Innate Immunotherapeutics

Annual Report 2017

Contents

AGM

The Annual General Meeting of Innate Immunotherapeutics Limited will be held at Grant Thornton, Seagrass Room, Level 17, 383 Kent Street, Sydney NSW 2000 Australia at 11.00am on Wednesday, 30 August 2017.

Chairman's Letter

Dear Fellow Shareholder,

On behalf of Innate Immunotherapeutics' Board and management, I would like to provide you with our 2017 Annual Report.

After an enormous amount of work by a small team, it was very disappointing to report the initial unsuccessful results of our Phase 2B randomised, double-blind, placebo-controlled trial of the efficacy and safety of MIS416 in the treatment of subjects with secondary progressive multiple sclerosis (SPMS). Based on an analysis of the top-line data, on 27 June 2017 we reported that MIS416 did not show clinically meaningful or statistically significant differences in measures of neuromuscular function or patient reported outcomes.

To say that this result was a shock would be an understatement. The Company's clinical development of MIS416 for patients suffering with SPMS began eight years ago. This development has been sustained by both ongoing self-reporting of treatment benefits from many compassionate use patients over that time as well as an apparently sound alignment between the mechanism of action of MIS416 and the SPMS disease process.

We do not understand the obvious disconnect between the reported patient experiences and these unwelcome statistical trial results.

To hopefully shed light on this, an analysis of individual trial patient responses is underway to see if there is a group of clinical responders which might not be evident from the top-line total patient population analysis reported on 27 June. Once we have the results from this more detailed work we will review whether there is a business case for the continued clinical development of MIS416 or not.

Whatever the final outcome of this review, I want to draw attention to the dedication and hard work of our CEO Simon Wilkinson, our staff and key consultants. While the future prospects of the Company will largely be defined by the outcome of the Phase 2B trial, our staff can be extremely proud of their achievements over the past eight years. Taking a drug candidate, for a very complex disease like SPMS, from preclinical studies into multicentre clinical trials is challenging and demands an enormous and sustained effort by everyone on the team.

I would also like to thank Chris Collins and all shareholders who supported our staffs' dedication during the year. I regret we have not provided you with a better outcome and also a better outcome for the wider multiple sclerosis community.

Michael A Quinn
CHAIRMAN

CEO's Report

Almost all activities over the past 12 months were focused on positioning the Company to take maximum advantage of a successful Phase 2B trial outcome. Ironically, these various initiatives had made very satisfactory progress such that:

- in June 2017 we received clearance from the U.S. Food and Drug Administration (FDA) for the Company's Investigational New Drug (IND) application lodged the previous month. Having an open IND coinciding with the completion of the Phase 2B trial would have enabled the Company to request a 'End of Phase 2' meeting with the FDA to discuss next steps for the clinical development of MIS416;
- in April 2017 we were able to significantly raise the profile of our MIS416 programme for SPMS at the American Academy of Neurologists (AAN) Annual Meeting being held in Boston. Together with Australian, Canadian, and Danish scientific collaborators, Innate had multiple abstracts accepted for presentation at the meeting. As a result of this exposure we were able to recruit several key opinion leaders to help explain and position the Phase 2B outcomes once to hand;
- during the JP Morgan Healthcare event in January 2017 we met with multiple potential Pharma partners for the MIS416 programme and further discuss how each would want to move forward following a successful Phase 2B outcome;
- during the period we initiated a substantial project to develop an industrial scale manufacturing method for the production of MIS416. Ideally, Phase 3 trials of any drug candidate should use drug product manufactured in the same way as the final commercial product. Our industrialisation project was making excellent progress towards this objective.

It obviously came as an enormous and painful disappointment to all of our staff and consultants working on these initiatives when the results of the Phase 2B were announced on 27 June 2017.

The Company's Phase 2B randomised, double-blind, placebo-controlled trial of MIS416 for the treatment of subjects with SPMS had sought to answer four key questions:

1. **Is MIS416 effective, relative to placebo as assessed by its effect on several measures of neuromuscular function?**

   To determine the efficacy of MIS416 relative to placebo on measures of neuromuscular function, assessments were carried out at baseline, at three monthly intervals during the trial, and at end of dosing. The assessments comprised multiple measures of upper extremity function and strength, walking speed and distance, visual acuity, and two measures of cognitive processing speed.

   This analysis showed no overall clinically meaningful or statistically significant differences across the multiple measures of neuromuscular function assessed during the trial.

2. **Is a weekly regime safe and well tolerated?**

   The safety and tolerability of MIS416 relative to placebo was assessed continuously throughout the trial. There was at least one adverse event in 60 of the 63 subjects of the MIS416 group and 23 of the 31 subjects in the placebo group.

   There was at least one serious adverse event in 16 subjects or 26% in the MIS416 group and 5 subjects or 16% in the Placebo group. These SAEs may or may not have been treatment related.

   Further analysis of these findings, based on the timepoint at which the adverse event(s) took place, is expected to show that the higher incidence in the MIS416 group was associated with the previously observed adverse events of fever, chills, muscle weakness response to initial MIS416 dosing.

3. **Does MIS416 have a positive effect on disease activity and neurodegeneration?**

   The analysis of the expanded disability status scale score showed no change between the two groups.

   The analysis of percentage brain volume change, as assessed by magnetic resonance imaging showed no significant difference between the two groups.

   The results for cranial magnetic resonance imaging of the number of gadolinium-enhances lesions and the number and volume of new or enlarged T2-weighted lesions, also showed no significant difference between the two groups.

4. **Does MIS416 have a positive effect on the subjects' disability and health status as reported by the patient?**

   The efficacy of MIS416 relative to placebo based on patient-reported outcome questionnaires comprising the Multiple Sclerosis Impact Scale, the Neurological Fatigue Index for patients with multiple sclerosis, and the Brief Pain Inventory, was also assessed relative to changes between baseline scores and end of dosing scores.

   This analysis showed no overall clinically meaningful or statistically significant differences in these patient-reported outcomes.

Progressive MS is a complex disease and presents with a wide range of symptoms including physical and cognitive symptoms, and pain and fatigue. Each patient endures a different mix of disabilities and as the patients become more disabled, as is the case with SPMS, assessment tools are less able to capture small changes in these patients. These small changes can potentially have a substantial impact on the patients' activities of daily living and quality of life. There are no blood tests or MRI measures available to monitor disease or drug activity in these progressive patients. Due to this complexity and in the absence of any uniformity or standardised approach, we sought input from international MS experts and big pharma when we designed the study and selected the wide range of assessment tools.

Notwithstanding the range of assessment tools and the different disease domains measured, results across all measures were very disappointing. These results were not what we were expecting based on our previous experience with MIS416.

These results don't align with the reporting of treatment benefits we have received from so many compassionate use patients over an extensive 8-year period. The results will be distressing to them and will also be disappointing for the whole SPMS community – patients, caregivers, doctors and nurses.

In light of the current apparent clinical failure of our lead drug candidate MIS416 in patients with SPMS, the Company's priority is to urgently assess whether a viable business opportunity exists for any future clinical development of MIS416.

To help inform that assessment, we are sponsoring an analysis of the trial results at the patient level to see if there is a group of clinical responders which might not be evident from the top line population based analysis but at this stage we have no indication such a group exists. If there is such a group, the extensive immune pharmacodynamics monitoring of the patients that took place during the study may identify a biomarker that could be used to pre-identify responders in any future clinical development of MIS416.

We are most disappointed that a year that was so successful in many ways ended with such an unexpected poor trial result.

Innate Immunotherapeutics Limited
ACN 165 160 841

Financial Statements

For the year ended 31 March 2017

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Directors' Report

for the year ended 31 March 2017

DIRECTORS' REPORT

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 2017.

DIRECTORS

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

Michael Quinn

Simon Wilkinson

Liz Hopkins

Christopher Collins

Andrew Sneddon

Robert Peach

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

INFORMATION ON DIRECTORS

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

Michael Quinn (BSc, BEc, MBA (Harvard) – 69 years) – *Non-Executive Chairman*

Mr Quinn co-founded Innovation Capital in 1999 and is Managing Partner of the firm. Michael'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. Michael 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.

In 2013 Michael retired as a director of ResMed Inc (ASX and NYSE: RMD), after 21 years. ResMed is a world leader in the respiratory healthcare market. Michael also co-founded Memtec which was acquired by US Filter in 1997 for US$400 million.

Michael is a Director and Chairman of the Company and was appointed on 19 September 2013.

Simon Wilkinson – *Managing Director and CEO* (60 years)

Mr Wilkinson was formerly a partner in Christchurch based ODL Capital, the principal New Zealand fundraiser for the Company between 2001 and 2004. Simon has spent 30 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. Simon is also the sole Director of the Group's subsidiary, Innate Immunotherapeutics (NZ) Limited.

Elizabeth Hopkins (BSc. (Hons) – 53 years) – *Non-Executive Director*

Mrs Hopkins trained at Oxford University and holds a First Class Honours degree in Pharmacology. She has spent over 20 years successfully commercialising science outcomes and holds several Director positions, including being a Ministerial appointment to Ara, a government-funded tertiary education institute in 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. Elizabeth currently provides consultancy services to a range of Government entities and private companies. Before moving to New Zealand in 2001, she was with Pfizer's European headquarters for 10 years, the last 2 years as a Global Project Manager. Elizabeth 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 (BSc., MBA – 67 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). Chris has helped acquire, manage and make profitable 17 companies across a range of industries. In 2011 he 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 – 60 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. Andrew 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, ServiceRocket International Pty Ltd, ServiceRocket R&D Pty Ltd, ServiceRocket Pty Ltd and the chairman of, Elastagen Pty Ltd and TGR BioSciences Pty Ltd. Andrew 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.

Robert Peach (Ph.D. – 61 years) – *Non-Executive Director* (appointed 2 September 2015)

Dr Peach has over 25 years of drug discovery and development experience in the Pharmaceutical and Biotechnology industry. In 2009 he co-founded Receptos Limited, becoming Chief Scientific Officer and raising US$59M in venture capital and US$800M in an IPO and three subsequent follow-on offerings. In August 2015 Receptos was acquired by Celgene for US$7.8B. Robert held senior executive and scientific positions in other companies including Apoptos, Biogen Idec, IDEC and Bristol-Myers Squibb, supporting in-licensing, acquisition and venture investments. His extensive drug discovery and development experience in autoimmune and inflammatory diseases, and cancer has resulted in multiple drugs entering clinical trials and 3 registered drugs. He is currently on the Board of Directors of AdAlta Pty Limited and Avalia Immunotherapies, and is a consultant to several other biotechnology companies. Robert is the co-author of 70 scientific publications and book chapters, and 26 patents and patent applications. He was educated at the University of Canterbury and the University of Otago, New Zealand. He was appointed as a Director on 2 September 2015.

INFORMATION ON COMPANY SECRETARY

Andrew J. Cooke (LLB – 56 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. Andrew was appointed Company Secretary on 11 October 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Group during the financial year was the ongoing clinical development of its lead drug candidate MIS416 to treat patients with secondary progressive multiple sclerosis (SPMS).

There were no 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 2017 was $7,018,412 (2016: Loss after tax $5,098,578).

DIVIDENDS PAID OR RECOMMENDED

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

REVIEW OF OPERATIONS

The Group's primary activity for the year has been the completion of the Phase 2B trial of MIS416 in patients with SPMS. The last patient completed their last study related clinical visit in April 2017. From late April to the date of this report, the focus has been to complete patient data entry and to undertake the initial analysis of the very significant amount of data generated on the study.

In parallel with this principal activity, the Group has:

- commenced a significant project to develop an industrial scale manufacturing method for the production of MIS416;
- continued to preclinically evaluate the use of the Group's immunomodulating technology in other diseases or conditions where neuro-inflammation maybe present, for example epilepsy and trauma to the brain or spine;
- conducted further animal studies into the feasibility of an oral formulation for MIS416;
- continued to manufacture batches of MIS416 for ongoing compassionate use supply;
- prepared and filed an initial new drug (IND) application to the United States Food and Drug Administration.

The Group has also witnessed a significant increase in the number of patients who, together with their doctors, have sought access to MIS416 on compassionate grounds. To date approximately 90% of the patients who completed the 12 months of scheduled dosing on the Phase 2B trial have contacted the Group about post-trial access to MIS416.

Considerable time and effort has also been expended on discussions with potential clinical programme partners and/or acquirers to ensure they are well informed about the Groups clinical programme ahead of the Phase 2B trial result.

FINANCIAL POSITION

The Group loss after tax for the year ended 31 March 2017 was $7,076,319 (2016: $4,943,098). This result included non-cash expenses of depreciation and amortisation of $36,952 (2016: $568,416) and share based compensation of $928,994 (2016: $228,067). Since 31 March 2016, the net assets of the Group have increased by $2,625,677 to be $6,628,956 at 31 March 2017.

In September 2016 the Group received a Research and Development tax incentive payment of $1,824,007 from the Australian Government (2016: $801,375) relating to clinical trial expenditure in the previous financial year. The Group expects to receive a further R&D incentive payment in excess of $1,436,046 in respect of qualifying expenses during the financial year to 31 March 2017. This expected R&D incentive has been included as a future receivable in the financial statements to 31 March 2017 (2016: $1,461,940].

During the first six months to 30 September 2016 the Group raised $6,617,021 (before issue related expenses) through the issue of 25,656,036 new ordinary shares. In March 2017 the Group raised $2,000,000 (before issue related expenses) through the issue of 2,777,778 new ordinary shares. On completion of these issues and the exercise of 750,000 employee options during the year, Innate Immunotherapeutics Limited had 225,625,991 ordinary shares on issue and 24,160,000 options outstanding.

With the exception of research and development expenses and share based compensation expenses, other costs were generally in line with the previous year.

Research and development expenses increased to $6,036,112 (2016: $4,746,280). This reflected the continuation of the Group's Phase 2B safety and efficacy trial of MIS416 in patients with secondary progressive multiple sclerosis and the commencement of a project to develop an industrial scale manufacturing method for the production of MIS416.

Share based compensation increased to $928,994 (2016: $228,067). This is a non cash expense and primarily related to the allocation of options to Directors $598,393 (2016: Nil) as approved by shareholders at the Annual General Meeting in August 2016.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs during the 2017 financial year or existing at the time of this report.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 19 April 2017 the Board resolved to grant 500,000 options to the CEO (Mr Simon Wilkinson) subject to shareholder approval at the Annual General Meeting on 30 August 2017. The options will have an exercise price of $0.80 and an expiry date of 31 August 2018. On 20 April 2017 the Group announced that the last patient enrolled into the Company's Phase 2B trial of MIS416 in patients with SPMS had completed their last study related clinical visit.

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

Data from the Group's Phase 2B trial of MIS416 in patients with SPMS are currently being analysed and a Clinical Study Report detailing the safety and efficacy outcomes of the trial is expected in late August or during September 2017. The outlook for the Group relies principally on the results of this study.

In the event of outright clinical failure, being either serious safety or tolerability concerns and/or no positive effects in the MIS416 treated patients compared to the placebo treated patients, then the Director's believe that it would be difficult to accurately forecast the impact on the Group but it may be unlikely that the Group could continue as a going concern. In such unfortunate circumstances the Directors would most likely need to wind up the Group's operations in an orderly and timely fashion.

In the event that MIS416 treatment demonstrates acceptable safety and tolerability and also achieves a positive treatment effect compared to placebo, then the Director's believe the Group's outlook to be very positive. At this time there are still no drugs approved for the safe long term treatment of patients with SPMS. This significant unmet medical need underpins the continuing interest from large Pharma in the outcome of the Phase 2B trial. A positive outcome should lead to a significant corporate transaction involving either partnering the programme or the outright sale of the Group. In the event of a particularly strong result, the option may also exist for the Group to finance and execute a Phase 3 registration (drug approval) clinical programme on its own account before then seeking a sale of the programme or Group.

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
Directors	
Michael Quinn	Chairman and Non-Executive Director
Simon Wilkinson	Chief Executive Officer and Managing Director (CEO)
Elizabeth Hopkins	Non-Executive Director
Christopher Collins	Non-Executive Director
Andrew Sneddon	Non-Executive Director
Robert Peach	Non-Executive Director
Other KMP	
Gill Webster	Chief Scientific Officer (CSO)
Jeff Carter	Chief Financial Officer (CFO)
Janette Dixon	Vice President Corporate Development (VPCD)

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), Mr Quinn and Mr Peach (appointed 28 July 2016) 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. 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. The fee pool limit was set at $300,000 at the 2014 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.

Directors' and other Key Management Personnel Remuneration – 31 March 2017

Details of the nature and amount of each element of the remuneration of each Director and KMP for the year ended 31 March 2017, are shown in the table below:

	Short-Term Benefits			Post-Employment Benefits				
2017	Cash Salary & Fees ($)	Cash Bonus ($)	Non-monetary Benefits ($)	Super annuation ($)	Retirement benefits ($)	Long Service Leave ($)	Share-based payments[5] ($)	Total ($)
Directors								
Non-Executive								
Michael Quinn	22,831	–	–	2,169	–	–	111,042	136,042
Christopher Collins	–	–	–	–	–	–	–	–
Andrew Sneddon[1]	20,000	–	–	–	–	–	74,028	94,028
Elizabeth Hopkins	20,000	–	–	–	–	–	74,028	94,028
Robert Peach	20,000	–	–	–	–	–	123,380	143,380
Executive								
Simon Wilkinson[2]	216,614	–	–	–	–	–	239,174	455,788
Total Directors	**299,445**	**–**	**–**	**2,169**	**–**	**–**	**621,652**	**923,266**
Gill Webster	199,726	942	–	–	–	–	142,542	343,210
Jeff Carter[3]	105,905	–	–	–	–	–	8,290	114,195
Janette Dixon[4]	207,203	–	–	–	–	–	49,030	256,233
Total KMP	**512,834**	**942**	**–**	**–**	**–**	**–**	**199,862**	**713,638**

1. Director's fees of $20,000 were paid to Mr Sneddon's service company, Jalba Consulting Pty Ltd.
2. Mr Wilkinson is the CEO. His annual salary is NZ$230,000. No directors fees are paid to Mr Wilkinson.
3. Mr Carter's CFO services are provided by Mr Carter's service company, Joblak Pty Ltd. The Company entered into a contract for his services at $6,000 per month. A new contract was entered into from 1 May 2016 to 30 June 2017 at $7,525 per month.
4. Ms Dixon is VP Corporate Development and her services are provided by Ms Dixon's service company. Her remuneration is NZ$18,334 per month. The agreement may be terminated by either party with 60 days notice.
5. Share based payments have all been in the form of options vesting during the period.

The Board set no other performance criteria for KMP during the year to 31 March 2017 and no other bonuses were paid to them.

Directors' and other Key Management Personnel Remuneration – 31 March 2016

Details of the nature and amount of each element of the remuneration of each Director and KMP for the year ended 31 March 2016, are shown in the table below:

	Short-Term Benefits			Post-Employment Benefits				
2016	Cash Salary & Fees ($)	Cash Bonus ($)	Non-monetary Benefits ($)	Super annuation ($)	Retirement benefits ($)	Long Service Leave ($)	Share-based payments[6] ($)	Total ($)
Directors								
Non-Executive								
Michael Quinn	22,831	–	–	2,169	–	–	–	25,000
Christopher Collins	–	–	–	–	–	–	–	–
Andrew Sneddon[1]	20,000	–	–	–	–	–	–	20,000
Elizabeth Hopkins	20,000	–	–	–	–	–	–	20,000
Robert Peach[2]	11,667	–	–	–	–	–	–	11,667
Executive								
Simon Wilkinson[3]	212,474	–	–	–	–	–	87,303	299,777
Total Directors	**286,972**	**–**	**–**	**2,169**	**–**	**–**	**87,303**	**376,444**
Gill Webster	178,898	–	–	–	–	–	60,760	239,658
Jeff Carter[4]	80,500	–	–	–	–	–	–	80,500
Janette Dixon[5]	160,901	–	–	–	–	–	25,316	186,217
Total KMP	**420,299**	**–**	**–**	**–**	**–**	**–**	**86,076**	**506,375**

1. Director's fees of $20,000 were paid to Mr Sneddon's service company, Jalba Consulting Pty Ltd.
2. Mr Robert Peach was appointed as a Director on 2 September 2015.
3. Mr Wilkinson is the CEO. His annual salary is NZ$230,000. No directors fees are paid to Mr Wilkinson.
4. Mr Carter's CFO services are provided by Mr Carter's service company, Joblak Pty Ltd. The Company entered into a contract for his services from 1 June 2014 for an initial term up to 31 May 2015 at $6,000 per month. By mutual agreement this was extended to 30 June 2015 and thereafter on a month by month basis until 30 April 2016.
5. Ms Dixon commenced as VPBD on 1 September 2014. The Company entered into a contract for her services from 1 September 2014 at NZ$9,167 per month. On 1 September 2015 Ms Dixon's role was changed to VP Corporate Development (VPCD) and her remuneration was increased to NZ$18,334 per month. The agreement may be terminated by either party with 60 days notice.
6. Share based payments have all been in the form of options vesting during the period. There were no new options issued to the above named KMP's during the year.

The Board set no other performance criteria for KMP during the year to 31 March 2016 and no other bonuses were paid to them.

Options issued as part of remuneration for the year ended 31 March 2017

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 and KMP's as part of remuneration during the year ended 31 March 2017. The options issued to Directors were approved by shareholders at the Annual General Meeting on 31 August 2016.

2017	Date of Issue	Number	Vesting	Strike Price	Expiry	Value ($)
Directors						
Non-Executive						
Michael Quinn	31-Aug-16	900,000	Immediately	$0.65	31-Aug-18	111,042
Christopher Collins	–	–	–	–	–	–
Andrew Sneddon	31-Aug-16	600,000	Immediately	$0.65	31-Aug-18	74,028
Elizabeth Hopkins	31-Aug-16	600,000	Immediately	$0.65	31-Aug-18	74,028
Robert Peach	31-Aug-16	1,000,000	Immediately	$0.65	31-Aug-18	123,380
Executive						
Simon Wilkinson	31-Aug-16	1,750,000	Immediately	$0.65	31-Aug-18	215,915
Total Directors		**4,850,000**				**598,393**
Other KMP						
Gill Webster	27-Apr-16	1,500,000	1/2 in 12 months then 1/3rd of the remainder at the beginning of each quarter thereafter	$0.50	27-Apr-18	159,960
Jeff Carter	27-Apr-16	100,000	1/2 in 12 months then 1/3rd of the remainder at the beginning of each quarter thereafter	$0.50	27-Apr-18	10,664
Janette Dixon	27-Apr-16	500,000	1/2 in 12 months then 1/3rd of the remainder at the beginning of each quarter thereafter	$0.50	27-Apr-18	53,320
Total KMP		**2,100,000**				**223,944**

No other options were issued to Directors or other Key Management Personnel during the year to 31 March 2017.

Options issued as part of remuneration for the year ended 31 March 2016

There were no options issued to Directors or the named KMP's during the year ended 31 March 2016.

Employment Contracts

Simon Wilkinson – CEO

On 26 June 2014, the Company entered into an Employment Agreement with Mr Wilkinson as CEO and Managing Director. Pursuant to these terms, Mr Wilkinson was to be paid a salary of NZ$180,000 per annum for the period 1 October 2013 to 31 December 2013 and thereafter NZ$230,000 per annum. Either party may terminate the Employment Agreement by the giving of one month's written notice to the other.

Gillian Webster – CSO

On 1 February 2010, the Company entered into an updated employment agreement with Ms Webster. Since 27 June 2016 Ms Webster is paid an annual salary of NZ$205,200 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.

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.

Jeff Carter – CFO

On 1 May 2016, the Company entered into a consultancy agreement with Mr Carter's service company, Joblak Pty Ltd to 30 June 2017. Pursuant to the terms of the Agreement, Mr Carter is paid a monthly amount of $7,525 to perform the part time role of Chief Financial Officer of the Company.

Janette Dixon – VPCD

On 1 September 2014, the Company entered into a consultancy agreement with Ms Dixon's service company, Biocomm Pacific Ltd. Pursuant to the terms of the Agreement, Ms Dixon was paid a monthly amount of NZ$9,167 to perform the part time role of Vice President Business Development of the Company. Under the agreement Ms Dixon may also be entitled to a cash bonus of 10% of the upfront money received for each deal related to developing commercial opportunities for the Company's non-MS related assets. The agreement may be terminated by either party with 60 days notice. Since 18 August 2015 Ms Dixon's contract was amended and increased to NZ$18,334 per month and her role was changed to VP Corporate Development.

Non-Executive Directors

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

Directors' and other Key Management Personnel Equity Holdings

i. Options provided as remuneration and shares issued on the exercise of such options are outlined below. No options were issued during the year ended 31 March 2016. The terms and conditions of the options issued during the year ended 31 March 2017 can be found above ("Options Issued as part of Remuneration for the year ended 31 March 2017").

ii. The number of unlisted options over ordinary shares in the company held by each director of the company and other KMP (including related parties) of the Group are set out below including all options that are vested are exercisable at year end.

2017 – 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	1,625,000	900,000	–	–	2,525,000	2,525,000
Christopher Collins	4,125,000	–	–	–	4,125,000	4,125,000
Andrew Sneddon	1,125,000	600,000	–	–	1,725,000	1,725,000
Elizabeth Hopkins	1,000,000	600,000	–	–	1,600,000	1,600,000
Robert Peach	–	1,000,000	–	–	1,000,000	1,000,000
Executive						
Simon Wilkinson	4,050,000	1,750,000	–	–	5,800,000	5,508,333
Total Directors	**11,925,000**	**4,850,000**	**–**	**–**	**16,775,000**	**16,483,333**
Other KMP						
Gill Webster	1,200,000	1,500,000	–	–	2,700,000	900,000
Jeff Carter	200,000	100,000	(200,000)	–	100,000	–
Janette Dixon	500,000	500,000	(300,000)	–	700,000	175,000
Total Other KMP	**1,900,000**	**2,100,000**	**(500,000)**	**–**	**3,500,000**	**1,075,000**

2016 – 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	1,722,349	–	–	(97,349)	1,625,000	1,625,000
Christopher Collins	6,028,953	–	–	(1,903,953)	4,125,000	4,125,000
Andrew Sneddon	1,188,548	–	–	(63,548)	1,125,000	1,125,000
Elizabeth Hopkins	1,000,000	–	–	–	1,000,000	1,000,000
Robert Peach	–	–	–	–	–	–
Executive						
Simon Wilkinson	4,050,000	–	–	–	4,050,000	3,175,000
Total Directors	**13,989,850**	**–**	**–**	**(2,064,850)**	**11,925,000**	**11,050,000**
Other KMP						
Gill Webster	1,816,759	–	–	(616,759)	1,200,000	500,000
Jeff Carter	200,000	–	–	–	200,000	200,000
Janette Dixon	500,000	–	–	–	500,000	208,334
Total Other KMP	**2,516,759**	**–**	**–**	**(616,759)**	**1,900,000**	**908,334**

* Expired unexercised during the year.

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

2017 – 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]	1,206,062	–	–	805,542	2,011,604
Christopher Collins[2]	33,899,139	–	–	4,000,000	37,899,139
Andrew Sneddon[3]	804,192	–	–	171,812	976,004
Elizabeth Hopkins[4]	–	–	–	20,919	20,919
Robert Peach[5]	–	–	–	560,000	560,000
Executive					
Simon Wilkinson[6]	50,000	–	–	5,555	55,555
Total Directors	**35,959,393**	**–**	**–**	**5,563,828**	**41,523,221**
Other KMP					
Gill Webster	–	–	–	–	–
Jeff Carter	–	–	200,000	(200,000)[7]	–
Janette Dixon	289,747	–	300,000	(289,747)[8]	300,000
Total Other KMP	**289,747**	**–**	**500,000**	**(489,747)**	**300,000**

1. 160,120 shares were bought in the rights issue @ $0.25 per share on 12 July 2016 and 410,422 shares were bought in private placement on 12 September 2016 @ $0.34 per share (as approved by shareholders on 31 August 2016). The remaining 235,000 shares were purchased during the year on market.
2. These shares were bought in the private placement on 12 September 2016 @ US$0.18 per share (as approved by shareholders on 31 August 2016).
3. 61,111 shares were bought in the rights issue @ $0.25 per share on 12 July 2016 and 110,701 shares were bought in private placement on 12 September 2016 @ $0.34 per share (as approved by shareholders on 31 August 2016).
4. These shares were bought in the private placement on 12 September 2016 @ NZ$0.36 per share (as approved by shareholders on 31 August 2016).
5. These shares were bought in the private placement on 12 September 2016 @ US$0.18 per share (as approved by shareholders on 31 August 2016).
6. 5,555 shares were bought in the rights issue @ $0.25 per share on 12 July 2016 and 55,555 were transferred off market on 20 February 2017 to Mr Wilkinson's spouse. However, they have been included in this disclosure as a personally related party interest.
7. These shares were sold off market to a superannuation fund during the year in which Mr Carter is a non-controlling member.
8. These shares were sold during the year on market.

OTHER

Loans to Directors and Other Key Management Personnel

There were no loans to any directors of the Company or other KMP of the Group during the financial year ended 31 March 2017.

Other Transactions with Directors and Other Key Management Personnel

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

Loyalty Rights

As part of the IPO, loyalty rights were issued in 2014 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 KMP (including personally related parties) of the Group are set out below. There were no loyalty rights issued in 2015 or 2016. All loyalty rights expired 19 December 2016.

Loyalty rights	Granted during 2014	Balance at the end of year 2017
Directors		
Non-Executive		
Michael Quinn	138,889	–
Christopher Collins	3,819,445	–
Andrew Sneddon	–	–
Elizabeth Hopkins	–	–
Executive		
Simon Wilkinson	33,333	–
Total Directors	**3,991,667**	**–**
Other KMP		
Gill Webster	–	–
Jeff Carter	–	–
Janette Dixon	–	–
Total Other KMP	**–**	**–**

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	2017	2016	2015	2014	2013
EPS (cents)	(3.33)	(2.73)	(3.04)	(3.81)	(3.56)
Dividends (cents per share)	–	–	–	–	–
Net profit/loss ($'000)	(7,076)	(4,943)	(5,237)	(4,495)	(3,388)
Share Price (cents)*	76.5	18.0	18.5	25.0	N/A

* Note – The Company was admitted to the official list of the ASX on 23 December 2013 and accordingly comparatives prior to that date 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 2017	Number exercised during year ended 31 March 2017	Number exercised post reporting date
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	–	–
27-Apr-18	AUD 0.50	3,190,000	–	–
1-May-18	USD 0.40	625,000	–	–
15-Jul-18	USD 0.40	625,000	–	–
31-Aug-18	AUD 0.65	4,850,000	–	–
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	–	–
20-Aug-19	AUD 0.40	1,750,000	–	–
22-Oct-19	AUD 0.40	2,470,000	750,000	–
		24,160,000	**750,000**	**–**

DIRECTORS' INTERESTS

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

	Ordinary Shares	Options
Michael Quinn	2,011,604	2,525,000
Christopher Collins	37,899,139	4,125,000
Andrew Sneddon	976,004	1,725,000
Elizabeth Hopkins	20,919	1,600,000
Robert Peach	560,000	1,000,000
Simon Wilkinson	55,555	5,800,000
	41,523,221	**16,775,000**

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		Remuneration Committee Meetings	
Attendances were:	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended
Michael Quinn	12	12	–	–	1	1
Simon Wilkinson	12	12	–	–	–	–
Elizabeth Hopkins	12	12	8	7	–	–
Christopher Collins	11	11	–	–	1	1
Andrew Sneddon	12	12	8	8	–	–
Robert Peach	11	11	–	–	1	1

Directors' Report

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 http://tinyurl.com/IIL-AuditCharter

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

- Mr Sneddon (Chairman)
- Mrs 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' 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 2016, 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

The external auditors, Grant Thornton, have been engaged to assist the Company lodge its Australian R&D incentive claim for its expenditure on its lead drug candidate MIS416. They were paid $13,000 for the 2016 lodgements. They will be paid between $8,000 and $10,000 for the 2017 lodgement. Grant Thornton were also engaged to provide tax advice and other accounting services and were paid $19,000 for these services for 2017.

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 2017 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

22 June 2017

Simon Wilkinson
CHIEF EXECUTIVE OFFICER

Auditor's Independence Declaration

The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000

Correspondence to:
GPO Box 4736
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

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 2017, 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 AUDIT PTY LTD
Chartered Accountants

M. A. Cunningham
Partner - Audit & Assurance

Melbourne, 22 June 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 March 2017

	Note	Year ended March 2017 $	Year ended March 2016 $
Sales revenue		–	–
Other operating income	4	1,831,294	2,294,745
Total revenue and other operating income		1,831,294	2,294,745
Research and development expenses		(6,036,112)	(4,746,280)
Patent and associated expenses		(205,466)	(250,346)
Business development expenses		(297,181)	(271,209)
General and administration expenses		(1,464,100)	(1,247,786)
Depreciation & amortisation		(36,952)	(568,416)
Share based compensation (employee & non-employee)		(928,994)	(228,067)
Operating deficit before financing costs		(7,137,511)	(5,017,359)
Interest income		61,192	74,273
Financial expenses		–	(12)
Net financial expense		61,192	74,261
Loss before income tax expense		(7,076,319)	(4,943,098)
Income tax expense/(benefit)	12	–	–
Loss after income tax expense/(benefit)		(7,076,319)	(4,943,098)
Other comprehensive income/(loss)			
Items that may be subsequently reclassified to profit/loss			
Exchange differences of foreign exchange translation		57,907	(155,480)
Total comprehensive loss		(7,018,412)	(5,098,578)
Basic and diluted earnings per share (weighted)	19	(3.3)	(2.7)

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

for the year ended 31 March 2017

	Note	Year ended March 2017 $	Year ended March 2016 $
Current assets			
Cash and cash equivalents	3	5,763,357	3,200,622
Accounts receivable		131,770	76,871
Prepayments		33,890	135,099
Research & development tax incentive receivable		1,436,046	1,461,940
Other current assets		9,547	8,641
Total current assets		7,374,610	4,883,173
Non-current assets			
Property, plant and equipment	6	162,219	151,463
Intangible assets	5	–	–
Total non-current assets		162,219	151,463
Total assets		**7,536,829**	**5,034,636**
Current liabilities			
Accounts payable and accrued liabilities	7	907,873	1,031,357
Total current liabilities		907,873	1,031,357
Non-current liabilities		**–**	**–**
Total liabilities		**907,873**	**1,031,357**
Equity			
Paid-in capital	16	123,018,641	114,230,766
Reserves		389,354	(524,767)
Accumulated losses		(116,779,039)	(109,702,720)
Total equity		**6,628,956**	**4,003,279**
Total equity and liabilities		**7,536,829**	**5,034,636**

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 March 2017

	Paid-in Capital $	Share Option Reserve $	Foreign Currency Translation $	Accumulated Losses $	Total equity $
Balance at 1 April 2015	110,223,013	1,081,262	(1,678,616)	(104,759,622)	4,866,037
(Loss) after income tax for the year	–	–	–	(4,943,098)	(4,943,098)
Other comprehensive (loss) after tax	–	–	(155,480)	–	(155,480)
Total comprehensive (loss)	–	–	(155,480)	(4,943,098)	(5,098,578)
Capital raising (net of costs)	4,007,753	–	–	–	4,007,753
Issue/vesting of share options	–	228,067	–	–	228,067
	4,007,753	228,067	(155,480)	(4,943,098)	(862,758)
Balance at 31 March 2016	114,230,766	1,309,329	(1,834,096)	(109,702,720)	4,003,279
(Loss) after income tax for the year	–	–	–	(7,076,319)	(7,076,319)
Other comprehensive (loss) after tax	–	–	57,907	–	57,907
Total comprehensive (loss)	–	–	57,907	(7,076,319)	(7,018,412)
Capital raising (net of costs)	8,715,095	–	–	–	8,715,095
Expired and exercised options	72,780	(72,780)	–	–	–
Issue/vesting of share options	–	928,994	–	–	928,994
	8,787,875	856,214	57,907	(7,076,319)	2,625,677
Balance at 31 March 2017	123,018,641	2,165,543	(1,776,189)	(116,779,039)	6,628,956

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 March 2017

	Notes	Year ended March 2017 $	Year ended March 2016 $
Cash Flows from Operating Activities			
Dividends received		356	342
Interest received		63,196	70,623
Rent received		32,919	31,098
R&D incentive received		1,824,007	801,375
Payments to suppliers		(6,677,843)	(4,471,553)
Payments to employees		(1,404,639)	(1,146,192)
Interest paid		–	(12)
Net cash outflow from operating activities	15	**(6,162,004)**	**(4,714,319)**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(46,527)	(39,058)
Net cash inflow/(outflow) from investing activities		**(46,527)**	**(39,058)**
Cash Flows from Financing Activities			
Issue of ordinary shares		8,917,021	4,073,600
Capital raising and listing costs		(201,926)	(65,847)
Net cash inflow from financing activities		**8,715,095**	**4,007,753**
Net increase/(decrease) in cash held		2,506,564	(745,624)
Foreign exchange effect on cash and cash equivalent balances		56,171	(142,650)
Cash at the beginning of the year		3,200,622	4,088,896
Cash at the end of the year		**5,763,357**	**3,200,622**
Cash Balances in the Statement of Financial Position			
Cash and cash equivalents	3	5,763,357	3,200,622
Closing cash balance		**5,763,357**	**3,200,622**

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 March 2017

TABLE OF NOTES

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.

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 April 2016. None of these had a material impact on the financial statements of the Group.

A number of new and revised standards have been issued but are not yet effective. Management have performed a preliminary assessment and have determined that when these standards are adopted for the first time they are unlikely to have any significant impact on the Group.

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 and reflects the pattern of consumption of the future economic benefits of these assets and is 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. 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

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

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 reporting 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 and drug manufacturing industrialisation.

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. 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 members 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 and 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 sub-lease rental and other sundry income. 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.

During the year ended 31 March 2016 the Company received an R&D incentive payment for qualifying R&D expenditure for the year ended 31 March 2015. This was included in "other income" for the year ended 31 March 2016 together with the expected future R&D incentive, for qualifying R&D expenditure for the year ended 31 March 2016. It was established the conditions of this future R&D incentive have again been met for the year ended 31 March 2017 and that the expected amount of the incentive can be reliably measured. As such, it has been accrued and is included in "other income" for the current year ended 31 March 2017.

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 transaction 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 reporting 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 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.

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 te chniques 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 other than superannuation contributions where required by statutory obligations. 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 no operating segments, management review financial information on a consolidated basis. 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.

w. Going Concern

The financial statements have been prepared on a going concern basis after taking into consideration the net loss for the year of $7,076,319 and the cash and cash equivalents balance of $5,763,357. The going concern basis contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the ordinary course of business. The going concern of the Group is dependent upon it maintaining sufficient funds for its operations and commitments. The continuity of normal business and the ability to maintain sufficient funds are both reliant upon a positive outcome from the Groups Phase 2B trial in patients with SPMS which was completed in April 2017. These results are expected in late August or September 2017. Based on the results from the Group's earlier clinical trials and also the anecdotal reporting of positive treatment effects by a number of compassionate use patients over a number of years, the Director's believe a positive trial to be the most likely outcome.

In the event of outright clinical failure, being either serious safety or tolerability concerns and/or no positive effects in the MIS416 treated patients compared to the placebo treated patients, then the Director's believe that it would be difficult to accurately forecast the impact on the Group but it may be unlikely that the Group could continue as a going concern. In such unfortunate circumstances the Directors would most likely need to wind up the Group's operations in an orderly and timely fashion.

In the event of a positive outcome, the Directors believe that sufficient funds can be secured if required by a combination of capital raising, debt financing, licensing partnerships, sale of assets or joint ventures to enable the Group to continue as a going concern and as such are of the opinion that the financial statements have been appropriately prepared on a going concern basis.

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 4 – estimate and receipt of future R&D tax incentive.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	March 2017 $	March 2016 $
Cash at bank (NZD)	39,439	19,470
Cash at bank (AUD)	455,166	171,369
Cash at bank (USD)	497,345	182,206
Cash at bank (EUR)	27,870	–
Demand deposits (NZD)	528,087	27,462
Demand deposits (AUD)	715,450	–
Short term deposits (AUD)	3,500,000	2,800,115
	5,763,357	3,200,622

4. OPERATING LOSS

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

	March 2017 $	March 2016 $
Crediting:		
Interest received	61,192	74,273
R&D tax incentive received (financial year ended 2015)	–	801,375
R&D tax incentive received in excess of the amount accrued in the prior year		
R&D future tax incentive accrued	362,067	–
	1,436,046	1,461,940
Charging:		
Foreign exchange (gain)/loss	55,327	(43,685)
Depreciation – Leasehold improvements	2,181	2,364
– Plant and equipment	26,476	23,027
– Office furniture and fittings	8,295	8,982
(Profit)/Loss on sale of property, plant and equipment	(261)	799
Amortisation of intangible assets	–	534,043
Interest expense	–	12
Rent and leasing expense	147,956	138,032
Employee benefits	1,433,962	1,222,101
Share-based compensation – employees and directors	928,994	228,067

The Company received $801,375 as the R&D tax incentive for qualifying R&D expenses, for the first time, during the year ended 31 March 2016. This was accounted for in 2016 as “Other Income” as it was not accrued as a receivable in 2015. As a result of receiving this first amount in 2016 the Company decided there is sufficient certainty to commence accruing for this future R&D tax incentive, associated with qualifying R&D expenses, as a receivable. The amount of $1,436,046 (2016: $1,461,940) has been included as “Other Income” in the current year together with any excess actually received over the amount accrued in the prior year.

5. INTANGIBLE ASSETS

	March 2017 $	March 2016 $
Intellectual property		
Gross carrying amount		
Balance 1 April	22,152,793	24,031,606
Additions/disposals	–	–
Foreign currency translation	282,805	(1,878,813)
Balance 31 March	22,435,598	22,152,793
Accumulated amortisation		
Balance 1 April	22,152,793	23,497,563
Additions/disposals	–	–
Amortisation for the year	–	534,043
Foreign currency translation	282,805	(1,878,813)
Balance 31 March	22,435,598	22,152,793
Net intangible assets	**–**	**–**

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. This intangible asset has now been fully amortised. 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.

6. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements $	Plant and Equipment $	Office Furniture and Fittings $	Total $
Gross carrying amounts				
Balance at 1 April 2015	114,481	943,507	49,538	1,107,526
Additions	–	28,012	9,926	37,938
Disposals	–	(5,525)	(5,182)	(10,707)
Foreign currency translation	(8,952)	(71,816)	(6,112)	(86,880)
Balance at 31 March 2016	105,529	894,178	48,170	1,047,877
Balance at 1 April 2016	105,529	894,178	48,170	1,047,877
Additions	–	39,495	7,032	46,527
Disposals	–	(9,620)	–	(9,620)
Foreign currency translation	1,348	10,308	615	12,271
Balance at 31 March 2017	106,877	934,361	55,817	1,097,055
Depreciation and impairment losses				
Balance at 1 April 2015	88,134	824,255	34,730	947,119
Depreciation for the year	2,364	23,027	8,982	34,373
Disposals	–	(5,151)	(5,015)	(10,166)
Foreign currency translation	(6,948)	(65,154)	(2,810)	(74,912)
Balance at 31 March 2016	83,550	776,977	35,887	896,414
Balance at 1 April 2016	83,550	776,977	35,887	896,414
Depreciation for the year	2,181	26,476	8,295	36,952
Disposals	–	(8,864)	–	(8,864)
Foreign currency translation	1,001	9,124	209	10,334
Balance at 31 March 2017	86,732	803,713	44,391	934,836
Carrying amounts				
At 31 March 2016	21,979	117,201	12,283	151,463
At 31 March 2017	20,145	130,648	11,426	162,219

At the reporting date no items of property, plant and equipment were held under finance leases (March 2016 nil).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 2017 $	March 2016 $
Trade accounts payables	88,171	73,546
Employee related payables	169,598	155,404
Other accruals	639,822	792,253
Preference shares unpaid	10,282	10,154
	907,873	**1,031,357**

8. SUBSIDIARIES

			Percentage Owned (%)	
Entity	**Principal Activity**	**Country of Incorporation**	**2017**	**2016**
Head Entity				
Innate Immunotherapeutics Limited	Research and Development	Australia	N/A	N/A
Subsidiaries of Innate Immunotherapeutics Limited				
Innate Immunotherapeutics (NZ) Limited	Drug Manufacturing	New Zealand	100	100

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. Directors and Other Key Management Personnel Remuneration

TThe total compensation to directors and other key management personnel during the year was:

	March 2017 $	March 2016 $
Short-term benefits	813,221	707,271
Post-employment benefits	2,169	2,169
Share based payments	821,514	173,379
	1,636,904	**882,819**

10. SHARE BASED COMPENSATION

On 12 November 2013, a new Employee Plan was implemented (the "Employee Plan"). Under the terms of the 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 2016	Employees[1]	Directors[1]
Grant date	24/04/15	–
Share price	$0.20	–
Exercise price	$0.40	–
Expected volatility	80%	–
Option lives (at issue)	4.5 years	–
Expected dividend yield	0%	–
Risk free interest rate	2.06%	–
Fair value at grant date	9.61 cents	–

March 2017	Employees	Directors
Grant date	27/04/16	31/08/16
Share price	$0.33	$0.405
Exercise price	$0.50	$0.65
Expected volatility	80%	80%
Option lives (at issue)	2 years	2 years
Expected dividend yield	0%	0%
Risk free interest rate	1.94%	1.44%
Fair value at grant date	10.66 cents	12.34 cents

1. There were no options granted to directors during the year ended 31 March 2016. There was only one grant of options to a new employee during the year ended 31 March 2016.

	March 2017		March 2016	
Employee Options	Number of options	Weighted Average Exercise price	Number of options	Weighted Average Exercise price
Share options on issue at start of year	3,220,000	$0.40	4,291,759	$0.34
Share options granted	3,190,000	$0.50	200,000	$0.40
Share options transferred	–	–	–	–
Share options exercised	(750,000)	$0.40	–	–
Share options forfeited	–	–	–	–
Share options expired	–	–	(1,271,759)	NZ$0.20
Share options on issue at end of period	5,660,000	$0.46	3,220,000	$0.40
Share options exercisable at end of period	1,715,000	$0.40	1,458,333	$0.40
Weighted average remaining contractual life (years)		1.7 yrs		3.6 yrs

10. SHARE BASED COMPENSATION continued

	March 2017		March 2016	
Directors' Options	Number of options	Weighted Average Exercise price	Number of options	Weighted Average Exercise price
Share options on issue at start of year	7,550,000	$0.50	7,550,000	$0.50
Share options transferred (non-employee)	–	–	–	–
Share options granted	4,850,000	$0.65	–	–
Share options forfeited	–	–	–	–
Share options exercised	–	–	–	–
Share options expired	–	–	–	–
Share options on issue at end of period	12,400,000	$0.56	7,550,000	$0.50
Share options exercisable at end of period	12,108,333	$0.56	6,675,000	$0.52
Weighted average remaining contractual life (years)		1.5 yrs		2.6 yrs

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 during 2017 Nil (2016 Nil) was:

	March 2017		March 2016	
	Number of options	Weighted Average Exercise price	Number of options	Weighted Average Exercise price
Financing Options				
Share options on issue at start of year	6,000,000	$0.51	6,000,000	$0.51
Share options granted	–		–	
Share options transferred	–		–	
Share options exercised	–		–	
Share options expired	–		–	
Share options on issue at end of period	6,000,000	$0.51	6,000,000	$0.51
Share options exercisable at end of period	6,000,000	$0.51	6,000,000	$0.51
Weighted average remaining contractual life (years)		1.2 yrs		2.2 yrs

11. SEGMENT INFORMATION

The Group has no operating segments as management review financial information on a consolidated basis. Clinical trialling 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, is being conducted in Australia. Preclinical R&D, drug manufacturing, and day to day administration are carried out in New Zealand.

	March 2017		March 2016	
	Revenue $	Non-current Assets $	Revenue $	Non-current Assets $
Australia	1,798,113	–	2,263,315	–
New Zealand	33,181	162,219	31,430	151,463
	1,831,294	**162,219**	**2,294,745**	**151,463**

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 equity raisings, 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% (2016: 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 2017 $	Year ended March 2016 $
Loss before taxation	(7,076,319)	(4,943,098)
Provision for income taxes at statutory rates	(1,981,369)	(1,384,067)
Tax effect of permanent differences		
Amortisation of intellectual property	–	141,173
Share based compensation	260,118	63,859
Other non-deductible/(non-assessable) items	35	34
Unrecognised temporary differences	1,260,242	752,702
Unrecognised tax losses	460,974	426,299
Income tax expense	–	–

12. PROVISION FOR INCOME TAX continued

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

	Year ended March 2017 $	Year ended March 2016 $
Current assets:		
Provision for holiday pay	32,687	32,661
Provision for site restoration	5,116	5,173
Other accruals	11,627	8,890
Deferred research and development costs	2,956,817	1,810,776
Non-current assets:		
Intellectual property	1,918,229	1,882,315
Net operating loss to carry forward	2,620,155	2,201,052
Total deferred tax assets at 28%	7,544,631	5,940,867
Deferred tax not recognised	7,544,631	(5,940,867)
Net deferred tax asset	–	–

13. OPERATING LEASES

Minimum non-cancellable lease payments are as follows:

	March 2017 $	March 2016 $
Within one year	62,556	61,524
One to two years	-	–
	62,556	**61,524**

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:

Within one year	10,706	10,301
One to two years	–	–
	10,706	**10,301**

14. COMMITMENTS AND CONTINGENT LIABILITIES

Intellectual Property Royalties – Vendors

Net revenues on product sales and licence revenues arising from the use of MIS416 to treat various diseases (including multiple sclerosis), as described in a number of patent applications filed between 1996 and 2015, are subject to quarterly royalty payments as follows:

i. 1.75% expiring August 2020 (up to a maximum aggregate of US$29,166,665), plus
ii. 1.00% expiring September 2020 (up to a maximum aggregate of US$16,666,666), plus
iii. 3.25% expiring August 2022 in relation to treating HIV or expiring at the end of the respective granted patents in relation to treating other diseases (up to a maximum aggregate of US$54,166,664), plus
iv. Only in relation to treating Alzheimer's disease, 3.00% expiring at the end of the relevant patent (if granted) which was applied for in 2009.

Patents if granted expire approximately 20 years from the date of filing the patent application. In relation to the use of MIS416 to treat multiple sclerosis, the granted patents will expire in approximately 2029 with some slight variation depending on the country of jurisdiction.

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 current Phase 2B trial of MIS416 in patients with SPMS. In the event that the trial is terminated prior to completion, INC Research is entitled to a cancellation fee of 5% of the remaining professional fees that would otherwise be incurred.

Industrialisation Project

The Group has entered into a Master Services Agreement ("MSA") with Batavia Biosciences to develop an industrial scale manufacturing method for the production of MIS416. The MSA provides for up to 12 distinct work packages. The total estimated cost of the 12 work packages as at 31 March 2017 is approximately EUR2,060,000. The Group may terminate the MSA on 60 days' notice in which case the Group is liable to pay for the percentage of work completed, on each work package, prior to the date of written termination notice as well as other reasonable, non-cancellable expenses properly and reasonably incurred.

Collaborations

The Group has not entered into any formal collaborative arrangements that give rise to significant contingencies or capital commitments as at 31 March 2017 (March 2015: Nil).

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

	March 2017 $	March 2016 $
Net Deficit after Tax	(7,076,319)	(4,943,098)
Non-Cash Items:		
Depreciation	36,952	34,373
Amortisation of intangibles	–	534,043
(Gain)/Loss on sale of assets	(526)	799
Share based compensation	928,994	228,067
Changes in Working Capital:		
Accounts receivable and prepayments	71,379	(1,146,964)
Accounts payable and accruals	(122,484)	578,461
Income taxes payable/(receivable)	–	–
Net Cash Outflow from Operating Activities	(6,162,004)	(4,714,319)

16. SHAREHOLDERS' EQUITY

Ordinary Shares

At 31 March 2017, 225,625,991 ordinary shares (March 2016: 196,442,177) 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 2017		March 2016	
	No. of shares	$	No. of shares	$
At start of the period	196,442,177	114,230,766	172,479,822	110,223,013
Shares issued (net of share issue costs)	29,183,814	8,715,095	23,962,355	4,007,753
Expired and exercised options – reserves transfer	–	72,780	–	–
At end of period	225,625,991	123,018,641	196,442,177	114,230,766

Shares Issued

During 2017, 29,183,814 (2016: 23,962,355) new shares were issued.

Options

The Company has on issue 24,160,000 share options to employees, directors and non-employees as at 31 March 2017 (March 2016: 16,870,000).

Share Based Compensation

The movement in fair value of employee, director and non-employee share options of $928,994 (2016: $228,067) corresponds with the amount recorded in expenses during the period and represents the fair value of vested and issued options.

Loyalty Rights Issued

As part of the IPO in 2014, 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 were not transferrable and expired on 19 December 2016. As such, there are no outstanding loyalty rights as at 31 March 2017.

Share Option Reserve

The share option reserve is used to record the fair value of options as at each reporting date. The values of options are transferred between equity components as they expire/are exercised.

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. 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 2017		March 2016	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Non-derivative financial assets				
Loans and Receivables				
i. Accounts receivable	131,770	131,770	76,871	76,871
ii. Other receivables	1,436,046	1,436,046	1,461,940	1,461,940
Non-derivative financial liabilities				
At Amortised Cost				
i. Accounts payable and accrued liabilities	907,873	907,873	1,031,357	1,031,357

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 2017 the Group held NZ$621,256 (2016: NZ$52,030), US$360,268 (2016: US$139,515) and Euro 19,955 (2016: nil) in such accounts and deposits. Should exchange rates strengthen by 10% this would have an impact of A$109,270 (2016: A$22,910).

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 2017, the Group held $4,743,537 (2016: $2,827,577) 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 $23,720 (2016: $14,000).

17. FINANCIAL INSTRUMENTS continued

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:

		Contractual cash flow maturities				
2017 March	**Carrying amount**	**Contractual cash flows**	**Within 6 month**	**6 to 12 months**	**1 to 5 years**	**Later than 5 years**
Accounts payable and accrued liabilities	907,873	907,873	907,873	–	–	–
	907,873	**907,873**	**907,873**	–	–	–
2016 March						
Accounts payable and accrued liabilities	1,031,357	1,031,357	1,031,357	–	–	–
	1,031,357	1,031,357	1,031,357	–	–	–

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 2017 the Group had no such liabilities other than $10,282 (2016: $10,153) of unpaid RPS due to holders not being contactable and accordingly liquidity risk is minimal.

18. AUDITOR'S REMUNERATION

	March 2017 $	**March 2016 $**
Audit and review of financial statements		
Grant Thornton – Australia	46,000	44,500
Overseas Grant Thornton network firms	–	–
Remuneration for audit and review of financial statements	**46,000**	**44,500**
Other Services		
Grant Thornton Australia		
Taxation compliance	9,000	8,500
Assistance on preparation of R&D rebate	10,000	8,000
Overseas Grant Thornton network firms		
Accounting services	–	–
Taxation compliance	10,000	10,000
Total other service remuneration	**29,000**	**26,500**
Total auditor's remuneration	**75,000**	**71,000**

19. 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 2016 or 2017).

The weighted average number of shares for both basic and diluted EPS in 2017 was 212,734,166 (2016: 181,145,660).

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 2017	March 2016
Basic EPS – cents	(3.3)	(2.7)
Diluted EPS – cents	(3.3)	(2.7)

20. 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.

The Group estimates that approximately $700,000 (2016: $4,000,000) will be required to complete the Phase 2B clinical trial of MIS416. The Group expects that $305,000 (2016: $1,800,000) should be received as an R&D incentive payment on this remaining research and development in relation to the Phase 2B trial of MIS416.

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.

21. SUBSEQUENT EVENTS

On 19 April 2017 the Board resolved to grant 500,000 options to the CEO (Mr Simon Wilkinson) subject to shareholder approval at the Annual General Meeting on 30 August 2017. The options will have an exercise price of $0.80 and an expiry date of 31 August 2018.

On 20 April 2017 the Group announced that the last patient enrolled into the Company's Phase 2B trial of MIS416 in patients with SPMS had completed their last study related clinical visit.

No matters or circumstances have arisen since the end of the financial year which are 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

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 2017 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 2017.

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 22nd of June 2017

Independent Auditor's Report

The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000

Correspondence to:
GPO Box 4736
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF INNATE IMMUNOTHERAPEUTICS LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of Innate Immunotherapeutics Limited (the Company), and its subsidiaries (the Group) which comprises the consolidated statement of financial position as at 31 March 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying consolidated financial report of Innate Immunotherapeutics Limited, is in accordance with the *Corporations Act 2001*, including:

a Giving a true and fair view of the Group's financial position as at 31 March 2017 and of its performance for the year ended on that date; and

b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Grant Thornton

Material uncertainty regarding going concern

Without qualification to the conclusion expressed above, we draw attention to Note 1 to the financial statements which notes an operating loss after tax of $7,076,319 for the year ended 31 March 2017 and indicates that the ability of the company to continue as a going concern is dependent on the success of clinical trial results due post the date of this report. This condition, along with other matters set forth in Note 1, indicates the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Our opinion is not modified in relation to this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial report of the current period. These matters were addressed in the context of our audit of the consolidated financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Research and Development rebate income ***Note 4***	
The company has accrued a material estimate for the Research and Development rebate that is collectible from the Australian government relating to Research and Development expenditures for the period. This area is a key audit matter due to the inherent subjectivity involved in the Company making judgements relating to the key inputs and assumptions used to calculate the rebate.	Our procedures included, amongst others: • Reviewing the expenditures for appropriateness in relation to the Research and Development claim policy and ensuring consistent with historical approved claims; • Utilising an auditors expert to assess the eligibility of amounts claimed; • Reviewing the accounting treatment of Research and Development rebates received as grant income for appropriateness in line with AASB120; and • Testing the accuracy of the calculation of the Research and Development tax incentive and agreeing inputs to supporting documentation.

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 March 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Grant Thornton

Responsibilities of the Directors' 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 and for 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.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report
Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our auditor's report.

REPORT ON THE REMUNERATION REPORT

Opinion on the Remuneration Report
We have audited the Remuneration Report included in the directors' report for the year ended 31 March 2017.

In our opinion, the Remuneration Report of Innate Immunotherapeutics Limited, for the year ended 31 March 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities
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.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M. A. Cunningham
Partner – Audit & Assurance

Melbourne, 22 June 2017

Shareholder Information

as at 7 July 2017

a. Number of IIL shareholders **3,269**
b. Total shares issued **225,625,991**
c. Percentage of total holdings by or on behalf of the 20 largest shareholders **225,625,991**
d. Distribution schedule of holdings

Ordinary Shares	Number of Holders
1 – 1,000	626
1,001 – 5,000	942
5,001 – 10,000	444
10,001 – 100,000	999
100,001 and over	268

e. Shareholders with less than a marketable parcel: **1,880**
f. Voting rights: Every member 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	37,899,139	16.80
2.	Merrill Lynch (Australia) Nominees Pty Limited	15,336,210	6.80
3.	Citicorp Nominees Pty Limited	8,453,690	3.75
4.	Ms Caitlin Collins	5,200,000	2.30
5.	Mr Glenn Arthurs	4,406,456	1.95
6.	HSBC Custody Nominees (Australia) Limited	4,122,550	1.83
7.	BNP Paribas Nominees <IB AU Noms Retailclient DRP>	3,880,506	1.72
8.	P Watkins + M Pollard + J Phibbs <Watkins Family A/C>	3,777,500	1.67
9.	Probe International Inc	3,692,689	1.64
10.	Chep II LLC	3,525,319	1.56
11.	BNP Paribas Noms Pty Ltd <DRP>	2,889,367	1.28
12.	Thomas Massung	2,800,000	1.24
13.	Mr Neil Ross Brown	2,798,192	1.24
14.	D Ross Arthurs <G W Arthurs Irrevocable A/C>	2,600,000	1.15
15.	Nelgra Solution Pty Ltd <Nelgra Superfund A/C>	2,500,000	1.11
16.	J P Morgan Nominees Australia Limited	2,001,781	0.89
17.	A + B Wiltshire + D Rishworth <Wiltshire Family A/C>	1,371,999	0.61
18.	Ms Heidi Dent	1,206,459	0.53
19.	Richard Taylor	1,200,000	0.53
20.	James D Dixon	1,076,663	0.48

Substantial Shareholders	Shares to which Entitled	% of Issued Capital
Christopher Collins	37,899,139	16.80

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 and CEO)

Elizabeth Hopkins
(Non-Executive Director)

Christopher Collins
(Non-Executive Director)

Andrew Sneddon
(Non-Executive Director)

Robert Peach
(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
Website: www.innateimmuno.com

New Zealand Office

4B Walls Road
Penrose
Auckland 1061 New Zealand

Telephone: + 64 9 525 0532

Auditors

Grant Thornton Audit Pty Ltd
The Rialto, Level 30
525 Collins Street
Melbourne VIC 3000 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
Website: www.investorcentre.com/contact

Innate
Immunotherapeutics