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CBIO TO MERGE WITH US COMPANY INVERSEON INC.

- **CBio to acquire Inverseon for 143,486,978 CBio shares representing 37.5% of merged entity issued capital**
- **Merged company to progress clinical-stage anti-inflammatory trials with multiple development programs**
- **Lead compound INV102 in phase II asthma trial Q3 2012**
- **Business plan targeting asthma, chronic bronchitis, cystic fibrosis, lupus and new chemical entity**
- **Inverseon directors William Garner MD and Mitchell Glass MD to be CEO and CMO respectively; James Campbell PhD to be Executive Director**
- **Independent Expert considers transaction is "fair and reasonable"**

BRISBANE, 2 July 2012: Australian drug development company CBio Limited (ASX:CBZ) will merge with US based Inverseon Inc. in a deal to establish a clinical stage biotech company focused on new treatments for a range of anti-inflammatory diseases.

The acquisition is subject to approval from CBio shareholders but has the unanimous support of the board following a detailed strategic review of the company's future.

Under the terms of the proposed transaction, CBio will acquire Inverseon in exchange for 143,486,978 CBio shares, representing 37.5% of the issued share capital of the merged company.

The merged company will be known as Invion Ltd and will progress a phase II trial of its lead product INV102 for asthma and smoking cessation indications in Q3 2012.

The company also plans to continue development work on CBio's main asset Cpn10 as a potential treatment for the autoimmune disorder Lupus.

Chairman Dr Ralph Craven said the merger would create an anti-inflammatory biotech company with a broad skill base and promising intellectual property.

"One of the early activities will be to progress a regulatory plan applying CBio's lead molecule Cpn10 to Lupus," he said. "This merger provides a solid platform for the potential development of a range of new therapies to address the unmet needs of patients."

Inverseon is a US-based company exploiting the patented use of beta-2 adrenergic inverse agonism for the development of treatments for major market opportunities in inflammatory conditions of the lungs such as asthma, chronic bronchitis and cystic fibrosis. Inverseon's lead product INV102 is an existing beta blocker that has been patented until 2026.

INV102 is a compound known as nadolol, which has been used in more than 8 million people for the treatment of high blood pressure, migraine and chest pain. Inverseon is targeting nadolol for new indications in inflammatory and obstructive conditions of the lungs.

Inverseon chairman Dr William Garner agreed the merger was mutually beneficial, marrying two experienced teams focused on developing successful new anti-inflammatory treatments for a range of disorders.

"We are eager to initiate our collaboration with the National Institutes of Health and with our new colleagues," Dr Garner said.

To date, two phase II clinical trials of Inverseon's INV102 have been completed which have demonstrated acceptable safety as well as dose-related activity showing a reduction of airway hyper-responsiveness.

Two further phase II trials are due to commence in Q3 2012. The larger of these two trials, a phase II $4.4 million study in asthma patients, is expected to be entirely funded by the US National Institutes of Health.

Inverseon was founded in 2004 based on intellectual property from the University of Houston. The company uses the scientific discoveries of Richard A. Bond PhD. who was mentored by Sir James Black (1924-2010) (Nobel Laureate). Professor Bond significantly contributed to the discovery of beta adrenergic inverse agonism, and correctly hypothesised this property as predictive for the effective subset of beta blockers for the treatment of heart failure. Professor Bond's research is the foundation for INV102's use in inflammatory and obstructive conditions of the lungs.

CBio Board of Directors - Strategic Review

The strategic aim of the board in the review and pursuit of potential opportunities has been twofold:

- To broaden the company's pipeline through the in-licensing or acquisition of a new opportunity with sound scientific foundation and near-term milestones; and
- To extract and realise any value that may exist in Cpn10.

As part of the strategic review, the board considered a number of potential opportunities, and as shareholders are aware, RBS Morgans was engaged to assist in this regard. The directors of CBio believe that, of those opportunities reviewed, Inverseon offers the most compelling rationale for a combination of corporate and strategic activities.

The board considers the proposed merger with Inverseon will deliver shareholder value due to the following factors:

- A large market opportunity and the potential to trigger a paradigm shift in the treatment of inflammatory conditions of the lungs;
- A quality senior management team led by William Garner MD, Mitchell Glass MD, who has successfully taken five drugs through FDA approval, and James Campbell PhD;

- Supportive Inverseon shareholders including Barwon Biotechnology, the investment company of Dr Greg Collier;
- An accelerated path to market founded on concurrent development plans, including the early completion of a phase II clinical trial in patients with chronic bronchitis undergoing smoking cessation;
- US$4.4 million of non-dilutive funding allocated by the NIH to complete a large phase II trial in asthma patients;
- Relatively low capital requirements to take the program to key value inflection points, minimising dilution for existing CBio shareholders;
- A solid platform from which to undertake further equity capital raising of up to $5 million, which the board plans to progress in the period following completion of the proposed merger;
- An open commercial Investigational New Drug (IND) application for INV102;
- Phase II data demonstrating acceptable safety as well as dose-related activity;
- Phase II trials in two indications (asthma and smoking cessation) ready to initiate in Q3 2012;
- Existing evidence of the benefit of non-selective beta inverse agonists in chronic obstructive pulmonary disease;
- A patent granted in the US that protects the use of INV102 until 2026;
- The Inverseon business strategy that includes the development of a proprietary selective beta-2 inverse agonist - a New Chemical Entity (NCE) - that could form the basis for a later, higher valuation asset; and
- The regulatory precedent and commercial success of carvedilol, a beta blocker once contraindicated in heart failure but has since become the standard of care reaching peak annual sales in excess of $1 billion. Carvedilol created a paradigm shift in the use of beta blockers for congestive heart failure indicating substantial potential for Inverseon if it can demonstrate the drug is effective for its targeted indications.

Combined Entity

The combined CBio Inverseon entity will be a clinical-stage anti-inflammatory company. In addition to clinical work on INV102, the merged company will continue development work on CBio's primary asset, Cpn10.

The review of Cpn10 has identified an intellectual property package and preliminary clinical data that supports the drug's continued investigation. Based on intellectual property, the hypothesised mechanism of action, preclinical database, a regulatory pathway, safety data to date, and commercial potential, the most promising development target has been identified as Systemic Lupus Erythematosus (SLE or Lupus).

The three-year plan of the merged entity will be:

- To develop oral and inhaled INV102 toward commercially successful launches for diseases including, chronic bronchitis, asthma and cystic fibrosis;
- To establish a regulatory strategy and execute a proof of concept "go/no go" study for Cpn10 in SLE; and
- To develop a proprietary selective beta-2 adrenergic inverse agonist (NCE).

Independent Expert's Report

CBio engaged BDO Corporate Finance (Qld) Limited (BDO) to prepare a report for shareholders about the proposed merger. It concluded that the proposed merger is fair and reasonable to CBio shareholders. A copy of this report will be released to ASX along with this announcement.

The proposed merger is subject to approval by CBio shareholders and a copy of BDO's report will be sent to shareholders along with meeting material.

Merged Entity Board and Management

Following completion of the proposed merger, Dr William Garner will be appointed Executive Director and Chief Executive Officer of the new company. Dr Mitchell Glass will be appointed Executive Director and Chief Medical Officer. Dr James Campbell will be appointed Executive Director. Dr Ralph Craven will chair the new board, and Mr Brett Heading and Mr Warren Brown will continue to serve as non-executive directors.

Dr William Garner

Dr William Garner has a Master of Public Health from Harvard University and received his MD degree from New York Medical College. A licensed New York physician, Dr Garner is an experienced biotech entrepreneur, having founded EGB Advisors, LLC, a pharmaceutical commercialisation boutique which worked to start-up a number of biopharmaceutical businesses, including Inverseon. Dr Garner was President and Chief Executive Officer of Urigen Pharmaceuticals Inc. which moved a procedure-based drug from a university license to a successful phase II multi-centre clinical trial. Dr Garner worked in medical affairs at Hoffmann LaRoche in oncology, after serving with Paramount Capital Investments, a venture capital organization in New York.

Dr Mitchell Glass

Dr Mitchell Glass is a 24 year veteran of the pharmaceutical industry. His experience is broad, ranging from senior positions in top ten pharmaceutical companies, to investment in and management of start-ups and biotechs. After seven years of research, teaching and patient care at the University of Pennsylvania, Dr Glass joined ICI Pharmaceuticals in 1988 where he established the pulmonary therapeutics group and led the development and submission of the antileukotriene ACCOLATE®. From 1995-6, Dr Glass was VP and Director at SmithKline Beecham

where he was responsible for cardiovascular, respiratory, renal and metabolic drug development and commercialisation, including submission of the NDA/MAA for COREG®. From 1998 to 2003, Dr Glass was Chief Medical Officer and VP of Clinical Development and Regulatory Affairs of AtheroGenics, Inc. (AGIX), where he led product development from IND to initiation of Phase 3 for AGI 1067 and was a member of the IPO team. Dr Glass joined AQUMEN Biopharmaceuticals KK and NA as CEO of AQUMEN NA and a Main Board Director. Since 2008, Dr Glass has been a Director of OrphageniX Inc. (gene editing) and AVATAR Biotechnologies (biosimilars) and a consultant in R&D and fundraising to early stage therapeutics companies. Dr Glass graduated from the University of Chicago and is board certified in internal medicine, pulmonary and critical care medicine.

Dr James Campbell

Dr James Campbell is a senior biotechnology executive with more than 20 years experience in scientific research, research management, management consulting and venture capital. Dr Campbell is a principal of Gemini Biotechnology, a specialist biotechnology advisory services company advising life science companies on M&A, partnering and corporate strategy, and is a founder and director of Vitality Devices Pty Ltd. Dr Campbell was an executive at ChemGenex for nine years and has served on the investment committee of UniSeed, a $60 million pre-seed venture fund, and various state and local government advisory committees concerning biotechnology.

Proposed Merger

The proposed merger is subject to customary conditions including obtaining all required regulatory approvals from CBio shareholders. A summary of the key terms of the Merger Agreement is set out below.

On completion of the proposed merger, Dr William Garner and Dr Mitchell Glass will hold approximately 21% of CBio's issued capital. Dr Garner and Dr Glass are likely to be associates in respect of CBio so the proposed merger will require approval under item 7 of section 611 of the Corporations Act.

Investor presentations are being scheduled for Brisbane, Sydney and Melbourne in coming weeks. Shareholders are invited to indicate their interest in participating in an investor presentation by emailing the company at investor@cbio.com.au.

Key terms of the Merger Agreement

The Merger Agreement is an agreement and plan of merger prepared to comply with Delaware law.

The proposed merger will take place by way of a 'reverse triangular merger' under Delaware law. This will involve CBio issuing the consideration shares to a newly incorporated subsidiary, CBio USA Inc. which will then merge with Inverseon. The consideration shares will be transferred to the existing holders of Inverseon securities on completion of this merger.

Following completion of the proposed merger, Inverseon will be a wholly owned subsidiary of CBio.

The proposed merger is subject to a number of conditions including:

- Approval of CBio shareholders;
- Approval of a majority of Inverseon security holders under Delaware law and no holder successfully objecting to the Delaware courts;
- Inverseon security holders entering into escrow arrangements which are acceptable to CBio. It is proposed that Dr William Garner and Dr Mitchell Glass will have all of the CBio shares they receive as consideration under the proposed merger escrowed for a period of 18 months from completion;
- CBio obtaining all regulatory relief required to issue shares to a wholly owned subsidiary and enter into the escrow arrangements with Inverseon shareholders;
- CBio entering into formal employment agreements with Dr Garner and Dr Glass on acceptable terms.

The parties to the merger agreement are CBio, CBio USA, Inc., Inverseon and Dr William Garner.

As the largest shareholder in Inverseon, Dr Garner has provided customary representations and warranties to CBio in relation to Inverseon.

Timing

CBio expects to finalise its meeting material by mid July 2012 and to hold the required meeting of its shareholders before the end of August 2012. The parties expect that the proposed merger will complete during late August or early September 2012.

CBio was advised by RBS Morgans Limited, McCullough Robertson and Greenberg Traurig LLP.

For and on behalf of the Board

MELANIE FARRIS
Company Secretary