Innate Immunotherapeutics

ANNUAL REPORT 2014

Innate Immunotherapeutics Limited has designed and manufactured a unique immunomodulator microparticle technology.

This technology can be used to induce the human immune system to fight certain cancers and infections, or modulate certain immune mechanisms implicated in autoimmune diseases such as Multiple Sclerosis. The same technology can be used in the design of better vaccines to potentially treat or prevent diseases such as influenza, cancer, malaria, or tuberculosis.

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AGM

NOTICE is given that the Annual General Meeting of the Company will be held at Grant Thornton, Redwood Room, Level 17, 383 Kent Street, Sydney NSW Australia at 3.00pm on Wednesday, 20 August 2014.

Chairman's Letter

"...significant events have been achieved through the dedication and hard work of the Company's small management team and external advisors, the ongoing loyalty of our 1,700 pre IPO shareholders..."

Dear Fellow Shareholder

On behalf of Innate Immunotherapeutics' Board and management, I am pleased to provide you with our 2014 Annual Report, the Company's first such report as an Australian listed company.

Your Company has been through an extremely busy twelve months, culminating in the final design of a Phase 2B trial of our drug candidate, MIS416, for patients with secondary progressive multiple sclerosis (SPMS). This trial itself is due to start recruiting patients at up to eight Australian sites within the next month. Along the way, the Company has migrated its place of incorporation from New Zealand to Australia, raised $10 million from a successful public offering (IPO), extinguished all its debt, and listed its shares on the Australian Securities Exchange.

These significant events have been achieved through the dedication and hard work of the Company's small management team and external advisors, the ongoing loyalty of our 1,700 pre IPO shareholders, and the confidence of new shareholders to invest in the IPO.

In particular, I would like to acknowledge the substantial support shown by two parties. Last year, U.S. based director Christopher Collins made a number of advances to the Company which largely provided the funds to enable the migration and subsequent IPO to take place. In addition, the investment fund, Australian Ethical provided corner stone support for the IPO with an investment of $3 million. On your behalf, I would like to sincerely thank both these parties.

SPMS is a dreadful disease. It is a highly disabling form of multiple sclerosis (MS). Worldwide it affects 30% of all MS sufferers, and currently there are no approved drugs for safe and effective ongoing treatment. Our drug candidate, MIS416, has potentially demonstrated an acceptable safety and tolerability profile during early stage clinical trials in New Zealand. The majority of patients treated with MIS416 under compassionate use conditions in New Zealand have self-reported significant improvement in their SPMS symptoms after six months or more of treatment.

The upcoming Phase 2B trial will study the efficacy of MIS416 in patients with SPMS when compared to patients treated with a non-active placebo agent. The effects of treatment will be assessed by using a number of clinical measures of neuromuscular function as well as patient-reported effects on pain, fatigue, and other MS related symptoms. Success will be judged on consistency of the clinical benefit to patients arising from MIS416 treatment. Providing we can recruit the 90 patients required for the trial by the end of the year, the trial will be completed by the end of 2015 and we should know the results in early 2016. A good trial outcome will then likely attract significant partnering interest and will be the catalyst for a significant uplift in the value of your Company.

I would like to thank my fellow Directors, our CEO Simon Wilkinson and all the Innate team for their efforts during what has been an exceptionally busy and important year for the Company. Thank you also to our existing and new shareholders and for their significant support over the past 12 months.

Michael A Quinn
CHAIRMAN

CEO's Report

SPMS – A LARGE MARKET WITH NO SAFE AND EFFECTIVE TREATMENTS

Overview

Innate Immunotherapeutics is a medical biotechnology company with a Phase 2B drug candidate, MIS416, to treat secondary progressive multiple sclerosis (SPMS). Multiple sclerosis (MS) is a chronic disease of the central nervous system (brain and spinal cord). It is the most common disabling neurological disease affecting young adults and has a life long impact. Because MS involves multiple areas of the central nervous system, it is characterised by a variable and complex range of symptoms, including visual disturbance, fatigue, pain, reduced mobility and coordination, cognitive impairment, and mood changes. Average age at onset is between 20 and 40, and 75% of people with MS are women. Unfortunately, MS tends to strike people in their most productive years. It affects the ability to fulfil expected life roles at a stage when careers, relationships, and adult life in the community are consolidating, with a resulting impact on work, family, and social life.

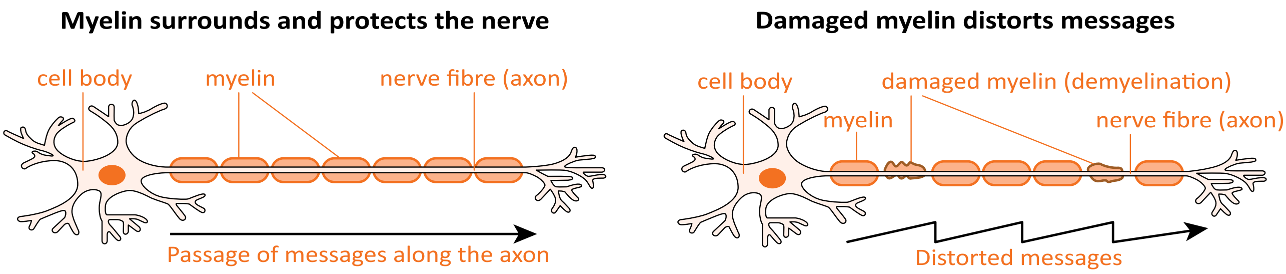
When MS first presents, approximately 85% of patients are diagnosed with a "relapsing-remitting" form of MS (RRMS) where the sufferer experiences clearly defined attacks of worsening neurologic function. These attacks, called relapses, flare-ups, or exacerbations, are followed by periods of partial or complete recovery (remissions). Despite there being nine drugs approved to provide ongoing treatment for RRMS, 60% of sufferers develop a secondary-progressive disease course in which the disease worsens more steadily, with or without occasional flare-ups, minor recoveries, or plateaus. There are no approved drugs available to provide safe, effective, long-term ongoing treatment for SPMS sufferers.

MIS416 has now undergone pre-clinical, Phase 1 and Phase 2A trials examining its use as a novel therapy for progressive forms of MS, in particular, SPMS. These trials, together with a compassionate use programme run in NZ over the past five years, indicate that MIS416 appears safe at the doses trialed and, additionally, some patients have self-reported improvements as a result of treatment.

Technology

The Company's technology targets the human innate immune system. The innate immune system is the body's first line of defence against external disease causing agents (pathogens) such as bacteria and viruses, and internally caused diseases such as cancer. Disorders of the immune system can also cause or contribute to autoimmune diseases such as MS and type 1 diabetes, as well as inflammatory diseases such as rheumatoid arthritis and inflammatory bowel disease. While the innate immune system is responsible for mounting the body's initial defence against pathogens, it also plays a critical role in controlling (or regulating) the overall immune response.

In SPMS, the immune system attacks the central nervous system (brain, spinal cord, and optic nerves). As part of this attack, myelin (the fatty substance that surrounds and protects the nerve fibres in the central nervous system) is damaged, as well as the nerve fibres themselves. The damaged myelin forms scar tissue (sclerosis), which gives the disease its name.



WHEN ANY PART OF THE MYELIN SHEATH OR NERVE FIBRE IS DAMAGED OR DESTROYED, NERVE IMPULSES TRAVELLING TO AND FROM THE BRAIN AND SPINAL CORD ARE DISTORTED OR INTERRUPTED, PRODUCING THE VARIETY OF SYMPTOMS THAT CAN OCCUR IN MS.

To make matters worse, the attack on the myelin sets off an inflammatory response that can both cause further damage, and prevent or hinder repair to the myelin.

Laboratory experiments using mouse and human systems strongly indicate that MIS416 can reduce (or down regulate) such inflammation. In a patient with SPMS, this activity could result in prevention of further damage caused by inflammation as well as create a more favourable environment for myelin repair. This scenario has been demonstrated in an animal model of chronic MS, where MIS416 has a clear anti-inflammatory effect in the brain and spinal cord.

Market

MS is a disease that affects approximately 30 in 100,000 people worldwide. The disease is more common in people who live farther from the equator and is also more common in regions with northern European populations and/or their descendants. In the seven major drug markets (the US, Japan, France, Germany, Italy, Spain, and the UK), the prevalence of diagnosed MS is even higher (80 cases per 100,000). At any given time, patients with RRMS account for approximately 55% of all patients with MS and patients with SPMS account for approximately 30%.

Country	Prevalence (per 100,000)	Incidence (per 100,000)	Total No. of people with MS 2008 (est.)
U.S.	135	4	400,000
U.K.	110	6	85,000
Germany	149	2.85	122,000
Italy	90	3	54,000
France	80	–	80,000
Spain	59	3.8	40,000
			Total EUS: 380,000
			Total U.S. + EUS: 780,000
			Total Worldwide: 2,500,000

Notes:

The prevalence growth rate is estimated at 1%

Prevalence: Estimated total number of cases of MS at a particular point in time in a specific population usually given as number per 100,000 population

Incidence: Estimated number of new cases of MS diagnosed over a defined period of time in a specified population usually given as a number per 100,000 population

There are currently nine disease-modifying drugs or therapies approved by the FDA to reduce disease activity and disease progression in patients with RRMS. In 2010, the worldwide market for MS disease modifying therapies was in excess of US$11 billion per annum. The reported sales of these nine drugs in 2013 increased to US$13.8 billion.

While there are two RRMS drugs also approved for SPMS, these are either unsafe for ongoing therapy (mitoxantrone) or can only be used during the transition stage from RRMS to SPMS when patients may still experience acute relapses (interferon beta 1b). Using the 2010 MS worldwide market estimate of US$11 billion and the estimated 30% prevalence of SPMS worldwide, the current unmet SPMS market size can be calculated to be approximately US$3.0 billion. The Company is positioning MIS416 to address this commercially significant, and therapeutically important, market.

Upcoming Phase 2B Trial

A Phase 2B randomised, double-blind, placebo-controlled trial of the efficacy and safety of MIS416 in the treatment of subjects with SPMS is due to commence enrolled patients within the next month. The trial design provides for 90 subjects to be randomly assigned in a 2:1 ratio to either treatment with MIS416 weekly or to matching placebo (saline). Participation in the trial will continue for one year. The dose of MIS416 will be 125 µg for the first dose, 250 µg for the second dose, and 500 µg for subsequent doses. The study is exploratory by design and success will be judged on consistency of the clinical benefit outcomes rather than inferential statistical testing of individual clinical assessments.

Primary objectives of this study are: to determine the efficacy of MIS416, relative to placebo, when administered repeatedly via weekly intravenous administration to subjects with SPMS, as assessed by its effect on measures of neuromuscular function, and to also determine the safety and tolerability of a weekly regimen of MIS416.

Secondary objectives of this study are: to determine the effect of MIS416 on disease activity and neurodegeneration by assessing changes in Magnetic Resonance Imaging (MRI) markers including lesions, whole brain atrophy and Magnetization Transfer Ratio; to determine the effect of MIS416 on Patient Reported Outcomes related to disability and health status, and to assess, in a subset of subjects, the pharmacodynamic effects of MIS416, including effects on serum, Peripheral Blood Mononuclear Cell, and Cerebral Spinal Fluid cytokine/chemokine levels and expression patterns.

Safety assessments will include; characterization of the type, incidence, severity, timing, seriousness, and relationship to treatment of adverse events; effects on vital signs and clinical laboratory parameters; changes on electrocardiograms; and number of gadolinium-enhancing lesions on cranial MRI assessments.

Efficacy assessments will be carried out prior to initial treatment and then quarterly and comprise: Neuromuscular Function tests (MS Function Composite, Jebsen Hand Function Test, grip, tip and key pinch strength, Symbol Digit Modalities Test, Sloan low-contrast letter visual acuity, 6-minute walk test); Disability and Health Status (Expanded Disability Status Scale and Patient Reported Outcomes including – SF-36 and its components, MS Impact Scale, Neurological Fatigue Index for MS, Brief Pain Inventory), and Cranial MRI (Whole Brain Atrophy and Magnetisation Transfer Ratio).

Other Applications – Pipeline

The Company's innate immune targeting technology has a range of potential additional applications including the treatment of certain infections and cancers, the treatment or prevention of radiation induced injury, and the development of new vaccines. The applications or indications under active development by the Company alone, or in collaboration with academic partners, are shown in the following pipeline summary.

Therapeutic Area	Indication	Discovery	Preclinical	Phase 1	Phase 2A	Phase 2B	Phase 3
1. Autoimmunity	Secondary progressive multiple sclerosis					**Q1 2014**	
2. Oncology	NY-ES0-1 positive solid tumors and refactory urorthelial or prostate cancers (treatment vaccine adjuvant)						
3. Oncology	Ovarian cancer (treatment vaccine adjuvant)						
4. Drug Delivery	Undisclosed						
5. Vaccines	Peptide enhanced adjuvant						

Corporate Governance

for year ended 31 March 2014

This statement has been approved by the Board of the Company. The statement has been prepared as at 4 June 2014 with reference to the 3rd Edition of the the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

RECOMMENDATION 1.1

A listed entity should disclose:

a. the respective roles and responsibilities of its Board and management; and

b. those matters expressly reserved to the Board and those delegated to management

The Board of Directors has been charged by shareholders with overseeing the affairs of the Company to ensure that they are conducted appropriately and in the interests of all shareholders. The Board defines the strategic goals and objectives of the Group, as well as broad issues of policy and establishes an appropriate framework of Corporate Governance within which the Board members and management must operate. The Board reviews and monitors management and the Group's performance. The Board has also taken responsibility for establishing control and accountability systems/processes and for monitoring senior executive performance and implementation of strategy.

The roles and responsibilities of the Board have been set out in a draft Board charter which will available on the Company's website once it has been reviewed and approved by the Board. Amongst other things the Board charter sets out the role and responsibility of the chair of the Board.

The Board has specifically identified the following matters for which it will be responsible:

a. reviewing and determining the Company's strategic direction and operational policies;
b. review and approve business plans, budgets and forecasts and set goals for management;
c. overseeing management's implementation of the Company's strategic objectives and its performance generally;
d. appoint and remunerate senior staff;
e. review performance of senior staff;
f. review financial performance against Key Performance Indicators on a quarterly basis;
g. approve acquisition and disposal of assets, products and technology;
h. approve clinical trial programs;
i. approve operating budgets, capital, development and other large expenditures;
j. review risk management and compliance;
k. oversee the integrity of the Company's control and accountability systems;
l. oversee the Company's processes for making timely and balanced disclosure of all material information concerning it that a reasonable person would expect to have a material effect on the price or value of the Company's shares
m. reporting to shareholders;
n. ensure compliance with environmental, taxation, Corporations Act and other laws and regulations; and
o. monitoring the effectiveness of the Company's governance practices.

Management is charged with the day to day running and administration of the Company consistent with the objectives and policies as set down by the Board. Within this framework, the Managing Director is directly accountable to the Board for the performance of the management team.

RECOMMENDATION 1.2

A listed entity should:

a. undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director; and

b. provide security holders with all material information in its possession relevant to a decision whether or not to elect or re-elect a Director.

The Company does undertake checks before it appoints a person, or puts forward to shareholders a new candidate for election, as a Director. These checks include references as to the person's character, experience and education. The Company does not propose to check criminal records or the bankruptcy history for potential new Board members however may consider such checks where necessary or appropriate in the future.

The Company will include all material information in its possession relevant to a decision whether or not to elect or re-elect a Director in the relevant Notice of Meeting. Information relating to each of the Directors is also provided on the Company's website.

RECOMMENDATION 1.3

A listed entity should have a written agreement with each Director and senior executive setting out the terms of their appointment.

The Company has not yet established written agreements with each director which sets out the terms of their appointment. The appointment of Directors is governed by the relevant provisions of the Company's Constitution.

Directors are not appointed for a fixed term but are, excluding any Managing Director, subject to re-election by shareholders at least every three years in accordance with the Constitution of the Company.

A Director appointed to fill a casual vacancy or as an addition to the Board, only holds office until the next general meeting of shareholders and must then retire. After providing for the foregoing, one-third of the remaining Directors (excluding the Managing Director) must retire at each Annual General Meeting of shareholders.

The Company does maintain written agreements with each of its senior executives which set out the terms of their appointment.

RECOMMENDATION 1.4

The Company Secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.

The Company Secretary has been appointed on the basis that he will be accountable directly to the Board, through the chair, on all matters to do with the proper functioning of the Board.

All Directors of the board have access to the Company Secretary who is appointed by the Board. The Company Secretary reports to the Chairman, in particular to matters relating to corporate governance.

RECOMMENDATION 1.5

A listed entity should:

a. have a diversity policy which includes requirements for the board or a relevant committee of the Board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;

b. disclose that policy or a summary of it; and

c. disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the Board in accordance with the entity's diversity policy and its progress towards achieving them, and either:

  1. the respective proportions of men and women on the Board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or

  2. if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.

Due to the scope and size of the Company's operations, the Board does not have a formal diversity policy in line with the ASX's Corporate Governance guidelines.

The Company believes that the promotion of diversity on its Board and within the organisation generally is good practice.

The Board acknowledges the benefits of and will seek to achieve diversity during the process of employment at all levels without detracting from the principal criteria for selection and promotion of people to work within the Company based on merit.

The Board believes that there is no detriment to the Company in not adopting a formal diversity policy or in not setting gender diversity objectives as the Company is committed to providing all employees with fair and equal access to employment opportunities and nurturing diversity within the Company. This is evident by women occupying a number of important positions within the Company. Elizabeth Hopkins is a Non-Executive Director, Gill Webster is the Company's Chief Scientific Officer, and Margaret Rhoades is the Company's Quality Assurance Manager. Five of the Company's nine full or part-time employees are women.

The Board will regularly review the size of its operations and will, if necessary, adopt a formal diversity policy and gender diversity objective as appropriate.

RECOMMENDATION 1.6

A listed entity should:

a. have and disclose a process for periodically evaluating the performance of the Board, its committees and individual Directors; and

b. disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Company does not have a formal process for evaluating the performance of the board, its committees or individual Directors. The Board has adopted a self-evaluation process to measure its own performance. The Chairman evaluates the performance of each director and the Board evaluates the performance of the Chairman on an ongoing basis. All performance evaluations will be measured against budget, goals and set objectives.

The Board believes that this approach is appropriate given its size and the geographic split with three of the Directors being based overseas.

A Director is expected to resign if the remaining Directors recommend that a Director should not continue in office, but is not obliged to do so.

The Company migrated its incorporation domicile to Australia in October 2013 and listed on the ASX in December 2013.
No formal performance evaluation was undertaken during the reporting period.

RECOMMENDATION 1.7

A listed entity should:

a. have and disclose a process for periodically evaluating the performance of its senior executives; and
b. disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

Currently, the Board does not have a formal policy for the evaluation of the performance of its senior executives.

The Board is currently responsible for monitoring the performance of senior executives with reference to the Company's budgets, goals and set objectives. As the Company expands, the Board intends to establish formal, quantitative and qualitative performance evaluation procedures.

The Company migrated its incorporation domicile to Australia in October 2013 and listed on the ASX in December 2013. No formal performance evaluation of senior executives was undertaken during the reporting period.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

RECOMMENDATION 2.1

The Board of a listed entity should:

a. have a nomination committee which:
   1. has at least three members, a majority of whom are independent Directors, and
   2. is chaired by an independent director;
   and disclose
   3. the charter of the committee
   4. the members of the committee; and
   5. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
b. if it does not have a nomination committee, disclose that fact and the processes it employs to address Board succession issues and to ensure that the Board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively

Due to the small size of the Company and the number of Board members, the Board does not have a formal nomination committee structure. Any new Directors will be selected according to the needs of the Company at that particular time, the composition and the balance of experience on the Board as well as the strategic direction of the Company.

Should the need arise to consider a new Board member, some or all of the Directors will form the committee to consider the selection process and appointment of a new Director.

At each annual general meeting, the following Directors retire:

i. one third of Directors (excluding the Managing Director or Chief Executive Officer, if he/she is a Director, if any);
ii. Directors appointed by the Board to fill casual vacancies or otherwise; and
iii. Directors who have held office for more than three years since the last general meeting at which they were elected.

The Board consists of 5 Directors, but up to 10 Directors can serve on the Board. There is one Executive Director, Simon Wilkinson, who is Chief Executive Officer of the Company, and 4 Non-Executive Directors (Christopher Collins, Elizabeth Hopkins, Michael Quinn and Andrew Sneddon):

Michael Quinn	Non-Executive Chairman
Simon Wilkinson	Executive Director and Chief Executive Officer
Christopher Collins	Non-Executive Director
Elizabeth Hopkins	Non-Executive Director
Andrew Sneddon	Non-Executive Director

RECOMMENDATION 2.2

A listed entity should have and disclose a Board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.

The Directors are expected to review their membership of the Board from time to time taking into account the length of service on the Board, age, qualification and experience, any requirements of the Company's constitution, and in light of the needs of the Company and direction of the Company, together with such other criteria considered desirable for composition of a balanced Board and the overall interests of the Company.

A Director is expected to resign if the remaining Directors recommend that a Director should not continue in office, but is not obliged to do so.

Details of each Directors experience and length of service can be found on the Company's website and are reported in the Company's Financial Report on an annual basis.

RECOMMENDATION 2.3

A listed entity should disclose:

a. the names of the directors considered by the Board to be independent Directors;

b. if a director has an interest, position, association or relationship of the type described in Box 2.3 but the Board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the Board is of that opinion; and

c. the length of service of each Director.

Michael Quinn, Elizabeth Hopkins, and Andrew Sneddon are considered Independent Directors.

In addition, the Board has adopted a series of safeguards to ensure that independent judgement is applied when considering the business of the Board:

i. Directors are entitled to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required but this is not unreasonably withheld.

ii. Directors having a conflict of interest with an item for discussion by the Board must absent themselves from a Board meeting where such item is being discussed before commencement of discussion on such topic.

iii. The Independent Directors confer on a "needs" basis with the Chairman, if warranted and considered necessary by the Independent Directors.

The Board considers Non-Executive Directors to be independent even if they have minor dealings with the Company, provided they are not a substantial shareholder. Transactions with a value in excess of 5% of the Company's annual operating costs are considered material. A Director will not be considered independent if he/she is involved in transactions with the Company that are in excess of this materiality threshold.

Details of each Directors experience and length of service can be found on the Company's website and are reported in the Company's Financial Report on an annual basis.

RECOMMENDATION 2.4

A majority of the Board of a listed entity should be independent Directors.

Michael Quinn, Elizabeth Hopkins, and Andrew Sneddon are considered Independent Directors and accordingly a majority of the Board are independent Directors.

RECOMMENDATION 2.5

The chair of the Board of a listed entity should be an independent Director and, in particular, should not be the same person as the CEO of the entity.

Michael Quinn is the current Chairman of the Company. He is an independent Director and not the same person as the CEO.

The Chairman's role includes:

i. providing effective leadership on formulating the Board's strategy;
ii. representing the views of the Board to the public;
iii. ensuring that the Board meets at regular intervals throughout the year and that minutes of meeting accurately record decisions taken and where appropriate the views of individual Directors;
iv. guiding the agenda, information flow and conduct of all Board meetings;
v. reviewing the performance of the Board of Directors; and
vi. monitoring the performance of the senior management of the Company.

RECOMMENDATION 2.6

A listed entity should have a program for inducting new Directors and provide appropriate professional development opportunities for Directors to develop and maintain the skills and knowledge needed to perform their role as Directors effectively.

Directors are encouraged to pursue appropriate professional development opportunities to develop and maintain their skills and knowledge in order to perform their role as Directors effectively.

All Board members have access to professional independent advice at the Company's expense, provided they first obtain the Chairman's approval, with such approval not being withheld unreasonably.

The Company migrated its incorporation domicile to Australia in October 2013 and listed on the ASX in December 2013. The Company has not yet established a formal program for inducting new directors but proposes to do so in due course.

PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

RECOMMENDATION 3.1

A listed entity should:

a. have a code of conduct for its Directors, senior executives and employees; and
b. disclose that code or a summary of it.

A draft Code of Conduct and Ethics for all Directors, senior executives and employees has been prepared and will be available on the Company's website once it has been reviewed and approved by the Board.

In making decisions, the Directors, senior executives and employees of the Company, take into account the needs of all stakeholders, including:

i. the Company;
ii. Shareholders;
iii. Employees;
iv. Creditors;
v. Contractors;
vi. Community, including potential patients and their caregivers who may benefit from the Company's drug development programmes; and
vii. Governments, which are relevant to the Company's business and operations.

The Directors, senior executives and employees of the Company are expected to:

i. comply with the laws and regulations both by the letter and in spirit;
ii. act honestly and with integrity;
iii. avoid conflicts of interest by not placing themselves in situations which result in divided loyalties;
iv. use the Company's assets responsibly and in the interests of the Company, not take advantage of property, information or position for personal gain or to compete with the Company;
v. to keep non-public information confidential except where disclosure is authorised or legally mandated; and
vi. be responsible and accountable for their actions and report any unethical behaviour.

It is the Company's objective to create wealth for its shareholders and provide a safe and challenging environment for employees and for the Company to be a valuable member of the community as a whole.

The Company's core values are summarised as follows:

i. provide value to its shareholders through growth in its market capitalisation;
ii. act with integrity and fairness;
iii. create a safe and challenging workplace;
iv. be participative and recognise the needs of the community, including the needs of patients who may be beneficiaries of the Company's drug development programmes;
v. protect the environment;
vi. be commercially competitive; and
vii. strive for high quality performance and development.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN CORPORATE REPORTING

RECOMMENDATION 4.1

The Board of a listed entity should:

a. have an audit committee which:
   1. has at least three members, all of whom are non-executive Directors and a majority of whom are independent Directors; and
   2. is chaired by an independent Director, who is not the chair of the Board, and disclose:
   3. the charter of the committee;
   4. the relevant qualifications and experience of the members of the committee; and
   5. in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

b. if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.

The Company has established an audit committee which comprises Elizabeth Hopkins and Andrew Sneddon. Due to the small size of the Company and the number of Board members, the committee is not comprised of three members.

Andrew Sneddon acts as Chairman of the audit committee. Mr Sneddon is an independent Director and not the Chair of the Board.

The role of the audit committee is to:

i. monitor and review the integrity of the financial reporting of the Company, reviewing significant financial reporting judgments;
ii. review the Company's internal financial control system and risk management systems;
iii. monitor, review and oversee the external audit function including, matters concerning appointment and remuneration, independence and non-audit services;
iv. monitor and review compliance with the Company's Corporate Governance Statement; and
v. perform such other functions as assigned by law or the Company's Constitution.

The audit committee may seek provision of educational information on accounting policies and other financial topics relevant to the Company to assist in fulfilling its duties. Further, the audit committee may seek explanations and additional information from the Company's external auditors, without management present, when required.

When considered necessary or appropriate, the audit committee may conduct or authorise investigations and may retain independent legal, accounting or other advisors.

Other matters relating to the operation and authority of the audit committee are set of in the Audit Committee Charter, which shall be posted on the Company's website.

Details relating to the relevant qualifications and experience of the members of the committee and the number of times the committee met throughout the reporting period and the individual attendances of the members at those meetings are set out on an Annual Basis in the Directors Report contained in the Company's Year End Financial Report which is released to the market and posted on the Company's website.

RECOMMENDATION 4.2

The Board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

The Company's Chief Executive Officer and Chief Financial Officer will report in writing to the Board on a yearly and half-yearly basis to confirm that:

i. the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards;
ii. the Company's financial statements are complete and present a true and fair view, in all material respects, of the financial condition and performance of the Company; and
iii. the above statement is founded on a sound system of internal control and risk management which implements the policies adopted by the Board and that the Company's risk management and internal controls are operating effectively in all material respects.

RECOMMENDATION 4.3

A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.

The Company's external auditor attends the AGM and is available to answer questions from shareholders relevant to the audit.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

RECOMMENDATION 5.1

A listed entity should:

a. have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and
b. disclose that policy or a summary of it.

The Company has procedures in place to identify matters that are likely to have a material effect on the price of the Company's securities and to ensure those matters are notified to the Australian Securities Exchange in accordance with its listing rule disclosure requirements.

The distribution of information to the market and media is handled by the Chairman, the Chief Executive Officer or the Company Secretary. The Company Secretary has been nominated as the person responsible for communications with Australian Securities Exchange. This role includes responsibility for compliance with the continuous disclosure requirements of the Australian Securities Exchange Listing Rules and overseeing and coordinating information disclosures to Australian Securities Exchange, analysts, brokers, shareholders the media and the public.

All disclosures to the Australian Securities Exchange will be posted on the Company's website soon after clearance has been received from the Australian Securities Exchange.

The Chief Executive Officer and Company Secretary will monitor information in the marketplace to ensure that a false market does not emerge in the Company's securities.

A draft Continuous Disclosure Policy has been prepared and will be available on the Company's website once it has been reviewed and approved by the Board.

PRINCIPLE 6: RESPECT THE RIGHTS OF SECURITY HOLDERS

RECOMMENDATION 6.1

A listed entity should provide information about itself and its governance to investors via its website.

Information about the Company and its governance are available on the Company's website. The Company's website provides detailed corporate information and has a specific section relating to corporate governance.

RECOMMENDATION 6.2

A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.

It is the Company's communication policy to communicate with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Company.

The information will be communicated to the shareholders through:

i. continuous disclosure announcements made to the Australian Securities Exchange;
ii. posting of half-yearly results and all Australian Securities Exchange announcements on the Company's website;
iii. posting of all results of clinical trials;
iv. posting of all media announcements on the Company's website; and
v. the calling of annual general meetings, and other meetings of shareholders, as required, and to obtain approval for Board action, as considered appropriate.

Investors and other stakeholders are invited to subscribe to an email alert facility on the Company's website so that they can receive material announcements which have been released by the Company to the market via an email in a timely manner.

RECOMMENDATION 6.3

A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.

The Company does not have formal policies or process in place to facilitate or encourage participation at shareholder meetings. The Company will despatch a Notice of Meeting and Explanatory Statement to shareholders in accordance with statutory requirements. In addition details of any shareholder meeting will be posted on the Company's website.

At any meeting of shareholders, shareholders will be encouraged to ask questions of the Board of Directors in relation to the matters to be considered at such meeting and where appropriate relating to the operation of the Company.

RECOMMENDATION 6.4

A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.

The Company provides shareholders with the option to receive communications from, and send communications to, the entity and its security registry electronically.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

RECOMMENDATION 7.1

The Board of a listed entity should:

a. have a committee or committees to oversee risk, each of which:
   1. has at least three members, a majority of whom are independent Directors; and
   2. is chaired by an independent director, and disclose:
   3. the charter of the committee;
   4. the members of the committee; and
   5. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

b. if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.

In light of the nature of the Company's operations and activities, formal and informal policies for the oversight and management of the various business risks associated with the Company's activities are conducted at the Board level by all of the Directors.

Responsibility for day to day control and risk management lies with the Directors and Chief Financial Officer (financial risk). The Board will monitor risks including, but not limited to, compliance with licensing or other regulatory approval requirements, tendering, contracting and development, quality, safety, strategic issues, financial risk, joint venture, accounting and insurance. Any changes in the risk profile for the Company will be communicated to its stakeholders via an announcement to the Australian Securities Exchange.

The Board is currently reviewing revisions to its Audit Committee Charter to extend the scope of that committee's responsibilities to address risk. The revised Audit & Risk Committee Charter will be posted to the Company's website once it has been reviewed and approved by the Board.

RECOMMENDATION 7.2

The Board or a committee of the Board should:

a. review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and

b. disclose, in relation to each reporting period, whether such a review has taken place.

There are inherent risks associated with design, manufacture, trial and commercialisation of medicines. The Board continuously reviews the activities of the Group to identify key business and operational risks and, where possible, will implement policies and procedures to manage such risks.

The Board is provided with regular reporting on the management of operations and the financial condition of the Company aimed at ensuring that risks are identified, assessed and appropriately managed as and when they arise.

The Company migrated its incorporation domicile to Australia in October 2013 and listed on the ASX in December 2013. No formal review of the Company's risk management framework was undertaken during the reporting period. It is proposed that the Audit Committee will assume additional responsibilities which will extend to a review of the Company's risk management framework on an annual basis.

RECOMMENDATION 7.3

A listed entity should disclose:

a. if it has an internal audit function, how the function is structured and what role it performs; or

b. if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.

In light of the nature and extent of the Company's operations and activities, the Company has not established an internal audit function.

The Board continuously reviews the activities of the Group to identify key business and operational risks and, where possible, will implement policies and procedures to address such risks and where approval to establish appropriate internal control processes.

The Board is provided with regular reporting on the management of operations and the financial condition of the Company aimed at ensuring that risks are identified, assessed and appropriately managed as and when they arise.

RECOMMENDATION 7.4

A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.

In light of the nature and extent of the Company's operations its business activities have limited sustainability implications at this stage of its business strategy.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

RECOMMENDATION 8.1

The Board of a listed entity should:

a. have a remuneration committee which:

  1. has at least three members, a majority of whom are independent Directors; and

  2. is chaired by an independent director,

  and disclose:

  3. the charter of the committee;

  4. the members of the committee; and

  5. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

b. if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

The Board has established a Remuneration Committee which is comprised of Michael Quin and Christopher Collins. Due to the small size of the Company and the number of Board members, the committee is not comprised of three members however the Company has a very small number of Directors and employees in aggregate. The number of committee members will be reviewed by the Board from time to time and may be increased if the size of the Company or the nature and extent of its operations increase materially.

Christopher Collins is the Chairman of the Remuneration Committee. Christopher Collins is not regarded as independent because he is a substantial shareholder of the Company and consequently, the Remuneration Committee is not comprised of a majority of independent Directors and is not chaired by an independent Director.

The Board has approved a Remuneration Committee Charter which is posted on the Company's website.

Details relating to the relevant qualifications and experience of the members of the committee and the number of times the committee met throughout the reporting period and the individual attendances of the members at those meetings are set out on an Annual Basis in the Directors Report contained in the Company's Year End Financial Report which is released to the market and posted on the Company's website.

The function of the Remuneration Committee is to fulfil its corporate governance responsibilities with respect to remuneration by reviewing:

i. remuneration packages of executive Directors, non-executive Directors and senior executives; and

ii. employee incentive and equity based plans including the appropriateness of performance hurdles and total payments proposed.

The responsibilities of the Remuneration Committee include a review of:

i. the Company's remuneration policy and framework;

ii. senior executives' remuneration and incentives;

iii. superannuation arrangements; and

iv. remuneration by gender.

RECOMMENDATION 8.2

A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive Directors and the remuneration of executive Directors and other senior executives.

Directors

a. The Non-Executive Directors including the Chairman are eligible to receive a fixed Directors' fee. The maximum aggregate amount of fees which could be paid to Non-Executive Directors is set by the Company in general meeting and, until such time, is determined by the Directors. The objective of the Company's remuneration policies, processes and practices are to attract and retain appropriately qualified and experienced Directors who will add value by adopting competitive remuneration and reward programmes which are fair and responsible and aligned with shareholder objectives. Remuneration is also determined having regard to how Directors are remunerated for other similar companies, the time spent on the Company's matters and the performance of the Company.
b. Simon Wilkinson is the Chief Executive Officer (CEO) of the Company and he is charged with the responsibility of managing the Company's day-to-day business. Certain responsibilities are delegated to the CEO and are set out below.
c. The Board has no retirement or termination benefits.

Senior Executives

a. The objective of the Company's remuneration policies, processes and practices as they relate to senior executives are to attract and retain appropriately qualified and experienced employees who will add value by adopting competitive remuneration and reward programmes which are fair and responsible and aligned with shareholder objectives. Remuneration is also determined having regard to how senior executives are remunerated for other similar companies and the performance of the Company.
b. The CEO is responsible for managing the Company's day-to-day business. The key functions and responsibilities of the CEO, which have been delegated by the Board, focus on the commercial aspects of developing the Company's products.
c. The company also retains a small but experienced staff with specialist skills in immunology and GMP manufacturing and related regulatory affairs. They include Gill Webster as Chief Scientific Officer, Margaret Rhoades as Quality Assurance Manager and Ken Tucker as Production Manager.

Each of the Company's senior executives report directly to the CEO. The Board and the CEO closely monitor the performance of individual senior executives.

Formal evaluation of senior executives has not been undertaken. The senior executive team is small and works closely with the Board as required allowing Board members to continuously and directly monitor the performance of individual senior executives and to provide input directly where appropriate.

RECOMMENDATION 8.3

A listed entity which has an equity-based remuneration scheme should:

a. have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and
b. disclose that policy or a summary of it.

The Company has an Employee Share Option Plan which is open to any person who is employed by, or is a director, officer, executive or engaged as a consultant of the Company or any related body corporate of the Company and whom the Remuneration Committee determines is eligible to participate in the Option Plan

In accordance with the terms of the Company's Securities Trading Policy "dealing" in securities includes entering into of agreements or transactions which operate to limit the economic risk of a person's holdings in Company securities.

Directors, Key Management Personnel and employees must not deal in Company Securities at any time, if in possession of any inside information relating to those securities.

In addition to the overriding prohibition against dealing in the Company's securities when a person is in possession of inside information, Key Management Personnel and their associated parties are at all times prohibited from dealing in the Company's securities during prescribed 'closed' periods. The Company has nominated closed periods to be during the period of fourteen (14) days prior to, and one (1) day after, the release of the Company's Quarterly Reports (including the Appendix 4C) and Financial Report, other planned announcements relating to clinical results and such other announcements as determined by the Directors, unless exceptional circumstances apply.

Innate Immunotherapeutics Limited
ACN 165 160 841

Annual Consolidated Financial Report

For the year ended 31 March 2014

Contents

Directors' Report

for year ended 31 March 2014

Your directors present their report on Innate Immunotherapeutics Limited (the "Company") and its subsidiary Innate Immunotherapeutics (NZ) Limited (together the "Group") for the year ended 31 March 2014.

DIRECTORS

The names of directors in office at any time during or since the financial year are:

Michael Quinn	(appointed 19 September 2013)
Simon Wilkinson	
Liz Hopkins	(appointed 17 October 2013)
Christopher Collins	
Andrew Sneddon	(appointed 19 September 2013)
Gregory Moyle	(resigned 20 September 2013)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

INFORMATION ON DIRECTORS

Details of the current directors' qualifications, experience and responsibilities are detailed below:

Michael Quinn (BSc, BEc, MBA (Harvard) – 66 years)
Non-Executive Chairman

Mr Quinn co-founded Innovation Capital Limited in 1999 and is Managing Partner of the firm. Mr Quinn's experience encompasses a broad range of industries including banking, high technology plastics, environmental, electronics, wireless, alternative energy, pharmaceutical and medical device industries in US, Europe and Australia. Mr Quinn has advised and mentored numerous companies in operational, strategic and financial matters. As an executive and director he has participated in ASX, AIM, NASDAQ and NYSE initial public offerings and has extensive M&A experience. Since 1992 and until 14 November 2013, Mr Quinn was a director of ResMed, a world leader in the respiratory healthcare market. Mr Quinn also co-founded Memtec, which was acquired by US Filter in 1997 for US$400 million. Mr Quinn is Chairman of the New South Wales Entrepreneurship Centre Ltd. He was appointed as a Director and Chairman of the Company on 19 September 2013.

Simon Wilkinson (57 years)
Managing Director and CEO

Mr Wilkinson was formerly a partner in Christchurch based ODL Capital, the principal New Zealand fundraiser for the Company since 2001. Mr Wilkinson has spent 20 years in finance, banking and business management, after training as an officer in the Royal New Zealand Navy. He was appointed a Director of the Company on 22 November 2004. Mr Wilkinson is also the sole Director of the Group's subsidiary, Innate Immunotherapeutics (NZ) Limited.

Elizabeth Hopkins (B.Sc. (Hons) – 50 years)
Non-Executive Director

Mrs Hopkins trained at Oxford University and holds a First Class Honours degree in Pharmacology. She has spent 20 years successfully commercialising science outcomes and holds several Director positions, including being a Ministerial appointment to the Council of International Accreditation New Zealand. Mrs Hopkins has previously been Deputy Chair of NZBIO and was CEO at Wool Equities/Keratec, CEO at Encoate (a start-up biotech), and Chief Development Officer at NeuronZ. Mrs Hopkins is currently Director, Research and Commercialisation at Lincoln University (Christchurch, NZ). Before moving to New Zealand in 2001, she was with Pfizer's European headquarters for ten years, the last 2 years as a Global Project Manager. Mrs Hopkins was previously a director of the Company from 1 June 2009 until 19 September 2013 and was reappointed as a Director on 17 October 2013.

Christopher Collins (B.Sc., MBA – 63 years)
Non-Executive Director

Mr Collins has over 30 years of experience in business management. He founded Nuttall Gear Corporation (New York), which was subsequently acquired by Altra Holdings (NASDAQ: AIMC). Mr Collins has helped acquire, manage and make profitable 17 companies across a range of industries. He recently completed a 4 year term as the elected County Executive of Erie County in Western New York State and is now the Congressman for the 27th Congressional District of New York. Mr Collins resides in Clarence, New York. He was appointed a Director on 20 February 2006.

Andrew Sneddon (BEcon, CA – 57 years)
Non-Executive Director

Mr Sneddon is a former partner of PricewaterhouseCoopers (PwC). In his PwC role, he led the Life Sciences Practise and specialised in fast growth and emerging technology companies working with many companies from start-up to successful global corporations. Mr Sneddon has extensive experience in a wide range of technical areas including mergers and acquisitions, business and strategic planning, audit, valuation, capital raising and stock exchange listings on the Australian, NASDAQ and London Stock Exchanges. He has worked across a broad range of industries and is currently a non-executive director at ClearView Wealth Limited and the chairman of Elastagen Pty Ltd, ServiceRocket Inc, InterAcct Solutions Pte Ltd and TGR BioSciences Pty Ltd. Mr Sneddon is also a member of the Audit and Compliance Committees of the Crescent Capital Private Equity Funds. He was appointed as a Director on 19 September 2013.

INFORMATION ON COMPANY SECRETARY

Andrew J. Cooke (LL.B, FGIA – 53 years)
Company Secretary

Mr Cooke has extensive experience in law, corporate finance and is the Company Secretary of a number of ASX listed companies. He is responsible for stock exchange and regulatory compliance as well as general company secretarial requirements.

Mr Cooke was appointed Company Secretary on 11 October 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Group during the financial year was research and development of its lead drug candidate to treat secondary progressive multiple sclerosis (“SPMS”). The Group has completed Phase 1B and 2A trials, which demonstrated that MIS416 appears safe at the doses trialed. In addition, over the past five years, 17 patients with SPMS have been treated with MIS416 under a compassionate use programme, which is permitted under NZ Medicines Act. Under this programme, 14 patients with SPMS have self-reported significant improvement in their MS symptoms after six months or more of treatment.

The Company closed a public offering on 17 December and its shares were officially quoted on the Australian Securities Exchange (the ASX) on 23 December 2013. The $10 million raised in the IPO will principally fund the next stage of clinical trials of MIS416 in patients suffering from SPMS together with ongoing operational costs. The Phase 2B trial will be a placebo controlled, efficacy trial and is due to commence in Australia in the middle of the year.

If Phase 2B trials are successfully completed, which the Group anticipates will occur in late 2015, the Group hopes to be in a position to maximise the value of its technology through a major partnering or acquisition transaction.

There were no other significant changes in the nature of the Group’s principal activity during the financial year.

OPERATING RESULTS

The Group total comprehensive loss after tax for the year ended 31 March 2014 was $4,520,615 (2013: Loss after tax $5,193,915).

DIVIDENDS PAID OR RECOMMENDED

No dividends were paid or declared during the financial year or after reporting date.

Directors' Report

for year ended 31 March 2014

REVIEW OF OPERATIONS

The Group's primary focus during 2013 was to position itself for a successful IPO and admission to the ASX. In parallel with the capital raising activities, production and scientific objectives were advanced, albeit under significant financial constraints during the first nine months.

The science programme, lead by Chief Scientific Officer Gill Webster, PhD, has the twin objectives of further refining the Group's understanding of MIS416 mechanism of action in SPMS as well as identifying new opportunities for the Group's technology. In January, together with collaborators from Victoria University (Wellington, NZ) and the Malaghan Institute (Wellington, NZ), the Group published the results of efficacy and mechanism of action studies in the mouse model of multiple sclerosis. Mechanisms of action studies in SPMS are ongoing with a number of international collaborators greatly assisting this work. The potential to apply the Group's immunomodulating technology to other diseases was further explored during the period with a particular focus on cancer treatment vaccine strategies.

The Group continued to pursue patent protection in major markets for the use of its technology in the areas of multiple sclerosis (MS), cancer, infection, and radiation protection. The granting of the MS patent in the US in late 2012 allowed the Group to request accelerated examination of the same MS claims in Europe under the Patent Prosecution Highway (PPH) program and in February 2014, the European patient office issued a notice of allowance. In March 2014, the Group received notice that its patent application in the EU major markets for the use of MIS416 to treat or prevent acute radiation injury and to also mitigate the toxic effects of cancer related radiotherapy treatment has been granted.

Underpinning all these operations is a continuing sense of urgency and confidence arising out of the Group's compassionate use programme in New Zealand. Under this programme, a small group of patients with either SPMS, or the rarer form of MS – "primary progressive multiple sclerosis" (PPMS), continue to receive MIS416 outside of the strict confines of a clinical trial. The majority of these patients were previously enrolled in the Group's Phase 1B/2A trial, which completed in New Zealand in mid 2012. As there are no approved disease modifying drugs for the ongoing safe effective treatment of SPMS or PPMS, the compassionate use programme enables doctors caring for these patients to access MIS416 notwithstanding the drug has yet to be approved.

FINANCIAL POSITION

The net assets of the Group have increased by $9,741,490 from 31 March 2013.

The main changes in the financial position have resulted from:

- Operating losses during the period; and
- The issue of shares and recapitalisation in association with its initial public offering and ASX listing outlined in the Replacement Prospectus dated 25 November 2013.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the period, the Company migrated its place of incorporation from New Zealand to Australia to better position itself to attract further capital and progress the clinical development of its lead therapeutic programme, drug candidate MIS416 for the treatment of SPMS. During September and in preparation for the migration, two New Zealand resident Directors, Greg Moyle and Liz Hopkins, resigned and two Australian resident directors (Messrs Quinn and Sneddon) were appointed to the Board. The migration was completed on 11 October 2013 when the Company was registered as a company under the Corporations Act 2001 in Victoria. At the Company's Annual Meeting held on 17 October, Liz Hopkins was appointed a Director and a new, ASX compliant, constitution was adopted. The Company now has its registered office in Sydney but at this time continues to maintain a licensed drug manufacturing facility with associated support staff in Auckland, New Zealand. Also at this time, the Company remains a NZ tax resident.

On 19 December 2013 Innate Immunotherapeutics Limited was admitted to the official list of the ASX and its securities were quoted under the symbol "IIL" on 23 December. Prior to admission, the Company issued 50,000,000 new shares at $0.20 each in consideration for the $10 million raised under the IPO. In parallel with the IPO, the Company issued a further 23,384,045 new shares and 5,846,110 share options to convert $4,676,809 of debt held by approximately 245 existing shareholders.

Prior to the IPO, the Company had 99,095,777 shares and 15,352,648 share options on issue. On completion of the IPO and the debt conversion, the Company had 172,479,822 shares and 19,698,758 share options on issue.

In January 2014, in consideration of the recapitalisation of the Company at the values imputed by the IPO and debt conversion, pre-IPO shareholders were issued one Loyalty Right for every three ordinary shares owned pre-IPO. This resulted in 33,031,926 such rights being issued. Subject to the upcoming Phase 2B trial being successful, each Loyalty Right will convert into one free share. These rights are non tradeable.

In late March 2014, the Company incorporated a wholly owned subsidiary company, Innate Immunotherapeutics (NZ) Limited in New Zealand. The NZ subsidiary will be used to apply for and hold the annual license to manufacture medicines issued by the New Zealand Ministry of Health. The License can only be issued to a New Zealand incorporated company and is a legal requirement for the manufacture of drug candidate MIS416.

As at 31 March 2014 the Group had $7,941,752 (2013: 116,933) in cash and cash equivalents and was debt free.

Prior to the end of the financial year the Group committed to the Phase 2B trial. Details of this commitment are outlined in Note 14 of the Consolidated Financial Statements.

There have been no other significant changes in the state of affairs during the 2014 financial year or existing at the time of this report.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 15 April 2014, the Group executed a Works Order in favour of INC Research. Under the Order, INC Research will manage the Phase 2B trial of the Group's drug candidate MIS416.

On 13 May 2014, the Group's subsidiary company, Innate Immunotherapeutics (NZ) Ltd, was issued with a Licence to Manufacture Medicines issued by the New Zealand Ministry of Health. The Licence expires on 9 April 2015. The Company and its New Zealand subsidiary have entered into a Service Agreement dated 1 April 2014 whereby the Company will supply the subsidiary with the required premises, equipment, personnel, materials, and know how to enable the subsidiary to manufacture MIS416 as agent for the Company.

In late May a patent protecting the use of MIS416 to treat and/or prevent infection was granted in the United Stated and in early June, a notice of allowance was received in respect of a similar patent in Japan.

No other matter or circumstance has arisen since the end of the financial year which is not otherwise dealt with in this report or in the Consolidated Financial Statements that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

FUTURE DEVELOPMENTS

The Group's resources are currently fully committed to the clinical development of MIS416 for SPMS and in particular the upcoming Phase 2B trial that is expected to start recruiting patients in June 2014. The Group anticipates that the 90 patients required for the 2B trial will be enrolled by the end of 2014 in which case the clinical phase of the trial will be complete by the end of 2015 and a final Clinical Study Report should be available in the second quarter of 2016. The Group has allowed a budget of up to $6 million to cover all the costs associated with conducting this trial.

ENVIRONMENTAL ISSUES

The Group was in compliance with all the necessary environmental regulations throughout the period and no related issues have arisen since the end of the financial year to the date of this report.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of the Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

REMUNERATION REPORT

The Directors of the Group present the Remuneration Report for non-executive directors, executive directors and other key management personnel ("KMP"), prepared in accordance with the Corporations Act 2001 and the Corporations Regulations 2001 Directors and KMP disclosed in this report.

Name	Position
Non-executive and executive directors – see pages 18 and 19	
Other KPM	
Gill Webster	Chief Scientific Officer (CSO)
Jeff Carter	Chief Financial Officer (CFO)

Role of the Remuneration Committee

The Remuneration Committee is a committee of the Board. Its primary purpose is to:

- Assist the Board in fulfilling its oversight responsibilities relating to the remuneration of officers, directors, and executives of the Company.
- Advise the Board regarding the Company's remuneration philosophies, practices, and procedures.
- Advise the Board regarding key senior management succession planning, including recruiting, hiring, development, and retention, and termination of key senior executives.

The objective of the Committee, currently comprising Directors Mr Collins (chair) and Mr Quinn, is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Company.

Non-executive directors remuneration policy

Fees and payments to non-executive directors reflect the demands, which are made on, and the responsibilities of, the directors. Following the migration of the Company to Australia, and in the absence of an approved (by shareholders) director's fee pool, interim fees were set by the Board. Taking into account the need to conserve cash, the Board approved an annual base fee of $25,000 for the Chairman and $20,000 for the other non-executive directors (which also covers serving on a committee), paid six monthly in arrears. Long term incentives are provided through participation in the Employee Share Option Plan. Mr Collins is prevented by US congressional rules from receiving any cash or equity compensation for being a director of the Company.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. A resolution to set the fee pool limit at $300,000 will be proposed at the Company's next Annual General Meeting.

There are no retirement allowances for non-executive directors, in line with guidance from the ASX Corporate Governance Council on non-executive directors' remuneration. Superannuation contributions to Australian resident non-executive directors are made where required under the Australian superannuation guarantee legislation.

Executive remuneration policy

The Remuneration Committee is responsible for approving remuneration packages applicable to executive directors and other KMP of the Group. The Remuneration Committee is to ensure that the remuneration package properly reflects the person's duties and responsibilities and that the remuneration is competitive in attracting, retaining and motivating people of high quality and standard.

Executive directors of the Group do not receive director's fees and are not currently provided with retirement benefits.

Executive directors and KMP are remunerated primarily by means of cash benefits and may receive cash bonuses based on the achievement of individually set key performance indicators. However the Group's need to preserve cash may result in the cash component of remuneration being insufficient to match that which is offered by other companies to personnel in comparable positions or with similar skill sets. Accordingly the Group may use share options where necessary to mitigate this and to also provide for medium term shareholder and KMP goal alignment.

To enable share options to be included as part of director and KMP remuneration, an Employee Share Option Plan was adopted by on 12 November 2013, the terms of which were summarised in the IPO Replacement Prospectus dated 25 November 2013.

Directors' and other Key Management Personnel Remuneration – 31 March 2014

Details of the nature and amount of each element of the remuneration of each Director and KMP for the year ended 31 March 2014, are shown in the table below:

	Short-term benefits			Post-employment benefits		Long-Term Benefits		
2014	Cash Salary and Fees $	Cash Bonus $	Non-monetary Benefits $	Super-annuation $	Retirement Benefits $	Long Service Leave $	Share based payments $	Total $
Director								
Non-Executive								
Michael Quinn	10,827	–	–	1,001	–	–	98,760	110,588
Christopher Collins	–	–	–	–	–	–	–	–
Andrew Sneddon[1]	9,462	–	–	–	–	–	65,840	75,302
Elizabeth Hopkins[2]	36,161	–	–	–	–	–	65,840	102,001
Gregory Moyle[3]	17,618	–	–	–	–	–	–	17,618
Executive								
Simon Wilkinson[4]	146,365	132,136	–	–	–	–	65,840	344,341
Total Directors	**220,433**	**132,136**	**–**	**1,001**	**–**	**–**	**296,280**	**649,850**
Other KMP								
Gill Webster	150,304	–	–	–	–	–	–	150,304
Jeff Carter[5]	27,875	–	–	–	–	–	–	27,875
Total Other KMP	**178,179**	**–**	**–**	**–**	**–**	**–**	**–**	**178,179**

1. Director's fees of $9,462 were paid to Mr Sneddon's service company, Jalba Consulting Pty Ltd.
2. Consulting fees of $26,951 were paid to Mrs Hopkins' service company, Hopkins Associates, and director's fees of $9,210 were paid to Mrs Hopkins.
3. Consulting fees of $17,618 were paid to Mr Moyle. No director's fees were paid to Mr Moyle and Mr Moyle resigned as a Director on 20 September 2013.
4. Consulting fees of $79,281 were paid to Mr Wilkinson's service company, Dreadnought Management Ltd up to 30 September 2013. Thereafter Mr Wilkinson became a direct employee of the Company and received a salary of $67,084 for the six months to 31 March 2014. Mr Simon Wilkinson became entitled to a bonus payment of $132,136 on completion of a major capital raising under an agreement made with Mr Wilkinson in March 2011. Following the successful IPO, 50% of this bonus ($66,068) was paid to Mr Wilkinson in March 2014 and the remaining 50% was paid to him in April 2014. No director's fees were paid to Mr Wilkinson.
5. Mr Carter commenced as CFO on 17 October 2013 on an 'as required' basis with remuneration paid to Mr Carter's service company, Joblak Pty Ltd.
6. Share based payments have all been in the form of options.

Directors' and other Key Management Personnel Remuneration – 31 March 2013

	Short-term benefits			Post-employment benefits		Long-Term Benefits		
2013	Cash Salary and Fees $	Cash Bonus $	Non-monetary Benefits $	Super-annuation $	Retirement Benefits $	Long Service Leave $	Share based payments[3] $	Total $
Director								
Non-Executive								
Christopher Collins	–	–	–	–	–	–	–	–
Elizabeth Hopkins[1]	39,455	–	–	–	–	–		39,455
Gregory Moyle	–	–	–	–	–	–	7,099	7,099
Executive								
Simon Wilkinson[2]	142,038	–	–	–	–	–	92,284	234,322
Total Directors	**181,493**	**–**	**–**	**–**	**–**	**–**	**99,383**	**280,876**
Other KMP								
Gill Webster	134,640	–	–	–	–	–	7,068	141,708
Total Other KPM	**134,640**	**–**	**–**	–	–	**–**	**7,068**	**141,708**

1. Consulting fees of 39,455 were paid to Mrs Hopkins' service company, Hopkins Associates.
2. Consulting fees of 142,038 were paid to Mr Wilkinson's service company, Dreadnought Management Ltd.
3. Share based payments have all been in the form of options.

The Board set no other performance criteria for KMP during the year to 31 March 2014 and no other bonuses were paid to them.

Options issued as part of remuneration for the year ended 31 March 2014

Options may be issued to executives as part of their remuneration. The options are issued to encourage goal alignment between executives, directors and shareholders. The following options were issued to Directors as part of remuneration during the year.

2014	Date of Issue	Number	Vesting	Strike Price	Expiry	Value $
Director						
Non-Executive						
Michael Quinn[1]	12 Nov 13	1,500,000	Immediate	$0.45	5 Nov 18	98,760
Christopher Collins[1]	–	–	–	–	–	–
Andrew Sneddon[1]	12 Nov 13	1,000,000	Immediate	$0.45	5 Nov 18	65,840
Elizabeth Hopkins	12 Nov 13	1,000,000	Immediate	$0.45	5 Nov 18	65,840
Gregory Moyle	–	–	–	–	–	–
Executive						
Simon Wilkinson	12 Nov 13	1,000,000	Immediate	$0.45	5 Nov 18	65,840
Total Directors		**4,500,000**				**296,280**
Other KMP						
Gill Webster	–	–	–	–	–	–
Jeff Carter	–	–	–	–	–	–
Total Other KMP	**–**	**–**	**–**	**–**	**–**	**–**

1. Directors Mr Quinn, Mr Sneddon, and Mr Collins were issued with options that were not part of remuneration. See Note 9 (Related Parties) to the Financial Statements accompanying this Directors' Report.

The ASX classified these options as restricted securities for a period of 24 months from the date of official quotation of the securities, being from 23 December 2013.

Options issued as part of remuneration for the year ended 31 March 2013

2013	Date of Issue	Number	Vesting	Strike Price	Expiry	Value $
Director						
Non-Executive						
Christopher Collins[1]						
Elizabeth Hopkins						
Gregory Moyle	5 Dec 12	100,000	Immediate	US$0.60	22 Jul 17	$7,099
Executive						
Simon Wilkinson	5 Dec 12	1,300,000	Immediate	US$0.60	22 Jul 17	$92,284
Total Directors		**1,400,000**				**$99,383**
Other KMP						
Gill Webster	1 Dec 12	74,111	50,000	NZ$0.40	1 Feb 16	$6,269
Total Other KPM	**–**	**74,111**	**50,000**	–	–	**–**

1. Mr Collins was issued with options that were not part of remuneration. See Note 9 (Related Parties) to the Financial Statements accompanying this Directors' Report.

The ASX classified these options as restricted securities for a period of 24 months from the date of official quotation of the securities, being from 23 December 2013.

No other options were issued to, or exercised by, directors or other Key Management Personnel during the year to 31 March 2014.

Employment Contracts

Simon Wilkinson – CEO

Prior to 30 September 2013, Mr Wilkinson was employed pursuant to an agreement with the his service company, Dreadnought Management Ltd. As part of the process of migrating the Company's place of incorporation to Australia, and in preparation for the Company's proposed admission to the ASX, the Company and Mr Wilkinson mutually terminated the previous arrangement. Consequently, Mr Wilkinson is presently retained on a month to month basis at the will of the Board. The only terms of the arrangement being that Mr Wilkinson is paid NZ$15,000 per month plus a bonus of NZ$150,000 payable upon the successful IPO capital raising.

Gillian Webster – CSO

On 1 February 2010, the Company entered into an updated employment agreement with Ms Webster, which was amended by a letter agreement dated 2 February 2012. Pursuant to the terms of the Employment Agreement, Ms Webster is paid an annual salary of NZ$170,625 to perform the role of Chief Scientific Officer of the Company. The Employment Agreement provides that any intellectual property rights created, developed or improved by Ms Webster during the performance of her duties under the Employment Agreement vest in the Company and will be transferred and assigned to the Company without further consideration. Either party may terminate the Employment Agreement by the giving of one month's written notice to the other. The Company may terminate the Employment Agreement forthwith (and without compensation) if the employee, among other things:

a. commits any serious or persistent breach of any provision the Employment Agreement;
b. is guilty of any misconduct or neglect in the discharge of her duties;
c. becomes bankrupt or makes any arrangement with her creditors; or
d. is convicted of any criminal offence, other than an offence which in the reasonable opinion of the Chief Executive Officer does not affect Ms Webster's position as an employee of the Company.

In the event of redundancy, the Company may be required to make termination payment based on a sliding scale. Where the employee has been employed by the Company for 3 or more years, the Company must pay 4 weeks' salary, plus an additional week's salary for every complete year of service after the first 2 completed years.

The Employment Agreement contains other customary terms for an employment agreement, including in relation to confidentiality and restricted activities.

Jeff Carter – CFO

On 17 October 2013, the Company entered into a consultancy agreement with Mr Carter's service company, Joblak Pty Ltd. Pursuant to the terms of the Agreement, Mr Carter is paid an hourly rate, on an arms length/commercial basis, to perform the part time role of Chief Financial Officer of the Company. The Agreement was for an initial term expiring 31 March 2014 with a provision to extend past that date if mutually agreed. The arrangement has been extended on a month by month basis.

Non-Executive Directors

There are no contracts in place for non-executive directors as yet.

Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholder wealth, the Board have regard to the following indices in respect of the current financial year and the previous four financial years:

Item	2014	2013	2012	2011	2010
EPS (cents)	(3.81)	(3.56)	(3.42)	(3.64)	(8.77)
Dividends (cents per share)	–	–	–	–	–
Net profit/loss ($000)	(4,495)	(3,388)	(3,256)	(2,442)	(4,066)
Share Price (cents)*	25	N/A	N/A	N/A	N/A

* Note – The Company was admitted to the official list of the ASX on 23 December 2013 and accordingly these comparatives are not available.

OPTIONS

At the date of this report unissued shares of the Group under option are:

Expiry Date	Exercise Price	Number as at 31 March 2014	Number exercised during year ended 31 March 2014	Number exercised post balance date
1 Apr 14	NZD 1.00	200,000	–	–
17 Dec 15	AUD 0.30	5,846,110	–	–
1 Feb 16	NZD 0.20	1,752,648	–	–
22 Jul 17	USD 0.60	1,400,000	–	–
24 Sep 17	USD 0.40	1,250,000	–	–
14 Feb 18	USD 0.40	625,000	–	–
1 May 18	USD 0.40	625,000	–	–
15 Jul 18	USD 0.40	625,000	–	–
19 Sep 18	AUD 0.40	625,000	–	–
5 Nov 18	USD 0.40	2,250,000	–	–
5 Nov 18	AUD 0.45	4,500,000	–	–
		19,698,758	**–**	**–**

The ASX has classified 12,716,946 of the above options as restricted securities for a period of 24 months from the date of official quotation of the securities, being from 23 December 2013.

DIRECTORS' INTERESTS

Particulars of Directors' interests in shares and options as at the date of this report are as follows:

	Ordinary Shares[1]	Options[1]	Loyalty Rights[2]
Michael Quinn	806,062	1,722,349	138,889
Christopher Collins	25,899,139	6,028,953	3,819,445
Andrew Sneddon	254,192	1,188,548	–
Elizabeth Hopkins	–	1,000,000	–
Simon Wilkinson	50,000	2,300,000	33,333
	27,009,393	**12,239,850**	**3,991,667**

1. The ASX classified 9,369,703 of these ordinary shares and all of these options as restricted securities for a period of 24 months from the date of official quotation of the securities, being from 23 December 2013. In addition to the ASX imposed restriction on 9,071,167 shares held by Mr Collins, Mr Collins has provided the Company with written confirmation that he does not intend to deal in the remaining 16,827,972 shares held by him for the same period of 24 months.
2. Simultaneous with the issue of shares under the IPO, existing shareholders were issued 1 free Loyalty Right for every 3 shares held immediately prior to the IPO. A Right can be converted into a free share conditional upon the planned Phase 2B trial of MIS416 being successful. Otherwise, the Rights expire after 36 months. Further details are disclosed in the Group's Replacement Prospectus dated 25 November 2013.

Further information regarding the above interests and net movements throughout the reporting period is disclosed in Note 9 (Related Parties) to the Financial Statements accompanying this Directors' Report.

MEETINGS OF DIRECTORS

During the financial year, meetings of directors (including committee meetings) were held.

	DIRECTORS' MEETINGS		AUDIT COMMITTEE MEETINGS	
Attendances were:	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended
Michael Quinn	4	4	–	–
Simon Wilkinson	5	5	–	–
Elizabeth Hopkins	5	5	1	1
Christopher Collins	5	5	–	–
Andrew Sneddon	4	4	1	1
Greg Moyle	1	1	–	–

AUDIT COMMITTEE

The Group has an Audit Committee. Details of the composition, role and Terms of Reference of the Audit Committee are contained in the Statement of Corporate Governance Practices accompanying this Report and are available on the Company's website at www.innateimmunotherapeutics.com

During the reporting period, the Audit Committee consisted of the following Non-executive, Independent Directors:

Mr Andrew Sneddon (Chairman)

Mrs Elizabeth Hopkins

The Group's lead signing and review External Audit Partner, CEO, CFO and selected consultants attend meetings of the Audit Committee by standing invitation.

Directors' Report

for year ended 31 March 2014

DIRECTORS' AND AUDITORS' INDEMNIFICATION

During or since the end of the financial year the company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

a. The Company entered into Deeds of Indemnity, Insurance and Access, dated 13 September 2013, in favour of directors Quinn and Sneddon, the Australia resident directors who joined the Board prior to the Company's migration to Australia.

b. The Company has paid premiums to insure all directors of the parent entity and officers of the consolidated entity against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

DIRECTORS' BENEFITS

Since 1 April 2013, no director has received or become entitled to receive a benefit because of a contract made by the Company, or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest.

This statement excludes a benefit included in the aggregate amount of remuneration received or due and receivable by directors and shown in the company's accounts, or the fixed salary of a full-time employee of the parent entity, controlled entity, or related body corporate.

NON-AUDIT SERVICES

During the year, the external auditors, Grant Thornton, were engaged to prepare an Investigating Accountant's Report with respect to the historical and proforma financial information presented in the Company's IPO prospectus. They were paid $17,500 for this engagement. Grant Thornton were also engaged to provide tax advice and other accounting services and were paid $21,280 for these services.

AUDIT INDEPENDENCE

The lead auditor has provided the Auditor's Independence Declaration under section 307C of the *Corporations Act 2001* (Cth) for the year ended 31 March 2014 and a copy of this declaration forms part of the Directors' Report.

Signed in accordance with a resolution of the Board of Directors.

Michael A Quinn
CHAIRMAN

Simon Wilkinson
CHIEF EXECUTIVE OFFICER

12 June 2014

Auditor's Independence Declaration

for year ended 31 March 2014

GrantThornton

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Auditor's Independence Declaration
To the Directors of Innate Immunotherapeutics Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Innate Immunotherapeutics Limited for the year ended 31 March 2014, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M. A. Cunningham
Partner - Audit & Assurance

Melbourne, 12 June 2014

Grant Thornton Audit Pty Ltd ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for year ended 31 March 2014

	Notes	Year ended March 2014 $	Year ended March 2013 $
Sales revenue		–	–
Other operating income		28,240	249,259
Gain on modification of derivative financial instruments		–	252,825
Total revenue and other operating income		28,240	502,084
Research and development expenses		(648,138)	(773,394)
Licenses, patents and trademark expenses		(219,193)	(236,528)
General expenses		(205,610)	(192,313)
Administrative expenses		(918,224)	(534,644)
Depreciation & amortisation		(1,474,994)	(1,329,238)
Share based compensation (employee & non-employee)		(622,767)	(213,584)
Operating deficit before financing costs		(4,060,686)	(2,777,617)
Interest income		57,774	3,474
Financial expenses		(492,546)	(614,317)
Net financial expense		(434,772)	(610,843)
Loss before income tax expense		(4,495,458)	(3,388,460)
Income tax expense/(benefit)	12	–	–
Loss after income tax expense/(benefit)		(4,495,458)	(3,388,460)
Other comprehensive income/(loss)			
Exchange differences of foreign exchange translation		(25,157)	(1,805,455)
Income tax (expense)/benefit thereon		–	–
Total comprehensive loss		(4,520,615)	(5,193,915)
Basic and diluted earnings per share (weighted)	21	(3.8)	(3.6)

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

for year ended 31 March 2014

	Notes	Year ended March 2014 $	Year ended March 2013 $
Current assets			
Cash and cash equivalents	3	7,941,752	116,933
Accounts receivable		22,199	14,416
Other current assets		6,884	997
Total current assets		7,970,835	132,346
Non current assets			
Property, plant and equipment	6	161,132	166,658
Intangible assets	5	2,044,242	3,061,665
Total non current assets		2,205,374	3,228,323
Total assets		**10,176,209**	**3,360,669**
Current liabilities			
Accounts payable and accrued liabilities	7	403,731	220,545
Loans from shareholders		–	725,691
Redeemable preference shares	18	–	1,372,692
Convertible notes	17	–	968,167
Embedded derivative	17	–	42,586
Total current liabilities		403,731	3,329,681
Non current liabilities		–	–
Total liabilities		**403,731**	**3,329,681**
Equity			
Paid-in capital	16	110,223,013	96,583,675
Reserves		(927,491)	(1,366,975)
Accumulated losses		(99,523,044)	(95,185,712)
Total equity		**9,772,478**	**30,988**
Total equity and liabilities		**10,176,209**	**3,360,669**

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

for year ended 31 March 2014

	Paid-in Capital $	Other Reserves $	Share Option Reserve $	Foreign Currency Translation $	Accumulated Losses $	Total equity $
Balance at 1 April 2012	96,583,675	556,216	215,973	–	(92,347,874)	5,007,990
(Loss) after income tax for the year	–	–	–	–	(3,388,460)	(3,388,460)
Other comprehensive (loss) after tax	–	–	–	(1,805,455)	–	(1,805,455)
Total comprehensive (loss)	–	–	–	(1,805,455)	(3,388,460)	(5,193,915)
Expired share options	–	–	(3,106)	–	3,106	–
Vested share options	–	–	4,515	–	–	4,515
Issue of share options	–	–	212,398	–	–	212,398
Modification of redeemable preference shares	–	(547,516)	–	–	547,516	–
	–	(547,516)	213,807	–	550,622	216,913
Balance at 31 March 2013	96,583,675	8,700	429,780	(1,805,455)	(95,185,712)	30,988
(Loss) after income tax for the year	–	–	–	–	(4,495,458)	(4,495,458)
Other comprehensive (loss) after tax	–	–	–	(25,157)	–	(25,157)
Total comprehensive (loss)	–	–	–	(25,157)	(4,495,458)	(4,520,615)
Issue of share capital	14,720,691	–	–	–	–	14,720,691
Capital raising & listing costs	(1,081,353)	–	–	–	–	(1,081,353)
Issue of share options	–	–	622,767	–	–	622,767
Expired & exercised share options	–	–	(149,426)	–	149,426	–
Extinguishment of debt	–	(8,700)	–	–	8,700	–
	13,639,338	(8,700)	473,341	–	158,126	14,262,105
Balance at 31 March 2014	110,223,013	–	903,121	(1,830,612)	(99,523,044)	9,772,478

The accompanying notes form part of these financial statements.

Statement of Cash Flows

for year ended 31 March 2014

	Notes	Year ended March 2014 $	Year ended March 2013 $
Cash Flows from Operating Activities			
Dividends received		312	250
Interest received		54,797	3,474
Rent received		27,928	24,080
Grants received		–	223,845
Payments to suppliers		(1,084,795)	(1,537,710)
Payments to employees		(581,490)	(469,559)
Income tax refunded /(paid)		–	863
Interest paid		(21,373)	–
Net cash outflow from operating activities	15	**(1,604,621)**	**(1,754,757)**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(843)	–
Proceeds from sale of property, plant and equipment		–	6,825
Purchase of investments		–	–
Net cash inflow/(outflow) from investing activities		**(843)**	**6,825**
Cash Flows from Financing Activities			
Issue of ordinary shares		10,043,882	–
Capital raising and listing costs		(1,145,712)	–
Loan from shareholders		1,109,454	714,551
Repayment of borrowings		(576,631)	–
Net cash inflow from financing activities		**9,430,993**	**714,551**
Net increase/(decrease) in cash held		7,825,529	(1,033,381)
Foreign exchange effect on cash and cash equivalent balances		(710)	(11,572)
Cash at the beginning of the year		116,933	1,161,887
Cash at the end of the year		**7,941,752**	**116,933**
Cash Balances in the Statement of Financial Position			
Cash and cash equivalents	3	7,941,752	116,933
Closing cash balance		**7,941,752**	**116,933**

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

for year ended 31 March 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation

The financial statements presented are for the entity Innate Immunotherapeutics Limited ("Innate") and its controlled entities as a consolidated entity (the "Group"). Innate is a listed public company, incorporated and domiciled in Australia on 11 October 2013. Innate was formerly a New Zealand domiciled company.

The financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. Compliance with Australian Accounting Standards ensures the consolidated financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS"). Innate is a for profit entity for the purposes of reporting under Australian Accounting Standards.

The financial statements have been prepared on an accruals basis and are based on historical costs and do not take into account changing money values or, except where stated, current valuations of financial assets. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless otherwise stated.

The functional currency of the Group is New Zealand dollars. The presentation currency of the Group is Australian dollars.

In applying Australian Accounting Standards management must make judgement regarding carrying values of assets and liabilities that are not readily apparent from other sources. Assumptions and estimates are based on historical experience and any other factors that are believed reasonable in light of the relevant circumstances. These estimates are reviewed on an ongoing basis and revised in those periods to which the revision directly affects.

All accounting policies are chosen to ensure the resulting financial information satisfies the concepts of relevance and reliability.

The financial statements of the Group have been prepared on a going concern basis. The Group's operations are subject to major risks due primarily to the nature of research development and the commercialisation to be undertaken. The risk factors set out may materially impact the financial performance and position of the Group.

The going concern basis assumes that, if required, future capital raisings will be available to enable the Group to undertake the research, development and commercialisation of its projects and that the subsequent commercialisation of products will be successful. The financial statements take no account of the consequences, if any, of the inability of the Group to obtain adequate funding or of the effects of unsuccessful research, development and commercialisation of the Group's projects. The Group has successfully raised, during the year, additional working capital.

b. Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Group, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 10 Consolidated Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity. In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising with the consolidated entity are eliminated in full.

A list of controlled entities is found in Note 8 of the Financial Statements.

c. Effect of New and Revised Standards

A number of new and revised standards are effective for annual periods beginning on or after 1 July 2013. The only material new standards applying to the Group are AASB10 – Consolidated Financial Statements and AASB 13 – Fair Value Measurement.

AASB 10 – Consolidated Financial Statements

The Group has one wholly owned subsidiary and it's results have been included. The Group has no other investments or joint ventures in which it exercises control as defined under AASB 10 and there is no effect on prior year financials to report.

AASB 13 – Fair Value Measurement

The Group has issued share based compensation in the current and prior years. The fair value of this compensation has been determined as outlined in Note 1(o) below. The Group prepared it's prior year financials using the same fair value principles as those adopted in the current financial year. Hence, there is no effect on the prior year financials to report.

The Group has issued financial instruments in prior years. The fair value of these issues has been determined as outlined in Note 1(t) below. The Group prepared it's prior year financials using the same fair value principles as those that have been required in the current financial year. Hence, there is no effect on the prior year financials to report.

A number of new and revised standards have been issued but are not yet effective. When these standards are adopted for the first time they are unlikely to have any significant impact on the Group (including AASB 9 – Financial Instruments which is effective 1 January 2015).

d. Cash and Cash Equivalents

Cash and cash equivalents comprise of cash on hand, at call deposits with banks or financial institutions, bank bills and investments in money market instruments where it is easily convertible to a known amount of cash and subject to an insignificant risk of change in value.

e. Property, Plant and Equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is calculated on a diminishing value basis to expense the cost of the assets over their estimated useful lives as follows:

Leasehold improvements	4 to 13 years
Plant and equipment	4 to 11 years
Office furniture and fittings	2 to 13 years

Depreciation is charged to profit or loss within the Statement of Profit or Loss and Other Comprehensive Income and disclosed within "administration" expense. The residual value and useful life of property, plant and equipment is reassessed annually.

Repairs and maintenance and gains or losses on sale or disposal of assets are reflected in profit or loss within Statement of Profit or Loss and Other Comprehensive Income as incurred. Major renewals and betterments are capitalised.

f. Foreign Currencies

Transactions denominated in foreign currencies are converted at the exchange rate current at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are converted at exchange rates current at balance date. Foreign exchange gains or losses are included in profit or loss within the Statement of Profit or Loss and Other Comprehensive Income.

g. Research and Development

Research expenses include direct and overhead expenses for drug discovery and research, pre-clinical trials and, more recently, for costs associated with clinical trial activities.

When a project reaches the stage where it is reasonably certain that future expenditure can be recovered through the processes or products produced, development expenditure is recognised as a development asset (other intangible asset).

h. Intangible Assets other than Goodwill

Other intangible assets relate to Intellectual Property acquired for use in research and development activity. The Intellectual Property has a finite life and is measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised in profit or loss within the Statement of Profit or Loss and Other Comprehensive Income on a straight line basis over the estimated useful life from the date available for use as follows:

Intellectual property	15 years

Amortisation is charged to the Statement of Profit or Loss and Other Comprehensive Income and disclosed within Administration expense. The useful life of the intellectual property is reassessed annually.

i. Share Capital

Ordinary shares are classified as equity. Costs associated with the issue of raising capital are recognised in shareholders‘ equity as a reduction of the share proceeds received. Other expenses such as legal fees are charged to profit and loss within the Statement of Profit or Loss and Other Comprehensive Income in the period the expense is incurred.

j. Earnings Per Share

Basic Earnings Per Share

Basic earnings per share is determined by dividing net profit after income tax attributable to shareholders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted Earnings Per Share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

k. Goods & Services Tax

The Statement of Profit or Loss and Other Comprehensive Income and Statement of Cash Flows have been prepared so that all components are presented exclusive of GST. All items in the Statement of Financial Position are presented net of GST, with the exception of receivables and payables, which include GST invoiced.

l. Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss within the Statement of Profit or Loss and Other Comprehensive Income except to the extent that it relates to items recognised directly in Other Comprehensive Income, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

m. Other Income

Other income is recognised to the extent that it is probable that the economic benefit will flow to the Group and the income can be reliably measured. Where amounts are received in respect of future product deliveries, such amounts are deferred until such time as the criteria above for recognition of revenue are met.

The Group’s other income includes R&D grant income, sub-lease rental and other sundry income.

For R&D grant revenue the company recognises it over the period in which the related expenses are incurred. Income from sub-leased property is recognised in the Statement of Profit or Loss and Other Comprehensive Income on a straight line basis over the term of the lease.

n. Statement of Cash Flows

The Statement of Cash Flows has been prepared using the direct approach. Cash and cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, intangible assets and investments.

Financing activities are those that result in changes in the size and composition of the capital structure. Cash is considered to be cash on hand and current accounts and demand deposits in banks, net of bank overdrafts.

Operating activities are all transactions and events that are not investing or financing activities.

o. Share-Based Compensation

The Group operates equity-settled share-based remuneration plans for its employees. None of the Group's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees and directors are rewarded using share-based payments, the fair values of employees' and directors' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are allocated to share capital.

p. Impairment

The Group assesses at each reporting date whether there is objective evidence that an asset or group of assets is impaired. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down and the impairment loss is recognised in profit or loss within the Statement of Profit or Loss and Other Comprehensive Income.

q. Finance Income and Expenses

Finance income

Finance income comprises of interest income. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses

Finance expenses comprised of interest expense on borrowings. All borrowing costs are recognised in profit and loss of Statement of Profit or Loss and Other Comprehensive Income using the effective interest method.

r. Operating Expenses

Operating expenses are recognised in profit or loss within the Statement of Profit or Loss and Other Comprehensive Income upon utilisation of the service or at the date of their origin.

s. Operating Leases

Operating leases are leases whereby the lessor retains substantially all the risks and rewards of ownership. The lease payments are recognised as an expense in the periods the amounts are payable.

t. Financial Instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

For financial instruments traded in active markets, the quoted market prices or dealer price quotations are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing as at balance date.

Financial assets and liabilities are measured subsequently as described below.

Financial assets

For the purpose of subsequent measurement financial assets other than those designated as hedging instruments are classified into one of the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include items that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

The Group does not currently have any financial assets designated into this category.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less impairment allowances.

The Group's cash and cash equivalents and trade and other receivables fall into this category of financial instruments.

Trade and other receivables are considered for impairment when there is objective evidence that the Group will not be able to collect all amounts due according to their original terms of the receivables. If there is objective evidence that impairment exists for individual loans and receivables, the impairment loss is calculated as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows using the original effective interest rate. Receivables with a short duration are not discounted.

Held-to-Maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held to-maturity if the Group has the intention and ability to hold them until maturity.

The Group does not currently have any financial assets designated into this category.

Available-for-Sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

The Group does not currently have any financial assets designated into this category.

Financial liabilities

The Group's financial liabilities include trade and other payables. All financial liabilities are measured subsequently at amortised cost using the effective interest method.

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at fair value through profit or loss.

Derivative financial instruments

At the reporting date the Group did not undertake any form of hedge accounting.

Compound financial instruments

The Group had issued redeemable preference shares that can be ordinary shares at the option of the holder at a NZ$ denominated exercise price. The contractual obligation arising from this embedded derivative is an equity instrument (the contract results in a 'fixed for fixed' exchange as required).

The liability portion is valued initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognised as the difference between the fair value of the instrument as a whole and the fair value of the liability portion. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to their initial recognition, the liability portion is measured at amortised cost using the effective interest method. The equity portion is not re-measured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised against equity, net of any tax benefit.

In parallel with an initial public offering that closed on 13 December 2013, all issued redeemable preference shares were converted into ordinary shares or were paid out by the consolidated entity. Any differences between the carrying value of the liability and the redeemed value were recognised in the loss before income tax in the current year.

Embedded derivatives

The Group had issued convertible notes that could be ordinary shares at the option of the holder at a US$ denominated exercise price. The functional currency was however NZ$ therefore the contractual obligation arising from the embedded derivative is not an equity instrument (due to exchange rate volatilities, the contract does not result in a 'fixed for fixed' exchange as required). As such, the derivative component is a derivative liability.

The contractual obligation arising from the debt obligation under each instrument is a financial liability that should be accounted for on an effective interest basis. The note is effectively presented as the net present value of the cash flows assuming a given market yield being the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognising the components of the instrument separately.

The carrying amount of the equity instrument represented by the option to convert the instrument into ordinary shares is then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole.

The derivative component is recognised as a liability at issue and then again at period end, with any differences recorded as income or expenditure.

In parallel with an initial public offering that closed on 17 December 2013, all issued convertible notes were converted into ordinary shares. Any differences between the carrying value of the liability and the converted value were recognised in the loss before income tax in the current year.

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: Quoted prices in active markets for the same instrument (i.e. without modification or repackaging);

Level 2: Quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data and yield curve information provided by the Group's bankers; and

Level 3: Valuation techniques for which significant inputs are not based on observable market data.

u. Post Employment Benefits and Short Term Employee Benefits

The Group does not provide any post employment benefits. Short term employee benefits are included in current liabilities, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement. There are no long term employee benefits.

v. Segment Reporting

A segment is a component of the Group entity that earns revenues or incurs expenses whose results are regularly reviewed by the chief operating decision makers and for which discrete financial information is prepared. The Group has one business segment, being the biopharmaceutical sector, and the majority of its activities are concentrated in researching and developing a sole asset, being its leading drug candidate. It has established entities in more than one geographical area, however the activities from these entities comparative to the Group are considered immaterial for the purposes of segment reporting.

2. CRITICAL ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 5 – measurement of the recoverable amounts of the intangible assets
- Note 10 – measurement of share-based payments

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	March 2014 $	March 2013 $
Cash at bank (NZD)	5,364	9,705
Cash at bank (AUD)	1,300,613	–
Cash at bank (USD)	4,711	106,862
Demand deposits (NZD)	3,131,064	366
Short term deposits (AUD)	3,500,000	–
	7,941,752	**116,933**

4. OPERATING LOSS

Operating loss from continuing activities is stated after crediting and charging:

	Year ended March 2014 $	Year ended March 2013 $
Crediting:		
Grants received	–	223,845
Interest received	57,774	3,474
Charging:		
Foreign exchange loss	45,438	297
Depreciation – Leasehold improvements	2,752	2,724
– Plant and equipment	28,939	33,322
– Office furniture and fittings	994	1,195
(Profit)/Loss on sale of property, plant and equipment	(234)	(2,266)
Amortisation of intangible assets	1,442,309	1,291,997
Interest expense	403,540	575,737
Rent and leasing expense	126,744	115,097
Employee benefits	669,163	482,123
Loss debt repayment	135,817	–
Share based compensation – employees & directors	536,274	170,490
– non employee	86,493	43,094
Convertible notes derivative (gain)/expense	(46,811)	38,580

5. INTANGIBLE

	March 2014 $	March 2013 $
Intellectual property		
Cost	22,997,647	19,682,094
Accumulated amortisation	(20,953,405)	(16,620,429)
Net intangible assets	**2,044,242**	**3,061,665**

The Group acquired a family of issued and pending patents relating primarily to the Group's former clinical programme in HIV. This specific intellectual property was acquired effective August 2000 through the issue of 6,247,662 ordinary shares of the Group and is recorded at cost, amortised over 15 years on a straight line basis, with a remaining life of 1.3 years. While the HIV clinical programme was abandoned in 2008, part of the originally acquired intellectual property was able to be amended such that a previous divisional patent application in the United States was subsequently granted in 2012. The granted patent (US 8,110,203) protects the use of MIS416 as an adjuvant, which continues to be a potential commercial application for the Group's technology. This issued patent expires 10 October 2017. Patents relating to the Company's current clinical programme and other applications of the Company's current technology, have terms of 20 years from priority dates in 2008 and 2009. (Refer to the Intellectual Property Title Report contained in the Company's Replacement Prospectus dated 25 November 2013).

The ultimate realisation of the carrying value of intellectual property is dependent on the Group successfully developing its biopharmaceutical products so that it generates sufficient cash flows to recover the carrying value of this asset. The key assumptions when assessing whether there are any indications of impairment of the Group's overall intellectual property are as follows:

- The commercial market for drugs being developed by the Group.
- The reasonable cost of goods versus the likely selling prices of those drugs
- The availability of industry partners to assist with commercialisation.
- The preclinical and clinical data generated to date in support of the drug candidates
- The progress and status of the various patent applications
- The time to revenue verses the remaining life of the patents

On the above basis, the Directors believe that the carrying value of the Group's intangible assets has not been impaired.

6. PROPERTY, PLANT & EQUIPMENT

	Leasehold Improvements $	Plant and Equipment $	Office Furniture and Fittings $	Total $
Gross carrying amounts				
Balance at 1 April 2012	93,760	784,359	28,289	906,408
Additions	–	6,714	–	6,714
Disposals	–	(26,348)	–	(26,348)
Balance at 31 March 2013	93,760	764,725	28,289	886,774
Balance at 1 April 2013	93,760	764,725	28,289	886,774
Additions	–	–	895	895
Disposals	–	302	(1,740)	(1,438)
Foreign currency translation	15,794	128,520	4,766	149,080
Balance at 31 March 2014	109,554	893,547	32,210	1,035,311
Depreciation and impairment losses				
Balance at 1 April 2012	64,688	615,758	23,924	704,370
Depreciation for the year	2,724	33,322	1,195	37,241
Disposals	–	(21,495)	–	(21,495)
Balance at 31 March 2013	67,412	627,585	25,119	720,116
Balance at 1 April 2013	67,412	627,585	25,119	720,116
Depreciation for the year	2,752	28,939	994	32,685
Disposals	–	–	(1,586)	(1,586)
Foreign currency translation	11,530	107,241	4,193	122,964
Balance at 31 March 2014	81,694	763,765	28,720	874,179
Carrying amounts				
At 31 March 2013	26,348	137,140	3,170	166,658
At 31 March 2014	27,860	129,782	3,490	161,132

At the reporting date no items of property, plant and equipment were held under finance leases (March 2013 nil).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 2014 $	March 2013 $
Trade accounts payables	89,743	43,658
Employee related payables	146,402	38,207
Other accruals	157,046	138,679
Preference shares unpaid	10,540	–
	403,731	**220,544**

8. SUBSIDIARIES

Entity	Principal Activity	Country of Incorporation	Percentage Owned (%) 2014	2013
Head Entity				
Innate Immunotherapeutics Limited	Research & Development	Australia	N/A	N/A
Subsidiaries of Innate Immunotherapeutics Limited				
Innate Immunotherapeutics (NZ) Limited	Drug Manufacturing	New Zealand	100	N/A

9. RELATED PARTIES

a. Parent Entity

The immediate parent and ultimate controlling party of the Group is Innate Immunotherapeutics Limited. Interests in subsidiaries are set out in Note 8.

b. Key Management Personnel

Details of the nature and amount of each element of the remuneration of each Director and KMP for the year ended 31 March 2014, are shown in the table below:

	Short-term benefits			Post-employment benefits		Long-Term Benefits		
2014	Cash Salary and Fees $	Cash Bonus $	Non-monetary Benefits $	Super-annuation $	Retirement Benefits $	Long Service Leave $	Share based payments[6] $	Total $
Director								
Non-Executive								
Michael Quinn	10,827	–	–	1,001	–	–	98,760	110,588
Christopher Collins	–	–	–	–	–	–	–	–
Andrew Sneddon[1]	9,462	–	–	–	–	–	65,840	75,302
Elizabeth Hopkins[2]	36,161	–	–	–	–	–	65,840	102,001
Gregory Moyle[3]	17,618	–	–	–	–	–	–	17,618
Executive								
Simon Wilkinson[4]	146,365	132,136	–	–	–	–	65,840	344,341
Total Directors	**220,433**	**132,136**	**–**	**1,001**	**–**	**–**	**296,280**	**649,850**
Other KMP								
Gill Webster	150,304	–	–	–	–	–	–	150,304
Jeff Carter[5]	27,875	–	–	–	–	–	–	27,875
Total Other KMP	**178,179**	**–**	**–**	**–**	**–**	**–**	**–**	**178,179**

1. Director's fees of $9,462 were paid to Mr Sneddon's service company, Jalba Consulting Pty Ltd.
2. Consulting fees of $26,951 were paid to Mrs Hopkins' service company, Hopkins Associates, and director's fees of $9,210 were paid to Mrs Hopkins.
3. Consulting fees of $17,618 were paid to Mr Moyle. No directors fees were paid to Mr Moyle and Mr Moyle resigned as a Director on 20 September 2013.
4. Consulting fees of $79,281 were paid to Mr Wilkinson's service company, Dreadnought Management Ltd up to 30 September 2013. Thereafter Mr Wilkinson became a direct employee of the Company and received a salary of $67,084 for the six months to 31 March 2014. Mr Simon Wilkinson became entitled to a bonus payment of $132,136 on completion of a major capital raising under an agreement made with Mr Wilkinson in March 2011. Following the successful IPO, 50% of this bonus ($66,068) was paid to Mr Wilkinson in March 2014 and the remaining 50% was paid to him in April 2014. No directors fees were paid to Mr Wilkinson.
5. Mr Carter commenced as CFO on 17 October 2013 on an 'as required' basis with remuneration paid to Mr Carter's service company, Joblak Pty Ltd.
6. Share based payments have all been in the form of options.

	Short-term benefits			Post-employment benefits		Long-Term Benefits		
2013	Cash Salary and Fees $	Cash Bonus $	Non-monetary Benefits $	Super-annuation $	Retirement Benefits $	Long Service Leave $	Share based payments[3] $	Total $
Director								
Non-Executive								
Christopher Collins	–	–	–	–	–	–	–	–
Elizabeth Hopkins[1]	39,455	–	–	–	–	–		39,455
Gregory Moyle	–	–	–	–	–	–	7,099	7,099
Executive								
Simon Wilkinson[2]	142,038	–	–	–	–	–	92,284	234,322
Total Directors	181,493	–	–	–	–	**–**	**99,383**	**280,876**
Other KMP								
Gill Webster	134,640	–	–	–	–	–	7,068	141,708
Total Other KPM	**134,640**	**–**	**–**	–	–	**–**	**7,068**	**141,708**

1. Consulting fees of 39,455 were paid to Mrs Hopkins' service company, Hopkins Associates.
2. Consulting fees of 142,038 were paid to Mr Wilkinson's service company, Dreadnought Management Ltd.
3. Share based payments have all been in the form of options.

No other performance criteria were set by the Board for KMP during the year to 31 March 2014 and no other bonuses were paid to them.

c. Loans Agreements with Director Christopher Collins

Collins Loan No.1: On 24 September 2012, the Company entered into loan agreement with Mr Collins, which was subsequently amended pursuant to a letter agreement dated 5 November 2013. Under the terms of the agreement and amendment, Collins advanced US$500,000 to the Company at an interest rate of 8% per annum. In addition, Mr Collins was issued with 1,250,000 options (exercisable at US$0.40 on or before 5 November 2018). On 13 December 2013, this loan, together with accrued interest, was converted into new shares under the terms of the Conversion Offer described in the Company's Replacement Prospectus dated 25 November 2013 ("Conversion Offer"). The Conversion Offer provided for outstanding shareholder loans, redeemable preference shares and convertible notes to be converted into new shares at the option of the security holder at $0.20 per share, being the same price per share as offered in the IPO. In addition, security holders received one free attaching option for every 4 new shares subscribed for. On conversion of this loan, Mr Collins received 2,993,573 new ordinary shares and 748,394 share options (exercisable at $0.30 on or before the second anniversary of the date of issue).

Collins Loan No.2: On 3 May 2013, the Company entered into loan agreement with Mr Collins under the terms of which Mr Collins advanced US$250,000 to the Company at an interest rate of 8% per annum. In addition, Mr Collins was issued with 625,000 options (exercisable at US$0.40 on or before 1 May 2018). On 13 December 2013, this loan, together with accrued interest, was converted into new shares under the terms of the Conversion Offer such that Mr Collins received 1,446,788 new ordinary shares and 361,697 share options (exercisable at $0.30 on or before the second anniversary of the date of issue).

Collins Loan No.3: On 10 July 2013, the Company entered into loan agreement with Mr Collins under the terms of which Mr Collins advanced US$250,000 to the Company at an interest rate of 8% per annum. In addition, Mr Collins was issued with 625,000 options (exercisable at US$0.40 on or before 15 July 2018). On 13 December 2013, this loan, together with accrued interest was converted into new shares under the terms of the Conversion Offer such that Mr Collins received 1,426,297 new ordinary share and 356,575 share options (exercisable at $0.30 on or before the second anniversary of the date of issue).

Collins Additional Facility: Under a Letter Agreement dated 5 November 2013, Mr Collins agreed to make available to the Company, if needed, an additional loan facility of US$300,000 at an interest rate of 8% per annum. In consideration for making the Additional Facility available, the Company agreed to issue Mr Collins a further 1,000,000 options exercisable at US$0.40 on or before the fifth anniversary of the date of issue. The facility was drawn down in full and $334,377, inclusive of interest, was repaid to Mr Collins following the close of the IPO.

d. Convertible Notes held by Director Christopher Collins

On 1 February 2009, the Company entered into a convertible note with Mr Collins, the keys terms of which were as follows:

i. Principal Amount: US$225,000;
ii. Interest Rate: 8% per annum;
iii. Due Date: originally, the due date was 1 February 2013. However, the Company and Mr Collins agreed to extend this to 13 December 2013.

On 13 December 2013, these Notes, together with accrued interest were converted into new shares under the terms of the Conversion Offer such that Mr Collins received 1,749,147 new ordinary shares and 437,287 share options (exercisable at $0.30 on or before the second anniversary of the date of issue).

e. Loan Agreement with Kaylara, a party related to Director Michael Quinn

On 19 September 2013, the Company entered into a loan agreement with Kaylara Pty Ltd <Straflo Superannuation Fund> (Kaylara), a company of which Mr Quinn is a director. Under the terms of the agreement, Kaylara advanced $50,000 to the Company at an interest rate of 8% per annum. In addition, Kaylara was issued with 125,000 options (exercisable at $0.40 on or before 19 September 2018). On 13 December 2013, this loan, together with accrued interest was converted into new shares under the terms of the Conversion Offer such that Kaylara received 254,192 new ordinary shares and 63,548 share options (exercisable at $0.30 on or before the second anniversary of the date of issue).

f. Convertible Notes held by Director Michael Quinn

On 1 August 2009, the Company entered into a convertible note with Mr Quinn, the key terms of which were as follows:

i. Principal Amount: US$18,000;
ii. Interest Rate: 8% per annum;
iii. Due Date: originally, the due date was 1 February 2013. However, the Company and Mr Quinn agreed to extend this to 13 December 2013.

On 13 December 2013, these Notes, together with accrued interest were converted into new shares under the terms of the Conversion Offer such that Mr Quinn received 135,203 new ordinary shares and 33,801 share options (exercisable at $0.30 on or before the second anniversary of the date of issue).

g. Loan Agreement with the Sneddon Family Trust, a party related to Director Andrew Sneddon

On 19 September 2013, the Company entered into a loan agreement with Andrew Sneddon and Judy Sneddon <The Sneddon Family Trust A/C>. Under the terms of the agreement, the Trust advanced the Company A$50,000 at an interest rate of 8% per annum. In addition, the Trust was issued with 125,000 options (exercisable at $0.40 on or before 19 September 2018). On 13 December 2013, this loan, together with accrued interest was converted into new shares under the terms of the Conversion Offer such that the Trust received 254,192 new ordinary shares and 63,548 share options (exercisable at $0.30 on or before the second anniversary of the date of issue).

h. Key Management Personnel Equity Holdings

i. Options provided as remuneration and shares issued on the exercise of such options are outlined below. The terms and conditions of the options issued during the year can be found in the Directors Report (Options issued as part of remuneration for the year ended 31 March 2014).
ii. The number of unlisted options over ordinary shares in the company held by each director of the company and other key management personnel (including related parties) of the Group are set out below. All options that are vested are exercisable.

2014 – Options	Balance at start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year*	Balance at the end of the year	Vested and exercisable at year end
Directors						
Non-Executive						
Michael Quinn[1]	–	1,500,000	–	222,349	1,722,349	1,722,349
Christopher Collins[2]	1,250,000	–	–	4,778,953	6,028,953	6,028,953
Andrew Sneddon[3]	–	1,000,000	–	188,548	1,188,548	1,188,548
Elizabeth Hopkins	–	1,000,000	–	–	1,000,000	1,000,000
Greg Moyle (resigned 20/9/13)	100,000	–	–	(100,000)	–	–
Executive						
Simon Wilkinson	1,300,000	1,000,000	–	–	2,300,000	2,300,000
Total Directors	**2,650,000**	**4,500,000**	**–**	**5,089,850**	**12,239,850**	**12,239,850**
Other KMP						
Gill Webster	816,759	–	–	–	816,759	816,759
Jeff Carter	–	–	–	–	–	–
Total Other KMP	**816,759**	**–**	**–**	**–**	**816,759**	**816,759**

*Includes removal from table at date person resigned

1. Mr Quinn's related party, Kaylara Pty Ltd, received 125,000 options in part consideration for advancing a loan to the Company. The options are exercisable at $0.40 on or before the fifth anniversary of the dates of issue Mr Quinn received 33,801 options in part consideration for converting the note held by him. Kaylara Pty Ltd received 63,548 options in part consideration for converting the loan advanced by Kaylara Pty Ltd to the Company. All conversion options were issued pursuant to the Conversion Offer and are exercisable at $0.30 on or before 13 December 2015.
2. Mr Collins received 2,875,000 options in part consideration for advancing loans to the Company. The options are exercisable at US$0.40 on or before the fifth anniversary of the dates of issue. Mr Collins received 437,287 options in part consideration for converting the note held by him. Mr Collins also received 1,466,666 options in part consideration for converting the loans advanced by him to the Company. The options issued pursuant to the Conversion Offer and are exercisable at $0.30 on or before 13 December 2015.
3. Mr Sneddon's related party, the Sneddon Family Trust, received 125,000 options in part consideration for advancing a loan to the Company. The options are exercisable at $0.40 on or before the fifth anniversary of the dates of issue. The Sneddon Family Trust received 63,548 options in part consideration for converting the loan advanced by the Trust to the Company. The options were issued pursuant to the Conversion Offer and are exercisable at $0.30 on or before 13 December 2015.

2013 – Options	Balance at start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year*	Balance at the end of the year	Vested and exercisable at year end
Directors						
Non-Executive						
Christopher Collins	–	–	–	1,250,000	1,250,000	1,250,000
Elizabeth Hopkins	–	–	–	–	–	–
Greg Moyle	–	100,000	–	–	100,000	100,000
Executive						
Simon Wilkinson	–	1,300,000	–	–	1,300,000	1,300,000
Total Directors	**–**	**1,400,000**	**–**	**1,250,000**	**2,650,000**	**2,650,000**
Other KMP						
Gill Webster	742,648	74,111	–	–	816,759	669,815
Total Other KMP	**742,648**	**74,111**	**–**	**–**	**816,759**	**669,815**

iii. The number of shares in the Company held by each director of the company and other key management personnel (including personally related parties) of the Group are set out below:

2014 – Shares	Balance at start of the year	Granted during the year as compensation	Received during the year upon exercise of options	Other changes during the year*	Balance at the end of the year
Directors					
Non-Executive					
Michael Quinn[1]	416,667	–	–	389,395	806,062
Christopher Collins[2]	11,458,334	–	–	14,440,805	25,899,139
Andrew Sneddon[3]	–	–	–	254,192	254,192
Elizabeth Hopkins	–	–	–	–	–
Greg Moyle (resigned 20/9/13)	590,929	–	–	(590,929)	–
Executive					
Simon Wilkinson	50,000	–	–	–	50,000
Total Directors	**12,515,930**	**–**	**–**	**14,493,463**	**27,009,393**
Other KMP					
Gill Webster	–	–	–	–	–
Jeff Carter	–	–	–	–	–
Total Other KMP	**–**	**–**	**–**	**–**	**–**

*Includes removal from table at date person resigned

1. Mr Quinn received 135,203 shares in part consideration for converting the note held by him. Mr Quinn's related party, Kaylara Pty Ltd, received 254,192 shares in part consideration for converting the loan advanced by Kaylara Pty Ltd to the Company. All shares were issued pursuant to the Conversion Offer.
2. Mr Collins received 1,749,147 shares in part consideration for converting the note held by him. Mr Collins also received 5,866,658 shares in part consideration for converting the loans advanced by him to the Company. All shares were issued pursuant to the Conversion Offer. Mr Collins also purchased 6,825,000 shares in the IPO.
3. Mr Sneddon's related party, the Sneddon Family Trust, received 254,192 shares in part consideration for converting the loan advanced by the Sneddon Family Trust to the Company. The shares were issued pursuant to the Conversion Offer.

2013 – Shares	Balance at start of the year	Granted during the year as compensation	Received during the year upon exercise of options	Other changes during the year*	Balance at the end of the year
Directors					
Non-Executive					
Christopher Collins[2]	11,458,334	–	–	–	11,458,334
Elizabeth Hopkins	–	–	–	–	–
Greg Moyle	590,929	–	–		590,929
Executive					
Simon Wilkinson	50,000	–	–	–	50,000
Total Directors	**12,099,263**	**–**	**–**	**–**	**12,099,263**
Other KMP					
Gill Webster	–	–	–	–	–
Total Other KMP	**–**	**–**	**–**	**–**	**–**

iv. As part of the IPO, loyalty rights were issued to those individuals and entities who were shareholders of the Company immediately prior to the IPO on the basis of one loyalty right for every three ordinary shares held prior to the IPO. The number of loyalty rights in the Company held by each director of the company and other key management personnel (including personally related parties) of the Group are set out below. There were no loyalty rights in 2013.

2014 – Loyalty rights	Granted during the year	Balance at the end of the year
Directors		
Non-Executive		
Michael Quinn	138,889	138,889
Christopher Collins	3,819,445	3,819,445
Andrew Sneddon	–	–
Elizabeth Hopkins	–	–
Greg Moyle (resigned 20/9/13)	–	–
Executive		
Simon Wilkinson	33,333	33,333
Total Directors	**3,991,667**	**3,991,667**
Other KMP		
Gill Webster	–	–
Jeff Carter	–	–
Total Other KMP	**–**	**–**

i. Loans to Directors and Other Key Management Personnel

There were no loans to any directors of the Company or other key management personnel of the Group during the financial year ended 31 March 2014.

j. Other Transactions with Directors and Other Key Management Personnel

Consulting fees of $17,618 were paid to Director, Mr Moyle to investigate and evaluate capital raising opportunities in New Zealand prior to the Company's decision to migrate to Australia.

There were no other transactions with directors of the Company or other key management personnel of the Group during the financial year.

10. SHARE BASED COMPENSATION

On 25 January 2001, the Company established the employee share option plan (the "2001 Employee Plan"). The 2001 Employee Plan was replaced on 12 November 2013 with a new employee plan (the "2013 Employee Plan"). Under the terms of the 2013 Employee Plan, the Board nominates participants in the Employee Plan and in respect of each nomination the Board determines the number of options and exercise prices (which shall not be below the share price on the date of the grant). The Employee Plan establishes an Option Limit which is equal to 10% of the diluted ordinary share capital of the Company as at the date of issue.

Options granted are cancelled if not exercised within one month of the termination of the grantee's employment or association with the Company, except in certain situations such as death or disability, or at the discretion of the Board. All options are exercisable into ordinary shares on a one for one basis.

The fair value of options granted is estimated using the Black-Scholes option-pricing model. Unless otherwise stated, all categories of options adopt the same model as follows:

March 2014	Employees[1]	Directors
Share price	n/a	$0.20
Exercise price	n/a	$0.45–$0.48
Expected volatility	n/a	80%
Option lives (at issue)	n/a	5 years
Expected dividend yield	n/a	0%
Risk free interest rate	n/a	2.69%–4.30%

March 2013	Employees	Directors
Share price	NZ$0.10–NZ$0.30	$0.30
Exercise price	NZ$0.20–NZ$1.00	NZ$0.48–NZ$0.73
Expected volatility	80%	80%
Option lives (at issue)	5 years	4.6–5 years
Expected dividend yield	0%	0%
Risk free interest rate	2.60%–4.52%	2.84%–2.92%

1. There were no options granted to employees during the year ended 31 March 2014.

	March 2014		March 2013	
	Number of options	Weighted Average Exercise price	Number of options	Weighted Average Exercise price
Employee Options				
Share options on issue at start of year	1,471,759	NZ$0.31	1,752,648	NZ$0.35
Share options granted	–	–	244,111	NZ$0.20
Share options transferred	–	–	(280,889)	NZ$0.20
Share options exercised	–	–	–	–
Share options forfeited	–	–	–	–
Share options expired	–	–	(244,111)	NZ$0.20
Share options on issue at end of period	1,471,759	NZ$0.31	1,471,759	NZ$0.38
Share options exercisable at end of period	1,456,759	NZ$0.31	1,122,081	NZ$0.36
Weighted average remaining contractual life (years)		1.6yrs		2.8yrs
Directors Options				
Share options on issue at start of year	1,400,000	US$0.60	–	$0.00
Share options transferred (non-employee)	(100,000)	US$0.60	–	$0.00
Share options granted	4,500,000	$0.45	1,400,000	US$0.60
Share options forfeited	–	$0.00	–	$0.00
Share options exercised	–	$0.00	–	$0.00
Share options expired	–	$0.00	–	$0.00
Share options on issue at end of period	5,800,000	$0.50	1,400,000	US$0.60
Share options exercisable at end of period	5,800,000	$0.50	1,400,000	US$0.60
Weighted average remaining contractual life (years)		4.2yrs		4.7yrs

The above details relate to share based compensation granted to employees and directors. Share based compensation granted as consideration for loans by directors, which were granted to them in their capacity as financiers, are separately included within the Financing Options table below.

Share based compensation granted as part of financing arrangements was:

	March 2014		March 2013	
	Number of options	Weighted Average Exercise price	Number of options	Weighted Average Exercise price
Financing Options				
Share options on issue at start of year	6,449,264	$0.14	4,574,264	NZ$0.05
Share options granted	4,125,000	$0.42	1,875,000	US$0.40
Share options transferred	100,000	US$0.60	–	–
Share options exercised	(4,000,000)	US$0.01	–	–
Share options expired	(93,375)	NZ$1.00	–	–
Share options on issue at end of period	6,580,889	$0.43	6,449,264	NZ$0.18
Share options exercisable at end of period	6,580,889	$0.43	6,449,264	NZ$0.18
Weighted average remaining contractual life (years)		4.0		3.0

11. SEGMENT INFORMATION

The Group operates predominantly in one industry segment, being the research and development of drugs based on the Group's patented platform technology. Clinical trialing activity in support of the Group's drug R&D previously took place in New Zealand but subsequent to the migration of place of incorporation to Australia, will be conducted in Australia. Preclinical R&D, drug manufacturing, and day to day administration are carried out in New Zealand.

	March 2014		March 2013	
	Revenue $	Non-current Assets $	Revenue $	Non-current Assets $
Australia	–	–	–	–
New Zealand	28,240	2,205,374	502,084	3,228,323
	28,240	2,205,374	502,084	3,228,323

Revenue in 2013 included grants received of $223,845 and a gain on modification of derivative financial instruments of $252,825. There were no similar revenue items in 2014.

12. PROVISION FOR INCOME TAX

In assessing the reliability of deferred tax assets, management considers whether it is probable that all of the deferred tax asset will be realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable income and compliance with continuity of ownership requirements.

Based upon the level of projections for future taxable income over the periods in which the temporary differences are available to reduce income taxes payable, and uncertainties over continuity of ownership having regard to the Company's recent equity raising, management has established a valuation provision for the full amount of the deferred tax assets related to the net operating loss carried forward.

The Company has continued it's operations in New Zealand and has maintained it's branch residency in New Zealand for tax purposes. As outlined in Note 1, the Group has maintained it's functional currency in New Zealand dollars but has presented it's financial position and results in Australian dollars. The statutory tax rate in New Zealand is 28% (2013: 28%).

The provision for income taxes for continuing operations differs from the amount computed by applying the statutory rates to the Company's earnings from continuing operations before taxes as a result of the following differences:

	Year ended March 2014 $	Year ended March 2013 $
Loss before taxation	(4,495,458)	(3,388,460)
Provision for income taxes at statutory rates	(1,258,728)	(948,769)
Tax effect of permanent differences		
Amortisation of intellectual property	403,847	361,759
Share based compensation	174,375	58,804
Other non-deductible/(non-assessable) items	112,641	(39,470)
Unrecognised tax losses	567,865	567,676
Income tax expense	–	–

The tax effect of temporary differences that give rise to deferred tax assets and liabilities are as follows:

	Year ended March 2014 $	Year ended March 2013 $
Current assets:		
Provision for holiday pay	17,214	10,698
Provision for site restoration	5,244	4,488
Other accruals	23,555	3,253
Deferred research and development costs	615,344	361,530
Non-current assets:		
Intellectual property	1,769,543	1,471,818
Net operating loss to carry forward	1,389,413	2,972,738
Total deferred tax assets at 28%	3,820,313	4,824,525
Deferred tax not recognised	(3,820,313)	(4,824,525)
Net deferred tax asset	–	–

13. OPERATING LEASES

Minimum non-cancellable lease payments are as follows:

	March 2014 $	March 2013 $
Within one year	49,101	106,020
One-two years	–	25,853
Two-five years	–	–
	49,101	131,873

One property is 25% sub-leased for the same period as the original lease with the landlords. The minimum stream of rental income from this sub-lease is as follows:

	March 2014 $	March 2013 $
Within one year	10,081	24,456
One-two years	–	8,152
	10,081	32,608

14. COMMITMENTS AND CONTINGENT LIABILITIES

Contingent Liabilities – Royalties

In conjunction with the acquisition of the intellectual property, the Group granted the vendors royalties from the future net revenues which may be derived from the use of the intellectual property. The royalty agreements have a term of 20 years commencing August 2000, and the royalties, which are payable quarterly, amount to 6% (March 2013: 6%) of net revenues to a maximum aggregate royalty of US$100 million (March 2013: US$100 million) payable quarterly. Of the total 6% total royalties, 1.75% expires August 2020, 1% expires September 2020 and 3.25% expires August 2022.

Clinical Trial

The Group has entered into a master services agreement with INC Research in relation to the provision of clinical research and related services, more specifically the management of the Group's planned Phase 2B trial of MIS416 in patients with SPMS. Subsequent to the end of the Financial Year, the Group executed a Works Order in favour of INC Research whereby the estimated cost of the services to be provided directly by INC Research will be approximately $1,600,000. In the event that the trial is terminated prior to completion, INC Research is entitled to a cancellation fee of 5% of the remainder professional fees provided for in the Works Order.

Collaborations

The Group has not entered into any formal collaborative arrangements that give rise to significant contingencies or capital commitments as at 31 March 2014 (March 2013: Nil).

15. RECONCILIATION OF NET DEFICIT AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES

	March 2014 $	March 2013 $
Net Deficit after Tax	(4,495,458)	(3,388,460)
Non Cash Items:		
Depreciation	32,685	37,241
Amortisation of intangibles	1,442,309	1,291,997
Foreign exchange	45,438	297
Gain on modification of financial instruments	–	(252,825)
Movement in convertible notes and RPS	420,626	561,896
Loss on repayment of convertible notes and RPS	135,817	–
(Gain)/Loss on sale of assets	(234)	(2,265)
Share based compensation	622,767	213,584
Non cash shareholder loan interest	74,381	–
Changes in Working Capital:		
Accounts receivable and prepayments	(5,038)	24,664
Accounts payable and accruals	127,465	(251,526)
Income taxes payable/(receivable)	(5,379)	10,640
Net Cash Outflow From Operating Activities	(1,604,621)	(1,754,757)

16. SHAREHOLDERS' EQUITY

Ordinary Shares

At 31 March 2014, 172,479,822 ordinary shares (March 2013: 95,095,777) were issued and fully paid. All ordinary shares rank equally as to voting, dividends and liquidation. There are no reserved shares of the Group. The shares have no par value.

	March 2014		March 2013	
	No. of shares	$	No. of shares	$
At start of the period	95,095,777	96,583,675	95,095,777	96,583,675
Shares issued (net of share issue costs)	77,384,045	13,639,338	–	–
At end of period	172,479,822	110,223,013	95,095,777	96,583,675

Shares Issued

During the year, 77,384,045 new shares were issued in total (March 2013: Nil shares). Of this total, 4,000,000 shares were issued upon the exercise of 4,000,000 share options, 50,000,000 shares were issued under the Initial Public Offering, and 23,384,045 shares were issued to convert debt under the Conversion Offer.

Options

The Company has on issue 19,698,758 share options to employees, directors and non-employees as at 31 March 2014 (March 2013: 10,821,023).

Share Based Compensation

The movement in fair value of employee, director and non-employee share options of $622,767 corresponds with the amount recorded in expenses during the period (March 2013: $213,584) and represents the fair value of vested and issued options.

Loyalty Rights Issued

As part of the IPO, 33,031,926 loyalty rights were issued to those individuals and entities who were shareholders of the Company immediately prior to the IPO on the basis of one loyalty right for every three ordinary shares held prior to the IPO. The loyalty rights will vest if the Company receives the final clinical study report relating to the Company's Phase 2B trial of its drug candidate in patients with SPMS and concludes that the drug is safe, reasonably well tolerated (or better), and recommends that the drug be further investigated in Phase 3 trial. The Company, in its sole discretion, will determine if the vesting condition has been satisfied. Each vested loyalty right has an exercise price of nil and can be converted into one ordinary share. The loyalty rights are not transferrable and expire on 19 December 2016.

Share Option Reserve

The share option reserve is used to record the fair value of options as at each balance sheet date. The values of options are transferred between equity components as they vest.

Other Reserves

Other reserves are used to record the value of compound financial instruments valued as the time of issue.

Foreign Currency Translation Reserve

The foreign currency translation reserve is used to allow for translation differences on conversion from the functional currency to the presentational currency.

17. CONVERTIBLE NOTES

	March 2014 $	March 2013 $
At amortised cost	–	968,167
Embedded derivative component	–	42,586
Issued convertible notes	–	1,010,753
Current		
At amortised cost	–	968,167
Embedded derivative component	–	42,586
Total current	–	1,010,753
Non-current		
At amortised cost	–	–
Embedded derivative component	–	–
Total non-current	–	–

No convertible notes have been issued during the year (March 2013: nil).

During the year, all Noteholders agreed to convert their Notes to equity on terms and conditions contained in the Conversion Offer (Replacement Prospectus dated 25 November 2013). All Notes were converted in full on 13 December 2013.

18. REDEEMABLE PREFERENCE SHARES

	March 2014 $	March 2013 $
At amortised cost	–	1,372,692
Issued redeemable preference shares	–	1,372,692

During the year, an offer was made to the Redeemable Preference Share (RPS) holders to convert their RPS to equity on terms and conditions contained in the Conversion Offer (Replacement Prospectus dated 25 November 2013). On 13 December 2013, 219 RPS holders converted the amount of $1,580,540.62 owed to them into equity. The remaining 18 RPS holders were repaid $247,204.04. At 31 March 2014, $10,540 of this RPS repayment amount had not been paid due to a small number of RPS holders not being contactable.

19. FINANCIAL INSTRUMENTS

Categories of financial instruments, including fair value of financial instruments.

The classification of each class of financial assets and liabilities, and their fair values are as follows:

	March 2014		March 2013	
	Carrying Amounts $	Fair Value $	Carrying Amounts $	Fair Value $
Non derivative financial assets				
Loans and Receivables				
i. Cash and cash equivalents	7,941,751	7,941,751	116,933	116,933
ii. Accounts receivable	22,199	22,199	14,416	14,416
iii. Other receivables	–	–	–	–
Non derivative financial liabilities				
At Amortised Cost				
i. Accounts payable and accrued liabilities	403,731	403,731	220,544	220,544
ii. Loans from shareholders	–	–	725,691	725,691
Derivative financial liabilities				
iii. Redeemable preference shares	–	–	1,372,692	1,372,692
iv. Convertible notes (Level 3)	–	–	1,010,753	1,010,753

Notes to the Financial Statements

for year ended 31 March 2014

Financial Risks

The financial risks associated with the Group's financial assets and liabilities include credit risk, interest rate risk, liquidity risk and currency risk.

Credit Risk – Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, investments, loans and receivables. The maximum credit risk is the face value of these financial instruments. However, the Group considers the risk of non-recovery of these accounts to be minimal.

Maximum Risk Exposure – The maximum credit risk exposures are the carrying amounts of the financial assets and financial liabilities listed under the "Categories of Financial Instruments, including Fair Value of Financial Instruments" table. No financial assets are either past due or impaired. There are no collateral and other credit enhancements for the financial assets.

Currency Risk – Currency risk is the risk of loss to the Group arising from adverse changes in foreign exchange rates. The Group now has an Australian dollar presentation currency and is exposed to currency risk in respect of amounts held in foreign currency bank accounts and demand deposits. At 31 March 2014 the Group held NZ$3,349,451 in such accounts and deposits. Should exchange rates strengthen by 10% this would have an impact of A$285,000.

Interest Rate Risk – Interest rate risk is the risk of loss to the Company arising from adverse changes in interest rates. The Group has no interest bearing debt and is only exposed to interest rate risk in respect of amounts held in bank current accounts and demand deposits. At 31 March 2014, the Group held $6,631,065 in such accounts and deposits. A 50 basis points (0.5%) decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. For each interest rate movement of 50 basis points lower, assuming all other variables were held constant, the Group's loss for the year would increase by $33,000.

Liquidity Risk – Liquidity risk is the risk that the Group will encounter difficulty in raising funds at short notice to meet commitments associated with financial instruments. The Group's non-derivative and derivative financial liabilities have contractual maturities as summarised below:

	Carrying amount	Contractual cash flows	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
2014 March						
Accounts payable and accrued liabilities	403,731	403,731	403,731	–	–	–
	403,731	**403,731**	**403,731**	**–**	**–**	**–**
2013 March						
Accounts payable and accrued liabilities	220,545	220,545	220,545			
Redeemable preference shares	1,372,692	1,372,692	1,372,692	–	–	–
Loan shareholders	725,691	725,691	725,691	–	–	–
Convertible notes	968,167	968,167	968,167			
Embedded derivatives	42,586	42,586	42,586	–	–	–
	3,329,681	**3,329,681**	**3,329,681**			

On 13 December 2013, all redeemable preferences shares, convertible notes and loans from shareholders were either converted into company shares or were fully repaid. As at 31 March 2014 the Group had no such liabilities other than $10,540 of unpaid RPS due to holders not being contactable and accordingly liquidity risk is minimal.

20. AUDITORS REMUNERATION

	March 2014 $	March 2013 $
Audit and review of financial statements		
Grant Thornton – Australia	33,000	–
Overseas Grant Thornton network firms	9,205	31,169
Remuneration for audit and review of financial statements	**42,205**	**31,169**
Other Services		
Grant Thornton Australia		
Consultancy and advice IPO – Australia	17,500	–
Overseas Grant Thornton network firms		
Accounting services	8,864	–
Taxation compliance	12,416	6,838
Total other service remuneration	**38,780**	**6,838**
Total auditor's remuneration	**80,985**	**38,007**

21. EARNINGS PER SHARE

Both basic and diluted earnings per share ("EPS") have been calculated in accordance with paragraph 9 and 18 of AASB 133 using the loss attributable to shareholders of the Group as the numerator (i.e. no adjustments to loss were necessary in 2013 or 2014).

The weighted average number of shares for both basic and diluted EPS in 2014 was 117,917,680 (2013: 95,095,777).

Options and loyalty rights have not been included in the weighted average number of ordinary shares outstanding for the purpose of calculating diluted EPS as they do not meet the requirements for inclusion under AASB 133. Options and loyalty rights are non-dilutive as the Group result was a loss.

	March 2014 $	March 2013 $
Basic EPS – cents	(3.8)	(3.6)
Diluted EPS – cents	(3.8)	(3.6)

22. CAPITAL MANAGEMENT

When managing capital, management's objective is to ensure that the Group has sufficient cash to continue as a going concern. Until such time as the Group produces revenues from sales or out-licensing, cash principally comes from the issue of new securities to new and/or existing shareholders.

When pricing such new share issues, the Board takes into account multiple factors including:

- Market conditions for high risk investments;
- Estimation of current market value of the Group's IP;
- The dilution effect of new issues on existing shareholders; and
- Whether or not the new issue is restricted to existing shareholders.

On 19 December 2013, the Group issued 73,384,045 new shares to raise capital and repay all redeemable preference shares, convertible notes and loans from shareholders. As at 31 March 2014 the Group had $7,941,752 in cash and cash equivalents The Group estimates that approximately $6,000,000 million will be required to conduct a Phase 2B clinical trial of MIS416 and that approximately $4,300,000 will be required to provide for operational expenses over the next two years. The Group expects that in excess of $2,610,000 should be received as a rebate on the research and development in relation to the Phase 2B trial of MIS416 and this will also be used to part fund the Phase 2B clinical trial and operational expenses.

Management has no plans to pay a dividend to the holders of ordinary shares until, at the earliest, such time as the Company produces internally generated revenues.

The Group is not subject to externally imposed capital requirements.

23. SUBSEQUENT EVENTS

On 15 April 2014, the Group executed a Works Order in favour of INC Research. Under the Order, INC Research will manage the Phase 2B trial of the Group's drug candidate MIS416.

On 13 May 2014, the Group's subsidiary company, Innate Immunotherapeutics (NZ) Ltd, was issued with a Licence to Manufacture Medicines issued by the New Zealand Ministry of Health. The Licence expires on 9 April 2015. The Company and its New Zealand subsidiary have entered into a Service Agreement dated 1 April 2014 whereby the Company will supply the subsidiary with the required premises, equipment, personnel, materials, and know how to enable the subsidiary to manufacture MIS416 as agent for the Company.

In late May a patent protecting the use of MIS416 to treat and/or prevent infection was granted in the United Stated and in early June, a notice of allowance was received in respect of a similar patent in Japan.

No other matter or circumstance has arisen since the end of the financial year which is not otherwise dealt with in this report or in the Consolidated Financial Statements that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Directors' Declaration

for year ended 31 March 2014

In the opinion of the Directors of Innate Immunotherapeutics Limited:

a. The Consolidated Financial Statements and Notes of Innate Immunotherapeutics Limited are in accordance with the Corporations Act 2001, including
   i. Giving a true and fair view of its financial position as at 31 March 2014 and its performance for the financial year ended on that date; and
   ii. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b. There are reasonable grounds to believe that Innate Immunotherapeutics will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and the Chief Financial Officer for the financial year ended 31 March 2014.

Note 1 confirms that the Consolidated Financial Statements also comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Michael A Quinn
CHAIRMAN

Simon Wilkinson
CHIEF EXECUTIVE OFFICER

Dated the 12 of June 2014

GrantThornton

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Independent Auditor's Report
To the Members of Innate Immunotherapeutics Limited

Report on the financial report

We have audited the accompanying financial report of Innate Immunotherapeutics Limited (the "Company"), which comprises the consolidated statement of financial position as at 31 March 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

a the financial report of Innate Immunotherapeutics Limited is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 31 March 2014 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the Corporations Regulations 2001.

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Report on the remuneration report

We have audited the remuneration report included in pages 22 to 26 of the directors' report for the year ended 31 March 2014. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Innate Immunotherapeutics Limited for the year ended 31 March 2014, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M. A. Cunningham
Partner - Audit & Assurance

Melbourne, 12 June 2014

Shareholder Information

as at 16 June 2014

a. Number of Innate Immunotherapeutics Limited shareholders **2,280**
b. Total shares issued **172,479,822**
c. Percentage of total holdings by or on behalf of the 20 largest shareholders **52.83%**
d. Distribution schedule of holdings

	Ordinary Shares
1–1,000	390
1,001–5,000	693
5,001–10,000	281
10,001–100,000	723
100,001 and over	193
less than marketable parcel	777

e. Voting rights: Every shareholder present personally or by proxy or attorney etc, shall, on a show of hands, have one vote and on a poll shall have one vote for every share held.

TOP 20 HOLDERS OF ORDINARY FULLY PAID SHARES

Rank	Name	Shares	%
1.	Christopher Collins	25,899,139	15.02
2.	National Nominees Limited	17,390,267	10.08
3.	Probe International Inc	5,696,262	3.30
4.	Picton Cove Pty Ltd	5,492,564	3.18
5.	Patricia Watkins + Michael Pollard + John Phibbs <Watkins Family A/C>	3,777,500	2.19
6.	Fast Forward LLC	3,500,000	2.03
7.	Ross Arthurs <Ttee FBO Glenn W Arthurs Grant>	3,447,371	2.00
8.	Caitlin Collins	3,200,000	1.86
9.	Cameron Collins	3,200,000	1.86
10.	Mr Neil Ross Brown	2,798,192	1.62
11.	Thomas Massung	2,620,415	1.52
12.	Glenn Arthurs	2,435,289	1.41
13.	Chep II LLC	2,225,319	1.29
14.	Cubrc Inc	2,080,566	1.21
15.	ABM Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	1,721,984	1.00
16.	Alan Wiltshire + Beverley Wiltshire + David Rishworth <Wiltshire Family A/C>	1,361,999	0.79
17.	Rubi Holdings Pty Ltd <John Rubino S/F A/C>	1,250,000	0.72
18.	James D Dixon	1,076,663	0.62
19.	Thomas Mcmahon + Ann Mcmahon	1,021,490	0.59
20.	John Hoffman	918,254	0.53
		91,113,274	**52.83**

Substantial Shareholders	Shares to Which Entitled	% of Issued Capital
Christopher Collins	25,899,139	15.02
Australian Ethical Investment	15,000,000	8.70

Corporate Directory

INNATE IMMUNOTHERAPEUTICS LIMITED

ABN 16 165 160 841

A public company incorporated in Victoria and listed on the Australian Securities Exchange (Code: IIL).

Directors

Michael Quinn (Non-Executive Chairman)

Simon Wilkinson (Managing Director & CEO)

Elizabeth Hopkins (Non-Executive Director)

Christopher Collins (Non-Executive Director)

Andrew Sneddon (Non-Executive Director)

Andrew J. Cooke (Company Secretary)

Registered Office

Suite 4.01
35 Lime Street
Sydney NSW 2000 Australia

Telephone: + 61 2 8003 3650
Web Site: www.innateimmunotherapeutics.com

New Zealand Office

4B Walls Road
Penrose
Auckland 1061 New Zealand

Telephone: + 64 9 525 0532

Auditors

Grant Thornton Audit Pty Ltd
Australia

Share Registry

Computershare Investor Services Pty Limited
Level 4, 60 Carrington Street
Sydney NSW 2000 Australia

Telephone: 1300 850 505 (within Australia)
+ 61 3 9415 4000 (outside Australia)
Facsimile: + 61 2 8235 8150
Web Site: ww.investorcentre.com/contact

Innate
Immunotherapeutics