



ABN 99 009 179 551

Financial Report

For The Year Ended

30 June 2006

Imugene Limited ABN 99 009 179 551
Financial Report – 30 June 2006

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Corporate directory

Directors

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

Company Secretary

Mr Alex Neuling

Registered and Principal Office

Level 1
14 – 20 Delhi Road
North Ryde NSW 2113
Australia
Telephone: (61 2) 9870 7330
Facsimile: (61 2) 9888 9338

Perth Office

Level 20, Allendale Square
77 St Georges Terrace
Perth WA 6000
Australia
Telephone: (61 8) 9440 2660
Facsimile: (61 8) 9440 2699

Share Register

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth WA 6000
Australia
Telephone: 1300 557 010
International: (61 8) 9323 2000
Facsimile: (61 8) 9323 2033

Solicitors

Steinepreis Paganin

Patent Attorney

Marshall, Gerstein & Borun, LLP
233 South Wacker Drive
6300Sears Tower
Chicago, IL 60606-6357

Auditor

Deloitte Touche Tohmatsu
240 St Georges Terrace
Perth WA 6000

Bankers

Australia and New Zealand Banking
Group Limited

Stock Exchange Listing

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

Website and Email

www.imugene.com
imugene@imugene.com

Directors' Report

30 June 2006

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 2006 ("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 2005 until the date of this report.

Current Directors

Mr Graham Dowland - Executive Chairman

Qualifications - B.Com, CA

Mr Dowland has for the past 18 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 Listed Companies:

Mr Dowland is also a non-executive director of Aurora Oil & Gas Limited and chairman of Eureka Energy Limited (appointed 21 June 2006).

Former Directorships of Listed Companies in Last 3 years

None.

Directors' Report

30 June 2006 (continued)

Dr Warwick Lamb - Managing Director

Qualifications – BVSc, M Vet Clin Stud, FACVSc

Dr Lamb is a specialist veterinarian with experience within the profession at all levels. He has the rare combination of having worked in private general practice, private specialist practice and University practice both in Australia and the USA. He is a registered specialist in canine and feline medicine and a Fellow of the Australian College of Veterinary Scientists. Dr Lamb was awarded the Small Animal Practitioner of the Year 2001 by the Australian Small Animal Veterinary Association.

Dr Lamb developed Australia's first stand-alone, referral only internal medicine specialist hospital in Australia. This practice remains the leading private referral practice in the country, employing some 12 veterinarians and providing 24-hour emergency and critical care facilities.

Other Current Directorships of Listed Companies:

None

Former Directorships of Listed Companies in Last 3 years:

None.

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 approximately 17 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 Listed Companies:

Mr Steinepreis is a director of Commoditel Limited and Pocketmail Group Limited

Former Directorships of Listed Companies in Last 3 years:

Commoditel Limited (August 2003 – December 2003)
Ottoman Energy Limited (January 2004 – November 2004)
Reward Minerals Limited (June 2002 – June 2002)

Special responsibilities

Mr Steinepreis is the lead non-executive director of the Company and acts as chair for meetings of the board to consider Audit or Remuneration Committee business.

Company Secretary

Mr Alexander Neuling

Qualifications – BSc (Hons) ACA (ICAEW)

The Company Secretary is Mr Alexander Neuling. Mr Neuling was appointed to the position during the current financial year. Before joining Imugene, he worked at a major international accounting firm in London (1998-2002) and in Perth (2002-2004). He holds an honours degree in Chemistry from the University of Leeds in the United Kingdom and is a member of the Institute of Chartered Accountants of England and Wales.

Directors' Report

30 June 2006 (continued)

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.

Employees

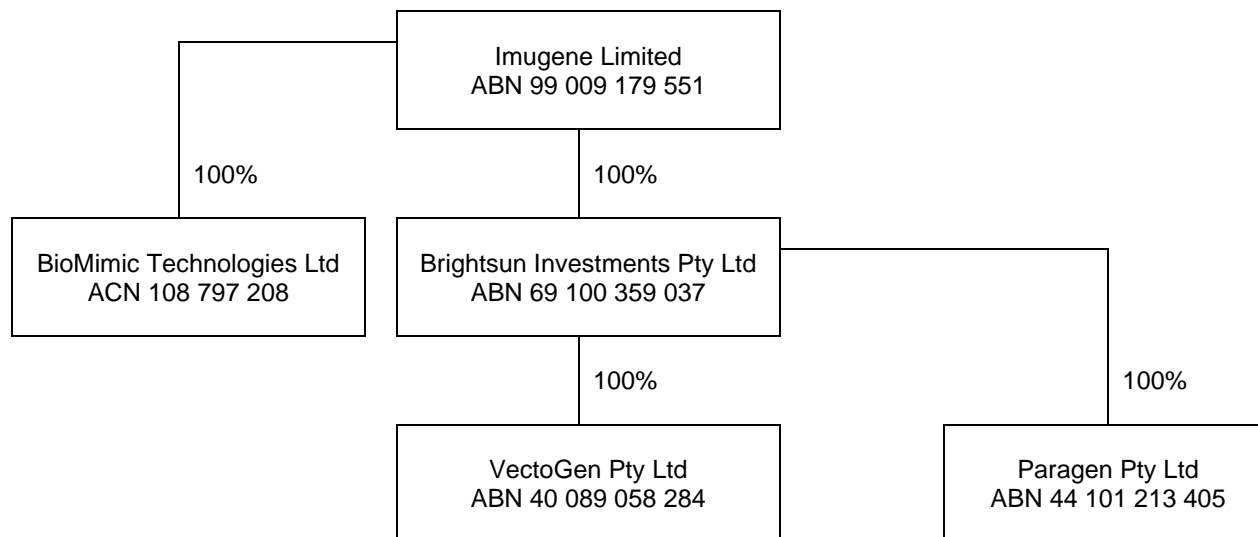
	2006	2005
The number of full time equivalent people employed by the Consolidated Entity at balance date	5	5

Dividends

No dividends have been declared, provided for or paid in respect of the financial year ended 30 June 2006.

Corporate structure

Imugene Limited is a company limited by shares that is incorporated and domiciled in Australia. The Company has prepared a consolidated financial report incorporating the entities that it controlled during the financial year, which are outlined in the following illustration of the Group's corporate structure:



Directors' Report

30 June 2006 (continued)

Consolidated results

	2006 \$	2005 \$
Consolidated loss before income tax benefit	(2,439,279)	(2,311,742)
Income tax benefit	<u>252,060</u>	<u>322,760</u>
Net loss	<u>(2,187,219)</u>	<u>(1,988,982)</u>

Post balance date events

As at the date of this report there are no matters or circumstances, which have arisen since 30 June 2006 that have significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2006, of the Consolidated Entity constituted by Imugene Limited and the entities it controls from time to time;
- (b) the results of those operations; or
- (c) the state of affairs, in financial years subsequent to 30 June 2006, of the Consolidated Entity.

Significant changes in the state of affairs

The following significant changes in the state of affairs of the Consolidated Entity occurred during the financial year and to the date of this report:

- Significant advancements in Imugene's leading platform technology - The pig and poultry adenoviral vector delivery systems were achieved during the year:
 - Exclusive worldwide sublicense granted to Merial to develop, commercialise and market the Poultry Productivity Enhancer in return for Milestone Based Payments and royalty income on all global sales.
 - Granting of regulatory licenses to conduct an Australian safety trial for the Poultry Productivity Enhancer.
 - Successful completion of Australian safety trials for the Poultry Productivity Enhancer.
 - Successful resolution of the Pig Patent Interference in the US resulting in a stronger IP position and on financial terms that are, in total, equivalent to and in some instances better than under previous arrangements and granting of the European patent for Imugene's Poultry Patent. Imugene now has been granted Poultry Patents in both major poultry producing regions of Europe and the US.
 - Completion of laboratory development of Avian Influenza vaccine candidates for the poultry breeder / layer and broiler (meat producing) markets.

Directors' Report

30 June 2006 (continued)

Significant changes in the state of affairs (continued)

- Significantly increased rate of scientific progress at Imugene's newly established research laboratory at La Trobe University.
- Partnering with Abic Biological Laboratories Teva Ltd to develop and evaluate vaccine candidates for the coccidiosis poultry disease prevention market.

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.

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.

Directors' Report

30 June 2006 (continued)

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	6,790,002	2,500,000
Warwick Lamb	6,400,001	2,500,000
Roger Steinepreis	4,263,678	-

No shares or options were issued or granted to directors during the year.

Meetings of Directors

The following table sets out the number of meetings of the Company's directors held during the year ended 30 June 2006, and the number of meetings attended by each director.

	No. eligible to attend	No. attended
Full board meetings		
Graham Dowland	5	5
Warwick Lamb	5	5
Roger Steinepreis	5	5
Audit committee meetings		
Graham Dowland	2	2
Warwick Lamb	2	2
Roger Steinepreis	2	2
Remuneration committee meetings		
Graham Dowland	1	1
Warwick Lamb	-	-
Roger Steinepreis	1	1

Directors' Report

30 June 2006 (continued)

Share Options

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

Description	ASX code	2006 Number	Exercise Price	Expiry
Listed options	IMUO	4,250,000	\$ 0.50	31-Jan-07
Unlisted performance options				
	IMUAI	4,633,333	\$ 0.225	31-Oct-07
	IMUAY	2,000,000	\$ 0.30	31-Dec-06
	IMUAY	2,000,000	\$ 0.25	31-Dec-06
	IMUAY	2,000,000	\$ 0.25	31-Dec-06
	IMUAK	200,000	\$ 0.30	31-Dec-06
	IMUAM	333,333	\$ 0.375	31-Oct-07
		200,000	\$ 0.50	
	IMUAZ			31-Jan-07
		50,000	\$ 0.30	
	IMUAW			31-Jan-07
Total		<u>15,666,666</u>		

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.

A former employee of VectoGen Pty Ltd currently holds 100,000 options to subscribe for ordinary shares in the issued capital of VectoGen Pty Ltd at an exercise price of \$0.56 each. Up to the date of this report, no shares have been issued as a result of the exercise of these options.

Directors' Report

30 June 2006 (continued) – Remuneration report

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

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124 - *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section E are additional disclosures required by the Corporations Act 2001 and the Corporations Regulations 2001 and are not subject to audit.

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

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 remuneration committee is to ensure that pay and rewards are competitive and appropriate for the results delivered. The charter adopted by the remuneration committee aims to align rewards with achievement of strategic objectives. The remuneration framework applied provides a mixture 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.

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).

Directors' Report

30 June 2006 (continued) – Remuneration report

A. Principles used to determine the nature and amount of remuneration (audited) (continued)

Executives

Executive pay and reward consists of Base pay, Short term performance incentives, Long term performance incentives and other remuneration such as superannuation. 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 Company. Vesting conditions for options granted during the year are linked to periods of service.

➤ *Base pay*

Executives are offered a competitive level of base pay which comprises the fixed (unrisks) 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.

➤ *Short term incentives*

Payment of short term incentives is dependent on the achievement of key performance milestones as determined by the remuneration committee. For the year ended 30 June 2006, these milestones required performance in relation to key strategic, non-financial measures linked to drivers of performance in future reporting periods.

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 2006, short term incentives paid or payable to key management personnel of the Company / Group totalled \$100,000 of which \$50,000 was related specifically to achievement of two development and commercialisation milestones considered to be directly linked to an increase in the value of the Group's portfolio of assets. The remainder was awarded at the discretion of the board in their capacity as the Company's remuneration committee. Bonuses paid or payable during the prior financial year (to 30 June 2005) were awarded under the terms of a share-priced based bonus arrangement adopted by the Board in 2003 following an independent review of executive remuneration. As disclosed in the Company's 30 June 2005 annual report, that arrangement ended on 30 June 2005.

B. Details of remuneration (audited)

Amounts of remuneration

Details of the remuneration of the directors and key management personnel (as defined in AASB 124 *Related Party Disclosures*) of Imugene Limited and the Group are set out in the following tables.

The key management personnel of Imugene Limited (and of the Group) includes the directors (as named elsewhere in this report) and the following executive officers (also the highest paid executives of the Company and Group):

Dr Michael Sheppard – Chief Scientific Officer
Dr Richard Brandon – Business Development Officer (appointed 14 June 2006)
Dr Paul Macleman – Chief Operating Officer (resigned 31 January 2006)
Mr Alex Neuling – Company Secretary

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.

Directors' Report

30 June 2006 (continued) – Remuneration report

B. Details of remuneration (audited)

Amounts of remuneration (continued)

Cash bonuses are dependent on the satisfaction of performance conditions (as detailed under *Short term incentives* above). Other elements of remuneration are not directly related to performance.

Amounts paid or payable to key management personnel of the Company / Group

	Short-term benefits			Post-employment		Share-based payment	Total \$
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Retirement benefits \$	Options \$	
2006							
<i>Non-executive directors</i>							
Roger Steinepreis	25,000	-	-	-	-	-	25,000
Sub-Total non-executive directors	25,000	-	-	-	-	-	25,000
<i>Executive directors</i>							
Graham Dowland	139,000	-	-	36,000	-	-	175,000
Warwick Lamb	181,308	100,000	48,050	20,642	-	-	350,000
<i>Company secretary</i>							
Alex Neuling	44,037	-	-	3,963	-	3,775	51,775
<i>Other key management personnel</i>							
Michael Sheppard	146,789	-	-	13,211	-	-	160,000
Richard Brandon (from 14/6/06)	5,505	-	-	495	-	-	6,000
Paul Macleman (1/7/05 to 31/1/06)	91,999	-	-	7,875	-	(11,316)	88,558
Totals	633,637	100,000	48,050	82,187	-	(7,541)	856,333
2005							
<i>Non-executive directors</i>							
Roger Steinepreis	25,000	-	-	-	-	-	25,000
Sub-Total non-executive directors	25,000	-	-	-	-	-	25,000
<i>Executive directors</i>							
Graham Dowland	139,000	125,000	-	36,000	-	51,481	351,481
Warwick Lamb	142,673	125,000	17,877	14,450	-	51,481	351,481
<i>Company secretary</i>							
Alex Neuling (appointed 4 January 2005)	20,642	-	-	1,858	-	-	22,500
<i>Other key management personnel</i>							
Michael Sheppard	146,789	-	-	13,211	-	34,192	194,192
Paul Macleman	98,295	-	-	8,847	-	55,305	162,447
Colin Hort (1/7/04 to 28/10/04)	25,229	-	-	2,271	-	4,173	31,673
Totals	597,628	250,000	17,877	76,637	-	196,632	1,138,774

Directors' Report

30 June 2006 (continued) – Remuneration report

C. Service agreements (audited)

Remuneration and other terms of agreement for the Executive 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 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, *Executive Chairman*

- Term of agreement – two years from 1 September 2005
- 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 Company, 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 2006 of \$250,000, to be reviewed annually by the board
- Payment of a termination benefit on early termination by the Company, 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 2006 of \$160,000, to be reviewed annually by the board
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to base salary and benefits for the remainder of the contract term.

Dr Richard Brandon, *Business Development Officer*

- Term of agreement – six months to 14 December 2006
- Base annual salary, inclusive of superannuation of \$144,000, to be reviewed annually by the board
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to base salary for one month

Directors' Report

30 June 2006 (continued) – Remuneration report

D. Share-based compensation (audited)

No options were granted to directors in the year ended 30 June 2006 (2005: none).

Options granted to Key Management Personnel in the current financial year

The terms and conditions of each grant of options in the current financial year affecting remuneration of Key Management Personnel in the previous, this or future reporting periods are as follows:

	Grant Date	Number	Exercise Price	Expiry Date	Share price at grant date	Value per option at grant date	Vesting Date
Directors							
None							
Other Executives							
Mr Alex Neuling	24-Aug-05	200,000	\$ 0.50	31-Jan-07	\$ 0.16	\$ 0.01	31-Jan-06
		50,000	\$ 0.30	31-Jan-07	\$ 0.16	\$ 0.02	On grant date
Dr Colin Hort	24-Aug-05	133,333	\$ 0.38	31-Oct-07	\$ 0.16	\$ 0.03	On grant date

Options granted to Key Management Personnel in the previous financial year

The terms and conditions of each grant of options in the previous financial year affecting remuneration of Key Management Personnel in the previous, this or future reporting periods are as follows:

	Grant Date	Number	Exercise Price	Expiry Date	Share price at grant date	Value per option at grant date	Vesting Date
Directors							
None							
Other Executives							
Dr Paul Macleman	31-Jan-05	1,000,000*	\$ 0.50	31-Oct-07	\$ 0.28	\$ 0.09	31-Oct-07
		200,000	\$ 0.38	31-Oct-07	\$ 0.28	\$ 0.12	31-Oct-05
		200,000	\$ 0.30	31-Dec-06	\$ 0.28	\$ 0.10	01-Feb-05
Dr Michael Sheppard	24-Feb-05	250,000	\$ 0.50	31-Jan-07	\$ 0.25	\$ 0.06	On grant date

* these options were subsequently cancelled by the Company due to their vesting conditions not having been satisfied.

Directors' Report

30 June 2006 (continued) – Remuneration report

D. Share-based compensation (audited)

Options granted in 2003

The following options were granted in November 2003 and have no effect on remuneration in the current or future financial years. They are nonetheless required to be disclosed since they affected the remuneration of Key Management Personnel in the previous financial year.

	Grant Date	Number	Exercise Price	Expiry Date	Share price at grant date	Value per option at grant date	Vesting Date
Directors	27-Nov-03	1,250,000	\$ 0.25	31-Dec-06	\$ 0.14	\$ 0.13	01-Jul-05
Other Executives	27-Nov-03	250,000	\$ 0.25	31-Dec-06	\$ 0.14	\$ 0.13	01-Jul-05

Fair Value of Options

The fair value of each option is estimated on the date of grant using the Black-Scholes Option Valuation Model with the following assumptions:

	2006	2005
Dividend yield	-	-
Expected volatility	72%	72%
Historical volatility	72%	72%
Risk-free interest rate	6.0%	5.56%
Expected life of option	1.5 years	2.3 years

Options granted carry no dividend or voting rights. Upon exercise, each option is convertible into one fully paid ordinary share to rank pari passu with fully paid ordinary shares then on issue.

No options provided as remuneration to directors or key management personnel as remuneration were exercised during the year (2005: none).

E. Additional Information (unaudited)

As detailed under headings A & B, remuneration of executives consists of an unrisks 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 Company in the current or previous reporting periods.

Directors' Report

30 June 2006 (continued) – Remuneration report

E. Additional Information (unaudited)

No cash bonuses were forfeited during the year by directors or key management personnel or remained unvested at year-end. No options granted as remuneration to directors or key management personnel remain unvested at year end.

Additional information required by s300A (1) of the *Corporations Act 2001* in relation to share-based compensation is set out below.

2006	A Remuneration consisting of options %	B Value at grant date \$	C Value at exercise date \$	D Value at lapse date \$	Total of columns B-D \$
Directors of Imugene Limited					
Graham Dowland	0%	-	-	-	-
Warwick Lamb	0%	-	-	-	-
Roger Steinepreis	0%	-	-	-	-
Company Secretary					
Alex Neuling	7%	3,775	-	-	3,775
Other key management personnel of the Group					
Michael Sheppard	0%	-	-	-	-
Paul MacLeman*	-13%	(11,316)	-	-	(11,316)
Richard Brandon	0%	-	-	-	-

A = The percentage of the value of remuneration consisting of options, based on the value at grant date set out in column B

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

D = The value at lapse date of options that were granted as part of remuneration and were exercised during the year

* Dr Macleman was granted 1,400,000 options in the prior financial year, subject to vesting conditions. In accordance with AASB2 *Share-based Payment* part of the expense for options not yet vested was recognised in that financial year. During the current year, 200,000 of these options vested and 1,000,000 were cancelled, unvested. The income shown represents the net income recognised in the period in relation to the calculated fair value of options deemed to have vested / (been cancelled) during the current financial year.

Directors' Report

30 June 2006 (continued)

Auditor's Independence Declaration

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included on page 17 of the Financial 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 provision of non-audit services, during the year, by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

Insurance of Officers and Auditors

During the year, the Company has paid a premium in respect of a contract insuring the directors of the Company (as named above) and the company secretary Mr Alexander Neuling 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 company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

This report is made in accordance with a resolution of the directors made pursuant to s298(2) of the *Corporations Act 2001*.

GRAHAM DOWLAND
Executive Chairman
Perth, Western Australia

18 September 2006

The Board of Directors
Imugene Limited
Level 20, 77 St Georges Terrace
Perth WA 6000

18 September 2006

Dear Sirs

Imugene Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Imugene Limited.

As lead audit partner for the audit of the financial statements of Imugene Limited for the financial year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



AT Richards

Partner

Chartered Accountants

Independent audit report to the members of Imugene Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Imugene Limited ("the company") and the consolidated entity, for the financial year ended 30 June 2006 as set out on pages 20 to 49. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the compensation of key management personnel ("compensation disclosures") as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124"), under the heading "remuneration report" of the directors' report, and not in the financial report. These compensation disclosures are identified in the directors' report as being subject to audit. The remuneration report also contains information not subject to audit.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We have conducted an independent audit of the financial report and compensation disclosures in order to express an opinion on them to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement and the compensation disclosures comply with AASB 124. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the *Corporations Act 2001* so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations, their changes in equity and their cash flows and whether the compensation disclosures comply with AASB 124.

Deloitte.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the compensation disclosures in the directors' report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion:

- (1) the financial report of Imugene Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (2) the compensation disclosures that are contained under the heading "remuneration report" of the directors' report comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures*.



DELOITTE TOUCHE TOHMATSU



A T Richards

Partner

Chartered Accountants

Perth, 18 September 2006

Income Statement
For the financial year ended 30 June 2006

	Note	Consolidated		Parent entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Revenue from continuing operations	(4)	263,251	135,302	1,087,572	783,607
Other income	(5)	103,083	254,199	100,662	254,199
Total income		366,334	389,501	1,188,234	1,037,806
Research and development		(845,017)	(872,930)	(818,718)	(1,004,845)
Business development		(246,515)	(296,077)	(246,515)	(296,077)
Commercialisation expenses		(1,145,962)	(953,889)	(804,823)	(513,300)
Corporate and administration costs		(568,119)	(578,347)	(566,755)	(564,732)
Impairment writedown of investment in controlled entities		-	-	(1,190,702)	(890,390)
	(6)	(2,805,613)	(2,701,243)	(3,627,513)	(3,269,344)
Loss from ordinary activities before income tax expense		(2,439,279)	(2,311,742)	(2,439,279)	(2,231,538)
Income tax (expense) / benefit	(7)	252,060	322,760	252,060	268,408
Net loss attributable to members of Imugene Limited		(2,187,219)	(1,988,982)	(2,187,219)	(1,963,130)
Earnings / (loss) per share					
Basic loss per share (cents per share)	(21)	(1.7)	(1.7)		
Diluted loss per share (cents per share)	(21)	(1.7)	(1.7)		

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

Balance Sheet
As at 30 June 2006

	Note	Consolidated		Parent entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Current assets					
Cash and cash equivalents		2,697,244	4,346,447	2,521,076	4,294,399
Trade and other receivables		41,442	109,563	4,369	5,161
Tax assets	(8)	542,062	286,991	542,062	286,991
Total current assets		3,280,748	4,743,001	3,067,507	4,586,551
Non-current assets					
Receivables	(9)	-	-	1,867,235	780,179
Other financial assets	(9)	-	-	2,414,820	3,605,522
Property, plant and equipment	(10)	22,228	14,597	22,228	14,597
Intangible assets	(11)	3,965,445	4,306,585	-	-
Total non-current assets		3,987,673	4,321,182	4,304,283	4,400,298
Total assets		7,268,421	9,064,183	7,371,790	8,986,849
Current liabilities					
Trade and other payables	(12)	732,603	362,630	835,972	285,296
Provisions	(13)	73,437	48,893	73,437	48,893
Total liabilities		806,040	411,523	909,409	334,189
Net assets		6,462,381	8,652,660	6,462,381	8,652,660
Equity					
Contributed equity	(14)	13,180,042	13,180,042	13,180,042	13,180,042
Reserves	(15)	264,545	267,605	264,545	267,605
Accumulated losses	(15)	(6,982,206)	(4,794,987)	(6,982,206)	(4,794,987)
Total parent entity interest in equity		6,462,381	8,652,660	6,462,381	8,652,660

The above balance sheet should be read in conjunction with the accompanying notes.

Cash flow statement
For the financial year ended 30 June 2006

	Note	Consolidated		Parent entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Cash flows from operating activities					
Receipts from customers		66,690	-	-	-
Payments to suppliers and employees		(2,000,489)	(2,365,106)	(972,256)	(1,826,271)
		<u>(1,933,799)</u>	<u>(2,365,106)</u>	<u>(972,256)</u>	<u>(1,826,271)</u>
Income tax repayments received		-	347,170	-	347,170
Governement grants received		100,662	254,199	100,662	254,199
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash outflow from operating activities	(20)	<u>(1,833,137)</u>	<u>(1,763,737)</u>	<u>(871,594)</u>	<u>(1,224,902)</u>
Cash flows from investing activities					
Payments for property, plant and equipment		(12,627)	(2,488)	(12,627)	(2,488)
Loans to related parties		-	-	(1,081,828)	(399,905)
Interest received		196,561	134,729	192,726	131,373
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash inflow (outflow) from investing activities		<u>183,934</u>	<u>132,241</u>	<u>(901,729)</u>	<u>(271,020)</u>
Cash flows from financing activities					
Proceeds from issues of shares		-	5,276,917	-	5,276,917
Share issue costs		-	(261,717)	-	(261,717)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash inflow from financing activities		<u>-</u>	<u>5,015,200</u>	<u>-</u>	<u>5,015,200</u>
Net increase (decrease) in cash and cash equivalents		<u>(1,649,203)</u>	<u>3,383,704</u>	<u>(1,773,323)</u>	<u>3,519,278</u>
Cash and cash equivalents at the beginning of the financial year		4,346,447	962,743	4,294,399	775,121
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at the end of the financial year		<u>2,697,244</u>	<u>4,346,447</u>	<u>2,521,076</u>	<u>4,294,399</u>

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

Statement of changes in equity
For the financial year ended 30 June 2006

	Note	Consolidated		Parent entity	
		2006 \$	2005 \$	2006 \$	2005 \$
Share Capital					
At the beginning of the year		13,180,042	8,164,842	13,180,042	8,164,842
Option conversions		-	276,917	-	276,917
Share placement		-	5,000,000	-	5,000,000
Costs of issue		-	(261,717)	-	(261,717)
At the end of the year	(14)	<u>13,180,042</u>	<u>13,180,042</u>	<u>13,180,042</u>	<u>13,180,042</u>
Share Based Payment Reserve					
At the beginning of the year		267,605	72,831	267,605	72,831
Employee share options		(3,060)	194,774	(3,060)	194,774
At the end of the year	(15)	<u>264,545</u>	<u>267,605</u>	<u>264,545</u>	<u>267,605</u>
Accumulated losses					
At the beginning of the year		(4,794,987)	(2,806,005)	(4,794,987)	(2,831,857)
Loss for the year		(2,187,219)	(1,988,982)	(2,187,219)	(1,963,130)
At the end of the year	(15)	<u>(6,982,206)</u>	<u>(4,794,987)</u>	<u>(6,982,206)</u>	<u>(4,794,987)</u>
Total Equity					
At the beginning of the year		8,652,660	5,431,668	8,652,660	5,405,816
At the end of the year		<u>6,462,381</u>	<u>8,652,660</u>	<u>6,462,381</u>	<u>8,652,660</u>
Net income recognised directly in equity					
		-	-	-	-
Loss for the year		(2,187,219)	(1,988,982)	(2,187,219)	(1,963,130)
Total recognised income and expense for the year	(15)	<u>(2,187,219)</u>	<u>(1,988,982)</u>	<u>(2,187,219)</u>	<u>(1,963,130)</u>

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

Notes to the financial statements

1. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Imugene Limited as an individual entity (Company) and the consolidated entity comprised by Imugene Limited and its subsidiaries (Group or Consolidated Entity).

Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards ("AIFRS"), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Compliance with International Financial Reporting Standards

Australia Accounting Standards include AIFRSs, Compliance with AIFRSs ensures that the consolidated financial statements and notes thereto prepared by the Consolidated Entity comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes thereto also comply with IFRSs except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in *AASB 132 financial Instruments: Presentation and Disclosure*.

Application of AASB 1 First Time Adoption of Australian equivalents to International Financial Reporting Standards

The Consolidated Entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards ("AIFRS"). The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to AIFRS has affected the Consolidated Entity's financial position, financial performance and cash flows is discussed in note 24.

The accounting policies set out below have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements, and in the preparation of the opening AIFRS balance sheet at 1 July 2004 (as described in note 24), the Consolidated Entity's date of transition.

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts.

(b) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and these benefits can be measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

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.

Defined contribution superannuation plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(c) Financial Assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Investments in subsidiaries are measured at cost. Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available for- sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Notes to the financial statements

1. Summary of significant accounting policies (continued)

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

(d) Financial instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(e) Foreign currency

Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction.

Foreign currency monetary items at 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.

(f) Good and services tax

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

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

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

Notes to the financial statements

1. Summary of significant accounting policies (continued)

(g) Government grants

Government grants are assistance by the government in the form of transfers of resources to the consolidated entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.

Government grants include government assistance where there are no conditions specifically relating to the operating activities of the consolidated entity other than the requirement to operate in certain regions or industry sectors. Government grants relating to income are recognised as income over the periods necessary to match them with the related costs. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the consolidated entity with no future related costs are recognised as income of the period in which it becomes receivable. Government grants relating to assets are treated as deferred income and recognised in profit and loss over the expected useful lives of the assets concerned.

(h) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately. 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 in the income statement immediately.

(i) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Notes to the financial statements

1. Summary of significant accounting policies (continued)

(j) Income tax (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

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 directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

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

(k) Intangible assets

Patents, trademarks and licences

Patents, trademarks and licences are recorded at cost less accumulated amortisation and impairment. 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.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Notes to the financial statements

1. Summary of significant accounting policies (continued)

(k) Intangible assets (continued)

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.

(l) Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(m) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its controlled entities as defined in Accounting Standard AASB 127 "Consolidated and Separate Financial Statements". Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(n) Property, plant and equipment

Plant and equipment and fixtures & fittings are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. 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 provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.

The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

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

Notes to the financial statements

1. Summary of significant accounting policies (continued)

(o) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

An onerous contract is considered to exist where the consolidated entity has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

(p) Revenue recognition

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, licence fees and milestone payments

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

Dividend and interest revenue

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(q) Share-based payments

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

Notes to the financial statements

2. Financial Risk Management

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 seeks to 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.

AASB 132 Financial Instruments Presentation and Disclosure requires the disclosure of information to assist users of the financial report in assessing the extent of risks related to financial instruments faced by the Group. These risks include financial risks such as market risks (including currency risk, fair value interest rate risk and commodity price risk), credit risk & liquidity risk. These disclosures are not nor are they intended to be an exhaustive list of risks to which Imugene is exposed.

(a) Market risk

i. Foreign exchange risk

Imugene Limited is based in Australia, its shares are listed on the Australian Stock Exchange and the consolidated entity 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.

Notes to the financial statements

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.

	Note	Weighted Average Effective Interest Rate \$	Variable Interest Rate %	Non-Interest Bearing \$	Total \$
2006					
Financial Assets					
Cash and deposits		5.5%	2,697,244	-	2,697,244
Tax assets	(8)		-	542,062	542,062
Trade and other receivables			-	41,442	41,442
Total Financial Assets			<u>2,697,244</u>	<u>583,504</u>	<u>3,280,748</u>
Financial Liabilities					
Payables	(12)		-	732,603	732,603
Total Financial Liabilities			<u>-</u>	<u>732,603</u>	<u>732,603</u>
Net Financial Assets/(Liabilities)			<u>2,697,244</u>	<u>(149,099)</u>	<u>2,548,145</u>
2005					
Financial Assets					
Cash and deposits		5.5%	4,346,447	-	4,346,447
Tax assets	(8)		-	286,991	286,991
Trade and other receivables			-	109,563	109,563
Total Financial Assets			<u>4,346,447</u>	<u>396,554</u>	<u>4,743,001</u>
Financial Liabilities					
Payables	(12)		-	362,630	362,630
Total Financial Liabilities			<u>-</u>	<u>362,630</u>	<u>362,630</u>
Net Financial Assets/(Liabilities)			<u>4,346,447</u>	<u>33,924</u>	<u>4,380,371</u>

The Directors consider that the carrying value of financial assets and liabilities approximates their fair value in the current and previous financial years.

iii. Commodity price risk

The Group is not exposed to commodity price risk.

(b) Credit risk

The Group trades only with recognised, trustworthy third parties and 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.

(c) Liquidity risk

Prudent liquidity management involves the maintenance of sufficient cash, marketable securities, committed credit facilities 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.

Notes to the financial statements

3. 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 judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Deferred tax assets

The Group has carried forward tax losses which have not been recognised as deferred tax assets as it is not considered sufficiently probable that these losses will be recouped by means of future profits taxable in the appropriate jurisdictions.

(b) 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:

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees and consultants by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black-Scholes model, using the assumptions detailed in note 16.

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, market penetration, milestone achievement dates and production profiles.

As at 30 June 2006, the carrying value of Patents, licences and other rights is \$3,965,445 (2005: \$4,306,585).

4. Revenue

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
From continuing operations				
<i>Sales revenue</i>				
Services	-	-	894,845	652,234
	-	-	894,845	652,234
<i>Other revenue</i>				
Sub-licence fees	66,690	-	-	-
Interest	196,561	135,302	192,727	131,373
	263,251	135,302	192,727	131,373
	263,251	135,302	1,087,572	783,607

Notes to the financial statements

5. Other income

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Government grants	100,662	254,199	100,662	254,199
Net foreign exchange gains	2,421	-	-	-
	<u>103,083</u>	<u>254,199</u>	<u>100,662</u>	<u>254,199</u>

6. Expenses

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Depreciation of non-current assets:				
Tangible fixed assets	5,508	6,533	5,508	6,533
Commercialisation expenses				
Patent expenses	490,441	135,183	490,441	35,734
Employee expenses	314,381	477,566	314,381	477,566
Amortisation of intangibles	341,140	341,140	-	-
Impairment writedown:				
Investments – controlled entities	-	-	(1,190,702)	(890,390)
	<u>-</u>	<u>-</u>	<u>(1,190,702)</u>	<u>(890,390)</u>

Notes to the financial statements

7. Income tax

	Consolidated		Parent entity	
	2006	2005	2006	2005
Current tax	\$ 268,414	\$ 286,991	\$ 268,414	\$ 286,991
Under (over) recognised in prior years	(16,354)	35,769	(16,354)	(18,583)
	252,060	322,760	252,060	268,408

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting loss before tax from continuing operations	(2,439,279)	(2,311,742)	(2,442,341)	(2,231,538)
Tax at the Australian statutory income tax rate of 30% (2005: 30%)	(731,784)	(693,523)	(732,702)	(669,461)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income				
Research & development expenses (claimed under Tax Concession)	253,505	246,164	245,615	246,164
Share-based payment expense	(918)	58,432	(918)	58,432
Sundry other	(30,593)	(15,331)	(29,393)	(15,678)
Tax effect of timing differences in relation to unrecognised deferred tax assets / liabilities: (i) (ii)				
Writedown to recoverable amount	-	-	357,211	267,117
Patent costs	141,157	29,061	137,569	10,486
Sundry other	19,963	6,662	19,963	6,062
	(348,670)	(368,535)	(2,655)	(96,878)
Less tax losses not recognised (ii)	348,670	368,535	2,655	96,878
	-	-	-	-
Research & Development Tax Concession				
Current Year	268,414	286,991	268,414	286,991
Over / (under) recognised in prior year	(16,354)	35,769	(16,354)	(18,583)
Income tax benefit	252,060	322,760	252,060	268,408
(i) <i>Deferred tax liability arising from temporary differences</i>				
Amounts recognised in profit or loss	(52,031)	(49,942)	(52,031)	(32,668)
Less set off of deferred tax assets under set-off provisions	52,031	49,942	52,031	32,668
	-	-	-	-
(ii) <i>Deferred tax assets not recognised</i>				
Arising from temporary differences attributable to:				
Amounts recognised in profit or loss	241,105	32,668	32,668	1,037,098
Amounts recognised directly in equity	81,461	99,467	99,467	116,741
Carried forward tax losses	1,387,261	1,038,592	393,993	392,256

Notes to the financial statements

8. Current assets – Tax assets

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Research & development tax concession receivable	542,062	286,991	542,062	286,991

9. Non-current assets – Other financial assets

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Receivables from wholly-owned subsidiaries				
At cost	-	-	1,867,235	780,179
Investments in wholly-owned subsidiaries				
At cost	-	-	6,695,912	6,695,912
Less recoverable amount write-down	-	-	(4,281,092)	(3,090,390)
Investments – other entities				
At cost	-	475,496	-	-
Less recoverable amount write-down	-	(475,496)	-	-
	-	-	2,414,820	3,605,522

In determining the recoverable amount of investments, the expected future cashflows associated with the investment, based on the projected dividend stream and value at expected sale date, have been discounted to their net present value using a discount rate of 10%.

(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 2006 consisted of:

- (i) Working capital advanced by Imugene Limited;
- (ii) Provision of 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.

At balance date amounts receivable from controlled entities totalled \$ 1,867,235 (2005: \$780,179).

Notes to the financial statements

9. Non-current assets – Other financial assets (continued)

(b) Investments in Controlled Entities

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding	
			2006 %	2005 %
Controlled Entities				
Brightsun Investments Pty Ltd	Australia	Ordinary	100	100
VectoGen Pty Ltd	Australia	Ordinary	100	100
BioMimic Technologies Ltd	Australia	Ordinary	100	100
Paragen Pty Ltd	Australia	Ordinary	100*	37.5

*Effective 17 December 2005, Imugene Limited (through its wholly-owned subsidiary Brightsun Investments Pty Ltd) acquired the 62.5% equity interest in Paragen Pty Ltd not already owned for a nominal amount. The assets and liabilities acquired in this transaction are not material and accordingly additional disclosures ordinarily required under Australian Accounting Standards have not been included.

(c) Ultimate Parent Company

The ultimate parent company in the wholly-owned Group is Imugene Limited, a company incorporated in Australia.

10. Non-current assets – Property, Plant & Equipment

	Consolidated		Parent entity	
	2006 \$	2005 \$	2006 \$	2005 \$
Plant & equipment				
At cost	41,531	28,394	41,531	28,394
Accumulated depreciation	(22,149)	(17,367)	(22,149)	(17,367)
Total plant and equipment (Note 10(a))	19,382	11,027	19,382	11,027
Fixtures and Fittings				
At cost	4,184	4,184	4,184	4,184
Accumulated depreciation	(1,338)	(614)	(1,338)	(614)
Total fixtures and fittings (Note 10(a))	2,846	3,570	2,846	3,570
Total Written down value	22,228	14,597	22,228	14,597

(a) Reconciliations

Plant and Equipment

Carrying amount at beginning of year	11,027	15,317	11,027	15,317
Additions	13,138	1,974	13,138	1,974
Depreciation expense	(4,783)	(6,264)	(4,783)	(6,264)
Total plant & equipment	19,382	11,027	19,382	11,027

Fixtures and Fittings

Carrying amount at beginning of year	3,570	3,326	3,570	3,326
Additions	-	515	-	515
Depreciation	(724)	(271)	(724)	(271)
Total fixtures and fittings	2,846	3,570	2,846	3,570

Notes to the financial statements

11. Non-current assets – Intangible assets

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Patents, licences 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	(810,510)	(469,370)	-	-
Amortisation charge	(341,140)	(341,140)	-	-
Accumulated amortisation at the end of the year	(1,151,650)	(810,510)	-	-
Opening net book amount	4,306,585	4,647,725	-	-
Closing net book amount	3,965,445	4,306,585	-	-

The Consolidated Entity holds a number of patents and licences in relation to its Adenoviral Vector Delivery platform technology. The carrying amount of these patents and licences of \$3,965,445 (2005: \$4,306,585) will be fully amortised in 12 years (2005: 13 years).

12. Current liabilities – Trade and other payables

Trade payables	688,654	284,864	686,654	207,530
Other payables	43,949	77,766	149,318	77,766
	732,603	362,630	835,972	285,296

13. Provisions

Provisions				
Employee benefits - annual leave	73,437	48,893	73,437	48,893
	73,437	48,893	73,437	48,893

Notes to the financial statements

14. Contributed equity

	Parent entity		Parent entity	
	2006	2005	2006	2005
	Shares	Shares	\$	\$
(a) Share capital				
Fully paid ordinary shares (i)	130,579,564	130,579,564	13,180,042	13,180,042

(i) 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	Note	Date	Number	Issue Price	\$
Opening balance		01-Jul-04	108,118,080		8,164,842
Option conversion	(i)	02-Sep-04	200,000	\$ 0.1125	22,500
Share and option placement	(ii)	03-Dec-04	13,475,000	\$ 0.25	3,368,750
Option conversion	(i)	22-Dec-04	2,261,484	\$ 0.1125	254,417
Share and option placement	(ii)	20-Jan-05	6,525,000	\$ 0.25	1,631,250
Less: transaction costs arising on placements					(261,717)
Balance		01-Jul-05	130,579,564		13,180,042
Closing balance		30-Jun-06	130,579,564		13,180,042

(i) 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 16.

(ii) On 3 December 2004 the Company issued 13,475,000 ordinary shares and 2,695,000 free attaching Listed Options (on a 1 for 5 basis) as the first tranche of a \$5,000,000 share and option placement announced to shareholders on 23 November 2004. The issue was subsequently approved and ratified by shareholders at a general meeting held on 11 January 2005 and the second tranche of 6,525,000 ordinary shares and 1,305,000 free attaching options.

Notes to the financial statements

15. Reserves and accumulated losses

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
(a) Share-based payment reserve				
Balance 1 July	267,605	72,831	267,605	72,831
Option expense	-	194,774	-	194,774
Options cancelled	(3,060)	-	(3,060)	-
Balance 30 June	<u>264,545</u>	<u>267,605</u>	<u>264,545</u>	<u>267,605</u>
(b) Accumulated losses				
Balance 1 July	4,794,987	2,806,005	4,794,987	2,831,857
Net loss for the year	2,187,219	1,988,982	2,187,219	1,963,130
Balance 30 June	<u>6,982,206</u>	<u>4,794,987</u>	<u>6,982,206</u>	<u>4,794,987</u>

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.

16. Options

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

Description	Note	ASX code	2006 Number	2005 Number	Exercise Price	Expiry
Listed options		IMUO	4,250,000	4,250,000	\$ 0.50	31-Jan-07
Unlisted performance options						
Type 1		IMUAI	4,633,333	4,633,333	\$ 0.225	31-Oct-07
Type 2		IMUAY	2,000,000	2,000,000	\$ 0.30	31-Dec-06
Type 3		IMUAY	2,000,000	2,000,000	\$ 0.25	31-Dec-06
Type 4		IMUAY	2,000,000	2,000,000	\$ 0.25	31-Dec-06
Type 5	(a)	IMUAO	-	1,000,000	\$ 0.50	31-Oct-07
Type 6		IMUAK	200,000	200,000	\$ 0.30	31-Dec-06
Type 7	(a)	IMUAM	333,333	200,000	\$ 0.375	31-Oct-07
Type 8	(a)	IMUAZ	200,000	-	\$ 0.50	31-Jan-07
Type 9	(a)	IMUAW	50,000	-	\$ 0.30	31-Jan-07
Total			<u>15,666,666</u>	<u>16,283,333</u>		

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.

Notes to the financial statements

16. Options (continued)

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

Description	Note Grant date	ASX code	2006 Number	2005 Number
At 1 July			16,283,333	13,094,817
Granted during the year				
Type 1	24-Feb-05	IMUO	-	4,250,000
Type 5	31-Jan-05	IMUAO	-	1,000,000
Type 6	31-Jan-05	IMUAK	-	200,000
Type 7	24-Aug-05	IMUAM	133,333	200,000
Type 8	24-Aug-05	IMUAZ	200,000	-
Type 9	24-Aug-05	IMUAW	50,000	-
Cancelled during the year				
Type 5		IMUAO	(1,000,000)	-
Exercised during the year			-	(2,461,484)
At 30 June			<u>15,666,666</u>	<u>16,283,333</u>

The fair value of options granted during the year was calculated using the Black-Scholes option pricing model. Expense has been apportioned pro-rata to reporting periods where vesting periods apply.

The weighted average fair value of options granted during the year was \$0.02 per option (2005: \$0.09). Key inputs to the model used in the calculation were as follows:

- Expected price Volatility – 72% (2005: 72% (based on the historical volatility adjusted for any expected changes to future volatility due to publicly available information)
- Exercise prices – (contractual exercise price of options, as disclosed elsewhere in this note)
- Expiry dates – (contractual expiry date of options, as disclosed elsewhere in this note)
- Share price at grant date - ASX closing price at grant date:

Notes to the financial statements

17. Key management personnel 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) The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly during the current and prior financial years.

2006

Dr Michael Sheppard (Chief Scientific Officer)

Dr Paul Macleman (Chief Operating Officer, resigned 31 January 2006)

Dr Richard Brandon (Business Development Officer, appointed 14 June 2006)

(all of the above are employed directly by Imugene Limited)

2005

Dr Michael Sheppard (Chief Scientific Officer)

Dr Paul Macleman (Chief Operating Officer, appointed 1 November 2005)

Dr Colin Hort (resigned 28 October 2004)

In addition, the Company Secretary, Alex Neuling is deemed a Company executive under s9 of the *Corporations Act 2001*.

(c) Key management personnel compensation

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Short term employee benefits	781,687	865,505	781,687	865,505
Post-employment benefits	82,187	76,637	82,187	76,637
Share-based payments	(7,541)	196,632	(7,541)	196,632
	856,333	1,138,774	856,333	1,138,774

The Company has taken advantage of the relief provided by ASIC Class order 06/50 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A to D of the remuneration report on pages 9 to 14.

Notes to the financial statements

17. Key management personnel disclosures (continued)

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 1 July	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at 30 June	Vested and exercisable at 30 June
2006						
Directors of Imugene Limited						
Graham Dowland	2,500,000	-	-	-	2,500,000	2,500,000
Warwick Lamb	2,500,000	-	-	-	2,500,000	2,500,000
Roger Steinepreis	-	-	-	-	-	-
Other key management personnel of the Group						
Michael Sheppard	1,500,000	-	-	-	1,500,000	1,500,000
Paul MacLeman	1,400,000	-	-	(1,000,000)	400,000	400,000
Richard Brandon	-	-	-	-	-	-
Alex Neuling	-	250,000	-	-	250,000	250,000
2005						
Directors of Imugene Limited						
Graham Dowland	2,523,334	-	(23,334)	-	2,500,000	2,500,000
Warwick Lamb	2,546,667	-	(46,667)	-	2,500,000	2,500,000
Roger Steinepreis	1,060,741	-	(1,060,741)	-	-	-
Other key management personnel of the Group						
Michael Sheppard	1,250,000	250,000	-	-	1,500,000	1,500,000
Paul MacLeman	-	1,400,000	-	-	1,400,000	1,400,000
Colin Hort	133,334	133,333	(133,334)	-	133,333	133,333

Details of options provided as remuneration and shares issued on exercise of such options, together with the terms and conditions of the options, can be found in section D of the remuneration report on pages 13 to 14.

Notes to the financial statements

17. Key management personnel disclosures (continued)

(iii) 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 1 July	Exercise of options	Other changes	Balance at 30 June
2006				
Directors of Imugene Limited				
Graham Dowland	6,790,002	-	-	6,790,002
Warwick Lamb	6,400,001	-	-	6,400,001
Roger Steinepreis	4,263,678	-	-	4,263,678
Other key management personnel of the Group				
Michael Sheppard	228,589	-	-	228,589
Richard Brandon	-	-	-	-
Alex Neuling	-	-	-	-
2005				
Directors of Imugene Limited				
Graham Dowland	6,766,668	23,334	-	6,790,002
Warwick Lamb	6,353,334	46,667	-	6,400,001
Roger Steinepreis	3,202,937	1,060,741	-	4,263,678
Other key management personnel of the Group				
Michael Sheppard	90,500	-	138,089	228,589
Paul MacLeman	-	-	-	-
Alex Neuling	-	-	-	-

(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, Steinepreis Paganin, a law firm of which Mr Roger Steinepreis is a partner, provided legal services to the Company. For the year ended 30 June 2006, the Company paid \$778 (2005: \$29,075) to Steinepreis Paganin and this has been recognised in the financial statements as an expense.

During the year, Vetspec Pty Ltd, a company 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 2006, the Company paid \$51,000 (2005: \$36,000) to Vetspec 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 \$51,778 (2005: \$65,075).

Notes to the financial statements

18. Remuneration of auditors

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

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Deloitte Touche Tohmatsu for:				
- an audit or review of financial reports and other other audit work under the Corporations Act 2001	30,000	25,000	30,000	25,000
Unrelated audit firms for:				
- audit of regulatory returns	5,000	-	5,000	-
Total remuneration for audit services	35,000	25,000	35,000	25,000

19. Segment information

The Company and Consolidated Entity operates in one geographical and business segment, being the research, development and commercialisation of animal health technologies in Australia.

20. Reconciliation of loss after income tax to net cash outflow from operating activities

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Loss for the year	(2,187,219)	(1,988,982)	(2,187,219)	(1,963,130)
Depreciation and amortisation	346,648	347,673	5,508	6,533
Share based payment	(3,060)	194,774	(3,060)	194,774
Interest income	(196,561)	(134,729)	(192,727)	(131,373)
Provision for employee benefits	24,544	16,207	24,544	16,207
Writedown to recoverable amount of research and development assets	-	-	1,190,702	890,390
(increase) / decrease in working capital	182,511	(198,680)	290,658	(238,303)
Net cash outflow from operating activities	(1,833,137)	(1,763,737)	(871,594)	(1,224,902)

Notes to the financial statements

21. Earnings / (Loss) per share

	Consolidated	
	2006	2005
	Cents	Cents
Basic / diluted loss per share		
Loss attributable to the ordinary equity holders of the Company	<u>(1.7)</u>	<u>(1.7)</u>
	\$	\$
Loss used in calculation of basic / diluted loss per share		
Loss	<u>(2,187,219)</u>	<u>(1,988,982)</u>
	Number	Number
Weighted average number of ordinary shares / potential ordinary shares used as the denominator in calculating basic / diluted loss per share	<u>130,579,564</u>	<u>120,115,733</u>

The options on issue (Note 16) represent potential ordinary shares but are not 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:

22. Subsequent events

No event has arisen since 30 June 2006 that would be likely to materially affect the operations of the Consolidated Entity, the results of the Consolidated Entity or the state of affairs of the Consolidated Entity not otherwise disclosed in the Consolidated Entity's financial report.

23. Contingencies

The Consolidated Entity has no contingent assets or liabilities at balance date (2005: none).

24. Explanation of transition to Australian equivalents to IFRS

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has adopted accounting policies that comply with AIFRS (as detailed in note 1) and has applied these policies to all financial statements for periods beginning on or after 1 January 2005. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004 (the date of transition to AIFRS). This note details the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

Notes to the financial statements

24. Explanation of transition to Australian equivalents to IFRS (continued)

(a) Reconciliation of reported equity

(i) At 1 July 2004 (date of transition to AIFRS)

	Note	Consolidated		Parent entity	
		AGAAP \$	AIFRS \$	AGAAP \$	AIFRS \$
Net assets		<u>5,431,668</u>	<u>5,431,668</u>	<u>5,405,816</u>	<u>5,405,816</u>
Representing:					
Contributed equity		8,164,842	8,164,842	8,164,842	8,164,842
Share based payment reserve	(c)	-	72,831	-	72,831
Accumulated losses	(c)	<u>(2,733,174)</u>	<u>(2,806,005)</u>	<u>(2,759,029)</u>	<u>(2,831,860)</u>
		<u>5,431,668</u>	<u>5,431,668</u>	<u>5,405,813</u>	<u>5,405,813</u>
		Consolidated \$	Parent entity \$		
Total equity under AGAAP		5,431,668	5,405,816		
Increase in accumulated losses on application of AASB2	(c)	(72,831)	(72,831)		
Associated increase in share- based payment reserve	(c)	72,831	72,831		
Total equity under AIFRS		<u>5,431,668</u>	<u>5,405,816</u>		

(ii) At 30 June 2005 (latest period presented in the the most recent annual financial report under AGAAP)

	Note	Consolidated		Parent entity	
		AGAAP \$	AIFRS \$	AGAAP \$	AIFRS \$
Net assets		<u>8,652,660</u>	<u>8,652,660</u>	<u>5,405,816</u>	<u>5,405,816</u>
Representing:					
Contributed equity		13,180,042	13,180,042	13,180,042	13,180,042
Share based payment reserve	(c)	-	267,605	-	267,605
Accumulated losses	(c)	<u>(4,527,382)</u>	<u>(4,794,987)</u>	<u>(4,527,382)</u>	<u>(4,794,987)</u>
		<u>8,652,660</u>	<u>8,652,660</u>	<u>8,652,660</u>	<u>8,652,660</u>
		Consolidated \$	Parent entity \$		
Total equity under AGAAP		8,652,660	8,652,660		
Increase in accumulated losses on application of AASB2	(c)	(267,605)	(267,605)		
Associated increase in share- based payment reserve	(c)	267,605	267,605		
Total equity under AIFRS		<u>8,652,660</u>	<u>8,652,660</u>		

Notes to the financial statements

24. Explanation of transition to Australian equivalents to IFRS (continued)

(b) Reconciliation of reported loss for year to 30 June 2005

	Note	AGAAP \$	Increase in expenses on application of AASB2 \$	AIFRS \$
Consolidated				
Total Income		389,501	-	389,501
Research and development	(c)	(810,377)	(62,553)	(872,930)
Business development	(c)	(247,500)	(48,577)	(296,077)
Commercialisation expenses	(c)	(870,245)	(83,744)	(953,989)
Corporate and administration costs		(578,347)	-	(578,347)
Other		-	-	-
Loss before income tax benefit		<u>(2,116,968)</u>	<u>(194,874)</u>	<u>(2,311,842)</u>
Income tax benefit		322,760	-	322,760
Loss after income tax benefit		<u>(1,794,208)</u>	<u>(194,874)</u>	<u>(1,989,082)</u>
Parent entity				
Total Income		1,037,806	-	1,037,806
Research and development	(c)	(942,292)	(62,553)	(1,004,845)
Business development	(c)	(247,500)	(48,577)	(296,077)
Commercialisation expenses	(c)	(429,656)	(83,644)	(513,300)
Corporate and administration costs		(564,732)	-	(564,732)
Other		(890,390)	-	(890,390)
Loss before income tax benefit		<u>(2,036,764)</u>	<u>(194,774)</u>	<u>(2,231,538)</u>
Income tax benefit		268,408	-	268,408
Loss after income tax benefit		<u>(1,768,356)</u>	<u>(194,774)</u>	<u>(1,963,130)</u>

Notes to the financial statements

24. Explanation of transition to Australian equivalents to IFRS (continued)

(c) Equity-based payments

Under AASB 2 “Share Based Payments”, the Group is required to recognise an expense for all share based remuneration, including options granted after 7 November 2002 which had not vested by 1 January 2005.

Application of this policy to the balance sheet at 30 June 2005 increases consolidated and parent entity retained losses at 30 June 2005 by \$267,605 with a corresponding increase in the share-based payment reserve. For the year ended 30 June 2005, the consolidated and parent entity employee benefits expense (apportioned to Research and Development, Business Development and Commercialisation Expenses on a time basis) is now \$194,774 higher, with a corresponding increase in the net movement in the share-based payment reserve.

24. Additional company information

Imugene Limited is a listed public company, incorporated and operating in Australia.

Registered Office

Level 1
14-20 Delhi Road
North Ryde
NSW 2113
Australia

Principal place of business

Level 1
14-20 Delhi Road
North Ryde
NSW 2113
Australia

Notes to the financial statements

In the directors' opinion:

- (a) The financial statements and notes set out on pages 20 to 49 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 Company's and Consolidated Entity's financial position as at 30 June 2006 and of its performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (c) the audited remuneration disclosures set out on pages 9 to 14 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

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

This declaration is made in accordance with a resolution of the directors.

GRAHAM DOWLAND
Executive Chairman

Perth, 18 September 2006