Safe biological methods
for improving poultry and pig health

Annual Report 2010

For the year ended 30 June 2010

IMUGENE
LIMITED

CORPORATE DIRECTORY

Directors

Mr Graham Dowland – Executive Chairman
Dr Warwick Lamb – Managing Director
Mr Roger Steinepreis – Non-Executive Director

Chief Scientific Officer

Dr Michael Sheppard

Company Secretary

Ms Julie Foster

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Steinepreis Paganin

Patent Attorney

McAndrews Held & Malloy Ltd
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Chicago, IL 60661

Investor Relations Consultant

Buchan Consulting Pty Ltd
Level 13, 499 St Kilda Road
Melbourne VIC 3004

Auditor

BDO Audit (WA) Pty Ltd
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Subiaco WA 6008

Bankers

Australia and New Zealand Banking
Group Limited

Stock Exchange Listing

Imugene Limited shares
are listed on the Australian Securities
Exchange (Symbol: IMU).

Website and Email

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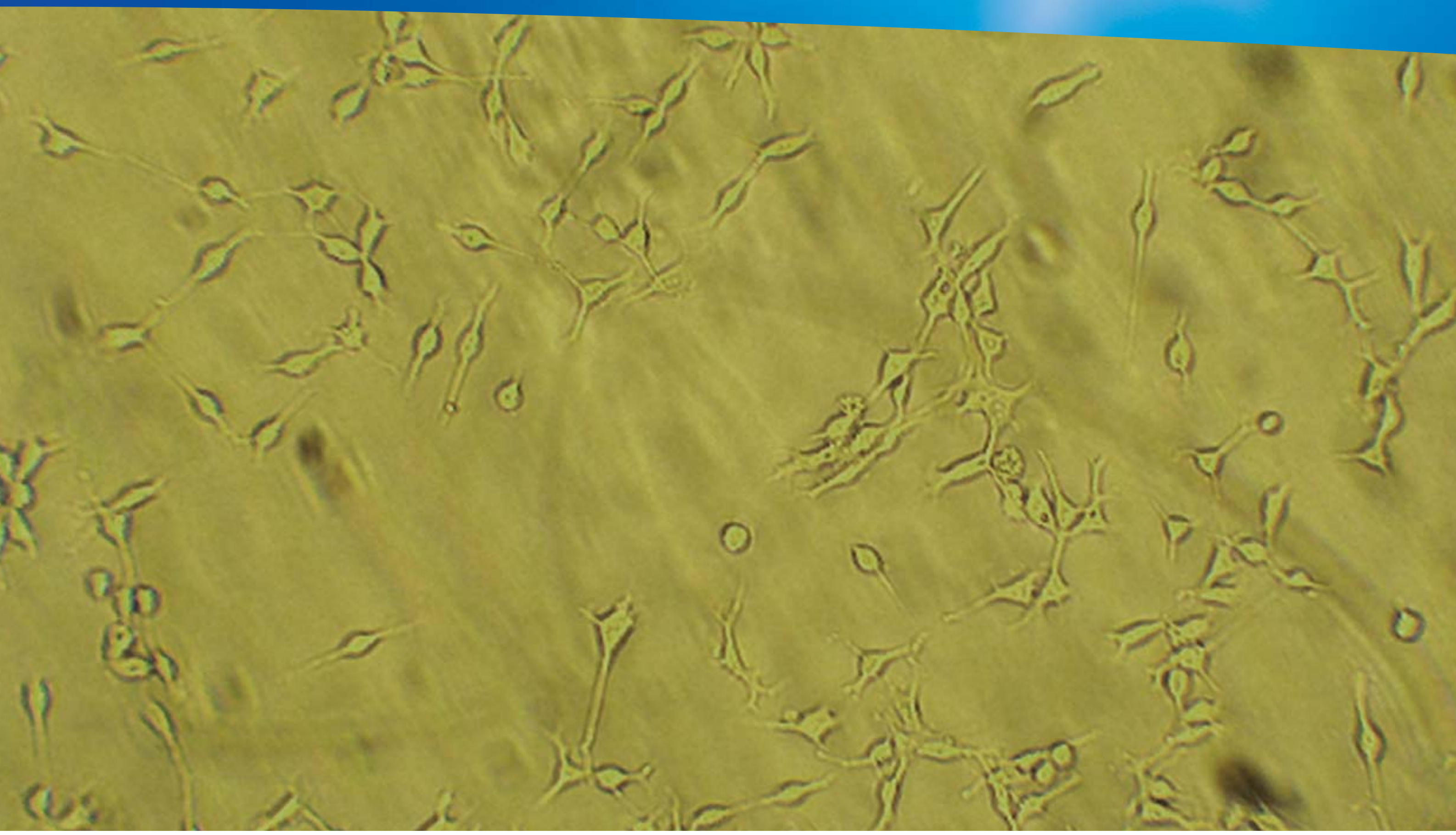

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2010 HIGHLIGHTS

- **New global license agreement signed**
  Imugene has signed an agreement with Novartis Animal Health Inc., a leading international animal health company, for a worldwide exclusive licence to all Imugene's intellectual property and knowhow. Novartis will pay the costs of developing products and Imugene will receive an initial payment, milestone payments and royalties

- **PRRS vaccine development progresses**
  Results of further US trials of Imugene's vaccine against porcine respiratory and reproductive syndrome (PRRS) confirmed the efficacy of one of Imugene's lead products in decreasing the severity of disease caused by infection with the PRRS virus in pigs

- **Laboratory success continues**
  Notable achievements include improvements to vaccine production techniques that further reduce manufacturing costs and may improve efficacy for Imugene's pig vaccines

- **Patent portfolio strengthened**
  Two new patents have been lodged in the US covering improved production techniques for the pig vaccines and improved patent protection for a lead vaccine. These patents if granted will extend royalty life for the pig vaccines to about 2028.

Dear Shareholders,

It is my pleasure to share with you the very recent news that Imugene has secured a licensing agreement with Novartis Animal Health Inc., one of the world's leading animal health companies. Under the agreement, Imugene has granted Novartis exclusive global rights to commercialise our vaccines for pigs and poultry.

This is an important win for Imugene. The fact that we have been able to execute another partnership agreement with one of the top animal health companies in the world is testament to the strength and commercial potential of our technology.

Our leading news last year was the establishment of a strategic alliance with animal health company, Merial. When it became clear that Merial would not meet our financial or timing expectations, we acted quickly to commence negotiations with other parties – conscious of minimising any disruption to our business development plans. Whilst the previous alliance deal yielded a significant cash injection to Imugene, Merial's budgetary, corporate activity and research and development priorities were always going to influence the direction and longevity of the deal. Significant progress was made with several of our products during the strategic alliance with Merial and these advances will benefit the product development process now as we move forward. Our new agreement with Novartis lays the foundation for a mutually beneficial, long-term partnership.

We were quietly confident that we could re-license our vaccines and intellectual property to a new partner. We were unwavering in our resolve to secure a partner that aligned with our stated business strategy – one with the necessary expertise, experience and infrastructure to progress our products through the remaining stages of development, regulatory approval, marketing and sales. We firmly believe this strategy is the best way for Imugene to restrict capital outlay, minimise dilution to shareholders and drive income from royalty payments to maximise shareholder returns over the longer term.

While I appreciate shareholders' frustration that Imugene is unable to disclose specific details regarding the financial and operating terms of the license agreement, I ask you to understand that confidentiality is a rigid requirement from Novartis. The positive news is the agreed financial terms enable Imugene to operate its business without the need for shareholder equity funding or debt funding, thereby minimising dilution to your existing ownership.

Of interest to shareholders will be comments received from Ron Brakke, principal of Brakke Consulting Inc., our very well respected specialist animal health consultancy in North America. Ron is a 30-year veteran of the licensing arena internationally and assisted Imugene with its negotiations. He is of the view that the agreement reached is out of the ordinary and represents excellent value to Imugene, particularly as product development matures. Ron has stated on several occasions that he believes Imugene technology has found a perfect home in the developing Novartis animal vaccine business.

While commercial partnering negotiations were a major focus this year, we have also advanced the development of our lead product, the Porcine Reproductive and Respiratory Syndrome (PRRS) vaccine, with very pleasing results. We successfully completed another trial of this vaccine that was designed, amongst other things, to enable us to streamline the regulatory approval process for the USA.

Our lab has also been busy behind the scenes. With partnering as our ultimate goal the laboratory focus has been to improve and optimise vaccine manufacturing and regulatory parameters. Details of this work are contained within this Annual Report.

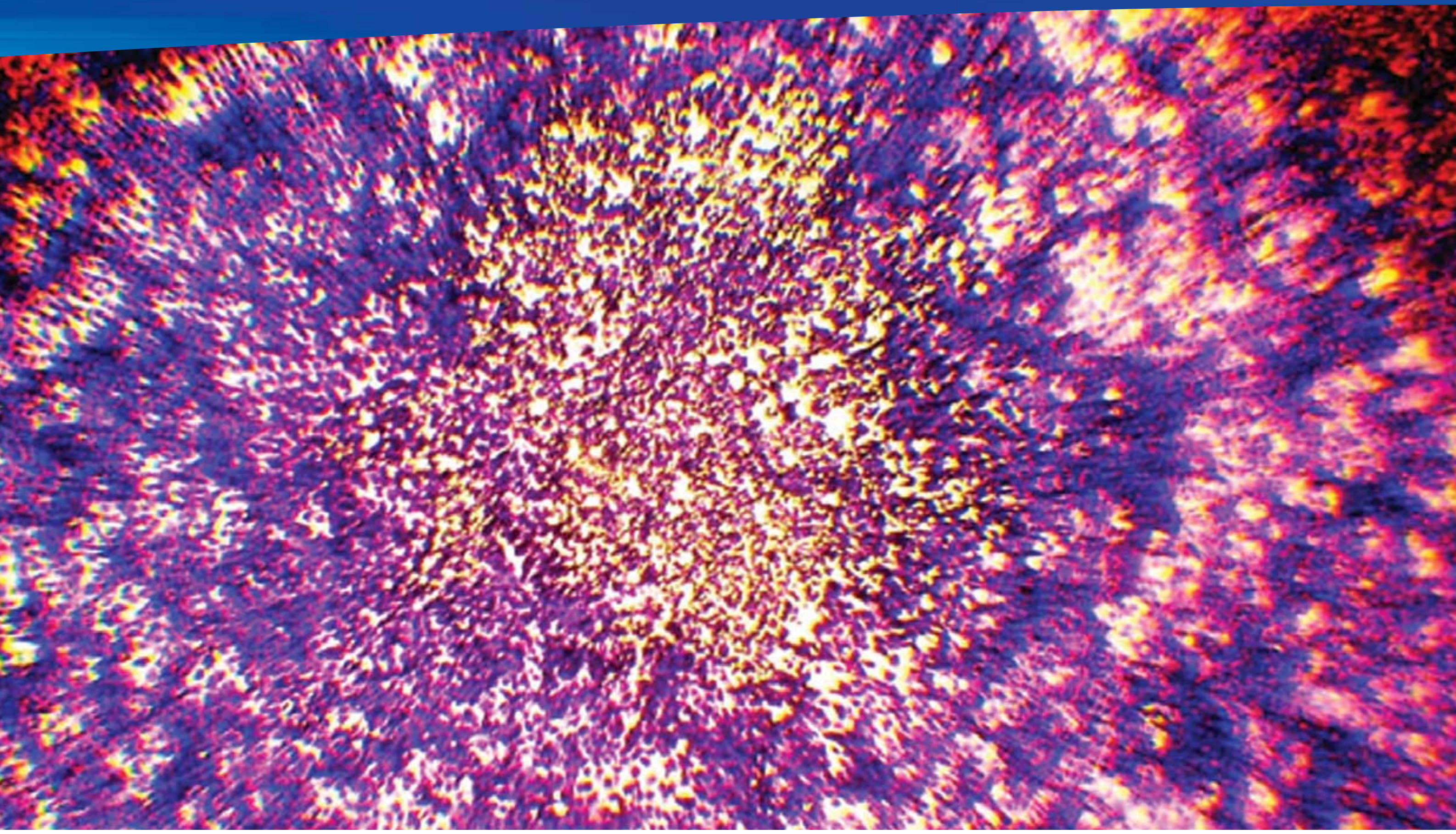
We are very excited about the prospects ahead for Imugene. We have an excellent platform technology and product and IP portfolio and the support of a world leading partner. We also have a dedicated and talented team, who again I thank for their hard work and persistence – especially CEO Dr Warwick Lamb, Chief Scientific Officer Dr Michael Sheppard, and his assistant Sui Lay.

Finally, I thank you, our shareholders, for your ongoing support of the company.

Yours sincerely,

Graham Dowland
Chairman

OPERATIONS REPORT



Global Licensing Agreement

We are pleased to report that Imugene has secured a global licensing deal with Novartis Animal Health, a leading international animal health company, for the commercialisation of the vaccines and productivity enhancers in our portfolio.

Imugene management was active throughout the first half of 2010 in discussions with potential partners for development of our pig and poultry vaccines and productivity enhancers. When it became clear that a revised agreement with Merial would not meet our desired financial conditions or time frame, we acted quickly to identify possible new partners and commence discussions.

In July, we selected a preferred partner, and then both parties undertook extensive due diligence required to take negotiations to the final stage.

Due to confidentiality agreements the financial terms of the deal cannot be disclosed, but we are pleased with the terms of the agreement and are confident this will be a strong partnership.

The agreement gives the licencee, Novartis, exclusive global rights to all of Imugene's technology, intellectual property and know how including its vaccines and productivity enhancers.

Product Pipeline

Porcine Reproductive and Respiratory Syndrome (PRRS) vaccine

Throughout the year we made significant advances in the development of our lead product, the vaccine against PRRS.

PRRS is caused by a viral infection and results in damage to the lungs of pigs, as well as increased incidence of abortion, premature farrowing and stillborn piglets. It is regarded as one of the most damaging diseases to affect the pig industry, worldwide, causing productivity losses of up over US$1 billion every year.

Our vaccine under development for protecting pigs from PRRS has undergone trials at a specialty pig trial facility in the US. The results of the most recent trial, announced in September 2010, confirmed previous results that Imugene's lead vaccine was effective in decreasing the severity of PRRS in the pigs. The clinical parameters used in the recent trial were based on those used by the US Department of Agriculture (USDA) in the regulatory evaluation and approval process for PRRS vaccines.

Importantly, the vaccine in the recent trial was produced using a different type of cell, a modification to the existing method of manufacture designed to simplify the anticipated vaccine registration process.

The pigs in the recent trial were all infected with the PRRS virus, but not all of them were given the Imugene vaccine. Those that received our vaccine had less damage to their lungs, and lower virus levels in their blood and lungs, all results that indicate protection from PRRS by Imugene's pig-specific adenoviral-based vaccine.

Other products in development

Work in our laboratory at La Trobe University in Melbourne continued to focus on refining our vaccine candidates and improving manufacturing and production. In particular, this work has enabled us to grow to significantly higher levels the PAV viruses used in the vaccines. Higher viral numbers mean lower cost of goods for the vaccines and could also mean that a lower dose will be required to protect the pigs from disease. Together, the two effects can significantly reduce the cost of each vaccine dose, thereby improving the profit margin on these products.

Following the successful PRRS trials in the US, it became clear that the best commercial path would involve creating a separate PRRS vaccine specifically for the European market, as the strain of virus in Europe is different to that in the US and Asia. Work in our laboratory over the last 12 months has resulted in the successful construction of the European PRRS vaccine candidates. Based on the same effective components used in our US PRRS vaccine, the European PRRS vaccine candidates use genetic material specific to the most prevalent European PRRS virus strains and are ready to move to animal trials similar to those already conducted using our US PRRS vaccine.

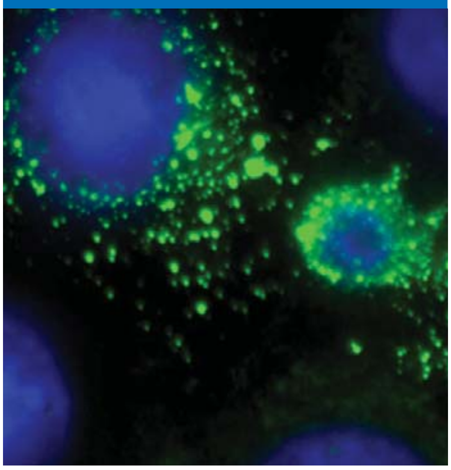
About porcine respiratory and reproductive syndrome (PRRS)

PRRS is one of the most damaging diseases to affect the pig industry worldwide, leading to estimated losses of about US$1 billion per annum. PRRS is caused by a virus that infects the respiratory tract. Infection with the PRRS virus is associated with increased incidences of abortion, premature farrowing and still born piglets.

In trials of PRRS vaccines, the extent of infection is determined by the amount of damage in the lungs (lung lesion scores) and the number of viral particles and how long they persist in the blood and lungs of infected pigs.

The market

The total value of the global pig health products market is estimated to be in excess of US$4 billion per annum and the market for biological products is projected to grow substantially over the next five years as the markets for antibiotics-supplemented feed shrink. The new biological products will include vaccines for diseases such as PRRS and biological productivity enhancers to replace antibiotics.



Imugene's Product Portfolio

Poultry	Pigs

• **Coccidiosis preventative vaccine**
  • Challenge trials showed very strong protection against this major poultry disease
• **Immune system boosting 'Poultry Productivity Enhancer'**
  • Trials have proven >10% improvement in weight gains and feed conversion
• **Avian Flu (H5N1) preventative vaccine & Diagnostic**
  • Challenge trials proved Imugene's vaccine 100% effective with in ovo and oral vaccine administration
  • Suitable for administration on mass scale (broiler birds) as no injection or handling of birds required
• **Avian Flu (H7 & H9) preventative vaccine**
  • Vaccines have completed the laboratory construction stage
  • Ready for animal trials
• **Infectious Bursal Disease preventative vaccine**
  • Vaccines at the laboratory construction and testing stage
• **Chicken Anemia Virus preventative vaccine**
  • Vaccines at the laboratory construction and testing stage
	• **Porcine Reproductive & Respiratory Disease preventative vaccine**
	  • Proved highly effective in US-based trials conducted by Imugene since 2008
	  • Additional vaccine for European PRRS virus completes laboratory phase and now ready for clinical trials
	• **Porcine Circovirus disease - preventative vaccine**
	  • Undergoing vaccine laboratory development
	• **Classical Swine Fever preventative vaccine**
	  • Proven effective, requires regulatory applications and approvals
	• **Immune system boosting 'Porcine Productivity Enhancer'**
	  • Vaccines at the laboratory construction and testing stage

Simplified commercialisation pathway in animal health compared to human health

Depending on the jurisdiction, the pathway to market of animal health products takes from two to five years, proceeding via the following stages.

Imugene's platform technology

By definition, a true 'platform' technology must support the continued creation of novel products or processes, and therefore a long-term research and development.

Patent-protected adenoviral delivery vectors, specific for pigs or poultry, form the basis of Imugene's platform technology.

Benefits

Engineered adenoviral vectors can:

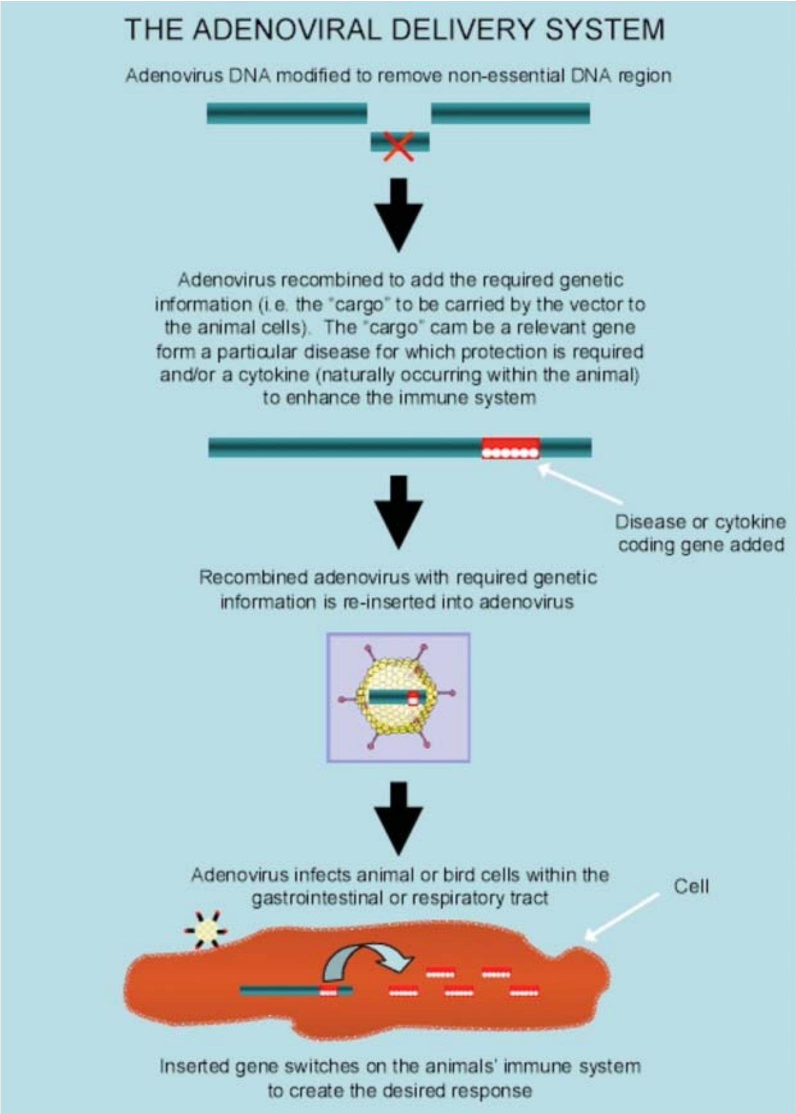
- carry the genes of the viral or bacterial proteins associated with each specific infectious disease
- enhance productivity by carrying a gene for a natural pig or poultry protein that acts to strengthen the immune system – healthy animals gain weight more quickly than those expending metabolic energy to fight infection
- enhance productivity without the need for chemicals such as antibiotics, drugs and hormones

About Imugene's vaccines

Imugene applies proprietary technology to make its 'adenoviral vector (AV) vaccines', special viruses that are taken up by pig or poultry tissue, but do not cause disease. The viruses are engineered to contain genes for proteins that stimulate the animal's immune system. When cells take up the virus, they make the protein of interest, which in turn stimulates the immune response that provides protection against disease if the animal is later infected with the disease virus.

Advantages of Imugene's AV vaccines

- Effective in decreasing the severity of disease
- Biological, so they leave no chimerical residue in foods
- Safe to use
- Flexible, being able to carry more than one gene
- Easy to deliver to the animal (by oral, spray or injected routes)
- Readily targeted to different tissues, eg the respiratory or gastrointestinal tracts
- Low cost of manufacture
- High levels of production



Why the need for poultry productivity enhancers

The overuse of antibiotic supplements in poultry feed has been blamed for the rise in antibiotic resistance in bacteria that pose substantial, sometimes fatal, threats to human and animal health. Europe has already banned the use of antibiotics for growth promotion in animal feed and the US is under pressure to follow.

Imugene's poultry productivity enhancer (PPE) vaccine causes increased production of a natural protein that stimulates the immune system of the chickens, thereby increasing protection against a range of bacterial and viral infections while improving growth rates and decreasing mortality.

Increased protection against these infections improves growth rates, reduces mortality and improves feed conversion ratios, thereby reducing the cost of production.

The market

In excess of 50 billion broilers are produced globally each year, often under intensive conditions that increase the risk of disease among the flocks.

Poultry Adenovirus Patents (FAV) (19821 Family)

Country/Jurisdiction	Patent/Application No.	Status
United States	6296852	Granted
Australia	676042	Granted
New Zealand	263772	Granted
Europe	690912	Granted; Validated in Germany, France, Italy, Belgium, Great Britain, The Netherlands
Japan	6522542	Granted
Europe	5076351.5	Pending

Pig Adenovirus Patents (PAV) (19814 Family)

Country/Jurisdiction	Patent/Application No.	Status
United States	7323177	Granted
United States	7473428	Granted
United States	12/197056	Granted
United States	6492343	Granted Reissue filed (11/518,612) and Notice of Allowance received
New Zealand	503039	Granted
Europe	1007088	Granted; Validated in Austria, Belgium Switzerland, Cyprus, Germany, Denmark, Spain, Finland, France, Great Britain, Greece, Ireland, Italy, Luxembourg, Monaco, The Netherlands, Portugal, and Sweden
Japan	2000-509443	Issued
Vietnam	4355	Granted
Brazil	98111841	Pending
China	10366292	Granted
Hong Kong	1032755	Granted
Indonesia	0014936	Granted
Korea	746524	Granted
Mexico	2000-001562	Allowed
United States	11/518,612	Issued
Australia	0757683	Granted
Europe	07005454.9	Pending

Methods and Compositions for Increasing Tissue Tropism of Recombinant Vectors (19822 Family)

Country/Jurisdiction	Patent/Application No.	Status
Argentina	070103361	Pending
Patent co-operation treaty countries	PCT/IB07/002710	Pending
Taiwan	096127865	Pending
Australia	2007278887	Pending
Brazil	0714932-8	Pending
Canada	2,658,805	Pending
China	200780026689.3	Pending
Europe	07804942.6	Pending
Japan	2009-521375	Pending
Korea	10-2009-7003405	Pending
Mexico	MX/a/2009/000898	Pending
United States	12/373,777	Pending
Hong Kong	09110843.9	Pending

Novel Avian Cytokines and Genetic Sequences Encoding Same ('Chicken Gamma Interferon') (derived from PCT/AU96/00114)

Country/Jurisdiction	Patent/Application No.	Status
United States	6642032 / 6083724	Granted
Australia	689028	Granted
New Zealand	302188	Granted
Europe	96903831.4	Pending
Canada	2214453	Pending
Mexico	976735	Granted

PCV 2-Based Methods and Compositions for the Treatment of Pigs (derived from PCT/AU2009/001616)

Country/Jurisdiction	Patent/Application No.	Status
Argentina	2009 01 04893	Pending
Patent co-operation treaty countries	PCTAU2009/001616	Pending
Taiwan	098142364	Pending
United States	61/122,555	Pending
	12/621,607	Pending

Methods & Compositions for Use of a Coccidiosis Vaccine (derived from PCT/AU2009/001615)

Country/Jurisdiction	Patent/Application No.	Status
United States	61/122,596	
	12/621,421	Pending
Patent co-operation treaty countries	PCT/AU2009/001615	Pending
Argentina	2009 01 04894	Pending
Taiwan	098142361	Pending

The Directors of Imugene Limited present their report on the consolidated entity consisting of Imugene Limited ("the Company" or "Imugene") and the entities it controlled at the end of, or during, the year ended 30 June 2010 ("Consolidated Entity" or "Group").

Directors

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

- Mr Graham Dowland
- Dr Warwick Lamb
- Mr Roger Steinepreis

Each Director held their office from 1 July 2009 until the date of this report.

Current Directors

Mr Graham Dowland – Chairman

Qualifications - B.Com, CA

Mr Dowland has for the past 20 years, been involved as either a significant shareholder, director or senior consultant / advisor with a number of public companies listed on Stock Exchanges in Australia, Canada and the United Kingdom with operations internationally. These companies have been and continue to be involved in various industries including pharmaceutical research and development – specifically human and animal biotechnology, gold mining and exploration, oil and gas exploration and production, manufacturing, and industrial technology development and marketing.

Mr Dowland has been involved in the development phase of numerous businesses that have achieved listings and capital raisings from the various major international Stock Exchanges.

Other Current Directorships of Australian Listed Public Companies

Mr Dowland is also a non-executive director of Aurora Oil & Gas Limited (appointed 22 February 2005).

Former Directorships of Australian Listed Public Companies in the last 3 years

Mr Dowland previously held the position of Chairman of Mint Wireless Ltd between October 2006 and January 2008 and Chairman of Eureka Energy Limited between June 2006 and July 2010.

Special responsibilities

Chair of the Board
Chair of the nomination committee

Dr Warwick Lamb – Managing Director

Qualifications – BVSc, M Vet Clin Stud, FACVSc

Dr Lamb is a specialist veterinarian with broad experience within the profession and animal health industry. He has worked in private general practice, private specialist practice and University practice both in Australia and the USA. Prior to forming Imugene with Mr Graham Dowland in mid 2002, Dr Lamb founded one of Australia's first stand-alone specialist and emergency veterinary practice in Australia. He has had extensive interactions with major global animal health companies throughout his career.

Since the formation of Imugene, Dr Lamb has overseen the selection and development of Imugene's animal health technologies, managed and expanded the intellectual property portfolio and overseen the design and execution of a comprehensive animal trial program in Australia and the USA. Most importantly Dr Lamb has formulated and executed a commercial strategy culminating in the comprehensive Strategic Alliance with Merial, one of the top three animal health companies in the world owned jointly by Merck and sanofi-aventis.

Other Current Directorships of Australian Listed Public Companies

None.

Former Directorships of Australian Listed Public Companies in the last 3 years

None.

Special responsibilities

Managing Director.
Chair of remuneration committee

Mr Roger Steinepreis – Non-Executive Director

Qualifications - B.Juris LLB

Roger Steinepreis graduated from the University of Western Australia where he completed his law degree. He was admitted as a barrister and solicitor of the Supreme Court of Western Australia in 1987 and has been practising as a lawyer for over 20 years.

He is the legal adviser to a number of public companies on a wide range of corporate related matters. His areas of practice focus on company restructures, initial public offerings and takeovers.

Other Current Directorships of Australian Listed Public Companies

Mr Steinepreis is a director of:
Comtel Corporation Ltd (appointed March 2006)
Avonlea Minerals Ltd (appointed May 2007)
Adavale Resources Ltd (appointed May 2007)
Apollo Consolidated Limited (appointed August 2009)

Special responsibilities

Lead non-executive director of the Company.
Chair of audit committee.

Ms Julie Foster – Company Secretary

Qualifications – BA(Hons), ACA (ICAEW), ACIS
Appointed 29 May 2008

Ms Foster has a degree in Accounting and Finance and is a Chartered Accountant (UK) and an associate member of Chartered Secretaries Australia. She is also currently Company Secretary for ASX Listed Aurora Oil & Gas Limited and Elixir Petroleum Limited. Ms Foster previously worked for Chartered Accounting firms in both the UK and Perth.

Principal activities

The principal activity of the Consolidated Entity during the financial year was animal health biopharmaceutical development and commercialisation. No significant change in the nature of this activity occurred during the financial year.

Dividends

No dividends have been declared, provided for or paid in respect of the financial year ended 30 June 2010 (2009: nil)

Summary review of operations

For the year ending 30 June 2010 the Group recorded a net loss after tax of $1,535,041 (2009: net profit $650,286) and a net cash outflow from operations of $1,742,810 (2009: net cash inflow of $881,768).

During the first half of the financial year, the Imugene Group continued to focus on assisting its Strategic Alliance partner, Merial Limited. Whilst technology transfer continued to occur, Merial pursued various preliminary development activities in relation to the Imugene technologies.

In January 2010, Merial advised that they wished to continue evaluating and developing the Imugene technologies but would only do so under a new agreement comprising amended commercial terms. A new agreement acceptable to both parties was unable to be reached and the Alliance was terminated. Accordingly, the first year renewal payment due under the Alliance was not received by Imugene.

Imugene immediately reinitiated discussions with a number of international animal health companies who had previously expressed an interest in the Imugene technologies. During the period to 30 June 2010 extensive discussions occurred with several of these companies in response to their submission of competitive term sheets to form an alliance and exclusive licence opportunity. The majority of the companies are based in the USA with several others based in Europe.

During the quarter ended 30 September 2010, Imugene undertook extensive due diligence and negotiations with one of the world's leading animal health companies. Imugene is offering to exclusively license the rights to commercialise the Imugene range of vaccines for pigs and poultry worldwide.

In return for granting an exclusive global license, Imugene is seeking an initial payment, milestone payments and royalties on product sales.

During the financial year the Latrobe laboratory continued to seek improvements and modifications to a number of the components of the Imugene technology and intellectual property portfolio. Several success were achieved resulting additional patent applications been made.

A PRRS trial was held to further the Imugene PRRS vaccine development following the successful trial and development work that occurred in 2008 & 2009. The results of this latest trial again showed that Imugene's lead PRRS vaccine candidate was able to reduce the severity of the disease, when measured against parameters similar to those used by the US Department of Agriculture (USDA) in the US regulatory approval process for PRRS vaccines. The strong efficacy findings replicated the results achieved in the previous successful US trial conducted in 2008.

Consolidated results

	2010	2009
	$	$
Consolidated (loss) / profit before income tax benefit	**(1,765,041)**	252,500
Income tax benefit	**230,000**	397,786
Net (loss) / profit	**(1,535,041)**	650,286

Significant changes in the state of affairs

No significant changes in the state of affairs of the Consolidated Entity occurred during the financial year and to the date of this report other than as referred to in the Summary Review of Operations.

Post balance date events

Subsequent to the year end, the results of a pig trial were released that again showed Imugene's lead Porcine Reproductive and Respiratory Syndrome (PRRS) vaccine candidate was able to reduce the severity of the PRRS disease, when measured against parameters similar to those used by the US Department of Agriculture (USDA) in the US regulatory approval process for PRRS vaccines. The strong efficacy findings replicated the results achieved in the previous successful US trial conducted in 2008.

Other than as disclosed above, there are no matters or circumstances, which have arisen since 30 June 2010 that have significantly affected or may significantly affect the operations in future financial years of the Consolidated Entity, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

Likely developments

Due to the nature of the Consolidated Entity's business activities, the Directors are not able to state:

(a) likely developments in the entities' operations; or

(b) the expected results of these operations,

as to do so would result in unreasonable prejudice to the Consolidated Entity.

Environmental regulation

The Consolidated Entity's environmental obligations are regulated under both State and Federal laws. The Company has a policy of exceeding or at least complying with its environmental performance obligations.

During the financial year, the Consolidated Entity did not materially breach any particular or significant Commonwealth, State or Territory regulation in respect to environmental management.

Greenhouse gas and energy data reporting requirements

The Consolidated Entity has reviewed its obligations under the Energy Efficiency Opportunities Act 2006 and the National Greenhouse and Energy Reporting Act 2007 and does not consider that it has any reporting requirements under these Acts.

Information on directors' interests in securities of Imugene

	Interest in Securities at the date of this Report	
	Fully Paid Ordinary Shares	Executive Performance Options
Graham Dowland	7,667,576	-
Warwick Lamb	8,670,002	-
Roger Steinepreis	-	-

There were no shares or options granted to Directors during the year as remuneration.

Meetings of Directors

The following table sets out the number of meetings of the Company's directors held during the year ended 30 June 2010, and the number of meetings attended by each Director (includes matters decided by circulating resolution).

	No. eligible to attend	No. attended
Full board meetings		
Graham Dowland	8	8
Warwick Lamb	8	8
Roger Steinepreis	8	8
Audit committee meetings		
Graham Dowland	2	2
Warwick Lamb	2	2
Roger Steinepreis	2	2
Remuneration committee meetings		
Graham Dowland	1	1
Warwick Lamb	1	1
Roger Steinepreis	1	1

Share Options

At the date of this report the following options have been granted over unissued capital:

Description	2010 Number	Exercise Price	Expiry
Unlisted advisor incentive options	3,000,000	$ 0.20	31 Mar-11
Total	**3,000,000**		

No shares were issued during or since the end of the financial year on exercise of share options. Upon exercise each option is convertible into one fully paid ordinary share.

Remuneration Report (Audited)

This remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional information

This remuneration report outlines the director and executive remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group receiving the highest remuneration.

The information provided in this remuneration report has been audited as required by section 308(3c) of the Corporations Act 2001.

Details of key management personnel

(i) Directors

Mr Graham Dowland	Executive Chairman
Dr Warwick Lamb	Managing Director
Mr Roger Steinepreis	Non-Executive Director

(ii) Other key management personnel of the Group

Dr Michael Sheppard	Chief Scientific Officer

(iii) Details of executives

Ms Julie Foster	Company Secretary

The Directors and other key management personnel represent the highest paid executives of the Group.

No remuneration was paid to Directors or other key management personnel of the Group by Group companies other than Imugene Limited, accordingly remuneration paid to key management personnel of the Group is the same as that paid to key management personnel of the Company.

A. Principles used to determine the nature and amount of remuneration

At present the functions of the remuneration committee in relation to the remuneration of the Company's executives (including share and benefit plans) are carried out by the full board. No directors are present at meetings of the board in this function where their own remuneration is being considered. Issues of remuneration are considered annually or otherwise as required.

The objective of the Board, acting in its capacity as remuneration committee, is to ensure that pay and rewards are competitive and appropriate for the results delivered. The remuneration committee charter adopted by the Board aims to align rewards with achievement of strategic objectives and the creation of value for shareholders. The remuneration framework applied provides a mix of fixed and variable pay and a blend of short and long-term incentives as appropriate.

Non-executive directors

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at General Meeting. The Company's policy is to remunerate non-executive directors at market rates (for comparable companies) for time, commitment and responsibilities. Fees for non-executive directors are not linked to the performance of the Company, however to align directors' interests with shareholders' interests, Directors are encouraged to hold shares in the Company. Non-executive directors do not receive share options.

Non-executive directors' fees and payments are reviewed annually by the Board.

Retirement benefits and allowances

No retirement benefits or allowances are paid or payable to directors of the Company.

Other benefits

No motor vehicle, health insurance or other similar allowances are made available to directors (other than through salary-sacrifice arrangements).

Executive pay

Executive pay and reward consists of base pay, short-term performance incentives, long-term performance incentives and other remuneration such as superannuation.

Base pay

Executives are offered a competitive level of base pay which comprises the fixed (unrisked) component of their pay and rewards. Base pay for senior executives is reviewed annually to ensure market competitiveness. There are no guaranteed base pay increases included in any senior executives' contracts. Base pay was not increased during the year.

Short-term incentives

Contractual agreements with directors and other key management personnel provide for the provision of performance-related cash bonuses to be determined by the remuneration committee.

The contractual agreement with Dr Michael Sheppard includes a specific provision for the payment of an incentive bonus linked to the achievement of development and commercialisation milestones in relation to key strategic, non-financial measures linked to drivers of performance in future reporting periods. All bonuses payable under this agreement have been paid.

Short-term bonus payments may be adjusted up or down in line with under or over achievement relative to target performance levels at the discretion of the remuneration committee.

For the year ended 30 June 2010, no short-term incentives were paid or payable to key management personnel of the Group.

For the year ended 30 June 2009, short-term incentives paid or payable to key management personnel of the Group were $282,500 as follows:

		Performance related cash bonus				
2009	Grant Date	Contractual performance bonus $	Discretionary performance bonus $	Total $	Paid	Forfeited
Executive directors						
Graham Dowland	Feb 09	-	87,500	87,500	100%	
Warwick Lamb	Feb 09	-	125,000	125,000	100%	-
Other key management personnel						
Michael Sheppard	Feb 09	20,000	50,000	70,000	100%	-

Discretionary bonuses paid during the financial year ended 30 June 2009 were specifically related to the successful execution of and value attributed to the Strategic Alliance Agreement entered into with Merial Limited. The achievement of this significant milestone was considered to be directly linked to an increase in the value of the Group's portfolio of assets.

The bonuses paid took into account the significant effort that the small and dedicated management team have applied in the development of the Groups intellectual property assets over the past five years. In particular, the implementation and execution of the Groups commercialisation strategy which commenced in late 2005 has directly resulted in the securing of the Strategic Alliance. During this period base pay for all directors had not been increased and no bonuses were paid.

No other key management personnel or executives were entitled to bonuses during the year.

Long-term incentives

Long term performance incentives to date have comprised options granted at the discretion of the Remuneration Committee in order to align the objectives of executives with shareholders and the Group.

The grant of share options is not directly linked to previously determined performance milestones or hurdles as the current stage of the Group's activities makes it difficult to determine effective and appropriate key performance indicators and milestones.

There is currently no board policy in relation to the person granted the option limiting his or her exposure to risk in relation to the securities. The remuneration committee will review the policy if / when any long-term incentives are granted.

B. Details of remuneration

Amounts of remuneration

Details of the remuneration of the Directors and key management personnel of Imugene Limited and the Group are set out in the following tables.

Julie Foster is not key management personnel of the Group but is a Company executive.

	Short-term benefits			Post-employment benefits		Share-based payment	
2010	Cash salary and fees $	Cash bonus $	Non-monetary benefits* $	Super-annuation $	Retirement benefits $	Options $	Total $
Non-executive directors							
Roger Steinepreis	50,000	-	-	-	-	-	50,000
Sub-Total non-executive directors	**50,000**	**-**	**-**	**-**	**-**	**-**	**50,000**
Executive directors							
Graham Dowland	175,000	-	-	-	-	-	175,000
Warwick Lamb	230,590	-	27,174	22,893	-	-	280,657
Other key management personnel							
Michael Sheppard[1]	137,137	-	-	12,342	-	-	149,479
Executives – Company secretary							
Julie Foster	-	-	-	-	-	-	-
Totals	**592,727**	**-**	**27,174**	**35,235**	**-**	**-**	**655,136**

2009	Cash salary and fees $	Cash bonus $	Non-monetary benefits* $	Super-annuation $	Retirement benefits $	Options $	Total $
Non-executive directors							
Roger Steinepreis	39,600	-	-	-	-	-	39,600
Sub-Total non-executive directors	**39,600**	**-**	**-**	**-**	**-**	**-**	**39,600**
Executive directors							
Graham Dowland	174,996	87,500	-	-	-	-	262,496
Warwick Lamb	197,873	125,000	41,986	20,642	-	-	385,501
Other key management personnel							
Michael Sheppard	160,550	65,872	-	18,578	-	-	245,000
Executives – Company secretary							
Julie Foster (Appointed 29/05/08)	-	-	-	-	-	-	-
Totals	**573,019**	**278,372**	**41,986**	**39,220**	**-**	**-**	**932,597**

* relates to salary sacrificed novated car lease payments.

1 Mr. Sheppard ceased full-time employment and commenced part-time employment during March 2010.

The relevant proportions of remuneration that are linked to performance and those that are fixed are as follows.

	Fixed remuneration		At risk – STI		At risk – LTI	
	2010	2009	**2010**	2009	**2010**	2009
Directors of Imugene Limited						
Graham Dowland	**100%**	67%	**-**	33%	**-**	-
Warwick Lamb	**100%**	68%	**-**	32%	**-**	-
Other key management personnel of the Group						
Michael Sheppard	**100%**	71%	**-**	29%	**-**	-

C. Service agreements

On appointment to the Board, all non-executive directors enter into a service agreement with the Group in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of director.

Remuneration and other terms of agreement for the Chairman are formalised in a consultancy agreement with an associated Company of Mr Dowland. Remuneration and other terms of agreement with the Company Secretary are not formalised in an agreement. Remuneration and other terms of agreement with the Managing Director and the other key management personnel are formalised in service agreements. Each of these agreements provide for the provision, if any, of performance-related cash bonuses and / or grant of options. Other major provisions of the agreements relating to remuneration are set out below.

All contracts with executives may be terminated by either party with varying notice periods, subject to termination payments as detailed below.

Mr Graham Dowland, Chairman

- Term of agreement – indefinite
- Consultancy fee inclusive of superannuation and taxes, but excluding GST of $175,000 per annum, to be reviewed annually by the board
- Payment of a termination benefit on early termination by the Group, other than for gross misconduct, equal to six months consultancy fees

Dr Warwick Lamb, Managing Director

- Term of agreement – indefinite
- Base salary, inclusive of superannuation for the year ended 30 June 2010 of $250,000, to be reviewed annually by the board
- Payment of a termination benefit on early termination by the Group, other than for gross misconduct, equal to base salary for twelve months

Dr Michael Sheppard, Chief Scientific Officer

- Term of agreement – rolling annual, anniversary on 21 March.
- Base salary, inclusive of superannuation for the year ended 30 June 2010 of $175,000 (Full time equivalent). From March 2010 Mr Sheppard reduced his base hours to 86.67 (Part time equivalent).
- Payment of three potential incentive bonuses for the successful achievement of three development and commercialisation milestones. The incentive bonuses have been paid.
- Payment of a termination benefit on early termination by the Group, other than for gross misconduct, equal to base salary and benefits for the remainder of the contract term.

D. Share-based compensation

Options

Details of options over shares in Imugene Limited provided as remuneration to Directors and key management personal are set out below. No options were granted to key management personnel during the year ended 30 June 2010 (2009: nil). No options provided as remuneration to directors or key management personnel as remuneration were exercised during the year (2009: nil).

Name	Number of options granted during the year	Number of options vested during the year	Number of options lapsed during the year
Directors of Imugene Limited			
Graham Dowland	-	-	500,000
Warwick Lamb	-	-	2,500,000

E. Additional Information

Share–based compensation: Options

Additional information required by section 300A (1) of the Corporations Act 2001 in relation to share-based compensation is set below.

Name	A Remuneration consisting of options %	B Value at grant date $	C Value at exercise date $	D Value at lapse date $
Directors of Imugene Limited				
Graham Dowland	-	-	-	-
Warwick Lamb	-	-	-	-
Roger Steinepreis	-	-	-	-
Other key management personnel of the Group				
Michael Sheppard	-	-	-	-

A = The percentage of the value of remuneration consisting of options, based on the value of options expensed during the current year.

B = The value at grant date calculated in accordance with AASB2 Share-based Payment of options granted / cancelled during the year as part of remuneration.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the options at that date.

D = The value at lapse date of options that were granted as part of remuneration that lapsed during the year because a vesting condition was not satisfied.

Details of remuneration: Cash bonuses and options

No bonuses were paid during the year. No cash bonuses were forfeited during the year by directors or key management personnel.

No options were granted to directors or key management personnel during the year. All options previously granted to directors or key management personnel have vested. No options were exercised or forfeited during the year.

Relationship between the remuneration policy and Group performance

As detailed under headings A & B, remuneration of executives consists of an unrisked element (base pay) and cash bonuses based on performance in relation to key strategic, non-financial measures linked to drivers of performance in future reporting periods. As such, remuneration is not linked to the financial performance of the Group in the current or previous reporting periods.

The tables below set out summary information about the Consolidated Entity's earnings and movement in shareholder wealth for the five years to 30 June 2010:

	$ 30 June 2010	$ 30 June 2009	$ 30 June 2008	$ 30 June 2007	$ 30 June 2006
Revenue	44,018	3,024,028	92,214	165,534	63,251
Net (loss) / profit before tax	(1,535,041)	252,500	(2,149,664)	(2,561,309)	(2,439,279)
Net (loss) / profit after tax	(1,535,041)	650,286	(1,910,925)	(2,304,263)	(2,187,219)

No dividends have been paid for the five years to 30 June 2010.

	30 June 2010	30 June 2009	30 June 2008	30 June 2007	30 June 2006
Share price at start of year	$0.07	$0.07	$ 0.25	$ 0.10	$ 0.13
Share price at end of year	$0.03	$0.07	$ 0.07	$ 0.25	$ 0.10
Basic (loss) / earnings per share	(1.1)	0.5	(1.4)	(1.8)	(1.7)
Diluted (loss) / earnings per share	(1.1)	0.4	(1.4)	(1.8)	(1.7)

–End of audited remuneration report–

Non-Audit Services

No non-audit services were provided to the Group by the auditor during the year (or by another person or firm on the auditor's behalf) and accordingly the directors are satisfied that the auditor has complied with the general standard of independence for auditors imposed by the Corporations Act 2001.

Insurance and Indemnity of Officers and Auditors

During the year, the Group has paid a premium in respect of a contract insuring the directors of the Group (as named above) and the Company Secretary, Ms Julie Foster, against liabilities incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Group has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Group or of any related body corporate against a liability incurred as such an officer or auditor

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included on page 15 of the Annual Report.

This report is made in accordance with a resolution of the directors made pursuant to section 298(2) of the Corporations Act 2001.

GRAHAM DOWLAND
Executive Chairman
Perth, Western Australia

30 September 2010

AUDITOR'S INDEPENDENCE DECLARATION

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PO Box 700 West Perth WA 6872
Australia

30th September 20010

Board of Directors
Imugene Limited
Level 20, Allendale Square,
77 St Georges Tce
PERTH, WA, AUSTRALIA, 6000

Dear Sirs,

DECLARATION OF INDEPENDENCE BY PETER TOLL TO THE DIRECTORS OF IMUGENE LIMITED

As lead auditor of Imugene Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Imugene Limited and the entities it controlled during the period.

Peter Toll
Director

BDO

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Australia

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF IMUGENE LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Imugene Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

BDO

Auditor's Opinion

In our opinion:

(a) the financial report of Imugene Limited is in accordance with the Corporations Act 2001, including:
   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(a).

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 2(a) in the financial report which indicates that the consolidated entity incurred a net loss of $1,979,943 during the year ended 30 June 2010. This condition, along with other matters as set forth in Note 2(a), indicates the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and as such realise its assets and liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Imugene Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

BDO Audit (WA) Pty Ltd

BDO

Peter Toll
Director

Perth, Western Australia
Dated this 30th day of September 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

		Consolidated	
		2010	2009
	Note	**$**	$
Revenue from continuing operations	(5)	**44,018**	3,024,028
Other income	(6)	**312,117**	224,410
Total income		**356,135**	3,248,438
Research and development	(7)	**(522,337)**	(1,047,477)
Business development	(7)	**(151,592)**	(240,546)
Commercialisation expenses	(7)	**(830,080)**	(841,872)
Corporate and administration costs	(7)	**(617,167)**	(866,043)
(Loss) / profit before income tax		**(1,765,041)**	252,500
Income tax benefit	(8)	**230,000**	397,786
Net (loss) / profit attributable to members of the Company		**(1,535,041)**	650,286
Other comprehensive income		-	-
Total comprehensive income attributable to equity holders of Company		**(1,535,041)**	650,286
(Loss) / earnings per share			
Basic (loss) / earnings per share (cents per share)	(24)	**(1.1)**	0.5
Diluted (loss) / earnings per share (cents per share)	(24)	**(1.1)**	0.4

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2010

		Consolidated	
		2010	2009
	Note	**$**	$
Current assets			
Cash and cash equivalents	(9)	**793,062**	2,487,316
Trade and other receivables	(10)	**180,508**	40,873
Tax assets	(11)	**520,000**	290,000
Total current assets		**1,493,570**	2,818,188
Non-current assets	(12)	**4,226**	2,853
Intangible assets	(13)	**2,600,885**	2,942,025
Total non-current assets		**2,605,111**	2,944,878
Total assets		**4,098,681**	5,763,066
Current liabilities			
Trade and other payables	(14)	**195,481**	317,833
Provisions	(15)	**111,893**	118,885
Total liabilities		**307,374**	436,718
Net assets		**3,791,307**	5,326,348
Equity			
Contributed equity	(16)	**14,907,453**	14,907,453
Reserves	(17)	**966,003**	966,003
Accumulated losses	(17)	**(12,082,149)**	(10,547,108)
Total equity		**3,791,307**	5,326,348

The above statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Attributable to equity holders of the Company			
	Contributed Equity	Reserves	Accumulated Losses	Total
	$	$	$	$
Balance at 1 July 2008	14,907,453	960,003	(11,197,394)	4,670,062
Net profit for the year	-	-	650,286	650,286
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**650,286**	**650,286**
Transactions with owners, in their capacity as owners				
Share based payment transaction	-	6,000	-	6,000
Balance at 30 June 2009	**14,907,453**	**966,003**	**(10,547,108)**	**5,326,348**
Balance at 1 July 2009	**14,907,453**	**966,003**	**(10,547,108)**	**5,326,348**
Net loss for the year	-	-	(1,535,041)	(1,535,041)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**(12,082,149)**	**3,791,307**
Transactions with owners, in their capacity as owners	**-**	**-**	**-**	**-**
Balance at 30 June 2010	**14,907,453**	**966,003**	**(12,082,149)**	**3,791,307**

The above statements of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Note	Consolidated 2010 $	2009 $
Cash flows from operating activities			
Receipts from customers		**164,703**	2,940,164
Payments to suppliers and employees		**(1,907,513)**	(2,598,356)
Income tax repayments received		**-**	297,655
Other income		**-**	242,305
Net cash (outflow) / Inflow from operating activities	(23)	**(1,742,810)**	881,768
Cash flows from investing activities			
Payments for property, plant and equipment		**(3,241)**	-
Interest received		**44,018**	76,608
Net cash inflow from investing activities		**40,777**	76,608
Net decreases/ increase in cash and cash equivalents		**(1,702,033)**	958,376
Cash and cash equivalents at the beginning of the year		**2,487,316**	1,619,678
Effects of exchange rate changes on cash and cash equivalents		**7,779**	(90,738)
Cash and cash equivalents at the end of the year	(9)	**793,062**	2,487,316

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. Corporate information

Imugene Limited ("Parent Entity") is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The financial statements consist of consolidated financial statements for Imugene and its subsidiaries ("Group or Consolidated Entity").

The nature of the operations and principal activities of the Group are described in the Directors' Report.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

These financial statements are general-purpose financial statements, which have been prepared in accordance withAustralian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Statement of compliance

The consolidated financial statements comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial statements of Imugene Limited comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Going concern

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realization of assets and the settlement of liabilities in the normal course of business.

The Group incurred a net loss of $1,535,041 for the year to 30 June 2010 and had a net cash outflow from operations of $1,742,810 for the year. Notwithstanding this, the financial report has been prepared on a going concern basis as at the date of this report Imugene is in advanced negotiations with the lead bidder to license the Imugene intellectual property. Imugene is seeking initial payments, milestone payments and royalties in return for granting an exclusive license worldwide. Imugene expects the license negotiations to be concluded with in the next few weeks.

The ability of the consolidated entity to continue as a going concern is dependent upon the successful license negotiations per above, or a future capital raising. However, should the entity be unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities at amounts different from those stated in the financial statements.

Historical cost convention

These financial statements have been prepared on a historical cost basis.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, disclosed in note 4.

2. Summary of significant accounting policies (continued)

Financial statement presentation

The Group has applied the revised AASB 101 Presentation of Financial Statements, which became effective as of 1 January 2009. The revised standard requires the separate presentation of the statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Imugene Limited as at 30 June 2010 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are consistent with the policies adopted by the Group. Investments in subsidiaries are accounted for at cost in the individual financial statements of Imugene Limited.

c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the CEO.

Change in accounting policy

The Group has adopted AASB 8 Operating Segments from 1 July 2009. AASB 8 replaces AASB 114 Segment Reporting. AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker.

As management reports for internal reporting purposes on a consolidated basis, this has resulted in only one reportable segment being presented. There has been no other impact on the measurement of the Group's assets and liabilities. Comparative information has been restated.

d) Foreign currency

Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Imugene's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign currency monetary assets and liabilities at the reporting date are translated at the exchange rate existing at reporting date.

Exchange differences are recognised in profit or loss in the period in which they arise.

e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below:

Management fees to subsidiaries

Revenue from management fees charged by the Company to its wholly owned subsidiaries is recognised in the accounting period in which management services are rendered.

Sale of goods

Revenue from the sale of goods and disposal of other assets is recognised when the Consolidated Entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

Royalties, license fees and milestone payments

Royalty revenue, revenue from the sale of sub-licences and milestone payments are recognised on an accruals basis in accordance with the substance of the relevant agreement.

Interest income

Interest income is recognised on a time proportionate basis using the effective interest method.

f) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

2. Summary of significant accounting policies (continued)

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Parent Entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax consolidation

Imugene Limited and all its wholly-owned Australian controlled entities are part of a tax consolidated group under Australian taxation law. Imugene Limited is the head entity in the tax-consolidated group.

Imugene Limited and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Imugene Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax-sharing agreement with the head entity. Under the terms of the tax funding arrangement, Imugene Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Assets or liabilities arising under this arrangement are recognised as amounts receivable from or payable to other entities in the Group and amounts are determined by reference to amounts recognised in the financial records of members in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash- generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

i) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

j) Financial assets

Investments in subsidiaries are measured at cost.
Other financial assets only consist of 'loans and receivables'. The classification of financial assets depends on the nature and purpose for which the financial assets were acquired and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Recognition and derecognition

Purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through the profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Subsequent measurement

Loans and receivables are subsequently recorded at amortised cost, using the effective interest method, less impairment.

Impairment

The Consolidated Entity assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired.

If there is evidence of impairment for any of the Consolidated Entity's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the profit or loss.

k) Property, Plant and equipment

Plant and equipment and fixtures and fittings are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. 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 straight line basis so as to write off the cost of each asset, net of residual values over their estimated useful lives, as follows:

Fixtures and fittings	5 years
Plant and equipment	5 - 15 years

2. Summary of significant accounting policies (continued)

The estimated useful lives, residual values and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

l) Intangible assets

Patents, trademarks and licenses

Patents, trademarks and licences previously recognised as an asset upon the acquisition of Vectogen Pty Limited have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight line basis over their expected useful lives of 15 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

Subsequent expenditure on patents is recognised as an expense in the period in which it is incurred.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Intangible assets acquired in a business combination

All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

m) Trade and other payables

These amounts 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.

n) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects the current market assessments of the time value of money and the risks specific to the liability.

o) Employee benefit

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in the provision for employee benefits in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Consolidated Entity in respect of services provided by employees up to reporting date.

p) Defined contribution superannuation plans

Contributions to defined contribution superannuation plans are recognised as an expense as they become payable.

q) Share–based payments

Share-based compensation benefits are provided to employees where the Board considers that this provides a cost-effective and efficient means of remunerating and incentivising employees.

The fair value of the options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at the grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes Option Pricing Model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the profit and loss with a corresponding adjustment to equity.

r) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

s) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders 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 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 additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2. Summary of significant accounting policies (continued)

t) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of associated goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense; or

ii. for receivables and payables which are stated inclusive of GST receivable or payable.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of other receivables or payables in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

3. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed.

Imugene's board of directors (Board) performs the duties of a risk management committee in identifying and evaluating sources of financial and other risks. The Board provides written principles for overall risk management which balance the potential adverse effects of financial risks on Imugene's financial performance and position with the "upside" potential made possible by exposure to these risks and by taking into account the costs and expected benefits of the various methods available to manage them.

A written policy has been adopted for overall risk management.

The Group holds the following financial instruments:

	Consolidated	
	2010	2009
	$	$
Financial assets		
Cash and cash equivalents	**793,062**	2,487,316
Loans and receivables	**180,508**	40,873
	973,570	2,528,188
Financial liabilities		
Amortised cost	**195,481**	317,833

a) Market risk

(i) Foreign exchange risk

Imugene Limited is based in Australia, its shares are listed on the Australian Securities Exchange and the Group reports its financial performance and position in Australian dollars (A$). The Group operates internationally, with the result being that the Group is to some extent exposed to foreign exchange risk arising from fluctuations in the A$ / US$ exchange rate.

As at balance date, the Board has formed the view that it would not be beneficial for the Group to purchase forward contracts or other derivative financial instruments to hedge this foreign exchange risk. Factors which the Board considered in arriving at this position included: The expense of purchasing such instruments; the inherent difficulties associated with forecasting the timing and quantum of US$ cash inflows and outflows at a time when the Consolidated Entity is still at the commercialisation and development stage of monetising its intellectual property. The Board may reconsider its position with regard to hedging against foreign exchange risk in the future as the Group's activities evolve and / or in response to industry or macro-economic factors.

The carrying amounts of the Groups financial assets and liabilities are denominated in Australian dollars except as set out below:

	Consolidated	
	2010	2009
	US$	US$
Financial assets		
Cash and cash equivalents	**208,956**	486,750

Group sensitivity

Based on the financial instruments held at 30 June 2010, had the Australian dollar weakened / strengthened by 10% against the US dollar with all the other variables held constant, the Group's profit for the year would have been $22,200 lower / higher (2009 - $60,500 lower / higher) mainly as a result of foreign exchange gains/losses on translation of US dollar denominated financial instruments as detailed in the above table. The results are less sensitive to movements in the Australian dollar / US dollar exchange rates in 2010 than 2009 because of the decreased amount of US dollar denominated cash and cash equivalents. A 10% movement represents management's assessment of the reasonably possible change in Australian dollar / US dollar exchange rates. The Group's exposure to other foreign exchange movements is not material.

(ii) Interest rate risk

As at and during the year ended on balance date the Group had no significant interest-bearing assets or liabilities other than liquid funds on deposit. As such, the Group's income and operating cash flows (other than interest income from funds on deposit) are substantially independent of changes in market interest rates. The Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and liabilities is set out below:

		Consolidated	
		2010	2009
		$	$
Financial assets			
Cash and cash equivalents	Floating rate*	**793,062**	2,487,316

*Weighted average effective interest rate 2.59% (2009 : 2.55%)

Group sensitivity

At 30 June 2010, if interest rates had changed by -/+ 100 basis points from the year end rates with all other variables held constant, the profit for the year would have been $8,000 lower / higher (2009 – change of 100 basis points: $25,000 lower / higher), mainly as a result of lower / higher interest income from cash and cash equivalents.

The 100 basis points movement represents management's assessment of the reasonably possible change in interest rates.

(iii) Commodity price risk

The Group is not exposed to commodity price risk.

3. Financial risk management (continued)

b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. The Group trades only with recognised, trustworthy third parties. It is the Group's policy to perform credit verification procedures in relation to any customers wishing to trade on credit terms with the Group. These include taking into account the customers financial position and any past experience to set individual risk limits as determined by the Board.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on page 29.

	Consolidated	
	2010	2009
	$	$
(i) Cash at bank and short-term bank deposits		
AA Rated	**793,062**	2,487,316

(ii) Trade and other receivables

All trade and other receivables outstanding have good credit history with the group.

There are no allowances for credit losses and no collateral is held for security for trade and other receivables (parent and group). No trade or other receivables are past due or have been renegotiated.

c) Liquidity risk

Prudent liquidity risk management involves the maintenance of sufficient cash and access to capital markets. It is the policy of the board to ensure that the Group is able to meet its financial obligations and maintain the flexibility to pursue attractive investment opportunities through keeping committed credit lines available where possible, ensuring the Group has sufficient working capital and preserving the 15% share issue limit available to the Company under the ASX Listing Rules. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows.

Maturities of financial liabilities

As at the reporting date the Group have total financial liabilities of $195,481 (2009: $317,833), comprised of non interest-bearing trade creditors and accruals with a maturity of 1 - 3 months.

d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement and/or disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. There are no long term financial assets or liabilities which are subject to fair value estimation.

e) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Parent Entity.

None of the Group's entities are subject to externally imposed capital requirements.

4. Critical accounting estimates & judgements

In preparing this financial report the Group has been required to make certain estimates and assumptions concerning future occurrences. There is an inherent risk that the resulting accounting estimates will not equate exactly with actual events and results.

a) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of assets

In the absence of readily available market prices, the recoverable amounts of assets are determined using estimations of the present value of future cashflows using asset-specific discount rates. For patents, licences and other rights, these estimates are based on various assumptions concerning, for example future sales profiles and royalty income, market penetration, milestone achievement dates and production profiles.

As at 30 June 2010, the carrying value of patents, licences and other rights is $2,600,885 (2009: $2,942,025).

5. Revenue

	Consolidated	
	2010	2009
	$	$
Other revenue		
Sub-license / contract research fees	**-**	2,947,420
Interest	**44,018**	76,608
	44,018	3,024,028

6. Other Income

	Consolidated	
	2010	2009
	$	$
Government grants	**304,338**	223,530
Other	**7,779**	880
	312,117	224,410

The Group's accounting policy in relation to Government Grants is disclosed in note 2 (f).

Imugene applied for, and was awarded funding from the Export Market Development Grant (EMDG) during the year ended 30 June 2010. The EMDG scheme reimburses up to 50% of expenses incurred on eligible promotion of Imugene's technologies outside Australia, above a $10,000 threshold. First time applicants are entitled to include two years expenditure, therefore eligible promotional expenditure paid between 1 July 2007 and 30 June 2009 was award during the current year. EMDG grant income received during the year ended 30 June 2010 totalled $125,338. As at balance sheet date, an amount of $179,000 has been classified as accrued income in relation to the EMDG grant application for eligible expenditure paid between 1 July 2009 and 30 June 2010 (refer to note 10).

Previously, funding has also been received under the Australian government Commercial Ready grant on a matched funding basis. The Commercial Ready project period ended on 31 March 2009.

7. Expenses

Profit before income tax includes the following specific expenses:

	Consolidated	
	2010	2009
	$	$
Depreciation of non-current assets		
Tangible fixed assets	**1,868**	2,035
Research and development		
Employee benefits	**350,669**	580,996
Business development		
Employee benefits	**151,592**	240,546
Commercialisation expenses		
Patent expenses	**280,826**	197,793
Employee benefits	**208,114**	240,546
Amortisation of intangibles	**341,140**	341,140
	830,080	779,479

8. Income Tax

	Consolidated	
	2010	2009
	$	$
Current tax	**230,000**	290,000
Under provision recognised in prior years	**-**	107,786
	230,000	397,786
A reconciliation between tax expense and the product of accounting result before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit / (loss) before tax from continuing operations	**(1,765,041)**	252,500
Tax at the Australian statutory income tax rate of 30% (2008: 30%)	**(529,512)**	75,750
Tax effect of amounts which are not deductible /(taxable) in calculating taxable income:		
Research & development expenses (claimed under Tax Concession)	**186,635**	256,367
Amortisation of intangibles	**102,342**	102,342
Share-based payment expense	**-**	1,800
Sundry other	**7,862**	-
Revenue losses not recognised	**275,320**	-
Less tax effect of:		
Revenue gains not recognised	**-**	360,476
Patent costs	**42,647**	67,338
Sundry other	**-**	8,445
	-	-

	Consolidated 2010 $	2009 $
Research & Development Tax Concession		
Current Year	**230,000**	290,000
Under provision recognised in prior year	**-**	107,786
Income tax benefit	**230,000**	397,786
(i) Deferred tax assets not recognised		
Arising from temporary differences attributable to:		
Carried forward tax losses	**2,139,366**	1,864,046
Intangible assets	**182,433**	115,388
Share issue expenses	**14,959**	26,323
Employee benefits	**33,568**	35,666
Other	**29,415**	20,738
	2,399,741	2,062,161
Deferred tax asset not yet brought to account	**(2,399,741)**	(2,062,161)
	-	-

9. Current assets – Cash and cash equivalents

	Consolidated 2010 $	2009 $
Cash at bank and in hand – AUS dollars	**549,144**	1,882,305
Cash at bank and in hand – US dollars	**243,918**	605,011
	793,062	2,487,316

The carrying amount of cash and cash equivalents is a reasonable approximation of fair value.

a) Foreign exchange and Interest rate risk exposure

Information about the Group's exposure to foreign exchange risk and interest rate risk in relation to cash and cash equivalents is provided in note 3.

10. Current assets – Trade and other receivables

	Consolidated 2010 $	2009 $
Accrued income (refer note 6)	**179,000**	30,755
Other	**1,508**	10,118
	180,508	40,873

a) Fair value

Due to the short-term nature of these receivables, their carrying value approximates fair value.

b) Credit risk – refer to note 3

c) Impaired trade receivables

No Group trade receivables were past due or impaired as at 30 June 2010 (2009: nil) and there is no indication that amounts recognised as trade and other receivables will not be recovered in the normal course of business.

11. Current assets – Tax assets

	Consolidated 2010 $	2009 $
Research and Development Tax Concession receivable	**520,000**	290,000

12. Non–current assets – Property, plant & equipment

	Consolidated 2010 $	2009 $
Plant & equipment		
At cost	**24,089**	20,848
Accumulated depreciation	**(19,863)**	(17,995)
Total plant and equipment (a)	**4,226**	2,853
a) Reconciliations		
Plant and Equipment		
Carrying amount at beginning of year	**2,853**	7,509
Additions	**3,241**	-
Disposals	**-**	(2,621)
Depreciation expense	**(1,868)**	(2,035)
Carrying amount at end of year	**4,226**	2,853
Fixtures and Fittings		
Carrying amount at beginning of year	**-**	2,435
Disposals	**-**	(2,435)
Carrying amount at end of year	**-**	-

13. Non–current assets – Intangible assets

	Consolidated	
	2010	2009
	$	$
Patents, licenses and other rights		
Opening cost	**5,117,095**	5,117,095
Closing cost	**5,117,095**	5,117,095
Accumulated amortisation at the start of the year	**(2,175,070)**	(1,833,930)
Amortisation charge	**(341,140)**	(341,140)
Accumulated amortisation at the end of the year	**(2,516,210)**	(2,175,070)
Opening net book amount	**2,600,885**	3,283,165
Closing net book amount	**2,600,885**	2,942,025

The Group holds a range of intellectual property including patent applications, knowhow and licences to patents and patent applications. The intellectual property portfolio forms biological technologies that are being applied to disease prevention vaccines and biologically based productivity enhancers for the pig and poultry industry. There are no unfulfilled performance conditions in relation to the Group's rights to use any part of the intellectual property portfolio, however under the terms of the licences the Group is responsible for the upkeep of the patents and patent applications. Imugene's R&D expenditure during the period relates principally to the continued development of the intellectual property and the vaccines and vaccine candidates derived from them.

The carrying amount of these patents and licences of $2,600,885 (2009: $2,942,025) will be fully amortised in 8 years (2009: 9 years).

The current carrying amount of intellectual property is considered recoverable based on the intellectual property's ability to generate future cash inflows from the worldwide licensing of the Imugene intellectual property. As at the date of this report, Imugene is in advanced negotiations with the lead bidder to licence the Imugene intellectual property.

14. Current liabilities – Trade and other payables

	Consolidated	
	2010	2009
	$	$
Trade payables	**169,067**	269,140
Other payables	**26,414**	48,693
	195,481	317,833

The average credit period on purchases is 45 days from the date of invoice. Group policy is to pay all invoices not in dispute within 30 days from date of invoice.

a) Fair value

The carrying amount of trade payables is a reasonable approximation of fair value due to their short-term nature.

b) Foreign exchange risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 3.

15. Current liabilities – Provisions

	Consolidated	
	2010	2009
	$	$
Employee benefits - annual leave	**111,893**	118,885

a) Amounts not expected to be settled within the next 12 months

The entire obligation for annual leave is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave within the next 12 months.

16. Contributed equity

	Consolidated	
	2010	2009
	$	$
a) Share capital		
Fully paid ordinary shares	**143,637,220**	143,637,220

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting or by proxy, is entitled to one vote. Upon a poll every holder is entitled to one vote per share held.

b) Movements in ordinary share capital

Description	Date	Number of shares	$
Opening balance	01 July 2008	**143,637,220**	**14,907,453**
Balance	30 June 2009	**143,637,220**	**14,907,453**
Closing balance	30 June 2010	**143,637,220**	**14,907,453**

Information in relation to options on issue, including details of all options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year is set out in note 18.

17. Reserves and accumulated losses

	Consolidated	
	2010	2009
	$	$
a) Share-based payment reserve		
Balance 1 July	**966,003**	960,003
Option expense	-	6,000
Balance 30 June	**966,003**	966,003
b) Accumulated losses		
Balance 1 July	**(10,547,108)**	(11,197,394)
Net (loss) / profit for the year	**(1,535,041)**	650,286
Balance 30 June	**(12,082,149)**	(10,547,108)

With respect to the payment of dividends (if any) by Imugene in subsequent financial years, no franking credits are currently available, or are likely to become available in the next 12 months.

Expenses arising from share-based payment transactions recognised are as follows:

	Consolidated	
	2010	2009
	$	$
Recognised as part of:		
Corporate and Administration expense	-	6,000
	-	6,000

Imugene does not have a formal employee share option plan however the Board has from time to time granted options to employees and officers on a discretionary basis where it is considered that this provides a cost-effective and efficient means of remunerating and incentivising employees. In addition, shareholders have, in general meeting, approved the grant of incentive options to Directors. The share-based payment expenses above have been recognised in respect of the fair value of options granted as remuneration.

The fair value of options granted was calculated using the Black-Scholes Option Pricing Model. The expense has been apportioned pro-rata to reporting periods where vesting periods apply.No options were granted during the year ended 30 June 2010 (2009: nil).

18. Options

As at balance date, the Consolidated Entity has the following classes of options on issue:

Description	2010 Number	2009 Number	Exercise Price	Expiry
Unlisted performance options				
Type 9	-	4,350,000	$ 0.250	31-Dec-09
Type 10	**3,000,000**	3,000,000	$ 0.200	31-Mar-11
Total	**3,000,000**	7,350,000		

The Type 10 options were issued during the year ended 30 June 2008 and vested on 30 September 2008. There were no specific vesting conditions attached.

Options carry no dividend or voting rights. Upon exercise, each option is convertible into one ordinary share to rank pari passu in all respects with the Company's existing fully paid ordinary shares.

a) Movements in the number of options on issue during the year are as follows:

	2010 Number	2009 Number
At 1 July	**7,350,000**	7,350,000
Expired during the year		
Unlisted performance options		
Type 9	**(4,350,000)**	-
At 30 June	**3,000,000**	7,350,000

19. Parent Information

The following details information related to the parent entity, Imugene Limited, at 30 June 2010. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

	Consolidated	
	2010 $'000	2009 $'000
Current assets	**1,138,279**	1,185,901
Non-current assets	**3,226,321**	4,841,472
Total assets	**4,364,600**	6,027,373
Current liabilities	**573,293**	701,025
Total liabilities	**573,293**	701,025
Contributed equity	**14,907,452**	14,907,453
Share-based payment reserve	**966,003**	966,003
Accumulated losses	**(12,082,148)**	(10,547,108)
Total equity	**3,791,307**	5,326,348
(Loss) / profit for the year	**(1,535,041)**	650,286
Other comprehensive income for the year	**-**	-
Total comprehensive (loss) / profit for the year	**(1,535,041)**	650,286

a) Wholly-owned Group

Details of interests in wholly-owned controlled entities are set out at part (b) of this note. Details of dealings with controlled entities are as follows:

Inter-company account

Imugene provides working capital to its controlled entities. Transactions between Imugene and other controlled entities in the wholly owned Group during the year ended 30 June 2010 consisted of:

(i) Working capital advanced by Imugene Limited;
(ii) Provision of management and other services by Imugene Limited; and
(iii) Expenses paid by Imugene Limited on behalf of its controlled entities

The above transactions were made interest free with no fixed terms for the repayment of principal on the working capital advanced by Imugene Limited. No allowance has been made for doubtful debts.

At balance date amounts receivable from controlled entities totalled $734,454 (2009: $1,852,620).

b) Investments in Controlled Entities

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding	
			2010 %	2009 %
Controlled Entities				
Brightsun Investments Pty Ltd	Australia	Ordinary	100	100
Vectogen Pty Ltd	Australia	Ordinary	100	100
BioMimic Technologies Pty Ltd	Australia	Ordinary	100	100
Paragen Pty Ltd	Australia	Ordinary	100	100

20. Key management personal disclosures

a) The Directors of Imugene Limited during the year were:

- Mr Graham Dowland (Executive Chairman)
- Dr Warwick Lamb (Managing Director)
- Mr Roger Steinepreis (Non-executive Director)

b) Other than the Directors, Dr Michael Sheppard (Chief Scientific Officer) also had authority and responsibility for planning, directing and controlling certain activities of the Group, directly or indirectly during the current and prior financial years.

In addition, the Company Secretary, Ms Julie Foster, is deemed a Company executive under section 9 of the Corporations Act 2001.

20. Key management personal disclosures (continued)

c) Key management personnel compensation

	Consolidated	
	2010	2009
	$'000	$'000
Short – term employee benefits	**619,901**	893,377
Post-employment benefits	**35,235**	39,220
	655,136	932,597

Detailed remuneration disclosures can be found in the section of the Directors Report headed "Remuneration Report".

Equity instrument disclosures relating to key management personnel

(i) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of Imugene Limited and other key management personnel of the Group, including their personally related parties, are set out below.

	Balance at start of the year	Granted as comp-ensation	Exercised	Other changes	Balance when ceased to hold office	Balance at the end of the year	Vested and exercisable	Unvested
2010								
Directors of Imugene Limited								
Graham Dowland	500,000	-	-	(500,000)	-	-	-	-
Warwick Lamb	2,500,000	-	-	(2,500,000)	-	-	-	-
Roger Steinepreis	-	-	-	-	-	-	-	-
Other key management personnel of the Group								
Michael Sheppard	1,250,000	-	-	(1,250,000)	-	-	-	-
2009								
Directors of Imugene Limited								
Graham Dowland	500,000	-	-	-	-	500,000	500,000	-
Warwick Lamb	2,500,000	-	-	-	-	2,500,000	2,500,000	-
Roger Steinepreis	-	-	-	-	-	-	-	
Other key management personnel of the Group								
Michael Sheppard	1,250,000	-	-	-	-	1,250,000	1,250,000	-

(ii) Share holdings

The numbers of shares in the Company held during the financial year by each director of Imugene Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

	Balance at start of the year	Aquired	Other changes	Balance at the end of the year
2010				
Directors of Imugene Limited				
Graham Dowland	7,667,576	-	-	7,667,576
Warwick Lamb	7,670,002	1,000,000	-	8,670,002
Roger Steinepreis	1,808,270	-	(1,808,270)	-
Other key management personnel of the Group				
Michael Sheppard	272,248	-	-	272,248
2009				
Directors of Imugene Limited				
Graham Dowland	7,667,576	-	-	7,667,576
Warwick Lamb	7,670,002	-	-	7,670,002
Roger Steinepreis	4,990,046	-	(3,181,776)	1,808,270
Other key management personnel of the Group				
Michael Sheppard	272,248	-	-	272,248

(iii) Loans to key management personnel

There were no loans made to directors of Imugene Limited or other key management personnel of the Group (or their personally related entities) during the current or previous financial year.

(iv) Other transactions with key management personnel

During the year, Vetspec Pty Ltd and VSC Services Pty Ltd, companies of which Dr Warwick Lamb is a Director and beneficial shareholder, provided a serviced office (in Sydney) and other administration services to the Company. For the year ended 30 June 2010, the Group paid totalling $42,000 (2009: $31,500) to Vetspec Pty Ltd and VSC Services Pty Ltd and this has been recognised in the financial statements as an expense.

The aggregate amount recognised as an expense in relation to these transactions is $42,000 (2009: $31,500).

21. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Group, its related practices and non-related audit firms:

	Consolidated	
	2010	2009
	$'000	**$'000**
BDO Audit (WA) Pty Ltd for:		
An audit or review of financial reports and other audit work under the Corporations Act 2001	**43,086**	43,500
Unrelated audit firms for audit of regulatory returns	**-**	2,400
Total remuneration for audit services	**43,086**	45,900

22. Segment information

Management has determined, based on the reports reviewed by the CEO that are used to make strategic decisions, that the Group has one reportable segment being the research, development and commercialisation of animal health technologies.

The CEO reviews internal management reports on a monthly basis that are consistent with the information provided in the statement of comprehensive income, statement of financial position and statement of cash flows. As a result no reconciliation is required, because the information as presented is used by the CEO to make strategic decisions.

	2010 $	2009 $
Reportable segment revenue		
Revenue, including interest income, is disclosed below based on the reportable segment:		
Revenue from research, development and commercialisation	304,338	3,170,950
Revenue from other corporate activities	51,797	77,488
	356,135	3,248,438
Reportable segment assets		
Assets are disclosed below based on the reportable segment:		
Asset from research, development and commercialisation	3,299,885	3,262,780
Assets from other corporate activities:		
Cash and cash equivalents	793,062	2,487,316
Other corporate assets	5,734	12,970
	4,098,681	5,763,066
Reportable segment loss		
Loss is disclosed below based on the reportable segment:		
(Loss) / profit from research, development and commercialisation	(1,199,672)	1,041,054
(Loss) from other corporate activities	(565,369)	(788,554)
	(1,765,041)	252,500

23. Reconciliation of profit / (loss) after income tax to net cash outflows from operation activities

	Consolidated	
	2010	2009
	$	$
(Loss) / profit for the year	**(1,535,041)**	650,286
Depreciation and amortisation	**343,008**	343,175
Share based payment (note 18)	**-**	6,000
Interest income	**(44,018)**	(76,608)
Provision for employee benefits	**(6,992)**	26,460
Loss on disposal of fixed assets	**-**	5,056
Net exchange differences	**(7,779)**	90,738
Decrease /(increase) in working capital	**2,993,632**	(163,339)
Net cash (outflow) / inflow from operating activities	**(1,742,810)**	881,768

24. (Loss) / Earnings per share

	Consolidated	
	2010	2009
	Cents	Cents
Basic (loss) / earnings per share		
(Loss) / profit attributable to the ordinary equity holders of the Company	**(1.1)**	0.5
Diluted (loss) / earnings per share		
(Loss) / profit attributable to the ordinary equity holders of the Company	**(1.1)**	0.4
	$	$
(Loss) / profit used in calculation of basic / diluted (loss) / earnings per share		
(Loss) / profit	**(1,535,041)**	650,286
	Number	Number
Weighted average number of ordinary shares / potential ordinary shares used as the denominator in calculating basic (loss) / earnings per share	**143,637,220**	143,637,220
Adjustments for calculation of diluted earnings per share:		
Options	-	**7,350,000**
Weighted average number of ordinary shares / potential ordinary shares used as the denominator in calculating diluted (loss) / earnings per share	**143,637,220**	150,987,220

For the year ended 30 June 2010, the options on issue are not considered dilutive as they would decrease the loss per share. Accordingly they have been excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share.

For the year ended 30 June 2009, the options on issue (note 18) represent potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive.

25. Subsequent events

Subsequent to the year end, the results of a pig trial were released that again showed Imugene's lead Porcine Reproductive and Respiratory Syndrome (PRRS) vaccine candidate was able to reduce the severity of the PRRS disease, when measured against parameters similar to those used by the US Department of Agriculture (USDA) in the US regulatory approval process for PRRS vaccines. The strong efficacy findings replicated the results achieved in the previous successful US trial conducted in 2008.

Other than as disclosed above, there are no matters or circumstances, which have arisen since 30 June 2010 that have significantly affected or may significantly affect the operations in future financial years of the Consolidated Entity, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

26. Contingencies

The Consolidated Entity has no contingent assets or liabilities at balance date (2009: none).

27. Related party transactions

There have been no transactions with related parties during the year ended 30 June 2010 other than as disclosed elsewhere in the financial report (2009: none).

In the Directors' opinion:

(a) the financial statements and accompanying notes set out on pages 27 to 54, are in accordance with the Corporations Act 2001, including:

(i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2010 and of its performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable, and

(c) the financial statements and accompanying notes are prepared in compliance with IFRS and interpretations adopted by the International Accounting Standards Board; and

(d) the remuneration disclosures set out in the Directors' report (as part of the audited remuneration report) for the year ended 30 June 2010 comply with section 300A of the Corporations Act 2001.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to section 295(5) of the Corporations Act 2001.

GRAHAM DOWLAND
Chairman
Perth, Western Australia

30 September 2010

Corporate Governance Statement

Imugene Limited (**"Company"**) has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (**"Principles & Recommendations"**), the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where the Company's corporate governance practices follow a recommendation, the Board has made appropriate statements reporting on the adoption of the recommendation. Where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and reason for the adoption of its own practice, in compliance with the "if not, why not" regime.

Disclosure of Corporate Governance Practices

Summary Statement

	ASX P & R[1]	If not, why not[2]		ASX P & R[1]	If not, why not[2]
Recommendation 1.1	✓		Recommendation 4.3	✓	
Recommendation 1.2	✓		Recommendation 4.4[3]	n/a	n/a
Recommendation 1.3[3]	n/a	n/a	Recommendation 5.1	✓	
Recommendation 2.1		✓	Recommendation 5.2[3]	n/a	n/a
Recommendation 2.2		✓	Recommendation 6.1	✓	
Recommendation 2.3	✓		Recommendation 6.2[3]	n/a	n/a
Recommendation 2.4		✓	Recommendation 7.1	✓	
Recommendation 2.5	✓		Recommendation 7.2	✓	
Recommendation 2.6[3]	n/a	n/a	Recommendation 7.3	✓	
Recommendation 3.1	✓		Recommendation 7.4[3]	n/a	n/a
Recommendation 3.2	✓		Recommendation 8.1		✓
Recommendation 3.3[3]	n/a	n/a	Recommendation 8.2	✓	
Recommendation 4.1		✓	Recommendation 8.3[3]	n/a	n/a
Recommendation 4.2		✓			

[1] Indicates where the Company has followed the Principles & Recommendations.

[2] Indicates where the Company has provided "if not, why not" disclosure.

[3] Indicates an information based recommendation. Information based recommendations are not adopted or reported against using "if not, why not" disclosure – information required is either provided or it is not.

Website Disclosures

Further information about the Company's charters, policies and procedures may be found at the Company's website at www.imugene.com, under the section marked Corporate Governance. A list of the charters, policies and procedures which are referred to in this Corporate Governance Statement, together with the recommendations to which they relate, are set out below.

Charters	Recommendation(s)
Board	1.3
Audit Committee	4.4
Nomination Committee	2.6
Remuneration Committee	8.3
Policies and Procedures	
Policy and Procedure for Selection and (Re)Appointment of Directors	2.6
Process for Performance Evaluation	1.2, 2.5
Policy on Assessing the Independence of Directors	2.6
Policy for Trading in Company Securities	3.2, 3.3
Code of Conduct	3.1, 3.3
Policy on Continuous Disclosure and Compliance Procedures (summary)	5.1, 5.2
Procedure for Selection, Appointment and Rotation of External Auditor	4.4
Shareholder Communication Policy	6.1, 6.2
Risk Management Policy	7.1, 7.4

Disclosure – Principles & Recommendations

The Company reports below on how it has followed (or otherwise departed from) each of the Principles & Recommendations during the 2009/2010 financial year ("Reporting Period").

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1:

Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

Disclosure:

The Company has established the functions reserved to the Board and has set out these functions in its Board Charter. The Board is collectively responsible for promoting the success of the Company through its key functions of overseeing the management of the Company, providing overall corporate governance of the Company, monitoring the financial performance of the Company, engaging appropriate management commensurate with the Company's structure and objectives, involvement in the development of corporate strategy and performance objectives and reviewing, ratifying and monitoring systems of risk management and internal control, codes of conduct and legal compliance.

The Company has established the functions delegated to senior executives and has set out these functions in its Board Charter. Senior executives are responsible for supporting the Managing Director and assisting the Managing Director in implementing the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.

Senior executives are responsible for reporting all matters which fall within the Company's materiality thresholds at first instance to the Managing Director or, if the matter concerns the Managing Director, then directly to the Chair or the lead independent director, as appropriate.

Company's Materiality Thresholds

The Board has agreed on the following guidelines for assessing the materiality of matters, as set out in the Company's Board Charter:

- Balance sheet items are material if they have a value of more than 10% of pro-forma net asset.
- Profit and loss items are material if they will have an impact on the current year operating result of 10% or more.
- Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, they could affect the Company's rights to its assets, if accumulated they would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 10% or more on balance sheet or profit and loss items, or they will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%.
- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost of such a quantum, triggering any of the quantitative tests, contain or trigger change of control provisions, they are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

Recommendation 1.2:

Companies should disclose the process for evaluating the performance of senior executives.

Disclosure:

The Chair and Managing Director are responsible for evaluating the performance of senior executives. The evaluations are carried out by conducting formal interviews with the senior executives annually.

Recommendation 1.3:

Companies should provide the information indicated in the Guide to reporting on Principle 1.

Disclosure:

During the Reporting Period an evaluation of senior executives took place in accordance with the process disclosed at Recommendation 1.2.

Principle 2 – Structure the board to add value

Recommendation 2.1:
A majority of the Board should be independent directors.

Notification of Departure:
The Board does not have a majority of independent directors.

Explanation for Departure:
The current Board consists of two executive directors, Mr Dowland and Dr Lamb and one independent non-executive director, Mr Steinepreis. As a result the Company does not comply with Recommendation 2.1 which states that the majority of the Board should be independent. The Board considers that its current composition is adequate for the Company's current size and operations and includes an appropriate mix of skills and expertise relevant to the Company's investments and stage of development.

Recommendation 2.2:
The Chair should be an independent director.

Notification of Departure:
The Chair is Mr Dowland, who is an executive director.

Explanation for Departure:
The Chair is not independent because of his role as an executive director. Notwithstanding this, the Board considers that Mr Dowland's extensive experience as both a director and chair of various listed companies make him the most qualified Board member for this role at this stage of the Company's development. In situations that present a possible conflict of interest, the Board has appointed Mr Roger Steinepreis, as the lead independent director, to act as Chair.

Recommendation 2.3:
The roles of the Chair and Chief Executive Officer should not be exercised by the same individual.

Disclosure:
The Managing Director is Dr Lamb who is not Chair of the Board.

Recommendation 2.4:
The Board should establish a Nomination Committee.

Notification of Departure:
The Company has not established a separate Nomination Committee.

Explanation for Departure:
Due to the relatively infrequent level of appointments, the full Board carries out the duties which would otherwise be undertaken by the nomination committee in accordance with the Nomination Committee Charter.

Recommendation 2.5:
Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.

Disclosure:
The Chair is responsible for evaluation of the Board and, where deemed appropriate, Board committees and individual directors. The full Board in its capacity of the Nomination Committee is responsible for evaluating the Managing Director. The evaluations are undertaken informally as required.

Recommendation 2.6:

Companies should provide the information indicated in the Guide to reporting on Principle 2.

Disclosure:

Skills, Experience, Expertise and term of office of each Director

A profile of each director containing their skills, experience and expertise is set out in the Directors' Report.

The term of appointment for each director is as follows:

Name	Appointed
G Dowland (Chair)	30/08/2002
R Steinpreis	29/01/2002
W Lamb	30/08/2002

Identification of Independent Directors

The sole independent director of the Company is Mr Steinepreis. Mr Steinepreis is independent as he is a non-executive director who is not a member of management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of his judgment.

Independence is measured having regard to the relationships listed in Box 2.1 of the Principles & Recommendations and the Company's materiality thresholds. The materiality thresholds for reviewing independence for a director are as detailed in principle 1.1 about. The materiality threshold for reviewing independence for a director who is an associate of a business that has a contractual relationship with the Company is 10% of revenue or net assets of either party.

Statement concerning availability of Independent Professional Advice

To assist directors with independent judgement, it is the Board's policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval for incurring such expense from the Chair, the Company will pay the reasonable expenses associated with obtaining such advice.

Nomination Matters

The full Board carries out the role of the Nomination Committee. The full Board did not officially convene as a Nomination Committee during the Reporting Period, however nomination-related discussions occurred from time to time during the year as required. To assist the Board to fulfil its function as the Nomination Committee, it has adopted a Nomination Committee Charter which can be found on the Company's website.

The explanation for departure set out under Recommendation 2.4 above explains how the functions of the Nomination Committee are performed.

Performance Evaluation

During the Reporting Period an evaluation of the Board, its committees, and individual directors took place in accordance with the process disclosed at Recommendation 2.5.

Selection and (Re)Appointment of Directors

In determining candidates for the Board, the Nomination Committee (or equivalent) follows a prescribed procedure whereby it considers the balance of independent directors on the Board as well as the skills and qualifications of potential candidates that will best enhance the Board's effectiveness.

The Board recognises that Board renewal is critical to performance and the impact of Board tenure on succession planning. Each director other than the Managing Director, must not hold office (without re-election) past the third annual general meeting of the Company following the Director's appointment or three years following that director's last election or appointment (whichever is the longer). However, a Director appointed to fill a casual vacancy or as an addition to the Board must not hold office (without re-election) past the next annual general meeting of the Company. At each annual general meeting a minimum of one director or a third of the total number of directors must resign. A director who retires at an annual general meeting is eligible for re-election at that meeting. Re-appointment of directors is not automatic.

Principle 3 – Promote ethical and responsible decision-making

Recommendation 3.1:

Companies should establish a Code of Conduct and disclose the code or a summary of the code as to the practices necessary to maintain confidence in the company's integrity, the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Disclosure:

The Company has established a Code of Conduct as to the practices necessary to maintain confidence in the Company's integrity, practices necessary to take into account their legal obligations and the expectations of their stakeholders and responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Code of Conduct can be found on the Company's website.

Recommendation 3.2:

Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

Disclosure:

The Company has established a policy concerning trading in the Company's securities by directors, senior executives and employees.

The Policy for Trading in Company Securities can be found on the Company's website.

Recommendation 3.3:

Companies should provide the information indicated in the Guide to reporting on Principle 3.

Disclosure:

Please refer to the section above marked Website Disclosures.

Principle 4 – Safeguard integrity in financial reporting

Recommendations 4.1 and 4.2:

The Board should establish an Audit Committee and the Audit Committee should be structured so that it:

- consists only of non-executive directors
- consists of a majority of independent directors
- is chaired by an independent Chair, who is not Chair of the Board
- has at least three members.

Notification of Departure:

The Company has not established a separate Audit Committee and therefore it is not structured in accordance with Recommendation 4.2.

Explanation for Departure:

The full Board carries out the duties that would otherwise be undertaken by the Audit Committee. The Board believes that the Company is not of a sufficient size to warrant a separate Audit Committee. Mr Roger Steinepreis, an independent non-executive director, has been appointed as Chair of the Audit Committee which in the opinion of the Board preserves the ability of the Audit Committee to exercise independent judgement. Mr Steinepreis is a qualified corporate lawyer and has extensive experience in the ASX listed company sphere, Mr Dowland is a qualified accountant and Dr Lamb has extensive experience and expertise in the animal biotechnology industry thus ensuring that the Board, acting in its capacity as Audit Committee, is able to discharge its responsibilities per the Audit Committee Charter effectively.

Recommendation 4.3:

The Audit Committee should have a formal charter.

Disclosure:

The Company has adopted an Audit Committee Charter which can be found on the Company's website.

Recommendation 4.4:

Companies should provide the information indicated in the Guide to reporting on Principle 4.

Disclosure:

The full Board, in its capacity as the Audit Committee, held two meetings during the Reporting Period. All Board members were in attendance for the Audit Committee meeting. When the Board meets as the Audit Committee, Roger Steinepreis Chairs the meeting. To assist the Board to fulfil its function as the Audit Committee, it has adopted an Audit Committee Charter.

The explanation for departure set out under Recommendation 4.1 above explains how the functions of the Audit Committee are performed.

Details of each of the director's qualifications are set out in the Directors' Report.

Both Mr Dowland and Dr Lamb consider themselves to be financially literate and have industry knowledge. Mr Dowland is a qualified accountant and Dr Lamb has extensive experience and expertise in the animal biotechnology industry. Mr Steinepreis is a qualified corporate lawyer and has extensive experience in the ASX listed company sphere.

The Company has established procedures for the selection, appointment and rotation of its external auditor. The Board is responsible for the initial appointment of the external auditor and the appointment of a new external auditor when any vacancy arises, as recommended by the Audit Committee (or its equivalent). Candidates for the position of external auditor must demonstrate complete independence from the Company through the engagement period. The Board may otherwise select an external auditor based on criteria relevant to the Company's business and circumstances. The performance of the external auditor is reviewed on an annual basis by the Audit Committee (or its equivalent) and any recommendations are made to the Board.

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1:

Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

Disclosure:

The Company has established written policies designed to ensure compliance with ASX Listing Rule disclosure and accountability at a senior executive level for that compliance.

Recommendation 5.2:

Companies should provide the information indicated in the Guide to reporting on Principle 5.

Disclosure:

Please refer to the section above marked Website Disclosures.

Principle 6 – Respect the rights of shareholders

Recommendation 6.1:

Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

Disclosure:

The Company has designed a communications policy for promoting effective communication with shareholders and encouraging shareholder participation at general meetings.

Recommendation 6.2:

Companies should provide the information indicated in the Guide to reporting on Principle 6.

Disclosure:

Please refer to the section above marked Website Disclosures.

Principle 7 – Recognise and manage risk

Recommendation 7.1:

Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

Disclosure:

The Board has adopted a Risk Management Policy, which sets out the Company's approach to risk. Under the policy, the Board is responsible for approving the Company's policies on risk oversight and management and satisfying itself that management has developed and implemented a sound system of risk management and internal control.

Under the policy, the Board delegates day-to-day management of risk to the Managing Director, who is responsible for identifying, assessing, monitoring and managing risks. The Managing Director is also responsible for updating the Company's material business risks to reflect any material changes, with the approval of the Board.

In fulfilling the duties of risk management, the Managing Director may have unrestricted access to Company employees, contractors and records and may obtain independent expert advice on any matter they believe appropriate, with the prior approval of the Board.

A report by management on the effectiveness of the internal financial control and risk management systems is provided to the Audit Committee on an annual basis.

A report on the effectiveness of the risk management system in managing material business risks is prepared by management and provided to the Board on an annual basis.

In addition, the following risk management measures have been adopted by the Board to manage the Company's material business risks:

- the Board has established financial control procedures to manage expenditure commitments and approval of payments for both capital and operational expenditure;
- preparation and approval of an annual budget;
- the Board has adopted a compliance procedure for the purpose of ensuring compliance with the Company's continuous disclosure obligations; and
- the Board has adopted a corporate governance manual which contains other policies to assist the Company to establish and maintain its governance practices

In October 2009, the Company implemented a formal system for managing its material business risks. This system includes a risk register which is prepared by management to identify the Company's material business risks and risk management strategies for these risks. The risk register is reviewed quarterly and updated, as required. Management reports to the Board on material business risks at each board meeting.

The categories of risk identified as part of the Company's risk management system:

- Financial reporting
- Operational
- Technological
- Reputation
- Legal and compliance

Prior to October 2009, the Company managed its material business risks using a range of previously implemented informal policies and procedures.

Recommendation 7.2:

The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.

Disclosure:

The Board has required management to design, implement and maintain risk management and internal control systems to manage the Company's material business risks. The Board also requires management to report to it confirming that those risks are being managed effectively. Further, the Board has received a report from management as to the effectiveness of the Company's management of its material business risks.

Recommendation 7.3:

The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Disclosure:

The Managing Director and the Chief Financial Officer (or equivalent) have provided a declaration to the Board in accordance with section 295A of the Corporations Act and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial risk.

Recommendation 7.4:

Companies should provide the information indicated in the Guide to reporting on Principle 7.

Disclosure:

The Board has received the report from management under Recommendation 7.2.

The Board has received the assurance from the Managing Director and the Chief Financial Officer (or equivalent) under Recommendation 7.3.

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1:
The Board should establish a Remuneration Committee.

Notification of Departure:
The Company has not established a separate Remuneration Committee.

Explanation for Departure:
The Board carries out the duties which would otherwise be undertaken by the Remuneration Committee in accordance with the Remuneration Committee Charter. The Board considers that no efficiencies or other benefits could be gained by establishing a separate committee. Dr Warwick Lamb has been appointed to act as Chair when the Board meets as the Remuneration Committee.

Recommendation 8.2:
Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.

Disclosure:
Non-executive directors are remunerated at a fixed fee for time, commitment and responsibilities. Remuneration for non-executive directors is not linked to individual performance.

Pay and rewards for executive directors and senior executives consists of a base salary and performance incentives. Long term performance incentives may include options granted at the discretion of the Board and subject to obtaining the relevant approvals. Executives are offered a competitive level of base pay at market rates and are reviewed annually to ensure market competitiveness.

Recommendation 8.3:
Companies should provide the information indicated in the Guide to reporting on Principle 8.

Disclosure:
Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms of part of the Directors' Report.

The full Board, in its capacity as the Remuneration Committee, held one meeting during the Reporting Period. All Board members were in attendance at the Remuneration Committee meeting. To assist the Board to fulfil its function as the Remuneration Committee, it has adopted a Remuneration Committee Charter which can be found on the Company's website.

The explanation for departure set out under Recommendation 8.1 above explains how the functions of the Remuneration Committee are performed.

There are no termination or retirement benefits for non-executive directors (other than for superannuation).

The Company's Policy for Trading in Company Securities includes a statement of the Company's policy on prohibiting transactions in associated products which limit the risk of participating in unvested entitlements under any equity based remuneration schemes. The Policy for Trading in Company Securities can be found on the Company website.

Shareholder Information

The shareholder information set out below was applicable as at 30 September 2010.

1. Twenty largest shareholders

Ordinary shares	Number	Percentage
Dr Warwick Lamb	8,395,002	5.84%
Wainford Holdings Ltd	7,000,000	4.87%
Mrs Treffina Dowland	4,913,002	3.42%
Wainford Holdings Ltd	4,835,207	3.37%
Yambali Pty Ltd <Laurie Zeaiter A/C>	4,800,000	3.34%
Lujeta Pty Ltd <The Margaret Account>	3,120,000	2.17%
Mcrae Investments Pty Ltd	2,718,833	1.89%
Techstart Australia Pty Ltd	2,387,738	1.66%
Greenfield Company Ltd	2,358,831	1.64%
Mr Henry Wiechecki	2,000,000	1.39%
Mr Stephen James Moyle & Mrs Christine Maree Moyle <Moyle Family Super Fund A/C>	1,925,000	1.34%
Eurasia Pty Ltd <Mintec Australia Unit A/C>	1,833,334	1.28%
Mr Anthony Brendon Cope <Cope Retirement Fund A/c>	1,792,840	1.25%
Yambali Pty Ltd <Superannuation Fund A/C>	1,750,000	1.22%
Mr Giuseppe Luca & Mrs Concetta Luca	1,712,501	1.19%
Donwillow Pty Ltd	1,660,000	1.16%
Mr Joseph Levi	1,619,000	1.13%
Lost Ark Nominees Pty Ltd <PST Super A/C>	1,500,000	1.04%
Mr Evangelos Kalafatas	1,425,397	0.99%
Twynam Agriculture Group Pty Ltd	1,400,000	0.97%
Total top 20	**59,146,685**	**41.16%**
Other	84,490,535	58.84%
Total ordinary shares on issue	**143,637,220**	**100%**

2. Distribution of equity securities

	Ordinary shares	Unlisted options
1 - 1,000	554	-
1,001 – 5,000	308	-
5,001 - 10,000	347	-
10,001 - 100,000	741	-
100,001 - and over	194	1
	2,144	**1**

3. Unquoted securities

The names of the holders holding more than 20% of each class of unlisted securities are set out below:

Performance options – excise price of $0.20 and expiry date of 31 March 2011

	Number on issue	Number of holders
Lost Ark Nominees Pty Ltd <No 66 A/C>	3,000,000	1
Total performance options on issue	**3,000,000**	**1**

4. Substantial holders

Set out below are the names of the substantial holders and the number of equity securities held by those substantial holders (including those equity securities held by their associates), as disclosed in the substantial holding notices given to the company:

	Number held	Percentage of issued shares
Dominic Wainford	12,655,207	8.81%
Warwick Lamb	8,670,002	6.04%
Graham Dowland	7,667,576	5.34%

5. Voting rights

See Notes 16 and 18 to the Financial Statements.

6. On-market buy back

There is currently no on-market buy back program for any of Imugene's listed securities.

7. Company secretary, registered and principal administrative office and share registry

Details can be found in the Corporate Directory at the beginning of the Annual Report.

www.imugene.com

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