CBIO LIMITED
Independent Expert's Report

July 2012

BDO

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Financial Services Guide

The Financial Services Guide ('FSG') is provided to comply with the legal requirements imposed by the Corporations Act 2001 and includes important information regarding the general financial product advice contained in this report ('this Report'). The FSG also includes general information about BDO Corporate Finance (QLD) Ltd ('BDO CFQ' or 'we', 'us' or 'our'), including the financial services we are authorised to provide, our remuneration and our dispute resolution.

BDO CFQ holds an Australian Financial Services Licence to provide the following services:

- Financial product advice in relation to deposit and payment products (limited to basic deposit products and deposit products other than basic deposit products), securities, derivatives, managed investments schemes, superannuation, and government debentures, stocks and bonds; and
- Arranging to deal in financial products mentioned in a) above, with the exception of derivatives.

General Financial Product Advice

The following report sets out what is described as general financial product advice. The Report does not consider personal objectives, individual financial position or needs and therefore does not represent personal financial product advice. Consequently any person using the Report must consider their own objectives, financial situation and needs. They may wish to obtain professional advice to assist in this assessment.

The Assignment

BDO Corporate Finance (QLD) Ltd ABN 54 010 185 725, Australian Financial Services Licence No. 245513 has been engaged to provide general financial product advice in the form of a report in relation to a financial product. Specifically, BDO CFQ has been engaged to provide an independent expert's report to the shareholders of CBio Limited ('CBio' or 'the Company') in relation to the potential acquisition of 100% of the issued securities in Inverseon Inc ('Inverseon') in consideration for the issue and allotment of 143,486,978 fully paid ordinary CBio shares ('the Proposed Transaction').

Further details relating to the Proposed Transaction are set out in Section 3.0 of the Report. The scope of the Report is set out in detail in Section 4.0 of the Report. Our Report provides an opinion as to whether or not the Proposed Transaction is fair and reasonable to the shareholders of CBio ('CBio Shareholders').

The Report cannot be relied upon for any purpose other than the purpose mentioned above and cannot be relied upon by any person or entity other than those mentioned above, unless we have provided our express consent in writing to do so. A shareholder's decision to vote in favour of or against the Proposed Transaction is likely to be influenced by the shareholder's particular circumstances, for example, the shareholder's taxation considerations and risk profile. Each shareholder should obtain their own professional advice in relation to their own circumstances.

Fees, commissions and other benefits we may receive

We charge a fee for providing reports. The fees are negotiated with the party who engages us to provide a report. We estimate that our fees for the preparation of the Report will be approximately $70,000 plus GST. Fees are usually charged as a fixed amount or on an hourly basis depending on the terms of the agreement with the engaging party. Our fees for the Report are not contingent on the outcome of any of the matters to which the Report relates. Our fees do not include fees payable to other experts engaged to provide specialist services and reports which may have been considered in the Report.

Except for the fees referred to above, neither BDO CFQ, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the Report.

Directors of BDO CFQ may receive a share in the profits of BDO Group Holdings (QLD) Pty Ltd, a parent entity of BDO CFQ. All directors and employees of BDO Group Holdings (QLD) Pty Ltd and its subsidiaries (including BDO CFQ) are entitled to receive a salary. Where a director of BDO CFQ is a shareholder of BDO Group Holdings (QLD) Pty Ltd, the person is entitled to share in the profits of BDO Group Holdings (QLD) Pty Ltd.

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From time to time BDO CFQ or its related entities may provide professional services to issuers of financial products in the ordinary course of its business. These services may include audit, tax and business advisory services. BDO CFQ has not provided any services to CBio or Inverseon in the past two years.

BDO CFQ is not an associate of either CBio or Inverseon. The signatory to the Report does not hold any shares in either CBio or Inverseon and no such shares have ever been held by the signatory.

To prepare our reports, including the Report, we may use researched information provided by research facilities to which we subscribe or which is publicly available. Reference has been made to the sources of information in the Report, where applicable. Research fees are not included in the fee details provided in the Report.

Complaints

We are members of the Financial Ombudsman Service. Any complaint about our service should be in writing and sent to BDO Corporate Finance (QLD) Ltd, GPO Box 457, Brisbane QLD 4001.

We will endeavour to resolve the complaint quickly and fairly. If the complaint cannot be satisfactorily resolved within 45 days of written notification, there is a right to lodge a complaint with the Financial Ombudsman Service. They can be contacted on 1300 780 808. This service is provided free of charge.

If the complaint involves ethical conduct, a complaint may be lodged in writing with the Institute of Chartered Accountants, Queensland Branch, GPO Box 2054, Brisbane QLD 4001. The Australian Securities and Investment Commission ('ASIC') also has an Infoline on 1300 300 630 which can be used to make a complaint and obtain information about investor rights.

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Glossary

Reference	Definition
AAAAI	American Academy of Allergy, Asthma & Immunology
ABV	Asset based valuation
ACR	American College of Rheumatology
Act, the	The Australian Corporations Act 2001
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
AZ	AstraZeneca
BDO CFQ	BDO Corporate Finance (QLD) Ltd
Bone Medical	Bone Medical Limited
BRMs	Biological response modifiers
CAGR	Cumulative average growth rate
CB	Chronic bronchitis
CBio	CBio Limited
CBio Shareholders	Current shareholders of CBio Limited
CMC	Chemistry, manufacturing and control
Company, the	CBio Limited
COPD	Chronic obstructive pulmonary disease
Cpn 10	Chaperonin 10
CTA	Clinical trial application
DAS28	Disease activity score
DCF	Discounted cash flow
Directors, the	The directors of CBio Limited
DLE	Discoid Lupus Erythematosus
DMARDs	Disease-modifying anti-rheumatic drugs
EBITDA	Earnings before interest, tax, depreciation and amortisation
EOPII	End of Phase II
ESR	Erythrocyte sedimentation rate
Explanatory Memorandum, the	The Explanatory Memorandum in relation to the Proposed Transaction prepared by CBio, expected to be issued on or about 16 July 2012
FDA	US Food and Drug Administration
FSG	Financial Service Guide
GSK	GlaxoSmithKline
HAQ	Health assessment questionnaire
Hunter	Hunter Immunology Limited
IND	Investigational new drug
INV102 Asthma Trial, the	A multi centre Phase II asthma trial for which the NIH has approved a US$4.4 million research grant

Reference	Definition
Inverseon	Inverseon, Inc.
LABAs	Long-acting beta agonists
MBV	Market based valuation
Merged Entity, the	CBio Limited immediately following the Proposed Transaction
MOA	Mechanism of action
NCE	New chemical entity
NIH	US National Institutes of Health
Notice of Meeting, the	The Notice of Meeting in relation to the Proposed Transaction prepared by CBio, expected to be issued on or about 16 July 2012
Novo Nordisk	Novo Nordisk A/S
NSAIDs	Non-steroidal anti-inflammatory drugs
Performance Rights, the	The performance rights issued to the non-executive directors and employees of CBio Limited on 15 July 2011
PK	Pharmacokinetic
POC	Proof of concept
Probiomics	Probiomics Limited
Proposed Transaction, the	The proposed acquisition by CBio Limited of all of the issued capital in Inverseon Inc in consideration for 143,486,978 fully paid ordinary CBio shares
Protalex	Protalex Inc
RA	Rheumatoid arthritis
Report, this	This independent expert's report prepared by BDO CFQ for CBio Limited, dated 2 July 2012
RG 111	Regulatory Guide 111: Content of Expert Reports
RGs	The Regulatory Guides published by ASIC
rNPV	Risk-adjusted net present value
SABAs	Short-acting beta agonists
SC	Smoking cessation
SEC	US Securities and Exchange Commission
SJC	Swollen joint count
SLE	Systemic Lupus Erythematosus
TJC	Tender joint count
Trial, the	CBio's Phase IIa clinical trial to evaluate the efficacy of XToll®
VWAP	Volume-weighted average share price
We, us and our	BDO Corporate Finance (QLD) Ltd

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2 July 2012

Independent Expert's Report

1.0 Introduction

BDO Corporate Finance (QLD) Limited ('BDO CFQ') has been engaged by the directors of CBio Limited ('the Directors') to prepare an independent expert's report ('this Report') to the shareholders of CBio Limited ('CBio' or 'the Company') in relation to CBio's potential acquisition of 100% of the issued capital in Inverseon Inc ('Inverseon') ('the Proposed Transaction'). As consideration for all of the issued capital in Inverseon, CBio will issue and allot 143,486,978 fully paid ordinary CBio shares to the security holders[1] of Inverseon, representing 37.5% of the total issued share capital in the merged entity ('the Merged Entity'). Dr William Garner, an Inverseon security holder, will be issued 66,072,728 CBio shares which will represent approximately 17.27% of the total issued share capital in the Merged Entity. We are instructed that Dr Mitchell Glass is an associate of Dr William Garner and together they will control interests of 21.16% in the Merged Entity.

A more detailed discussion of the Proposed Transaction is set out in Section 3.0 of this Report. The scope of this Report and the basis for assessing the Proposed Transaction is set out in detail in Section 4.0 of this Report.

In this Report, BDO CFQ has expressed an opinion as to whether the Proposed Transaction is fair and reasonable to the shareholders of CBio ('CBio Shareholders'). We understand that this Report will be provided to the CBio Shareholders to assist them to make an informed decision on whether to vote in favour of or against the Proposed Transaction. Apart from the purpose stated directly above, this Report cannot be used or relied on for any other purpose or by any other person or entity.

This Report does not address circumstances specific to individual CBio Shareholders. A CBio Shareholder's decision to vote in favour of or against the Proposed Transaction is likely to be influenced by their own particular circumstances including, for example, their taxation considerations and risk profile. CBio Shareholders should obtain their own professional advice in relation to their own circumstances.

[1] Inverseon security holders refers to all holders of Inverseon shares, options, warrants and convertible notes.

This Report should be read in full, including the assumptions underpinning our work, together with the other information provided to CBio Shareholders in conjunction to this Report, including the Explanatory Memorandum prepared by CBio expected to be dated on or about 16 July 2012 ('the Explanatory Memorandum') and the Notice of Meeting prepared by CBio and expected to be dated on or about 16 July 2012 ('the Notice of Meeting').

2.0 Summary of Opinion

This section of the Report is a summary of our opinion and cannot substitute for a complete reading of this Report.

We strongly recommend that CBio Shareholders consult their own professional advisers, carefully read all relevant documentation provided, including the Notice of Meeting and Explanatory Memorandum, and consider their own specific circumstances before voting in favour of or against the Proposed Transaction.

2.1 Fairness of the Proposed Transaction

Our assessment of the fairness of the Proposed Transaction is set out in Section 12.0 of this Report. In summary, to assess whether the Proposed Transaction is fair, we:

(a) Determined the value of CBio prior to the Proposed Transaction (refer to Section 10.0 of this Report for a detailed discussion on how this value was determined in relation to CBio);

(b) Determined the value of Inverseon prior to the Proposed Transaction, adopting a valuation approach that is equivalent to the valuation approach adopted in (a) above (refer to Section 11.0 of this Report for a detailed discussion on how this value was determined in relation to Inverseon); and

(c) Compared the value determined in (a) above with the value determined in (b) above.

The Proposed Transaction is considered to be 'fair' to CBio Shareholders if the value in (a) above is equal to or less than 62.5% of the combined value of (a) and (b), being the share of the Merged Entity that CBio Shareholders will be entitled to.

Table 2.1 below summarises the value contribution of CBio and Inverseon to the Merged Entity for the purpose of the analysis set out in this Report.

Table 2.1: Summary of Value Contribution of CBio and Inverseon to the Merged Entity

	CBio	Inverseon
Value Contribution – High (A$ million)	**24.69**	**19.90**
Value Contribution – Mid-point (A$ million)	**21.29**	**16.65**
Value Contribution – Low (A$ million)	**18.14**	**13.40**
Relative Value Percentage Contribution to Merged Entity		
Relative Value Contributions – CBio High / Inverseon High	55.3%	44.7%
Relative Value Contributions – CBio Mid-point / Inverseon Mid-point	56.2%	43.8%
Relative Value Contributions – CBio Low / Inverseon Low	57.5%	42.5%
Relative Value Contributions – CBio High / Inverseon Low	64.8%	35.2%
Relative Value Contributions – CBio Low / Inverseon High	47.7%	52.3%

We note that the Proposed Transaction would be considered fair to CBio shareholders in circumstances where CBio's contribution to the Merged Entity is less than 62.5%.

The analysis set out in Table 2.1 above indicates that on a like-for-like basis (i.e. comparing low with low, mid-point with mid-point and high with high), CBio's contribution to the value of the Merged Entity is in the range of 55.3% to 57.5%. As this is less than 62.5%, it indicates that the Proposed Transaction is fair.

When CBio's contribution to the value of the Merged Entity is considered having regard to the CBio High / Inverseon Low scenario, CBio's contribution to the value of the Merged Entity drops to 47.7%. When CBio's contribution to the Merged Entity is considered having regard to the CBio Low / Inverseon High scenraio, CBio's contribution to the value of the Merged Entity increases to 64.8% which is above the 62.5% threshold.

In forming our view on the Proposed Transaction, we have had regard to the fact that under the CBio High / Inverseon Low scenario, CBio's contribution to the Merged Entity is 14.8% below the 62.5% threshold while under the CBio Low / Inverseon High scenario, CBio's contribution to the Merged Entity is 2.3% above the 62.5% threshold.

After considering the matters summarised above, and set out in the balance of this Report, it is our view that, in the absence of any other information, the Proposed Transaction is **fair** as at the date of this Report.

2.2 Reasonableness of the Proposed Transaction

In accordance with Regulatory Guide 111: Content of Expert Reports, a transaction is considered reasonable if it is fair. Notwithstanding this, we have also considered the reasonableness of the Proposed Transaction having regard to other significant factors to which CBio Shareholders may consider prior to deciding whether to vote in favour of or against the Proposed Transaction. This includes comparing the likely advantages and disadvantages of the Proposed Transaction with the position of the CBio shareholders if the Proposed Transaction is not approved.

Table 2.2 below summarises the advantages and disadvantages of the Proposed Transaction to CBio Shareholders.

Table 2.2: Summary of Advantages and Disadvantages of the Proposed Transaction

Advantages	Disadvantages
CBio shareholders will hold an interest in a biotechnology company which will hold a more diversified patent portfolio for drugs which target inflammatory disease. The Merged Entity will also have resources in both Australia and the US.	CBio Shareholders will hold a diluted interest of 62.5% in the XToll® technology. It is possible that future clinical trials may deem the XToll® technology viable for commercialisation. If CBio develops XToll® to be a profitable product, CBio Shareholders exposure to the potential upside will be lower.
Inverseon's board is highly experienced with individual members having a proven track record of successfully developing and commercialising products.	Inverseon is a private company and there is significant uncertainty as to the value in which the market will ascribe to Inverseon following the Proposed Transaction.
The Merged Entity may be able to leverage its existing competencies across drug/technology platforms to enable more efficient research and development in the inflammatory disease market.	Due to the early stage of clinical trials for the use of INV102 as a treatment for respiratory disease, there is uncertainty as to whether the product will become commercially viable and generate future profitability.

Advantages	Disadvantages
CBio's potential access to Australian capital markets may enable the Merged Entity to fund clinical trials of INV102, which is significantly less capital intensive than XToll®. If INV102 becomes a commercialised product, CBio will benefit from any upside.	Immediately following the Proposed Transaction, Dr William Garner and his associates will hold an aggregate interest in approximately 21.16% of the issued share capital of the Merged Entity. An interest of 21.16% gives Dr William Garner and his associates significant influence over the nomination of board members of the Merged Entity, and consequently, significant influence over the Merged Entity's future operations. This may deter the possibility of a third party making a takeover offer for CBio in the future.
The Proposed Transaction will give CBio access to research facilities and other resources in the US. A US presence may enable CBio to more easily capitalise on the significantly larger US biotechnology market by partnering with US pharmaceutical manufacturers.	
The US National Institutes of Health ('NIH') has approved a US$4.4 million research grant to conduct a multi centre Phase II asthma trial under Inverseon's IND application.	
Access to future research grants in the US may be achieved through the relationships which exist between the Inverseon board members and key organisations.	

Source: BDO CFQ analysis

CBio Shareholders should refer to Section 13.0 of this Report for a more detailed discussion of the advantages and disadvantages relating to the Proposed Transaction as well as a consideration of the position of the CBio Shareholders if the Proposed Transaction does not proceed. Section 13.0 also sets out other matters which CBio Shareholders should consider to prior to voting on the Proposed Transaction.

After considering the advantages, disadvantages and other considerations summarised above and set out in further detail in the balance of this Report, it is our view that, in the absence of any other information, the Proposed Transaction is **reasonable** as at the date of this Report.

2.3 Other Matters

Notwithstanding our view above, we note that both CBio and Inverseon are company's that rely on the development of compounds which are currently at an early stage of clinical trials. In our view, the value of such companies may increase or decrease materially over short time periods depending on the ability to meet certain milestones. Refer to Section 9.5 of this Report for more information in relation to the risks specific to biotechnology companies

Further, we note that the valuation work set out in Sections 10.0 and 11.0 in relation to CBio and Inverseon has been prepared primarily to allow a comparison of the relative values being contributed by CBio and Inverseon to the Merged Entity. While it is our view that the values we have adopted are appropriate for assessing the Proposed Transaction, it is our view that the share market value of the companies on a merged basis will depend on the economic conditions and operational prospects that exist at the time and may differ to the sum of our values for CBio and Inverseon.

Before forming a view on the Proposed Transaction, we strongly recommend that CBio Shareholders:

- Consult their own professional advisers;
- Carefully read all relevant documentation provided to them including this Report, the Notice of Meeting, the Explanatory Statement and all other information provided; and
- Consider their own specific circumstances and assess the way in which those circumstances might impact their decision to vote in favour of or against the Proposed Transaction.

The analysis set out in this Report has relied on certain economic, market and other conditions prevailing as at the date of this Report. We note that changes in these conditions may have a material impact on the results presented in this Report. BDO CFQ is not responsible for updating this Report in the event that these circumstances change.

3.0 Overview of the Proposed Transaction

This section sets out an overview of the Proposed Transaction and is structured as follows:

- Section 3.1 provides a brief description of the parties involved in the Proposed Transaction;
- Section 3.2 provides a description of the Proposed Transaction;
- Section 3.3 sets out the conditions of the Proposed Transaction; and
- Section 3.4 discusses the strategic rationale for the Proposed Transaction.

3.1 Description of the Parties Involved

3.1.1 CBio

CBio is an Australian incorporated public company which was established in 2000 to develop and commercialise treatments for autoimmune and inflammatory diseases. The Company's lead product, XToll®, is a potential new-generation drug therapy which aims to provide a safer and more effective treatment of autoimmune diseases such as rheumatoid arthritis ('RA'). In July 2011, CBio completed Phase IIa clinical trials of XToll® ('the Trial'). The results of the Trial did not meet the primary endpoint (i.e. the mean values across the trial population were not statistically different between XToll® treated patient groups and placebo treated patient groups). CBio currently holds an extensive global intellectual property portfolio relating to the XToll® and chaperonin 10 ('Cpn 10') technologies. Refer to Section 5.0 of this Report for a more detailed description of CBio.

3.1.2 Inverseon

Inverseon is a private company which is based in San Francisco, USA. Inverseon is focussed on the development and commercialisation of treatments for respiratory diseases such as asthma, chronic obstructive pulmonary disease ('COPD'), chronic cough and cystic fibrosis. Inverseon's lead product, INV102, is a beta inverse agonist which has been shown to down-regulate the intrinsic pro-inflammatory constitutive actions of beta-2 receptors found in the airways of humans. Inverseon has completed Phase IIa proof of concept clinical studies on INV102 which have demonstrated results to support further research and more advanced clinical trials. Inverseon is ready to commence further Phase II trials in two indications: asthma and smoking cessation. The NIH has approved a US$4.4 million research grant to conduct a multi centre Phase II asthma trial ('the INV102 Asthma Trial') under Inverseon's investigational new drug ('IND') application. Refer to Section 6.0 of this Report for a more detailed description of Inverseon.

3.2 Description of the Proposed Transaction

On 2 July 2012, CBio announced that it had entered into a Merger Agreement with Inverseon to acquire 100% of the issued capital of Inverseon. As consideration for the acquisition, CBio will issue and allot to the security holders of Inverseon 143,486,978 ordinary CBio shares, which in aggregate will represent 37.5% of the total outstanding share capital of Merged Entity. Dr William Garner, an Inverseon shareholder, will be issued 66,072,728 CBio shares which will represent approximately 17.27% of the total issued share capital in the Merged Entity. We are instructed that Dr Mitchell Glass is an associate of Dr William Garner and together they will control interests of 21.16% in the Merged Entity. The shares issued by CBio to Inverseon security holders under the Proposed Transaction will rank equal in all respects to the current outstanding share capital of CBio and will be quoted on the Australian Securities Exchange ('ASX').

We understand that the Proposed Transaction will be undertaken as a reverse triangular merger under Delaware law in the US. For a more detailed description of the process under which the Proposed Transaction will be implemented, CBio Shareholders should refer to section 1.10 of the Notice of Meeting.

We note that as at the date of this Report CBio has 38,884,829 share options on issue. With the exception of 1,700,000 unlisted options which expire in May 2015, the remaining options outstanding in CBio expire on 31 December 2012 and have exercise prices between A$1.00 and A$3.00. As these options are considered to be significantly 'out of the money', we have been instructed by the directors of CBio that it is expected that they will not be exercised and will expire on 31 December 2012. Consequently, the CBio options were not considered when determining the respective ownership interests of CBio and Inverseon shareholders in the Merged Entity.

We also note that CBio has approximately 1,900,000 performance rights on issue which expire on 19 July 2018. Upon the occurrence of a vesting event, holders of performance rights will be entitled to one share per performance right held. In our view, the Proposed Transaction is a vesting event, and in this circumstance, CBio will be required to issue a further 1,900,000 shares if the Proposed Transaction is approved. Refer to Section 5.3.2 for a more detailed discussion of the Performance Rights.

In this report we have not provided an opinion on the Proposed Transaction to either holders of options or performance rights in CBio.

3.3 Conditions of the Proposed Transaction

Completion of the Proposed Transaction will be subject to the satisfaction the following conditions:

- Approval by a requisite majority of CBio Shareholders voting at a general meeting under item 7 of section 611 of the Corporations Act 2001 ('the Act') for the issue CBio shares to the Inverseon security holders;
- Approval by a requisite majority of CBio Shareholders voting at a general meeting under chapter 2E of the Act for the giving of a financial benefit to a related party by way of the issue of CBio shares to Inverseon security holders who will be appointed as directors of the Merged Entity;

- Approval by a requisite majority of CBio Shareholders voting at a general meeting under ASX Listing Rule 7.1 for the issue and allotment CBio shares to the Inverseon security holders, other than those Inverseon security holders deemed to be associates as set out in section 3.4 of the Notice of Meeting;
- A majority of Inverseon security holders approving the Proposed Transaction under Delaware law and no holder successfully objecting to the Delaware courts;
- CBio obtaining exemptions from the Australian Securities and Investment Commission ('ASIC') in relation to section 259C and section 606 of the Act to permit the issue of CBio shares to Delaware NewCo (being the third company required to implement a reverse triangular merger) and also the escrow arrangements noted immediately below;
- Escrow agreements being entered into by Inverseon security holders in relation to the CBio shares to be received under the Proposed Transaction;
- The Agreement and Plan of Merger requires that the terms of the employment arrangements with Inverseon management be acceptable to CBio;
- No material adverse change occurring in respect of either CBio or Inverseon prior to the Proposed Transaction; and
- No material breach of the warranties by either CBio or Inverseon given under the Agreement and Plan of Merger occurring prior to the Proposed Transaction.

3.4 Strategic Rationale of the Proposed Transaction

We have been advised by CBio that the Proposed Transaction is expected to provide a number of strategic benefits which may deliver value to CBio Shareholders through the development of the intellectual property of both CBio and Inverseon. The directors of CBio have identified the following strategic benefits which are expected to be realised from the Proposed Transaction:

- The opportunity to trigger a paradigm shift in the treatment of obstructive lung diseases by progressing the technologies patented by Inverseon;
- The ability to benefit from the NIH grant which has been granted to conduct the INV102 Asthma Trial;
- The appointment of Dr William Garner and Dr Mitchell Glass to the board of CBio may allow the Company to leverage their extensive industry experience and relationships in the US market; and
- The Company may be able to leverage its existing competencies with those of Inverseon to create a broad-based company focussed on the development and commercialisation of compounds targeting a wider range of inflammatory-based diseases.

4.0 Scope of Report & Methodology for Assessment

4.1 Scope of the Report

An independent expert, in certain circumstances, must be appointed to meet the requirements set out in the Act, the regulatory guides ('RGs') published by ASIC and in some cases, the listing requirements of the stock exchanges on which a company is listed. We have summarised the requirements of the Act and the ASX listing requirements in Sections 4.1.1 and 4.1.2 below respectively. We have summarised the guidance provided by the RGs in Section 4.2 below.

The sole purpose of this Report is to express BDO CFQ's opinion on whether the Proposed Transaction is fair and reasonable to CBio Shareholders.

This Report cannot be used by any other person for any other reason or for any other purpose. A copy of this Report will accompany the Notice of Meeting and the Explanatory Statement to be sent to CBio Shareholders by the Company.

This Report is general financial product advice only and has been prepared without taking into account the objectives, risk profile, financial situation or needs of individual CBio Shareholders. Before acting in relation to their investment, individual CBio Shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs (including their own taxation consequences). CBio Shareholders should read in full the Notice of Meeting and Explanatory Statement.

The decision to vote in favour of or against the Proposed Transaction is a matter for individual shareholders based on their expectations as to value and future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. CBio Shareholders should consult their own professional adviser.

4.1.1 Requirements of the Corporations Act

Section 606 of the Act states that, subject to the exceptions set out in section 611, a 'relevant interest' in issued voting shares in a listed company cannot be increased from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%. Broadly, a 'relevant interest' is defined as an interest giving the holder the power to control the right to vote or dispose of shares.

If the Proposed Transaction is approved, Inverseon security holders will be issued 143,486,978 ordinary shares in CBio representing approximately 37.5% of the total ordinary shares in the Merged Entity. Dr William Garner, an Inverseon shareholder, will be issued 66,072,728 CBio shares comprising approximately 17.27% of the total shares on issue in the Merged Entity. We are instructed that Dr Mitchell Glass is an associate of Dr William Garner and together they will control interests of 21.16% in the Merged Entity. As a result, Dr William Garner and his associates will hold a relevant interest of more than 20% in the Merged Entity, which is in breach of section 606 of the Act. An exemption from section 606 must therefore be sought under item 7 of section 611 of the Act.

Item 7 of section 611 allows a party to gain a relevant interest in shares of a public company that would otherwise be prohibited under section 606 of the Act if the Proposed Transaction is approved in advance by a resolution passed at a general meeting of the Company, and:

(a) No votes are cast in favour of the resolution by any party who is associated with the party acquiring the shares, or by the party acquiring the shares; and

(b) There was full disclosure of all information known by both the party proposing to make the acquisition, their associates and the Company in relation to the Proposed Transaction which was material to a decision on how to vote on the resolution.

Regulatory Guide 74 'Acquisitions Agreed to by Shareholders' states that the obligation to supply shareholders with all information that is material can be satisfied by the non-associated directors of CBio by either:

- undertaking a detailed examination of the Proposed Transaction themselves if they consider that they have sufficient expertise; or
- by commissioning an independent expert's report.

We have been requested to prepare this independent expert's report to provide additional information to the non-associated shareholders of CBio to assist them to form a view on whether to vote in favour of or against the Proposed Transaction.

4.1.2 Listing Requirements

This Report has not been prepared for the purpose of complying with any ASX Listing Rules.

4.2 Assessment Methodology

The Act does not provide any specific guidance in relation to the principles and content of an expert's report relating to the approval of a sale of securities under item 7 of section 611 of the Act. However ASIC are of the view that the report should follow the requirements of other expert reports under the Act and ASIC have set out specific guidance in RG 111 'Content of Expert Reports' ('RG 111') in relation to the approval of the issue of securities under item 7 of section 611 of the Act.

RG 111 states that, in the event that a company issues securities to the vendor of another entity or to the vendor of a business and, as a consequence, the vendor acquires over 20% of the company incorporating the merged interest, the transaction should be analysed as if it was a takeover bid. In such circumstances, references to the 'target' (i.e. Inverseon) and 'bidder' (i.e. CBio) should be taken to mean the 'allottee' and the 'company' respectively.

When analysing a takeover bid, RG 111 states that an expert is required to give an opinion as to whether the Proposed Transaction is 'fair and reasonable' to the shareholders. The expert's report should explain how the particulars of the proposal were evaluated as well as the results of the examination and evaluation. RG 111 also provides guidance on common valuation methodologies and certain matters which should be considered by an expert when completing a valuation.

To meet the ASIC requirements, an expert seeking to determine whether a proposal is 'fair and reasonable' should complete the steps set out below.

4.2.1 Step 1 – Assessment of Fairness

To assess whether the Proposed Transaction is 'fair', in our view it is appropriate to:

(a) Determine the value of CBio prior to the Proposed Transaction. This analysis is set out in Section 10.0 of this Report;

(b) Determine the value of Inverseon prior to the Proposed Transaction adopting a valuation approach that is equivalent to the valuation approach adopted in (a) above. This analysis is set out in Section 11.0 of this Report; and

(c) Compare the value determined in (a) above with the value determined in (b) above. Having regard to the guidance set out in RG 111, it is our view that is appropriate to consider the Proposed Transaction 'fair' to CBio Shareholders if the value in (a) above is equal to or less than 62.5% of the combined value of (a) and (b), being the share of the Merged Entity that CBio Shareholders will be entitled to. This analysis is set out in Section 12.0 of this Report.

In forming our view on the most appropriate methodology to adopt for assessing the fairness of the Proposed Transaction we have had regard to matters including the following:

- The value in CBio is derived primarily from its cash and cash equivalents and the XToll® technology, while the value in Inverseon is derived primarily from the INV102 technology and the NIH research grant which has been awarded to conduct a multi centre Phase II asthma trial under Inverseon's IND application;
- If the Proposed Transaction is approved, four CBio directors (Dr James Campbell, Dr Ralph Craven, Mr Warren Brown and Mr Brett Heading) will remain on the board of the Merged Entity and two Inverseon nominees (Dr William Garner and Dr Mitchell Glass) will become directors;
- Dr William Garner, a shareholder of Inverseon, will be the largest shareholder in the Merged Entity with an interest in 17.27% of the Merged Entity's ordinary shares. We are instructed that Dr Mitchell Glass is an associate of Dr William Garner and together they will control interests of 21.16% in the Merged Entity. Guidance set out in RG 111 indicates that if the vendor of a business receives more than 20% of the merged businesses then the valuation comparison should be made assuming 100% ownership (i.e. the actual percentage of shares received and held by the vendor should not be considered). The reason provided in RG 111 for this guidance is that the vendor of the business could have achieved the same or similar outcome by launching a scrip takeover for the company;
- CBio will acquire 100% of Inverseon which is a controlling interest;
- CBio shareholders will own 62.5% of the shares in the Merged Entity while Inverseon shareholders will own 37.5% of the shares in the Merged Entity; and
- Paragraphs RG 111.30 to 111.34 of RG 111 set out guidance in relation to assessing non-cash consideration in control transactions.

4.2.2 Step 2 – Assessment of Reasonableness

To assess whether the Proposed Transaction is 'reasonable', in our view it is appropriate to examine other significant factors to which CBio Shareholders may give consideration to prior to deciding whether to vote in favour of or against the Proposed Transaction. This evaluation may involve comparing the likely advantages and disadvantages of approving the Proposed Transaction with the position of a CBio Shareholder if the Proposed Transaction is not approved, as well as a consideration of other significant factors.

4.2.3 Step 3 – Expert's Opinion

Upon completion of steps 1 and 2 above, it may be possible to conclude whether the Proposed Transaction is 'fair' and/or 'reasonable' to CBio Shareholders. We note that under RG 111, the Proposed Transaction is considered to be 'reasonable' if it is 'fair'. It may also be possible to conclude that the Proposed Transaction is 'reasonable' if there are sufficient valid reasons for the approval, notwithstanding that the Proposed Transaction may not be 'fair' to the CBio Shareholders.

This Report will conclude by providing our opinion as to whether or not the Proposed Transaction is 'fair and reasonable'. While all relevant issues must be considered prior to forming an overall opinion, we will assess the fairness and reasonableness issues separately for clarity.

In this Report we have not provided any taxation, legal or other advice in relation to the Proposed Transaction. Other advisors have provided advice on those matters to CBio in relation to the Proposed Transaction.

In the process of assessing the Proposed Transaction, we have relied on certain economic, market and other conditions prevailing at the date of this Report. We note that changes in these conditions may have a material impact on the results presented in this Report. BDO CFQ is not responsible for updating this Report in the event that these circumstances change.

This Report has been prepared in accordance with professional standard APES 225 'Valuation Services' issued by the Accounting Professional and Ethical Standards Board Limited.

5.0 Background of CBio

Section 5.0 of this Report is set out as follows:

- Section 5.1 provides an overview of CBio and its operations;
- Section 5.2 sets out the group structure of CBio;
- Section 5.3 sets out the equity structure of CBio;
- Section 5.4 summarises the recent share market performance of CBio; and
- Section 5.5 summarises the recent historical financial information of CBio.

The information set out in this section has been obtained from various sources including publicly available information and other reports, comments and instructions provided by the directors and management of CBio.

5.1 CBio Company Description

5.1.1 CBio

CBio is an Australian public company with headquarters in Brisbane. CBio was established in 2000 to develop and commercialise treatments for autoimmune and inflammatory diseases. CBio's lead product XToll® is a potential new-generation drug therapy which aims to provide a safer and more effective treatment of autoimmune diseases such as rheumatoid arthritis. RA is an autoimmune disease where the body's tissues are mistakenly attacked by the immune system.

In July 2011, CBio announced to the ASX the results of its Phase IIa clinical trial which evaluated the efficacy and safety of XToll® in 155 patients with moderate to severe RA. We have discussed the results of the Trial further in Section 5.1.3 below.

CBio has acquired an extensive global intellectual property portfolio relating to XToll® and Cpn 10 technology.

5.1.2 XToll®

To date, XToll® has been targeted to address the current market requirement for a first line combination therapy for RA. RA is an autoimmune disease where the body's tissues are mistakenly attacked by the immune system. The primary side effect of autoimmune conditions is chronic or uncontrolled inflammation.

XToll® is a modified version of Cpn 10 that has been optimised for commercial development. Cpn 10 is a naturally occurring protein which is present in all cells. Cpn 10 is a heat shock protein which in conjunction with chaperonin 60, performs the role of protein folding (i.e. it assists proteins develop into the correct shape required for them to function effectively). Further to this protein folding function, extracellular Cpn 10 was found to have a distinct activity as an anti-inflammatory mediator. Preclinical studies at the University of Queensland found that Cpn 10 played a key role in down-regulating the innate immune response in patients during pregnancy and that Cpn 10 appeared to intercede at a very early stage of the inflammatory process to prevent the over-expression of pro-inflammatory cytokines. Based on these findings, CBio acquired a worldwide exclusive licence for the Cpn 10 intellectual property, and developed XToll®.

XToll® differs from current registered therapies for the treatment of RA as it is thought not to compromise the immune system of patients. Cpn 10 is thought to function as a natural regulator of the human immune system, it is released locally by activated or damaged cells in response to 'danger' signals, and down-regulates inflammatory immune responses. In disease states, however, the levels of Cpn 10 may not be high enough to control inflammation. It is hypothesised that the administration of pharmacological levels of Cpn 10 (provided as XToll®) may overcome ongoing inflammatory signals and result in therapeutic benefit. This is in contrast to current registered treatment options for RA which aim to decrease the effects of RA by suppressing the body's immune system response. This can make patients more susceptible to various other diseases and/or infections.

XToll® is the only product currently being trialled by CBio. We have been instructed that all of the patents held by CBio relate to XToll® and CBio's Cpn 10 technology.

5.1.3 Phase IIa RA clinical trials of XToll®

This section sets out information in relation to CBio's Phase IIa clinical trial to evaluate the efficacy and safety of XToll®.

Overview of the trial

In July 2011, CBio announced to the ASX the results of its Phase IIa clinical trial to evaluate the efficacy and safety of XToll® in 155 patients with moderate to severe RA despite treatment with Methotrexate, a current therapy for the treatment of RA. The final report of the Trial was received in October 2011. Patients on the Trial were randomized to receive 75mg of XToll®, 25mg of XToll® or placebo via subcutaneous injections twice-weekly for 24 weeks.

The 24 week study was a proof-of-concept trial and not a dose ranging trial to determine the optimum dosing regimen. All patients in the Trial continued on their maximum tolerated dose of Methotrexate. Patients for the Trial were recruited from centres across Australia, New Zealand, and Central and Eastern Europe. Patients in Australia and New Zealand who completed the 24 week study were offered the opportunity to participate in a long-term follow-up extension trial for the purposes of further monitoring the efficacy and safety of XToll®.

Measures

The results of the Trial were measured using the American College of Rheumatology ('ACR') standardized measure of improvement in RA symptoms. This is a composite measure that considers tender or swollen joint counts and improvement in three of the following five parameters: acute phase reactant such as sedimentation rate, patient assessment, physician assessment, pain scale and disability/functional questionnaire.

The results are reported as a percentage of patients achieving a target level of response. By way of example, an ACR50 response records the percentage of patients with at least a 50% improvement in the signs and symptoms of RA.

The primary endpoint of the Trial was measured by the percentage of patients achieving an ACR20 response at week 12. In addition to the primary endpoint, a number of secondary endpoints were set including ACR50, ACR70 and ACR-N responses, swollen joint count ('SJC'), tender joint count ('TJC'), disease activity score ('DAS28') and health assessment questionnaire ('HAQ') measures across a range of time frames.

Results

The results of the Trial are summarised in Table 5.1 below.

Table 5.1: Results of Phase IIa RA Clinical Trials of XToll®

Measures	Findings
Primary Endpoint	
ACR20	ACR20 mean values across the trial population were not statistically different between XToll® treated patient groups and placebo treated patient groups. The primary endpoint of the Trial was therefore not met. Mean values for the ACR20 response at the end of week 12 were 42% in patients receiving 75mg, 35% in patients receiving 25mg, and 30% in those receiving placebo.
Secondary Endpoints	
ACR-N scores	The XToll® 75mg patient group showed statistically significant improvement in ACR-N scores, a sensitive measure of disease activity which tracks worsening as well as improvement across a range of RA signs and symptoms, compared to the placebo group.
SF36	Statistically significant and clinically meaningful improvement in disease activity, as defined by SF36 measures (patients' vitality and emotional well being), was observed at week 12 in the 75mg patient group.
TJC & SJC	Tender Joint Counts and Swollen Joint Counts were statistically significantly reduced at the week 12 primary endpoint.
Time to ACR 50	Time to achieve at least a 50% improvement in symptoms was significantly better in the XToll® treated patient group.
Erythrocyte sedimentation rate ('ESR')	ESR, a marker of inflammation in the blood, was significantly lower in the XToll® treated patient group at week 16 and week 24.
Interleukin-6	Interleukin-6, a marker of inflammation, was significantly reduced in the blood of XToll® treated patients. Circulating serum IL-6 levels were elevated in RA patients, however the reduction in circulating IL-6 observed in the 75mg patient group approached the normal range reported for healthy subjects.
ACR20 (subset)	Analyses of a distinct subset of patients in the Trial, being those with disease activity duration of ≥14 years, shows a statistically significant difference between 75mg XToll® patient group and placebo group in ACR20 values (the primary endpoint) at week 12.
Other Trends	
Extension trial	Patients who continued to receive XToll® in the extension protocol continued to show signs of clinical response for up to 52 weeks.
Health Assessment Questionnaire	Clinically meaningful signals of efficacy were demonstrated in the Health Assessment Questionnaire for patients treated with 75mg of XToll®.
Safety Profile	Overall XToll® was safe and well-tolerated. Injection site reactions tended to be more common in the XToll® patient groups compared to the placebo. The majority of injection site reactions were mild in intensity and did not require treatment. No additional safety signals were detected in the 52-week extension trial.

Source: CBio Limited

We note from Table 5.1 above that the primary endpoint of the Trial was not met as the difference in ACR20 mean values of the XToll® treated patient groups and the placebo treated patient groups was not statistically significant. The Trial did however show statistically significant or clinically meaningful improvement in a number of other measures of improvement, or secondary endpoints, in RA signs and symptoms.

5.1.4 Other Clinical Trials

CBio has conducted a number of other clinical trials prior to the Trial discussed in Section 5.1.3 above. These trials were generally smaller in scale and covered a range of diseases. A summary of the other trials conducted by CBio in recent years is set out in Table 5.2 below.

Table 5.2: Summary of Other Clinical Trials Conducted by CBio

Year Started	Phase	Indication	Route	Total Patients	XToll Patients	Doses	Details
2003	1a	Healthy Volunteers	IV/SC	19	14	IV: 1, 2.5, 5, 10mg SC: 5mg	1 placebo in each cohort
2004	1b	Multiple Sclerosis	IV	12	9	2.5 or 5mg x 5	1 placebo in each cohort
2005	2a	Multiple Sclerosis	IV	50	39	5mg 1x - 2x/weekly	11 patients received placebo 2x weekly
2005	2	Ulcerative Colitis	IV	8	8	5mg	Terminated early
2005	2a	Plaque Psoriasis	IV	24	24	5, 7.5mg or 10mg 2x weekly	No placebo
2005	2a	Rheumatoid Arthritis	IV	23	23	5, 7.5mg or 10mg 2x weekly	No placebo
2006	1a	Healthy Volunteers	SC	24	16	10, 30, 60, 100mg	Single dose, 2 placebo in each cohort
2006	1b	Healthy Volunteers	SC	22	17	30, 60, 60x2, 80mg	Multiple dose, 1 placebo in each cohort

Source: CBio Limited
Note: IV – intravenous administration; SC – subcutaneous administration

We note from Table 5.2 above that CBio has previously conducted one other RA trial where the dosage of XToll® was administered intravenously.

CBio's pre clinical research with mice indicates that in addition to RA, XToll® could have utility in the treatment of human lupus, either alone or as part of a drug combination therapy. In CBio's study, treatment of mice with XToll® entirely prevented cutaneous lupus. XToll® also significantly suppressed nephritis in the kidneys, and significantly prolonged the life span of the mice. In humans, nephritis in the kidneys is a major cause of mortality and shortened life span of patients with lupus. The results of CBio's pre clinical research have been published in the Oxford Journals publication, Nephrology Dialysis Transplantation, in October 2011.

5.1.5 Commercial Agreements & Licensing

In 2007, CBio had signed an option agreement with Novo Nordisk A/S ('Novo Nordisk') which, if exercised, would give Novo Nordisk the right to negotiate an exclusive license agreement for the further development and commercialisation of XToll®. Novo Nordisk is a Danish healthcare company with a primary focus on diabetes care and a supplementary focus on biopharmaceutical products. Novo Nordisk employs approximately 32,000 people in 75 countries and markets its products in 179 countries.

Under the terms of the option agreement, CBio had received approximately US$2.1 million from Novo Nordisk in July 2008 and a further milestone payment of approximately US$1.1 million was received in March 2010 upon recruitment of the 75th patient for the Trial.

Novo Nordisk has declined to exercise this option following the findings of the Trial. As a result of Novo Nordisk's decision CBio now has the right to develop and commercialise XToll® either independently or in collaboration with other third parties.

5.1.6 Outlook and Further Product Development

The directors of CBio are of the opinion that despite failing to meet its primary endpoint, the results of the Trial suggest a real clinical effect of XToll® and warrant further investigation. The directors of CBio commissioned an independent technical review of XToll® in order to consider potential options.

A number of key issues were identified and recommendations provided. We have summarised below a number of these recommendations in relation to the future outlook of the XToll® technology.

The review suggested that subcutaneous dosing with XToll® in clinical trials has a low probability of meeting meaningful clinical endpoints and that further trials involving solely subcutaneous dosing should only be considered if a more suitable reformulated and/or reformatted form of XToll® is available. It was acknowledged that the time and money required to do this makes it more sensible to focus development of XToll® on alternative indications where the unmet need is such that relatively frequent dosing and/or intravenous dosing is acceptable to patients and physicians.

The technical review identified systemic lupus erythematosus ('SLE' or 'lupus'), particularly cutaneous lupus, as one such indication and proposed that CBio may consider further clinical development of XToll® with intravenous dosing for this indication. This proposal was recommended to be subject to staff consultation with key opinion leaders and specialists in the field of SLE, detailed market and competitor analysis, detailed analysis of the intellectual property landscape around SLE and CBio's proprietary position and freedom to operate, and confirmation of activity of XToll® in model studies which focus on treatment rather than prevention.

Detailed costing of implementing the proposal has not been carried out however the technical review provided an estimate of costs within the range of A$11 million to A$12 million over a period of approximately two to three years. We are advised by the directors of CBio that an initial cost of approximately A$2.5 million would have to be incurred for the required drug formulation, the carrying out of mechanism of action ('MOA') studies, and to reach a key milestone point where a decision can be made on whether or not to commit to the process of development and scale up towards another human clinical trial. The risks of failure in developing Cpn 10 via this path have been acknowledged and assessed and were deemed to be significant in the technical review.

We are advised that having considered all of the relevant factors and other strategic options available to the Company, the directors of CBio have not adopted these recommendations of the technical review as at the date of this Report. We understand that a more recent review of CBio's strategic options was conducted which identified a number of opportunities for the Company, including the Proposed Transaction.

5.1.7 Directors and Management of CBio

CBio's directors and management has undergone significant changes in recent months. A number of long serving directors have resigned and have been replaced by new directors. We have summarised the resignations and appointments to CBio's board of directors in recent months in Table 5.3 below.

Table 5.3: Summary of Resignations and Appointments to CBio's Board of Directors

Resignations	Appointments
Mr Stephen Jones, Executive Chairman	Dr Ralph Craven, Chairman
Mr Jason Yeates, CEO	Dr Daina Vanags[(a)], CSO & Acting CEO
Professor John Funder, Non-executive Director	Ms Helen Cameron
Dr Peter Corr, Non-executive Director	Mr Warren Brown
Dr Goran Ando, Non-executive Director	Mr Ross Mangelsdorf
Dr Terje Kalland, Non-executive Director	Mr Warren Brooks
Dr Thomas Lonngren, Non-executive Director	Mr Brett Heading
Dr Michael Monsour, Chairman	Dr James Campbell
Mr Ross Mangelsdorf, Non-executive Director	
Mr Warren Brooks, Non-executive Director	
Mr James Greig, Finance Director	
Ms Helen Cameron, Acting Managing Director	

Source: CBio ASX Announcements

Notes: (a) Dr Daina Vanags is not on CBio's Board of Directors

5.2 CBio Group Structure

CBio is incorporated in and domiciled in Australia and has no controlled entities. CBio has a single operating segment, being research and development.

5.3 CBio Equity Structure

5.3.1 Ordinary Shares

CBio has 239,144,963 ordinary shares on issue as at the date of this Report. The top 10 shareholders of CBio as at 31 May 2012 are set out in Table 5.4 below. Table 5.4 does not consider the impacts of any change in shareholdings arising as a result of the Proposed Transaction.

Table 5.4: Top 10 CBio Shareholders as at 31 May 2012

	Shareholder	Number of Shares	Percentage of Total Shares
1	Himstedt & Co Pty Ltd (The Himstedt Family A/C)	9,596,970	4.01%
2	M P A M M Pty Ltd	7,425,776	3.11%
3	Basildene Pty Ltd (Warren Brown Super Fund A/C)	7,375,194	3.08%

	Shareholder	Number of Shares	Percentage of Total Shares
4	Sakura Capital Ltd	7,096,697	2.97%
5	Merrill Lynch (Australia) Nominees Pty Limited	6,995,161	2.93%
6	Morgan Stanley Australia Securities (Nominee) Pty Limited No 1 Account	6,937,500	2.90%
7	Exelmont Pty Ltd	6,000,000	2.51%
8	Mr WJ Spiller & Mrs CA Spiller (The Mmd Fund A/C)	5,271,250	2.20%
9	Himstedt Superannuation Pty Ltd (Himstedt Super Fund A/C)	3,607,500	1.51%
10	Keng Chuen Tham	2,800,000	1.17%
	Other Shareholders	176,038,915	73.61%
	Total Shares on Issue	**239,144,963**	**100.00%**

Source: CBio Share Register as at 31 May 2012

5.3.2 Listed and Unlisted Options

As at the date of this Report, CBio has 35,874,849 listed and 3,010,000 unlisted share options on issue. Table 5.5 below summarises the share options currently outstanding together with their associated exercise prices and expiry dates. At the date of this Report, all of the CBio options are considered to be 'out of the money'.

Table 5.5: Share Options Issued and Outstanding

Expiry Date	Exercise Price (A$)	Number of Options
Listed Options		
31 December 2012	$1.00	35,874,849
Total Listed Options		**35,874,849**
Unlisted Options		
31 December 2012	$2.00	710,000
31 December 2012	$3.00	600,000
16 May 2015	$0.517	1,700,000
Total Unlisted Options		**3,010,000**
Total Options		**38,884.849**

Source: CBio Limited

5.3.3 Performance Rights

We understand that on 15 July 2011 the non-executive directors and employees of CBio were granted 1,200,000 and 1,900,000 performance rights ('the Performance Rights') respectively. The 1,200,000 performance rights issued to the non-executive directors have since lapsed and the 1,900,000 performance rights issued to employees remain on issue with an expiry date of 19 July 2018.

Performance rights operate in a similar manner to share options, and grant the performance right holder the right to acquire one share per performance right held based on the occurrence of a vesting event. We note from CBio's 2011 annual report that the Performance Rights vest on the occurrence of any one of the following events:

- If, under a takeover bid or otherwise, a person (together with his or her associates) acquires shares or a relevant interest (within the meaning of the Act) in shares that, when aggregated with shares already acquired by such person (and their associates), constitute at least 19.9% of the issued shares of the company and, in the case of a takeover bid, the takeover bid is or has become unconditional;
- Pursuant to an application made to the court under section 411 of the Act, the court orders a meeting to be held in relation to a proposed compromise or arrangement for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company;
- The Company enters into a major collaboration (which may include any joint research & development agreement), license transaction or sale of the operations of the Company's business; or
- The CBio share price reaching A$1.00 at any time during the life of the Performance Rights.

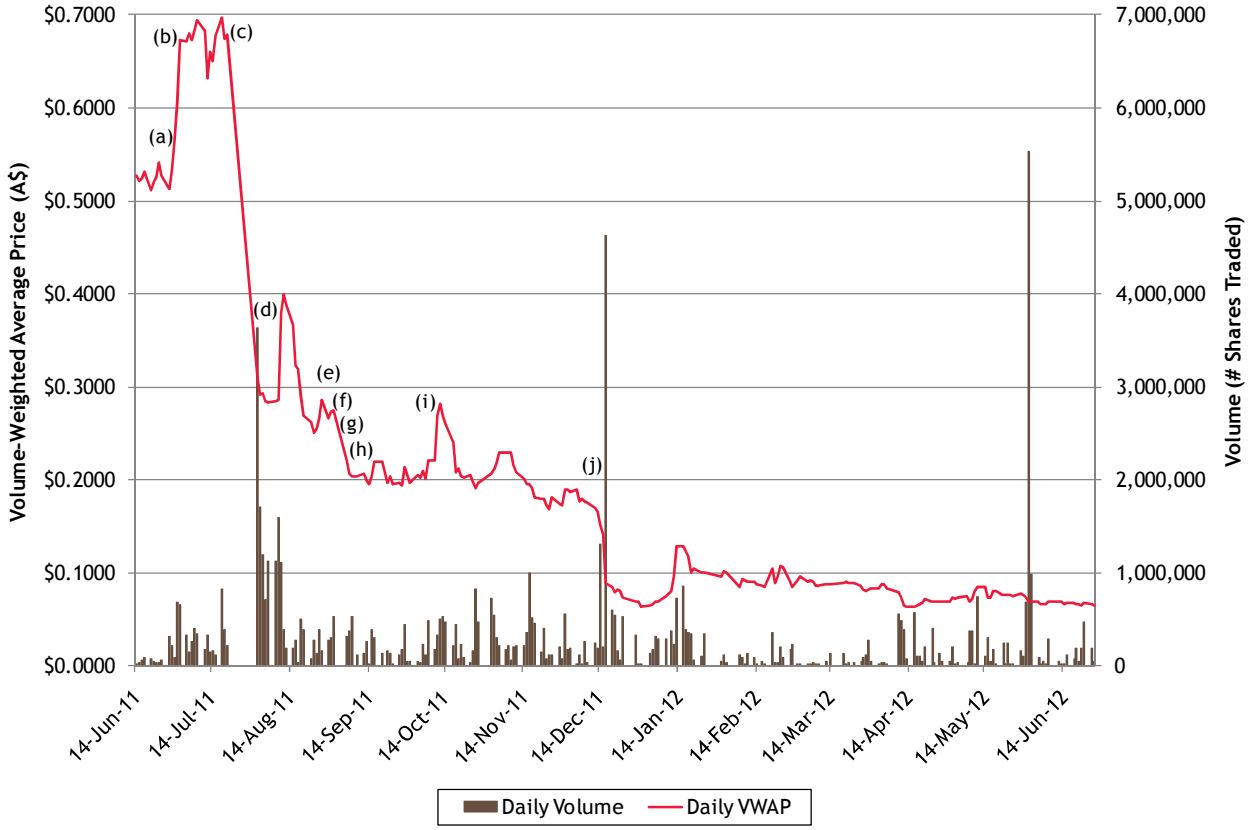
Based on the vesting criteria set out above, it is our view that the Performance Rights will vest if the Proposed Transaction is approved and CBio will be required to issue a further 1,900,000 shares to the holders of the Performance Rights.

5.4 Summary of CBio ASX Trading Data

5.4.1 Share Market Performance of CBio

CBio shares are listed on the ASX. Figure 5.1 below shows CBio's daily volume-weighted average share price ('VWAP') and the volume of shares traded each day over the period from 13 June 2011 to 26 June 2012 inclusive.

Figure 5.1: Daily VWAP and Volume Traded for CBio from 13 June 2011 to 26 June 2012



Source: Bloomberg as at 26 June 2012

Over the period graphed in Figure 5.1, CBio's daily VWAP shows a period low of A$0.0630 on 30 December 2011 and a period high of A$0.6975 on 18 July 2011.

In addition to the share price and trading data, we have also provided additional information in this Report to assist readers to understand possible reasons for movements in CBio's share price and volume of shares traded over the time period analysed. The references in Figure 5.1 correspond to the references in Table 5.6 below.

Table 5.6: Summary of CBio Announcements over the Period 1 May 2011 to 30 April 2012

	Date	Announcement
(a)	28 June 2011	In a letter to shareholders, the chairman of CBio stated, "the Company is well placed in its on-going development of XToll®, with results from the Phase IIa clinical trial anticipated imminently and I look forward to updating you in due course."
(b)	01 July 2011	CBio announced that it had received a notice from a note holder for the exercise of the right to convert two convertible notes, each with a face value of A$1.0 million, into 4.0 million CBio ordinary shares and 2.5 million CBio options with an exercise price of A$1.00.
(c)	21 July 2011	CBio was placed in a trading halt on the ASX pending the release of an announcement by the Company.

	Date	Announcement
(d)	31 July 2011	CBio announced the results of Phase IIa clinical trials of XToll®. The announcement stated "ACR20 mean values across the trial population were not statistically different between XToll® treated patient groups and placebo treated patient groups. The primary endpoint of the trial was therefore not met." CBio was re-instated to official quotation on the ASX.
(e)	25 August 2011	CBio announced that on 18 May 2011 the convertible loan agreement with SpringTree Special Opportunities Fund LP had been terminated by mutual consent.
(f)	31 August 2011	CBio released its preliminary financial report for the year ended 30 June 2011 which indicated a net loss for the year of approximately A$13.68 million.
(g)	01 September 2011	CBio was placed in a trading halt on the ASX pending the release of an announcement by the Company.
(h)	05 September 2011	CBio announced an underwritten non-renounceable rights issue entitling shareholders to subscribe for three new shares for each eight shares held at an offer price of A$0.18 per share, to raise up to A$10.8 million.
(i)	12 October 2011	CBio announced that the non-renounceable rights issue was undersubscribed, raising a total of A$7.26 million. The Company announced that it would proceed to issue the remaining shares in accordance with the underwriting agreement.
(j)	16 December 2011	CBio announced that NOVO Nordisk declined to exercise its option to license XToll® for further development and commercialisation.

Source: CBio ASX Announcements

In Table 5.7 below, we have set out CBio's VWAP for the 1 week, 1 month, 3 months, 6 months, 9 months and 12 months prior to 26 June 2012.

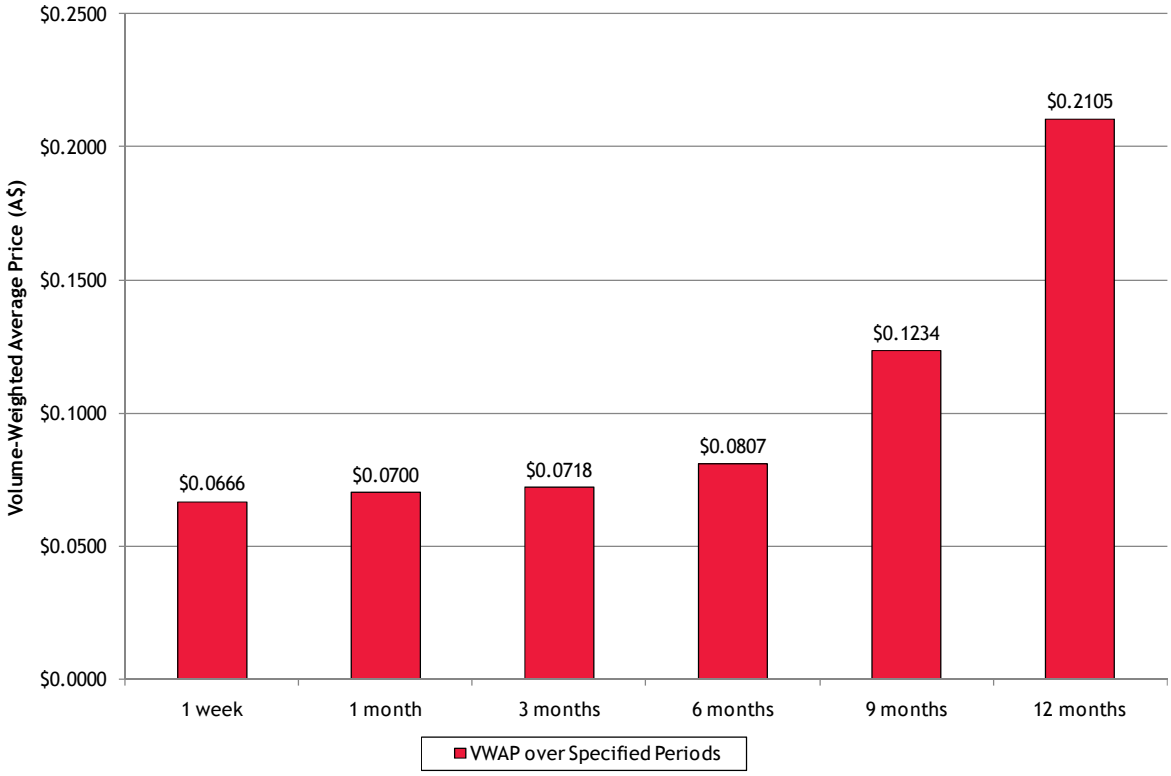
Table 5.7: CBio's VWAP prior to 26 June 2012

Period Prior to 12 June 2012	VWAP Start Date	VWAP End Date	VWAP (A$)
1 Week	6 June 2012	26 June 2012	$0.0666
1 Month	13 May 2012	26 June 2012	$0.0700
3 Months	13 March 2012	26 June 2012	$0.0718
6 Months	13 December 2011	26 June 2012	$0.0807
9 Months	13 September 2011	26 June 2012	$0.1234
12 Months	13 June 2011	26 June 2012	$0.2105

Source: Bloomberg as at 26 June 2012

The information presented in Table 5.7 above is shown graphically in Figure 5.2 below.

Figure 5.2: CBio's VWAP prior to 26 June 2012



Source: Bloomberg as at 26 June 2012

5.4.2 Liquidity of CBio Shares

The rate at which equity instruments are traded is generally referred to as the 'liquidity' of the equity instruments. Changes in liquidity may impact the trading price of equity instruments, particularly depending on the number of equity instruments required to be bought and/or sold and the time period over which the equity instrument holder needs to buy and/or sell those equity instruments. Depending on the circumstances, a movement in market price may or may not represent a shift in value of either the equity instruments or a shift in value of the company to which the equity instruments relate as a whole.

Table 5.8 below summarises the monthly liquidity of CBio shares from July 2011 to June 2012. Liquidity has been summarised by considering the following:

- Volume of CBio share trades per month;
- Value of total trades in CBio shares per month;
- Number of trades in CBio shares per month;
- Volume weighted average price per month; and
- Number of shares traded per month as a percentage of total shares outstanding at the end of the month.

Table 5.8: Liquidity of CBio Shares on the ASX

Month	Volume	Turnover (A$)	Trades	Shares Outstanding	Volume/Shares Outstanding	VWAP
Jun-12	2,835,507	193,576	61	239,145,004	1.19%	$0.0683
May-12	9,459,668	688,129	83	239,145,004	3.96%	$0.0727
Apr-12	3,307,618	233,413	91	239,145,004	1.38%	$0.0706
Mar-12	1,087,374	92,946	44	239,145,004	0.45%	$0.0855
Feb-12	1,817,186	174,240	92	239,145,004	0.76%	$0.0959
Jan-12	5,055,762	523,106	184	239,145,004	2.11%	$0.1035
Dec-11	9,656,552	1,035,435	333	239,145,004	4.04%	$0.1072
Nov-11	6,936,444	1,377,582	358	239,145,004	2.90%	$0.1986
Oct-11	5,518,423	1,255,356	343	191,682,205	2.88%	$0.2275
Sep-11	3,730,214	773,038	241	191,682,175	1.95%	$0.2072
Aug-11	16,295,624	4,913,265	1,261	160,154,800	10.17%	$0.3015
Jul-11	4,505,477	3,048,427	619	160,054,794	2.81%	$0.6766
Total	**70,205,849**	**14,308,514**	**3,710**	**218,061,167[(a)]**	**32.20%**	

Source: Bloomberg as at 26 June 2012
(a) Weighted average number of shares outstanding over the period analysed

Assuming a weighted average number of 218,061,167 ordinary CBio shares on issue over the period, approximately 32.20% of total shares on issue were traded over the 12 month period to 26 June 2012. In our view, this indicates that CBio's shares display a moderate level of liquidity.

5.5 Summary of Historical Financial Information

This section of this Report sets out the historical financial information of CBio. As this Report contains only summarised historical financial information, we recommend that any user of this Report read and understand the additional notes and financial information contained in the full statements of comprehensive income, statements of financial position and statements of cash flows.

CBio's financial statements for the 12 month periods ended 30 June 2010 and 30 June 2011 were audited by Ernst & Young and CBio's financial statements for the 6 month period ended 31 December 2011 were reviewed by Ernst & Young. BDO CFQ has not performed any audit or review of any type on the historical financial information of CBio. We make no statement as to the accuracy or completeness of the information provided. However, we have no reason to believe that the information is misleading.

5.5.1 Comprehensive Income

The statement of comprehensive income of CBio for the 12 month periods ended 30 June 2010 and 2011 and for the 6 months ended 31 December 2011 are summarised in Table 5.9 below. CBio shareholders interested in reading the full statement of comprehensive income should refer to CBio Annual Report for the 12 months ended 30 June 2011.

Table 5.9: Summarised CBio Statements of Comprehensive Income

	12 Months Ended 30 June 2010 Audited (A$)	12 Months Ended 30 June 2011 Audited (A$)	6 Months Ended 31 December 2011 Reviewed (A$)
Interest received	85,261	66,173	111,790
Rental revenue	140,260	142,952	72,461
Total revenue	**225,521**	**209,125**	**184,251**
Fair value movement of derivatives	569,583	(564,049)	-
Unrealised/realised foreign exchange	-	341,044	-
Other income	24,666	2,203	3,288,707
Capital raising costs	(1,764,430)	(260,990)	-
Borrowing costs expense	(3,173,145)	(1,665,638)	(424,491)
Administration and corporate expenses	(1,766,199)	(1,794,792)	(2,610,611)
Depreciation and amortisation	(232,689)	(144,420)	(48,396)
Staff costs	(3,293,734)	(3,092,805)	(2,548,905)
Rent & occupancy expense	(572,653)	(605,945)	(451,842)
Shares based payment expense	(373,655)	(16,396)	(681,210)
Research and development costs	(5,429,117)	(5,144,075)	(1,028,846)
Patent costs	(293,920)	(543,550)	(228,102)
Business development	(707,417)	(399,706)	(375,621)
Loss before income tax from continuing operations	**(16,787,189)**	**(13,679,994)**	**(4,925,066)**
Income tax expense	-	-	-
Loss from continuing operations after income tax	**(16,787,189)**	**(13,679,994)**	**(4,925,066)**
Other comprehensive income	-	-	-
Total comprehensive income for the year	**(16,787,189)**	**(13,679,994)**	**(4,925,066)**

Source: CBio Limited 2011 Annual Reports and December 2011 Half-Year Report

In relation to the financial performance of CBio set out in Table 5.9 above we note the following:

- CBio's most significant expenses include research and development, staff costs, administration and corporate expenses, capital raising costs and borrowing expenses;
- CBio's loss from continuing operations decreased from approximately A$16.79 million in 2010 to approximately A$13.68 million in 2011, a decrease of 19%, primarily as a result of decreased capital raising costs and decreased borrowing costs; and
- CBio's loss from continuing operations for the six months ended 31 December 2011 decreased further to approximately A$4.93 million, primarily as a result of increased other income. The other income relates to the realisation of option fees received from Novo Nordisk which were previously recorded as unearned income on CBio's statement of financial position.

5.5.2 Financial Position

The statement of financial position of CBio as at 30 June 2010, 30 June 2011 and 31 December 2011 are summarised in Table 5.10 below.

Table 5.10: Summarised CBio Statements of Financial Position

	As at 30 June 2010 Audited (A$)	As at 30 June 2011 Audited (A$)	As at 31 December 2011 Reviewed (A$)
Current assets			
Cash and cash equivalents	3,433,448	3,909,426	7,269,069
Trade and other receivables	55,807	28,030	18,527
Other current assets	271,403	340,598	167,202
Total current assets	**3,760,658**	**4,278,054**	**7,454,798**
Non-Current assets			
Property, plant and equipment	232,856	132,556	102,847
Trade and other receivables	155,967	150,000	150,000
Intangible assets	-	-	-
Other non-current assets	338,148	169,074	-
Total non-current assets	**726,971**	**451,630**	**252,847**
Total assets	**4,487,629**	**4,729,684**	**7,707,645**
Current Liabilities			
Trade and other payables	2,195,305	1,369,158	627,338
Financial liabilities	3,616,921	2,326,681	-
Short-term provisions	158,851	219,369	264,676
Unearned income	3,182,848	2,805,736	12,180
Total current liabilities	**9,153,925**	**6,720,944**	**904,194**
Non-Current liabilities			
Long-term provisions	110,597	151,156	174,354
Total non-current liabilities	**110,597**	**151,156**	**174,354**
Total liabilities	**9,264,522**	**6,872,100**	**1,078,548**
Net assets/(liabilities)	**(4,776,893)**	**(2,142,416)**	**6,629,097**
Equity			
Issued capital	68,291,037	84,302,952	97,318,321
Reserves	19,099,898	19,402,454	20,083,664
Accumulated losses	(92,167,828)	(105,847,822)	(110,772,888)
Total Equity	**(4,776,893)**	**(2,142,416)**	**6,629,097**

Source: CBio Limited 2011 Annual Reports and December 2011 Half-Year Report

In relation to the financial position of CBio set out in Table 5.10 above we note the following:

- CBio's cash balance has increased from approximately A$3.43 million as at 30 June 2010 to approximately A$3.91 million as at 30 June 2011. The cash balance has increased by a further 86% percent to approximately A$7.27 million as at 31 December 2011. The increase in cash is primarily attributable to the issuance of additional shares;
- CBio's total liabilities have decreased from approximately A$9.26 million as at 30 June 2010 to approximately A$6.87 million as at 30 June 2011. Total liabilities as at 31 December 2011 had decreased to approximately A$1.08 million. The decrease in liability is attributable to the repayment of convertible notes and a reduction in unearned income relating to the option agreement with Novo Nordisk; and
- CBio's net liability position improved to approximately A$2.14 million as at 30 June 2011 from approximately A$4.78 million as at 30 June 2010. As at 31 December 2011, CBio has net assets of approximately A$6.63 million.

5.5.3 Cash Flows

The statement of cash flows of CBio for the 12 month periods ended 30 June 2010 and 2011 and for the 6 months ended 31 December 2011 are summarised in Table 5.11 below.

Table 5.11: Summarised CBio Statements of Cash Flows

	12 Months Ended 30 June 2010 Audited (A$)	12 Months Ended 30 June 2011 Audited (A$)	6 Months Ended 31 December 2011 Reviewed (A$)
Cash flows from/(used in) operating activities			
Payments to suppliers and employees	(16,375,922)	(13,203,838)	(7,412,276)
Cash received in the course of operations	1,549,259	340,964	97,171
Interest received	85,261	66,173	111,790
Interest paid	(460,633)	(659,410)	(253,811)
Net cash used in operating activities	**(15,202,035)**	**(13,456,111)**	**(7,457,126)**
Cash flows from/(used in) investing activities			
Purchase of plant and equipment	(10,719)	(44,120)	(18,687)
Net cash used in investing activities	**(10,719)**	**(44,120)**	**(18,687)**
Cash flows from/(used in) financing activities			
Proceeds from issue of shares	15,066,717	14,611,362	13,268,433
Proceeds from shares not yet issued	-	-	248
Proceeds from issue of convertible notes	5,550,000	1,650,000	-
Repayment of convertible notes	-	(1,475,000)	(2,000,000)
Repayment of borrowings	(146,000)	(300,000)	-

	12 Months Ended 30 June 2010 Audited (A$)	12 Months Ended 30 June 2011 Audited (A$)	6 Months Ended 31 December 2011 Reviewed (A$)
Share issue costs	(2,240,965)	(1,130,884)	(433,225)
Proceeds from borrowings	376,115	300,000	-
Net cash provided by financing activities	**18,605,867**	**13,655,478**	**10,835,456**
Net increase/(decrease) in cash held	**3,393,113**	**155,247**	**3,359,643**
Net foreign exchange differences	-	320,731	-
Cash at beginning of the financial period	40,335	3,433,448	3,909,426
Cash the end of the financial period	**3,433,448**	**3,909,426**	**7,269,069**

Source: CBio 2011 Annual Reports and December 2011 Half-Year Report

In relation to the cash flows of CBio set out in Table 5.11 above we note the following:

- The net cash used by CBio's operating activities decreased by 11% to approximately A$13.46 million in 2011, from approximately A$15.20 million in 2010. CBio's operating activities used cash flows of approximately A$7.46 million, during the 6 months ended 31 December 2011; and
- Net cash provided by financing activities decreased by 27% from approximately A$18.61 million in 2010 to approximately A$13.66 million in 2011. Net cash provided by financing activities was approximately A$10.84 million for the six months ended 31 December 2011.

6.0 Background of Inverseon

Section 6.0 of this Report is set out as follows:

- Section 6.1 provides an overview of Inverseon and its operations;
- Section 6.2 sets out the group structure of Inverseon;
- Section 6.3 sets out the equity structure of Inverseon; and
- Section 6.4 summarises the recent historical financial information of Inverseon.

The information set out in this section has been obtained from various sources including publicly available information and other reports, comments and instructions provided by the directors and management of CBio and Inverseon.

6.1 Inverseon Company Description

6.1.1 Inverseon

Inverseon is a privately owned, San Francisco based company which focuses on treatments for inflammatory conditions of the lungs such as chronic cough, asthma, obstructive lung disease and cystic fibrosis. Inverseon has identified a subset of beta blockers, beta inverse agonists, with pharmacological activity that down-regulate the intrinsic pro-inflammatory constitutive actions of beta-2 receptors found in the airways of humans. Its lead product, INV102, is one such beta inverse agonist which has been repurposed by Inverseon for the treatment of obstructive lung disorders.

Inverseon's INV102 program is in the clinical trial phase, with two Phase IIa trials completed and two further Phase II trials due to commence. The NIH has approved a US$4.4 million research grant to conduct a multi centre Phase II asthma trial under Inverseon's IND application. Inverseon is also seeking a faster path to market by initially targeting a smoking cessation indication.

6.1.2 INV102[2]

Inverseon is looking to advance an existing drug, INV102 (also known as Nadolol), for new indications in obstructive lung disorders. INV102 is a type of beta blocker. Beta blockers are currently used to treat heart related conditions such as high blood pressure.

Clinical research found that acute doses (i.e. single or low repeat doses) of beta blockers increased the possibility of causing an acute heart failure. Paradoxically, chronic dosing (i.e. multiple or long term dosing) with a specific set of beta blockers, known as beta inverse agonists, was shown to produce beneficial effects and reduce deaths in heart failure, and is now standard drug management for treating heart failure.

[2] Factual statements in this section obtained from Inverseon's company website and other information provided to us by Inverseon and CBio.

Dr Richard Bond, the scientific founder of Inverseon, has since conducted research which showed a similar paradoxical effect in obstructive lung diseases (i.e. that acute dosing with beta-blockers produces broncho-constriction, whereas chronic dosing produced broncho-protection against challenges which induce airway hyper-responsiveness). Several research centres have since conducted further research which has confirmed this effect. This observation has now led to a fundamental shift in thinking and to the proposition of use of beta inverse agonists for obstructive lung diseases such as COPD and asthma.

INV102 is one such beta inverse agonist. A beta inverse agonist binds to the beta receptor binding-site and reverses the intrinsic activity (also referred to as constitutive activity) of active beta receptors which are found in the heart and bronchial smooth muscle of the airways. Beta receptors found in the airways can cause asthma pathogenesis and research suggests that their effect can be inhibited by beta inverse agonists such as INV102.

A current form of treatment for reversing acute broncho-constriction is the use of chronic long-acting beta agonists ('LABAs') and short acting beta agonists ('SABAs'). The distinction between short and long is based upon the medication's measurable duration of action. SABAs also have a rapid onset of action which makes them ideal for use during an asthma attack, however excessive and frequent use of SABAs leads to tachyphylaxis, a sudden decrease in the response to the drug, which reduces their effectiveness. The use of LABAs on the other hand, while effective, has been linked to life threatening asthma attacks and high incidence of asthma mortality. The risk appears to be greatest when a LABA is used without also using an inhaled corticosteroid. As a result, taking an inhaled corticosteroid along with a LABA is appropriate treatment for many people who have asthma. Given the risks associated with LABAs, if Inverseon can successfully demonstrate that INV102 is effective for the targeted indications, it is possible that it will replace LABAs as the preferred method of treatment for a wide range of respiratory conditions. We are advised that if successful, INV102 is likely to complement the use of SABAs.

We are advised that the NIH has approved a US$4.4 million research grant to conduct a multi centre Phase II asthma trial under Inverseon's IND application. Approximately US$0.3 million of this funding is expected to be made available directly to Inverseon, with the remainder to be paid directly to three universities in the United States who have agreed to use the funding to conduct clinical studies in relation to INV102. The three universities are Baylor University, Washington University and Duke University. We are instructed that the funding from the NIH grant will be sufficient to complete the INV102 Asthma Trial.

We understand that applications requesting funds undergo a rigorous review and scoring process to ensure that funds are granted to trials which show the most promise or potential benefit. Having regard to information presented on the NIH website, we understand that the grant application process is relatively rigorous and takes approximately 10 months from application to award. We also understand that only approximately 10% to 15% of grant applications are ultimately awarded. Readers of this Report should refer to Section 8.5 for more information in relation to the NIH's grant application, assessment and approval processes.

We understand that as part of the review process each application is given a score between 1 and 100 by the NIH, with lower scores being preferable. We have been advised that Inverseon was awarded an initial score of 14 by the principal investigator of the NIH for its application to gain funding for its Phase II clinical trials. This score was later revised to a score of 9. In our view, and in the view of Inverseon's directors, the low NIH score given to Inverseon's application illustrates that the NIH considers INV102 to have greater potential than numerous other candidates at similar stage of development. As a result, the directors and management of Inverseon consider this NIH grant to be an early endorsement for the INV102 technology.

We understand that Inverseon has been granted a US patent for the method of treating airway diseases with Beta Adrenergic Inverse Agonists and that Inverseon has submitted an application for a US patent for treating COPD by chronic administration of Nadolol in 2009. As at the date of this Report, no other patents are held by Inverseon. We understand that the application for the patent for treating COPD is currently under review and is expected to be granted within a period of approximately two to three years. We are instructed by the directors of CBio that the approved patent held by Inverseon protects its intellectual property until the year 2026, and that prior to the expiry of this patent, Inverseon expects to supersede the oral Nadolol program with an inhaled program and the development of a novel chemical entity.

We have been advised by the directors of CBio and Inverseon that they expect the patent application, which is currently under review, to be granted and that the operations of the Merged Entity will not be affected by any potential delays in the patent being granted.

6.1.3 Trials & Research Data

Inverseon's INV102 program is at Phase II of its development. In presentations made by the management of Inverseon, a number of factors have been cited as evidence to support further research into the use of INV102 for the treatment of respiratory illnesses. These factors can be summarised as follows:

- Clinical trials – Inverseon has conducted two Phase IIa, proof of concept clinical trials, in 2006 and 2009 using a total of 19 patients. The objective of these clinical trials was to evaluate the safety of INV102 and its effect on the airways. The results of these trials demonstrated safety, with all patients tolerating the drug. The results also indicated there may be beneficial effects on airway hyper-responsiveness. Management of Inverseon consider these results to be supportive of further research;
- Pre-clinical studies – Pre-clinical trials in mice have demonstrated that INV102 acts to completely alleviate the build-up of mucus as an inflammatory response;
- Prior use of INV102 - There is a large clinical database and association of beta blockers with improved outcomes in COPD. We understand that INV102 has been used safely in more than eight million patients since 1982 for the treatment of high blood pressure, migraine headaches and chest pain. Numerous studies exist which suggest evidence of some benefit or no excess risk of beta blockers in treating COPD; and

- Precedent of Carvedilol – Carvedilol, another beta inverse agonist, has been proven to be effective in the treatment of chronic or congestive heart failure and was the first beta blocker to obtain regulatory approval for the treatment of congestive heart failure. Carvedilol is now a standard of care for heart failure. Inverseon's management is of the opinion that this sets a precedent for regulatory approval of beta inverse agonists which may assist in obtaining regulatory approval for INV102 if Inverseon can successfully demonstrate that it is effective.

6.1.4 Outlook & Product Development Timeline

Table 6.1 below sets out Inverseon's product development timeline for the next three years as well as its budgeted expenditure for each year.

Table 6.1: Inverseon Product Development Timeline

2012	2013	2014	2015
Chemistry, Manufacturing and Control ('CMC'): Manufacture for clinical supply	Complete Phase II SC oral proof of concept ('POC') trial	SC in COPD: End of Phase II ('EOPII') trial	Phase III SC in COPD patients
Secure Funding	Initiate discovery of a new chemical entity ('NCE') - Β-2 selective Inverse agonist	Oral INV102 trial in Asthmatic patients funded by the NIH	Selection of NCE
Formulation and Device for Inhaled INV102	Toxicology/DMPK testing for inhaled INV102	Discovery: selection of lead candidate series of NCE	INV102 Inhaled in COPD patients POC trial
Submit Investigational New Drug application for smoking cessation ('SC') in patients with Chronic Bronchitis ('CB')	Submit Clinical Trial Application ('CTA') for Canada and European Union	INV102 Inhaled IND & Phase I trial	
Initiate Phase II of SC trial			
Budgeted Spend US$2.5 million	**Budgeted Spend US$3.5 million**	**Budgeted Spend US$4.4 million**	**Budgeted Spend US$5.6 million**

Source: Inverseon Inc

With reference to Table 6.1 we note the following:

- Inverseon is seeking a faster path to market by initially targeting a smoking cessation indication in patients with chronic bronchitis or COPD. To deliver on this strategy, Inverseon intends to commence a Phase II oral proof of concept trial for this indication in 2013. Based on the Phase II results, Inverseon intends to complete Phase III trials by the end of 2015;
- Inverseon's next objective is to show that INV102 can reduce signs and symptoms of COPD;
- Inverseon intends to conduct an oral INV102 Phase II inflection point trial using patients with asthma. This trial will be a six month trial with staggered recruitment and is anticipated to be completed in 2015. This trial will be funded by the US$4.4 million research grant which was received from the NIH;

- Inverseon also intends to formulate and develop an inhaled version of INV102. Inverseon plans to carry out the toxicology testing for the inhaled formulation during 2013 and conduct a feasibility and safety study of the inhaled formulation in 2014. Based on these results, Inverseon intends to conduct a Phase IIa proof of concept trial of inhaled INV102 in patients with COPD;
- We understand that INV102 is a non discriminatory beta inverse agonist. Inverseon intends to develop a New Chemical Entity, a selective beta-2-inverse agonist. Work on the development of the NCE is expected to commence in 2013; and
- We note that the budgeted expenditure to fund Inverseon's operations over this period is approximately US$16 million.

6.1.5 Management of Inverseon

We have set out the management team of Inverseon as well as a brief overview of their experience in Table 6.2 below.

Table 6.2: Inverseon Management Team

	Experience
Dr William J. Garner MD, Chairman & CEO	• Founded EGB Advisors, LLC, a pharmaceutical commercialization boutique firm; • Started-up a number of biopharmaceutical businesses including Urigen, DelMar Pharmaceuticals and Inverseon; • Worked in medical affairs at Hoffmann-La Roche in oncology; and • Worked at Paramount Capital Investments, a venture capital organization based in New York City.
Dr Mitchell Glass MD, President	• 22 years of experience in the Pharmaceutical and Biotechnology industries, having worked for various companies including AstraZeneca ('AZ'), GlaxoSmithKline ('GSK') and AGIX; and • Has previously obtained regulatory approval for five drugs including Accolate® for the treatment of asthma and Coreg® for the treatment of heart failure.
Dr Richard A. Bond PhD, Scientific Founder	• Professor of Pharmacology, University of Houston; • Provided functional evidence for what was eventually found to be the ß3-adrenoceptor; and • In collaboration with R. Lefkowitz, undertook studies on the spontaneous activity of G-protein-coupled receptors and compounds functioning as inverse agonists.
Dr Heather Giles PhD	• Director of GSK, Respiratory Division; and • Developed the Thelin® (Encysive).
Dr James P. Kemp MD	• Former President of American Academy of Allergy, Asthma & Immunology ('AAAAI'); • Pediatric Allergist, • Clinical trial expert; and • FDA Consultant

Source: Inverseon Inc

6.2 Inverseon Group Structure

Inverseon is incorporated in and domiciled in the USA and has no controlled entities. Inverseon has a single operating segment, being research and development.

6.3 Inverseon Equity Structure

6.3.1 Ordinary Shares

Inverseon has 1,208,500 ordinary shares on issue as at the date of this Report. The shareholders of Inverseon as at the date of this Report are set out in Table 6.3 below. Table 6.3 does not consider the impacts of any change in shareholdings arising as a result of the Proposed Transaction.

Table 6.3: Inverseon Shareholders as at the date of this Report

	Shareholder	Number of Shares	Percentage of Total Shares
1	Garner, William J., MD	713,400	59.03%
2	Barwon Biotech Pty. Ltd.	208,100	17.22%
3	Bond, Richard, PhD	117,000	9.68%
4	Flashner, Michael, PhD	65,250	5.40%
5	Franklin, Amie E., PhD	47,850	3.96%
6	Jurgensen, Thomas	43,500	3.60%
7	University of Houston	13,000	1.08%
8	Green, Daniel	200	0.02%
9	Lee, Tommy L.	200	0.02%
	Total Shares on Issue	**1,208,500**	**100.00%**

Source: Inverseon Inc.

6.3.2 Other Securities

In addition to the 1,208,500 ordinary shares set out in Section 6.3.1 above, as at the date of this Report, Inverseon has the following securities on issue:

- 108,700 options;
- 517,500 warrants; and
- 172,836 convertible notes.

Each option and warrant is exercisable in respect of one ordinary share in Inverseon.

We are advised that all Inverseon options, warrants and convertible notes will either be exchanged for ordinary shares in Inverseon or cease to exist before completion of the Proposed Transaction. The Explanatory Memorandum will include additional information in relation to the number of shares in the Merged Entity that each Inverseon security holder will be entitled to if the Proposed Transaction is approved.

6.4 Summary of Historical Financial Information

We have been instructed that Inverseon do not prepare general purpose financial statements suitable for inclusion in this Report. Notwithstanding this, it is our understanding that Inverseon has historically been run with minimal budget and that the salaries and wages of key individuals have been paid with equity.

As at 31 December 2011, we understand that Inverseon had accounts payable of US$175,536, accrued interest on notes payable of US$165,783 and notes payable of US$496,932. We understand that these values were Inverseon's only material liabilities as at 31 December 2011.

We note that the NIH has approved a US$4.4 million grant for the purpose of carrying out the INV102 Asthma Trial. We understand that under the terms of the NIH grant, approximately US$0.3 million of this funding is expected to be made available directly to Inverseon, with the remainder to be paid directly to three universities in the United States who have agreed to use the funding to conduct clinical studies in relation to INV102.

7.0 Overview of Merged Entity

This section is set out as follows:

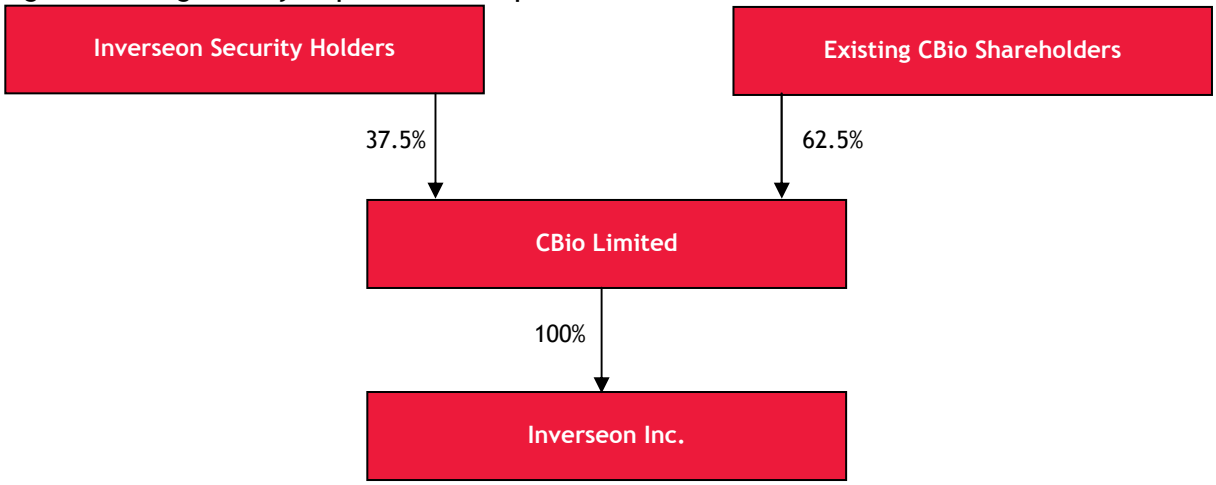
- Section 7.1 provides a brief description of the Merged Entity;
- Section 7.2 outlines the intentions of CBio and Inverseon in relation to the future funding and operations of the Merged Entity; and
- Section 7.3 sets out the pro-forma financial information of the Merged Entity.

7.1 Merged Entity Description

The Merged Entity will be a broad-based company focussed on the development and commercialisation of compounds to treat a range of inflammatory diseases including asthma, COPD, RA, lupus and potentially cystic fibrosis. The Merged Entity will be listed on the ASX and, pending shareholder approval, will apply to have its name changed from CBio to **Invion Limited** as soon as reasonably practicable.

Figure 7.1 below illustrates to proposed ownership structure of the Merged Entity.

Figure 7.1: Merged Entity Proposed Ownership Structure



Source: CBio Notice of Meeting

Immediately following the Proposed Transaction the board of the Merged Entity will comprise four directors from CBio and two directors from Inverseon. Table 7.1 below sets out the proposed composition of the Merged Entity's board.

Table 7.1: Proposed Board of the Merged Entity

From CBio	From Inverseon
Dr Ralph Craven	Dr William Garner
Mr Brett Heading	Dr Mitchell Glass
Dr James Campbell	
Mr Warren Brown	

Source: CBio

7.2 Intentions of the CBio and Inverseon Board

We understand that if the Proposed Transaction is approved and completed, it is the Directors' intention to progress the development of CBio's and Inverseon's existing assets by retaining operating facilities in both Australia and the US. The primary focus of the Merged Entity will be to initially target the development of INV102 with the aim of commercialisation in the medium term. In order to fund its operations, it is expected that the Merged Entity will undertake a capital raising following completion of the Proposed Transaction.

7.3 Pro Forma Financial Information

Table 7.1 below summarises the pro forma statement of financial position for the Merged Entity as at 31 May 2012. The pro forma statement of financial position shows details relating to the assets and liabilities of the Merged Entity as at 31 May 2012, assuming the Proposed Transaction was approved and implemented at that date.

The pro forma statement of financial position has been prepared by CBio management and BDO CFQ has not performed any audit or review of any type on the information. We make no statement as to the accuracy of the information provided, however we have no reason to believe that the information is inaccurate or incomplete.

Table 7.1: Pro-Forma Financial Position of the Merged Entity

	CBio Limited As at 31 May 2012 Unaudited (A$)	Inverseon Inc As at 31 May 2012 Unaudited (A$)	Adjustments As at 31 May 2011 (A$)	Merged Entity Pro-Forma As at 31 May 2012 Unaudited (A$)
Current assets				
Cash on hand	4,677,283	-	210,000	4,887,283
Other current assets	203,439	-	-	203,439
Total current assets	**4,880,722**	**-**	**210,000**	**5,090,722**
Fixed assets				
Plant and Equipment net of depreciation	73,469	-	-	73,469
Improvements net of amortisation	7,419	-	-	7,419
Total fixed assets	**80,888**	**-**	**-**	**80,888**
Other assets				
Intangible assets	4,125,000	-	10,890,010	15,015,010
Provision for diminution in value	(4,125,000)	-	-	(4,125,000)
Bank guarantees	249,462	-	-	249,462
Total other assets	**249,462**	**-**	**10,890,010**	**11,139,472**
Total assets	**5,211,072**	**-**	**11,100,010**	**16,311,082**

	CBio Limited As at 31 May 2012 Unaudited (A$)	Inverseon Inc As at 31 May 2012 Unaudited (A$)	Adjustments As at 31 May 2011 (A$)	Merged Entity Pro-Forma As at 31 May 2012 Unaudited (A$)
Current liabilities				
Trade creditors	(334,575)	(195,000)	-	529,575
Accruals	(94,700)	(188,395)	188,395	94,700
Other current liabilities	(241,001)	-	-	241,001
Total current liabilities	**(670,276)**	**(383,395)**	**188,395**	**865,276**
Non current liabilities				
Leave provisions	(178,678)	-	-	178,678
Notes payable	-	(528,923)	528,923	-
Total non current liabilities	**(178,678)**	**(528,923)**	**528,923**	**178,678**
Total liabilities	**(848,953)**	**(912,318)**	**717,318**	**1,043,953**
Net assets	**4,362,119**	**(912,318)**	**11,817,328**	**15,267,129**

Source: CBio

With reference to Table 7.1 above we note the following:

- Inverseon have provided details of the value of the convertible notes and accrued interest liabilities as at 31 May 2012. The cash at bank and other assets of Inverseon have been assumed to be immaterial for the purposes of preparing the pro-forma financial statements;
- Inverseon have provided details of expenses incurred during the period from 31 December 2011 to 31 May 2012. The trade creditors balance of Inverseon has been increased from US$175,536 in December 2011 to US$195,000 as at 31 May 2012 to reflect these expenses;
- An initial payment of US$210,000 expected to be received on the NIH grant has been included as cash. The balance of the NIH grant of approximately US$4.2 million is not reflected;
- Inverseon's intangible assets have been recognised in the pro-forma financial statements by way of a A$10.8 million adjustment, calculated having regard to 143,486,978 shares issued at A$0.076 per share to equity holders of Inverseon at the date of the Proposed Transaction adjusted for the relevant values of cash and trade creditors;
- The liabilities relating to Inverseon's convertible notes will be replaced by CBio shares as part of the Proposed Transaction; and
- Exchange rate parity has been assumed between US and Australian currencies for the purposes of preparing the pro-forma financial statements.

CBio has estimated that transaction costs for the Proposed Transaction will equal approximately A$400,000 with approximately A$250,000 of this amount to be incurred irrespective of whether shareholders vote in favour of or against the Proposed Transaction. No allowance for transaction costs has been made to the pro-forma statement of financial position.

8.0 Industry Background

CBio operates in the biotechnology industry developing technologies focussed on the treatment of autoimmune and anti-inflammatory diseases. Inverseon also operates in the biotechnology industry with a focus on the development of treatments for respiratory disease.

In this section we provide a brief outline of the biotechnology industry in Australia and the US. We also provide a summary of the markets for the development of autoimmune/inflammatory treatments and for respiratory disease treatments. This section provides a summary only and is not intended to be a comprehensive analysis of these markets.

The information presented in this section has been compiled from a range of sources. BDO CFQ has not independently verified any of the information and we recommend that CBio Shareholders refer to the original source of any information listed in this section. This section should be referred to as a broad guide only.

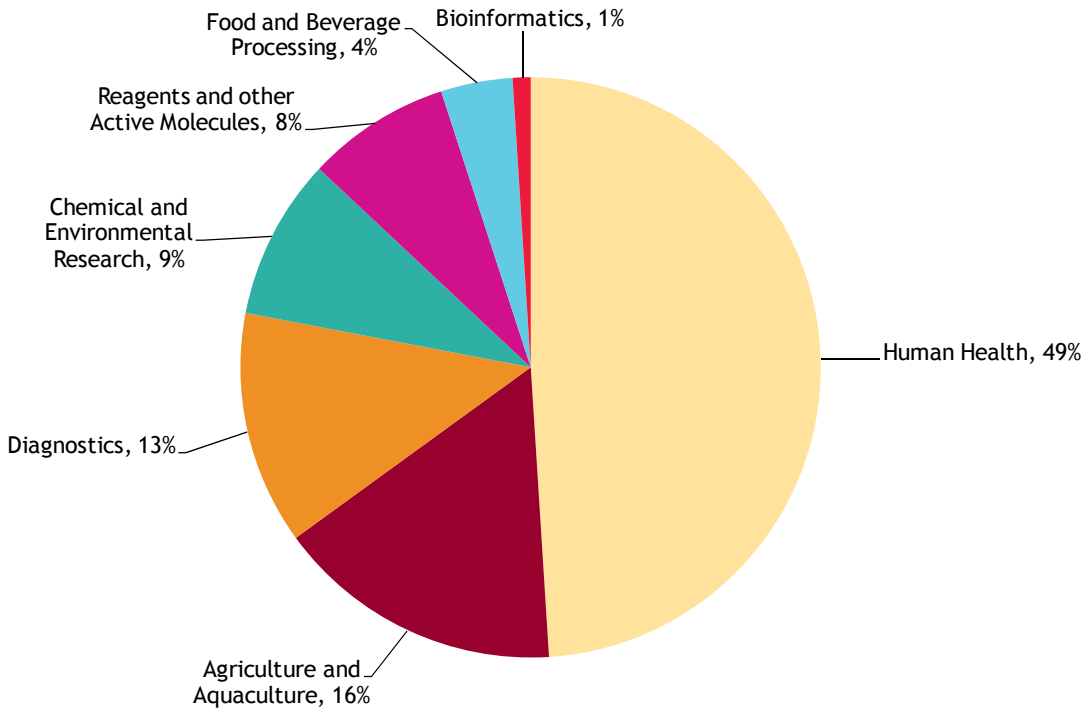
8.1 Biotechnology in Australia[3]

Australia's biotechnology industry is currently the sixth largest in the world, behind the USA, the United Kingdom, Germany, France and Canada. Other major nations which contribute to the global biotechnology industry include China, India, South Korea and Taiwan.

The Australian biotechnology industry focuses on the areas of human health, agriculture, diagnostics, chemical and environmental research, reagents and other active molecules, food and beverage processing and bioinformatics. Figure 8.1 below illustrates the product and service segmentation of the Australian biotechnology industry based on 2012 revenues.

[3] Information in this section has been sourced from IBISWorld Industry Report X0001: Biotechnology in Australia, March 2012.

Figure 8.1: Australian Biotechnology Industry Products and Services Segmentation, 2012



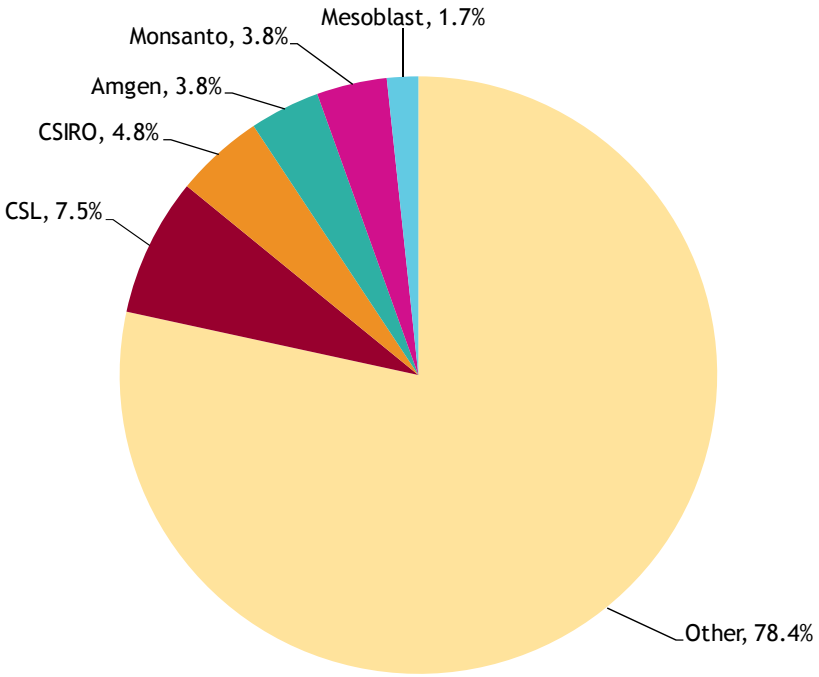
Source: IBISWorld Industry Report X0001: Biotechnology in Australia, March 2012

Biotechnology in the health industry has a key focus on the development of drugs and technologies to extend and improve the quality of human life through molecular breeding, pharmacogenomics and stem cell technologies.

As a result of the increasing emphasis on agriculture, climate change and water scarcity, human health related biotechnology activities have decreased in recent years, accounting for approximately 49% of activity in 2012. While these recent trends indicate a shift of resources from health to agriculture, it is expected that this trend will revert as an ageing population with increased wealth demand products to improve human longevity. In addition to the expected demand driven by an ageing population, obesity is creating a new market for research and development to combat weight related diseases.

The Australian biotechnology industry consists of a large number of small to medium sized companies, with the top four participants accounting for approximately 20% of market share. Many smaller biotechnology companies focus on a single drug or therapy and originate from spin-offs from research started in higher education, not-for-profit and government agencies. These smaller companies often discover and patent technologies which are then licensed to larger pharmaceutical producers for manufacturing and marketing. Figure 8.2 illustrates the market share of the major players in the Australian biotechnology industry based on revenue.

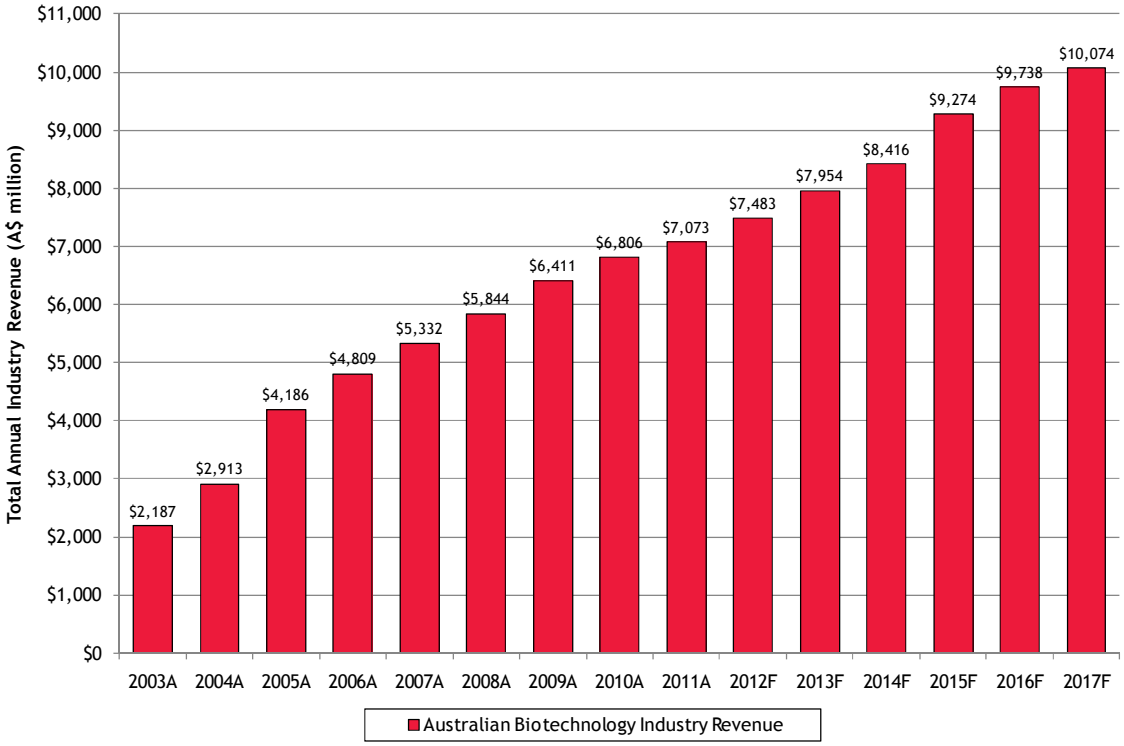
Figure 8.2: Market Share of the Major Players in the Australian Biotechnology Industry, 2012



Source: IBISWorld Industry Report X0001: Biotechnology in Australia, March 2012

Revenues in the Australian biotechnology industry have increased steadily in recent times and are expected to be approximately A$7.48 billion in FY2012. This growth is expected to continue in the medium term, with IBISWorld predicting a cumulative average growth rate ('CAGR') of approximately 6.1% per year until FY2017. Figure 8.3 below shows the total revenues generated by the Australian biotechnology industry over the period from FY2003 to FY2011, and the forecast revenues as published by IBISWorld to FY2017.

Figure 8.3: Australian Biotechnology Industry Revenues



Source: IBISWorld Industry Report X0001: Biotechnology in Australia, March 2012

As a result of the continuous introduction of new technologies and increasing numbers of new companies entering the industry, the Australian biotechnology industry is considered to be in the growth phase of the industry life cycle. Notwithstanding that numerous new companies enter the biotechnology industry each year, the industry is characterised by high barriers to entry, medium and increasing competition, high relative levels of labour costs, accelerating technological change, and heavy regulation.

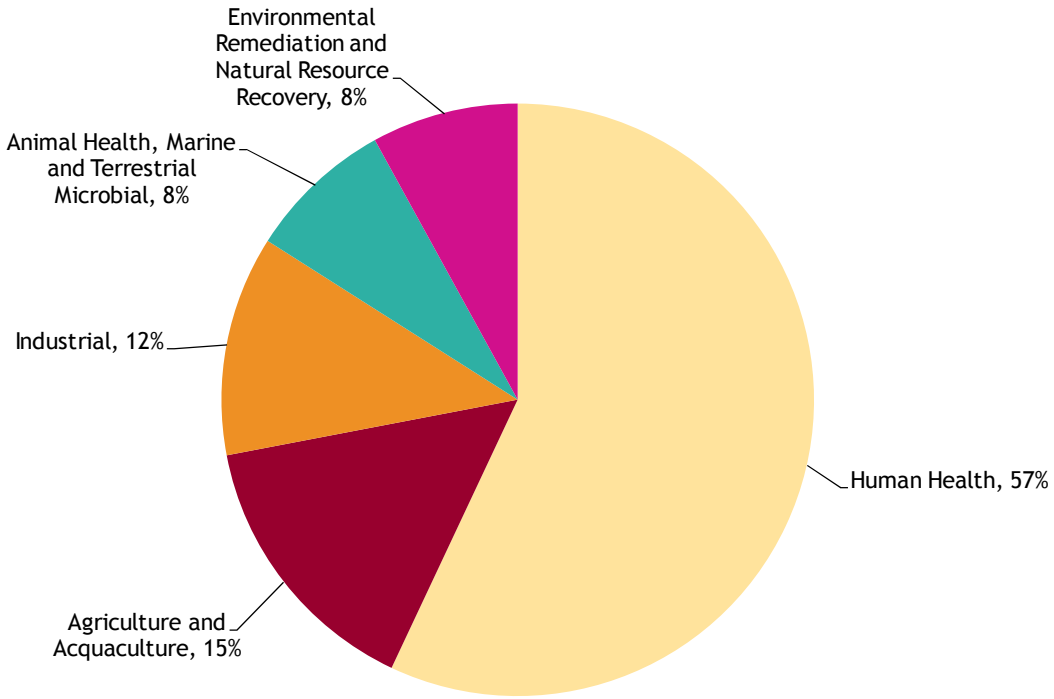
The development of drugs in the biotechnology industry is heavily influenced by regulation and policy in the jurisdiction in which the drug is being developed and marketed. The aim of regulation is to promote the economic benefits of the biotechnology industry while protecting the safety of the public and the environment. In Australia, the major regulatory bodies and policy guidelines are set by Biotechnology Australia, the Australian Pesticide and Veterinary Medicine Authority, AusBiotech and the Commonwealth Therapeutic Goods Act 1989.

8.2 Biotechnology in the US[4]

The biotechnology industry in the US is the largest in the world. There are currently more than 1,800 separate biotechnology companies operating in the US, focussing on products and services covering human health, agriculture and aquaculture, industrial, animal health, marine and terrestrial microbial technologies, and environmental remediation and natural resource recovery. Figure 8.4 below illustrates the product and service segmentation of the US biotechnology industry based on 2012 revenues.

[4] Information in this section has been sourced from IBISWorld Industry Report NN001: Biotechnology in the US, June 2012

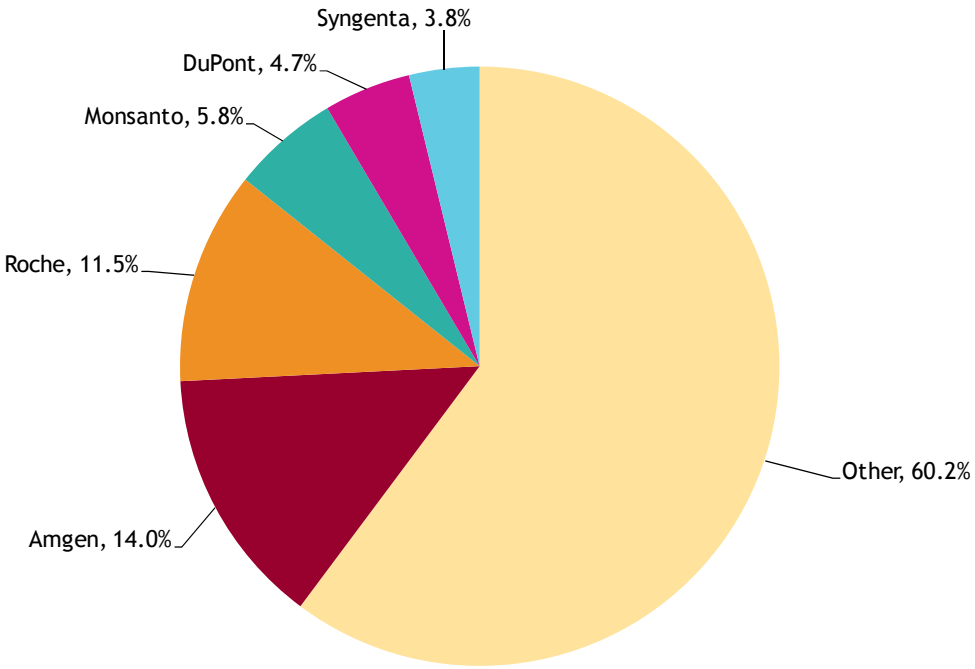
Figure 8.4: US Biotechnology Industry Products and Services Segmentation, 2012



Source: IBISWorld Industry Report NN001: Biotechnology in the US, June 2012

Like the Australian biotechnology industry, the concentration of the US biotechnology industry is low, populated by many small companies with between 10 and 50 employees. There are a few large players which dominate the industry, with the top four generating approximately 35% of industry revenues in 2012. Recent trends in the industry have seen biotechnology companies increasing their partnerships with pharmaceutical manufacturers as patent protections are expected to expire on many 'blockbuster' drugs, allowing companies to develop generic products for marketing and sale. Figure 8.5 below shows the market share of the US biotechnology industry by 2012 revenues.

Figure 8.5: Market Share of the Major Players in the US Biotechnology Industry, 2012

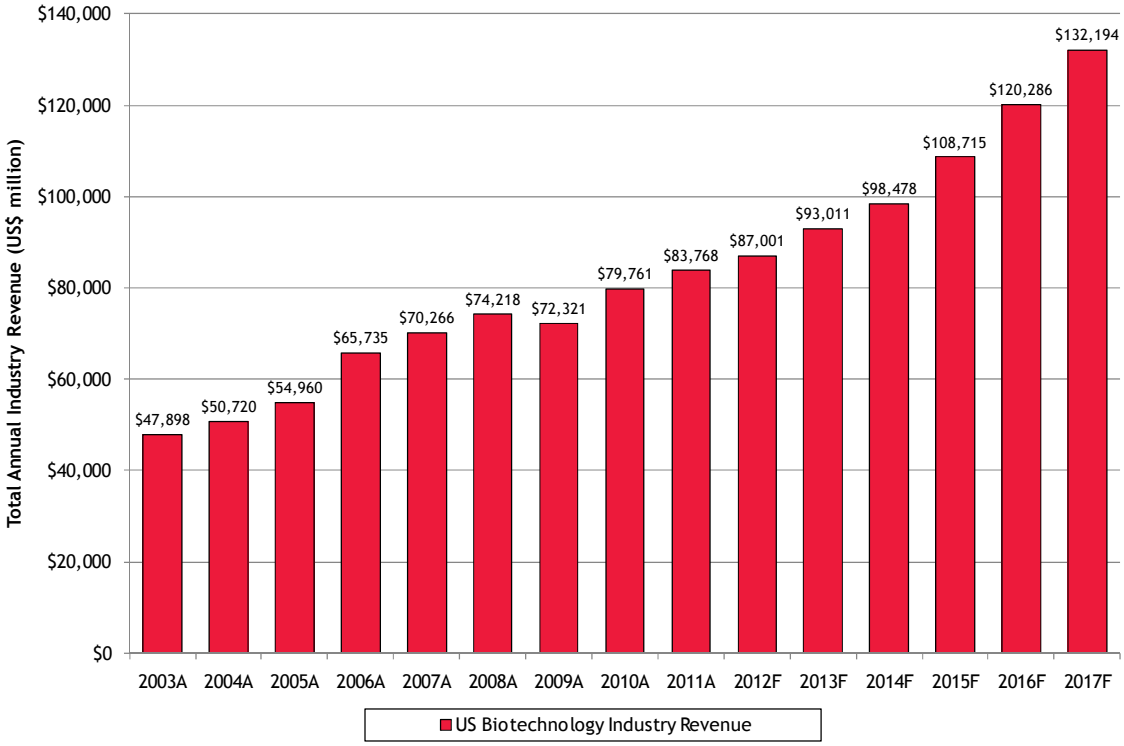


Source: IBISWorld Industry Report NN001: Biotechnology in the US, June 2012

Revenues in the US biotechnology industry have experienced average annual growth of approximately 4.4% over the period from 2007 to 2012, and are expected to be approximately US$87.0 billion in FY2012. This growth is expected to continue in the medium term, with IBISWorld predicting a CAGR of approximately 8.7% per year to reach approximately US$132.2 billion in FY2017. This expected growth in revenue is driven by new product development, favourable regulatory environment, an ageing population and increasing access to capital.

Figure 8.6 below shows the total revenues generated by the US biotechnology industry over the period from FY2003 to FY2011, and the forecast revenues as published by IBISWorld to FY2017.

Figure 8.6: US Biotechnology Industry Revenues



Source: IBISWorld Industry Report NN001: Biotechnology in the US, June 2012

The US biotechnology industry is regulated by the US Food and Drug Administration ('FDA'), a federal agency operated by the US Department of Health and Human Services. The Role of the FDA is to ensure that human and veterinary drugs, biological products and medical devices are safe and effective by:

- Establishing licences for new products and technologies;
- Ensuring testing methods are conducted within set standards; and
- Setting guidelines for the approval of new drugs and technologies prior to marketing and sale.

Given the governing role of the FDA in the US, it is seen as the leading regulator of biotechnology activities globally.

8.3 Key Performance Determinants in the Biotechnology Industry

Key sensitivities that affect the performance of the biotechnology industry are set out in Table 8.1 below.

Table 8.1: Key Sensitivities for the Biotechnology Industry

Key Sensitivity	Description
Age Group (55+)	An ageing population creates demand for more life enhancing and life extending drugs that are developed by the biotechnology industry.
Real GDP Growth	The biotechnology industry is extremely reliant on sound investor confidence, which is bolstered by a strong economy. High levels of confidence increases the availability of speculative capital used to fund start ups and more established companies.
Research and Development Expenditure	The level of government grants and funding provided to biotech companies can have a significant impact on the growth of the industry.
Stock Market Performance	A healthy stock market assists biotechnology companies in raising capital.

Source: IBISWorld Industry Report X0001: Biotechnology in Australia, March 2012

Key success factors that affect the performance of the biotechnology industry are set out in Table 8.2 below.

Table 8.2: Key Success Factors for the Biotechnology Industry

Key Sensitivity	Description
Access to niche markets	Biotechnology companies need to develop products for niche markets.
Ability to quickly adopt new technology	Companies in the biotechnology industry need to ensure they are up to date with the latest research and breakthroughs.
Highly trained workforce	Employees involved in industry research and development generally need to hold a science degree or equivalent.
Ready access to investment funding	The high cost of developing new biotechnology products means that companies need to secure finance in order to ensure successful research and development.

Source: IBISWorld Industry Report X0001: Biotechnology in Australia, March 2012

8.4 Drug Development Process

The development of drugs in the biotechnology industry generally requires significant clinical trials to be completed prior to regulatory approval. Table 8.3 below outlines the stages of study required for the development of a new drug or technology.

Table 8.3: Stages of Clinical Trials and Regulatory Approval

Stage	Success Rate Autoimmune	Success Rate Respiratory	Description
Preclinical			• Experiments are conducted in test tubes or live tissues to generate information of the safety and efficacy of the compound. • Data from the preclinical trials is used to gain government regulatory authority to conduct clinical trials of the compound in humans.
Phase I			• Phase I clinical trials aim to evaluate the safety of the compound. • Trials are conducted on a small number of patients (generally between 20 and 80) to study the various aspects of the drugs safety, including dosage amount, method of dosage and frequency of dosage. • Provide information about the compound's interaction with the human body.
Phase II	30%	24%	• Phase II clinical trials aim to determine the efficacy of the compound at treating the disease or condition. • Trials during Phase II are typically conducted on approximately 100 to 300 patients who currently have the disease or condition of which the compound has the potential to treat. • Evaluates the compound's effect on the human body as well as continues to assess the safety of the compound.
Phase III	63%	61%	• The drug is typically tested in double-blind, placebo controlled trials to demonstrate that it works. • Typically involve hundreds or thousands of patients. • Provide further study of the compounds clinical benefits demonstrated during Phase II. • Assesses the cost effectiveness and long term safety of the drug.
Regulatory Approval			• The drug is assessed and approved for sale and marketing by the major regulatory body. • Following regulatory approval, the drug is monitored for its use in the normal clinical setting.

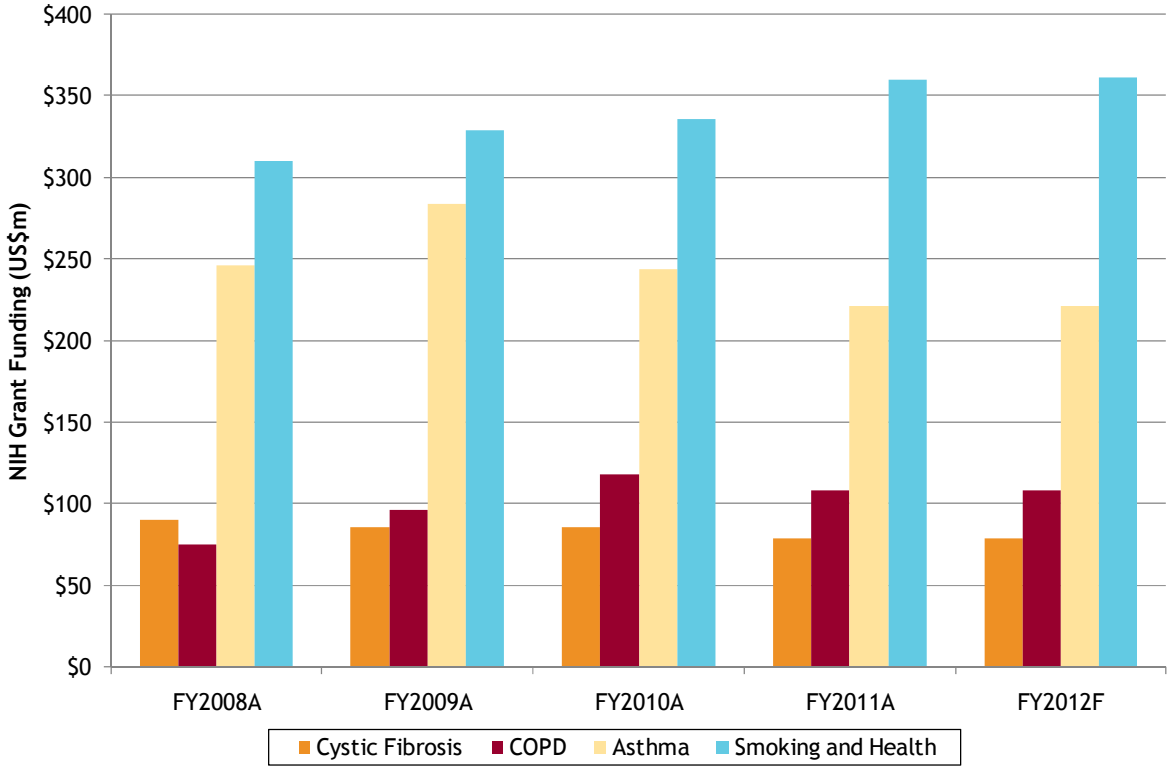
Source: Biotechnology Industry Organisation presentation, February 2011

8.5 NIH Grant Process

The NIH is an agency of the US Department of Health and Human Services and is responsible for biomedical and health related research in the US. The NIH comprises 27 separate institutions and centres which focus on the research and development of new knowledge to detect, diagnose, treat and prevent disease and disability. The NIH invests more that US$30.9 billion annually in medical research, of which approximately 80% is awarded through competitive grants to universities, medical schools and other research institutions/companies around the world.

Figure 8.7 below shows the annual NIH grants issued to fund research in the areas of asthma, COPD, cystic fibrosis and smoking and health from 2008 to 2012 (estimate).

Figure 8.7: NIH Grants and Funding issued in the Areas of Research Targeted by Inverseon, 2008 - 2012



Source: US National Institutes of Health

Having regard to the information presented in Figure 8.7 above, we note that on average, over the past five years the NIH has granted approximately US$770 million per year to research focussed on asthma, COPD, cystic fibrosis and smoking and health.

In order to be awarded funding, institutions must submit a grant application with the NIH. Based on information presented on the NIH website, we understand that the grant application process is relatively rigorous and takes approximately 10 months from application to award. We also understand that only approximately 10% to 15% of grant applications are ultimately awarded. Table 8.4 below summarises the grant process for the NIH.

Table 8.4: NIH Grant Process

Process/es	Time Frame	Description
Registration/Submission	2-4 weeks	The institution/entity applying for NIH funding prepares all of the relevant documentation, prepares and submits an application.
Receipt and Referral	1-3 months	The NIH receives all applications. Those applications which are compliant with NIH policies are assigned for review by the Division of Receipt and Referral in the NIH Centre of Scientific Review. The Centre for Scientific Review assigns each application to the relevant institute/centre of the NIH for review.

Process/es	Time Frame	Description
Peer Review	4-8 months	Grant applications are reviewed and scored by three peer group members at the NIH. We understand that a score is determined for only 50% of applications and is based on a scale of 1 to 100, with 1 being the best possible outcome. Following the initial review, scored applications are reviewed by the entire peer group. Unscored applications are not processed for further consideration.
Award	9-10 months	Following the peer review process, applications that the NIH may fund are reviewed for a number of other considerations including the alignment of the application with the NIH's funding principles, review of the project budget, assessment of the applicant's management systems, determination of applicant eligibility, and compliance with public policy requirements. Following a review by the NIH, a decision whether and what level of funding will be awarded. We understand that between 10% and 15% of applications are ultimately awarded funding, depending upon the specific institute or centre providing the award.
Post-Award Management		The NIH required that all grantees submit reports at specific times during the life of the grant award. These reports include progress reports, invention reports and statements, and financial reports. The NIH monitors grantees to identify potential problems and areas where technical assistance may be necessary.

Source: **US** National Institutes of Health and Inverseon

While we have summarised the grant process for the NIH above, we note that there are a number of other disease-specific and state agencies which grant funding for research to biotechnology institutes/companies. We have not summarised the application and award process for these agencies in this Report.

8.6 Rheumatoid Arthritis

Rheumatoid Arthritis is considered a systemic autoimmune disease in which the sufferer's immune system attacks the synovial joints leading to swelling of synovial cells and the development of fibrous tissue in the synovium.[5] RA is caused by the migration of white blood cells to the joint, which causes inflammation and affects the function of the muscles, tendons and ligaments which support the joint. RA has also been known to produce inflammation of the lungs, the membrane surrounding the heart and the white of the eye.

The ultimate cause of RA is unknown however it is believed that genetic factors play a key role in its development. Data sourced from the US Centres for Disease Control and Prevention suggests that approximately 1.3 million people in the US had been diagnosed with RA in 2007, with women three times more prone to the disease than men.[6] While there is no know cure for the disease, it has been found that early therapeutic intervention may improve clinical outcomes and reduce the accrual of joint damage and disability.[5]

[5] Aletaha D *et. al.* (2010), "2010 Rheumatoid Arthritis Classification Criteria: An American College of Rheumatology/European League Against Rheumatism Collaborative Initiative." *Arthritis and Rheumatism*, v.62 (9), pp 2569-81.

[6] http://nihseniorhealth.gov

Diagnosis of RA typically follows thorough medical history and physical examinations to detect swelling, warmth and reduced range of motion in the affected joints, as well as nodules under the skin. Joint damage caused by RA may also be detected by X-rays, sonograms and magnetic resonance. Approximately 80% of people diagnosed with RA also indicate the presence of an antibody called rheumatoid factor which may be detected through blood tests.[7]

Treatment for RA generally includes medications that alter the progression of the disorder and comprise of two or more specific drugs. Generally, a sufferer of RA will receive a pain reliever, or anti-inflammatory drug, which will help to control the symptoms. A second medication will also be used as a way of preventing the disorder from causing further damage and destruction to the joints of the patient. Table 8.5 below provides a description of the types of drugs used to treat RA.

Table 8.5: Treatments for RA

Drug Type	Description
Non-steroidal anti-inflammatory drugs ('NSAIDs')	NSAIDs include drugs such as ibuprofen, ketoprofen and naproxen sodium to reduce pain, stiffness and swelling of the joints.
Corticosteroids	Corticosteroids include drugs such as prednisone, prednisolone and methyprednisolone which are quick acting anti-inflammatory drugs used to reduce pain, stiffness and swelling. Often corticosteroids will be used to reduce inflammation while waiting for NSAIDs and DMARDs to take effect.
Disease-modifying anti-rheumatic drugs ('DMARDs')	DMARDs include drugs such as methotrexate, hydroxychlorquine, sulfasalazine and leflunomide and are used to slowly modify the course of RA. Early prescription of DMARDs has been found to aid in the prevention of irreparable joint damage.
Biological response modifiers ('BRMs')	BRMs are biological agents which block specific steps in the inflammation process. Currently there are six BRMs approved for the treatment of RA in the US, including abatacept, adalimumab, anakinra, etanercept, infliximab and rituximab.

Source: http://www.arthritistoday.org

In 2010 the global RA market was estimated to generate revenues of approximately US$12.7 billion. The market is expected to experience significant growth reaching sales of approximately US$17.3 billion in 2015, representing a forecast CAGR of approximately 7.1%.[8]

8.7 Respiratory Disease

Broadly, respiratory disease refers to conditions which affect the organs and tissues used for breathing, including conditions affecting the respiratory tract, trachea, bronchi, bronchioles, alveoli, pleura and pleural cavity. Two major respiratory diseases include asthma and COPD. Other common respiratory diseases include hay fever, sinusitis and emphysema. Respiratory diseases are a major cause of illness and death globally, with more than 8% of Americans suffering from asthma and approximately 6% being diagnosed with COPD in 2010.[9]

7 http://www.arthritis.org/media/newsroom/media-kits/Rheumatoid_Arthritis_Fact_Sheet.pdf
8 http://www.visiongain.com
9 US Department of Health and Human Services, Summary Health Statistics for US Adults: National Health Interview Survey, 2010.

Table 8.6 below provides a brief description of asthma and COPD.

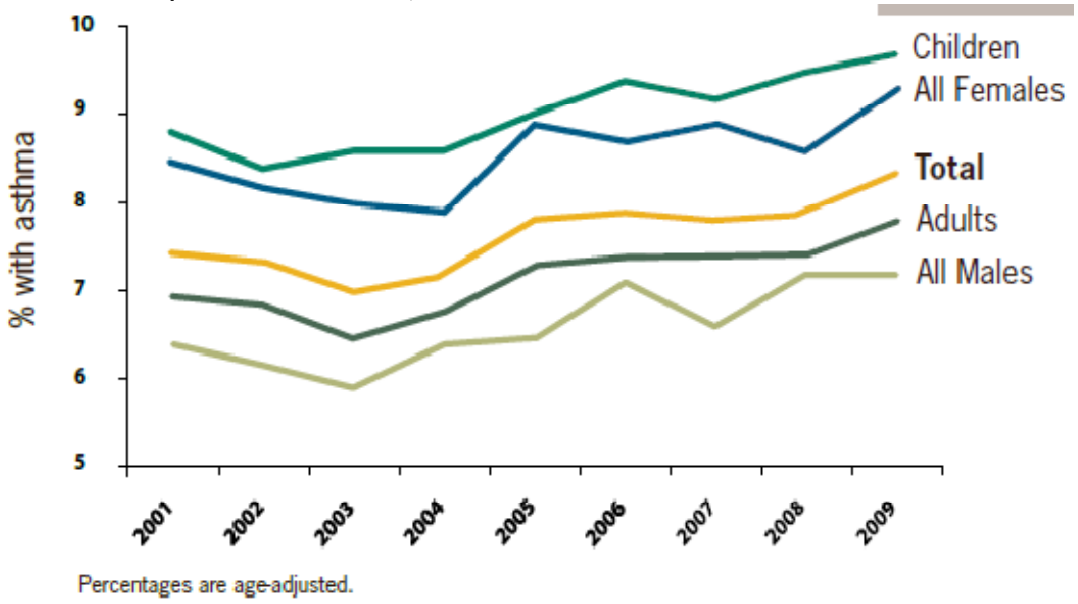
Table 8.6: Asthma and Chronic Obstructive Pulmonary Disease

Disease	Description
Asthma	Asthma is a chronic inflammatory disorder of the airways characterised by reversible airflow obstruction and resulting in cough, wheeze chest tightness and shortness of breath. Asthma is non-curable, however it can be managed. Asthma sufferers do not continuously experience its symptoms but rather will have 'flare ups' or 'asthma attacks' relatively infrequently. The onset of asthma symptoms generally occurs due to certain triggers, including but not limited to: • Allergens from dust, animal fur, cockroaches, mold, and pollens from trees, grasses, and flowers; • Irritants such as cigarette smoke, air pollution, chemicals or dust in the workplace; • Medicines such as aspirin or other non-steroidal anti-inflammatory drugs and non-selective beta-blockers; • Viral upper respiratory infections, such as colds; and • Physical activity.
COPD	COPD is a progressive respiratory disease which worsens over a patient's lifetime. COPD generally develops slowly over time and may inhibit the sufferer from normal daily activity. The symptoms and treatment of COPD is very similar to asthma, however it generally requires closer monitoring and more preventative maintenance. COPD is a major cause of disability and is the third leading cause of death in the US. Tobacco smoking is believed to be the cause of more than 70% of cases of COPD in the US.

Source: US Department of Health and Human Services, National Heart and Lung Institute

Figure 8.8 below illustrates the percentage of the American population, segregated into children, adults, males and females, which were diagnosed with asthma over the period from 2001 to 2009.

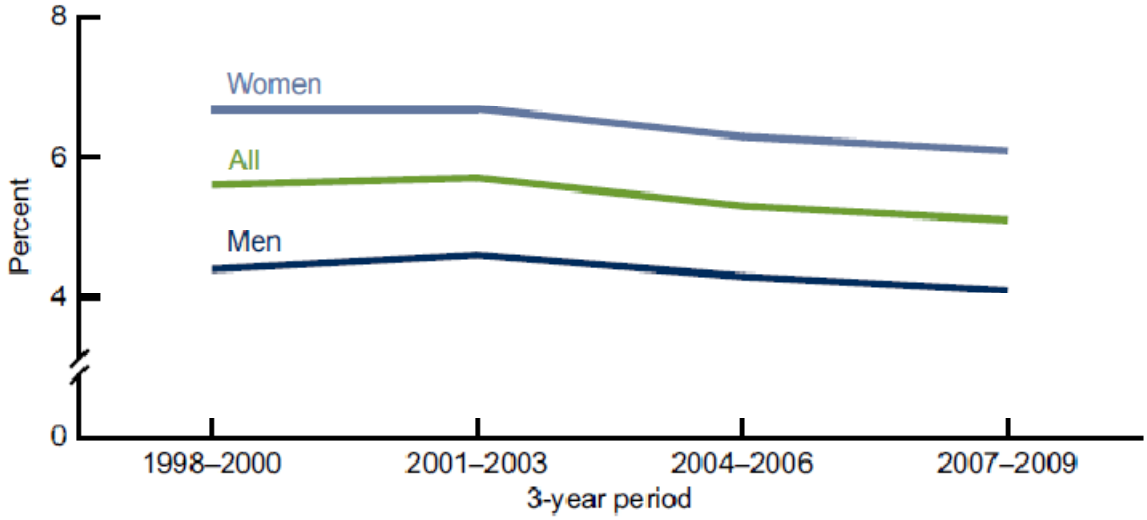
Figure 8.8: US Population with Asthma, 2001-2009



Source: US Department of Health and Human Services

Figure 8.9 below illustrates the percentage of the American population, segregated into males and females, which were diagnosed with COPD over the period from 2001 to 2009.

Figure 8.9: US Population with COPD, 2001-2009



Source: US Department of Health and Human Services

The cause of respiratory disease remains unknown, although much is known about the factors that increase the likelihood of its development in susceptible individuals or trigger symptoms in existing sufferers. One of the primary factors which is believed to contribute to respiratory disease is cigarette smoking. While the number of cigarette smokers has been decreasing in the recent past, evidence presented by the US Department of Health and Human Services suggests that, in 2010, approximately 19% of adults aged 18 years and over in the US are regular cigarette smokers.

Generally, respiratory diseases are largely preventable as much is known about their risk factors and there are a number of products available for treatment. The most common treatment for respiratory disease is the use of bronchodilators, which are medications used to relax the bronchial muscles. Relaxing the bronchial muscles makes the airways larger and allows air to pass through the lungs easier. Bronchodilators are generally grouped into three types dependent upon whether they are short or long-acting and the way in which they work to relax and widen the airways.

Short-acting bronchodilators have a rapid onset and effect and are used to relieve shot-term symptoms (often used by asthma sufferers). Long-acting bronchodilators take longer to take effect and generally last longer than 12 hours, and are used for maintenance therapy for sufferers of COPD. Table 8.7 below provides a description of the three main categories of bronchodilators.

Table 8.7: Common Treatments for Respiratory Diseases

Treatment	Description
Beta Agonists	Beta agonists stimulate β_2 receptors on smooth muscles in the airway causing them to relax. Beta agonists are categorised into two types depending on how long they provide relief. Short-acting beta agonists generally work within 3 to 5 minutes and provide relief for between 4 and 6 hours. These medications are generally given for fast relief from breathlessness and are taken through inhalation, liquid or tablet consumption. There are at least ten different short-acting beta agonists on the market. Long-acting beta agonists are considered to be maintenance drugs with their effects lasting for much longer periods, usually up to 12 hours. LABAs are relatively new to market and there are currently only two products available, foroterol and salmeterol. Beta agonists should only be used in moderation. If the medication is taken more often than prescribed they may cause a variety of side effects in users, including: • Increased heart rate and palpitations; • Shakiness or cramping of the hands, legs and feet; and • Anxiety.
Anticholinergics	Anticholinergics differ from beta agonists in that they affect the larger muscles which surround the bronchi, whereas beta agonists affect the muscles around the bronchioles. Anticholinergics work by relaxing the muscles around the lungs which may have become tight due to irritation. Anticholigernics are also categorised into short-acting and long-acting. Short-acting anticholinergics take longer to take effect than beta agonists, working within approximately 15 minutes from use. Due to the longer time to take effect, coupled with the longer relief period of 6 to 8 hours, short-acting antocholinergics are often not considered to be reliever medications. Currently there are only two short-acting anticholinergics on the market, ipratropium bromide and oxitropium bromide. There is currently only one long-acting anticholinergics on the market, tiotropium, which takes approximately 20 minutes to take effect and lasts up to 24 hours. This medication is prescribed as a once daily maintenance treatment. Anticholinergics do not have as many side-effects as beta agonists. Side-effects which have been experienced by users of anticholinergics include dry mouth, blurred vision and glaucoma.
Theophyllines	Theophylline is used to relax the muscles of the breathing tubes as well as decrease swelling of the lungs. Theophylline may also categorised as short-acting or long-acting, and is marketed under various brand names for each category. All theophyllines are taken in either tablet or liquid form. Theophylline dosage requires careful monitoring due to the potential serious side-effects which may result from over usage. The most common side-effects experienced by users of theophylline include trembling, nausea, headache, dizziness, heartburn, stomach pain and restlessness. More serious side-effects may include vomiting, heart irregularities and seizures.
Other	In addition to the common medications used to treat sufferers of respiratory disease described above, patients may also be prescribed corticosteroids to reduce inflammation/swelling of the lungs.

Source: http://www.thoracic.org

Statistics published by Kalorama Information, global research specialists in the medical markets, state that global sales in the respiratory disease market reached approximately US$44.2 billion in 2011, primarily generated through the sale of respiratory inhalers (77%). Due to the increasing trend in the number of cases of respiratory disease, driven primarily from an ageing population, Kalorama Information has forecast that sales in this industry will grow at a CAGR of between 7% and 9% over the next 5 years. The bulk of this market growth is expected to arise from increasing incidences of COPD globally and from innovating new products entering the market.[10]

8.8 Lupus

Systemic Lupus Erythematosus is a chronic, inflammatory auto-immune disease which causes the body's immune system to become hyperactive and attack normal, healthy tissue. Lupus will often cause inflammation in the patient's joints, tendons, skin, blood vessels and other organs. There are four common forms of lupus which we have summarised in Table 8.8 below.

Table 8.8: Forms of Lupus

Form of Lupus	Description
Systemic Lupus Erythematosus	SLE may affect joints, muscles, bones, skin, blood vessels and blood cells, brain and nerve tissue, heart, lungs, kidneys, stomach and intestines, and eyes. It may also cause total body symptoms like fever, fatigue and weight loss. SLE is generally characterised by periods of flare and periods of remission.
Discoid Lupus Erythematosus ('DLE')	DLE is lupus which is confined to the skin and does not affect internal organs. It causes rash on the face, neck and scalp.
Drug-induced lupus	Drug-induced lupus is caused by a reaction to a drug and causes symptoms similar to SLE. Drug-induced lupus is generally curable by discontinuing use of the offending drug.
Neonatal lupus	Neonatal lupus is seen in the infants of women with SLE or Sjogren's disease and usually causes symptoms such as skin rashes as well as heart and blood complications. Generally rashes which appear on a new born child will fade within the first six months of the child's life with no lasting effects.

Source: Medical News Today

The Lupus Foundation of America estimates that there are approximately 5 million people in the US with lupus. While the direct cause of lupus is unknown, research suggests that its occurrence may be genetic, hormonal, or otherwise caused by certain environmental triggers such as ultraviolet rays, stress, infection and illness.

There is currently no cure for lupus, however there are a broad range of medications which are used to treat the symptoms of lupus. We understand that of the common treatments used, only a few are approved specifically for lupus by the FDA. Table 8.9 below summarises the treatments which are approved by the FDA specifically for the treatment of lupus.

[10] http://www.kaloramainformation.com

Table 8.9: Treatments for Lupus approved by the FDA

Treatment	Description
Corticosteroids	Corticosteroids, such as prednisone, are quick acting anti-inflammatory drugs used to reduce pain and swelling caused by lupus.
Antimalarial drugs	Medications which are commonly used to treat malaria, such as hydroxychloroquine, have been shown to control the symptoms of lupus.
Immunosuppressants	In serious cases of lupus, drugs which suppress the immune system may be used. Immunosuppressants which are often used to treat lupus include cyclophosphamide, azathioprine, mycophenolate and leflunomide.
NSAIDs	NSAIDs, such as naproxen and ibuprofen, are often used to treat the pain, swelling and fever associated with lupus.
Monoclonal antibodies	In 2011 Human Genome Sciences and GSK's drug, BenlystaTM, was the first drug in more than 50 years to be approved by the FDA for the treatment of lupus. BenlystaTM (belimubab) is often used with other lupus treatments and has been shown to reduce the body's abnormal immune system activity.

Source: Lupus Foundation of America

The market for lupus treatments is characterised by a number of large players, including GSK, Bristol-Myers Squibb and Merck, and is considered to have high competition. In 2010, the lupus market was estimated to be worth approximately US$256 million. This market is expected to grow at a CAGR of approximately 24.7% per year to approximately US$1.6 billion by 2018.[11]

[11] GlobalData and www.prnewswire.com

9.0 Valuation Methodologies and Approach

To determine the most appropriate valuation methodology for valuing early stage biotechnology companies such as CBio and Inverseon, it is necessary to have regard to a number of relevant considerations, including:

- Cash flows derived from commercialisation can be delayed well into the future. For example, it is not unusual for the need to consider forecasts beyond 10 years from valuation date. Expected development costs and commercialisation cash flows can generally only be estimated having regard to industry wide parameters rather than factors specific to the particular entity. It is inherently difficult to forecast company specific factors well into the future, especially considering that the product does not yet exist and the potential market is largely unknown;
- The probability of a biotechnology company's product being successful in the initial stages of the product life cycle is low, complicating the process of estimating future cash flows. A product is not eligible for commercialisation until it has regulatory approval for sale in the commercial drug market;
- The development and production of drugs is expensive. Biotechnology companies require access to the resources which they require to commercialise their product. For example, biotechnology companies often partner with larger pharmaceutical companies to ensure they have the resources to reach the final stages of the product life cycles; and
- General market uncertainty related to potential changes in the regulatory process and technological changes that may lessen the impact of the product once it has reached commercialisation.

The value of an early stage biotechnology company can be determined having regard to several valuation methodologies that allow for the considerable uncertainty that exists in the biotechnology industry. In our view it is necessary to have regard to multiple valuation methodologies to determine the fair market value of CBio. The valuation methodologies that we have considered in this Report, along with each methodology's advantages and disadvantages, are set out directly below.

9.1 Decision-Tree Valuation Method Utilising Discounted Cash Flow

The decision-tree valuation methodology utilising discounted future cash flows calculates a risk adjusted net present value ('rNPV') having regard to:

- The cash flows expected at each stage of the biotechnology product lifecycle and on approval of the biotechnology product;
- A discount rate that represents the rate of return that investors might expect from their capital contribution; and
- The probability of moving through each stage of the biotechnology product lifecycle.

The advantages and disadvantages of the decision-tree valuation methodology are set out in Table 9.1 below.

Table 9.1: Advantages and Disadvantages of the Decision-Tree Valuation Method Utilising Discounted Future Cash Flows

Advantages	Disadvantages
• The value of the company is calculated having regard to a broad cross section of information. The value of the Company is considered at each stage of the biotechnology product lifecycle and weighted according to the probability that these will be the expected cash flows; • The methodology allows the valuer to observe the contribution that each stage of the biotechnology product lifecycle makes to the rNPV; and • The valuation methodology requires consideration of the factors that will impact on cash flows throughout each stage of the biotechnology product lifecycle.	• It is difficult to estimate reliable cash flow projections for both the development and commercialisation phases of the biotechnology's product life cycle; • It is difficult to estimate the probability of success of an early stage biotechnology company; • The economic/trading environment expected at the time of valuation may be different to the environment at the time the early stage biotechnology company's products actually make it to market; and • The competitive landscape reflected in the cash flows may not be representative of the competitive landscape at the time the cash flows ultimately occur (typically 10+ years). For example, there may be many more products on the market in the particular niche market type targeted by the early stage biotechnology company.

9.2 Relative Valuation

Relative valuations are typically used to value early stage biotechnology companies by considering the value of broadly comparable listed entities which are at a similar stage of the biotechnology product life cycle to the company being valued and extrapolating the value of the listed entities to determine the value of the company being valued.

When conducting a relative valuation it is necessary to have regard to several company specific factors to determine exactly how comparable listed entities operating in the biotechnology industry are to the company being valued. These factors include:

- The number of potential products each company has;
- The current phase of the product life cycle that each of the company's products is at;
- The period of time that each company has spent developing products having specific regard to the current phase of development of the products and the length of time spent in the trial phase;
- The size of the potential market that each of the company's products are being targeted at;
- The quality of each company's management;
- The risk that the product being developed will be superseded restricting the potential sales that can be obtained; and
- Any other factors that may materially impact value such as pre-existing royalty income streams.

As a general rule, early stage biotechnology companies have low levels of debt so the value being ascribed by the market to the research program of a comparable entity can generally be estimated by subtracting the level of cash from the enterprise value of the entity.

The advantages and disadvantages of the relative valuation methodology are set out in Table 9.2 below.

Table 9.2: Advantages and Disadvantages of the Relative Valuation Methodology

Advantages	Disadvantages
• Value of the biotechnology is estimated having regard to the values being ascribed by the market to other broadly comparable companies with products in a similar phase in the product life cycle; • There is a significant amount of comparable information publicly available and the relative valuation methodology is commonly adopted by capital market participants; • The impact of current market conditions are taken into consideration in determining the value of the biotechnology; and • No requirement to make long term cash flow projections. For example, projections which extend 10+ years into the future.	• The values determined are indicative only as no two companies are the same; and • Difficulties may arise in identifying suitable comparable companies.

9.3 Market Based Valuations

Market based valuations relate to the valuation of an entity having regard to the value which securities in the entity have recently been purchased at. This approach is particularly relevant to:

- Entities where the shares are traded on an exchange. The range of share prices observed may constitute the market value of the shares where sufficient volumes of shares are traded and the shares are traded over a sufficiently long period of time; and/or
- Entities where it is possible to observe recent transactions relating to the transfer of relatively large parcels of shares (e.g. recent capital raisings).

Market based valuation approaches often allow for a useful reasonableness check to be performed on the other valuation methodologies.

The advantages and disadvantages of the market based valuation methodology are set out in Table 9.3 below.

Table 9.3: Advantages and Disadvantages of Market Based Valuation Methodologies

Advantages	Disadvantages
• Reflects the actual value of recent transactions in the entity's securities; • Provides an indication of a sales price negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, with both parties at arm's length; and • No requirement to make long term cash flow projections. For example, projections which extend 10+ years into the future.	• If the entity is not listed it is difficult to observe the value of actual trades or alternatively, no trades may have occurred; • May not reflect the value that a specific purchaser may pay for the entity; and • Sensitive to the economic/market conditions prevalent at the time which may impact the value of recent transactions of a particular company.

9.4 Summary of Applicable Valuation Methodologies

Our view of the most appropriate valuation methodologies to apply when calculating the value of CBio and Inverseon is summarised in Table 9.4 below.

Table 9.4: Summary of Applicable Valuation Methodologies

Valuation Methodology	Appropriate for CBio	Appropriate for Inverseon	Explanation
Decision-tree valuation method using discounted cash flows ('DCF')	✗	✗	The decision-tree valuation methodology relies on projections of the future cash flows of a company using assumptions about the company's future performance. As at the date of this Report, it is our view that there are not reasonable grounds for relying on forward-looking financial information required to value CBio or Inverseon. Any forecast financial information relating to CBio or Inverseon would have to rely on hypothetical assumptions about future events which are uncertain. In particular, we note the following matters in relation to CBio and Inverseon: • CBio's Phase IIa clinical trial failed to meet its primary endpoint and CBio has not carried out a detailed forecast of the cash flows relating to the various strategic options available to the Company following the unfavourable results of the Trial; and • Inverseon is at an early stage of its product lifecycle and has not yet utilised the NIH grant to commence the INV102 Asthma Trial. In our view, an estimate of Inverseon's future cash flows at the current point in time would necessitate relying on assumptions which are hypothetical and significantly uncertain. Having regard to the above, in our view, it is more appropriate to adopt valuation methodologies other than the decision-tree valuation methodology for the purpose of valuing CBio and Inverseon in this Report.

Valuation Methodology	Appropriate for CBio	Appropriate for Inverseon	Explanation
Relative Valuation	✓	✓	The relative valuation methodology calculates value having regard to the trading prices of broadly comparable listed entities with products at a similar stage of the biotech product life cycle. By extrapolating the value of these listed entities and making adjustments for the specific operational positions of CBio and Inverseon as appropriate, in our view it is possible to estimate a value of CBio and Inverseon. We have adopted the relative valuation methodology to determine the value of CBio and Inverseon for the purposes of this Report.
Market Based Valuation	✓	×	CBio is publicly listed on the ASX. It is possible to complete a market based valuation as there is a readily observable market for the trading of shares in CBio. Inverseon is a privately owned company and its shares are not readily tradable. As a result a market based valuation approach is not appropriate in valuing Inverseon.

Source: BDO CFQ analysis

9.5 General Risks Associated With the Valuation of Biotechnology Companies

Biotechnology companies such as Inverseon and CBio are typically exposed to a number of general risks which may affect their financial performance and consequently have an impact on their valuation. Table 9.5 below summarises a number of the general risks which we have had regard to in our valuation of CBio and Inverseon. We note that this is not an exhaustive list of all the possible risks that such companies could face.

Table 9.5: Risks Associated with the Valuation of Biotechnology Companies

Risk	Explanation
Large global competitors	Small biotechnology companies have to compete with numerous other companies in the fields of drug development. Many of these companies are better resourced and financed and have significant competitive advantages in areas such as manufacturing, regulatory affairs and marketing and distribution. These larger companies often have a global presence and are capable of rapid market entry. Where a small company creates a new market, the established competitors can grab market share through price cutting and aggressive promotional campaigns. These companies also have the resources to fund expensive and often lengthy legal disputes relating to intellectual property rights.
Ability to raise funding	Biotechnology companies require funding to carry out their research and development, obtain regulatory approval, commercialisation and marketing of their products. A biotechnology company's ability to raise this funding is dependent upon a number of factors, some of which may be outside of the company's control, including economic and market conditions prevailing at the time.

Risk	Explanation
Conduct of trials and ability to recruit patients	Clinical trials generally require the adherence to stringent regulatory requirements relating to factors such as the design and methodology of the trials, the process of selecting candidates, clinical procedures, and ethical requirements. There is a risk that trials conducted by biotechnology companies may be in breach of some of these requirements which may affect the validity of the trial or lead to additional expenses being incurred to rectify any issues in this regard. Biotechnology companies often engage and rely upon third parties to conduct clinical trials on their behalf and there is a risk that such third parties may not perform as contractually required or expected. In conducting the clinical trials there is a risk that recruitment of patients or subjects for the trials may take much longer than anticipated by the biotechnology company. There is also a risk that a larger than expected number of patients may drop out of the trial before completion.
Trial results	The results of clinical trials are uncertain by nature. Biotechnology companies face the risk that the actual results of clinical trials at each phase of the drug development process may be less favourable than anticipated. This may require costly reformulations of the drugs being trialled or even abandonment of the technology altogether. Such actions are likely to negatively impact the financial performance of the company.
Regulatory approval	Biotechnology companies may fail to obtain regulatory approval for their products. Even in instances where regulatory approval is obtained, there is a risk that the process of obtaining approval will require more time than anticipated by the biotechnology company.
Market penetration	Even upon successful commercialisation of an approved drug, there is a risk that a biotechnology company may not be able to penetrate the existing market for the particular therapy and achieve its target market share.
Intellectual property	Early stage biotechnology companies face significant risks in relation to their intellectual property. There is a risk that a company may be unable to obtain patents for its technology due to various reasons. Some of these reasons include factors such as conflicts with existing patents owned by other companies and the costs associated with obtaining patents. Biotechnology companies are often required to obtain patents in more than one country and may have to follow a number of application processes which can differ significantly between jurisdictions. Once a company has obtained patents for its technology, a biotechnology company still faces the risk that its patent may be challenged or in some cases deemed ineffective, by future applications of other companies. The possibility of expensive and often lengthy legal disputes in relation to intellectual property rights is not uncommon in the biotechnology industry.
Uncertainty of costs	It is often difficult for early stage biotechnology companies to ascertain the total costs associated with the commercialisation of a particular technology as these costs are incurred in the latter stages of the drug development process. There is a risk that actual costs for these latter stages are significantly higher than had been anticipated.
Discovery of new alternative therapies	All biotechnology companies face the risk that a new alternative therapy may be discovered by a competitor for the same disease or condition that a particular biotechnology company may be targeting. It is possible that the alternative therapies produced by competitors may be more effective and superior to that of the biotechnology company.

Source: BDO CFQ analysis

10.0 Valuation of CBio

This section of this Report sets out our valuation of CBio prior to the Proposed Transaction and is structured as follows:

- Section 10.1 sets out a summary of the enterprise value of companies broadly comparable to CBio;
- Section 10.2 sets out our view of the enterprise value of CBio having regard to the market based valuation methodology;
- Section 10.3 sets out our view of an appropriate enterprise value to adopt for CBio;
- Section 10.4 sets out adjustments required to calculate the equity value of CBio;
- Section 10.5 sets out our view of an appropriate control premium to adopt for CBio; and
- Section 10.6 sets out our view of an appropriate equity value to adopt for CBio for the purpose of the analysis set out in this Report.

10.1 Relative Valuation

This section sets out a summary of the enterprise value of companies broadly comparable to CBio to enable a view to be formed on CBio's enterprise value having regard to the relative valuation methodology. The information set out below includes a summary of the information that we have relied on and the assumptions that we have adopted.

This section is set as follows:

- Section 10.1.1 sets out an overview of the methodology we adopted to identify comparable companies to CBio;
- Section 10.1.2 sets out a description of the broadly comparable companies selected and a summary of the enterprise value of these companies;
- Section 10.1.3 sets out our discussion on broadly comparable market transactions; and
- Section 10.1.4 sets out the company specific factors in relation to CBio and XToll® which we have considered in calculating the enterprise value.

10.1.1 Overview of Methodology

The process that we have followed to identify broadly comparable companies for our relative valuation includes the following steps:

- Identify companies from the Pharmaceutical, Biotech & Life Sciences GICS industry sub-group on Bloomberg;

- Shortlist the companies from the Pharmaceutical, Biotech & Life Sciences GICS industry sub-group on Bloomberg having regard to:
  - Nature of operations – we generally considered only those companies with drug candidates targeting RA, SLE and/or other inflammatory diseases which are in Phases I or II of clinical trials. Companies were not necessary excluded if they had other drug candidates at other stages of development in addition to having early stage drug candidates targeting RA, SLE and/or other inflammatory diseases; and
  - Sales – we generally considered only companies with sales that were low or nil as this is indicative of early stage biotechnology companies whose drugs are in the development phase and have not yet been approved to be marketed;
- Calculate the enterprise value of these companies in AUD; and
- Extrapolate the value of CBio from the broadly comparable companies having regard to a number of company specific factors in relation to CBio and XToll®.

10.1.2 Broadly Comparable Companies

Appendix A of this Report sets out fourteen companies that may be considered broadly comparable to CBio including a summary of their operations (refer Table A.1), a description of their product pipeline (refer Table A.2) and a summary of their enterprise value (refer Table A.3).

Of the fourteen companies listed in Appendix A, we have selected four companies which we consider to be most comparable to CBio. These companies are Bone Medical Limited, Neovacs, Immupharma Plc and Protalex Inc. A more detailed description of these four companies is set out in Table A.4 of Appendix A.

In addition to the information set out in Appendix A, we have set out a summary in Table 10.1 to Table 10.3 below of each of the four most comparable companies business operations, product pipeline and enterprise value.

Table 10.1: Summary of Operations of Four Most Comparable Companies to CBio

	Description of Operations
Bone Medical Limited	Bone Medical Limited is a biopharmaceutical company developing treatments for bone and joint degeneration and disease including osteoporosis and arthritis.
Neovacs	Neovacs is a biotechnology company. The Company researches immunotherapy applications for autoimmune diseases, inflammatory diseases such as rheumatoid arthritis, cancer and other conditions.
Protalex, Inc.	Protalex, Inc. develops and markets organic chemical molecules called bioregulators. The Company's molecules are for use in the treatment of rheumatoid arthritis and other forms of arthritis.
Immupharma Plc	Immupharma Plc is a pharmaceutical company. The Company researches treatments for lupus, cancer, post-operative pain, and highly resistant hospital-acquired infections.

Source: Bloomberg

Table 10.2: Summary of Product Pipeline of Four Most Comparable Companies

Company	Product Pipeline
Bone Medical Limited	1 x Phase I-IIa (Nasal Calcitonin) 3 x Pre-clinical (Osteoporosis) 1 x Pre-clinical (Bone and Joint) 1 x Research (Osteoporosis)
Neovacs	1 x Phase IIa (Rheumatoid Arthritis) 1 x Phase IIa (Crohn's Disease) 1 x Phase IIa (Lupus) 1 x Discovery (AMD and Oncology)
Protalex, Inc.	1 x Phase Ib (Rheumatoid Arthritis)
Immupharma Plc	1 x Phase IIb complete (Lupus) 1 x Phase I/IIa (Oncology) 1 x Pre-clinical (Pain relief) 1 x Preclinical (Hospital acquired infections) 1 x Patent (Asthma and Rheumatoid Arthritis)

Source: Company Websites and Annual Reports

Table 10.3: Enterprise Value of Most Comparable Companies to CBio

Company	Home Currency	Exchange Rate (Home Currency/AUD)	EV[(a)] (A$m)	Cash (A$m)	Total Debt (A$m)
Bone Medical Limited	AUD	1.00	2.11[(b)]	0.01	-
Neovacs	EUR	0.80	22.01	9.02	0.89
Protalex, Inc.	USD	1.01	26.86[(c)]	1.53	0.66
Immupharma Plc	GBP	0.64	49.43	18.78	1.50
Min			**2.11**	**0.01**	**-**
Max			**49.43**	**18.78**	**1.50**
Average			**25.10**	**7.34**	**1.02**

Source: Bloomberg as at 28 June 2012

Notes: (a) Enterprise Value = Market capitalisation + Interest bearing debt – cash. Enterprise value has been used for the purpose of this table rather than market capitalisation to adjust for differing cash and debt balances across each company.
(b) Bone Medical has a complex capital structure which includes convertible notes. We understand that upon drawdown of the convertible note funds, Bone Medical issues ordinary shares to the note holder. For this reason, while we have considered the convertible notes on issue in Bone Medical, we have not considered them to be a debt instrument and their value is not included in the EV of Bone Medical reported in Table 10.3.
(c) Protalex has a convertible note and share options on issue which, in our view, would add value to the EV of Protalex. While we have considered the value of these instruments in our analysis in this Report, the EV of Protalex reported in Table 10.3 does not reflect the value of these instruments.

We note from Table 10.3 above that the enterprise values of the most comparable companies to CBio range from approximately A$2.11 million to A$49.43 million with an average value of A$25.10 million.

While this is a reasonably large value range, it is likely that the range results from differences in each of the broadly comparable companies which could arise for a number of reasons, including:

- Level of access to resources in terms of both cash and technology;
- Number of drug candidates under development;
- Stages of development for drug candidates;

- Potential market sizes for each drug candidate;
- Commercial agreements (e.g. in relation to royalties or milestone payments);
- Probabilities of reaching commercialisation;
- Costs to develop;
- Differing levels of financial pressure at the current time;
- Management expertise and level of experience;
- Levels of patent protection able to be accessed for different treatments; and
- Levels of current and potential future competition.

10.1.3 Broadly Comparable Market Transactions

We have also conducted research into comparable transactions using numerous research publications to which we subscribe. We have been able to identify eight transactions in the rheumatoid arthritis sector. Of the eight transactions, in our view there were no transactions that provide relevant information for the valuation of CBio primarily due to the following:

- The transactions identified were in different stages of development to that of CBio (predominantly pre-clinical);
- The target companies identified held diversified portfolios of products including products outside the rheumatoid arthritis sector;
- For three of the transactions, information was not available on the percentage stake acquired by the buyer; and
- Many of the transactions were for a minority interest in the target.

10.1.4 Company Specific Factors in Relation to CBio and XToll®

To use a relative valuation methodology to extrapolate the value of CBio from the broadly comparable companies it is necessary to consider a number of company specific factors in relation to CBio and XToll®. The factors that we have considered include the following:

- The unfavourable results of CBio's Phase IIa clinical trial to evaluate the efficacy and safety of XToll® (refer to Section 5.1.4 above);
- Novo Nordisk declined its option to negotiate an exclusive license agreement for the further development and commercialisation of XToll® after having paid approximately A$3.2 million to CBio for this option (refer to Section 5.1.5 above);
- The future prospects and development of the XToll® technology, including the findings and recommendations of the independent technical review of XToll® which was commissioned by the directors of CBio (refer to Section 5.1.6); and
- The review of CBio's strategic options carried out by the directors of the Company which included the identification of a number of opportunities including the Proposed Transaction (refer to Section 5.1.6).

Having regard to the factors set out directly above, it is our view that the value of CBio is likely to be lower than Neovacs and Immupharma Plc as these two companies are in Phase II and completed Phase II trials respectively.

It is our view that the value of CBio is likely to be within the range of values observed for Bone Medical Limited ('Bone Medical') and Protalex Inc ('Protalex'). We note that Bone Medical's current product pipeline includes five drugs which target osteoporosis and RA. In an announcement to the ASX on 26 April 2012, Bone Medical stated that its lead drugs, targeting osteoporosis, have completed Phase I clinical trials and will require funding of up to A$6 million to advance to the end of Phase II trials. Its other drugs, for the treatment of RA and osteoporosis, are still in the preclinical phase. We understand that Bone Medical is currently negotiating partnerships to progress clinical trials of all of its products.

Notwithstanding that CBio only has one drug whereas Bone Medical has several, it is our view that similarities exist between the two companies. For example, we note that both companies have a lead product which requires funding and approval to progress the development to Phase II (targeting lupus for XToll®) and that both companies do not currently have partnership agreements in place to contribute the funding required.

In relation to Protalex, in a filing with the US Securities and Exchange Commission ('SEC') on 17 January 2012, Protalex announced that it had successfully completed Phase Ib clinical trials of its lead drug which targets RA. Protalex announced that the study provided sufficient safety and efficacy data to review which, if favourable, would allow the progression to Phase II trials. In our view, similarities exist between Protalex and CBio as they both have a single drug which may be progressed to Phase II trials. However, given the results of the trials completed on XToll® to date, it is our view that the value of CBio is unlikely to be higher than the value of Protalex.

We also note that caution should be exercised when relying on the enterprise value of Protalex reported in Table 10.3 above, as it is highly volatile and illiquid. For example, we note that in the month prior to 28 June 2012 (being the value date reported in Table 10.3), the enterprise value of Protalex varied within the range of A$13.4 million and A$29.7 million. We note also that over the period from 1 July 2011 to 28 June 2012 only 1.93% of Protalex shares on issue were traded.

10.2 Market Based Valuation

This section sets out our view of an appropriate enterprise value to adopt for CBio having regard to the market based valuation methodology. To apply the market based valuation methodology we have had regard to the following:

- The recent share market performance of CBio ordinary shares; and
- The liquidity of CBio ordinary shares.

10.2.1 Analysis of CBio's Share Market Performance

CBio's shares are listed on the ASX. We have considered CBio's share price data in Section 5.4 of this Report, including an analysis of significant announcements made by CBio to the ASX over the past 12 months. Table 10.4 below sets out CBio's VWAPs over specified periods of time.

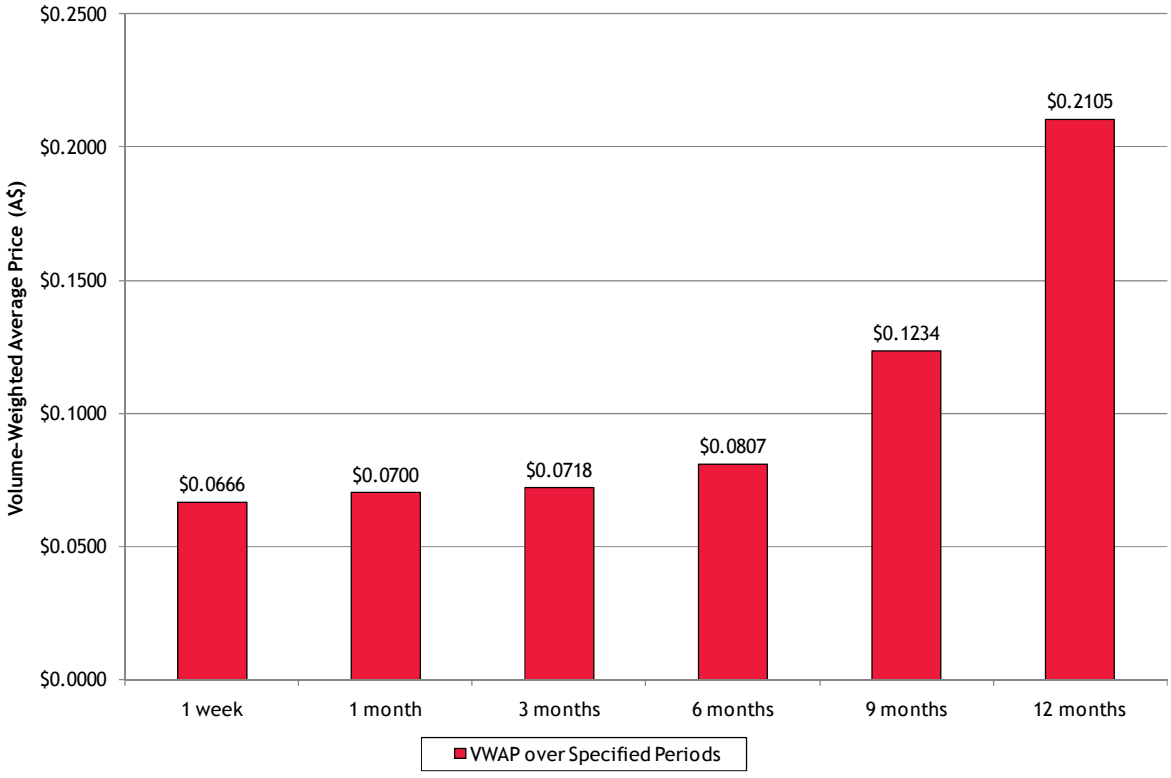
Table 10.4: CBio's VWAPs over Specified Periods of Time

Period Prior to 26 June 2012	VWAP Start Date	VWAP End Date	VWAP (A$)
1 Week	6 June 2012	26 June 2012	$0.0666
1 Month	13 May 2012	26 June 2012	$0.0700
3 Months	13 March 2012	26 June 2012	$0.0718
6 Months	13 December 2011	26 June 2012	$0.0807
9 Months	13 September 2011	26 June 2012	$0.1234
12 Months	13 June 2011	26 June 2012	$0.2105

Source: Bloomberg as at 26 June 2012

The information set out in Table 10.4 above is also expressed graphically in Figure 10.1 below.

Figure 10.1: CBio's VWAP prior to 26 June 2012



Source: Bloomberg as at 26 June 2012

Table 10.4 and Figure 10.1 above show that the VWAPs for the periods of time analysed (ranging from 1 week to 12 months) are within a range of A$0.0666 (1 week VWAP) to A$0.2105 (12 months VWAP). We note that the VWAP data for time periods greater than 6 months presented above includes information relating to the share price of CBio prior to the announcement of the results of the Trial and the subsequent decision by Novo Nordisk to not exercise its option agreement. We note that the VWAPs for the periods between 1 week and 3 months are within a range of A$0.0666 and A$0.0718.

10.2.2 Liquidity of CBio Shares

The rate at which equity instruments are traded is generally referred to as the 'liquidity' of the equity instruments. Changes in liquidity may impact the trading price of equity instruments, particularly depending on the number of equity instruments required to be bought and/or sold and the time period over which the equity instrument holder needs to buy and/or sell those equity instruments. Depending on the circumstances, a movement in market price may or may not represent a shift in value of either the equity instruments or of the company to which the equity instruments relate as a whole.

Table 10.5 below summarises the monthly liquidity of CBio shares from July 2011 to June 2012. Liquidity has been summarised by considering the following:

- Volume of CBio ordinary share trades per month;
- Value of total trades in CBio ordinary shares per month;
- VWAP of CBio ordinary share price per month;
- Number of trades in CBio ordinary shares per month; and
- Volume of CBio shares traded per month as a percentage of total CBio shares outstanding at the end of each month.

Table 10.5: Liquidity of CBio Shares

Month	Volume	Turnover (A$)	Trades	Shares Outstanding	Volume/Shares Outstanding	VWAP (A$)
Jun-12	2,835,507	193,576	61	239,145,004	1.19%	$0.0683
May-12	9,459,668	688,129	83	239,145,004	3.96%	$0.0727
Apr-12	3,307,618	233,413	91	239,145,004	1.38%	$0.0706
Mar-12	1,087,374	92,946	44	239,145,004	0.45%	$0.0855
Feb-12	1,817,186	174,240	92	239,145,004	0.76%	$0.0959
Jan-12	5,055,762	523,106	184	239,145,004	2.11%	$0.1035
Dec-11	9,656,552	1,035,435	333	239,145,004	4.04%	$0.1072
Nov-11	6,936,444	1,377,582	358	239,145,004	2.90%	$0.1986
Oct-11	5,518,423	1,255,356	343	191,682,205	2.88%	$0.2275
Sep-11	3,730,214	773,038	241	191,682,175	1.95%	$0.2072
Aug-11	16,295,624	4,913,265	1,261	160,154,800	10.17%	$0.3015
Jul-11	4,505,477	3,048,427	619	160,054,794	2.81%	$0.6766
Total	**70,205,849**	**14,308,514**	**3,710**	**218,061,167[(a)]**	**32.20%**	

Source: Bloomberg as at 26 June 2012
(a) Weighted average number of shares outstanding over the period analysed

Based on a weighted average number of 218,061,167 ordinary CBio shares on issue over the above period, approximately 32.2% of the total shares on issue were traded in the 12 months to 26 June 2012. Given the above information, we would consider CBio shares to exhibit a low to moderate level of liquidity.

A lower level of liquidity may have either a:

- Positive effect on the market trading price if the lower level of liquidity resulted from a lack of supply (which would be expected to put upwards pressure on price); or
- Negative effect on the market trading price if the lower level of liquidity resulted from a lack of demand (which would be expected to put downwards pressure on price) or from investors paying less initially for the shares to allow for the potential inability to sell at market value when required.

It is for the above reasons that we recommend that caution be exercised when assessing the Proposed Transaction and utilising CBio's historical share price data.

10.2.3 Market Based Valuation of CBio's Enterprise Value

Having regard to the information set out in Sections 10.3.1 and 10.3.2 above, recent market evidence relating to trading in CBio shares shows that:

- For time periods subsequent to the announcements of the Trial and Novo Nordisk's decision to not exercise its exclusive option agreement, CBio's VWAPs are within a range of A$0.0666 to A$0.0718, depending on the period observed; and
- CBio shares exhibit low to moderate levels of liquidity with approximately 32.2% of the total shares on issue traded in the 12 months to 26 June 2012.

To calculate the enterprise value, it is necessary to deduct the net cash balance of CBio from the equity value of the Company. The equity value is calculated based on the VWAP range outlined above and the 239,144,963 ordinary CBio shares on issue. Refer to Section 10.4 below for further information in relation to the differences between equity value and enterprise value.

Our calculation of the enterprise value of CBio having regard to the market based valuation methodology is set out in Table 10.6 below.

Table 10.6: Enterprise Value of CBio using the Market Based Valuation Methodology

	Reference	Low (A$)	High (A$)
VWAP	10.3	**0.0666**	**0.0718**
Number of CBio shares on issue	5.3	239,144,963	239,144,963
Equity Value of CBio	-	**15,927,055**	**17,170,608**
Less Net Cash	10.4	(4,677,283)	(4,677,283)
Enterprise Value of CBio	-	**11,249,772**	**12,493,325**

Source: BDO CFQ analysis

10.3 Calculation of CBio's Enterprise Value

Having regard to the information set out above in this section, it is our view that it is appropriate to adopt an enterprise value for CBio in the range of A$10 million to A$15 million. Enterprise value includes those assets and liabilities which are required to operate a business, such as plant and equipment, trade debtors, trade creditors and any intangible assets such as capitalised research and development and goodwill, but excludes those assets and liabilities used to finance the business, such as cash and interest bearing liabilities.

The low end of the range was determined having regard to the results of the Trial (refer Section 5.1.4 above) and the future prospects and development of the XToll® technology (refer Section 5.1.6 above). The high end of the range was determined having regard to recent share market trading data of CBio.

While we note that we would consider this range relatively wide, it is our view that it is appropriate for use in this Report having regard to the nature of biotechnology companies in the earlier stages of product development.

10.4 Adjustments Required to Calculate Equity Value of CBio

To determine the fair market value of the equity of CBio prior to the Proposed Transaction, it is appropriate to add (subtract) any surplus assets (liabilities) and add (subtract) any other interest bearing assets (liabilities) of CBio from the enterprise value calculated above.

We have also considered adjustments in relation to the effect of additional shares issued upon exercise of any outstanding CBio share options.

10.4.1 Surplus Assets

Surplus assets are non-core assets of a company and typically include those operational assets that are surplus to the needs of the business and real property that is not used in the core business. These assets may yield a different return on investment than the operating assets of the business and their retention by a company represents a different risk profile. The surplus assets should be valued at their current market value and added to the enterprise value, which has been calculated separately.

We have analysed the balance sheet of CBio and made enquiries of management as to assets that could potentially be considered surplus. We have been instructed there are no surplus assets held by CBio.

10.4.2 Net Cash

The book value of debt securities and cash deposits often provides a fair indication of the market value of those securities. We have not been provided with any reasons why the book values of those assets and liabilities do not reflect the market value of the cash on hand and debt.

As at 31 May 2012, CBio had cash of A$4,677,683, no interest bearing liabilities and expects to incur expenses, inclusive of transaction costs, of approximately A$725,000 to 31 July 2012. In our view, it is appropriate to add net cash of A$3,952,683 for the purpose of determining the equity value of CBio.

10.5 Control Premium

As outlined in Section 4.1 in above, approval for the Proposed Transaction is being sought in accordance with the requirements of item 7 of section 611 of the Act and ASIC RG 111 provides guidance to independent experts on how to assess a transaction in this circumstance. In particular, ASIC RG 111 requires that an issue of shares, where a potential allottee of shares will acquire a relevant interest in more than 20% of the shares of a company, should be assessed in a manner comparable to a takeover bid for 100% of the shares in the company.

Following the Proposed Transaction, Dr William Garner, a current shareholder of Inverseon, is expected to obtain a relevant interest in approximately 17.27% of the shares of the Merged Entity. We are instructed that Dr Mitchell Glass is an associate of Dr William Garner and together they will control interests of 21.16% in the Merged Entity. Based on this expected shareholding and the guidance set out in RG 111, it is our view that it is appropriate to calculate the equity value of CBio on a controlling interest basis.

Appendix B of this Report summarises our research in relation to control premiums applicable to the biotechnology sector. This research indicates that control premiums are broadly in the range of 20% to 40%.

For the purpose of the analysis set out in this Report, it is our view that it is appropriate to adopt a control premium for CBio of 30%. A control premium of 30% is consistent with the control premium that we have adopted for Inverseon in Section 11.4 of this Report. For completeness we note that the opinions set out in this Report would remain unchanged if we had adopted a control premium of 20% for CBio and Inverseon or a control premium of 40% for CBio and Inverseon.

10.6 Equity Value of CBio prior to the Proposed Transaction

Table 10.7 below summarises our view of an appropriate equity value to adopt for CBio for the purpose of the analysis set out in this Report.

Table 10.7: Equity Value of CBio

	Low (A$)	High (A$)
Enterprise value	10,000,000	15,000,000
Add expected net cash at 31 July 2012	3,952,683	3,952,683
Equity value (minority interest)	**13,952,683**	**18,952,683**
Control Premium	30%	30%
Equity value (controlling interest)	**18,138,488**	**24,638,488**

Source: BDO CFQ Analysis

In our view, the equity value of CBio prior to the Proposed Transaction on a controlling interest basis is between A$18.14 million and A$24.64 million. Based on 239,144,963 CBio ordinary shares on issue, this implies a value per CBio ordinary share of A$0.076 to A$0.103 on a controlling interest basis.

Readers of this Report should have regard to the general risks associated with the valuation of biotechnology companies, as summarised in Section 9.5 above, for a list of factors that may impact the valuation of CBio post the date of this Report.

11.0 Valuation of Inverseon

This section of this Report sets out our valuation of Inverseon prior to the Proposed Transaction and is structured as follows:

- Section 11.1 sets out a summary of the enterprise value of companies broadly comparable to Inverseon;
- Section 11.2 sets out our view of an appropriate enterprise value to adopt for Inverseon;
- Section 11.3 sets out adjustments required to calculate the equity value of Inverseon;
- Section 11.4 sets out our view of an appropriate control premium to adopt for Inverseon; and
- Section 11.5 sets out our view of an appropriate equity value to adopt for Inverseon for the purpose of the analysis set out in this Report.

11.1 Relative Valuation

This section sets out a summary of the enterprise value of companies broadly comparable to Inverseon to enable a view to be formed on Inverseon's enterprise value having regard to the relative valuation methodology. The information set out below includes a summary of the information that we have relied on and the assumptions that we have adopted.

This section is set as follows:

- Section 11.1.1 sets out an overview of the methodology we adopted to identify comparable companies to Inverseon;
- Section 11.1.2 sets out a description of the broadly comparable companies selected and a summary of the enterprise value of these companies;
- Section 11.1.3 sets out our discussion on broadly comparable market transactions; and
- Section 11.1.4 sets out the company specific factors in relation to Inverseon and INV102 which we have considered in calculating the enterprise value.

11.1.1 Overview of Methodology

To identify companies that can be considered broadly comparable to Inverseon for our relative valuation, we have followed the same process as outlined in Section 10.1.1. The only notable difference in the process followed is in relation to the nature of operations of the selected companies.

For the purposes of valuing Inverseon we have generally considered only those companies with drug candidates targeting asthma, COPD and/or other respiratory illnesses which are in Phases I or II of clinical trials. Companies were not ruled out if they had other drug candidates at other stages of development in addition to having early stage drug candidates targeting respiratory illnesses.

11.1.2 Broadly Comparable Companies

Appendix C of this Report sets out nine companies that may be considered broadly comparable to Inverseon including a summary of their operations (refer to Table C.1), a description of their product pipeline (refer to Table C.2) and a summary of their enterprise value (refer to Table C.3).

Of the nine companies listed in Appendix C, we have selected three companies which we consider to be most comparable to Inverseon. These companies are Verona Pharmaceutical Plc, Bioxyne Limited and Synargen Plc. A more detailed description of these three companies is set out in Table C.4 of Appendix C.

In addition to the information set out in Appendix C, we have set out a summary in Table 11.1 to Table 11.3 below of each of the three most comparable companies' business operations, product pipeline and enterprise value.

Table 11.1: Summary of Operations of Four Most Comparable Companies to Inverseon

	Description of Operations
Verona Pharmaceutical Plc	Verona Pharmaceutical Plc is a drug discovery company focused on the discovery and development of new therapeutic drugs for the treatment of allergic rhinitis (hay fever) and other chronic respiratory and inflammatory diseases.
Bioxyne Limited	Bioxyne Limited is an Australian biotechnology company specialising in the research, development and marketing of new therapies for common illnesses including asthma and COPD. Bioxyne's lead therapy, HI-164OV is based on the company's proprietary technology that uses the application of mucosal immunology to treat common human diseases. The company completed a Phase IIb clinical study into the safety and efficacy of HI-164OV in treating COPD in 2012. The results of this study, which were released in June 2012, indicated that HI-164OV did not provide a statistically significant benefit to the study group as a whole. Bioxyne also makes and sells consumer food supplements, based on a proprietary probiotic compound, generating a source of revenues.
Synairgen Plc	Synairgen Plc, through its subsidiary, Synairgen Research Limited, engages in the discovery and development of drugs for respiratory diseases. The company focuses on viral defence. It develops interferon beta (IFN-β), which is in Phase II clinical trial for the treatment of asthma; in Phase I clinical trial for the treatment COPD; and in preclinical development for the treatment of influenza. The company is headquartered in Southampton, the United Kingdom.

Source: Bloomberg

Table 11.2: Summary of Product Pipeline of Four Most Comparable Companies

Company	Product Pipeline
Verona Pharmaceutical Plc	2 x Phase II (bronchodilator/anti-inflammatory drug and cough) 1 x Pre-clinical (novel anti-inflammatory polysaccharides)
Bioxyne Limited	1 x Phase IIb (COPD) 1 x Pre-clinical (asthma) 1 x Research (ear infection)
Synairgen Plc	1 x Phase II (asthma) 1 x Phase I complete (COPD) 1 x Pre-clinical (viral lung infection)

Source: Company Websites and Annual Reports

Table 11.3: Enterprise Value of Most Comparable Companies to Inverseon

Company	Home Currency	Exchange Rate (Home Currency/AUD)	EV[(a)] (A$m)	Cash (A$m)	Total Debt (A$m)
Verona Pharmaceutical Plc	GBP	0.65	12.11[(b)]	3.90	-
Bioxyne Limited (prior to Phase II trial results)[(c)]	AUD	1.00	35.62	0.11	-
Bioxyne Limited (post Phase II trial results)	AUD	1.00	6.25	0.11	-
Synairgen Plc	GBP	0.65	42.08	2.30	-
Min[(d)]			**12.11**	**0.11**	**-**
Max[(d)]			**42.08**	**3.90**	**-**
Average[(d)]			**29.94**	**2.10**	**-**

Source: Bloomberg as at 28 June 2012

Notes: (a): Enterprise Value = Market capitalisation + Interest bearing debt – cash. Enterprise value has been used for the purpose of this table rather than market capitalisation to adjust for differing cash and debt balances across each company.
(b): Verona Pharmaceutical Plc has share options on issue which, in our view, would add value to the EV of the company. While we have considered the value of these options in our analysis in this Report, the EV of Verona Pharmaceutical Plc reported in Table 11.3 does not reflect the value of these instruments.
(c): Obtained from Bloomberg as at 22 June 2012
(d): Excludes Bioxyne post Phase II trial results

We note from Table 11.3 above that the enterprise values of the most comparable companies to Inverseon range from approximately A$12.11 million to A$42.08 million with an average value of A$29.94 million.

For completeness we note that this is a reasonably large value range and it is likely that the range results from differences in each of the broadly comparable biotechnology companies which could arise for a number of reasons. We have set out examples of such reasons in Section 10.1.2 above.

11.1.3 Broadly Comparable Market Transactions

We have conducted research into comparable transactions using numerous research publications to which we subscribe. We have been able to identify five transactions in the respiratory sector that are broadly comparable to Inverseon. In our view, only one of the five transactions provides relevant information for the valuation of Inverseon. The other four transactions were regarded as not relevant for reasons which include:

- The transactions identified were in different stages of development to that of Inversion (predominantly pre-clinical);
- The target companies identified held diversified portfolios of products including products outside the rheumatoid arthritis sector;
- For four of the transactions, information was not available on the percentage stake acquired by the buyer; and
- One of the targets was unsuccessful in a Phase II trial (found that the therapy to treat respiratory aliments like asthma was not effective and not well tolerated). The company was dissolved and its assets sold.

A description of the relevant transaction is set out below.

On 10 October 2011, Probiomics Limited ('Probiomics'), a listed Australian biotechnology company, offered to acquire all of the shares in Hunter Immunology Limited ('Hunter'), an unlisted public company with one product in Phase IIb clinical trials for the treatment of COPD. The consideration offered to the holders of Hunter's ordinary shares was 9 Probiomics shares for every 1 Hunter share, effectively resulting in a reverse acquisition of Probiomics by Hunter. The merged entity following the transaction was named Bioxyne Limited.

An independent expert assessed the value of Hunter's equity to be within the range of A$25.5 million to A$37.7 million. The valuation was a net asset valuation that included an intellectual property valuation of A$25.3 million to A$42.5 million. The intellectual property was Hunter's Phase IIb COPD product and it was valued by a technical expert.

11.1.4 Company Specific Factors in Relation to Inverseon and INV102

To use a relative valuation methodology to extrapolate the value of Inverseon from the broadly comparable companies it is necessary to consider a number of company specific factors in relation to Inverseon and INV102. The factors that we have considered include the following:

- Inverseon is in the early stages of Phase II product development and has incurred limited research and development expenditure to date (refer to Section 6.1 and Section 6.4);
- Inverseon's product development timeline and budget (refer to Section 6.1.4) relative to the comparable entities;
- There is evidence of a number of factors to support the further research of INV102. These include two relatively small Phase IIa clinical trials which have successfully demonstrated safety in patients, pre-clinical studies, the prior use of Nadolol for the treatment of heart related illnesses, and the precedent of effectiveness set by another beta inverse agonist, Carvedilol (refer to Section 6.1.3);
- The NIH grant to conduct a multi centre Phase II clinical trial of oral INV102 in patients with asthma. Recruitment of patients for this trial is expected to commence in late Q3 or early Q4 of 2012 (refer to Section 6.1.2);
- The level of protection of Inverseon's intellectual property including its patents in the US (refer to Section 6.1.2);
- The expertise and experience of Inverseon management (refer to 6.1.5);
- Inverseon is a private company with ordinary shares held by only nine shareholders. As a private company, the secondary market for trading of Inverseon shares is limited which in turn makes it difficult for shareholders to realise value. It is also difficult for a private company to broaden its shareholder base;
- As a private company, Inverseon has not been subject to the same level of financial and operational transparency that a publicly listed entity would be subject to. Further, Inverseon does not prepare financial statements in accordance with either Australian accounting standards or American accounting standards;

- The ability of Inverseon, as a private company, to raise additional capital to further fund its research program. Institutional and professional investors are generally more inclined to invest in a publicly listed entity relative to a private company, for reasons which include liquidity of investment; and

- In a public company, the process of remunerating employees, executives and directors is more flexible as marketable equity instruments can be used as an alternative form of currency. This makes it easier, relative to a private company, to align the interests of a public company's employees and management with the goals of the organisation.

11.2 Enterprise Value Adopted for Inverseon

Having regard to the information set out in Section 11.1 above, it is our view that the value of Inverseon is likely to be significantly lower than Bioxyne Limited (prior to the release of Phase II results) and Synairgen Plc as these two companies are at a more advanced stage of the drug development process and have completed more extensive Phase II trials than Inverseon. Given the unfavourable results of Bioxyne Limited's Phase II trials relative to Inverseon which is in the preliminary stages of Phase II trials, it is our view that it is difficult to infer a value for Inverseon from Bioxyne Limited following the release of its results for Phase II trials.

In our view, the value of Inverseon is more likely to be in line with the value of Verona Pharmaceutical Plc. Verona Pharmaceutical Plc. has successfully completed Phase I/IIa trials for its respiratory drug candidates and demonstrated safety and efficacy of its candidates. The company has contracted with the University of Manchester in 2012 to conduct a further Phase II trial of its primary technology involving patients with COPD. The company has also begun enrolling patients for another trial targeting COPD at the University of Tor Vergata in Rome. Verona Pharmaceutical Plc.'s financial statements for the year ended 31 December 2011 indicate that the company has incurred research and development expenditure of approximately £1 million pounds for each year in 2010 and 2011.

Notwithstanding that Inverseon has only one product whereas Verona Pharmaceutical Plc has two, it is our view that similarities exist between these two companies. By way of example, we note that both companies have implemented, or have made significant progress towards implementing, agreements with tertiary level research institutions to carry out Phase II trials of their respective lead products. We also note that both companies require additional funding and approval to progress their clinical trials and that neither company has partnership agreements in place to contribute the funding required.

Having regard to the factors set out directly above it is our view that it is appropriate to adopt an enterprise value for Inverseon in the range of A$7 million to A$12 million. Enterprise value includes those assets and liabilities which are required to operate a business, such as plant and equipment, trade debtors, trade creditors and any intangible assets such as capitalised research and development and goodwill, but excludes those assets and liabilities used to finance the business, such as cash and interest bearing liabilities.

The high-end of our range of A$12 million was primarily determined having regard to Verona Pharmaceutical Plc's enterprise value implied by recent share trading data. The low end of our range of A$7 million was determined having regard to a number of the factors set out in Section 11.1.4 above, including those matters relating to Inverseon being a private company.

While we note that we would consider this range relatively wide, it is our view that it is appropriate for use in this Report having regard to the nature of biotechnology companies in the earlier stages of product development.

11.3 Adjustments Required to Calculate Equity Value of Inverseon

To determine the fair market value of the equity of Inverseon prior to the Proposed Transaction, it is appropriate to add (subtract) any surplus assets (liabilities) and add (subtract) any other interest bearing assets (liabilities) of Inverseon from the enterprise value calculated above.

We have also considered adjustments in relation to the effect of additional shares issued upon exercise of any outstanding Inverseon share options.

11.3.1 Surplus Assets

We have made enquiries of management as to assets that could potentially be considered surplus. We have been instructed there are no surplus assets held by Inverseon.

11.3.2 Net Cash

The book value of debt securities and cash deposits often provides a fair indication of the market value of those securities. We have not been provided with any information to suggest that the book values of those assets and liabilities do not reflect the market value of the cash on hand and debt. In Section 6.4 we have noted that Inverseon does not prepare general purpose financial statements and that the company has nominal amounts of cash and interest bearing liabilities.

In Section 6.1.2 we have noted that the NIH has approved a US$4.4 million research grant to conduct a multi centre Phase II asthma trial under Inverseon's IND application. We have been advised by the directors of Inverseon and CBio that the funds have already been allocated and are available for use until the completion of the INV102 Asthma Trial. We are further advised that there are no other conditions associated with the NIH grant and that there are no milestones or documentation requirements.

We understand that the NIH grant is split into two components, consisting of three annual payments of US$105,000 each to be payable directly to Inverseon, and an amount of approximately US$4.1 million to be distributed over a period of three years to the institutions conducting the INV102 Asthma Trial.

Early stage biotechnology companies generally raise capital, in the form of debt or equity, primarily for the purpose of carrying out research and development of their technology. This includes conducting clinical trials. We note that the funding from the NIH grant has been stipulated specifically for the purpose of conducting the INV102 Asthma Trial and that by virtue of the NIH grant being approved, Inverseon has been saved from having to raise US$4.4 million that it would otherwise have had to obtain to fund the trial.

Having regard to the factors outlined above, in our view, for the purposes of assessing the Proposed Transaction, it is appropriate to treat the funds from the NIH grant in a manner similar to cash. However, in our view, it is appropriate to discount the funds from the NIH grant for reasons which include the following:

- In our view, the funds from the NIH grant have a value less than the equivalent amount of cash as they are not paid directly to Inverseon and Inverseon does not have control or discretion over expenditure made from the NIH funds;
- The funds from the NIH grant are to be received over a period of three years. As the Merged Entity will never receive these funds (i.e. the funds are received directly by the university from the NIH), there is an opportunity cost associated with these funds relative to cash. By way of example, the Merged Entity will not be entitled to receive interest on the outstanding funds;
- The funds from the NIH grants are for the express purpose of conducting the Phase II INV102 Asthma Trial. The merged entity is unable to redeploy the use of these funds in the event that it determines there is a more optimal way to use these funds in the organisation; and
- Both the directors of CBio and Inverseon expect to receive the funding from the NIH grant in a manner consistent with the timeline set out in the NIH grant documentation. Notwithstanding this and while we have no reason to believe the funds will not be received, we note that it is not 100% certain that the funding will actually be received as expected.

Having regard to the above factors, it is our view that it is appropriate to apply a discount of 25%, or A$1,102,500, to the amount of funding to be received from the NIH grant.

11.4 Control Premium

As set out in Section 3.2, CBio will acquire 100% of the total shares on issue of Inverseon and retain an ownership stake of approximately 60.0% of the Merged Entity. Accordingly, in our view it is appropriate to calculate the equity value of Inverseon on a controlling interest basis, which includes the application of a control premium.

Appendix B of this Report summarises our research in relation to control premiums applicable to the biotechnology sector. This research indicates that control premiums are broadly in the range of 20% to 40%.

For the purpose of the analysis set out in this Report, it is our view that it is appropriate to adopt a control premium for Inverseon of 30%. A control premium of 30% is consistent with the control premium that we have adopted for CBio in Section 10.5 of this Report. For completeness we note that the opinions set out in this Report would remain unchanged if we had adopted a control premium of 20% for Inverseon and Inverseon or a control premium of 40% for CBio and Inverseon.

11.5 Equity Value of Inverseon prior to the Proposed Transaction

Table 11.5 below summarises our view of an appropriate equity value to adopt for Inverseon for the purpose of the analysis set out in this Report.

Table 11.5: Equity Value of Inverseon

	Low (A$)	High (A$)
Enterprise value	7,000,000	12,000,000
Add NIH grant	3,307,500	3,307,500
Equity value (minority interest)	**10,307,500**	**15,307,500**
Control Premium	30%	30%
Equity value (controlling interest)	**13,399,750**	**19,899,750**

Source: BDO CFQ Analysis

In our view, the equity value of Inverseon prior to the Proposed Transaction on a controlling interest basis is between A$13.4 million and A$19.9 million.

Readers of this Report should have regard to the general risks associated with the valuation of biotechnology companies, as summarised in Section 9.5 above, for a list of factors that may impact the valuation of Inverseon post the date of this Report.

12.0 Assessment of the Fairness of the Proposed Transaction

This section of this Report sets out our opinion on the fairness of the Proposed Transaction. To assess whether the Proposed Transaction is fair we have completed steps including the following:

(a) Determined the equity value of CBio prior to the Proposed Transaction. As set out in Section 10.5 above, we have assessed the value of CBio prior to the Proposed Transaction on a controlling interest basis. ASIC guidance stipulates that where a company issues securities to the vendor of another entity/business and, as a consequence, the vendor of that entity/business acquires over 20% of the company incorporating the merged interest, the transaction should be analysed as a takeover bid. For the purpose of the analysis set out in this Report, we have adopted a controlling interest of CBio in the range of A$18.14 million to A$24.4 million (refer to Section 10.0 of this Report for a detailed discussion on how this value was determined);

(b) Determined the equity value of Inverseon prior to the Proposed Transaction, adopting a valuation approach that is equivalent to the valuation approach adopted in (a) above (the reasons for adopting an equivalent valuation approach are discussed in more detail in Section 4.0 of this Report). As set out in Section 11.4, we have assessed the value of Inverseon prior to the Proposed Transaction on a controlling interest basis as CBio is acquiring a 100% interest. For the purpose of the analysis set out in this Report, we have adopted a controlling interest of Inverseon in the range of A$13.4 million to A$19.9 million (refer to Section 11.0 of this Report for a detailed discussion on how this value was determined); and

(c) Compared the value determined in (a) above with the value determined in (b) above. In our view, the Proposed Transaction can be considered 'fair' to CBio shareholders if the value in (a) above is equal to or less than 62.5% of the combined value of (a) and (b), being the share of the Merged Entity that CBio Shareholders will be entitled to.

The valuations set out in Sections 10.0 and 11.0 have been prepared primarily to allow a comparison of the relative values being contributed by CBio and Inverseon to the Merged Entity. While it is our view that the values we have adopted are appropriate for assessing the Proposed Transaction, it is our view that the share market value of the companies on a merged basis will depend on the economic conditions and operational prospects that exist at the time and may differ to the sum of our values for CBio and Inverseon.

We note that the value of biotechnology companies may increase and/or decrease as milestones are either met or missed. The increases and/or decreases in value may occur over short periods of time and may be material to the total value.

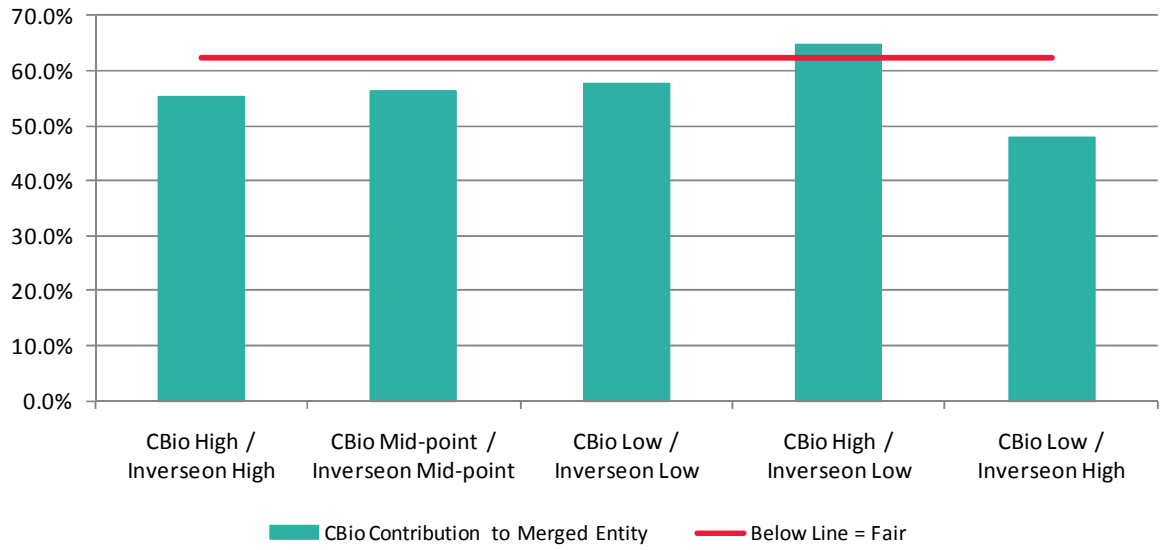
Table 12.1 below summarises the value contribution of CBio and Inverseon to the Merged Entity for the purpose of the analysis set out in this Report.

Table 12.1: Summary of Value Contribution of CBio and Inverseon to the Merged Entity

	CBio	Inverseon
Value Contribution - High (A$ million)	**24.69**	**19.90**
Value Contribution - Mid-point (A$ million)	**21.29**	**16.65**
Value Contribution - Low (A$ million)	**18.14**	**13.40**
Relative Value Percentage Contribution to Merged Entity		
Relative Value Contributions - CBio High / Inverseon High	55.3%	44.7%
Relative Value Contributions - CBio Mid-point / Inverseon Mid-point	56.2%	43.8%
Relative Value Contributions - CBio Low / Inverseon Low	57.5%	42.5%
Relative Value Contributions - CBio High / Inverseon Low	64.8%	35.2%
Relative Value Contributions - CBio Low / Inverseon High	47.7%	52.3%

Figure 12.1 below provides a graphical representation of CBio's percentage contribution to the Merged Entity under each of the five scenarios set out in Table 12.1 above. We note that the Proposed Transaction would be considered fair to CBio shareholders in circumstances where CBio's contribution to the Merged Entity is less than 62.5% (represented by the red line in Figure 12.1 below).

Figure 12.1: Summary of CBio's Contribution to the Value of the Merged Entity



The analysis set out above indicates that on a like-for-like basis (i.e. comparing low with low, mid-point with mid-point and high with high), CBio's contribution to the value of the Merged Entity is in the range of 55.3% to 57.5%. As this is less than 62.5%, it indicates that the Proposed Transaction is fair.

When CBio's contribution to the value of the Merged Entity is considered having regard to the CBio High / Inverseon Low scenario, CBio's contribution to the value of the Merged Entity drops to 47.7%. When CBio's contribution to the Merged Entity is considered having regard to the CBio Low / Inverseon High scenraio, CBio's contribution to the value of the Merged Entity increases to 64.8% which is above the 62.5% threshold.

In our opinion, after consideration of all issues including those set out above in this section of this Report, it is our view that, in the absence of any other information, the Proposed Transaction is **fair** to the CBio Shareholders as at the date of this Report.

In forming our view on the Proposed Transaction, we have had regard to the fact that under the CBio High / Inverseon Low scenario, CBio's contribution to the Merged Entity is 14.8% below the 62.5% threshold while under the CBio Low / Inverseon High scenario, CBio's contribution to the Merged Entity is 2.3% above the 62.5% threshold.

We have also considered that the 1,900,000 performance rights on issue, and which vest as a result of the Proposed Transaction, will result in CBio equity holders as a whole being entitled to a marginally greater share of the Merged Entity upon the conversion of the Performance Rights into ordinary shares.

CBio shareholders should also refer to Section 13.0 of this Report which sets out additional issues CBio shareholders should consider when deciding whether to vote in favour of or against the Proposed Transaction.

13.0 Assessment of the Reasonableness of the Proposed Transaction

This section of this Report is set out as follows:

- Section 13.1 outlines the advantages of the Proposed Transaction to CBio Shareholders;
- Section 13.2 outlines the disadvantages of the Proposed Transaction to CBio Shareholders;
- Section 13.3 outlines alternatives to the Proposed Transaction;
- Section 13.4 considers the position of CBio Shareholders in the event the Proposed Transaction is not approved; and
- Section 13.5 provides our assessment of the reasonableness of the Proposed Transaction.

13.1 Advantages of the Proposed Transaction

Table 13.1 below outlines the potential advantages to CBio Shareholders of approving the Proposed Transaction.

13.1: Potential Advantages to CBio Shareholders of Approving the Proposed Transaction

Advantage	Explanation
More diversified biotechnology company	CBio and Inverseon target drugs for the treatments of specific inflammatory based diseases. If the Proposed Transaction is approved, the Merged Entity will have a more diversified patent portfolio with the ability to target a broad range of inflammatory diseases. The Proposed Transaction will also result in a biotechnology company with resources and operations in both Australia and the US, two of the world's largest biotechnology sectors.
Highly experienced board	Under the terms of the Proposed Transaction, Dr William Garner and Dr Mitchell Glass will be appointed as directors of the Merged Entity. Dr William Garner is highly experienced in the biotechnology field having worked for a number of biotechnology organisations and founding others, including Inverseon. Dr Mitchell Glass has 24 years experience in the biotechnology industry with a proven track record of gaining FDA approvals, having taken five drugs through FDA approval. The appointment of Dr William Garner and Dr Mitchell Glass to the board of the Merged Entity may enable the company to leverage from their experience, understanding and relationships in the US biotechnology industry.
Leveraged competencies	Both CBio and Inverseon target treatments for inflammatory based diseases. It is possible that the Merged Entity may be able to leverage the existing competencies across the drug/technology platforms of CBio and Inverseon to enable more efficient research and development in the inflammatory disease market.
Progress of clinical trials of INV102	While the NIH has approved a US$4.4 million research grant to undertake the INV102 Asthma Trial, additional funding will be needed to undertake further development and clinical trials of INV102. Inverseon does not currently have adequate cash on hand to allow it to fund further development and clinical trials of INV102. Due to the fact that Inverseon is a private company with relatively little market awareness, it is likely that it would be difficult for Inverseon to raise the required capital to complete these trials. CBio's potential access to Australian capital markets may enable the Merged Entity to fund further development and clinical trials of INV102. If the Merged Entity is able to finalise clinical trials on INV102 and gain approval for commercialised production, CBio may benefit from any upside. For completeness, we note that it is possible that the Merged Entity will not be able to raise the required funds to perform further development and clinical trials of INV102 in future periods.

Advantage	Explanation
US presence	As discussed in Section 8.2 of this Report, the US biotechnology industry is the largest in the world with more than 1,800 operating entities and annual revenue of US$87.0 billion. If the Proposed Transaction is approved, CBio will have access to research facilities and other resources, including highly experienced board members and management personnel, in the US. A US presence may enable CBio to more easily capitalise on the significantly larger US biotechnology market by leveraging the relationships of the US based board members to potentially partner with US pharmaceutical manufacturers.
Access to and use of NIH grant	The NIH has approved a US$4.4 million research grant to undertake the INV102 Asthma Trial. As discussed in Section 8.4 of this Report, the criteria for assessing grant applications is comprehensive with only 10% to 15% of applications ultimately being awarded. In our view, the award of the NIH grant illustrates the potential viability of INV102 for the treatment of asthma, as it shows that peers operating in the same field as Inverseon who reviewed the application for funding consider that further research and trials is appropriate for INV102. The Proposed Transaction will give CBio access to funds granted by the NIH to contribute towards funding clinical trials of INV102. We understand that the capital requirements of INV102 are significantly less than for XToll® and that it is possible for clinical trials to be completed and applications for FDA approval lodged for INV102 in much shorter time frames. If the Merged Entity is able to utilise the NIH grant to undertake clinical trials of INV102 and ultimately develop a commercially viable product, CBio Shareholders may benefit from any upside.
Potential future research grants	In our view, the award of funding for INV102 assists to demonstrate the potential viability of the drug. There may be potential for further funding to be provided to Inverseon. There is no certainty as to the ability of CBio to be awarded funding through US agency grants given that is does not operate in the US and it has not been awarded any funding in the past. Access to future research grants in the US may be more easily achieved through the relationships which exist between the Inverseon board members and key organisations.

Source: BDO CFQ analysis

13.2 Disadvantages of the Proposed Transaction

Table 13.2 below outlines the potential disadvantages to CBio Shareholders of approving the Proposed Transaction.

13.2: Potential Disadvantages to CBio Shareholders of Approving the Proposed Transaction

Disadvantage	Explanation
Dilution of ownership interest in CBio/XToll®	If the Proposed Transaction is approved, Inverseon security holders will be issued with 143,486,978 fully paid ordinary shares in CBio, representing 37.5% of the total issued share capital in the Merged Entity. The issue of 37.5% of the total issued share capital in CBio to the Inverseon security holders will dilute the holdings of the current CBio Shareholders. Dilution would reduce any potential future benefits that current CBio Shareholders may receive from the Company in the event that it is able to develop XToll®, and any other products, into a commercially profitable product.
Value uncertainty in relation to Inverseon	Inverseon is a private company with limited transparency which is located in San Francisco, USA. It is unknown whether the Australian market will attribute a value to the products and technologies which Inverseon is developing that is consistent with our valuation of Inverseon in Section 11.0. Following the Proposed Transaction, Inverseon will be wholly owned by CBio and will be subject to the Australian financial reporting requirements and ASX Listing Rules. It is possible that the market will have a different view of value in relation to Inverseon which may adversely impact the Merged Entity's share price following the Proposed Transaction.

Disadvantage	Explanation
Uncertainty in relation to the commercial viability of INV102	The success of the Merged Entity is dependent on the success in testing of the products and services being developed by CBio and Inverseon. As discussed in Section 7.2 of this Report, it is the current intentions of the directors to progress the development of INV102 with the aim of commercialisation in the medium term. To date, limited clinical testing has been completed on INV102 and there is significant risk and uncertainty as to whether further studies will yield favourable results. Uncertainty also exists in relation to the Merged Entity's ability to penetrate the market in which it is targeting with INV102, and its ability to negotiate appropriate licensing agreements. We understand that Inverseon currently has one patent granted in the US for the method of using INV102 to treat airway diseases. While Inverseon has applied for a number of additional patents relating to INV102, there is a possibility that these pending patents may not proceed. If this were to occur, it may be that the potential benefits available from the development of INV102 will be limited.
Funding requirements to continue operating and undertake clinical trials	The Merged Entity is expected to have approximately A$4.0 million of cash on hand upon completion of the Proposed Transaction. The directors of CBio expect to raise an additional amount of up to A$5 million following the Proposed Transaction to fund the Merged Entity's operations until Q3/Q4 of 2014. The directors of CBio expect that a further capital raising will be required at this point. There is uncertainty as to the Merged Entity's ability to raise funds from either equity or debt markets. Further, it is possible that the Merged Entity may be required to offer a discount to its market trading price at the time of any proposed capital raising to raise funds from equity markets. The discount required to be offered to raise the required funding will depend on a range of matters at the time of the capital raising and the discount may be significant. Notwithstanding the above, irrespective of whether the Proposed Transaction is approved, we note that CBio would be required to complete a significant capital raising prior to March 2013 or consider other alternatives in order to continue operating as a going concern. Refer to Section 13.3 below for further information regarding alternatives to the Proposed Transaction.
Potential to deter takeover bid	Immediately following the Proposed Transaction, Dr William Garner and his associates will hold an aggregate interest in approximately 21.16%of the issued share capital of the Merged Entity. An interest of 21.16% gives Dr William Garner and his associates significant influence over the nomination of board members of the Merged Entity, and consequently, significant influence over the Merged Entity's future operations. This level of ownership by a single shareholder represents a blocking stake in the Merged Entity which has the potential to deter a third party from making a takeover bid for the Company.

Source: BDO CFQ analysis

13.3 Alternatives to the Proposed Transaction

Based on discussions with the directors of CBio, we understand that the alternatives to the Proposed Transaction are for CBio to:

a) Complete a successful capital raising to fund further clinical trials of XToll®; or

b) Pursue another acquisition target and complete a successful transaction.

As discussed in Section 5.1 of this Report, the results from Phase II clinical trials of XToll® yielded unfavourable results and further clinical trials would require a significant capital injection (of at least A$11 million to A$12 million). The ability of CBio to raise capital in the current market is uncertain as it is unlikely that the market would be willing to fund further investigations into the development of XToll®. Having regards to the alternatives for CBio listed above and our discussions with the directors and management, it is our view and the view of the directors that the most likely alternative for CBio is to pursue an alternative acquisition target.

As part of a strategic review of CBio completed by RBS Morgans, a number of potential acquisition targets were identified. If the Proposed Transaction does not proceed, it is likely that CBio would be required to negotiate a strategically sound transaction with one of these alternative companies. However, we note that the strategic review shortlisted Inverseon as the preferred target as the alternatives lacked a number of attractive characteristics. Table 13.3 below summarises some of the characteristics of the alternative companies identified and provides an explanation as to why they were considered to be less attractive than Inverseon.

Table 13.3: Unattractive Characteristics of Alternative Transaction Targets

Characteristics	Explanation
Limited technologies or early stage development	Many of the alternative targets identified were still at the preclinical stage of development or establishing plans for their molecules. The directors of CBio were of the view that the early stage of development of the alternative targets results in significantly greater uncertainty as to the cost of development and efficacy of any drug developed. For completeness we note that Inverseon is focussed on the use of an existing technology to target alternative diseases (inflammatory lung disease) and is currently at a Phase II stage of development.
Less ability to leverage existing competencies	Inverseon and CBio are both focussed on the development of inflammatory-based diseases which may enable them to leverage their existing technologies across platforms. However, many of the alternative targets identified had a primary focus on the development of drugs to treat diseases unrelated to inflammation. We understand that the directors of CBio believe that it is unlikely that the Company would be able to efficiently capitalise on the expertise and resources of the alternative acquisition targets to progress the development of its technologies.
Value of XToll®	Many of the alternative targets placed nominal value on the XToll® technology and were solely focussed on the development of their own technologies. The directors of CBio are of the view that XToll® carries significant value which may be realised through future clinical trials and development. We note that while the initial focus of the Merged Entity would be on the development of Inverseon's INV102 technology, the board of Inverseon may consider undertaking further clinical trials on XToll® in the future.
Lack of cash resources or funding	Many of the alternative companies identified have limited cash balances and no access to agency funding. A merger with a target without cash would mean that the merged entity would have to advance clinical trials using CBio's cash in addition to further cash raised from the capital markets. We note that this would require CBio shareholders to contribute capital or have their ownership interest diluted. We note that the ability of CBio to raise capital is uncertain and dependent upon a number of factors, some of which are outside of the Company's control.

Source: RBS Morgans Due Diligence Report and CBio

13.4 Impact on CBio Shareholders if the Proposed Transaction is Not Approved

Table 13.4 below outlines the position of CBio Shareholders if the Proposed Transaction is not approved.

Table 13.4: Position of CBio Shareholders if the Proposed Transaction is Not Approved

Position	Explanation
CBio Shareholders will continue to hold CBio shares	If the Proposed Transaction is not approved, CBio Shareholders will continue to hold shares in CBio. CBio Shareholders will continue to be exposed to the risks and opportunities associated with CBio and XToll®. CBio Shareholders will not have their ownership interests in CBio diluted unless the Company carries out an equity capital raising, which may be required (see point directly below).
The directors of CBio will need to reconsider the strategic position of the Company	If the Proposed Transaction is not approved, CBio would need to consider the alternatives to the Proposed Transaction set out in Section 13.3 above. As discussed, it is unlikely that CBio would be able to successfully raise capital in the current market and would therefore need to pursue an alternative acquisition target. We note that the probability of entering an agreement with an alternative target and successfully completing a transaction is unknown. In this Report we have not assessed any other potential transactions.
CBio will incur costs as a result of the Proposed Transaction	If the Proposed Transaction is not approved, CBio will not be able to recover the costs incurred in relation to the Proposed Transaction. We understand that the total costs which will be incurred by CBio as a result of the Proposed Transaction, irrespective of whether the Proposed Transaction is approved, are approximately A$250,000.

Source: BDO CFQ analysis

13.5 Assessment of the Reasonableness of the Proposed Transaction

In our opinion, after consideration of all issues including those set out above in this section of this Report, it is our view that, in the absence of any other information, the Proposed Transaction is **reasonable** to the CBio Shareholders as at the date of this Report.

14.0 Sources of Information

This Report is based on information from sources including the following:

- CBio company website – www.cbio.com.au;
- CBio annual report for the 12 months ended 30 June 2011;
- CBio interim report for the 6 months ended 31 December 2011;
- CBio ASX announcements;
- CBio share register as at 31 May 2012;
- Inverseon financial statements for the 12 months ended 31 December 2009, 31 December 2010 and 31 December 2011;
- Inverseon company website – www.inverseon.com;
- IBISWorld Industry Report X0001: Biotechnology in Australia, March 2012;
- IBISWorld Industry Report NN001: Biotechnology in the US, June 2012;
- The US National Institutes of Health website – www.nih.gov;
- The US Department of Health and Human Services website – www.hhs.gov;
- Bloomberg;
- Various other research publications and publicly available data as sourced throughout this Report;
- Various broker research reports covering CBio;
- Various transaction documents including the Notice of Meeting and Explanatory Memorandum; and
- Various discussions and other correspondence with CBio management and their advisors.

15.0 Indemnities, Representations & Warranties

CBio has agreed to our usual terms of engagement in addition to the indemnities and representations set out below.

15.1 Indemnities

In connection with BDO CFQ's engagement to prepare this Report, CBio agrees to indemnify and hold harmless BDO CFQ, BDO (QLD) or any of the partners, directors, agents or associates (together 'BDO Persons'), to the full extent lawful, from and against all losses, claims, damages, liabilities and expenses incurred by them. CBio will not be responsible, however, to the extent to which such losses, claims, damages, liabilities or expenses result from the negligent acts or omissions or wilful misconduct of any BDO Persons.

CBio agrees to indemnify BDO Persons in respect of all costs, expenses, fees of separate legal counsel or any other experts in connection with investigating, preparing or defending any action or claim made against BDO Persons, including claims relating to or in connection with information provided to or which should have been provided to BDO CFQ by CBio (including but not limited to the directors and advisers of CBio) as part of this engagement.

CBio has acknowledged that the engagement of BDO CFQ is as an independent contractor and not in any other capacity including a fiduciary capacity.

15.2 Representations & Warranties

CBio recognises and confirms that, in preparing this Report, except to the extent to which it is unreasonable to do so, BDO Persons will be using and relying on publicly available information and on data, material and other information furnished to BDO Persons by CBio, its management, and other parties, and may assume and rely upon the accuracy and completeness of, and is not assuming any responsibility for independent verification of, such publicly available information and the other information so furnished.

16.0 Experience, Disclaimers and Qualifications

BDO CFQ has extensive experience in the provision of corporate finance advice, including takeovers, valuations and acquisitions. BDO CFQ holds a Financial Services Licence issued by ASIC for preparing expert reports pursuant to the Listing Rules of the ASX and the Act.

BDO CFQ and its related parties in Australia have a wide range of experience in transactions involving the advising, auditing or expert reporting on companies that have operations domestically and in foreign jurisdictions. BDO in Queensland and in Australia is a national association of separate partnerships and entities and is a member of the international BDO network of individual firms.

Steven Sorbello has prepared this Report with the assistance of staff members. Mr Sorbello is a director of BDO CFQ and has extensive experience in corporate advice and the provision of valuation and business services to a diverse range of clients, including large private, public and listed companies, financial institutions and professional organisations.

BDO CFQ has been engaged to provide an independent expert's report to CBio Shareholders to assist them to decide whether to vote in favour of or against the Proposed Transaction. BDO CFQ hereby consents to this Report being used for that purpose. Apart from such use, neither the whole nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular, resolution, statement, or letter without the prior written consent of BDO CFQ.

BDO CFQ takes no responsibility for the contents of other documents supplied in conjunction with this Report. BDO CFQ has not audited or reviewed the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or a review of any of the entities mentioned in this Report. However we have no reason to believe that any of the information or explanations so supplied is false or that material information has been withheld.

Any forecast information which has been referred to in this Report has been prepared by the relevant entity and is generally based upon best estimate assumptions about events and management actions, which may or may not occur. Accordingly, BDO CFQ cannot provide any assurance that any forecast is representative of results or outcomes that will actually be achieved.

With respect to any taxation implications of the Proposed Conversion, it is strongly recommended that CBio Shareholders obtain their own taxation advice, tailored to their own particular circumstances.

The statements and opinions included in this Report are given in good faith and in the belief that they are not false, misleading or incomplete. This Report is current as at 2 July 2012.

BDO Corporate Finance (QLD) Ltd

Steven Sorbello
Director

Appendix A – Comparable Company Research Relating to CBio

A.1 Description of Broadly Comparable Companies

Table A.1 below sets out a summary of operations for listed biotechnology companies which can be considered to be broadly comparable to CBio.

Table A.1: Summary of Operations of Broadly Comparable Companies

Company	Description of Operations
Novogen Limited	Novogen Limited is a medical services company which develops and markets pharmaceutical products in Australia. Novogen Limited conducts clinical trials on medications which promote the prevention and treatment of common cancers and the reversal of immune depression. The company also develops dietary supplements, hormonal imbalance drugs, anti-inflammatory and cardiovascular drugs.
Bone Medical Limited	Bone Medical Limited is a biopharmaceutical company developing treatments for bone and joint degeneration and disease including osteoporosis and arthritis.
Opexa Therapeutics, Inc	Opexa Therapeutics, Inc. is biotechnology company. The company develops cellular therapies for the treatment of multiple sclerosis, rheumatoid arthritis, pancreatic, and cardiac conditions. The company holds a worldwide license for an autologous T cell vaccine for rheumatoid arthritis.
Pharmos Corporation	Pharmos Corporation is a bio-pharmaceutical company that discovers and develops new drugs to treat a range of neuro-inflammatory disorders. The company has a portfolio of drug candidates under development. The company's main product, Dexanabinol, is a synthetic non-psychotropic cannabinoid currently in late stage clinical development for the treatment of traumatic brain injury.
Affitech A/S	Affitech A/S researches and develops therapeutic vaccines for chronic diseases. Affitech A/S focuses on breast cancer, rheumatoid arthritis, bone degeneration, allergy, and neurodegenerative diseases. Affitech A/S has entered into commercial agreements with several pharmaceutical companies.
Neovacs	Neovacs researches immunotherapy applications for autoimmune diseases and inflammatory diseases such as rheumatoid arthritis, cancer and other conditions.
Protalex, Inc.	Protalex Inc. develops and markets organic chemical molecules, called bioregulators, for use in the treatment of rheumatoid arthritis and other forms of arthritis.
Chelsea Therapeutics International Ltd.	Chelsea Therapeutics International Ltd. is a biopharmaceutical company developing a pipeline of low toxicity antifolate compounds engineered to have anti-inflammatory and anti-tumour activity. The company's lead candidate is in development as a metabolically inert treatment alternative to Methotrexate for rheumatoid arthritis, psoriasis, and other disorders.
Immupharma Plc	Immupharma Plc is a pharmaceutical company researching treatments for lupus, cancer, post-operative pain, and highly resistant hospital-acquired infections.
Cellceutix Corporation	Cellceutix Corporation is a development-stage biopharmaceutical company. The company's current portfolio of product candidates in pre-clinical development includes anti-cancer agents targeting multiple tumours, a candidate targeting rheumatoid arthritis, a candidate with potential for indications of osteo-arthritis/asthma, and a candidate being developed for autism.
Anthera Pharmaceuticals Inc.	Anthera Pharmaceuticals Inc. is a biopharmaceutical company focused on developing and commercializing anti-inflammatory therapeutics for cardiovascular diseases, lupus and other serious diseases.
Ampio Pharmaceuticals, Inc.	Ampio Pharmaceuticals, Inc. researches and develops drugs targeting treatments for metabolic disease, eye disease, kidney disease, inflammation and CNS disease. The company's product pipeline includes some new uses for previously approved drugs.

Company	Description of Operations
NicOx	NicOx develops pharmaceuticals using recently discovered properties of nitric oxide. NicOx develops drugs-candidates for the potential treatment of inflammatory, cardio-metabolic and ophthalmological diseases. NicOx's lead compound Naproxcinod is developed for the relief of the signs and symptoms of osteoarthritis.
Synta Pharmaceuticals Corp.	Synta Pharmaceuticals Corp. is a biopharmaceutical company developing small-molecule drugs for inflammatory diseases, cancer, and diabetes. The company has drug candidates in human clinical trials and additional programs in preclinical studies.

Source: Bloomberg

A.2 Description of the Product Pipeline of Broadly Comparable Companies

Table A.2 Below sets out a summary of the product pipeline for each of the broadly comparable companies set out in Section A.1 above.

Table A.2: Product Pipeline of Broadly Comparable Companies

Company	Product Pipeline
Novogen Limited	1 x Phase I complete(cardiovascular) 1 x Phase I (cardiovascular) 1 x Phase II complete (anti-inflammatory) 1 x Phase I complete (anti-inflammatory) 1 x pre-clinical (anti-inflammatory) 1 x Phase III (oncology) 1 x Phase I complete (oncology) 2 x pre-clinical (oncology)
Bone Medical Limited	2 x Phase II (Osteoporosis and Osteoarthritis) 1 x Phase II (Osteoporosis) 3 x Pre-clinical (Rheumatoid Arthritis and Osteoporosis)
Opexa Therapeutics, Inc	1 x Phase IIb (Secondary Progressive MS) 1 x Phase IIb completed (Relapsing Remitting MS)
Pharmos Corporation	1 x Phase IIb (irritable bowel syndrome) 1 x Phase IIa (Gout) 1 x pre-clinical (neuropathic pain) - terminated
Affitech A/S	2 x Pre-clinical (Oncology) 1 x Pre-clinical (Oncology and Autoimmune Disease) 2 x Not disclosed (Oncology and Infectious Disease) 1 x Research (Oncology) 1 x Research (Oncology and Inflammation)
Neovacs	1 x Phase IIa (Rheumatoid Arthritis) 1 x Phase IIa (Crohn's Disease) 1 x Phase IIa (Lupus) 1 x Discovery (AMD and Oncology)
Protalex, Inc.	1 x Phase Ib completed (Rheumatoid Arthritis)
Chelsea Therapeutics International Ltd.	1 x NDA Submitted (Nor epinephrine Therapy) 1 x Phase III (Nor epinephrine Therapy) 2 x Phase II completed (Nor epinephrine Therapy) 1 x Phase II completed (Metabolically Inert Antifolates) 1 x Phase II (Metabolically Inert Antifolates) 1 x Phase I completed (Metabolically Inert Antifolates)
Immupharma Plc	1 x Phase IIb completed (Lupus) 1 x Phase I/IIa trial (Oncology)

Company	Product Pipeline
	1 x Pre-clinical (Pain relief) 1 x Preclinical (Hospital acquired infections) 1 x Patent (Asthma and Rheumatoid Arthritis)
Cellceutix Corporation	1 x Pre-clinical (Oncology) 1 x Pre-clinical (Rheumatoid Arthritis) 1 x Pre-clinical (Osteo-arthritis/Asthma) 1 x Early R&D (Multiple Sclerosis, Lou Gherig Disease, and/or Parkinson's Disease) 1 x Early R&D (Oncology) 1 x Early R&D (Hypertensive emergency) 1 x Pre-clinical (Psoriasis) 1 x Pre-clinical (Autism)
Anthera Pharmaceuticals Inc.	1 x Phase II (Systemic Lupus Erythematosus)
Ampio Pharmaceuticals, Inc.	1 x Phase III complete (sexual dysfunction) 1 x Phase II (ophthalmology) 1 x Phase II complete (Chronic inflammation) 1 x Phase I (Nephrology)
NicOx	1 x Regulatory Review (Pain and Inflammation - Osteoarthritis) 1 x Phase II complete (Ophthalmology - Glaucoma) 1 x Research (Ophthalmology - Diabetic macular) 1 x Research (Pain and Inflammation - Osteoarthritis) 1 x Phase I complete (Cardiovascular) 1 x Research (Cardiovascular - Pulmonary Arterical Hypertension) 1 x Undisclosed Status (Cardiovascular) 1 x Pre-clinical (Dermatology)
Synta Pharmaceuticals Corp.	2 x Phase II complete (Oncology) 4 x Phase II (Oncology) 2 x Phase I (Oncology) 1 x Pre-clinical (Oncology) 1 x Pre-clinical (Inflammation) 2 x Lead Opportunity (Inflammation)

Source: Company Websites, Annual Reports and Other Publications

A.3 Enterprise Values of Broadly Comparable Companies

Table A.3 below sets out the enterprise values of the listed biotechnology companies which can be considered broadly comparable to CBio.

Table A.3: Enterprise Value of Broadly Comparable Companies

Company	Home Currency	Exchange Rate (Home Currency/AUD)	EV[(a)] (A$m)	Cash (A$m)	Total Debt (A$m)
Novogen Limited	AUD	1.00	(2.08)	6.02	-
Bone Medical Limited	**AUD**	**1.00**	**2.11**	**0.01**	**-**
Opexa Therapeutics, Inc	USD	1.01	3.60	7.06	-
Pharmos Corporation	USD	1.01	4.16	1.53	0.99
Affitech A/S	DKK	5.95	5.63	5.03	0.14

Company	Home Currency	Exchange Rate (Home Currency/AUD)	EV[(a)] (A$m)	Cash (A$m)	Total Debt (A$m)
Protalex, Inc.	**USD**	**0.80**	**26.86**	**1.53**	**0.90**
Neovacs	**EUR**	**1.01**	**22.01**	**9.02**	**0.89**
Chelsea Therapeutics International Ltd.	USD	1.01	36.57	40.84	-
Immupharma Plc	**GBP**	**0.64**	**49.43**	**18.78**	**1.50**
Cellceutix Corporation	USD	1.01	62.35	0.07	2.50
Anthera Pharmaceuticals Inc.	USD	1.01	92.81	65.19	24.17
Ampio Pharmaceuticals, Inc.	USD	1.01	116.21	11.29	0.00
NicOx	EUR	0.80	148.52	1.15	0.10
Synta Pharmaceuticals Corp.[(b)]	USD	1.01	374.52	29.88	16.54
Min			**(2.08)**	**0.01**	**0.00**
Max			**148.52**	**65.19**	**24.17**
Median			**26.86**	**6.02**	**0.14**
Average			**43.71**	**12.89**	**2.38**

Source: Bloomberg
Notes: (a) Enterprise Value = Market capitalisation + Interest bearing debt – cash. The enterprise value was current as at 28 June 2012. Enterprise value has been used for the purpose of this table rather than market capitalisation to adjust for differing cash and debt balances across each company.
(b) Considered to be an outlier

A.4 Companies which are most Comparable Companies to CBio

Of the broadly comparable companies outlined above, we have selected four companies which, having regard to our research, we consider to be most comparable to CBio. These companies are Bone Medical Limited, Neovacs, Immupharma Plc and Protalex Inc.

A more detailed description of the product development pipelines of these four companies is set out in Table A.4 below.

Table A.4: Companies Most Comparable to CBio

Company	Description
Bone Medical Limited	Bone Medical Limited is a biopharmaceutical company developing treatments for bone and joint degeneration and disease including osteoporosis and arthritis. The company is managing three clinical projects and four pre-clinical projects which are outlined below. **Capsitonin** In 2010 Bone Medical Limited achieved an important milestone with Capsitonin in a Phase II clinical trial showing that Capsitonin can regulate the calcium and CTX-1 (osteoporosis bone marker) to the same degree, within a 10% margin, as an already marketed nasal spray. The company is now planning the further development of Capsitonin including a dose ranging study followed by the Phase III pivotal study.

Company	Description
	The company is also planning a Phase II clinical trial with Capsitonin in osteoarthritis. **CaPTHymone** In 2010, the company announced two positive outcomes for CaPTHymone. **BN006** BN006 is the company's most advanced pre-clinical project, the company plans more pre-clinical work. **Bone Cell Regulators BN005/BN008** The company has entered into a Collaborative Testing Agreement with the Institute for Molecular Biosciences at the University of Queensland to identify libraries of potential bone cell regulators using the company's MozaicT drug discovery technology. **Joint Protection and Collagen Tolerance Programme BN007** The company has signed a collaborative testing agreement with the Institute of Bone and Joint Research in Sydney to conduct pre-clinical studies on BN007.
Neovacs	Neovacs is a biotechnology company researching immunotherapy applications for autoimmune diseases, inflammatory diseases such as rheumatoid arthritis, cancer and other conditions. The company has three products, two at Phase IIa and one at the discovery stage, which are described in more detail below. **TNF-Kinoid** TNF-Kinoid has already demonstrated efficacy across a wide range of inflammatory diseases, including rheumatoid arthritis, juvenile idiopathic arthritis, ankylosing spondylitis, psoriasis and Crohn's disease. Neovacs released very promising results of its Phase IIa TNF-K 003 study in rheumatoid arthritis in January 2012. The results of a Phase II study of the TNF-Kinoid in Crohn's Disease (TNF-K 005) were released in June 2012. These results indicated that in a cohort of 60 patients, TNF-K005 failed to demonstrate a statistically significant difference in remission rates when compared to placebo. **IFNα-Kinoid** The IFNα-K-001 Phase I/II clinical study in lupus patients began in April 2010 and has progressed as planned. To date, four dose levels have been administered and been shown to be well-tolerated. **VEGF-Kinoid** VEGF Kinoid is in pre-clinical development, Neovacs currently has no plans to progress it to human clinical testing at this stage.

Company	Description
Protalex, Inc.	Protalex, Inc. develops and markets organic chemical molecules, called bioregulators, for use in the treatment of rheumatoid arthritis and other forms of arthritis. The company has only one product which is described below. **PRTX-100** PRTX-100 has demonstrated effectiveness in animal models of autoimmune diseases and also demonstrated activity on cultured human immune cells at very low concentrations. The safety, tolerability, and pharmacokinetics of PRTX-100 in humans have now been characterized in three clinical studies. In August 2010, the company commenced a multi-centre Phase Ib clinical trial of PRTX-100 in South Africa on adult patients with active rheumatoid arthritis and dosed its first patient enrolled in the study. In June 2011 the first patients were enrolled in the fourth cohort of the Study. On January 17, 2012 the company announced that it had completed patient dosing in the 4th cohort of the study with 37 patients randomized in cohorts 1 through 4.
Immupharma Plc	Immupharma Plc is a pharmaceutical company researching treatments for lupus, cancer, post-operative pain, and highly resistant hospital-acquired infections. The company is managing two clinical projects and three pre-clinical projects which are outlined below. **Lupuzor** The company has completed successful phase I, Phase IIa and Phase IIb clinical trials of the Lupuzor drug and has recently been granted approval by the FDA to commence Phase III. The Phase IIb trials were completed in 2009, achieving a clinically significant improvement in patient response rate versus placebo. **IPP-204106** The company announced that the product has made encouraging progress with promising early results in Phase I/IIa studies, were 21% of patients demonstrated disease stabilisation for more than 6 months. IPP-204106 is a nucleolin antagonist, the lead molecule in a family of pseudo-peptides designed to block the activity of a protein called nucleolin. **IPP-201007** The company discovered this new molecular series, following investigation of its proprietary chemical library. IPP-201007 has potential application in inflammatory/allergic conditions such as asthma and rheumatoid arthritis. The company believes that this new molecule has potential in becoming a drug for certain inflammatory conditions and intends to progress its development. **IPP-102199** The company has announced that pre-clinical studies fir IPP-102199 has demonstrated the potential to effectively deliver met-enkephalin in a form that the human body can effectively access and utilise over an extended period. **IPP-203101** The company is expected to enter Phase I to assess safety and pharmacokinetics of IPP-203101, assuming the successful completion of its ongoing clinical trials. IPP-203101 is a novel antibiotic to combat Methicillin-resistant Staphylococcus aureus and other severe hospital-acquired, resistant infections which affect some two million people in the US, according to the US Centers for Disease Control and Prevention. This drug candidate is targeted at disrupting the membrane potential of the bacterial pathogens.

Source: Company websites, annual reports and other publications

Appendix B – Control Premium Research

A controlling interest in a company is usually regarded as being more valuable than a minority interest as it provides the owner with:

- control over the operating and financial decisions of the company;
- the right to set the strategic direction of the company;
- control over the buying, selling and use of the company's assets; and
- control over appointment of staff and setting financial policies.

The increase in value for a controlling interest is often observed where an acquirer launches a takeover bid, or some other mechanism for control, for another company. For the purposes of our research on control premiums set out below we have defined a controlling interest to be an interest where the acquirer has acquired a shareholding of greater than 50% in the target company.

To form our view of an appropriate range of control premiums to apply to the equity value of CBio and Inverseon, we have considered the following information:

- Control premiums implied in recent merger and acquisition transactions in the biotechnology sector in Australia and overseas since 2006 as set out below:
  - The Australian transactions imply premiums in the range of 2.5% to 106% over the previous day's VWAP with an average of 44.7% and premiums in the range of 1% to 72% over the 1-month VWAP with an average of 42.3%; and
  - The overseas transactions imply premiums in the range of negative 81.73% to 305.27% over the previous day's VWAP with an average of 49.14% and median of 30.87%.
- Control premiums implied by unsuccessful deals or transactions that were not completed in Australia in the range of 0% to 69% over the 1 day and 1 month VWAPs;
- Premiums implied in transactions related to an investor building up a minority stake (excluding transactions involving placements, share issues, exercise of options, etc) averaged approximately 16.8% over the 1 month VWAP of the acquiree company's share price; and
- Recent independent expert's reports related to biotechnology companies in Australia concluded on control premiums in the range of 10% to 40%.

A summary of our analysis described above is set out in Table B.1 below.

Table B.1: Control Premiums Observed

	Range	Average	Median
Comparable Transactions - Australia	1% to 106%	42.7%	39.3%
Comparable Transactions - Global	(82%) to 305%	39.16%	30.9%
Comparable Transaction – Australia (terminated)	0% to 69%	21.1%	9.5%
Recent Biotechnology IERs	10% to 40%	27.5%	
Minority Stake Acquisitions	(48%) – 119%	18.4%	7.6%

Source: Bloomberg, Zephyr and MergerMarket

From Table B.1, we note there is a wide range of observed control premiums based on recent transactions in the biotechnology sector which may be based on a range of factors including those outlined below:

- Specific acquirer premium and/or special value that may be applicable to the acquirer;
- Level of ownership in the target company already held by the acquirer;
- Market speculation about any impending transactions involving the target and/or the sector that the target belongs to;
- The presence of competing bids; and
- General market sentiment and economic factors.

Based on the share price data of comparable biotechnology companies, it is our observation that market expectation generally starts to build into the share trading price of biotechnology companies as they begin to approach major milestones in the development and commercialisation process.

Appendix C – Comparable Company Research Relating to Inverseon

C.1 Description of Broadly Comparable Companies

Table C.1 below sets out a summary of operations for listed biotechnology companies which can be considered to be broadly comparable to Inverseon.

Table C.1: Summary of Operations of Broadly Comparable Companies

Company	Description of Operations
Verona Pharma Plc	Verona Pharma Plc is a drug discovery company focused on the discovery and development of new therapeutic drugs for the treatment of allergic rhinitis (hay fever) and other chronic respiratory and inflammatory diseases.
MediciNova, Inc.	MediciNova, Inc. acquires, develops, and commercializes small molecule therapeutics. The company, through alliances with Japanese pharmaceutical companies, has built a portfolio of drug candidates. MediciNova Inc. researches treatments for asthma, status asthmaticus, insomnia, interstitial cystitis, cancer, multiple sclerosis, preterm labor, urinary incontinence, and anxiety.
Aeolus Pharmaceuticals, Inc	Aeolus Pharmaceuticals, Inc. is a biopharmaceutical company which develops catalytic antioxidants for use in oncology, and in treating central nervous system, respiratory, and autoimmune disorders.
Antisense Therapeutics Limited	Antisense Therapeutics Limited develops and markets drugs for treatment of diseases such as psoriasis, multiple sclerosis, autoimmune, cancer, metabolic and cardiovascular. The drugs are based on small synthetic genetic molecules. The company has collaboration with Isis Pharmaceuticals in the United States, which provides the company access to drug development technology.
Bioxyne Ltd	Bioxyne Limited is an Australian biotechnology company specialising in the research, development and marketing of new therapies for common illnesses including asthma and COPD. Bioxyne's lead therapy, HI-164OV is based on the company's proprietary technology that uses the application of mucosal immunology to treat common human diseases. The company completed a Phase IIb clinical study into the safety and efficacy of HI-164OV in treating COPD in 2012. The results of this study, which were released in June 2012, indicated that HI-164OV did not provide a statistically significant benefit to the study group as a whole. Bioxyne also makes and sells consumer food supplements, based on a proprietary probiotic compound, generating a source of revenues.
Synairgen Plc	Synairgen Plc, through its subsidiary, Synairgen Research Limited, engages in the discovery and development of drugs for respiratory diseases. The company focuses on viral defence. It develops interferon beta (IFN-ß), which is in Phase II clinical trial for the treatment of asthma; in Phase I clinical trial for the treatment COPD; and in preclinical development for the treatment of influenza. The company is headquartered in Southampton, the United Kingdom.

Company	Description of Operations
Cellceutix Corporation	Cellceutix Corporation is a development-stage biopharmaceutical company. The company's current portfolio of product candidates in pre-clinical development includes anti-cancer agents targeting multiple tumours, candidate targeting rheumatoid arthritis, candidate with potential for indications of osteo-arthritis/asthma, candidate being developed for autism.
Adamis Pharmaceuticals Corp.	Adamis Pharmaceuticals Corp. is a specialty pharmaceuticals company. The company is focused on developing new treatment for viral infections, including influenza. Adamis markets and sells a line of prescription products for a variety of allergy and respiratory disease conditions.
Cempra Holdings LLC	Cempra Holdings LLC is a clinical-stage pharmaceutical company. The company develops antibiotics for the treatment of infectious diseases such as respiratory tract infections, and skin and skin structure infections.

Source: Bloomberg

C.2 Description of the Product Pipeline of Broadly Comparable Companies

Table C.2 below sets out a summary of the product pipeline for each of the broadly comparable companies set out in Section C.1 above.

Table C.2: Product Pipeline of Broadly Comparable Companies

Company	Product Pipeline
Verona Pharma Plc	2 x Phase II (bronchodilator/anti-inflammatory drug and cough)
	1 x Pre-clinical (novel anti-inflammatory polysaccharides)
MediciNova, Inc.	1 x Phase II complete (asthma)
	1 x Phase II (COPD)
	1 x Phase I complete (preterm labour)
	1 x Phase II (multiple sclerosis)
	1 x Phase II (neuropathic pain)
	1 x Phase II (drug addiction)
	Various stages of development (Asthma, IC, cancer, GAD, OAB, thrombosis)
Aeolus Pharmaceuticals, Inc	2 x Phase I (pulmonary sub-syndrome of acute radiation syndrome)
	Various stages of development (diseases and disorders of the central nervous system, respiratory system, autoimmune system, and oncology)
Antisense Therapeutics Limited	1 x Phase II complete (multiple sclerosis)
	1 x Phase I complete (Vision, acromelegaly)
	1 x Pre-clinical (prostate cancer)
	1 x Research (Asthma)
Bioxyne Ltd	1 x Phase IIb (COPD)
	1 x Pre-clinical (asthma)
	1 x Research (ear infection)

Company	Product Pipeline
Synairgen Plc	1 x Phase II (asthma)
	1 x Phase I complete (COPD)
	1 x Pre-clinical (viral lung infection)
Cellceutix Corporation	1 x Pre-clinical (oncology)
	1 x Pre-clinical (rheumatoid arthritis)
	1 x Pre-clinical (osteo-arthritis/asthma)
	1 x Pre-clinical (Psoriasis)
	1 x Pre-clinical (autism)
	1 x Research (Multiple Sclerosis, Lou Gherig Disease, and/or Parkinson's Disease)
	1 x Research (oncology)
	1 x Research (hypertensive emergency)
Adamis Pharmaceuticals Corp.	1 x Phase III complete (allergy)
	1 x Phase II (allergic Rhinitis)
	1 x Phase II (Asthma)
	1 x Phase II (COPD)
	1 x Phase NDA (contraception)
	1 x Phase I complete (oncology)
	1 x Phase I (prostate drugs)
	2 x Pre-clinical (prostate drugs)
Cempra Holdings LLC	1 x Phase II (community-acquired bacterial pneumonia)
	1 x Phase II (acute bacterial skin and skin structure infections)
	1 x Phase I (community-acquired bacterial pneumonia)
	1 x Phase I (chronic prosthetic joint infections)
	1 x Pre-clinical (COPD)
	1 x Pre-clinical (oral suspension/paediatric, community-acquired bacterial pneumonia)
	1 x Pre-clinical (oral suspension/paediatric)
	1 x Pre-clinical (diabetic gastro paresis)

Source: Company Websites, Annual Reports and Other Publications

C.3 Enterprise Values of Broadly Comparable Companies

Table C.3 below sets out the enterprise values of the listed biotechnology companies which can be considered broadly comparable to Inverseon.

Table C.3: Enterprise Value of Broadly Comparable Companies

Company	Home Currency	Exchange Rate (Home Currency/AUD)	EV[(a)] (A$m)	Cash (A$m)	Total Debt (A$m)
Verona Pharma Plc	GBP	0.65	12.11	3.90	-
MediciNova, Inc.	USD	1.01	15.60	14.99	-
Aeolus Pharmaceuticals, Inc	USD	1.01	14.56	0.51	-
Antisense Therapeutics Limited	AUD	1.00	21.27	2.34	-
Bioxyne Limited (prior to Phase II trial results)[(b)]	AUD	1.00	35.62	0.11	-
Bioxyne Limited (post Phase II trial results)	AUD	1.00	6.25	0.11	-
Synairgen Plc	GBP	0.65	42.08	2.30	-
Cellceutix Corporation	USD	1.01	62.35	0.07	2.50
Adamis Pharmaceuticals Corp.	USD	1.01	70.04	1.23	1.26
Cempra Holdings LLC[(c)]	USD	1.01	131.86	3.51	13.96
Min[(d)]			**12.11**	**0.07**	**-**
Max[(d)]			**70.04**	**15.00**	**2.50**
Median[(d)]			**28.45**	**1.77**	**-**
Average[(d)]			**34.20**	**3.18**	**0.47**

Source: Bloomberg

Notes: (a) Enterprise Value = Market capitalisation + Interest bearing debt – cash. The enterprise value was current as at 28 June 2012. Enterprise value has been used for the purpose of this table rather than market capitalisation to adjust for differing cash and debt balances across each company.
(b) Obtained from Bloomberg as at 22 June 2012
(c) Considered to be an outlier
(d) Excludes Bioxyne post Phase II trial results

C.4 Companies Which Are Most Comparable to Inverseon

Of the broadly comparable companies outlined above, we have selected three companies which, having regard to our research, we consider to be most comparable to Inverseon. These companies are Verona Pharmaceutical Plc, Bioxyne Limited, and Synairgen Plc.

A more detailed description of the product development pipelines of these three companies is set out in Table C.4 below.

Table C.4: Companies most Comparable to CBio

Company	Description
Verona Pharmaceutical Plc	Verona Pharmaceutical Plc is a drug discovery company focused on the discovery and development of new therapeutic drugs for the treatment of allergic rhinitis (hay fever) and other chronic respiratory and inflammatory diseases. The company's two products RPL554 and VRP700 are described below. **RPL554** The company commenced its RPL554 Phase I/IIa clinical trial in February 2009. In September 2009, the company announced that it had successfully completed the trial. In November 2010, the company successfully completed a further trial examining the safety and bronchodilator effectiveness of the drug administered at higher doses. In August 2011, the company demonstrated that bronchodilation is maintained over a period of 6 days with daily dosing of RPL554 in asthmatics. In November 2011, the company successfully demonstrated safety and bronchodilation of RPL554 in patients with mild to moderate forms of COPD. The company is currently planning a trial to further assess the drug's anti-inflammatory actions. **VRP700** In November 2007, the company announced that it had acquired significant know-how in a potential anti-tussive (cough) drug. In September 2011, the company successfully completed a trial demonstrating that the inhalation of a single dose of VRP700 significantly reduced coughing in a group of patients with chronic intractable cough due to underlying lung disease. There were no adverse effects associated with the treatment. The September 2011 trial was a double-blind, cross-over, placebo-controlled, contingency study to assess the anti-tussive effects of VRP700 in patients with chronic intractable cough. Each patient received two treatments, either VRP700 or placebo inhaled from a nebuliser device. The trial met all of its primary and secondary endpoints. The company is now working on further advancing the clinical value of VRP700, including identifying and developing a second generation of compounds as well as planning further clinical studies.
Bioxyne Limited	Bioxyne Limited is an Australian biotechnology company specialising in the research, development and marketing of new therapies for common illnesses including asthma and COPD. **HI-1640V** Phase I clinical trials were completed in 2006 and a Phase IIa clinical study was conducted in 2007. A Phase IIb clinical study into the safety and efficacy of HI-1640V in treating COPD was completed in 2012. The study recruited 320 patients (of whom 33 dropped out) from across 21 sites around Australia. The results of the trial were released in June 2012 and indicated that HI-1640V did not provide a statistically significant benefit to the study group as a whole.

Company	Description
Synairgen Plc	Synairgen Plc, through its subsidiary, Synairgen Research Limited, engages in the discovery and development of drugs for respiratory diseases. The company focuses on viral defence. The company is headquartered in Southampton, the United Kingdom. Synairgen Plc has one product, interferon beta (IFN-ß), which is at different stages of development for the treatment of various illnesses. Further information on IFN-ß is set out below. **IFN-ß - Asthma** Synairgen has successfully completed Phase I clinical trials of inhaled IFN-ß in moderate asthmatic patients. Phase II data became available in April 2012. The Phase II trial showed which group of asthmatic patient suffers most as a result of catching a cold. Patients in this group taking IFN-ß had lower asthma symptoms, fewer exacerbations and quicker lung function recovery than patients taking placebo. **IFN-ß - COPD** Synairgen's inhaled IFN-ß programme for asthma has successfully completed Phase I trials. Synairgen is currently designing a Phase II proof of concept study for COPD. **IFN-ß – Severe viral lung infection** Synairgen's inhaled IFN-ß programme for severe viral lung infection, is currently in the pre-clinical phase.

Source: Company websites, annual reports and other publications