available-for-sale. These investments are carried at the estimated fair value, with unrealized gains and losses reported in other comprehensive income (loss). Upon the sale of a security, the realized net gain or loss is reported in results from operations.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Accounts Receivable**

The majority of our accounts receivable are due from trade customers. Credit is extended based on evaluation of our customers' financial condition and collateral is not required. Accounts receivable payment terms vary and are stated in the financial statements at amounts due from customers net of an allowance for doubtful accounts. Accounts that are outstanding longer than the payment terms are considered past due. We determine our allowance by considering a number of factors, including the length of time trade accounts receivable are past due, our previous loss history, customers' current ability to pay their obligations to us, the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

**Property and Equipment**

Property and equipment are recorded at cost. Depreciation is computed principally by the straight-line method over their 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>Asset</u>	<u>Years</u>
Buildings	39.5
Laboratory and computer equipment	3 – 10
Furniture, fixtures and office equipment	7

Assets under capital lease obligations are recorded at the lesser of the present value of the minimum lease payments or the fair market value of the leased asset, at inception of the lease.

**Deferred Financing Fees**

Loan costs are being amortized on a straight-line basis, which approximates the interest method, over the expected term of the related obligations.

**Impairment of Long-Lived Assets**

The Company reviews and accounts for the impairment of long-lived assets other than goodwill, including property and equipment and certain other non current assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Long-lived assets besides goodwill are reviewed for impairment when events or changes in circumstances indicate the carrying value of an asset may not be recoverable. For long-lived assets other than goodwill that are to be held and used in operations, an impairment is indicated when the estimated total undiscounted cash flow associated with the asset or group of assets is less than carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value.

**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**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. 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 fair value of the derivative are accounted for through interest expense. The notional principal value of the Company's swap agreement outstanding as of June 30, 2009 is equal to the outstanding principal balance of the corresponding debt instrument.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**Loss per Common Share**

Basic loss per common 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 have not been included in the computation because their inclusion would have been anti-dilutive. Weighted average shares outstanding for basic and diluted loss per common share were 6,756,081 and 5,538,648 for the three months ended June 30, 2009 and 2008, respectively. Weighted average shares outstanding for basic and diluted loss per common share were 6,755,422 and 5,532,593 for the year to date ended June 30, 2009 and 2008, respectively. (see Note 4).

**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.

A 2007 Stock Incentive Plan was adopted by the Board of Directors and approved by the shareholders. The Plan makes up to 1,000,000 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.

**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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.

**Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. The

**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Statement does not require any new fair value measurements and was initially effective for the Company beginning January 1, 2008. In February 2008, the FASB approved the issuance of FASB Staff Position (FSP) FAS 157-2. FSP FAS 157-2 defers the effective date of SFAS No. 157 until January 1, 2009 for nonfinancial assets and nonfinancial liabilities except those items recognized or disclosed at fair value on an annual or more frequently recurring basis. Adoption of SFAS No. 157 for financial assets and liabilities did not have a material effect on the Company's results of operations or financial position.

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141(R) *Business Combinations*, to further enhance the accounting and financial reporting related to business combinations. SFAS No. 141(R) establishes principles and requirements for how the acquirer in a business combination (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non controlling interest in the acquire, (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Therefore, the effects of the Company's adoption of SFAS No. 141(R) will depend upon the extent and magnitude of acquisitions after December 31, 2008.

In April 2008, the FASB issued Staff Position 142-3 ("FSP FAS 142-3", "Determination of the Useful Life of Intangible Assets", which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of intangible assets under FASB No. 142 "Goodwill and Other Intangible Assets". The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of the expected cash flows used to measure the fair value of the asset under FASB No. 141, "Business Combinations" and other U.S. generally accepted accounting principles. The Company has determined there to be no material impact to the consolidated financial statements upon the recent adoption of FSP FAS No. 142-3.

In December 2007, the FASB issued SFAS No. 160, *Non controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*, to create accounting and reporting standards for the non controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 establishes accounting and reporting standards that require (1) the ownership interest in subsidiaries held by parties other than the parent to be clearly identified and presented in the consolidated balance sheet within equity, but separate from the parent's equity, (2) the amount of consolidated net income attributable to the parent and the non controlling interest to be clearly identified and presented on the face of the consolidated statement of income, (3) changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary to be accounted for consistently, (4) when a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary to be initially measured at fair value, and (5) entities to provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS No. 160 applies to fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, and prohibits early adoption. Management has completed its review of the new guidance and determined there to be no material impact to the Company's results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This Statement permits entities to choose to measure eligible items at fair value at specified election dates. For items for which the fair value option has been elected, unrealized gains and losses are to be reported in earnings at each subsequent reporting date. The fair value option is irrevocable unless a new election date occurs, may be applied instrument by instrument, with a few exceptions, and applies only to entire instruments and not to portions of instruments. SFAS No. 159 provides an opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting. Management has adopted SFAS No. 159, and the effect of implementation is not material to the Company's results of operations or financial position as no such elections have been made.

**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)**

In March, 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement 133*. Statement 161 enhances required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how: (a) an entity uses derivative instruments; (b) derivative instruments and related hedged items are accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*; and (c) derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Specifically Statement 161 requires:

- Disclosure of the objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation;
- Disclosure of the fair values of derivative instruments and their gains and losses in a tabular format;
- Disclosure of information about credit-risk-related contingent features; and
- Cross-reference from the derivative footnote to other footnotes in which derivative-related information is disclosed.

In June 2008, the FASB ratified the consensus reached on Emerging Issues Task Force ("EITF") Issue No. 07-05, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock* ("EITF No. 07-05"). EITF No. 07-05 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. EITF No. 07-05 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption for an existing instrument is not permitted. The Company has determined EITF No. 07-05 does not apply at June 30, 2009.

In May 2008, the FASB issued Financial Accounting Standards Board Staff Position Accounting Principles Board 14-1 "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("APB 14-1"). APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash, or other assets, on conversion to separately account for the debt and equity components in a manner that reflects the issuer's non-convertible debt borrowing rate. APB 14-1 is effective for fiscal years beginning after December 15, 2008 and is applied retrospectively to all periods presented with a cumulative effect adjustment to the beginning retained earnings. We believe that the impact of adopting APB 14-1 could have a material effect on the consolidated financial statements, but are currently evaluating.

In May 2008, the FASB issued FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. Management does not expect the adoption of the provision of SFAS No. 162 to have a material impact on the consolidated financial statements.

In October 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active". FSP 157-3 clarifies the application of SFAS No. 157 in determining the fair value of a financial asset during periods of inactive markets. FSP 157-3 was effective as of September 30, 2008 and did not have a material impact on the Company's consolidated financial statements.

In May 2009, the FASB issued Statement No. 165, "Subsequent Events" ("SFAS 165"), which establishes general standards of accounting for, and requires disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. We adopted the provisions of SFAS 165 for the quarter ended June 30, 2009 and evaluated our subsequent events through August 14, 2009, the date the condensed consolidated financial statements were issued. The adoption of SFAS 165 did not have a material effect on our consolidated financial statements.

**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3. STOCK OPTIONS**

Stock-Based Compensation Plans - Stock-based compensation expense recognized during a period is based on the value of the portion of stock-based awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the three and six months ended June 30, 2009 included compensation expense for stock-based awards granted prior to, but not yet vested as of December 31, 2008, based on the fair value on the grant date.

Stock-based compensation expense related to employee stock options recognized under SFAS No. 123(R) for the three months ended June 30, 2009 and June 30, 2008 was approximately \$17,585 and \$17,100, respectfully, and for the six months ended June 30, 2009 and 2008 was approximately \$34,200 and \$35,170 respectively and is included in selling, general and administrative. As of June 30, 2009, total unamortized stock-based compensation cost related to non-vested stock awards was \$34,200, net of expected forfeitures, which is expected to be recognized over the fiscal year.

The total intrinsic value of stock awards (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) exercised during the three and six months ended June 30, 2009 was \$ 0. During the three and six months ended June 30, 2009, the Company did not receive cash from the exercise of stock awards.

	For the Three Months Ended June 30, 2009			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term Years	Aggregate Intrinsic Value Shares (in thousands)
Options and warrants outstanding at March 31, 2009	848,936	\$ 5.27	2	\$ —
Granted	—	—		
Exercised	—	—		
Expired	—	—		
Options and warrants outstanding at June 30, 2009	848,936	\$ 5.02	2	\$ —
Options and warrants exercisable at June 30, 2009	828,936	\$ 5.07	2	\$ —
Weighted -average fair value per option and warrants granted during the year		\$ 0.36		

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**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3. STOCK OPTIONS (continued)**

	For the Six Months Ended June 30, 2009			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term Years	Aggregate Intrinsic Value Shares (in thousands)
Options and warrants outstanding at December 31, 2008	828,936	\$ 5.27	2	\$ —
Granted	20,000	0.36		
Exercised	—	—		
Expired	—	—		
Options and warrants outstanding at June 30, 2009	848,936	\$ 5.02	2	\$ —
Options and warrants exercisable at June 30, 2009	828,936	\$ 5.07	2	\$ —
Weighted -average fair value per option and warrants granted during the year		\$ 0.36		

The following table sets forth fair value per share information, including related weighted-average assumptions, used to determine compensation cost for our stock awards consistent with the requirements of SFAS No. 123R.

*The assumption used to determine the weighted average fair value per option are as follows:*

	For the three months ended		For the six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Assumptions:				
Expected volatility	125.82%	48.82%	110.93%	66.69%
Expected annual dividend yield	0.00%	0.00%	0.00%	0.00%
Risk free rate of return	3.25%	3.95%	3.53%	3.99%
Expected option term (years)	10	10	10	10

**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3. STOCK OPTIONS (concluded)**

In conjunction with the LH debt, the Company issued Class A warrants to purchase 975,000 shares of common stock at an exercise price of \$2.85 per share that expire in May 2013. The fair value of the Class A warrants is \$1.79 per share. The fair value of the Class A warrants is calculated using the Black-Scholes method. Assumptions for Class A warrants include the stock asset price at \$2.55 and a stock option price of \$2.85 with a maturity date of 5 years and effective interest rate of 3.40%. The Company also issued Class B warrants to purchase 243,000 shares of common stock at an exercise price of \$5.00 per share. The fair value of the Class B warrants is \$0.36 per share. The fair value of the Class B warrants is calculated using the Black-Scholes method.

On September 18, 2008, the Company entered into a modification, waiver and acknowledgement agreement with LH Financial for the convertible debt listed above. The terms of the modified Agreement are subject to the Company's obligation to comply with NASDAQ listing requirements. Under the modified Agreement, the exercise price of the Class A Warrants was reduced from \$2.85 to \$0.71 per common share. The fair value of the Class A warrants is \$0.74 per share. The fair value of the Class A warrants is calculated using the Black-Scholes method. The exercise price of the Class B Warrants was reduced from \$5.00 to \$1.01 per common share. The fair value of the Class B warrants is \$0.13 per share. The fair value of the Class B warrants is calculated using the Black-Scholes method.

The following table summarizes information about Restricted Stock Unit (RSU) activity for the six months ended June 30, 2009:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2008	22,251	\$ 4.52
Granted	—	—
Vested	11,104	\$ 4.52
Forfeited	—	—
Non-vested at June 30, 2009	11,147	\$ 4.52

At June 30, 2009, there was approximately \$50,000 of total unrecognized compensation cost related to non-vested RSUs granted under our stock plans which is expected to be recognized over a the remainder of 2009. Compensation expense related to RSUs for the six months ended June 30, 2009, and 2008 was approximately \$50,000 for each period, and is included in selling, general and administrative expenses.

**NOTE 4. LOSS PER SHARE**

The Company follows the guidance provided in the Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings Per Share, which establishes standards for computing and presenting earnings per share and applies to entities with publicly held common stock or potential common stock. Basic earnings (loss) per common share are computed by dividing the net earnings (loss) by the weighted average number of common shares outstanding during the period. Diluted per share amounts assume the conversion, exercise or issuance of all potential common stock instruments such as warrants and convertible securities, unless the effect is to reduce a loss or increase earnings per share.

**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4. LOSS PER SHARE (concluded)**

	Three Months Ended June 30, 2009	
	2009	2008
<b>Basic and diluted loss per share:</b>		
Loss from continuing operations	\$ (557,105)	\$ (678,337)
Loss from discontinued operations	—	(132,022)
<b>Net loss</b>	<b>\$ (557,105)</b>	<b>\$ (810,359)</b>
Basic and diluted loss per common share from continued operations before discontinued operations	\$ (0.08)	\$ (0.12)
Basic and diluted loss per common share from discontinued operations	\$ —	\$ (0.03)
Basic and diluted loss per common share after discontinued operations	\$ (0.08)	\$ (0.15)
Weighted average share outstanding	6,756,081	5,538,648

	Six Months Ended June 30, 2009	
	2009	2008
<b>Basic and diluted loss per share:</b>		
Loss from continuing operations	\$(1,372,208)	\$(1,752,073)
Loss from discontinued operations	—	(170,265)
<b>Net loss</b>	<b>\$(1,372,208)</b>	<b>\$(1,922,338)</b>
Basic and diluted loss per common share from continued operations before discontinued operations	\$ (0.20)	\$ (0.32)
Basic and diluted loss per common share from discontinued operations	\$ —	\$ (0.03)
Basic and diluted loss per common share after discontinued operations	\$ (0.20)	\$ (0.35)
Weighted average share outstanding	6,755,422	5,532,593

**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5. COMPREHENSIVE INCOME (LOSS)**

The components of comprehensive income (loss), net of tax, for the three and six months ended June 30, 2009 and 2008 were as follows:

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Net loss	\$(557,105)	\$(810,359)	\$(1,372,208)	\$(1,922,338)
Decrease in unrealized loss on the fair value of investments	118,707	—	252,409	—
Foreign Currency Translation adjustments	521,252	230,482	414,139	422,181
Total comprehensive income (loss)	<u>\$ 82,854</u>	<u>\$(579,877)</u>	<u>\$ (705,660)</u>	<u>\$(1,500,157)</u>

**NOTE 6. INCOME TAXES**

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") effective January 1, 2007. FIN 48 provides a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. The Company did not have any unrecognized tax benefits and there was no effect on our financial condition or results of operations as a result of implementing FIN 48.

The Company files income tax returns in U.S. federal jurisdiction and the state of Virginia. The Company is no longer subject to U.S. or state tax examinations for years before 2003. The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve months.

**NOTE 7. SHORT TERM DEBT WITH CONVERSION FEATURES*****LH Financial Agreement***

On December 31, 2007 the Company issued \$1,950,000 of convertible debt in a subscription agreement between the Company and LH Financial. The debt carries an interest rate of 10% annually and matures in July 31, 2009. Quarterly interest payments may be made in the form of either cash or common stock. The debt may be converted into shares of common stock at a conversion price of \$2.00 per share. In conjunction with the debt, the Company also issued Class A warrants to purchase 975,000 shares of common stock at an exercise price of \$2.85 per share that expire in May 2013.

The fair value of the Class A warrants is \$1.79 per share. The fair value of the Class A warrants is calculated using the Black-Scholes method. Assumptions for Class A warrants include the stock asset price at \$2.55 and a stock option price of \$2.85 with a maturity date of 5 years and effective interest rate of 3.40%. The Company also issued Class B warrants to purchase 243,750 shares of common stock at an exercise price of \$5.00 per share. The fair value of the Class B warrants is \$0.36 per share. The fair value of the Class B warrants is calculated using the Black-Scholes method. The debt carries a beneficial conversion feature, which along with the relative fair value of the warrants, resulted in a debt discount of \$1,950,000 which was recorded against the convertible debt and offset in additional paid in capital. This discount will be amortized as interest expense over the life of the debt which resulted in amortization of approximately \$457,000 for the six months ended June 30, 2008. The Company registered the required minimum number of shares based upon the agreement on April 30, 2008 and will register the remaining shares by as soon as possible as required under the agreement. During the second Quarter of 2008, the Company received notice of conversion of \$100,000 of the principle amount of the note which resulted in the issuance of 50,000 shares of common stock.

**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 7. SHORT TERM DEBT WITH CONVERSION FEATURES (continued)**

***Modification, Waiver and Acknowledgement Agreement***

On September 18, 2008, the Company entered into a modification, waiver and acknowledgement agreement with LH Financial for the convertible debt listed above. Under the modified Agreement, the restructured terms of the Agreement is that the exercise price of the Class A Warrants was reduced from \$2.85 to \$0.71 per common share, and the exercise price of the Class B Warrants was reduced from \$5.00 to \$1.01 per common share, subject to further reduction as described in the Transaction Documents. The restructured terms of the Agreement are as follows:

- (1) the conversion price for every 33% of remaining principal amount of each Investor's pro rata portion of the Notes was reduced from \$2.00 to \$0.50 per common share, subject to further reduction as described in the transaction documents;
- (2) all interest accrued through March 31, 2008 on the debt shall be paid at a rate of 10% in shares of the Company's common stock and all interest further accrued between April 1, 2008 and June 30, 2008 on the debt shall be paid at the rate of 12% in shares of the Company's common stock; and
- (3) the exercise price of the Class A Warrants was reduced from \$2.85 to \$0.71 per common share, and the exercise price of the Class B Warrants was reduced from \$5.00 to \$1.01 per common share, subject to further reduction as described in the Transaction Documents.

On June 16, 2009, LH Financial exercised its options on the principal and interest outstanding in the amount of 750,447 common shares reducing the liability owed to LH Financial from \$1,805,000 to \$1,315,900.

On June 22, 2009, the registrant completed the issuance of an aggregate principal amount of \$369,950 of subordinated notes (the "Notes") convertible into shares of the registrant's common stock, without par value per share ("Common Stock"), to 6 institutional investors (the "Investors"). The Notes mature on December 31, 2009, and have an interest rate of 8% per annum. The registrant will pay any interest and principal on the maturity date. Prior to maturity, a holder of a Note may convert such Note into shares of the registrant's Common Stock at a conversion price of \$0.50 per share. The purchase price for the Notes was paid by the partial surrender of certain outstanding promissory notes and deemed payment of interest in connection therewith. According to the registrant's transfer agent, on June 22, 2009, the registrant had issued and outstanding 7,416,896 shares of common stock. The amount of common stock underlying the Notes represents less than 9.99% of the registrant's issued and outstanding common stock on June 22, 2009. All shares were exercised and no additional interest will be accrued for the rest of the year. Total shares exercised amounted 750,447.

On July 22, 2009, the Company reached an agreement with its PIPE investors to extend for 6 months its convertible note facilities of approximately \$1.3M that matured on June 30 and has also received consent to suspend the financial covenants under such note facilities through the 3<sup>rd</sup> Quarter.

**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

***Fornova Agreement***

On September 4, 2008, the Company completed the issuance of a \$500,000 convertible promissory note (the "Note") payable to Fornova Pharmaworld Inc. (the "Holder"). The maturity date of the Note is August 29, 2009. The Note has an interest rate of 10% per annum compounded monthly. The Company will pay interest on a monthly basis beginning on September 28, 2008. At any time between October 27, 2008 and August 21, 2009, the Holder may convert the Notes into shares of the Company's Common Stock at a conversion price of \$1.01 per share. Additionally, the Note features a call date of January 29, 2009, if exercised, the Holder can call the note in the amount of the outstanding principal balance plus accrued interest. If the Holder's call feature is exercised, the Company would most likely satisfy the debt and accrued interest with common stock.

**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 7. SHORT TERM DEBT WITH CONVERSION FEATURES (concluded)**

***Mortgage with Financial Institution***

The \$3,071,972 mortgage payable requires meeting certain financial covenants in upcoming periods prior to the scheduled maturity at November 10, 2009. Based on the Company's current financial condition and recent trend of its operating results, it is uncertain as to whether the covenants will be met at which time the lender could call the loan in default. The mortgage includes certain restrictive covenants, which require the Company to maintain minimum levels of the current ratio, debt to net worth and cash flow ratio's. At June 30, 2009, the Company was in violation of covenants, however, the Company was granted a waiver of the covenants by the bank to June 30, 2009. In addition, the Company plans to renegotiate the existing mortgage with either the same financial institution or another one. However, there is no certainty that the Company will be successful in renegotiating its outstanding mortgage.

**NOTE 8. FAIR VALUE DISCLOSURE**

The following table presents information about the Company's assets and liabilities which are measured at fair value, on a recurring basis as of June 30, 2009, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>			
Investment securities, available for sale	\$ 325	\$ —	\$ —
<b>Liabilities:</b>			
Interest Rate Swap	\$ —	\$ 69,288	\$ —

Level 1 - Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets and liabilities carried at Level 1 fair value generally are listed in active markets.

Level 2 - Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instruments anticipated life. Fair value assets and liabilities that are generally included in this category are certain corporate debt securities, and certain financial instruments classified as derivatives where fair value is based on observable market inputs.

**NOTE 9. JOINT VENTURE**

On March 28, 2008 the Company entered into a strategic relationship with Venturepharm Laboratories Limited, a Cayman Islands limited company (VPL) with its principal offices in Beijing, Peoples Republic of China. This relationship is multi-faceted and was entered into following a private transaction between VPL and PharmAust Limited (PAA), an Australian company, whereupon VPL acquired all of the 2.15 million shares of CBI held by PAA as of October 2008.

Coincident with the transaction, CBI entered into (a) an Ancillary Agreement with VPL to provide a \$1 million put option from CBI to VPL and a \$3 million call option from VPL to CBI both at a 10% discount to market with a three year expiration date, (b) a Voting Lock Up Agreement to require VPL to vote in favor of all matters brought before the shareholders for a period of six months and to escrow its acquired shares for a eighteen months, (c) a Registration Rights Agreement to be effective after twenty-four months, and (d) a Joint Venture (JV) agreement to establish an unincorporated JV which provides CBI access on a preferred basis to the extensive, low cost capabilities of VPL in China. The JV will be jointly funded and managed once finalized.

**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 9. JOINT VENTURE (concluded)**

**Exercise of the Put Option**

On July, 7, 2008, the Company completed a sale of stock subject to the \$1 million put right with VPL. Under the terms of the put agreement, the Company sold 463,426 shares of common stock to VPL at a price of \$2.15 per share. In consideration of the sale of shares, the Company received \$500,000 in cash and 2,229,664 of VPL's ordinary shares. As of June 30, 2009 5,832 shares remain to be sold.

**NOTE 10. DISCONTINUED OPERATIONS**

On September 23, 2008, the Company's wholly owned subsidiary, Exelgen Limited ("Exelgen") entered into administration under the jurisdiction of the High Court of Justice, Bristol District Registry, Chancery Division, in the United Kingdom (the "High Court"). Exelgen filed a Notice of appointment of an administrator, appointing PricewaterhouseCoopers LLP effective September 23, 2008.

Administration is the United Kingdom's insolvency process, which is governed by the Enterprise Act 2002. A company must be insolvent as defined in the Insolvency Act of 1986 in order to qualify for administration. Administration is designed to enable a business to be held together while plans are formed either to put in place a financial restructuring to rescue the company, or to sell the business and assets to produce a better result for creditors that would be achieved at liquidation. Exelgen is subject to the protection of the High Court and creditors' enforcement actions and will be automatically stayed while the administrators formulate plans to the sell the business and assets.

The Company's decision and approval by the Board of Directors to enter administration for the Exelgen operation was based upon various profitability analyses and projections. The subsidiary's inability to support existing operational costs despite restructuring, combined with the lack of securing new contracts, were key factors supporting this action. In the coming period, the appointed administrator will actively pursue the sale of these assets on an individual basis. Due to the lack of control of Exelgen by the Company, the Company has no further commitment to Exelgen.

As of September 23, 2008, the Company has deconsolidated the operations of Exelgen and recorded a loss related to the remaining net investment as a discontinued operation for the subsidiary.

**COMMONWEALTH BIOTECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10. DISCONTINUED OPERATIONS (concluded)**

The components of the loss from the discontinued operations are as follows:

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<u>June 30,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>	<u>June 30,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>
Revenues	\$ —	\$ 472,556	\$ —	\$ 1,389,841
Cost of services	—	517,135	—	1,301,763
Gross Profit	—	(44,579)	—	88,078
Sales, general and administrative	—	52,728	—	188,285
Operating loss	—	(97,307)	—	(100,207)
Other income/(expense)	—	2,772	—	27,140
Interest expense	—	(37,487)	—	(97,198)
Loss from discontinued operations	<u>\$ —</u>	<u>\$ (132,022)</u>	<u>\$ —</u>	<u>\$ (170,265)</u>

**NOTE 11. SUBSEQUENT EVENTS-BOSTWICK LABORATORIES**

On July 16, 2009 the Company announced that an agreement has been signed with Bostwick Laboratories, Inc. (“Bostwick”) for the sale of the assets of CBI’s Fairfax Identity Laboratories (“FIL”) and CBI Services divisions. Bostwick has agreed to purchase such assets for a purchase price of \$1,075,000, in cash and certain royalty payments to CBI over a five-year period. In addition, CBI will lease to Bostwick the building located at 601 Biotech Drive, Richmond, Virginia, housing the CBI Services and Fairfax Identity Laboratories. Subject to Bostwick’s satisfaction of its two week due diligence inspection and approval of the sale by CBI’s shareholders and lenders, the sale is expected to close in the third fiscal quarter of 2009.

**NOTE 12. SUBSEQUENT EVENTS-BIOSIGNAL LTD.**

On July 22, 2009, the Company entered into a definitive agreement with Biosignal Ltd., an Australian biotechnology company, pursuant to which Biosignal will complete a \$1,600,000 investment in the Company and will agree to assign its biofilm technology to the Company. The biofilm technology is based around a family of natural products which disrupt bacterial colonization and thereby inhibit growth. Such biofilm disrupters are expected to be commercialized to support a variety of medical and industrial application.

Pursuant to the terms of a Share Subscription Agreement, Biosignal will purchase 1,600,000 shares of the Company’s common stock, without par value, for the purchase price of \$1,600,000, paid in the form of a 12 month unsecured convertible note bearing interest at 10% per annum. To the extent Biosignal obtains shareholder approval, Biosignal may, at its option, convert the note and all accrued interest into the aggregate of 65,339,458 shares of Biosignal.

In addition, the Company and Biosignal will enter into a Deed of Assignment to which Biosignal will convey certain intellectual property and contracts related to the development and possible exploitation of Biosignal’s biofilm technology to the Company subject to the satisfactory completion of due diligence and other conditions. Biosignal will retain licensed rights to use this intellectual property to service some contracts that are not assigned to the company.

**COMMONWEALTH BIOTECHNOLOGIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 13. SUBSEQUENT EVENTS-LH FINANCIAL**

On July 22, 2009, the Company reached an agreement with its PIPE investors to extend for 6 months its convertible note facilities of approximately \$1.3M that matured on June 30 and has also received consent to suspend the financial covenants under such note facilities through the 3<sup>rd</sup> Quarter.

**NOTE 14. SUBSEQUENT EVENTS-DELISTING AND REINSTATEMENT FROM NASDAQ**

On July 24, 2009, The NASDAQ Stock Market notified Commonwealth Biotechnologies, Inc. ("CBI") (NASDAQ: CBTE) that CBI was to be delisted from the NASDAQ Capital Market as a result of (i) a failure to comply with NASDAQ Listing Rule 5550(b) due to a failure to maintain minimum stockholders' equity of \$2.5 million and a failure to file a Form 8-K affirming compliance with Rule 5550(b), (ii) a failure to comply with NASDAQ Listing Rule 5635(a) due to a failure to obtain shareholder approval of an issuance of stock in excess of 20% of the pre-transaction shares outstanding in connection with the structure of a prior agreement with Biosignal, Ltd, an Australian company, and (iii) a failure to comply with NASDAQ Listing Rule 5250(e)(2)(D) due to a failure to timely file a Form LAS for that Biosignal issuance.

After receiving the July 24, 2009 notice, CBI and Biosignal agreed to terminate the earlier agreement and, subsequently, CBI filed a Form LAS in connection with a proposed amended and re-stated Biosignal Transaction thus bringing the company back into compliance with NASDAQ Rules 5635(a) and 5250(e)(2)(D). However, NASDAQ has determined that the Company has not met the requirements of Rule 5550(b). The Company will appeal this decision under NASDAQ Rule 5800. The hearing is scheduled for Thursday, September 3, 2009.

**NOTE 15. SUBSEQUENT EVENT-AGREEMENT TO PURCHASE ALL OUTSTANDING SHARES OF GL BIOCHEM**

On June 8, 2009, the Company issued a press release announcing that it entered into an agreement (the "Agreement") to acquire all of the outstanding shares of GL Biochem (Shanghai) Ltd ("GL Biochem"), a privately owned Shanghai-based chemical company and the largest supplier of research-grade peptide products and peptide reagents globally. The parties are currently negotiating a definitive agreement to be executed at a later date and the proposed transaction is further subject to the completion of a PCAOB-qualified audit of GL Biochem and the approval of the Registrant's shareholders and lenders.

**COMMONWEALTH BIOTECHNOLOGIES, INC.**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following should be read in conjunction with the Company's Financial Statements and Notes included herein.

**Overview**

Commonwealth Biotechnologies, Inc. (the "Company" or "CBI") is a specialized life sciences outsourcing business that offers cutting-edge expertise and a complete array of discovery chemistry and biology products and services through CBI Services, Fairfax Identity Labs ("FIL") and Mimotopes Pty Limited ("Mimotopes"), each a division or subsidiary of CBI. In March 2008, the Company entered into a Joint Venture with Beijing-based, Venturepharm Laboratories, Ltd. in order to offer high throughput, low cost drug discovery services through new facilities in China. As of September 30, 2008 Exelgen Limited ("Exelgen") (formerly Tripos Discovery Research Ltd) was closed and is recorded on the financial statements as a discontinued operation.

**Business Units**

Revenues from all business units are derived principally from providing macromolecular synthetic and analytical services to researchers in the biotechnology industry or to researchers who are engaged in life sciences research in government or academic labs throughout the world. This arrangement distinguishes CBI from many other biotechnology companies in that revenues are derived from services rather than from the successful commercialization of a new biotechnology product. CBI believes that Mimotopes, CBI Services and FIL have all developed a strong reputation as leading providers in their respective markets. Finally, in 2008 CBI entered into a Joint Venture with Beijing based Venturepharm Laboratories, Inc. in anticipation of being able to provide scale and scope to its current offerings. The areas of expertise and value propositions are outlined below.

At its Richmond, Virginia location, CBI Services' core competencies are in the area of genomics and proteomics, principally serving the early stage research and development needs of its clients. These support true drug discovery at the most fundamental stage but also support many of the pre-clinical needs of our clients and, most recently, several clinical trials are being supported. We provide these services under the FDA's Good Laboratory Practices (GLP) Guidelines (21CFR Part 58). CBI is also able to provide clinical trial support under Good Clinical Practices (GCP) Guidelines by virtue of its Clinical Laboratory Improvement Act (CLIA) certification. Finally, CBI is increasing its capability to provide Good Manufacturing Practices (GMP) support for drug product release and drug product testing criteria.

A unique feature of the Richmond location is its Bio-Safety Level 3 (BSL-3) laboratory and its CDC Registration for Select Agents. The Company has capabilities in the area of bacterial and viral organisms and a very strong program in bio-threat toxin analysis. This capability has been at the core of the Company's government-based contracts.

Also at the Richmond location is Fairfax Identity Laboratories (FIL). FIL has been at the forefront of DNA technology of profiling for identity since it opened its doors in 1990. FIL's rigorous standards are designed to provide credible evidence that affects decisions regarding criminal trials, paternity, immigration, estate settlement, adoption, and other issues of identity. FIL provides Forensics, Paternity and Convicted Offender DNA Index System ("CODIS") services to government and private concerns. FIL is accredited by the American Association of Blood Banks, the National Forensic Science Technology Center, and the Department of Health, State of New York. All testing is done under CLIA guidelines. Its employees have extensive laboratory and courtroom experience.

The Melbourne-based Mimotopes Pty Ltd was acquired by CBI in 2007. It provides world class research grade peptide synthesis and analysis. They also have several proprietary technologies for the preparation of peptide and small molecule libraries for drug discovery and for epitope analysis in support of its clients' vaccine development programs. They also have a formal peptide alliance with Genzyme Pharmaceuticals, a world class provider of GMP pharmaceutical grade peptides and also enjoys a strong relationship with GL Biochem, a Shanghai-based peptide synthesis and reagent company.

CBI's China based Joint Venture (JV) with Venturepharm Laboratories, Ltd was signed in March, 2008. As of June 30, 2009, no revenues have been generated as the development of the operations have taken longer than anticipated.

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### COMMONWEALTH BIOTECHNOLOGIES, INC.

All business units cater to the outsourcing requirements of pharmaceutical and biotechnology companies for reagents (such as peptides, proteins and small molecules), as well as drug research and development. The adoption of outsourcing by the pharmaceutical and biotechnology industries is driven by three major deliverables:

- (1) Speed. Faster discovery results accelerate the time to fail or advance a drug through the development pipeline. Eliminating bad leads early or shaving weeks or months from the time it takes to get a drug to market can mean millions of dollars in cost savings.
- (2) Quality. All the advantages of an accelerated drug discovery program can be jeopardized if the results do not meet the strict quality standards of the pharmaceutical industry. High quality results depend on quality control, quality equipment and quality people.
- (3) Cost. Speed and quality are necessary but insufficient conditions for success. The economic scarcity problem of unlimited wants and needs and limited resources applies to drug discovery outsourcing as well. The more suppliers can offer for less, the more successful they will be.

#### **Going Concern**

The accompanying financial statements have been prepared on a going concern basis which contemplates realization of assets and satisfaction of liabilities in the normal course of business. If the Company is unable to improve operating results and meet its debt obligations, it may have to cease operations. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Losses for the Company were \$557,105 and \$810,359 for the quarter ended June 30, 2009 and 2008 respectively. For the quarter ended June 30, 2009 and 2008, losses from continuing operations were \$557,105 and \$678,337 respectively. Losses resulting from the discontinued operation were \$0 and \$132,022 for the quarter ended June 30, 2009 and 2008, respectively.

Total losses for the Company for the six months ended June 30, 2009 and 2008 were \$1,372,208 and 1,922,338 respectively. Recent operating losses may continue into future periods and there can be no assurance by management that the Company's financial outlook will improve. For the six months ended June 30, 2009 and 2008, losses from continuing operations were \$1,372,208 and \$1,752,073 respectively. Losses resulting from the discontinued operation were \$0 and \$170,265 for the six months ended June 30 2009 and 2008, respectively.

The Company generated positive cash flows in 2009 of \$116,702 and negative cash flows in 2008 of \$1,878,708. Net working capital as of June 30, 2009 and 2008 was (\$5,300,315) and (\$5,256,055) respectively.

The 2009 period reflects cash provided by operating activities of \$16,165 as compared to cash used in operating activities of \$930,240 during the 2008 period. The reduction over the prior period resulted from savings in selling, general and administrative costs by the Company. Cash provided by investing activities for the 2009 period was \$64,465 in comparison to used in investing activities of \$6,142 in the 2008 period. The net change relates primarily to the proceeds from the sale of the VenturePharm Stock. Cash provided by financing activities for the 2009 period was \$35,076 as compared to cash used in financing activities of \$939,726 in the 2008 period. This change reflects the exercising of stock from convertible debt.

During 2009, the Company expects to re-negotiate the terms of its outstanding mortgage debt which becomes due in November 2009, including any non compliance with covenants which causes the Company to be in default. The mortgage includes certain restrictive covenants, which require the Company to maintain minimum levels of the current ratio, debt to net worth and cash flow ratio's. At June 30, 2009, the Company was in violation of the covenants, however, the Company was granted a waiver of the covenants by the bank for six months to June 30, 2009. The Company plans to renegotiate the existing mortgage with either the same financial institution or another one. However there is no certainty that the Company will be successful in renegotiating its outstanding mortgage. The Company also believes that it will be able to satisfy its current debt obligations with LH Financial and Fornova through the issuance of common stock in lieu of cash payment. Subject to compliance with NASDAQ listing standards, the Company believes it will be able to satisfy its debt obligations.

**COMMONWEALTH BIOTECHNOLOGIES, INC.**

The cash position of the Company will again remain uncertain in 2009. However, the Company will continue to address the immediate needs for cash and liquidity through an aggressive approach on a number of fronts. As indicated previously, when confronted with static revenues and declining cash reserves, management reduced staffing through layoffs and attrition and reduced or eliminated non-production related expenditures. Fiscal practices have been strictly enforced which restricts all material purchases to service on-going work only and serve to minimize all material inventories. Management will continue adhering to these policies for the foreseeable future.

The lack of adequate cash resulting from the inability to generate cash flow from operations or to raise capital from external sources would force the Company to substantially curtail or cease operations and would, therefore, have a material adverse effect on its business. The Company is actively exploring the availability of varying financial and strategic transactions, which, if consummated, would address the Company's need to improve its financial condition and/or its operations.

On June 16, 2009, LH Financial exercised its options on the principal and interest outstanding in the amount of 750,447 shares reducing the liability owed to LH Financial from \$1,805,000 to \$1,315,900.

On June 22, 2009, the registrant completed the issuance of an aggregate principal amount of \$369,950 of subordinated notes (the "Notes") convertible into shares of the registrant's common stock, without par value per share ("Common Stock"), to 6 institutional investors (the "Investors"). The Notes mature on December 31, 2009, and have an interest rate of 8% per annum. The registrant will pay any interest and principal on the maturity date. Prior to maturity, a holder of a Note may convert such Note into shares of the registrant's Common Stock at a conversion price of \$0.50 per share. The purchase price for the Notes was paid by the partial surrender of certain outstanding promissory notes and deemed payment of interest in connection therewith. According to the registrant's transfer agent, on June 22, 2009, the registrant had issued and outstanding 7,416,896 shares of common stock. The amount of common stock underlying the Notes represents less than 9.99% of the registrant's issued and outstanding common stock on June 22, 2009. Total shares exercised amounted were 750,447.

On July 16, 2009 the Company announced that an agreement has been signed with Bostwick Laboratories, Inc. ("Bostwick") for the sale of the assets of CBI's Fairfax Identity Laboratories ("FIL") and CBI Services divisions. Bostwick has agreed to purchase such assets for a purchase price of \$1,075,000, in cash and certain royalty payments to CBI over a five-year period. In addition, CBI will lease to Bostwick the building located at 601 Biotech Drive, Richmond, Virginia, housing the CBI Services and Fairfax Identity Laboratories. Subject to Bostwick's satisfaction of its two week due diligence inspection and approval of the sale by CBI's shareholders and lenders, the sale is expected to close in the third fiscal quarter of 2009.

On July 22, 2009, the Company reached an agreement with its PIPE investors to extend for 6 months its convertible note facilities of approximately \$1.3M that matured on June 30 and has also received consent to suspend the financial covenants under such note facilities through the 3<sup>rd</sup> Quarter.

On July 22, 2009, the Company entered into a definitive agreement with Biosignal Ltd., an Australian biotechnology company, pursuant to which Biosignal will complete a \$1,600,000 investment in the Company and will agree to assign its biofilm technology to the Company. The biofilm technology is based around a family of natural products which disrupt bacterial colonization and thereby inhibit growth. Such biofilm disrupters are expected to be commercialized to support a variety of medical and industrial application.

Pursuant to the terms of a Share Subscription Agreement, Biosignal will purchase 1,600,000 shares of the Company's common stock, without par value, for the purchase price of \$1,600,000, paid in the form of a 12 month unsecured convertible note bearing interest at 10% per annum. To the extent Biosignal obtains shareholder approval, Biosignal may, at its option, convert the note and all accrued interest into the aggregate of 65,339,458 shares of Biosignal.

In addition, the Company and Biosignal will enter into a Deed of Assignment to which Biosignal will convey certain intellectual property and contracts related to the development and possible exploitation of Biosignal's biofilm technology to the Company subject to the satisfactory completion of due diligence and other conditions. Biosignal will retain licensed rights to use this intellectual property to service some contracts that are not assigned to the company.

**COMMONWEALTH BIOTECHNOLOGIES, INC.**

There can be no assurance that any funds required during the next twelve months or thereafter can be generated from operations or that if such required funds are not internally generated that funds will be available from external sources, such as debt or equity financing or other potential sources.

During the last year, the Company's business has undergone substantial change in relation to size, scale and scope of activities. The Company has developed significant capacity in peptide chemistry through the acquisition of Mimotopes. This strategic transaction compliments the core capabilities in genomics and proteomics at CBI Services and FIL. In addition, resources have been invested in the establishment of VenturePharm Asia. The Company views this relationship as a key strategy in expanding production capabilities and services which will further the Company's ability to compete in the global market.

As a result of the above, there is substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability or classification of asset carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

The Company's independent auditors have included a paragraph emphasizing "going concern" in their report on the 2008 financial statements. These financial statements do not include any adjustments relating to the recoverability or classification of asset carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

***Results of Operations***

**Three Months Ended June 30, 2009 Compared with Three Months Ended June 30, 2008.**

***Revenues***

During the course of the year, the Company had experienced 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 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.

Total revenues decreased by \$454,214 or 16.6% from \$2,736,123 during the second Quarter of 2008 ("the 2008 Quarter") to \$2,281,909 during the second Quarter of 2009 ("the 2009 Quarter").

Revenues realized from commercial contracts decreased by \$559,105 or 34.0%, from \$1,643,399 in the 2008 Quarter to \$1,084,294 in the 2009 Quarter. Due to the current economic conditions many clients again have placed future projects on a temporary hold. Anticipated start-up dates for these projects are expected to begin late in the third quarter.

Revenues realized from government contracts decreased by \$86,846 or 17.2%, from \$505,443 in the 2008 Quarter to \$418,597 in the 2009 Quarter. The Company is continuing to work on three bio-security based government contracts that were awarded in 2008. The fourth project which ended in the second quarter has received additional funding and will continue to ramp up in the third quarter in 2009. Work on the three existing projects will be renewed and will continue throughout 2009.

Genetic identity revenues increased by \$51,731 or 11.7%, from \$440,705 in the 2008 Quarter to \$492,436 in the 2009 Quarter. The genetic identify sector has grown both organically and through the expansion of service into the global market. The increase in private and immigration testing have led to the increase.

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**COMMONWEALTH BIOTECHNOLOGIES, INC.**

Other revenue increased by \$140,682, or 129.4%, from \$108,739 in the 2008 Quarter to \$249,421 in the 2009 Quarter. This increase resulted from two grants payments awarded from the Australian Government for Mimotopes in the amount of \$150,000 and \$85,707. These grants were export market development grants and were for the 2005 and 2006 years.

***Cost of Services***

Cost of services consists primarily of costs associated with direct materials, direct labor and overhead. Cost of services decreased by \$266,588 or 13.9%, from \$1,913,811 in the 2008 Quarter to \$1,647,223 in the 2009 Quarter. Cost of services as a percentage of revenue increased from 70.0% in the 2008 Quarter to 72.2% in the 2009 Quarter.

Direct materials decreased by \$81,871 or 15.3% from \$536,007 in the 2008 Quarter to \$454,136 in the 2009 Quarter. The cost of direct materials as a percentage of revenue increased from 19.6% in the 2008 Quarter to 19.9% in the 2009 Quarter. This increase, as a percentage of revenue, correlates to the shift in rely on a greater usage of materials.

Direct labor decreased by \$58,132 or 10.2%, from \$572,369 in the 2008 Quarter to \$514,237 in the 2009 Quarter. The cost of direct labor as a percentage of revenue however, increased from 20.9% in the 2008 Quarter to 22.5% in the 2009 Quarter. The increase as a percentage of revenue primarily relates to the shift in revenues for projects on hand that are more labor intensive.

Overhead represents costs such as indirect labor, depreciation, freight charges, repairs and miscellaneous supplies indirectly related to a particular project. Overhead decreased by \$126,585 or 15.7% from \$805,435 in the 2008 Quarter to \$678,850 in the 2009 Quarter. The cost of overhead as a percentage of revenue increased from 29.4% in the 2008 Quarter to 29.7% in the 2009 Quarter. Overhead costs in 2009 showed a modest reduction in all accounts.

***Selling, General and Administrative***

Selling, general and administrative expenses ("SGA") consist primarily of compensation and related costs for administrative, marketing and sales personnel, facility expenditures, professional fees, consulting, taxes, and depreciation. The Company sees SGA as a vital portion of the business however management has made the decision to reduce all costs associated with in these categories.

Total SGA costs decreased by \$321,468 or 29.5%, from \$1,090,066 in the 2008 Quarter to \$768,598 in the 2009 Quarter. The cost of SGA as a percentage of revenue decreased from 39.81% in the 2008 Quarter to 33.7% in the 2009 Quarter.

Total selling and marketing costs decreased by \$228,913 or 66.6%, from \$343,695 in the 2008 Quarter to \$114,782 in the 2009 Quarter. This decrease is primarily due to the reorganization of the sales and marketing team not currently in place.

Total general and administrative expenses decreased by \$92,559 or 12.4%, from \$746,375 in the 2008 Quarter to \$653,816 in the 2009 Quarter. Compensation costs decreased by \$154,041 or 34.6% from \$445,368 in the 2008 Quarter to \$291,327 during the 2009 Quarter. This decrease was primarily due to the resignation of Paul D'Sylva in early January and the reduction of salaries by management over the quarter. Professional fees increased by \$48,235 or 27.4% from \$175,798 in the 2008 Quarter to \$224,033 in the 2009 Quarter. This increase results from the legal costs associated with the selling of the Company's assets. Associated office expenses decreased by \$32,980 or 56.8% from \$58,034 in the 2008 Quarter to \$25,054 in the 2009 Quarter. This decrease resulted from the decision in 2009 to curtail all travel costs.

***Other Income (Expenses)***

Other income decreased by \$1,269 or 92.9% from \$1,366 during the 2008 Quarter to \$97 in the 2009 Quarter resulting from the decrease in interest earning investments.

**COMMONWEALTH BIOTECHNOLOGIES, INC.**

Other expenses remained relatively flat from \$411,949 in the 2008 Quarter to \$423,290 in the 2009 Quarter. Other expenses incurred by the Company include interest, amortization and loss on investment. Interest expense increased by \$47,610 or 59.5% from \$80,036 in the 2008 Quarter to \$127,646 in the 2009 Quarter. This resulted from a reduction in the swap agreement in the 2008 Quarter. Debt amortization decreased by \$161,245 or 48.6% from \$331,913 in the 2008 Quarter to \$170,668 in the 2009 Quarter. This reduction is the result from the refinancing of the LH Financial Debt. Realized losses in 2009 amounted to \$56,478. This was due to the sale of the VenturePharm stock. There were no gains or losses in 2008.

***Discontinued Operations***

On September 23, 2008, the Company's wholly owned subsidiary, Exelgen Limited ("Exelgen") entered into administration under the jurisdiction of the High Court of Justice, Bristol District Registry, Chancery Division, in the United Kingdom (the "High Court"). Exelgen filed a Notice of appointment of an administrator, appointing PricewaterhouseCoopers LLP effective September 23, 2008.

Administration is the United Kingdom's insolvency process, which is governed by the Enterprise Act 2002. A company must be insolvent as defined in the Insolvency Act of 1986 in order to qualify for administration. Administration is designed to enable a business to be held together while plans are formed either to put in place a financial restructuring to rescue the company, or to sell the business and assets to produce a better result for creditors that would be achieved at liquidation. Exelgen is subject to the protection of the High Court and creditors' enforcement actions and will be automatically stayed while the administrators formulate plans to sell the business and assets.

The Company's decision and approval by the Board of Directors to enter Administration for the Exelgen operation was based upon various profitability analyses and projections. The subsidiary's inability to support existing operational costs despite restructuring, combined with the lack of securing new contracts, were key factors supporting this action. In the coming period, the appointed administrator will actively pursue the sale of these assets on an individual basis. The Company reported a loss from discontinued operations of \$132,022 in the 2008 Quarter with the Exelgen operation.

**Six Months Ended June 30, 2009 Compared with Six Months Ended June 30, 2008.**

***Revenues***

During the course of the year, the Company had experienced 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 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.

Total revenues decreased by \$910,251 or 17.7% from \$5,144,816 in the 2008 Period to \$4,234,565 in the 2009 Period.

Revenues realized from commercial contracts decreased by \$1,049,885 or 34.0%, from \$3,087,782 in the 2008 Period ("the 2008 Period") to \$2,037,897 in the 2009 Period ("the 2009 Period"). Due to the current economic conditions many clients have placed future projects on a temporary hold. Anticipated start-up dates for these projects are expected to begin late in the third quarter.

Revenues realized from government contracts increased by \$114,747 or 16.6%, from \$690,575 in the 2008 Period to \$805,322 in the 2009 Period. The continuation of the four bio-security based government contracts that were awarded in 2008 led to the increase. Work on three of the four projects, are continuing with the fourth one being renewed.

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**COMMONWEALTH BIOTECHNOLOGIES, INC.**

Genetic identity revenues increased by \$123,927 or 13.8%, from \$899,780 in the 2008 Period to \$1,023,707 in the 2009 Period. The genetic identify sector has grown both organically and through the expansion of service into the global market. The increase in private and immigration testing have led to the increase.

Clinical testing revenues decreased by \$258,053 or 81.7%, from \$315,857 in the 2008 Period to \$57,804 in the 2009 Period. This decrease resulted from the completion of a clinical trial testing that has not been renewed or replaced during the 2009 Period. As mentioned in commercial contracts, many clients have placed any future projects on a temporary hold.

Other revenue increased by \$159,013 or 105.4%, from \$150,822 in the 2008 Period to \$309,835 in the 2009 Period.

This increase resulted from two grants payments awarded from the Australian Government for Mimotopes in the amount of \$150,000 and \$85,707. These grants were export market development grants and were for the 2005 and 2006 years.

***Cost of Services***

Cost of services consists primarily of costs associated with direct materials, direct labor and overhead. Cost of services decreased by \$359,362 or 9.8%, from \$3,668,443 in the 2008 Period to \$3,309,081 in the 2009 Period. Cost of services as a percentage of revenue increased from 71.3% in the 2008 Period to 78.1% in the 2009 Period. This percentage increase is a direct result of additional materials and labor needed to complete the existing work.

Direct materials decreased by \$75,150 or 7.1% from \$1,051,548 in the 2008 Period to \$976,398 in the 2009 Period. The cost of direct materials as a percentage of revenue increased from 20.4% in the 2008 Period to 23.1% in the 2009 Period, respectively. This increase, as a percentage of revenue, correlates to the shift on a greater usage of materials for the existing projects.

Direct labor decreased by \$125,776 or 11.5%, from \$1,096,687 in the 2008 Period to \$970,911 in the 2009 Period. The cost of direct labor as a percentage of revenue however, increased from 21.3% in the 2008 Period to 22.9% in the 2009 Period. The increase as a percentage of revenue primarily relates to the shift in revenues for projects on hand that are more labor intensive.

Overhead represents costs such as indirect labor, depreciation, freight charges, repairs and miscellaneous supplies indirectly related to a particular project. Overhead decreased by \$158,436 or 10.4% from \$1,520,208 in the 2008 Period to \$1,361,772 in the 2009 Period. The cost of overhead as a percentage of revenue increased from 29.5% in the 2008 Period to 32.1% in the 2009 Period. Overhead costs in 2009 showed a modest reduction in all accounts from the 2008 Period to the 2009 Period.

***Selling, General and Administrative***

Selling, general and administrative expenses ("SGA") consist primarily of compensation and related costs for administrative, marketing and sales personnel, facility expenditures, professional fees, consulting, taxes, and depreciation. The Company sees SGA as a vital portion of the business however management has made the decision to reduce all costs associated with in these categories.

Total SGA costs decreased by 875,975 or 36.3%, from \$2,416,345 in the 2008 Period to \$1,540,370 in the 2009 Period. The cost of SGA as a percentage of revenue decreased from 46.9% in the 2008 Period to 36.4% in the 2009 Period.

Total selling and marketing costs decreased by \$370,982 or 61.5%, from \$603,683 in the 2008 Period to \$232,701 in the 2009 Period. This decrease is primarily due to the reorganization of the sales and marketing team not currently in place.

Total general and administrative expenses decreased by \$504,993 or 27.9%, from \$1,812,662 in the 2008 Period to \$1,307,669 in the 2009 Period. Compensation costs decreased by \$359,929 or 38.1% from \$945,187 in the 2008 Period to \$585,258 during the Period. This decrease was primarily due to the resignation of Paul D'Sylva (Chief

**COMMONWEALTH BIOTECHNOLOGIES, INC.**

Executive Officer) in early January and the reduction of salaries by management over the Period. Professional fees decreased by \$78,210 or 15.9% from \$490,488 in the 2008 Period to \$412,278 in the 2009 Period. Across the board reduction in costs associated with legal, accounting and the Sarbanes Oxley requirements contributed to this decrease. Taxes and Licenses increased by \$27,772 or 374.5% from \$7,415 in the 2008 Period to \$35,187 in the 2009 Period. The increase over 2008 was primarily due to a credit in 2008 on business taxes that was received by the Company. Associated office expenses decreased by \$67,306 or 52.7% from \$127,657 in the 2008 Period to \$60,351 in the 2009 Period. This decrease resulted from the decision in 2009 to curtail all travel costs.

***Other Income (Expenses)***

Other income decreased by \$9,109 or 87.9% from \$10,368 during the 2008 Period to \$1,259 in the 2009 Period resulting from the decrease in interest earning investments throughout the year. In addition, the Company had an exchange loss of \$3,654 in the 2009 Period.

Other expenses incurred by the Company include interest, amortization and loss on investment. Interest expense decreased by \$49,495 or 18.1% from \$273,266 in the 2008 Period to \$223,771 in the 2009 Period. This resulted from a reduction in the swap agreement in the 2009 Period. Debt amortization decreased by \$207,867 or 37.8% from \$549,203 in the 2008 Period to \$341,336 in the 2009 Period. This reduction is the result from the refinancing of the LH Financial Debt. Realized losses in 2009 amounted to \$193,474. This was due to the sale of the VenturePharm stock. There were no gains or losses in 2008.

***Discontinued Operations***

On September 23, 2008, the Company's wholly owned subsidiary, Exelgen Limited ("Exelgen") entered into administration under the jurisdiction of the High Court of Justice, Bristol District Registry, Chancery Division, in the United Kingdom (the "High Court"). Exelgen filed a Notice of appointment of an administrator, appointing PricewaterhouseCoopers LLP effective September 23, 2008.

Administration is the United Kingdom's insolvency process, which is governed by the Enterprise Act 2002. A company must be insolvent as defined in the Insolvency Act of 1986 in order to qualify for administration. Administration is designed to enable a business to be held together while plans are formed either to put in place a financial restructuring to rescue the company, or to sell the business and assets to produce a better result for creditors that would be achieved at liquidation. Exelgen is subject to the protection of the High Court and creditors' enforcement actions and will be automatically stayed while the administrators formulate plans to sell the business and assets.

The Company's decision and approval by the Board of Directors to enter Administration for the Exelgen operation was based upon various profitability analyses and projections. The subsidiary's inability to support existing operational costs despite restructuring, combined with the lack of securing new contracts, were key factors supporting this action. In the coming period, the appointed administrator will actively pursue the sale of these assets on an individual basis. The Company reported a loss from discontinued operations of \$170,265 in the 2008 Period with the Exelgen operation.

***Liquidity and Capital Resources***

Losses for the Company were \$557,105 and \$810,359 for the quarter ended June 30, 2009 and 2008 respectively. For the quarter ended June 30, 2009 and 2008, losses from continuing operations were \$557,105 and \$678,337 respectively. Losses resulting from the discontinued operation were \$0 and \$132,022 for the Quarter ended June 30, 2009 and 2008, respectively.

Total losses for the Company for the six months ended June 30, 2009 and 2008 were \$1,372,208 and \$1,922,338 respectively. Recent operating losses may continue into future periods and there can be no assurance by management that the Company's financial outlook will improve. For the six months ended June 30, 2009 and 2008, losses from continuing operations were \$1,372,208 and \$1,752,073 respectively. Losses resulting from the discontinued operation were \$0 and \$170,265 for the six months ended June 30 2009 and 2008, respectively.

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### COMMONWEALTH BIOTECHNOLOGIES, INC.

The Company generated positive cash flows in 2009 of \$116,702 and negative cash flows in 2008 of \$1,878,708. Net working capital as of June 30, 2009 and 2008 was (\$5,300,315) and (\$5,256,055) respectively

The 2009 Period reflects cash provided by operating activities of \$16,165 as compared to cash used in operating activities of \$930,240 during the 2008 Period. The reduction over the prior period resulted from savings in selling, general and administrative costs by the Company. Cash provided by investing activities for the 2009 Period was \$64,465 in comparison to used in investing activities of \$6,142 in the 2008 Period. The net change relates primarily to the proceeds from the sale of the VenturePharm Stock. Cash provided by financing activities for the 2009 Period was \$35,076 as compared to cash used in financing activities of \$939,726 in the 2008 Period. This change reflects the exercising of stock from convertible debt.

During 2009, the Company expects to re-negotiate the terms of its outstanding mortgage debt which becomes due in November 2009, including any non compliance with covenants which causes the Company to be in default. The mortgage includes certain restrictive covenants, which require the Company to maintain minimum levels of the current ratio, debt to net worth and cash flow ratio's. At June 30, 2009, the Company was in violation of the covenants, however, the Company was granted a waiver of the covenants by the bank for six months to June 30, 2009. The Company plans to renegotiate the existing mortgage with either the same financial institution or another one. However there is no certainty that the Company will be successful in renegotiating its outstanding mortgage. The Company also believes that it will be able to satisfy its current debt obligations with LH Financial and Fornova through the issuance of common stock in lieu of cash payment. Subject to compliance with NASDAQ listing standards, the Company believes it will be able to satisfy its debt obligations.

The cash position of the Company will again remain uncertain in 2009. However, the Company will continue to address the immediate needs for cash and liquidity through an aggressive approach on a number of fronts. As indicated previously, when confronted with static revenues and declining cash reserves, management reduced staffing through layoffs and attrition and reduced or eliminated non-production related expenditures. Fiscal practices have been strictly enforced which restricts all material purchases to service on-going work only and serve to minimize all material inventories. Management will continue adhering to these policies for the foreseeable future.

The lack of adequate cash resulting from the inability to generate cash flow from operations or to raise capital from external sources would force the Company to substantially curtail or cease operations and would, therefore, have a material adverse effect on its business. The Company is actively exploring the availability of varying financial and strategic transactions, which, if consummated, would address the Company's need to improve its financial condition and/or its operations.

On June 16, 2009, LH Financial exercised its options on the principal and interest outstanding in the amount of 750,447 shares reducing the liability owed to LH Financial from \$1,805,000 to \$1,315,900.

On June 22, 2009, the registrant completed the issuance of an aggregate principal amount of \$369,950 of subordinated notes (the "Notes") convertible into shares of the registrant's common stock, without par value per share ("Common Stock"), to 6 institutional investors (the "Investors"). The Notes mature on December 31, 2009, and have an interest rate of 8% per annum. The registrant will pay any interest and principal on the maturity date. Prior to maturity, a holder of a Note may convert such Note into shares of the registrant's Common Stock at a conversion price of \$0.50 per share. The purchase price for the Notes was paid by the partial surrender of certain outstanding promissory notes and deemed payment of interest in connection therewith. According to the registrant's transfer agent, on June 22, 2009, the registrant had issued and outstanding 7,416,896 shares of common stock. The amount of common stock underlying the Notes represents less than 9.99% of the registrant's issued and outstanding common stock on June 22, 2009. Total shares exercised amounted were 750,447.

On July 16, 2009 the Company announced that an agreement has been signed with Bostwick Laboratories, Inc. ("Bostwick") for the sale of the assets of CBI's Fairfax Identity Laboratories ("FIL") and CBI Services divisions. Bostwick has agreed to purchase such assets for a purchase price of \$1,075,000, in cash and certain royalty payments to CBI over a five-year period. In addition, CBI will lease to Bostwick the building located at 601 Biotech Drive, Richmond, Virginia, housing the CBI Services and Fairfax Identity Laboratories. Subject to Bostwick's satisfaction of its two week due diligence inspection and approval of the sale by CBI's shareholders and lenders, the sale is expected to close in the third fiscal quarter of 2009.

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### COMMONWEALTH BIOTECHNOLOGIES, INC.

On July 22, 2009, the Company reached an agreement with its PIPE investors to extend for 6 months its convertible note facilities of approximately \$1.3M that matured on June 30 and has also received consent to suspend the financial covenants under such note facilities through the 3<sup>rd</sup> Quarter.

On July 22, 2009, the Company entered into a definitive agreement with Biosignal Ltd., an Australian biotechnology company, pursuant to which Biosignal completed a \$1,600,000 investment in the Company and agreed to assign its biofilm technology to the Company. The biofilm technology is based around a family of natural products which disrupt bacterial colonization and thereby inhibit growth. Such biofilm disrupters are expected to be commercialized to support a variety of medical and industrial application.

Pursuant to the terms of a Share Subscription Agreement, Biosignal purchased 1,600,000 shares of the Company's common stock, without par value, for the purchase price of \$1,600,000, paid in the form of a 12 month unsecured convertible note bearing interest at 10% per annum. To the extent Biosignal obtains shareholder approval, Biosignal may, at its option, convert the note and all accrued interest into the aggregate of 65,339,458 shares of Biosignal.

In addition, the Company and Biosignal entered into a Deed of Assignment to which Biosignal will convey certain intellectual property and contracts related to the development and possible exploitation of Biosignal's biofilm technology to the Company subject to the satisfactory completion of due diligence and other conditions. Biosignal will retain licensed rights to use this intellectual property to service some contracts that are not assigned to the company.

There can be no assurance that any funds required during the next twelve months or thereafter can be generated from operations or that if such required funds are not internally generated that funds will be available from external sources, such as debt or equity financing or other potential sources.

During the last year, the Company's business has undergone substantial change in relation to size, scale and scope of activities. The Company has developed significant capacity in peptide chemistry through the acquisition of Mimotopes. This strategic transaction compliments the core capabilities in genomics and proteomics at CBI Services and FIL. In addition, resources have been invested in the establishment of VenturePharm Asia. The Company views this relationship as a key strategy in expanding production capabilities and services which will further the Company's ability to compete in the global market.

As a result of the above, there is substantial doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability or classification of asset carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

The Company's independent auditors have included a paragraph emphasizing "going concern" in their report on the 2008 financial statements. These financial statements do not include any adjustments relating to the recoverability or classification of asset carrying amounts or the amounts and classification of liabilities that may result should the Company be unable to continue as a going concern.

#### **Critical Accounting Policies**

A summary of the Company's critical accounting policies follows:

#### **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.

**COMMONWEALTH BIOTECHNOLOGIES, INC.**

**Revenue Recognition**

The Company recognizes revenue upon the completion of laboratory service projects, or upon the delivery 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. Product sales are recognized when shipped. Amounts received in advance of the performance of services or acceptance of a milestone, are recorded as deferred revenue and recognized when completed.

**Impairment of Long-Lived Assets**

The Company reviews and accounts for the impairment of long-lived assets other than goodwill, including property and equipment and certain other non current assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Long-lived assets besides goodwill are reviewed for impairment when events or changes in circumstances indicate the carrying value of an asset may not be recoverable. For long-lived assets other than goodwill that are to be held and used in operations, an impairment is indicated when the estimated total undiscounted cash flow associated with the asset or group of assets is less than carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. As of June 30, 2009, no impairment charges were required. Based upon the financial condition and recent operating trends of the Company, future impairment of long-lived assets is possible.

**Corporate Guidance**

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:

- CBI's Board is composed of four independent and two employee directors.
- The independent directors serve on the three principal committees: Audit, Compensation and Nominating.
- The independent directors meet in executive session at each quarterly Board meeting.
- At least one independent director, Mr. Samuel P. 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 adopted a formal Corporate Code of Conduct. Copies are available on request from Dr. Richard J. Freer, Chief Operating Officer, and on the Company's website at [www.cbi-biotech.com](http://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,

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**COMMONWEALTH BIOTECHNOLOGIES, INC.**

- the Company's ability to receive accreditation to provide various services, including, but not limited to paternity testing
- the Company's ability to hire and retain highly skilled employees,
- the Company's ability to raise additional equity financing, and
- the Company's inability to pay debt obligations.

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-Q, and 10-K.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

**ITEM 4/4T. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

The Company's Chief Executive Officer and Vice President, Finance (principal executive officer and principal financial officer, respectively) have concluded based on their evaluation as of June 30, 2009 that the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15c) under the Securities Act of 1934, as amended ("Exchange Act") were not effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by the Company under the Exchange Act is accumulated, recorded, processed, summarized and reported to management, including the Company's principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding whether or not disclosure is required.

*Changes in Internal Control over Financial Reporting*

In connection with the preparation of this Form 10-Q, management identified deficiencies in the design or operation of its internal controls that resulted in a material weakness. The material weakness was due to insufficient resources in the accounting and finance department resulting in ineffective review and preparation of its condensed consolidated financial statements including an inability to account properly for complex transactions.

A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The Company's management and Audit Committee are assessing the necessary resources required to properly prepare and review the financial statements. The resources being reviewed include additional staffing and/or identifying outside consultants to assist management in the preparation of the condensed consolidated financial statements.

COMMONWEALTH BIOTECHNOLOGIES, INC.

PART II

OTHER INFORMATION

**Item 1. Legal Proceedings**

Not applicable.

**Item 2. Unregistered Sales of Equity in Securities and Use of Proceeds**

Not applicable.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

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

Not applicable.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.1	Articles of Incorporation (1)
3.2	Articles of Amendment (2)
3.3	Third Amended and Restated Bylaws (3)
4.1	Form of Common Stock Certificate (1)
10.1	Employment Agreement between the Company and Paul D'Sylva, Ph.D. (4)
10.2	First Amended and Restated Employment Agreement for Richard J. Freer, Ph.D. (5)
10.3	First Amendment to First Amended and Restated Employment Agreement between the Company and Richard J. Freer, Ph.D. (6)
10.4	Second Amendment to First Amended and Restated Employment Agreement for Richard J. Freer, Ph.D. (7)
10.5	Employment Agreement for Robert B. Harris (8)
10.6	First Amended and Restated Employment Agreement for Thomas R. Reynolds (9)
10.7	First Amendment to First Amended and Restated Employment Agreement for Thomas R. Reynolds (10)
10.8	First Amended and Restated Employment Agreement for James H. Brennan (10)
10.9	First Amendment to First Amended and Restated Employment Agreement for James H. Brennan (10)
10.10	Officer's Severance Agreement for James H. Brennan (11)
10.11	Second Amended and Restated Employment Agreement for James H. Brennan (12)
10.12	Subscription Agreement, dated as of December 31, 2007, by and between the Company and LH Financial (13)
10.13	Ancillary Agreement, dated as of March 28, 2008, by and between the Company and Venturepharm Laboratories Limited (14)

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**COMMONWEALTH BIOTECHNOLOGIES, INC.**

- 10.14 Convertible Promissory Note, dated as of August 29, 2008, from the Company to Fornova Pharmaworld Inc. (15)
- 10.15 Modification, Waiver and Acknowledgement Agreement, dated September 18, 2008, by and between the Company and LH Financial (16)
- 31.1 Certification of Richard J. Freer, Ph.D. (17)
- 31.2 Certification of James H. Brennan (17)
- 32.1 Section 906 Certification of Richard J. Freer, Ph.D. (17)
- 32.2 Section 906 Certification of James H. Brennan (17)
- (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 Current Report on Form 8-K, dated October 29, 2007, File No. 001-13467.
- (3) Incorporated by reference to the Company's Current Report on Form 8-K, dated March 29, 2007, File No. 001-13467.
- (4) Incorporated by reference to the Company's Current Report on Form 8-K, dated February 28, 2007, 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 Current Report on Form 8-K, dated August 15, 2005, File No. 001-13467.
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- (9) Incorporated by reference to the Company's Current Report on Form 8-K, dated February 10, 2005, File No. 001-13467.
- (10) Incorporated by reference to the Company's Form 10-KSB, dated March 31, 2006, File No. 001-13467.
- (11) Incorporated by reference to the Company's Form 10-KSB, dated March 31, 2003, File No. 001-13467.
- (12) Incorporated by reference to the Company's Current Report of Form 8-K, dated August 6, 2008, File No. 001-13467.
- (13) Incorporated by reference to the Company's Current Report on Form 8-K, dated January 8, 2008, File No. 001-13467.
- (14) Incorporated by reference to the Company's Current Report on Form 8-K, dated April 2, 2008, File No. 001-13467.
- (15) Incorporated by reference to the Company's Current Report on Form 8-K, dated September 10, 2008, File No. 001-13467.
- (16) Incorporated by reference to the Company's Current Report of Form 8-K, dated September 24, 2008, File No. 001-13467.
- (17) Filed herewith.

**COMMONWEALTH BIOTECHNOLOGIES, INC.**

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMONWEALTH BIOTECHNOLOGIES, INC.

By: /s/ James H. Brennan

James H. Brennan  
Vice President Financial Operations  
and Principal Accounting Officer

COMMONWEALTH BIOTECHNOLOGIES, INC.

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**CERTIFICATION**

I, Richard J. Freer, Ph.D., certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q 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: August 14, 2009

/s/ Richard J. Freer, Ph.D.

Richard J. Freer, Ph.D.  
Chief Operating Officer

## CERTIFICATION

I, James H. Brennan, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q 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

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(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: August 14, 2009

/s/ James H. Brennan

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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 Quarterly Report of Commonwealth Biotechnologies, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2009 as filed with the Securities and Exchange Commission on August 14, 2009 (the "Report"), I Richard J. Freer, Ph.D., Chief Operating 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.

August 14, 2009

/s/ Richard J. Freer, Ph.D.

Richard J. Freer, Ph.D.  
Chief Operating 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 Quarterly Report of Commonwealth Biotechnologies, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2009 as filed with the Securities and Exchange Commission on August 14, 2009 (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.

August 14, 2009

/s/ James H. Brennan

James H. Brennan  
Vice President Financial Operations