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DIRECTORS

Mr Graham Dowland
– Executive Chairman

Dr Warwick Lamb
– Managing Director

Mr Roger Steinepreis
– Non Executive

SENIOR MANAGEMENT & CONSULTANTS

Dr Michael Sheppard
– Chief Scientific Officer

Dr Kevin Fahey
– Chairman Advisory Board

COMPANY SECRETARY

Mr Mark Pearce

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imugene@imugene.com

STOCK EXCHANGE LISTING

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

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US PATENT ATTORNEY

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Computershare Investor
Services Pty Ltd
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Perth WA 6000

Telephone: 1300 557 010
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2004 Highlights

- Imugene successfully trialed a world first protective marker vaccine for PRRS, a major pig disease. This success sparked commercial interest and consequent license negotiations with several multinational animal health companies which are continuing
- Biological product range expanded with new Receptor Mimic Technology (RMT) licences for gastrointestinal diseases in all animals. Target diseases include *E. coli* postweaning diarrhoea in pigs
- Commercialisation plans for RMT products announced, including out-sourced contract manufacturing and distribution strategies to minimise commercialisation times
- RMT *E. coli* pilot trials and palatability trials completed in pigs
- Latest trials of Imugene's poultry productivity enhancer resulted in substantial 7.5% weight gains
- Major improvement in efficacy of the pig and poultry *Adenoviral Delivery Vectors*, now incorporated across the entire vaccine product range
- Merial (the world's largest animal products company and owned by Merck & Aventis) extended agreements on evaluation trials of three Imugene products
- Avian influenza (bird flu) virus trial vaccine project commenced
- Imugene awarded BIF grant for \$250 000 for commercialisation of the poultry productivity enhancer
- Appointment of Regulatory Consultant to manage registration of the RMT and Adenoviral Delivery Vector vaccines and Biological Productivity Enhancers
- Equity participant in BioMimic Technologies Limited, the company owning rights to the human range of treatments using RMT

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Imugene Limited is an Australian biopharmaceutical company specialising in the development and commercialisation of animal health products for production animals (pigs and poultry) and companion animals (pets).

Imugene's products safely prevent disease and parasites in animals, reduce or eliminate the use of antibiotics, harmful chemicals and drugs and, in production animals, reduce the level of antibiotic and chemical residue entering the human food chain.

IMUGENE

LIMITED

Executives' Report

Imugene has made substantial progress in commercialising the Company's biological product portfolio for the intensively farmed animal industry.

Dear Shareholders

Key business and scientific strategies established in 2003 are delivering greater value for shareholders through the commercialisation progress achieved to date and major expansions to the product portfolio. We remain fully focused on delivering shareholder value.

Accordingly, our efforts are directed to achieving key strategic goals.

Receptor Mimic Technology (RMT) – In-licensing

The in-licensing of Imugene's new RMT complementary product range is now complete. We are very pleased to now have the full rights to commercialise RMT for all animal species. Imugene is also the principal participant in the newly established company, BioMimic Technologies Limited, which owns the rights for all human applications of RMT.

This platform technology, which originated from The University of Adelaide, may become a leading therapeutic for a range bacterial and viral gastrointestinal diseases in animals and humans.

For the first time Imugene will commence development of products for the cattle market, particularly the rapidly growing global feedlot cattle market.

Due to the low regulatory barriers applying to Imugene's receptor mimics and the ease of producing commercial product at outsourced facilities, Imugene will be taking the lead receptor mimic products directly to animal markets. Given the high concentration of poultry and pig producers worldwide, Imugene can utilise direct channels to markets.

Adenoviral Delivery Vector Delivery System

Imugene's lead Adenoviral Delivery Vector based products have all been reconstructed to achieve enhanced effectiveness and value. These products have entered evaluation, commercial and regulatory trials. Commercialisation plans for launch to the major markets are now being finalised. Several new Adenoviral Delivery Vector vaccines have been made, including PRRS for pigs, avian influenza for poultry and two products specifically for the Chinese pig market.

Imugene's adenoviral vector based products continue to attract strong interest from the major international animal health companies. Our newly constructed vaccine against the most prevalent pig disease of PRRS was 100% successful in its first trial. This vaccine is a major triumph as this 'new generation' disease has no effective preventative treatment.

Further commercial validation trials of the Poultry Productivity Enhancer continued to demonstrate strong efficacy. This product delivers growth gains in excess of 7%, reduces mortality and maintains or improves feed conversion ratios. In addition, the productivity enhancer has commercially important competitive advantages such as low cost of production, multiple methods for delivery (in egg, water, spray or feed) and is residue free. This is one of our lead products under contract with Merial. Masterseed production (the 'biological manufacturing plant') of the product is due to commence at Merial's facility in the US and also through our outsourced facility in Australia. Further regulatory trials will continue.

The regulatory process for the Pig and Poultry Biological Productivity Enhancers began at the beginning of the year. We hope to have clearance from the Office of the Gene Technology Regulator (OGTR) in Australia early in 2005 to permit large-scale commercial trials.

Avian influenza (bird flu) has plagued poultry producers in Asia. There remains a high risk of this virus spreading to other leading poultry producing regions with Australia also under threat. Imugene has developed and constructed a vaccine against the strain of avian influenza that has caused the current epidemic. This vaccine, due to the unique economic benefits of the vector based delivery system, has the potential to be the world leading avian influenza vaccine.

The speed of development of this vaccine is further evidence of the power of the Imugene Adenoviral Vector Delivery System.

Commercial Strategy – Outsourcing Manufacturing for Speed to Market

We remain committed to outsourcing manufacturing of our products. There is excess production capacity for biological products worldwide. As these manufacturers are already GMP registered, this will greatly reduce timelines for regulatory trials and market launches.

Imugene will market the receptor mimic products directly to the principal cattle, poultry and pig farmers in the major territories through existing veterinary distributors.

Our lead Adenoviral Delivery Vector System based products continue to attract the attention of the major global animal health companies. License arrangements with Merial for three

vector products have been agreed, with other Imugene products currently being evaluated by Merial and other companies.

The Year Ahead – Commercialising Lead Products

Imugene's focus for the year ahead is to fast track lead products through the regulatory phases. We are looking forward to the grant of intentional release status from the OGTR for both the Pig and Poultry Biological Productivity Enhancers. Upon granting of intentional release, large-scale commercial trials will commence to reproduce the growth gains demonstrated in previous trials, in commercial pig and poultry production sheds. This step is the essential final step in establishing the production gains available to producers and the commercial value of each product. These results will complete product regulatory dossiers to be submitted for final approvals.

The production of masterseed for the Poultry Biological Productivity Enhancer and the RMT *E. coli* product should be completed within the next few months. This process ensures the final product is manufactured to comply with global regulatory requirements.

Material manufactured from the masterseed is required for the final regulatory trials. We anticipate completing the regulatory trials for the lead products during 2005 after which the global regulatory dossiers will be prepared and submitted.

When seeking regulation of animal health products, human safety overrides all other factors. Chemical or antibiotic residues in food and food borne pathogens are serious health issues. Antibiotic resistance and breeding so-called superbugs is an especially insidious threat recognised by health authorities.

Imugene's products address all these issues cost effectively and safely.

Our objectives for the coming year are to progress the lead products, both vector based and receptor mimics, through the regulatory and commercial trials. Whilst we cannot control the regulatory time frames, we remain confident of first sales of our lead products in 2006. The market launch rollout will continue in other countries as respective regulators approve Imugene's products.

We will continue to apply firm financial disciplines and maximise shareholder value.

On behalf of the Board we thank our team of dedicated personnel, including our key consultants, for their hard work and the many successful achievements made in the past year.

Yours faithfully

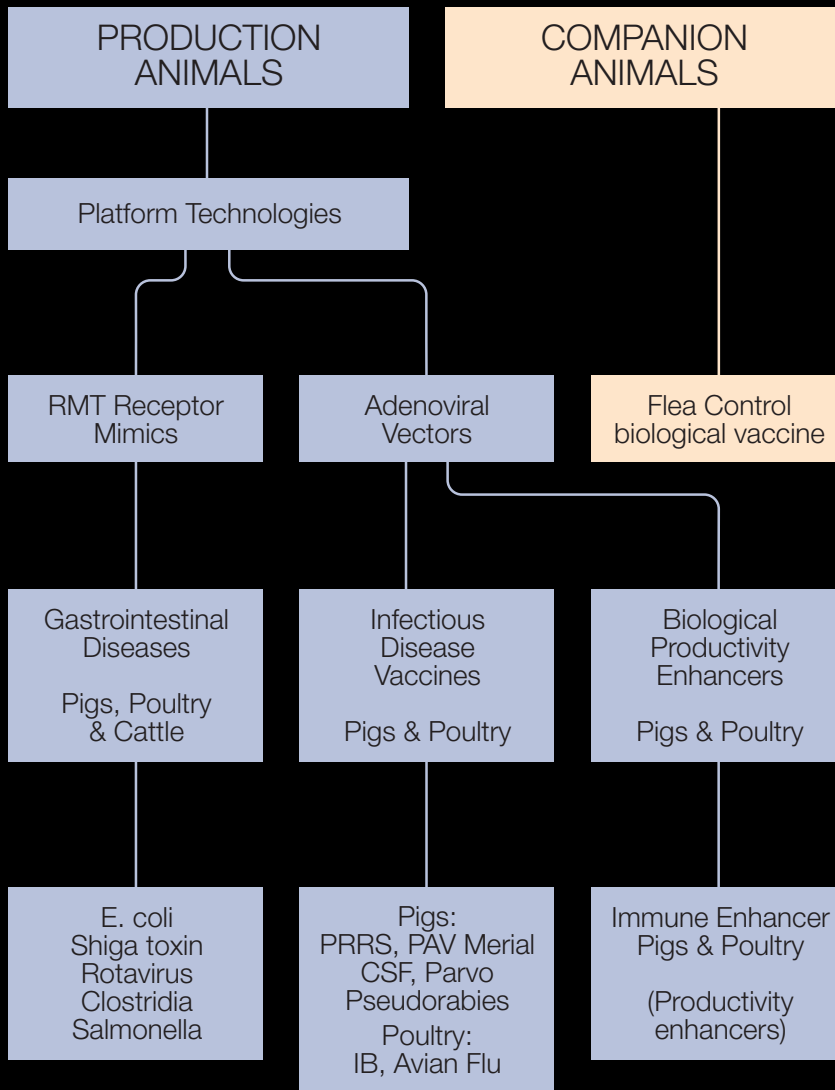
Mr Graham Dowland
Executive Chairman

Dr Warwick Lamb
Managing Director

October 2004



Product Portfolio



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Production Animal Portfolio Summary

Platform Technologies:	Adenoviral Vector Products	Receptor Mimic Products
SUMMARY	<ol style="list-style-type: none"> 1. <u>Vaccines</u> to prevent major infectious diseases affecting pigs & chickens. 2. <u>Biological Productivity Enhancers</u> that naturally boost the animal's own immune system to prevent a wide range of viral and bacterial infections from restricting animal growth. 	<p>Prevention and treatment of gastrointestinal diseases, including but not limited to <i>E.coli</i>, Rotavirus, Clostridia.</p> <p>Current rights for all animal species, with products planned for pigs, poultry and cattle.</p>
PRINCIPAL ADVANTAGES	<ul style="list-style-type: none"> • Biological not chemical • Administered through drinking water, spray, feed or by injection into eggs • Safe, effective, no residue • Cost effective to manufacture in existing facilities • Reduces use of antibiotics and antimicrobials and other less effective vaccines • Ability to make vaccines for new diseases without competitors • Patents in major territories granted; other territories under review or pending 	<ul style="list-style-type: none"> • Biological not chemical • Administered through drinking water or feed • Safe, effective, no residue • Cost effective to manufacture in existing facilities • Reduces use of antibiotics and antimicrobials and other less effective vaccines • Minimal regulatory requirements – low hurdles = very short approvals process • Patents granted in Australia and pending worldwide
COMMERCIALISATION OVERVIEW	<ul style="list-style-type: none"> • Safety trials completed. Dosage and stability trials throughout 2004 and 2005 • Intentional release dossier (submitted in Australia 2003) – anticipate approval approx. early 2005 • License contracts with Merial for execution • Large external trials to prove commercial efficacy & for regulatory approval during 2005 • Regulatory dossiers to be submitted in USA, Australia & Europe 2005 & 2006 • Contract bio-manufacture facilities tested during 2005 and 2006 (incl. distributorship contracts) • First sales, subject to regulatory approval, in major territories from 2006 through to 2008 	<ul style="list-style-type: none"> • Dosage, safety and stability trials 2004 and early 2005 • Regulatory dossier submitted in USA, Australia & Europe 2005 (approvals process anticipated within 12 months of submission) • Contract manufacture facilities tested • Distributorship agreements agreed by end of 2005 • First sales, subject to regulatory approval, in selected territories from 2006

Report to Shareholders

RECEPTOR MIMIC TECHNOLOGY (RMT)

RMT is a new biological method for disease control. RMT is safe, residue free, and will improve animal health whilst reducing or replacing antibiotics, drugs and chemicals in food producing animals.

Imugene has exclusively licensed this new platform technology for the prevention, treatment and diagnosis of gastrointestinal diseases in pigs. Imugene also holds options for similar licences for all other animal species.

The first RMT development is the E. coli post weaning diarrhoea product designed to protect piglets during the two weeks after weaning. The second product being developed will prevent piglet oedema disease, another usually fatal disease in piglets caused by a different strain of E. coli. Further products being developed are targeting diseases such as rotavirus, clostridia and other bacterial and viral causes of infectious diarrhoea in animals. Imugene's focus is production animals of economic importance around the world.

RMT allows the creation of non-chemical treatments with no residues or side effects, specific for each disease. As the treatments will be administered via drinking water there is no need for injections or additional animal handling. The treatments can also be timed for each disease taking into account the ages of animals and disease outbreaks.

RMT has been licensed from BioMimic Limited, a company established by The University of Adelaide's commercial arm, Adelaide Research & Innovation Pty Ltd (ARI), and Imugene. BioMimic will develop and commercialise human

gastrointestinal applications of RMT as well as receive benefits from Imugene's animal license arrangements.

RMT was discovered by Dr Adrienne Paton, Dr Renato Morona and Professor James Paton who are recognised world leaders in this field.

How RMT works

Infectious organisms (bacteria and viruses) in the gut usually produce disease by one of two mechanisms. The first is the production of toxins that bind to specific receptors on the gut wall. The second is when organisms themselves adhere to specific receptors on the gut wall and then enter a cell to multiply or produce toxins.

RMT is based on a harmless bacteria which has been modified to display masses of mimics of these receptors over the cell surface. Toxins released from the organisms bind to the receptor mimic which is then excreted from the animal, preventing the toxins binding to receptors on the gut wall.

The gut receptors for each type of infectious disease (bacterial, bacterial toxin or viral) are different, and therefore a range of RMT products will be tailored for specific diseases.

One of the stand-out features of RMT is that unlike antibiotics or antimicrobial chemicals, the 'beneficial' bacteria within the gut are not killed by the receptor mimic. "Good" bacteria are required in the intestine as they are essential for normal intestinal health and digestion. RMT allows the beneficial bacterial gut flora to remain in normal balance.

Also, unlike chemical treatments, the pigs under RMT treatment develop immunity to the disease causing bacteria for future protection. As bacteria are not being killed, there is no chance of resistance strains developing.

BioMimic Technologies Limited

BioMimic has been established by The University of Adelaide and Imugene to develop and commercialise RMT for the prevention, diagnosis and treatment of human diseases. These include cholera, rotavirus, E. coli diarrhoea (travellers' diarrhoea) and antibiotic associated diarrhoea in hospitalised patients caused by clostridium difficile.

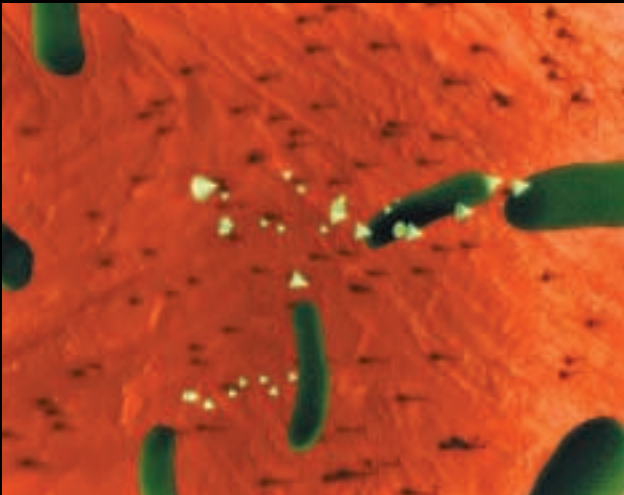
BioMimic has recently been granted an exclusive world-wide licence to the RMT by The University of Adelaide. As a result, BioMimic is the licensor of RMT to Imugene for the rights to all animal species. Imugene will pay BioMimic royalties and milestone payments based on commercialisation of each RMT product for each animal species.

Imugene will initially own a minimum of 25% percent of the equity of BioMimic. The university will also hold a 25% ownership which also contains anti dilution rights for the period of 3 years and until BioMimic raises funds over \$10 million via grants and equity.

BioMimic is currently satisfying initial condition precedents, which include Imugene assisting in directing BioMimic's strategic planning for the research and development of the human RMT applications. The implementation of these plans will require BioMimic to raise additional funds and appoint experienced high-calibre executive management.

How RMT works in the gastro intestinal system

WITHOUT RMT TREATMENT



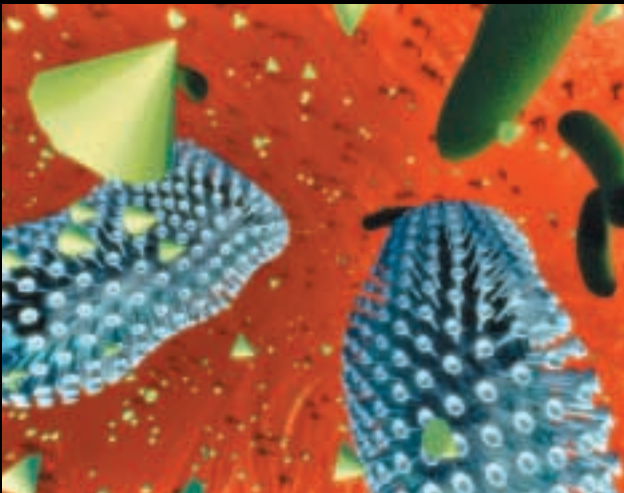
E. coli bacteria invade the gut and release toxins (depicted by the yellow cones).



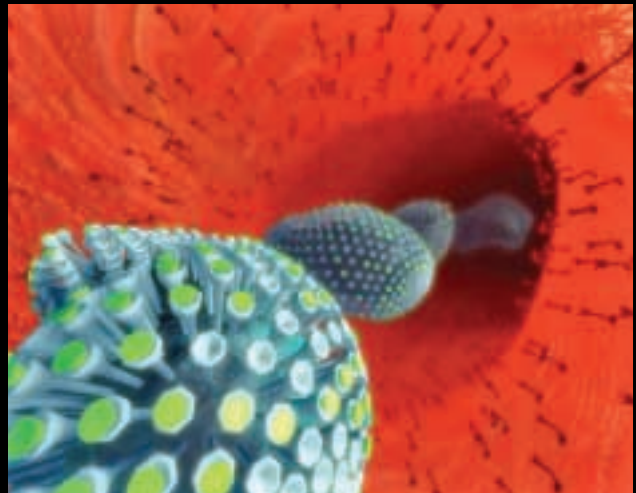
The disease causing toxins 'bind' to specific receptors on the gut wall. Only when bound do the toxins exert their disease causing effect.

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WITH RMT TREATMENT



Receptor Mimics (with millions of 'decoy' receptors) enter the gut. Toxins released from the *E. coli* bacteria attach to the decoy receptors and not the gut wall.



As the toxins do not attach to the receptors on the gut wall, they cannot exert their disease effect. The Receptor Mimics with their load of toxins are harmlessly passed from the gut.

Report to Shareholders

LEAD PRODUCTS

E. coli Post Weaning Diarrhoea

E. coli is a major cause of disease and economic loss in the world's intensive pig production industry. The bacteria causes diarrhoea in piglets (post weaning diarrhoea) resulting in piglet death and production losses from illness and reduced food intake. The disease is caused by a toxin released from the bacteria that attaches to receptors on the gut wall.

Imugene's newly acquired RMT has enabled a highly effective non-chemical treatment for piglet diarrhoea. The '*E. coli* mimic' has been made and initial trials have proved the efficacy. Further trials are due for completion in the fourth quarter of 2004. These will be followed by dose optimisation and safety trials for product registration.

As the treatments will be administered via drinking water, there is no need for injections or additional animal handling. Importantly the receptor mimic treatment is residue free with no side effects.

The receptor mimics are biological (like our vector based products) and therefore have a substantial production cost advantage over antibiotic or chemical treatments.

The market for *E. coli* disease prevention treatments in pigs is estimated to be over US\$450 million per annum.

Porcine Reproductive and Respiratory Syndrome (PRRS)

PRRS is a severe disease of pigs characterised by reproductive failure in female pigs, increased pre-weaning deaths and pneumonia in young growing pigs. The disease was first recognised in the US in the mid 1980s and was called "mystery swine disease". PRRS is caused by a virus that was only isolated and classified in 1991.

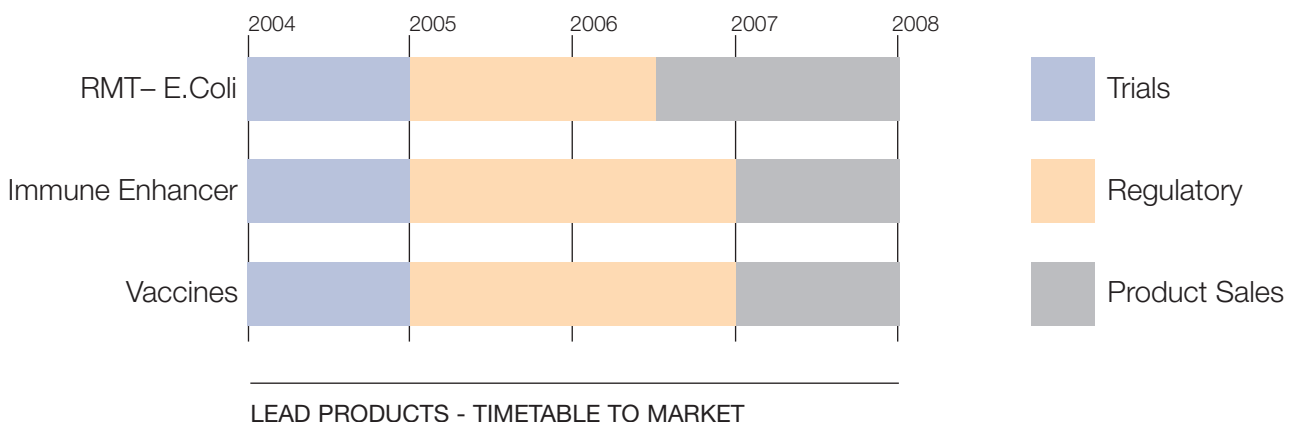
The search for an effective vaccine has been a major focus of research by animal health companies. So far there has been difficulty in developing a safe and effective vaccine for PRRS.

The basis for the efficacy of the new Imugene PRRS vaccine is the patented Adenoviral Delivery Vector System.

Imugene's successful trials completed in April 2004 demonstrated that our vector based PRRS vaccine prevented the disease in all vaccinated pigs. This disease is one of the most economically important pig diseases worldwide causing estimated annual losses of up to US\$1 billion. As a result of a highly successful trial, several multinational animal health companies are reviewing our data for licensing opportunities. As this disease does not occur in Australia, Imugene intends to license the vaccine to a major international animal health company.

Preliminary estimates indicate an effective PRRS vaccine would generate revenue of up to US\$100-200 million per annum. If eradication programs are introduced, revenue could be as much as US\$300-400 million per annum. The total market size for a PRRS vaccine is difficult to estimate as the incidence of the disease is increasing.

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Poultry Biological Productivity Enhancer

Further trials of Imugene's Poultry Biological Productivity Enhancer completed in August 2004 confirmed its high efficacy. The product achieved weight gains of more than 7% (130 grams per bird) against controls, with no bird deaths in the treated groups.

Imugene's novel Poultry Biological Productivity Enhancer boosts a natural component of a chicken's immune system, a cytokine known as gamma interferon. Boosting the bird's immune system increases resistance to a range of bacterial as well as viral infections. Protection is provided for both gastrointestinal and respiratory diseases. Preventing these diseases improves growth rates.

Imugene's Poultry Productivity Enhancer enjoys significant benefits over antibiotics and antimicrobial chemicals. In-feed antibiotics are only effective against gastrointestinal and respiratory bacterial diseases and do not provide any protection against viral diseases.

Productivity enhancers or growth promotants are an important product sector of the poultry industry. Antibiotic growth promoters currently account for US\$450 million in annual global sales to the poultry market. Imugene's product has the potential to significantly increase this market size due to its efficacy against a range of both bacterial and viral diseases.

Antibiotics are currently added to poultry feed as growth promotants to protect birds against bacterial infections and avoid production losses. The incidence and severity of disease in production poultry increases with higher stocking density, dietary changes, poor ventilation and stress. Profitability for the producer is

seriously reduced by disease which causes reduced feed intake, costs for drugs, feed medication and additional husbandry labour costs.

Consumers and regulators are demanding chickens free of antibiotic or chemical residues. Imugene's biological products are residue free.

Being a biological treatment, production costs are significantly cheaper than chemical or antibiotic growth promotants. The vector delivered Poultry Biological Productivity Enhancer is also suitable for mass administration in water or feed, injected into the egg, or by aerosol spray.

The Poultry Biological Productivity Enhancer, under contract to Merial, will continue to progress through the regulatory approval phases that commenced earlier this year. Imugene has retained the sales rights in Australia, New Zealand and Japan.

Manufacturing masterseed material is due to commence in Australia and the US. These masterseed batches will be used to produce all future product for world sales. Larger scale trials will begin using material grown from these masterseeds once OGTR approval is received.

Avian Influenza Vaccine

Imugene has completed construction of a vaccine developed to protect chickens from the deadly H5N1 strain of avian influenza (bird flu). This trial vaccine utilises Imugene's platform Adenoviral Delivery Vector System technology to deliver the necessary genetic material to stimulate birds' immune responses against the virus.

The H5N1 strain of bird flu swept through 10 Asian countries early this year, resulting in the death or slaughter of over 100 million chickens and the deaths of

more than 20 people. In the last three months, further outbreaks of the strain were reported in Vietnam, Malaysia, Thailand and China, resulting in more culling of chickens and additional human deaths.

The new vaccine delivers a small portion of the flu genetic material to poultry to stimulate the birds' immune responses and provide protection from the flu virus. The major advantage is that vaccines generated using Imugene's vector delivery system are much safer than live attenuated vaccines and are very cost effective for both production and mass administration (via water). The risk of live attenuated vaccines is that the vaccine virus could mutate or combine with another naturally occurring influenza virus, creating high risks for animals and humans.

Compounding the problem of live vaccines is that during an avian influenza outbreak, diagnostic tests cannot distinguish vaccinated (uninfected) birds from those affected by the disease. As Imugene's vaccine delivers only a portion of the flu genetic material, instead of the whole virus, it is possible to distinguish between vaccinated and infected birds. This has the major benefit of allowing vaccination programs to protect whole areas or countries whilst still maintaining surveillance for disease outbreaks and ensuring human safety.

Once developed, the vaccine could be used to protect the world's poultry industry from further outbreaks and potential spread of avian influenza to Australia, Europe and the USA.

The new trial vaccine is specific to the H5N1 strain of avian influenza, but can readily be adapted to protect against other strains of the virus.

Report to Shareholders

PAV – Merial

Imugene has produced a vaccine candidate for a major pig respiratory disease using a gene provided and owned by Merial. The commercial vaccine candidate is currently being trialed in Europe to determine its effectiveness. Trial results to date have been very promising. The disease causes massive losses to pig producers globally and there is currently no commercial vaccine available. The market opportunity for an effective vaccine is enormous given the lack of competitors and Imugene is working to develop this product aiming to be first to market.

The opportunity exists to combine this vaccine with our PRRS vaccine to create a world dominant pig vaccine. The sales of the combined vaccine would be expected to be greater than the combined sales of the individual vaccines, as the combined disease protection would be an enormous benefit to pig producers.

Pig Biological Productivity Enhancers

As with the poultry enhancer, Imugene is assessing two productivity enhancing cytokines for pigs using the Adenoviral Delivery Vector System. Trials have shown growth improvements in pigs of up to 8%. These gains are impressive as the trials were short-term and further gains are likely with longer trials with repeat doses.

Information regarding the Pig Biological Productivity Enhancers has been submitted to the OGTR to request intentional release to commence large scale trials in commercial sheds. This is essential for commercialisation as it is difficult to grow pigs for 120 days in laboratory facilities.

These productivity enhancers increase productivity by boosting the pig's natural immune system to help fend off costly diseases. As with the poultry productivity enhancer, boosting the immune system assists in preventing both bacterial and viral diseases of the gastrointestinal and respiratory systems. The biological product is residue free and safe.

FOOD ANIMAL MARKET – OVERVIEW

The food animal industry is controlled by regulators and consumer attitudes to food quality, safety, purity and nutrition. Food animal production involves rearing massive numbers of animals or birds with any illnesses or deaths causing an impact on profitability. Animal health treatments are judged on a sober cost benefit basis in a mass treatment environment.

Profit margins in intensive pig and poultry production depend on efficiency. This depends on the number of animals surviving and the rates of weight gain and feed conversion. Diseases in the pig herd or poultry flock can devastate commercial objectives. In general, the incidence and severity of disease escalates with increased stocking density, dietary changes, poor ventilation and animal stress. Production economics are determined by feed intake levels, feed conversion rates, costs of drugs, costs of feed medication and husbandry labour costs associated with treatment.

The world market for animal health and nutrition products was US\$17.8 billion in 1997. Sales are dominated by:

- North America (US\$5.26 billion, 29.5%) and
- Western Europe (US\$4.28 billion, 24.0%)

These two regions generate more than half of world sales by value (53.5%). Most recent growth has been in Latin America and Asia. Biologicals and feed additives comprise approximately 30-35% of the current global animal health market.

By 2005, the value of the animal health and nutrition market is independently predicted to be US\$21-22 billion.

- The pig market is predicted to be US\$5.25-5.5 billion
- The poultry market is predicted to be US\$4.62-4.84 billion (*Animal Health in 2005 and Beyond*, PJB Publications Ltd 1998)

Biologicals and medicated feed additives would comprise US\$6.3-7.7 billion with biological products increasing significantly (up 20%) as medicated feed additives decline (down 5-10%). Pork consumption and production is expected to increase. Poultry production is expected to continue to increase in response to increasingly wary consumer attitudes to red meats.

By species:

- Pigs accounted for US\$4.45 billion (25%) of total sales
- Poultry accounted for US\$4.1 billion (22%) of total sales
- Cattle accounted for US\$6.26 billion (35%) of total sales

By product:

- Currently the largest market segments in production animal markets, comprising the largest number of US\$100m+ per annum products, are medicated feed additives and growth promotants, anti-coccidial medications, vaccines, and non-medicated feed additives (vitamins, supplements etc.).

Industry reports also indicate that the use of medicated feed additives is in decline in response to increasingly prohibitive health regulations.

- This sector is predicted to be replaced by biological alternatives
- Production animal health products currently outsell pet animal products by a ratio of 3:1
- 66% of the world animal health and nutrition market value is in the hands of the 20 leading companies, with 33% controlled by the top 5 companies.

COMPANION ANIMALS (PETS) – BIOLOGICAL FLEA VACCINE DEVELOPMENT

Pre-Proof of Concept Research

Imugene continues its research to develop an effective vaccine to protect pets from fleas. Our objective is to design a vaccine that is administered annually by vets with other existing vaccines.

Flea-related conditions are the most common problem for pet owners. Current treatments are chemical formulations that require constant application and which are generally ineffective. Despite the low effectiveness this product area comprises the largest share of the market. Annual sales of these flea related treatments are estimated to be over \$1.5 billion worldwide.

Imugene's initial flea research project is being undertaken with Murdoch University. A joint venture company Paragen Pty Ltd, is 37.5% owned by Imugene; the balance owned by Murdoch University.

Initial identification of vaccine candidates has been completed. Due to the low number of vaccine candidates and a reassessment of the screening protocols, Paragen will use different techniques to screen for additional trial vaccine candidates.



Patents

Poultry Adenovirus Patents (FAV)

Country/ Jurisdiction	Patent/ Application No.	Status
United States	6296852	Granted
Australia	676042	Granted
New Zealand	263772	Granted
Europe	94912411.9	Pending
Japan	6522542	Pending

Pig Adenovirus Patents

Country/ Jurisdiction	Patent/ Application No.	Status
Australia	87209/98	Granted
Vietnam	S20000211	Granted
New Zealand	503039	Granted
United States	09/485512	Pending
Brazil	98111841	Pending
China	98809116X	Pending
Europe	98938527.3	Pending
Hong Kong	1103506.0	Pending
Indonesia	W2000-0491	Examination Requested
Japan	2000-509443	Pending
South Korea	10-2000-7001486	Pending
Mexico	1562	Pending

Actinobacillus Pluropneumoniae's RTX toxins APX ('APP')

Country/ Jurisdiction	Patent/ Application No.	Status
United States	6472183	Granted
Australia	717769	Granted
New Zealand	320026	Granted
Brazil	P19610848-7	Examination Requested
Canada	2236699	Examination Requested
Europe	96934210.4	Examination Requested
Japan	516296/1997	Application Filed
South Korea	98 703238	Allowed

Chicken Cytokines and Genetic Sequences ('Chicken Gamma Interferon')

Country/ Jurisdiction	Patent/ Application No.	Status
United States	6296852	Granted
Australia	676042	Granted
New Zealand	263772	Granted
Europe	94912411.9	Pending
Japan	6522542	Examination Requested

RMT PATENTS

Country/ Jurisdiction	Patent/ Application No.	Status
Australia	70349/00	Granted
Brazil	0013915-7	Application
Canada	2,384,081	Application
Chile	0415 2002	Application
Europe	00958947.4	Application
Hungary	P0202863	Application
India	IN/PCT/2002, 00287/Del	Application
Japan	2001-523732	Application
Mexico	PA/a/2002/ 002536	Application
New Zealand	517821	Granted
Poland	P364796	Application
Slovakia	PP347-2002	Application
United States of America	09/658,537	Application
South Africa	20021958	Registered

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Treatment and Prevention of Enterotoxigenic Escherichia Coli Diarrhoeas

Country/ Jurisdiction	Patent/ Application No.	Status
Australia	2004901373	Application

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Imugene Limited Financial Report 2004



Directors' Report

30 June 2004

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 2004 ("Consolidated Entity").

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 2003 until the date of this report.

Current Directors

Mr Graham Dowland - Executive Chairman

Qualifications - B.Com, CA

Mr Dowland has for the past 15 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. Since returning to Australia in July 2000 after residing in London, Mr Dowland has been involved in evaluating business opportunities within the veterinary and animal services industries.

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.

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 16 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.

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.

Directors' Report

Employees

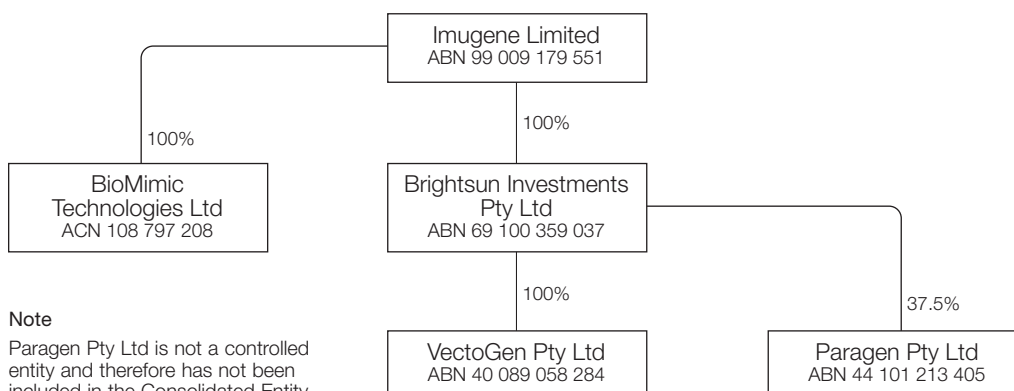
	2004	2003
The number of full time equivalent people employed by the Consolidated Entity at balance date	4	4

Dividends

No dividends have been declared, provided for or paid in respect of the financial year ended 30 June 2004.

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 (this excludes Paragen Pty Ltd), which are outlined in the following illustration of the Group's corporate structure:



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Consolidated Results

	2004 \$	2003 \$
Loss of the Consolidated Entity from ordinary activities before income tax expense	(2,785,629)	(2,044,118)
Outside equity interest	—	699,060
Income tax benefit	669,954	—
Net loss	(2,115,675)	(1,345,058)

Operating Results

The Consolidated Entity recorded a net loss of \$2,115,675 (2003: net loss of \$1,345,058) for the year ended 30 June 2004.

Post Balance Date Events

As at the date of this report there are no matters or circumstances, which have arisen since 30 June 2004 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2004, of the Consolidated Entity constituted by Imugene Limited and the entities it controls from time to time;
- the results of those operations; or
- the state of affairs, in financial years subsequent to 30 June 2004, of the Consolidated Entity.

Directors' Report

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:

- On 29 April 2004, the Company announced it had successfully completed animal trials which demonstrated that a new vaccine developed by the Company prevented the disease known as Porcine Reproductive & Respiratory Syndrome (PRRS) in all vaccinated pigs;
- On 20 May 2004, the Company announced the signing of a licence for the 'Receptor Mimic Technology', a new platform technology for the prevention, treatment and diagnosis of gastrointestinal diseases in pigs; and
- On 24 June 2004, the Converting Preference Shares (CPS) issued as part consideration for the acquisition of VectoGen Pty Ltd automatically converted into 8,872 ordinary shares upon the market capitalisation milestone not being met by 23 June 2004. The CPS were originally convertible into a maximum of 14,745,265 ordinary shares.

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.

Information on Directors' Interests in Securities of Imugene

	Interest in Securities at the date of this Report			Interest in Securities issued/granted during the year		
	Ordinary Shares ⁽¹⁾	Options ⁽²⁾	Executive Performance Options ⁽³⁾	Ordinary Shares ⁽¹⁾	Options ⁽²⁾	Executive Performance Options ⁽³⁾
Graham Dowland	6,766,668	23,334	2,500,000	—	—	2,500,000
Warwick Lamb	6,353,334	46,667	2,500,000	—	—	2,500,000
Roger Steinepreis	3,202,937	1,060,741	—	—	—	—

(1) "Shares" means fully paid ordinary shares in the capital of the Company.

(2) "Options" means an option to subscribe for one Share exercisable at 11.25 cents each on or before 31 December 2004.

(3) "Executive Performance Options" means an option to subscribe for one Share exercisable on the terms and conditions outlined in Note 14(g) of the financial statements.

Directors' Report

Meetings of Directors

The following table sets out the number of meetings of the Company's directors held during the year ended 30 June 2004, and the number of meetings attended by each director. No committees of the directors existed during the year ended 30 June 2004.

	Board Meetings	
	No. eligible to attend	No. attended
Graham Dowland	7	7
Warwick Lamb	7	7
Roger Steinepreis	7	6

Share Options

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

- 2,461,485 unlisted Options at an exercise price of \$0.1125 each (see Note 14(d) of the financial statements for further details of the terms and conditions of the Options).
- 4,633,333 unlisted Performance Options at an exercise price of \$0.225 each (see Note 14(e) of the financial statements for further details of the terms and conditions of the Performance Options).
- 6,000,000 unlisted Executive Performance Options (see Note 14(g) of the financial statements for further details of the terms and conditions of the Executive Performance Options). 3,000,000 of these Executive Performance Options vested on 31 December 2003 with an exercise price of \$0.30.

Dr Adrian Hodgson, 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.

During the year, 936,792 fully paid ordinary shares were issued following the exercise of 936,792 options at \$0.1125 each. Since 30 June 2004, no fully paid ordinary shares have been issued as a result of the exercise of the Company's options.

Options issued to executives

Following shareholder approval, during the year 2,500,000 Executive Performance Options were issued to Graham Dowland as part of his remuneration package (1,250,000 vested on 31 December 2003 with an exercise price of \$0.30), 2,500,000 Executive Performance Options were issued to Dr Warwick Lamb as part of his remuneration package (1,250,000 vested on 31 December 2003 with an exercise price of \$0.30) and 1,000,000 Executive Performance Options were issued to Michael Sheppard as part of his remuneration package (500,000 vested on 31 December 2003 with an exercise price of \$0.30).

On 1 July 2004, 1,500,000 Executive Performance Options vested with an exercise price of \$0.25 each.

Up to the date of this report, no shares have been issued as a result of the exercise of these options. Terms and conditions of the Executive Performance Options are outlined in Note 14(g) of the notes to and forming part of the financial statements.

Converting Preference Shares

Converting Preference Shares (CPS) were issued in the previous year as part consideration for the acquisition of the balance of the outstanding equity on issue in Imugene's production animal subsidiary, VectoGen Pty Ltd.

Upon the satisfaction of various milestones the CPS were originally convertible into a maximum of 14,745,265 ordinary shares. The initial milestone was for an Australian Stock Exchange market capitalisation of Imugene to be in excess of \$33 million for a period of 20 consecutive days by 23 June 2004. This market capitalisation condition was not met and automatic conversion of the CPS into 8,872 ordinary shares occurred on 24 June 2004.

Directors' Report

Directors' and Executives' Remuneration

The Board is responsible for determining the nature and amount of emoluments packages applicable to the Board members and senior executives of the Consolidated Entity. The Board's remuneration policy is to ensure the remuneration package properly reflects the executive officers duties and responsibilities. Remuneration is aimed at being competitive in attracting, motivating and retaining executive officers of the highest quality. A bonus scheme was established in August 2003 for executive directors, which provides for a cash bonus payable half yearly dependent upon the average share price over that period (refer Note 19(a)(2) of the financial statements for further details).

The emoluments (paid or payable) of each Director and the executive officers for the year ended 30 June 2004 are as follows:

	Base remuneration (salary & fees)	Bonuses	Non-cash benefits	Super contributions	Options issued	Termination & retirement benefits	Total
	\$	\$	\$	\$	\$	\$	\$
Current Directors							
Graham Dowland	139,000	100,000	—	36,000	266,019	—	541,019
Warwick Lamb	160,550	100,000	—	15,998	266,019	—	542,567
Roger Steinepreis	25,000	—	—	—	—	—	25,000
Executive Officers							
Colin Hort	100,917	—	—	8,293	—	—	109,210
Mike Sheppard	131,243	—	—	11,812	106,407	—	249,462

Notes.

- The elements of emoluments have been determined on the basis of the cost to the Consolidated Entity.
- Executives are those directly accountable and responsible for the operational management and strategic direction of the Consolidated Entity.
- The Consolidated Entity uses the fair value measurement provisions of AASB 1046 "Director and Executive Disclosures for Disclosing Entities" and the pending AASB 2 "Share-based Payment" prospectively for all options granted to directors and relevant executives, which have not vested as at 1 July 2003. The fair value of such grants is being amortised and disclosed as part of director and executive emoluments on a straight-line basis over the vesting period. No adjustments have been made or will be made to reverse amounts previously disclosed in relation to options that never vest (ie. forfeitures).

From 1 July 2003, options granted as part of director and executive emoluments have been independently valued using the Black-Scholes Option Valuation model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option. See below for further details.

Directors' Report

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 used for grants made during the financial years ended 30 June 2003 and 30 June 2004:

	2004	2003
Dividend yield	—	—
Expected volatility	72%	100%
Historical volatility	72%	100%
Risk-free interest rate	5.56%	5.5%
Expected life of option	3.1 years	4.6 years

The dividend yield reflects the assumption that the current dividend payout will remain unchanged. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The resulting weighted average fair values per option for those options vesting after 1 July 2003 are:

Number of options	Grant date	Vesting date	Weighted average fair value
3,000,000	27 November 2003	31 December 2003	12.2 cents
1,500,000	27 November 2003	1 July 2004	13.4 cents
1,500,000	27 November 2003	1 July 2005	13.0 cents

Currently, these fair values are not recognised as expenses in the financial statements. However, should these grants be expensed, they would be amortised over the vesting periods resulting in an increase in expenses of \$638,445 for the 2004 financial year (2003: \$30,513). Note that no adjustments to these amounts have been made to reflect estimated or actual forfeitures (ie. options that do not vest).

Insurance of Officers and Auditors

During the year, no insurance premiums were paid by Imugene Limited to insure Directors, officers or auditors of the Company.

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

GRAHAM DOWLAND

Executive Chairman

Perth, Western Australia

30 August 2004

Corporate Governance Statement

The Board of Directors of Imugene Limited is responsible for its corporate governance, that is, the system by which the Company and its subsidiaries ("the Group") are managed.

1. Board of Directors

1.1 Role of the Board and Management

The Board represents shareholders' interests in continuing a successful business, which seeks to optimise medium to long-term financial gains for shareholders. By not focusing on short-term gains for shareholders, the Board believes that this will ultimately result in the interests of all stakeholders being appropriately addressed when making business decisions.

The Board is responsible for ensuring that the Group is managed in such a way to best achieve this desired result. Given the current size and operations of the business, the Board currently undertakes an active, not passive role.

The Board is responsible for evaluating and setting the strategic directions for the Group, establishing goals for management and monitoring the achievement of these goals. The Managing Director is responsible to the Board for the day-to-day management of the Group.

The Board has sole responsibility for the following:

- Appointing and removing the Managing Director and any other executives and approving their remuneration;
- Appointing and removing the Company Secretary / Chief Financial Officer and approving their remuneration;
- Determining the strategic direction of the Group and measuring performance of management against approved strategies;
- Review of the adequacy of resources for management to properly carry out approved strategies and business plans;
- Adopting operating and capital expenditure budgets at the commencement of each financial year and monitoring the progress by both financial and non-financial key performance indicators;
- Monitoring the Group's medium term capital and cash flow requirements;
- Approving and monitoring financial and other reporting to regulatory bodies, shareholders and other organisations;
- Determining that satisfactory arrangements are in place for auditing the Group's financial affairs;
- Review and ratify systems of risk management and internal compliance and control, codes of conduct and compliance with legislative requirements; and
- Ensuring that policies and compliance systems consistent with the Group's objectives and best practice are in place and that the Company and its officers act legally, ethically and responsibly on all matters.

The Board's role and the Group's corporate governance practices are being continually reviewed and improved as required.

1.2 Composition of the Board and New Appointments

The Company currently has the following Board members:

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

The Company's Constitution provides that the number of directors shall not be less than three and not more than ten. There is no requirement for any share holding qualification.

Corporate Governance Statement

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the appointment and further expense of an independent Non-Executive Chairman and additional independent Non-Executive Directors. The Board believes that the individuals on the Board can make, and do make, quality and independent judgments in the best interests of the Company on all relevant issues.

If the Company's activities increase in size, nature and scope the size of the Board will be reviewed periodically to determine the optimum number of directors required for the Board to properly perform its responsibilities and functions.

The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Company's scope of activities, intellectual ability to contribute to Board duties and physical ability to undertake Board duties and responsibilities.

Directors are initially appointed by the full Board subject to election by shareholders at the next annual general meeting. Under the Company's Constitution the tenure of directors (other than managing director, and only one managing director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his last appointment. Subject to the requirements of the Corporations Act 2001, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, the Board may revoke any appointment.

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1.3 Committees of the Board

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

The Board has also established a framework for the management of the Group including a system of internal controls, a business risk management process and the establishment of appropriate ethical standards.

The full Board currently holds meetings at such times as may be necessary to address any general or specific matters as required.

If the Group's activities increase in size, scope and nature, the appointment of separate or special committees will be reviewed by the Board and implemented if appropriate.

1.4 Conflicts of Interest

In accordance with the Corporations Act 2001 and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

1.5 Independent Professional Advice

The Board has determined that individual Directors have the right in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. The engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably. If appropriate, any advice so received will be made available to all Board members.

2. Ethical Standards

The Board acknowledges the need for continued maintenance of the highest standard of corporate governance practice and ethical conduct by all Directors and employees of the Group.

Corporate Governance Statement

2.1 Code of Conduct for Directors

The Board has adopted a Code of Conduct for Directors to promote ethical and responsible decision-making by the Directors. The code is based on a code of conduct for Directors prepared by the Australian Institute of Company Directors.

The principles of the code are:

- A director must act honestly, in good faith and in the best interests of the Company as a whole.
- A director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office.
- A director must use the powers of office for a proper purpose, in the best interests of the Company as a whole.
- A director must recognise that the primary responsibility is to the Company's shareholders as a whole but should, where appropriate, have regard for the interest of all stakeholders of the Company.
- A director must not make improper use of information acquired as a director.
- A director must not take improper advantage of the position of director.
- A director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the Company.
- A director has an obligation to be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken as a Board.
- Confidential information received by a director in the course of the exercise of directorial duties remains the property of the Company and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the Company, or the person from whom the information is provided, or is required by law.
- A director should not engage in conduct likely to bring discredit upon the Company.
- A director has an obligation at all times, to comply with the spirit, as well as the letter of the law and with the principles of the Code.

The principles are supported by guidelines as set out by the Australian Institute of Company Directors for their interpretation. Directors are also obliged to comply with the Company's Code of Ethics and Conduct, as outlined below.

2.2 Code of Ethics and Conduct

The Company has implemented a Code of Ethics and Conduct, which provides guidelines aimed at maintaining high ethical standards, corporate behaviour and accountability within the Company.

All employees and directors are expected to:

- respect the law and act in accordance with it;
- respect confidentiality and not misuse Company information, assets or facilities;
- value and maintain professionalism;
- avoid real or perceived conflicts of interest;
- act in the best interests of shareholders;
- by their actions contribute to the Company's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates;
- perform their duties in ways that minimise environmental impacts and maximise workplace safety;

Corporate Governance Statement

- exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and
- act with honesty, integrity, decency and responsibility at all times.

An employee that breaches the Code of Ethics and Conduct may face disciplinary action. If an employee suspects that a breach of the Code of Ethics and Conduct has occurred or will occur, he or she must report that breach to management. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach. All reports will be acted upon and kept confidential.

2.3 Dealings in Company Securities

The Company's share trading policy imposes basic trading restrictions on all employees of the Company with 'inside information', and additional trading restrictions on the directors of the Company.

'Inside information' is information that:

- is not generally available; and
- if it were generally available, it would, or would be likely to influence investors in deciding whether to buy or sell the Company's securities.

If an employee possesses inside information, the person must not:

- trade in the Company's securities;
- advise others or procure others to trade in the Company's securities; or
- pass on the inside information to others – including colleagues, family or friends – knowing (or where the employee or Director should have reasonably known) that the other persons will use that information to trade in, or procure someone else to trade in, the Company's securities.

This prohibition applies regardless of how the employee or Director learns the information (eg. even if the employee or Director overhears it or is told in a social setting).

In addition to the above, Directors must notify the Company Secretary as soon as practicable, but not later than 5 business days, after they have bought or sold the Company's securities or exercised options. In accordance with the provisions of the Corporations Act and the Listing rules of the ASX, the Company on behalf of the Directors must advise the ASX of any transactions conducted by them in the securities of the Company.

Breaches of this policy will be subject to disciplinary action, which may include termination of employment.

2.4 Interests of Other Stakeholders

The Company's objective is the development and commercialisation of animal health products for production animals and companion animals. Animal research is indispensable to this. The Company is dedicated to the ethical treatment of all animals used in the development of the products.

To assist in meeting its objective, the Company conducts its business within the Code of Ethics and Conduct, as outlined in 2.2 above.

3. Disclosure of Information

3.1 Continuous Disclosure to ASX

The continuous disclosure policy requires all executives and Directors to inform the Managing Director or in their absence the Company Secretary of any potentially material information as soon as practicable after they become aware of that information.

Corporate Governance Statement

Information is material if it is likely that the information would influence investors who commonly acquire securities on ASX in deciding whether to buy, sell or hold the Company's securities.

Information is not material and need not be disclosed if:

- a) A reasonable person would not expect the information to be disclosed, or is material but due to a specific valid commercial reason is not to be disclosed; and
- b) The information is confidential; or
- c) One of the following applies:
 - i. It would breach a law or regulation to disclose the information;
 - ii. The information concerns an incomplete proposal or negotiation;
 - iii. The information comprises matters of supposition or is insufficiently definite to warrant disclosure;
 - iv. The information is generated for internal management purposes;
 - v. The information is a trade secret;
 - vi. It would breach a material term of an agreement, to which the Company is a party, to disclose the information;
 - vii. It would harm the Company's actual or potential patent application; or
 - viii. The information is scientific data that release of which may benefit the Company's potential competitors.

The Managing Director is responsible for interpreting and monitoring the Company's disclosure policy and where necessary informing the Board. The Company Secretary is responsible for all communications with ASX.

3.2 Communication with Shareholders

The Company places considerable importance on effective communications with shareholders.

The Group's communication strategy requires communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Group. The strategy provides for the use of systems that ensure a regular and timely release of information about the Group is provided to shareholders. Mechanisms employed include:

- Announcements lodged with ASX;
- ASX Quarterly Cash Flow Reports;
- Half Yearly Report;
- Presentations at the Annual General Meeting/General Meetings; and
- Annual Report.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and understanding of the Group's strategy and goals.

The Company also posts all reports, ASX and media releases and copies of significant business presentations on the Company's website (www.imugene.com).

4. Risk Management

4.1 Identification of Risk

The Board is responsible for the oversight of the Group's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management within the Group with the Managing Director and Chief Financial Officer having ultimate responsibility to the Board for the risk management and control framework.

Corporate Governance Statement

Areas of significant business risk to the Group are highlighted in the Business Plan presented to the Board by the Managing Director each year.

Arrangements put in place by the Board to monitor risk management include monthly reporting to the Board in respect of operations and the financial position of the Group.

4.2 Integrity of Financial Reporting

Commencing 30 June 2004, the Company's Managing Director and Chief Financial Officer (or equivalent) report in writing to the Board that:

- the consolidated financial statements of the Company and its controlled entities for each half and full year present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards;
- the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

4.3 Role of Auditor

The Company's practice is to invite the auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

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5. Performance Review

The Board has adopted a self-evaluation process to measure its own performance and the performance of its committees during each financial year. Also, an annual review is undertaken in relation to the composition and skills mix of the directors of the Company.

Arrangements put in place by the Board to monitor the performance of the Group's executives include:

- a review by the Board of the Group's financial performance; and
- annual performance appraisal meetings incorporating analysis of key performance indicators with each individual to ensure that the level of reward is aligned with respective responsibilities and individual contributions made to the success of the Company.

6. Remuneration Arrangements

The broad remuneration policy is to ensure that remuneration properly reflects the relevant person's duties and responsibilities, and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Board believes that the best way to achieve this objective is to provide Executive Directors and executives with a remuneration package consisting of fixed components and incentives that reflect the person's responsibilities, duties and personal performance.

A bonus scheme is currently in place for executive directors, which provides for a cash bonus payable half yearly dependent upon the average share price over that period (see Note 19(a) of financial statements for further details).

The remuneration of Non-Executive Directors is determined by the Board as a whole having regard to the level of fees paid to non-executive directors by other companies of similar size in the industry.

The aggregate amount payable to the Company's Non-Executive Directors must not exceed the maximum annual amount approved by the Company's shareholders.

Compliance with ASX Corporate Governance Recommendations

1. Role of the Board and Management

Council Principle 1: Lay solid foundations for management and oversight

Council Recommendation 1.1: Formalise and disclose the functions reserved to the board and those delegated to management.

The Company complies with this recommendation. Refer Section 1.1 of Corporate Governance Statement.

2. Composition of the Board

Council Principle 2: Structure the board to add value

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

The Board considers that a majority of the Board is not independent in accordance with Recommendation 2.1, however the Board believes that the individuals on the Board can make, and do make, quality and independent judgments in the best interests of the Company on all relevant issues. Directors having a conflict of interest in relation to a particular item of business must and do absent themselves from the Board Meeting before commencement of discussion on the topic.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the expense of the appointment of independent Non-Executive Directors.

Refer Section 1.2 of Corporate Governance Statement.

Council Recommendation 2.2: The chairperson should be an independent director.

The Company's Chairman, Mr Graham Dowland, is considered by the Board not to be independent in terms of the ASX Corporate Governance Council's definition of independent director. However the Board believes that the Chairman is able and does bring quality and independent judgment to all relevant issues falling within the scope of the role of a Chairman.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the expense of the appointment of an independent Non-Executive Chairman.

Refer Section 1.2 of Corporate Governance Statement.

Council Recommendation 2.3: The roles of the chairperson and chief executive officer should not be exercised by the same individual.

The Company complies with this recommendation. Refer Section 1.2 of Corporate Governance Statement.

Council Recommendation 2.4: The board should establish a nomination committee.

The Board considers that the Company is not currently of a size to justify the formation of a nomination committee. The Board as a whole undertakes the process of reviewing the skill base and experience of existing Directors to enable identification of attributes required in new Directors. Where appropriate independent consultants are engaged to identify possible new candidates for the Board.

The Board acknowledges this does not comply with recommendation 2.4 of the ASX Corporate Governance Guidelines. If the Company's activities increase in size, scope and nature, the appointment of a nomination committee will be reviewed by the Board and implemented if appropriate.

Refer Section 1.3 of Corporate Governance Statement.

Compliance with ASX Corporate Governance Recommendations

3. Ethical and Responsible Decision-making

Council Principle 3: Promote ethical and responsible decision-making.

Council Recommendation 3.1: Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:

3.1.1 *the practices necessary to maintain confidence in the Company's integrity;*

3.1.2 *the responsibility and accountability of individuals for reporting and investigating reports of unethical practice.*

The Company complies with this recommendation. Refer Sections 2.1 and 2.2 of Corporate Governance Statement.

Council Recommendation 3.2: Disclose the policy concerning trading in Company securities by directors, officers and employees.

The Company complies with this recommendation. Refer Section 2.3 of Corporate Governance Statement.

4. Integrity of Financial Reporting

Council Principle 4: Safeguard integrity in financial reporting.

Council Recommendation 4.1: Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

Refer Section 4.2 of Corporate Governance Statement.

Council Recommendation 4.2: The board should establish an audit committee.

The Board considers that the Company is not of a size, nor are its financial affairs of such complexity to justify the formation of an audit committee. The Board as a whole undertakes the selection and proper application of accounting policies, the identification and management of risk and the review of the operation of the internal control systems.

The Board acknowledges this does not comply with recommendation 4.2 of the ASX Corporate Governance Guidelines. If the Company's activities increase in size, scope and nature, the appointment of an audit committee will be reviewed by the Board and implemented if appropriate.

Refer Section 1.3 of Corporate Governance Statement.

Council Recommendation 4.3: Structure the audit committee so that it consists of:

- *only non-executive directors;*
- *a majority of independent directors;*
- *an independent chairperson, who is not chairperson of the board;*
- *at least three members.*

Not applicable. Refer Recommendation 4.2.

Council Recommendation 4.4: The audit committee should have a formal operating charter.

Not applicable. Refer Recommendation 4.2.

Compliance with ASX Corporate Governance Recommendations

5. Continuous Disclosure to ASX

Council Principle 5: Make a timely and balanced disclosure

Council Recommendation 5.1: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

The Company complies with this recommendation. Refer Section 3.1 of Corporate Governance Statement.

6. Communication with Shareholders

Council Principle 6: Respect the rights of shareholders

Council Recommendation 6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

The Company complies with this recommendation. Refer Section 3.2 of Corporate Governance Statement.

Council Recommendation 6.2: Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company complies with this recommendation. Refer Section 4.3 of Corporate Governance Statement.

7. Risk Management

Council Principle 7: Recognise and manage risk

Council Recommendation 7.1: The Board or appropriate board committee should establish policies on risk oversight and management.

The Company complies with this recommendation. Refer Section 4.1 of Corporate Governance Statement.

Council Recommendation 7.2: The chief executive officer and the chief financial officer should state in writing that:

7.2.1 the statement given in accordance with best practice recommendation 4.1 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board;

7.2.2 the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Company complies with this recommendation. Refer Section 4.2 of Corporate Governance Statement.

8. Performance

Council Principle 8: Encourage enhanced performance

Council Recommendation 8.1: Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.

The Company complies with this recommendation. Refer Section 5 of Corporate Governance Statement.

Compliance with ASX Corporate Governance Recommendations

9. Remuneration

Council Principle 9: Remunerate fairly and responsibly

Council Recommendation 9.1: Provide disclosure in relation to the Company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.

The Company complies with this recommendation. Refer Section 6 of Corporate Governance Statement.

Council Recommendation 9.2: The board should establish a remuneration committee.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a remuneration committee. The Board as a whole is responsible for the remuneration arrangements for Directors and executives of the Company.

The Board acknowledges this does not comply with recommendation 9.2 of the ASX Corporate Governance Guidelines. If the Company's activities increase in size, scope and nature, the appointment of a remuneration committee will be reviewed by the Board and implemented if appropriate.

Refer Section 1.3 of Corporate Governance Statement.

Council Recommendation 9.3: Clearly distinguish the structure of non-executive directors' remuneration from that of executives.

The Company complies with this recommendation. Refer Section 6 of Corporate Governance Statement.

Council Recommendation 9.4: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.

The Company complies with this recommendation. The Company currently has no equity-based remuneration plan.

10. Interests of Stakeholders

Council Principle 10: Recognise the legitimate interests of stakeholders

Council Recommendation 10.1: Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

The Company complies with this recommendation. Refer Section 2.4 of Corporate Governance Statement.

Statement of Financial Performance

for the financial year ended 30 June 2004

	Note	Consolidated		Imugene	
		2004 \$	2003 \$	2004 \$	2003 \$
Revenue from ordinary activities	2	123,598	538,544	790,429	253,478
Research and development expense upon acquisition	3(d)	—	(487,936)	—	—
Research and development expenses		(885,791)	(456,023)	(104,945)	—
Business development		(249,780)	—	(124,890)	—
Commercialisation expenses	3(a)	(734,516)	(711,766)	(11,789)	(224,830)
VosTech Business – restructure expenses	3(c)	—	(286,346)	—	(286,346)
Writedown of research and development investments	3(a)	(475,496)	—	(2,200,000)	—
Corporate and administrative expenses		(563,644)	(640,591)	(1,126,415)	(469,861)
Loss from ordinary activities before income tax revenue		(2,785,629)	(2,044,118)	(2,777,610)	(727,559)
Income tax benefit relating to ordinary activities	4(a)	669,954	—	18,584	—
Loss from ordinary activities after income tax revenue		(2,115,675)	(2,044,118)	(2,759,026)	(727,559)
Net loss attributable to outside equity interests	17	—	699,060	—	—
Loss attributable to members of Imugene Limited		(2,115,675)	(1,345,058)	(2,759,026)	(727,559)
Total changes in equity other than those resulting from transactions with owners as Owners attributable to members of Imugene		(2,115,675)	(1,345,058)	(2,759,026)	(727,559)
Earnings per share					
Basic earnings per share (cents per share)	23	(2.0)	(1.9)		
Dilutive earnings per share (cents per share)	23	(2.0)	(1.9)		

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Notes to and forming part of the Statement of Financial Performance are set out on pages 34 to 70.

Statement of Financial Position

as at 30 June 2004

	Note	Consolidated		Imugene	
		2004	2003	2004	2003
		\$	\$	\$	\$
Current Assets					
Cash assets	24(b)	962,743	2,617,829	775,121	2,229,530
Receivables	5	—	—	376,015	226,071
Tax assets	6	311,401	—	311,401	—
Other	7	75,450	44,927	2,152	5,495
Total Current Assets		1,349,594	2,662,756	1,464,689	2,461,096
Non-current Assets					
Other financial assets	8	—	475,496	4,495,912	5,859,420
Property, plant and equipment	9	18,643	19,045	18,643	19,045
Intangible assets	10	4,647,725	4,986,792	—	—
Total Non-current Assets		4,666,368	5,481,333	4,514,555	5,878,465
TOTAL ASSETS		6,015,962	8,144,089	5,979,244	8,339,561
Current Liabilities					
Payables	11	551,608	456,202	540,742	268,475
Provisions	12	32,686	10,264	32,686	10,264
Other	13	—	234,300	—	—
TOTAL LIABILITIES		584,294	700,766	573,428	278,739
NET ASSETS		5,431,668	7,443,323	5,405,816	8,060,822
EQUITY					
Contributed equity	14	8,164,842	36,751,241	8,164,842	36,751,241
Reserves	15	—	—	—	—
Accumulated losses	16	(2,733,174)	(29,307,918)	(2,759,026)	(28,690,419)
Total Parent Entity Interest in Equity		5,431,668	7,443,323	5,405,816	8,060,822
Total Outside Equity Interest	17	—	—	—	—
TOTAL EQUITY		5,431,668	7,443,323	5,405,816	8,060,822

Notes to and forming part of the Statement of Financial Position are set out on pages 34 to 70.

Statement of Cash Flows

for the financial year ended 30 June 2004

	Note	Consolidated		Imugene	
		2004 \$	2003 \$	2004 \$	2003 \$
Cash flows from operating activities					
Receipts from customers		—	547,419	—	42,513
Government grant received		43,000	—	43,000	—
Payments to suppliers & employees		(2,001,153)	(1,974,058)	(1,360,664)	(682,609)
Research and development rebate		358,553	—	—	—
Interest received		80,598	29,470	66,485	23,248
Net cash flows used in operating activities	24(a)	(1,519,002)	(1,397,169)	(1,251,179)	(616,848)
Cash flows from investing activities					
Proceeds from sales of property, plant and equipment		—	5,391	—	5,391
Loans to controlled entities		—	—	(301,446)	(1,464,596)
Repayment of loans by controlled entities		—	—	—	6,034
Acquisition of property, plant and equipment		(7,173)	(23,830)	(7,173)	(23,830)
Purchase of unlisted shares		(234,300)	(314,051)	—	(54,273)
Purchase of controlled entity	24(d)	—	(30,170)	—	—
Net cash flows used in investing activities		(241,473)	(362,660)	(308,619)	(1,531,274)
Cash flows from financing activities					
Proceeds from issues of securities		105,389	3,846,904	105,389	3,846,904
Share issue expenses		—	(252,208)	—	(252,208)
Net cash flows from financing activities		105,389	3,594,696	105,389	3,594,696
Net increase/(decrease) in cash held		(1,655,086)	1,834,867	(1,454,409)	1,446,574
Cash at the beginning of the financial year		2,617,829	782,962	2,229,530	782,956
Cash at the end of the financial year	24(b)	962,743	2,617,829	775,121	2,229,530

Notes to and forming part of the Statement of Cash Flows are set out on pages 34 to 70.

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared on an accruals basis and in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. The accounting policies adopted are consistent with those of the previous year. Comparative information is reclassified where appropriate.

(a) Principles of Consolidation

The consolidated accounts incorporate the assets and liabilities of all entities controlled by Imugene Limited ("Company or Imugene") as at 30 June 2004 and the results of all controlled entities for the year then ended. Imugene and its controlled entities together are referred to in this financial report as the Consolidated Entity. The effects of all transactions between entities in the Consolidated Entity are eliminated in full. Outside equity interests in the results and equity of Controlled Entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

(b) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit (after allowing for permanent differences). The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

(c) Investments

Imugene's interests in listed and unlisted securities, other than controlled entities in the consolidated accounts, are brought to account at cost and dividend income is recognised in the statement of financial performance when received. The principles of consolidation of interests in controlled entities are set out in Note 1(a).

(d) Recoverable Amount of Non-current Assets

The recoverable amount of an asset is the net amount expected to be recovered through net cash inflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount the asset is revalued to its recoverable amount. Discounted cash flows are used in determining recoverable amounts of non-current assets.

(e) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, superannuation and long service leave. Liabilities arising in respect of wages and salaries, annual leave, and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds which have terms to maturity approximating the terms of the related liability, is used.

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(f) Earnings per Share

Basic Earnings per Share

Basic earnings per share is determined by dividing the operating loss after income tax attributable to members of Imugene by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted Earnings per Share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share that will probably arise from the exercise of options outstanding during the financial year.

(g) Depreciation of property, plant and equipment

Depreciation is calculated on a reducing balance or straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over its expected useful life to the Consolidated Entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:-

Plant and equipment	2 – 15 years
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Where items of property, plant and equipment have separately identifiable components which are subject to regular replacement, those components are assigned useful lives distinct from the item of property, plant and equipment to which they relate.

(h) Intangibles

Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable net assets acquired, is amortised on a straight line basis over a period of 15 years.

Patents and Licences

Patents and licences are expensed as incurred.

Research and Development

Research and development costs are recognised as an expense when incurred, except to the extent that such costs, together with unamortised deferred costs in relation to that project, are expected, beyond any reasonable doubt, to be recoverable.

Any deferred research and development costs are amortised over the period in which the corresponding benefits are expected to arise, commencing with the commercial production of the product.

The unamortised balance of research and development costs deferred in previous periods is reviewed regularly at each reporting date, to ensure the criterion for deferral continues to be met. Where such costs are no longer considered recoverable, they are written off as an expense.

Government grants received or receivable in relation to research and development costs, which are deferred, are deducted from the carrying amount. Grants received or receivable in relation to research and development costs, which are recognised as an expense during the current or previous periods, are recognised as revenue.

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(i) Cash

For the purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(j) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criterion must also be met before revenue is recognised:

Sale of Goods - Control of the goods has passed to the buyer.

Interest - Control of a right to receive consideration for the provision of, or investment in, assets has been attained.

(k) Comparative Amounts

Comparative figures are, where appropriate, reclassified so as to be comparable with the figures presented for the current financial year.

The consolidated Statement of Financial Performance for the financial year ended 30 June 2003 has been reclassified as follows:

	Consolidated	
	2003	2003
	Reclassified	As previously
	amount	stated
	\$	\$
Revenue from ordinary activities	538,544	538,544
Research and development expense upon acquisition	(487,936)	(487,936)
Research and development expenses	(456,023)	(456,023)
Business development	—	—
Commercialisation expenses	(711,766)	(583,415)
VosTech Business – restructure expenses	(286,346)	(286,346)
Writedown of research and development investments	—	—
Corporate and administrative expenses	(640,591)	(548,164)
Other expenses from ordinary activities	—	(220,778)
Loss from ordinary activities before income tax revenue	(2,044,118)	(2,044,118)

The reclassification was undertaken to correctly classify the amortisation of goodwill, foreign exchange movement and payment of royalties according to their function. The reclassification has no impact on the loss attributable to the members of the Company for the financial year ended 30 June 2004.

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

2	Consolidated		Imugene	
	2004 \$	2003 \$	2004 \$	2003 \$
REVENUE				
Revenue from operating activities				
Licensing fees	—	503,664	—	—
Management fees	—	—	680,944	224,830
	—	503,664	680,944	224,830
Revenue from non-operating activities				
Interest received/receivable	80,598	29,470	66,485	23,247
Proceeds from sale of non-current assets	—	5,391	—	5,391
Government grant received	43,000	—	43,000	—
Other	—	19	—	10
	123,598	34,880	109,485	28,648
Total revenues from ordinary activities	123,598	538,544	790,429	253,478

3

EXPENSES AND LOSSES (GAINS) FROM ORDINARY ACTIVITIES

(a) Expenses

Depreciation of non-current assets:

- Plant & equipment	7,575	3,877	7,575	3,877
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Commercialisation expenses

- Patent expenses	173,033	263,819	3,739	—
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- Employee expenses	220,464	319,596	8,050	224,830
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- Amortisation of goodwill	341,019	128,351	—	—
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Other provisions:

- Employee benefits	22,422	10,264	22,422	10,264
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Recoverable amount writedown:

- Investments – other entities	—	54,273	—	54,273
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- Investments – controlled entities	—	—	2,200,000	—
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- Investments – research and development	475,496	—	—	—
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- Property, plant and equipment	—	18,582	—	18,582
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(b) Losses (Gains)

Loss/(Profit) on sale of non-current assets:

- Property, plant & equipment	—	(5,391)	—	(5,391)
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Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

3

EXPENSES AND LOSSES (GAINS) FROM ORDINARY ACTIVITIES CONTINUED

(c) Restructuring of VosTech Business

During the 2003 financial year, the Company incurred expenses associated with the restructuring of the VosTech business. As a result of the restructuring, the VosTech business was transferred into a joint venture entity that was responsible for the development and commercialisation of products associated with the VosTech business, including the Sprayfry technology.

Imugene has now divested its ownership and commitment to the development of the technology and has no further funding obligations. Imugene maintains a variable royalty percentage (based on sales levels) until 1 October 2007.

(d) Research and Development Expenses Upon Acquisition

Upon settlement of the acquisition of the indirect interest in VectoGen Pty Ltd by Imugene in the 2003 financial year, the Consolidated Entity was required to pay a one-off research and development cost of \$487,936 to CSIRO, which was incurred by VectoGen Pty Ltd upon Imugene completing the indirect acquisition of VectoGen Pty Ltd.

4

Consolidated		Imugene	
2004	2003	2004	2003
\$	\$	\$	\$

INCOME TAX

- (a) The aggregate amount of income tax attributable to the financial year differs from the amount calculated on the loss from ordinary activities before tax.

The differences are reconciled as follows:

Loss from ordinary activities before tax	(2,785,629)	(2,044,118)	(2,777,610)	(727,559)
Income tax calculated at 30% (2003: 30%)	(835,689)	(613,235)	(833,283)	(218,267)
Tax effect of permanent differences:				
Non-deductible expenses	378,501	28,606	661,935	24,407
Amortisation of intangible assets	102,305	38,505	—	—
Tax losses not brought to account	354,883	546,124	171,348	193,860
Research and development rebate received – year ended 30 June 2003	358,553	—	—	—
Research and development rebate receivable – year ended 30 June 2004	311,401	—	311,401	—
	669,954	—	311,401	—
Less net income tax expense arising under tax sharing arrangements with subsidiaries in the tax consolidated group	—	—	(292,817)	—
Income tax benefit attributable to loss from ordinary activities	669,954	—	18,584	—

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

4	Consolidated		Imugene	
	2004 \$	2003 \$	2004 \$	2003 \$

INCOME TAX CONTINUED

- (b) Future income tax benefits arising from tax losses and timing differences of controlled entities not brought to account at balance date as realisation of the benefit is not regarded as virtually certain:

Tax losses – calculated using a tax rate of 30%	2,087,911	1,733,028	1,423,362	1,252,014
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This future income tax benefit will only be obtained if:-

- (i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- (ii) the conditions for deductibility imposed by tax legislation continue to be complied with; and
- (iii) no changes in tax legislation adversely affect the Consolidated Entity in realising the benefit.

Tax consolidation

Effective 1 July 2003, for the purposes of income taxation, Imugene Limited and its 100% owned subsidiaries will form a tax consolidated group. Members of the group will enter into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition, the agreement will provide for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. As at balance date, the possibility of default is remote. The head entity of the tax consolidated group is Imugene Limited.

There is no material effect on the future income tax benefits as a result of the revised tax legislation. Imugene will formally notify the Australian Taxation Office of its adoption of the tax consolidation regime when lodging its 30 June 2004 consolidated tax return.

5	Consolidated		Imugene	
	2004 \$	2003 \$	2004 \$	2003 \$

CURRENT ASSETS – Receivables

Receivables – wholly owned entities	—	—	376,015	226,071
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6

CURRENT ASSETS – Tax assets

Research and development rebate	311,401	—	311,401	—
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7

CURRENT ASSETS – Other

GST Refundable	73,298	39,432	—	—
Other	2,152	5,495	2,152	5,495
	75,450	44,927	2,152	5,495

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

8	Consolidated		Imugene	
	2004 \$	2003 \$	2004 \$	2003 \$
NON-CURRENT ASSETS – Other Financial Assets				
Investments - controlled entities				
- At cost (Note 8(a))	—	—	6,695,912	5,859,420
- Recoverable amount write down	—	—	(2,200,000)	—
Total Investments – controlled entities	—	—	4,495,912	5,859,420
Investments – other entities				
- At cost (Note 8(b))	475,496	529,769	—	54,273
- Recoverable amount write down	(475,496)	(54,273)	—	(54,273)
Total Investments – other entities	—	475,496	—	—
	—	475,496	4,495,912	5,859,420

(a) Investments in Controlled Entities

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding	
			2004 %	2003 %
Controlled Entities				
Brightsun Investments Pty Ltd	Australia	Ordinary	100	100
VectoGen Pty Ltd	Australia	Ordinary	100	100
BioMimic Technologies Ltd	Australia	Ordinary	100	—

Note.

VectoGen Pty Ltd changed status during the year from a public company (Ltd) to a proprietary company (Pty Ltd)

(b) Investments in Other Entities

Name of Entity	Principal Activities	Equity Holding		Carrying Value of Investment	
		2004 %	2003 %	2004 \$	2003 \$
VosTech Pty Ltd	Development and commercialisation of Sprayfry technology	—	40	—	—
Paragen Pty Ltd	Development of biological flea vaccine	37.5	37.5	—	475,496

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

8

NON-CURRENT ASSETS – Other Financial Assets CONTINUED

(c) Wholly-owned Group

Details of interests in wholly-owned controlled entities are set out at Note 8(a). 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 2004 consisted of:

- (i) Working capital advanced by Imugene Limited;
- (ii) Working capital repaid to Imugene Limited; and
- (iii) Provision of services by Imugene Limited to 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 \$376,015 (2003: \$226,071).

(d) Ultimate Parent Company

The ultimate parent company in the wholly-owned Group is Imugene Limited.

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

9	Consolidated		Imugene	
	2004 \$	2003 \$	2004 \$	2003 \$
NON-CURRENT ASSETS – Property, Plant and Equipment				
Plant & equipment				
At cost	26,420	19,247	26,420	19,247
Accumulated depreciation	(11,103)	(3,798)	(11,103)	(3,798)
Total plant and equipment (Note 9(a))	15,317	15,449	15,317	15,449
Motor Vehicles				
At cost	—	—	—	—
Accumulated depreciation	—	—	—	—
Total motor vehicles (Note 9(a))	—	—	—	—
Fixtures and Fittings				
At cost	3,675	3,675	3,675	3,675
Accumulated depreciation	(349)	(79)	(349)	(79)
Total fixtures and fittings (Note 9(a))	3,326	3,596	3,326	3,596
Total Written down value	18,643	19,045	18,643	19,045
(a) Reconciliations				
Plant and Equipment				
Carrying amount at beginning of year	15,449	14,543	15,449	14,543
Additions	7,173	20,156	7,173	20,156
Writedown to recoverable amount	—	(15,452)	—	(15,452)
Depreciation expense	(7,305)	(3,798)	(7,305)	(3,798)
Total plant & equipment	15,317	15,449	15,317	15,449
Motor Vehicles				
Carrying amount at beginning of year	—	3,130	—	3,130
Writedown to recoverable amount	—	(3,130)	—	(3,130)
Total motor vehicles	—	—	—	—
Fixtures and Fittings				
Carrying amount at beginning of year	3,596	—	3,596	—
Additions	—	3,675	—	3,675
Depreciation	(270)	(79)	(270)	(79)
Total fixtures and fittings	3,326	3,596	3,326	3,596

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

10	Consolidated		Imugene	
	2004 \$	2003 \$	2004 \$	2003 \$
NON-CURRENT ASSETS – Intangible assets				
Goodwill – at cost	5,117,095	5,115,143	—	—
Accumulated amortisation	(469,370)	(128,351)	—	—
	4,647,725	4,986,792	—	—

11	Consolidated		Imugene	
CURRENT LIABILITIES – Payables				
Trade and other creditors	551,608	421,998	219,442	234,281
Income tax payable arising under tax sharing arrangements with subsidiaries in the tax consolidated group	—	—	292,817	—
GST Payable	—	34,204	28,483	34,194
	551,608	456,202	540,742	268,475

12	Consolidated		Imugene	
CURRENT LIABILITIES – Provisions				
Provision for annual leave (Note 18)	32,686	10,264	32,686	10,264

13	Consolidated		Imugene	
CURRENT LIABILITIES – Other				
Deferred consideration - additional investment in Paragen Pty Ltd	—	234,300	—	—

14	Consolidated		Imugene	
CONTRIBUTED EQUITY				
(a) Issued and paid up capital:				
108,118,080 (2003: 107,172,416) fully paid ordinary shares	8,164,842	36,751,241	8,164,842	36,751,241

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

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CONTRIBUTED EQUITY CONTINUED

(b) Movements in ordinary share capital during the past two years were as follows:-

Date	Details	Note	No. of Shares	No. of Convertible Preference Shares	No. of \$0.225 Performance Options	No. of \$0.1125 Options	No. of \$2.50 Options	No. of Executive Performance Options	\$
01/07/02	Opening Balance		255,428,082	—	—	30,000,000	917,595	—	28,515,691
31/07/02	Transfer from Option Reserve	(i)	—	—	—	—	(917,595)	—	240,000
30/08/02	Purchase of Brightsun	(ii)	160,000,000	—	—	—	—	—	1,600,000
30/08/02	Share placement	(iii)	50,000,000	—	—	—	—	—	500,000
30/08/02	Entitlement issue of shares	(iv)	102,171,233	—	—	—	—	—	1,021,712
	Share issue costs	(v)	—	—	—	—	—	—	(91,447)
25/11/02	Share consolidation	(vi)	(491,917,875)	—	—	(25,999,994)	—	—	—
25/11/02	Allotment – Share Purchase Plan	(vii)	1,428,560	—	—	—	—	—	149,999
	Share issue costs	(viii)	—	—	—	—	—	—	(6,485)
25/11/02	Option conversion	(ix)	20,000	—	—	(20,000)	—	—	2,250
27/11/02	Share and option allotment	(x)	133,334	—	—	66,667	—	—	23,333
05/03/03	Share allotment	(xi)	100,000	—	—	—	—	—	—
05/03/03	Option allotment	(xii)	—	—	4,250,000	—	—	—	—
26/03/03	Option allotment	(xiii)	—	—	383,333	—	—	—	—
26/03/03	Option allotment	(xiv)	—	—	—	266,667	—	—	—
01/05/03	Share allotment	(xv)	330,525	—	—	—	—	—	46,273
19/05/03	Option conversion	(xvi)	121,729	—	—	(121,729)	—	—	13,695
03/06/03	Option conversion	(xvii)	80,000	—	—	(80,000)	—	—	9,000
23/06/03	Share allotment	(xviii)	14,763,494	8,872	—	—	—	—	2,731,246
23/06/03	Option conversion	(xix)	713,334	—	—	(713,334)	—	—	80,250
27/06/03	Share allotment	(xx)	13,800,000	—	—	—	—	—	2,070,000
	Share issue costs	(xxi)	—	—	—	—	—	—	(154,276)
30/06/03	Closing Balance		107,172,416	8,872	4,633,333	3,398,277	—	—	36,751,241
27/08/03	Option conversion	(xxii)	303,457	—	—	(303,457)	—	—	34,139
08/10/03	Option conversion	(xxiii)	333,333	—	—	(333,333)	—	—	37,500
27/11/03	Reduction of share capital	(xxiv)	—	—	—	—	—	—	(28,690,419)
27/11/03	Option allotment	(xxv)	—	—	—	—	—	6,000,000	—
22/01/04	Option conversion	(xxvi)	66,667	—	—	(66,667)	—	—	7,500
23/03/04	Option conversion	(xxvii)	66,668	—	—	(66,668)	—	—	7,500
24/06/04	Conversion of CPS	(xxviii)	8,872	(8,872)	—	—	—	—	1,952
30/06/04	Option conversion	(xxix)	166,667	—	—	(166,667)	—	—	18,750
	Share issue costs	(xxx)	—	—	—	—	—	—	(3,321)
30/06/04	Closing Balance		108,118,080	—	4,633,333	2,461,485	—	6,000,000	8,164,842

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CONTRIBUTED EQUITY CONTINUED

Notes.

- (i) Expiry of options with an exercise price of \$2.50 each and transfer of associated option premium to contributed equity (see Note 15).
- (ii) Following shareholder approval, on 30 August 2002 the Company completed the acquisition of a 100% interest in Brightsun Investments Pty Ltd.
- (iii) Following shareholder approval, on 30 August 2002 the Company issued and allotted 50,000,000 fully paid ordinary shares pursuant to a placement.
- (iv) Issue of fully paid ordinary shares made pursuant to a pro rata entitlements issue.
- (v) Represents costs associated with pro rata entitlements issue and placement to raise working capital.
- (vi) Consolidation of share capital on the basis of one share for every 7.5 held following shareholder approval.
- (vii) Issue and allotment of fully paid ordinary shares pursuant to the Company's Share Purchase Plan.
- (viii) Costs associated with the Share Purchase Plan allotment.
- (ix) Exercise of unlisted options at \$0.1125 per option.
- (x) Issue and allotment of fully paid ordinary shares and options to a former employee as part of a termination package.
- (xi) Issue and allotment of fully paid ordinary shares to Dr Kevin Fahey.
- (xii) Issue and allotment of unlisted Performance Options to Southern Cross Equities and Dr Kevin Fahey.
- (xiii) Issue and allotment of unlisted Performance Options to employees.
- (xiv) Issue and allotment of unlisted Options to Dr Colin Hort.
- (xv) Issue and allotment of fully paid ordinary shares to Australian Pork Limited as consideration for their shareholding in VectoGen Pty Ltd, which was acquired by Imugene.
- (xvi) Exercise of unlisted options at \$0.1125 per option.
- (xvii) Exercise of unlisted options at \$0.1125 per option.
- (xviii) Following shareholder approval, issue and allotment of fully paid ordinary shares and Convertible Preference Shares to acquire the remaining shares in VectoGen Pty Ltd not held by the Company.
- (xix) Exercise of unlisted options at \$0.1125 per option.
- (xx) Placement of fully paid ordinary shares.
- (xxi) Costs associated with share placement referred to in paragraph (xx) of this note.
- (xxii) Exercise of unlisted options at \$0.1125 per option.
- (xxiii) Exercise of unlisted options at \$0.1125 per option.
- (xxiv) Following shareholder approval, share capital was reduced by applying the amount of cancelled paid up capital of \$28,690,419 against carried forward accumulated losses (see Note 16).
- (xxv) Issue and allotment of unlisted Executive Performance Options subject to vesting conditions to Graham Dowland, Warwick Lamb and Michael Sheppard (see Note 14(g) for terms and conditions).
- (xxvi) Exercise of unlisted options at \$0.1125 per option.
- (xxvii) Exercise of unlisted options at \$0.1125 per option.
- (xxviii) Converting Preference Shares (CPS) issued as part consideration for the acquisition of VectoGen Pty Ltd automatically converted into ordinary shares upon market capitalisation milestone not being met by 23 June 2004.
- (xxix) Exercise of unlisted options at \$0.1125 per option.
- (xxx) Costs associated with share issue referred to in paragraph (xx) of this note.

CONTRIBUTED EQUITY CONTINUED

(c) Rights attaching to Shares

The rights attaching to fully paid ordinary shares ("Shares") arise from a combination of the Company's Constitution, statute and general law.

Shares issued following the exercise of Options in accordance with Note 14(d) will rank equally in all respects with the Company's existing Shares.

Copies of the Company's Constitution are available for inspection during business hours at the Company's registered office. The clauses of the Constitution contain the internal rules of the Company and define matters such as the rights, duties and powers of its shareholders and directors, including provisions to the following effect (when read in conjunction with the Corporations Act 2001 or Listing Rules):

i) Shares

The issue of shares in the capital of the Company and options over unissued shares by the Company is under the control of the Directors, subject to the Corporations Act 2001, ASX Listing Rules and any rights attached to any special class of shares.

ii) Transfer of Shares

The Company participates in the electronic share registration and transfer system known as CHES operated by ASX under the Security Clearing House Business Rules. Accordingly, the Company will issue holding statements in lieu of share certificates. The Company will not charge any fee for registering a transfer of shares. The Directors may refuse to register a transfer of shares, or request SCH to apply a holding lock to prevent a proper SCH transfer, in the circumstances identified in the Constitution or as otherwise permitted or required under the Corporations Act 2001 or Listing Rules.

iii) Meetings of Members

Directors may call a meeting of members whenever they think fit. Members may call a meeting as provided by the Corporations Act 2001. The Constitution contains provisions prescribing the content requirements of notices of meetings of members and all members are entitled to a notice of meeting. A meeting may be held in two or more places linked together by audio-visual communication devices.

A quorum for a meeting of members is 2 natural persons, each of whom is or represents different Shareholders who are eligible to vote.

The Company holds annual general meetings in accordance with the Corporations Act 2001 and the Listing Rules.

iv) Voting

Subject to any rights or restrictions for the time being attached to any shares or class of shares of the Company, each member of the Company is entitled to receive notice of, attend and vote at a general meeting. Resolutions of members will be decided by a show of hands unless a poll is demanded. On a show of hands each eligible voter present has one vote. However, where a person present at a general meeting represents personally or by proxy, attorney or representative more than one member, on a show of hands the person is entitled to one vote only despite the number of members the person represents.

On a poll each eligible member has one vote for each fully paid share held and a fraction of a vote for each partly paid share determined by the amount paid up on that share.

v) Dividends

Subject to any rights attaching to shares that may in the future be issued with special or preferred rights, the Directors may fix the amount, the time for payment and the method of payment of a dividend. Subject to any special rights attaching to shares (such as preference shares), dividends will be paid proportionately to the number of shares held by each member. The Company is not required to pay any interest on dividends.

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

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CONTRIBUTED EQUITY CONTINUED

vi) Winding Up

If on a winding up of the Company there remains a surplus, then under the Constitution and subject to any rights attaching to shares which may in the future be issued with special or preferred rights, all assets representing the surplus that may be legally distributed among Shareholders shall be so distributed in proportion to the number of shares held by each Shareholder.

vii) Dividend Plans

The Company's Constitution contains a provision allowing directors to implement a dividend reinvestment plan and a dividend selection plan. It is not currently intended that either a dividend reinvestment, or dividend selection plan will be implemented.

viii) Changes to the Constitution

The Company's Constitution can only be amended by a special resolution passed by at least three quarters of the members present and voting at a general meeting of the Company. At least 28 days' written notice specifying the intention to propose the resolution as a special resolution must be given.

ix) Share Buy-Backs

The Company may buy-back Shares in itself in accordance with the provisions of the Corporations Act 2001.

x) Listing Rules

Provided the Company remains admitted to the Official List, then despite anything in its Constitution, no act may be done that is prohibited by the Listing Rules, and authority is given for acts required to be done by the Listing Rules. The Company's Constitution will be deemed to comply with the Listing Rules as amended from time to time.

(d) Terms and Conditions of \$0.1125 Options

The terms and conditions of the \$0.1125 Options are as follows:

- (i) each option entitles the holder, when exercised, to one (1) Share;
- (ii) the options are exercisable at any time up to and including 31 December 2004;
- (iii) the exercise price of the options is 11.25 cents each (on a post-consolidation basis);
- (iv) subject to the Corporations Act 2001, the Constitution and the ASX Listing Rules, the options are fully transferable;
- (v) the options are exercisable by delivering to the registered office or share register of the Company a notice in writing stating the intention of the option holder to exercise a specified number of options, accompanied by an option certificate, if applicable, and a cheque made payable to the Company for the subscription monies due, subject to the funds being duly cleared funds. The exercise of only a portion of the options held does not affect the holder's right to exercise the balance of any options remaining;
- (vi) all shares issued upon exercise of the options will rank *pari passu* in all respects with the Company's then issued shares. The options will be unlisted;
- (vii) there are no participating rights or entitlements inherent in the options and holders will not be entitled to participate in new issues of options to shareholders during the currency of the options. However, the Company will ensure that, for the purpose of determining entitlements to any issue, Option holders will be notified of the proposed issue at least seven (7) business days before the record date of any proposed issue. This will give option holders the opportunity to exercise the options prior to the date for determining entitlements to participate in any such issue;

CONTRIBUTED EQUITY CONTINUED

- (viii) in the event of any reconstruction (including consolidation, subdivision, reduction or return of capital) of the issued capital of the Company prior to the expiry date of the options, all rights of the option holder will be varied in accordance with the ASX Listing Rules; and
- (ix) in the event the Company makes a pro rata issue of securities, the exercise price of the options may change in accordance with the formula set out in ASX Listing Rule 6.22.2.

(e) Terms and Conditions of Performance Options

The terms and conditions of the Performance Options are as follows:

- (i) each option entitles the holder, when exercised, to one (1) Share;
- (ii) (a) Dr Michael Sheppard, Dr Colin Hort and Dr Kevin Fahey - 50% of the options are exercisable during the period from 1 December 2003 to 31 October 2007, the balance of the options are exercisable during the period from 1 December 2004 to 31 October 2007;
- (b) Southern Cross Equities Limited - having successfully completed the capital raising by 31 December 2003, the options are exercisable during the period from 1 January 2004 to 31 October 2007;
- (iii) the exercise price of the options is 22.5 cents each;
- (iv) the options are exercisable by delivering to the registered office or share register of the Company a notice in writing stating the intention of the option holder to exercise a specified number of options, accompanied by an option certificate, if applicable, and a cheque made payable to the Company for the subscription monies due, subject to the funds being duly cleared funds. The exercise of only a portion of the options held does not affect the holder's right to exercise the balance of any options remaining;
- (v) all shares issued upon exercise of the options will rank *pari passu* in all respects with the Company's then issued shares. The options will be unlisted;
- (vi) there are no participating rights or entitlements inherent in the options and holders will not be entitled to participate in new issues of options to shareholders during the currency of the options. However, the Company will ensure that, for the purpose of determining entitlements to any issue, Option holders will be notified of the proposed issue at least seven (7) business days before the record date of any proposed issue. This will give option holders the opportunity to exercise the options prior to the date for determining entitlements to participate in any such issue;
- (vii) in the event of any reconstruction (including consolidation, subdivision, reduction or return of capital) of the issued capital of the Company prior to the expiry date of the options, all rights of the option holder will be varied in accordance with the ASX Listing Rules; and
- (viii) in the event the Company makes a pro rata issue of securities, the exercise price of the options will change in accordance with the formula set out in ASX Listing Rule 6.22.2.

CONTRIBUTED EQUITY CONTINUED

(f) Terms and Conditions of Converting Preference Shares

The terms and conditions of the Converting Preference Shares ("CPS") prior to their conversion into 8,872 ordinary shares on 24 June 2004 were as follows:

- (i) each series of CPS converts into the following number of fully paid ordinary shares upon achieving the market capitalisation milestone (market capitalisation of Imugene reaching \$33 million for a period of 20 consecutive trading days at any time within a 12 month period ending on 23 June 2004) and the relevant commercial milestone being achieved, as follows:

CPS Series	Commercial Milestone	Expiry Date	No. of Ordinary Shares to be issued for each CPS	No. of CPS on issue in each class as at 1 July 2003	Max No. of Ordinary Shares to be issued if CPS conditions are met
Series A	Merial Limited executing a "FAV Gamma" sublicense agreement with VectoGen.	23 Dec 04	1,662	5,324	8,848,488
Series B	Merial Limited executing a "FAV IB" sublicense agreement with VectoGen.	23 Dec 04	1,662	1,774	2,948,388
Series C	Merial Limited executing a "PAV Respiratory Product" sublicense agreement with VectoGen.	23 Dec 04	1,662	1,774	2,948,388
Total				8,872	14,745,264

- (ii) If either the market capitalisation milestone or the relevant commercial milestone is not achieved by the expiry date, then each CPS (for the respective series) will automatically convert into one fully paid ordinary share;
- (iii) the CPS are entitled to a cumulative dividend of 5% on the face value of the CPS (\$1.00);
- (iv) all shares issued upon conversion of CPS will rank pari passu in all respects with the Company's then issued shares. The CPS will be unlisted; and
- (v) in the event of any reconstruction (including consolidation, subdivision, reduction or return of capital) of the issued capital of the Company prior to the expiry date of the CPS, all rights of the CPS holder will be varied in accordance with the ASX Listing Rules.

(g) Terms and Conditions of Executive Performance Options

The material terms and conditions of the Executive Performance Options are as follows:

Holder	Tranche 1- No. of options vested on 31 December 2003 exercisable @ \$0.30	Tranche 2- No. of options vested on 1 July 2004 exercisable @ \$0.25	Tranche 3- No. of options vesting on 1 July 2005 exercisable @ -refer para (c) below	Total
Mr Graham Dowland	1,250,000	625,000	625,000	2,500,000
Dr Warwick Lamb	1,250,000	625,000	625,000	2,500,000
Dr Michael Sheppard	500,000	250,000	250,000	1,000,000
	3,000,000	1,500,000	1,500,000	6,000,000

CONTRIBUTED EQUITY CONTINUED

- (i) each option entitles the holder, when exercised, to one (1) Share;
- (ii) the options are exercisable from the date of Vesting to 31 December 2006. The options vest as follows:

Tranche 1 (50%):	31 December 2003
Tranche 2 (25%):	1 July 2004
Tranche 3 (25%):	1 July 2005;
- (iii) the exercise price of the options is as follows:

Tranche 1 (50%) :	30 cents each;
Tranche 2 (25%):	the market weighted average price of the Company's shares as traded on the ASX in the period 1 July 2003 to 30 June 2004 (determined to be \$0.25 each);
Tranche 3 (25%):	the market weighted average price of the Company's shares as traded on the ASX in the period 1 July 2004 to 30 June 2005;
- (iv) the options are exercisable by delivering to the registered office or share register of the Company a notice in writing stating the intention of the option holder to exercise a specified number of options, accompanied by an option certificate, if applicable, and a cheque made payable to the Company for the subscription monies due, subject to the funds being duly cleared funds. The exercise of only a portion of the options held does not affect the holder's right to exercise the balance of any options remaining;
- (v) all shares issued upon exercise of the options will rank *pari passu* in all respects with the Company's then issued shares. The options will be unlisted;
- (vi) there are no participating rights or entitlements inherent in the options and holders will not be entitled to participate in new issues of options to shareholders during the currency of the options. However, the Company will ensure that, for the purpose of determining entitlements to any issue, option holders will be notified of the proposed issue at least seven (7) business days before the record date of any proposed issue. This will give option holders the opportunity to exercise the options prior to the date for determining entitlements to participate in any such issue;
- (vii) in the event of any reconstruction (including consolidation, subdivision, reduction or return of capital) of the issued capital of the Company prior to the expiry date of the options, all rights of the option holder will be varied in accordance with the ASX Listing Rules;
- (viii) in the event the Company makes a pro rata issue of securities, the exercise price of the options will change in accordance with the formula set out in ASX Listing Rules;
- (ix) in the event that before a Vesting Date the employee's employment with the Company is terminated either:
 - (a) by the Company as a consequence of a negligent act by the employee involving the Company or the employee is convicted of a criminal offence; or
 - (b) by the employee by giving notice to the Company;the options that have not vested to the employee shall immediately expire; and
- (x) in the event that the employee's employment is terminated due to incapacity or illness, he shall be entitled to exercise at any time prior to the expiry of the options, those options which, at the date of such termination, would have been able to have been exercised and the balance of the options shall immediately expire.

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

15	Consolidated		Imugene	
	2004 \$	2003 \$	2004 \$	2003 \$
RESERVES				
Option Premium Reserve				
Opening balance	—	240,000	—	240,000
Transfer to contributed equity (see Note 14(b))	—	(240,000)	—	(240,000)
Closing balance	—	—	—	—

16	Consolidated		Imugene	
ACCUMULATED LOSSES				
Balance at the beginning of the year	29,307,918	27,962,860	28,690,419	27,962,860
Reduction of share capital (see Note 14(b))	(28,690,419)	—	(28,690,419)	—
Net loss	2,115,675	1,345,058	2,759,026	727,559
Balance at the end of the year	2,733,174	29,307,918	2,759,026	28,690,419

(a) Franking Credits

In 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.

17	Consolidated		Imugene	
OUTSIDE EQUITY INTEREST				
Balance at the beginning of year	—	—	—	—
Adjustment for outside equity interest in controlled entity acquired during the year	—	585,578	—	—
Less share of operating loss	—	(699,060)	—	—
Adjustment on acquisition of outside equity interest by Imugene	—	113,482	—	—
Balance at end of year	—	—	—	—

18	Consolidated		Imugene	
EMPLOYEE ENTITLEMENTS				
Employee Benefits				
The aggregate employee benefit liability is comprised of:				
Provisions – (current) (see Note 12)	32,686	10,264	32,686	10,264

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

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DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Remuneration of Specified Directors and Specified Executives

		Salary & Fees \$	Bonus ⁽²⁾ \$	Superannuation benefits \$	Value of options ⁽³⁾ \$	Total \$
Specified Directors						
Mr Graham Dowland (Executive Chairman)	2004	139,000	100,000	36,000	266,019	541,019
	2003	105,667	—	20,469	—	126,136
Dr Warwick Lamb (Managing Director)	2004	160,550	100,000	15,998	266,019	542,567
	2003	75,062	—	6,756	—	81,818
Mr Roger Steinepreis (Non-Executive Director)	2004	25,000	—	—	—	25,000
	2003	—	—	—	—	—
Total Remuneration – Specified Directors						
	2004	324,550	200,000	51,998	532,038	1,108,586
	2003	180,729	—	27,225	—	207,954
Specified Executives⁽⁴⁾						
<i>Current Executives</i>						
Dr Colin Hort (Commercial Manager)	2004	100,917	—	8,293	—	109,210
	2003	63,402	—	5,706	10,613	79,721
Dr Michael Sheppard (Chief Scientific Officer)	2004	131,243	—	11,812	106,407	249,462
	2003	18,858	—	1,697	19,900	40,455
<i>Former Executives</i>						
Dr Adrian Hodgson (CEO – VectoGen)	2004	—	—	—	—	—
	2003	59,185	—	16,055	—	75,240
Total Remuneration – Specified Executives						
	2004	232,160	—	20,105	106,407	358,672
	2003	141,445	—	23,458	30,513	195,416

- (1) During the financial year, no remuneration was paid in the form of a long-term incentive bonus, non-monetary benefit, prescribed benefit or other benefit to a specified director or specified executive.
- (2) Following an independent review of the Executive Directors' remuneration, which indicated that the Executive Directors' 'fixed' remuneration was in the lowest 25% for the biotechnology industry, the Board implemented a cash bonus arrangement to supplement the Executive Directors' fixed salary. This bonus is based on the Company's share price and has been implemented for the period 1 July 2003 to 30 June 2005. The bonus, if any, is payable in January and July and is based on the Company's simple average daily share price over a period of 30 consecutive business days during the previous 6 month period as detailed in the table below. The simple average daily share price of the Company for the 12 month period prior to implementing the 'risked' component of the Executive Directors' remuneration (ie. the period 1 July 2002 to 30 June 2003) was \$0.124:

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

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DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

Simple average daily share price achieved over 30 consecutive business days during 6 month period	Cash Bonus \$
> \$0.15	10,000
> \$0.20	25,000
> \$0.25	50,000
> \$0.30	75,000
> \$0.40	150,000

The maximum bonus payable each year is limited to \$200,000 per Executive Director.

- (3) The fair value of the options has been independently calculated at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the options allocated to this reporting period (see Note 14(e) and (g) for terms and conditions of Performance Options and Executive Performance Options respectively).
- (4) Other than as outlined above, there were no other executive officers of the Company during the year.
- (5) Salary, superannuation and bonuses paid to Mr Dowland were in accordance with his Executive Services Agreement of \$175,000 per annum (inclusive of superannuation) plus a bonus in accordance with (2). Equity based remuneration was granted pursuant to shareholder approval.
- (6) Salary, superannuation and bonuses paid to Dr Lamb were in accordance with his Executive Services Agreement of \$175,000 per annum (inclusive of superannuation) plus a bonus in accordance with (2). Back-pay for an amount of \$1,548 was owed to Dr Lamb for the previous financial year in relation to superannuation. Equity based remuneration was granted pursuant to shareholder approval.
- (7) Salary, superannuation and bonuses paid to Dr Hort were in accordance with his Executive Services Agreement of \$110,000 per annum (inclusive of superannuation).
- (8) Salary, superannuation and bonuses paid to Dr Sheppard were in accordance with his Executive Services Agreement of \$140,000 per annum (inclusive of superannuation). Back-pay for an amount of \$3,055 was owed to Dr Sheppard for the previous financial year in relation to salary and superannuation. Equity based remuneration was granted pursuant to shareholder approval.

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(b) Option holdings and transactions

Options exercisable @ \$0.1125 each on or before 31 December 2004 (see Note 14(d) for terms and conditions)	Held at 1 July 2003	Granted as remuneration	Exercised	Other changes	Held at 30 June 2004	Vested and exercisable at 30 June 2004
Specified Directors⁽¹⁾						
Mr Graham Dowland	23,334	—	—	—	23,334	23,334
Dr Warwick Lamb	46,667	—	—	—	46,667	46,667
Mr Roger Steinepreis	1,060,741	—	—	—	1,060,741	1,060,741
Specified Executives						
Dr Colin Hort ⁽²⁾	266,667	—	133,333	—	133,334	133,334
Dr Michael Sheppard	—	—	—	—	—	—

- (1) Options held by Mr Dowland, Dr Lamb and Mr Steinepreis were granted/acquired in their capacity as shareholders, not as equity based remuneration, refer Note 14(d) for terms and conditions.
- (2) During the financial year 133,333 options were exercised by Dr Colin Hort for 133,333 ordinary shares in Imugene Limited. The exercise price of each option was \$0.1125. No amounts remain unpaid on the options exercised during the financial year at year end.

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

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DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

(c) Performance Option holdings and transactions

Options exercisable @ \$0.225 each on or before 31 October 2007 (see Note 14(e) for terms and conditions)	Held at 1 July 2003	Granted as remuneration	Exercised	Other changes	Held at 30 June 2004	Vested and exercisable at 30 June 2004
Specified Directors						
Mr Graham Dowland	—	—	—	—	—	—
Dr Warwick Lamb	—	—	—	—	—	—
Mr Roger Steinepreis	—	—	—	—	—	—
Specified Executives						
Dr Colin Hort	133,333	—	—	—	133,333	133,333
Dr Michael Sheppard	250,000	—	—	—	250,000	250,000

(d) Executive Performance Option holdings and transactions

Options exercisable @ various prices on or before 31 December 2006 (see Note 14(g) for terms and conditions)	Held at 1 July 2003	Granted as remuneration	Exercised	Other changes	Held at 30 June 2004	Vested and exercisable at 30 June 2004
Specified Directors						
Mr Graham Dowland	—	2,500,000	—	—	2,500,000	1,250,000
Dr Warwick Lamb	—	2,500,000	—	—	2,500,000	1,250,000
Mr Roger Steinepreis	—	—	—	—	—	—
Specified Executives						
Dr Colin Hort	—	—	—	—	—	—
Dr Michael Sheppard	—	1,000,000	—	—	1,000,000	500,000

(e) Equity holdings and transactions

Ordinary fully paid shares	Held at 1 July 2003	Purchases	Received on exercise of options	Sales	Held at 30 June 2004
Specified Directors					
Mr Graham Dowland	6,766,668	—	—	—	6,766,668
Dr Warwick Lamb	6,353,334	—	—	—	6,353,334
Mr Roger Steinepreis	5,202,937	—	—	2,000,000	3,202,937
Specified Executives					
Dr Colin Hort	22,403	—	133,333	45,000	110,736
Dr Michael Sheppard	—	90,500	—	—	90,500

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

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DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

(f) Other transactions

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 2004, the Company paid \$34,461 (2003: \$94,668) 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 2004, the Company paid \$36,000 (2003: \$30,000) to Vetspec Pty Ltd and this has been recognised in the financial statements as an expense.

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EQUITY-BASED REMUNERATION

(a) Movements in equity based compensation during the financial year

	30 June 2004			30 June 2003		
	Options (1)	Perf Options (2)	Exec Perf Options (3)	Options (1)	Perf Options (2)	Exec Perf Options (3)
Held by executives as at the beginning of the year (Note 20(b))	266,667	383,333	—	—	—	—
Granted during the year (Note 20(c))	—	—	6,000,000	266,667	383,333	—
Exercised during the year (Note 20(d))	(133,333)	—	—	—	—	—
Lapsed during the year (Note 20(e))	—	—	—	—	—	—
Held by executives at the end of the year (Note 20(f))	133,334	383,333	6,000,000	266,667	383,333	—

(1) Refer Note 14(d) for terms and conditions

(2) Refer Note 14(e) for terms and conditions

(3) Refer Note 14(g) for terms and conditions

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

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EQUITY-BASED REMUNERATION CONTINUED

(b) Balance at the beginning of the financial year

Options	Number	Grant Date	Expiry/ Exercise Date	Exercise Price \$
2004				
Options ⁽¹⁾	266,667	26 Mar 03	31 Dec 04	0.1125
	266,667			
Performance Options ⁽²⁾				
- Vested 1 Dec 03	191,666	26 Mar 03	31 Oct 07	0.2250
- Vested 1 Dec 04	191,667	26 Mar 03	31 Oct 07	0.2250
	383,333			
Executive Performance Options ⁽³⁾				
- Vested 31 Dec 03	—	—	—	—
- Vested 1 Jul 04	—	—	—	—
- Vested 1 Jul 05	—	—	—	—
	—			

(1) Refer Note 14(d) for terms and conditions

(2) Refer Note 14(e) for terms and conditions

(3) Refer Note 14(g) for terms and conditions

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

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EQUITY-BASED REMUNERATION CONTINUED

(c) Granted during the financial year

Options	Number	Grant Date	Expiry/ Exercise Date	Exercise Price \$	Fair Value Received \$
Options ⁽¹⁾	—	—	—	—	—
	—				
Performance Options ⁽²⁾					
- Vested 1 Dec 03	—	—	—	—	—
- Vested 1 Dec 04	—	—	—	—	—
	—				
Executive Performance Options ⁽³⁾					
- Vested 31 Dec 03	3,000,000	27 Nov 03	31 Dec 06	0.3000	—
- Vested 1 Jul 04	1,500,000	27 Nov 03	31 Dec 06	0.2500	—
- Vested 1 Jul 05	1,500,000	27 Nov 03	31 Dec 06	Note 14(g)(c)	—
	6,000,000				
2003					
Options ⁽¹⁾	267,667	26 Mar 03	31 Dec 04	0.1125	—
	267,667				
Performance Options ⁽²⁾					
- Vested 1 Dec 03	191,666	26 Mar 03	31 Oct 07	0.2250	—
- Vested 1 Dec 04	191,667	26 Mar 03	31 Oct 07	0.2250	—
	383,333				
Executive Performance Options ⁽³⁾					
- Vested 31 Dec 03	—	—	—	—	—
- Vested 1 Jul 04	—	—	—	—	—
- Vested 1 Jul 05	—	—	—	—	—
	—				

(1) Refer Note 14(d) for terms and conditions

(2) Refer Note 14(e) for terms and conditions

(3) Refer Note 14(g) for terms and conditions

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

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EQUITY-BASED REMUNERATION CONTINUED

(d) Exercised during the financial year

Options	Number	Grant Date	Exercise Date	Expiry Date	Exercise Price	Number of Shares issued	Fair Value Received	Fair Value of Shares at Date of issue
					\$		\$	\$
2004								
Options ⁽¹⁾	133,333	26 Mar 03	8 Oct 03	31 Dec 04	0.1125	133,333	15,000	38,000
	133,333					133,333	15,000	38,000
Performance Options ⁽²⁾								
- Vested 1 Dec 03	—	—	—	—	—	—	—	—
- Vested 1 Dec 04	—	—	—	—	—	—	—	—
	—					—	—	—
Executive Performance Options ⁽³⁾								
- Vested 31 Dec 03	—	—	—	—	—	—	—	—
- Vested 1 Jul 04	—	—	—	—	—	—	—	—
- Vested 1 Jul 05	—	—	—	—	—	—	—	—
	—					—	—	—
2003								
Options ⁽¹⁾	—	—	—	—	—	—	—	—
	—					—	—	—
Performance Options ⁽²⁾								
- Vested 1 Dec 03	—	—	—	—	—	—	—	—
- Vested 1 Dec 04	—	—	—	—	—	—	—	—
	—					—	—	—
Executive Performance Options ⁽³⁾								
- Vested 31 Dec 03	—	—	—	—	—	—	—	—
- Vested 1 Jul 04	—	—	—	—	—	—	—	—
- Vested 1 Jul 05	—	—	—	—	—	—	—	—
	—					—	—	—

(1) Refer Note 14(d) for terms and conditions

(2) Refer Note 14(e) for terms and conditions

(3) Refer Note 14(g) for terms and conditions

Fair value of consideration received is measured as the nominal value of cash receipts on conversion. The fair value of shares at the date of their issue is measured as the market value at close of trade on the date of their issue.

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EQUITY-BASED REMUNERATION CONTINUED

(e) Lapsed during the financial year

The following equity based instruments issued to employees have lapsed during the financial year:

Options	Number 2004	Number 2003
Options ⁽¹⁾	—	—
Performance Options ⁽²⁾		
- Vested 1 Dec 03	—	—
- Vested 1 Dec 04	—	—
Executive Performance Options ⁽³⁾		
- Vested 31 Dec 03	—	—
- Vested 1 Jul 04	—	—
- Vested 1 Jul 05	—	—

(1) Refer Note 14(d) for terms and conditions

(2) Refer Note 14(e) for terms and conditions

(3) Refer Note 14(g) for terms and conditions

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

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EQUITY-BASED REMUNERATION CONTINUED

(f) Balance at end of the financial year:

Options	Number	Number Vested	Number Unvested	Grant Date	Expiry Date	Exercise Price \$
2004						
Options ⁽¹⁾	133,334	133,334	—	26 Mar 03	31 Dec 04	0.1125
	133,334	133,334	—			
Performance Options ⁽²⁾						
- Vested 1 Dec 03	191,666	191,666	—	26 Mar 03	31 Oct 07	0.2250
- Vested 1 Dec 04	191,667	191,667	—	26 Mar 03	31 Oct 07	0.2250
	383,333	383,333	—			
Executive Performance Options ⁽³⁾						
- Vested 31 Dec 03	3,000,000	3,000,000	—	27 Nov 03	31 Dec 06	0.3000
- Vested 1 Jul 04	1,500,000	—	1,500,000	27 Nov 03	31 Dec 06	0.2500
- Vested 1 Jul 05	1,500,000	—	1,500,000	27 Nov 03	31 Dec 06	Note 14(g)(c)
	6,000,000	3,000,000	3,000,000			
2003						
Options ⁽¹⁾	266,667	266,667	—	26 Mar 03	31 Dec 04	0.1125
	266,667	266,667	—			
Performance Options ⁽²⁾						
- Vested 1 Dec 03	191,666	191,666	—	26 Mar 03	31 Oct 07	0.2250
- Vested 1 Dec 04	191,667	—	191,667	26 Mar 03	31 Oct 07	0.2250
	383,333	191,666	191,667			
Executive Performance Options ⁽³⁾						
- Vested 31 Dec 03	—	—	—	—	—	—
- Vested 1 Jul 04	—	—	—	—	—	—
- Vested 1 Jul 05	—	—	—	—	—	—
	—	—	—			

(1) Refer Note 14(d) for terms and conditions

(2) Refer Note 14(e) for terms and conditions

(3) Refer Note 14(g) for terms and conditions

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EQUITY-BASED REMUNERATION CONTINUED

The difference between the total market value of options issued during a financial year, at the date of issue, and the total amount received from executives and employees is not recognised in the financial statements except for the purposes of determining directors' and executives' remuneration in respect of that financial year as disclosed in Note 19 to the financial statements. The amounts are disclosed in remuneration in respect of the financial years over which the entitlement was earned.

Consideration received on the exercise of equity-based remuneration is recognised in contributed equity. During the financial year \$15,000 (2003: nil) was recognised in contributed equity arising from the exercise of equity-based remuneration.

Options exercisable at \$0.1125 held by Mr Dowland, Dr Lamb and Mr Steinepreis were granted/acquired in their capacity as shareholders, not as equity based remuneration.

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	Consolidated		Imugene	
	2004	2003	2004	2003
	\$	\$	\$	\$

REMUNERATION OF AUDITORS

Amounts received or due and receivable by auditors of the parent entity for:

- an audit or review of the financial reports of the entity and any other entity in the Consolidated Entity	19,500	11,000	19,500	11,000
- other services in relation to the entity and any other entity in the Consolidated Entity	—	8,000	—	8,000
Total Auditors' Remuneration	19,500	19,000	19,500	19,000

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

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SEGMENT INFORMATION

Business Segment	Animal Health		VosTech		Other		Consolidated	
	2004 \$	2003 \$	2004 \$	2003 \$	2004 \$	2003 \$	2004 \$	2003 \$
Operating revenue								
Licence fees from outside of the Consolidated Entity	—	503,664	—	—	—	—	—	503,664
Other revenues from outside the Consolidated Entity	43,000	—	—	5,391	—	—	43,000	5,391
Unallocated revenue	—	—	—	—	80,598	29,489	80,598	29,489
Total revenue	43,000	503,664	—	5,391	80,598	29,489	123,598	538,544
Segment result	(2,302,583)	(1,209,608)	—	(286,346)	80,598	—	(2,221,985)	(1,495,954)
Unallocated expenses							(563,644)	(548,164)
Consolidated Entity operating profit							(2,785,629)	(2,044,118)

All assets and liabilities of the Consolidated Entity as at 30 June 2004 and 30 June 2003 formed part of the Animal Health business segment. The Consolidated Entity's business segments only operated in Australia. Acquisitions of assets and related depreciation and amortisation during the year relate solely to the Animal Health segment.

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EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	Consolidated	
	2004 \$	2003 \$
Net loss used in calculating basic and diluted earnings per share	(2,115,675)	(1,345,058)
	Number of Shares 2004	Number of Shares 2003
Weighted average number of ordinary shares used in calculating basic earnings per share	107,719,949	70,381,647
Effect of dilutive securities (see Note 23(a))	—	—
Adjusted weighted average number of ordinary shares used in calculating basic and diluted earnings per share	107,719,949	70,381,647

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EARNINGS PER SHARE CONTINUED

(a) Non dilutive securities

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share:

	Number of securities 2004	Number of securities 2003	Number of potential shares 2004	Number of potential shares 2003
Converting Preference Shares (Note 14(f))	—	8,872	—	14,745,264
Options – 11.25 cents exercise price (Note 14(d))	2,461,485	3,398,277	2,461,485	3,398,277
Options – 22.5 cents exercise price (Note 14(e))	4,633,333	4,633,333	4,633,333	4,633,333
Executive Performance Options (Note 14(g))				
- vested – exercisable @ \$0.30	3,000,000	—	3,000,000	—
- vested 1 July 2004 – exercisable @ \$0.25	1,500,000	—	1,500,000	—
- not vested – exercisable @ other	1,500,000	—	1,500,000	—

(b) Conversions, calls, subscriptions or issues after 30 June 2004

There have been no conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report.

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

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	Consolidated		Imugene	
	2004 \$	2003 \$	2004 \$	2003 \$
STATEMENTS OF CASH FLOWS				
(a) Reconciliation of Net Loss to Net Cash Outflow from Operating Activities				
Net loss	(2,115,675)	(2,044,118)	(2,759,026)	(727,559)
Loss/(profit) on disposal of non-current assets	—	(5,391)	—	(5,391)
Depreciation and amortisation	348,594	132,228	7,575	3,877
Provision for employee entitlements	22,422	10,264	22,422	10,264
Provision for diminution in property, plant & equipment	—	18,582	—	18,582
Provision for diminution in investments	—	54,273	2,200,000	54,273
Provision for write-down of research and development investments	475,496	—	—	—
Net assets (liabilities) acquired from purchase of controlled entity	—	33,522	—	—
Change in operating assets and liabilities, net of effects from purchase/sale of controlled entities:				
(Increase)/decrease in other assets	(341,924)	(44,927)	(548,336)	(5,495)
(Increase)/decrease in receivables	—	43,755	(442,762)	(182,316)
(Decrease)/increase in payables	92,085	404,643	268,948	216,917
Net cash outflow from operating activities	(1,519,002)	(1,397,169)	(1,251,179)	(616,848)
(b) Reconciliation of Cash Assets				
Cash at bank and on hand	962,743	2,617,829	775,121	2,229,530

(c) Credit Standby Arrangements with Banks

At balance date, the Consolidated Entity had no used or unused financing facilities.

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Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

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STATEMENTS OF CASH FLOWS CONTINUED

(d) Non Cash Flow Items – Acquisition of Controlled Entities

Initial Acquisition of Brightsun Investments Pty Ltd – Prior Financial Year Transaction

On 30 August 2002, the Company acquired a 100% interest in Brightsun Investments Pty Ltd, an unlisted Australian company that holds a 40% controlling interest in VectoGen Pty Ltd and a 23% interest in Paragen Pty Ltd ("Brightsun Group"). Both VectoGen and Paragen are companies involved in the research and development of animal health products.

	\$
Consideration	
- Shares issued	1,600,000
- Cash paid	1,010,293
	2,610,293
Net assets of Brightsun Investments Pty Ltd at acquisition date	
Cash	980,123
Other financial assets	241,195
Other	37,941
	1,259,259
Payables	(288,590)
Fair value of net assets	970,669
Outside equity interest in net assets	(585,578)
Parent interest in net assets	385,091
Goodwill arising on acquisition	2,225,202
	2,610,293
Net cash effect – 30 August 2002	
Cash consideration paid	1,010,293
Cash included in net assets acquired	(980,123)
Cash paid for purchase of controlled entity as reflected in the consolidated financial report	30,170

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

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STATEMENTS OF CASH FLOWS CONTINUED

Increase in shareholding of VectoGen Pty Ltd to 100% - Prior Financial Year Transaction

During the period 1 April 2003 to 23 June 2003, Imugene exercised an option over unissued ordinary shares in VectoGen Pty Ltd and also acquired all outside equity interests in ordinary shares issued by VectoGen Pty Ltd.

	Value of Consideration \$	Share of net assets acquired \$	Goodwill at cost \$
Consideration			
- Shares issued	2,777,520	(13,420)	2,764,100
- Cash paid (transaction costs)	5,835	—	5,835
- Cash paid (exercise of option)	200,010	(80,004)	120,006
			2,889,941
Goodwill upon initial acquisition			2,225,202
Total goodwill on acquisition			5,115,143

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Conversion of Converting Preference Shares – Current Financial Year Transaction

On 24 June 2004, 8,872 Converting Preference Shares (CPS) issued as part consideration for the acquisition of VectoGen Pty Ltd automatically converted into ordinary shares upon the market capitalisation milestone not being met by 23 June 2004.

	Value of Consideration \$	Share of net assets acquired \$	Goodwill at cost \$
Goodwill arising upon previous acquisitions	—	—	5,115,143
Conversion of CPS			
- Shares issued	1,952	—	1,952
Total goodwill on acquisition (Note 10)			5,117,095

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

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FINANCIAL INSTRUMENTS

(a) Interest Rate Risk Exposure

The Consolidated Entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below:

	Note	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Maturing 1 year or Less	From 1 to 5 Years	Non- interest Bearing	Total
			\$	\$	\$	\$	\$
2004							
Financial Assets							
Cash and deposits	24	4.9%	962,743	—	—	—	962,743
Tax assets	6		—	—	—	311,401	311,401
Other	7		—	—	—	75,450	75,450
Other financial assets	8		—	—	—	—	—
Total Financial Assets			962,743	—	—	386,851	1,349,594
Financial Liabilities							
Payables	11		—	—	—	551,608	551,608
Total Financial Liabilities			—	—	—	551,608	551,608
Net Financial Assets/(Liabilities)			962,743	—	—	(164,757)	797,986
2003							
Financial Assets							
Cash and deposits	24	4.7%	2,617,829	—	—	—	2,617,829
Other	7		—	—	—	44,927	44,927
Other financial assets	8		—	—	—	475,496	475,496
Total Financial Assets			2,617,829	—	—	520,423	3,138,252
Financial Liabilities							
Payables	11		—	—	—	456,202	456,202
Other	13		—	—	—	234,300	234,300
Total Financial Liabilities			—	—	—	690,502	690,502
Net Financial Assets/(Liabilities)			2,617,829	—	—	(170,079)	2,447,750

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

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FINANCIAL INSTRUMENTS CONTINUED

(b) Net Fair Value of Financial Assets and Liabilities

The net fair value of cash, cash equivalents and non-interest bearing monetary financial assets and financial liabilities approximates their carrying value.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices and approximates carrying value.

(c) Credit Risk Exposure

The credit risk on financial assets of the Consolidated Entity which have been recognised on the statement of financial position is generally the carrying amount. The Consolidated Entity does not have off-balance sheet financial instruments.

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Consolidated		Imugene	
2004	2003	2004	2003
\$	\$	\$	\$

COMMITMENTS FOR EXPENDITURE

(a) Research and Development

Not longer than 1 year	—	607,345	—	—
Longer than 1 year and not longer than 5 years	—	—	—	—
Longer than 5 years	—	—	—	—
	—	607,345	—	—

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SUBSEQUENT EVENTS

No event has arisen since 30 June 2004 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.

Notes to and forming part of the Financial Statements

for the financial year ended 30 June 2004

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CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Australian Accounting Standards Board is adopting the Standards of the International Accounting Standards Board for application to reporting periods beginning on or after 1 January 2005. Accounting standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' prescribes transitional provisions for first-time adopters.

AASB 1047 'Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards' requires financial reports to disclose information about the impacts of any changes in accounting policies in the transition period leading up to the adoption date and will apply for June 2004 reporting.

The Company has allocated internal resources and in conjunction with its auditors is assessing those accounting policies and key areas that are likely to be impacted by the transition to International Financial Reporting Standards (IFRS). As the Company has a 30 June year-end, priority has been given to the consideration of the impact of the Australian equivalents to the IFRS and the preparation of a balance sheet in accordance with those Australian equivalent standards as at 30 June 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when the Company prepares its first fully IFRS compliant report for the year ended 30 June 2006. As required by AASB 1047, the key accounting policies which will change and may have an impact on the financial report of the Company are set out below.

Goodwill

Under AASB 3 "Business Combinations" and AASB 128 "Investments in Associates", goodwill acquired on a business combination or in acquiring an investment in an associate company will no longer be able to be amortised, but instead will be subject to annual impairment testing. Under the new policy, amortisation will no longer be charged and if there is any impairment, it will be recognised immediately through the statement of financial performance.

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Intangible assets

Under AASB 138 "Intangible Assets", intangibles acquired in a business combination and which have finite useful lives must be amortised over their useful lives. Internally generated goodwill, brands, costs related to research activities and items similar in substance may not be recognised as assets. All expenditure on research must be expensed when it is incurred.

Share based payments

The Consolidated Entity currently does not recognise an expense for options issued to directors and staff. Under AASB 2 "Share Based Payments", the Company will be required to recognise an expense for all share based remuneration, including options, and will amortise those expenses over the relevant vesting periods.

Income Tax

The Consolidated Entity currently recognises deferred taxes by accounting for the differences between accounting profits and taxable income, which give rise to 'permanent' and 'timing' differences. Under A-IFRS, deferred taxes are measured by reference to the 'temporary differences' determined as the difference between the carrying amount and the tax base of assets and liabilities recognised in the balance sheet. Because A-IFRS has a wider scope than the Consolidated Entity's current accounting policies, it is likely that the amount of deferred taxes recognised in the balance sheet will increase. In particular, significant increases in deferred tax liabilities are anticipated in relation to deferred taxes associated with fair value adjustments and intangibles arising in relation to pre-transition business combinations, and investments in associates.

The Consolidated Entity also has carried forward tax losses which have not been recognised as deferred tax assets as they do not satisfy the 'virtually certain' criteria under current GAAP (see Note 5(b)). Under A-IFRS, it may be easier to recognise these tax losses as deferred tax assets as they are recognised based on a 'probable' recognition criteria. The impact of this difference may be to increase deferred tax assets and opening retained earnings, and result in a higher level of recognised deferred tax assets on a go-forward basis. Adjustments to the recognised amounts of deferred taxes will also result as a consequence of adjustments to the carrying amounts of assets and liabilities resulting from the adoption of other A-IFRS. The likely impact of these changes on deferred tax balances has not currently been determined.

CONVERGENCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS CONTINUED

Impairment of Assets

Under AASB 136 "Impairment of Assets" the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change to the Company's current accounting policy which determines recoverable amount of an asset on the basis of discounted (undiscounted) cash flows.

Financial Instruments

Under AASB 139 "Financial Instruments: Recognition and Measurement" financial instruments will be required to be classified into five categories and to be measured based on the nature of the classification. The five categories and basis of measurement are:

- Financial asset or financial liability measured at fair value through the profit and loss
- Held to maturity investments measured at amortised cost, subject to impairment
- Loans and receivables measured at amortised cost, subject to impairment
- Available for sale assets measured at fair value with changes in fair value measured directly in equity
- Financial liability measured at amortised cost

This will result in a change in the current accounting policy that does not classify financial instruments.

Directors' Declaration

The directors declare that:

- (a) the attached financial statements and notes thereto comply with Accounting Standards;
- (b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the Company and the Consolidated Entity;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001; and
- (d) in the directors' opinion, there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors as required by section 295(5) of the Corporations Act 2001.

On behalf of the Directors

GRAHAM DOWLAND
Executive Chairman

Perth, 30 August 2004

Independent Audit Report

to the members of Imugene Limited

Deloitte.

Deloitte Touche Tohmatsu
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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF IMUGENE LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cashflows, accompanying notes to the financial statements, and the directors' declaration for both Imugene Limited (the company) and the consolidated entity, for the financial year ended 30 June 2004 as set out on pages 31 to 71. 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.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting 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 in order to express an opinion on it 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. 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 the Corporations Act 2001 and Accounting Standards and other mandatory professional reporting requirements in Australia 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 and their cash flows.

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

The liability of Deloitte Touche Tohmatsu, is limited by , and to the extent of, the Accountants' Scheme under the Professional Standards Act 1994 (NSW).

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.

The liability of Deloitte Touche Tohmatsu, is limited by, and to the extent of, the Accountants' Scheme under the Professional Standards Act 1994 (NSW).

Member of
Deloitte Touche Tohmatsu

Independent Audit Report

to the members of Imugene Limited

Independence

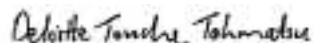
In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit Opinion

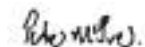
In our opinion, the financial report of Imugene Limited is in accordance with:

- (a) 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 2004 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
- (b) other mandatory professional reporting requirements in Australia.

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DELOITTE TOUCHE TOHMATSU



PETER McIVER
Partner
Chartered Accountants

Perth, WA, 30 August 2004

Additional Information

The shareholder information set out below was applicable as at 30 September 2004.

1. TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest holders of each class of listed securities are listed below:

Ordinary Shares

Name	No. of Ordinary Shares Held	Percentage of Issued Shares
Dr Warwick Lamb	6,353,334	5.87
Mrs Treffina Dowland	4,915,000	4.54
Equifast Nominees Pty Ltd	3,559,627	3.29
Blueknight Corporation Pty Ltd	3,202,937	2.96
Cogent Nominees Pty Ltd	2,760,465	2.55
Merrill Lynch (Australia) Nominees Ltd	2,630,512	2.43
McRae Investments Pty Ltd	2,471,666	2.28
Techstart Australia Pty Ltd	2,387,738	2.20
Walker Corporation Pty Ltd	1,900,000	1.75
RBC Global Services Australia Nominees	1,725,372	1.59
Eurasia Pty Ltd	1,666,667	1.54
Greenfield Company Limited	1,300,000	1.20
Huntley Investment Company Limited	1,100,000	1.02
Wainford Holdings Ltd	1,000,000	0.92
Lost Ark Nominees Pty Ltd	990,650	0.91
Lost Ark Nominees Pty Ltd < Mya Super A/C>	900,000	0.83
Equity Trustees Limited	800,000	0.74
CSFB Fourth Nominees Pty Ltd	700,000	0.65
Clodene Pty Ltd	683,333	0.63
MHGD Pty Ltd	620,000	0.57
Total Top 20	41,667,301	38.47
Others	66,650,779	61.53
Total Ordinary Shares on Issue	108,318,080	100

Additional Information

2. DISTRIBUTION OF EQUITY SECURITIES

(a) Analysis of security by size of holding – number of security holders

	Ordinary Shares
1 – 1,000	686
1,001 – 5,000	440
5,001 – 10,000	551
10,001 – 100,000	860
100,001 – and over	144
	2,681

(b) Analysis of security by size of holding – number of securities held

	Ordinary Shares
1 – 1,000	197,683
1,001 – 5,000	1,485,320
5,001 – 10,000	4,285,304
10,001 – 100,000	29,977,799
100,001 – and over	72,371,974
	108,318,080

3. SUBSTANTIAL SHAREHOLDERS

The following details appear in the company's register as at 30 September 2004:

Substantial Shareholder	Ordinary Shares
Dr Warwick Lamb	6,353,334
Mrs Treffina Dowland	6,686,667

Additional Information

4. UNQUOTED SECURITIES

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

Options- Exercise Price of \$0.1125 and Expiry Date of 31 December 2004

Blueknight Corporation Pty Ltd	1,060,741
Lost Ark Nominees Pty Ltd <D1 A/C>	1,060,741
5 other holders (each less than 20% holding)	140,003
TOTAL	2,261,485

Performance Options- Exercise Price of \$0.225 and Expiry Date of 31 October 2007

Lost Ark Nominees Pty Ltd <D1 A/C>	1,079,851
11 other holders (each less than 20% holding)	3,553,482
TOTAL	4,633,333

Executive Performance Options - See Note 14(g) of the Notes to the Financial Statements

Mr Graham Dowland	2,500,000
Dr Warwick Lamb	2,500,000
Dr Michael Sheppard	1,000,000
TOTAL	6,000,000

5. VOTING RIGHTS

See Note 13 of the Notes to the Financial Statements.

6. ON-MARKET BUY BACK

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

IMUGENE

LIMITED



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