

Imugene Market Update

31 January 2007

Quarterly Report to 31 December 2006

Highlights:

- **Efficacy trial success of Imugene's new avian influenza vaccine candidates. Potentially the world's first easy-to-administer bird flu vaccines for poultry.**
- **Awarded \$882,000 *Commercial Ready Grant* for the development of avian influenza vaccines as well as diagnostic tests**
- **Milestone payment from licensee Merial Ltd for progress of the Poultry Productivity Enhancer. PPE is Imugene's lead product improves health and growth of poultry**
- **Approval of pig vaccine patent in Europe**
- **Coccidiosis poultry vaccine candidates finalised**
- **US Pig trials for PRRS vaccine to begin**
- ***Bioshares* report on Imugene**

Avian Influenza—Protecting Poultry

In November 2006 Imugene's new bird flu vaccines started trials in a high security bio-containment facility in Nebraska USA. These vaccines developed earlier last year by Imugene are designed to protect chickens and to be orally administered in drinking water to large populations of birds. This was a proof-of-concept efficacy trial using the H5N1 strain bird flu for broilers (meat producing) and layer/broiler breeder poultry.

Benchmark Biolabs undertook the trial at its approved Animal and Laboratory Biosafety Level 3 (BSL-3) laboratory and trial facility. It is one of the few locations worldwide authorized to conduct animal trials with infectious agents such as avian influenza.

Earlier this week Imugene announced positive preliminary results for the lead broiler vaccine candidate. This vaccine has achieved proof of concept and will progress to product development.

Perth Office

Level 20, Allendale Square
77 St Georges Terrace
Perth WA 6000
Tel: +61 8 9440 2660
Fax: +61 8 9440 2699

ABN: 99 009 179 551

Sydney Office

Registered Office
Level 1, 14 – 20 Delhi Road
North Ryde NSW 2113
Tel: +61 2 9870 7330
Fax: +61 2 9888 9338

www.imugene.com

The broiler vaccine stimulated the required immune response to protect two thirds of vaccinated birds against a very high dose of a highly pathogenic Asian strain of the H5N1 avian influenza virus. All control birds (not vaccinated) died. The challenge dose ultimately used in this trial was many times more severe than bird flu outbreaks in the field.

These results are the first indication of protection for birds with oral administration of a bird flu vaccine. The Company expects to achieve higher levels of protection with refinement of the vaccine candidates and adjustments to the dose and timing of administration. These optimisation procedures will occur after the full trial report has been received and analysed. Future challenge trials will use lower virus challenges to simulate the naturally occurring bird flu outbreaks in the field.

About the Imugene avian influenza vaccines

Imugene is developing two vaccines – one for broiler (meat producing) birds and the other for breeding and egg layer birds. The commercial requirements for broilers and breeders or layers vary. The main aim for a commercial bird flu vaccine for broilers is to provide immunity early in a bird's life as broilers reach market weight by 42-49 days of age. Layer birds and birds used for broiler breeding need longer lasting immunity.

An effective orally administered vaccine could protect the world's poultry industry from avian influenza outbreaks and halt the spread to Australia, Europe and the US.

A commercially viable vaccine to control outbreaks must be safe, effective and able to be quickly and easily administered on a large scale.

Imugene's vaccine under development:

- allows authorities to differentiate between infected and vaccinated birds
- delivers only a portion of flu genetic material ensuring the vaccines are safe by preventing mutations or recombination
- is cost effective for mass administration to entire poultry sheds probably as a drinking water additive
- is specific to the H5N1 avian influenza but can be readily be adapted to protect against other bird flu virus strains
- does not require the injection to be injected as does most exiting treatments

Commercial Ready Grant

In November 2006 Imugene won an Australian Federal Government grant to develop the two bird flu vaccines as well as diagnostics for poultry. The Commercial Ready Grant of \$880,000 will be drawn over two years starting on 1 October 2006. Imugene is matching the grant dollar-for-dollar.

Industry Minister Ian Macfarlane congratulated Imugene and said, "bird flu is deadly and unpredictable and a project to test vaccines to protect chickens from the virus will be an enormous breakthrough."

Poultry Productivity Enhancer (PPE)

Imugene's PPE licence to Merial is an important external validation of the technology by one of the major international animal health pharmaceutical companies. Merial is managing development of the PPE..

During the quarter Dr Bob Nordgren, Vice President Biologics, Research, Development & Technology Acquisition at Merial stated, "key regulatory elements of the product development program were satisfied with the positive results from the safety trials conducted in Australia and the previously agreed milestones remain in place."

Merial has remitted a milestone payment and Imugene will earn further milestone payments throughout the product development. Imugene will also receive royalty payments on product sales.

As previously reported Imugene has completed the final safety trials requested by the Office of Gene Technology Regulator (OGTR). The results re-confirmed the PPE's safety with all regulatory trial endpoints being easily satisfied. The final OGTR dossier will soon be submitted seeking 'intentional release' for the PPE in Australia. This is a major step toward commercialising the product.

The PPE remains on track to become Imugene's first vaccine product in the market.

About Merial

Merial is a world-leading, innovation-driven animal health company producing pharmaceutical products and vaccines for livestock, pets and wildlife. Millions of doses of Merial products are administered each year to keep livestock and pets healthy.

Merial employs about 5,000 people and operates in more than 150 countries. Its 2004 sales were over \$1.8 billion. Merial is a joint venture of Merck & Co. and sanofi-aventis. www.merial.com.

Pig Vaccines—Approval of European Patent

During the quarter Imugene's *Porcine Adenoviral Delivery Vector* technology patent was approved in Europe. The *Porcine Adenoviral Delivery Vector* is the base technology behind all Imugene's pig vaccines.

With official grant of the European patent, Imugene will have patent protection for the *Porcine Adenoviral Delivery Vector* technology in Europe and the US in addition to other major pig producing countries.

The new provisional patent lodged in 2006 covers improvements in the effectiveness of vaccines and further commercial advantages such as possible dose reduction and reduced frequency of administration. The new patents prolong commercial protection and extend the duration of future royalty income for all the pig vaccine products.

Poultry Coccidiosis Vaccines

Most of the required versions of the coccidiosis vaccine candidates have been constructed and are ready for animal trialing. These have been prepared for Abic Biological Laboratories Teva Ltd, (Abic) the animal health division of Israeli-based Teva Pharmaceutical Industries Ltd.

Imugene constructed the vaccines for trial based on its patented Adenoviral Vector Delivery System using patented coccidia genes supplied and owned by Abic. Imugene has provided input into the proposed trial design and the candidates will be shipped to Abic for poultry trials.

Coccidiosis is one of the most common and costly diseases in poultry and is prevalent worldwide. Apart from causing weight loss and poor feed conversion, the death rate in chicks and adult birds can be high. Coccidia is the second biggest poultry health product, second to in-feed antibiotics currently fed to poultry.

Pig PRRS Vaccine Trial to Begin in US by June 07

As reported last quarter Imugene had successfully completed optimisation work with the PAV vectored PRRS (Porcine Reproductive and Respiratory Syndrome) vaccine candidates. Planning is nearly complete for the US-based trial scheduled for the first half of 2007.

The trial planning including protocol and trial facility have been finalised and we anticipate this trial should commence during the June 07 quarter.

PRRS is one of the most economically damaging diseases of pigs worldwide causing industry losses of up to \$1 billion each year. Initially recognised in the US in 1987 the disease spread to Europe in 1990 and subsequently across most of the rest of the world. Australia is one of three countries to be considered PRRS-free.

Positive results from this trial will assist Imugene's licensing negotiations with major international animal health companies.

***Bioshares* report**

Independent Australian life sciences analysts at *Bioshares* have reported positively on Imugene in a recently published report. In a feature report on Imugene's progress in its 17 January edition *Bioshares* cited: "Imugene has traveled through the latest downturn in the biotech sector remarkably well." The company was praised for the way it has raised funds, prioritised products with the strongest commercial prospects, its business model of contracting-out research and its low cash-burn. Imugene also received high favour for its technology.

- ENDS -

About Imugene (ASX: IMU)

Imugene specialises in commercialising animal health products for production animals including pigs and poultry.

Imugene owns the worldwide rights to the *Fowl Adenoviral Vector Delivery System* for poultry and the *Porcine Adenoviral Vector Delivery System* for pigs. Imugene has successfully licensed the first product based on the *Fowl Adenoviral Vector Delivery System* – the *Poultry Productivity Enhancer*.

Imugene's poultry and pig portfolio is targeting a worldwide US\$3 billion annual market with four lead vaccine products under development and a strong product pipeline. Consumer demands for disease free and residue free food will bolster Imugene's prospects.

Imugene's products safely prevent disease and reduce or eliminate antibiotics and harmful chemicals in animals. Animal antibiotics and chemicals in the human food chain have been linked to the emergence of dangerous resistant bacteria in people and food residues.

For more information please visit the Imugene Website www.imugene.com

For more information:

Dr Warwick Lamb
Managing Director
+61 2 9870 7330

Mr Graham Dowland
Executive Chairman
+61 8 9440 2660

Mr Rudi Michelson
Monsoon Communications
+61 3 9620 3333

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001

Name of entity

IMUGENE LIMITED

ABN

99 009 179 551

Quarter ended ("current quarter")

31 December 2006

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) staff costs	(144)	(440)
(b) advertising and marketing	-	-
(c) research and development	(229)	(299)
(d) leased assets	-	-
(e) other working capital	(270)	(606)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	23	55
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other:		
Government grants	102	393
Other	80	80
Net operating cash flows	(438)	(817)

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

	Curent quarter \$A'000	Year to date (3 months) \$A'000
1.8 Net operating cash flows (carried forward)	(438)	(817)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	(4)
(e) other non-current assets	-	-
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other (provide details if material)	-	-
Net investing cash flows	-	(4)
1.14 Total operating and investing cash flows	(438)	(821)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	-	-
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.20 Other (provide details if material)	-	-
Net financing cash flows	-	-
Net increase (decrease) in cash held	(438)	(821)
1.21 Cash at beginning of quarter/year to date	2,314	2,697
1.22 Exchange rate adjustments to item 1.20	-	-
1.23 Cash at end of quarter	1,876	1,876

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000								
1.24	Aggregate amount of payments to the parties included in item 1.2	(112)								
1.25	Aggregate amount of loans to the parties included in item 1.11	Nil								
1.26	<p>Explanation necessary for an understanding of the transactions</p> <table border="1" style="width: 100%;"> <tr> <td style="width: 5%;">(i)</td> <td>Executive salaries, bonuses, consulting fees and superannuation entitlements;</td> </tr> <tr> <td>(ii)</td> <td>Reimbursement of expenses;</td> </tr> <tr> <td>(iii)</td> <td>Provision of legal services; and</td> </tr> <tr> <td>(iv)</td> <td>Non-executive directors fees</td> </tr> </table>		(i)	Executive salaries, bonuses, consulting fees and superannuation entitlements;	(ii)	Reimbursement of expenses;	(iii)	Provision of legal services; and	(iv)	Non-executive directors fees
(i)	Executive salaries, bonuses, consulting fees and superannuation entitlements;									
(ii)	Reimbursement of expenses;									
(iii)	Provision of legal services; and									
(iv)	Non-executive directors fees									

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

None

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

None

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	Nil	N/A
3.2	Credit standby arrangements	Nil	N/A

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	514	714
4.2 Deposits at call	1,250	1,600
4.3 Bank overdraft	-	-
4.4 Other (Grant Account)	112	-
Total: cash at end of quarter (item 1.22)	1,876	2,314

Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity	N/A	N/A
5.2 Place of incorporation or registration	N/A	N/A
5.3 Consideration for acquisition or disposal	N/A	N/A
5.4 Total net assets	N/A	N/A
5.5 Nature of business	N/A	N/A

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does ~~does not~~ give a true and fair view of the matters disclosed.

Sign here: Date: 31 January 2007
(Director/Company secretary)

Print name: Alex Neuling

+ See chapter 19 for defined terms.