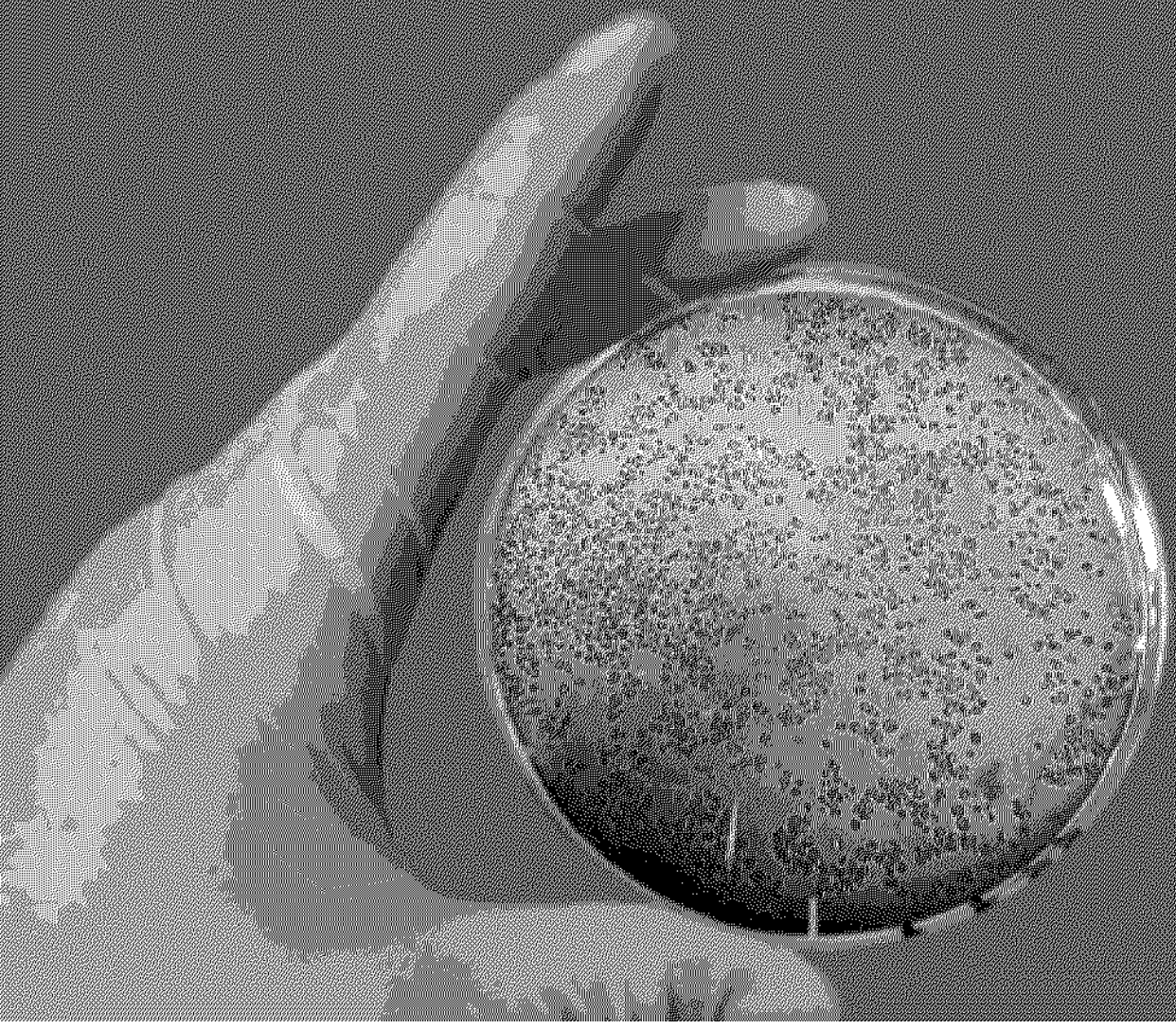
IMUGENE

LIMITED

IMUGENE LIMITED ANNUAL REPORT 2006

» Biological methods for animal health & disease control «



CONTENTS

2006 HIGHLIGHTS

- **FOCUS** on development of lead products selected for commercialisation.
  - > Poultry Productivity Enhancer (Merial sub-license partner) – Progressed in product development phase
  - > Poultry Coccidoisis Vaccine (Teva/Abic Collaboration) – Construction of vaccine candidates completed
  - > Poultry Avian Influenza (Bird Flu) Vaccine – Progressed to trialing phase
  - > PAV-PRRS Pig Vaccine – Progressed to overseas animal trialing phase

- **COMPLETION** of several Australian safety trials for the advanced poultry product, the Poultry Productivity Enhancer. This product, under worldwide sublicense to Merial continues to progress toward commercial release.

- **SUCCESSFUL** laboratory construction of :
  - > Two new Avian Influenza (Bird Flu) vaccine candidates for:
    - Broiler bird market
    - Breeder bird and Egg Layer bird markets
  - > Coccidiosis vaccines constructed for Abic Biological Laboratories, the veterinary products division of Teva Pharmaceutical Industries Ltd

  These vaccine candidates are all fully laboratory tested and have passed through all quality controls – now progressing to animal trials.

- **SUCCESSFUL** resolution of the Pig Patent Interference in the US resulting in a stronger IP position and improved financial terms.

- **NEW PATENT** for pig vaccine vector filed to further strengthen and expand commercial potential.

- **GRANTING** of the European patent for Imugene's poultry platform technology. Poultry patents now granted in US and Europe - the world's major commercial poultry producing regions.

- **SIGNIFICANTLY INCREASED** rate of scientific progress at Imugene's newly established research laboratory at La Trobe University.

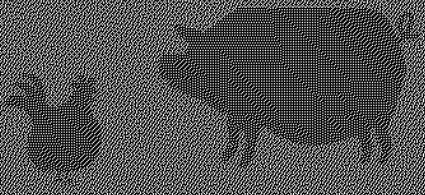
IMUGENE LIMITED

IMUGENE SPECIALISES IN COMMERCIALISING ANIMAL HEALTH PRODUCTS FOR PRODUCTION ANIMALS INCLUDING PIGS AND POULTRY.

IMUGENE OWNS THE WORLDWIDE RIGHTS TO THE FOWL ADENOVIRAL VECTOR DELIVERY SYSTEM FOR POULTRY AND THE PORCINE ADENOVIRAL VECTOR DELIVERY SYSTEM FOR PIGS. IMUGENE HAS SUCCESSFULLY LICENSED THE FIRST PRODUCT BASED ON THE FOWL ADENOVIRAL VECTOR DELIVERY SYSTEM – THE POULTRY PRODUCTIVITY ENHANCER.

IMUGENE'S POULTRY AND PIG PORTFOLIO IS TARGETING A WORLDWIDE US$3 BILLION ANNUAL MARKET WITH FOUR LEAD VACCINE PRODUCTS UNDER DEVELOPMENT AND A STRONG PRODUCT PIPELINE. CONSUMER DEMANDS FOR DISEASE FREE AND RESIDUE FREE FOOD WILL BOLSTER IMUGENE'S PROSPECTS.

IMUGENE'S PRODUCTS SAFELY PREVENT DISEASE AND REDUCE OR ELIMINATE ANTIBIOTICS AND HARMFUL CHEMICALS IN ANIMALS. ANIMAL ANTIBIOTICS AND CHEMICALS IN THE HUMAN FOOD CHAIN HAVE BEEN LINKED TO THE EMERGENCE OF DANGEROUS RESISTANT BACTERIA IN PEOPLE AND FOOD RESIDUES.



CHAIRMAN'S REPORT

Dear Shareholders,

Imugene continues to significantly advance the commercialisation of products developed from its leading platform technologies, the pig and poultry adenoviral vector delivery systems. With the lead poultry product successfully licensed and collaboration agreements for construction of other vaccines in place, the vector delivery system has continued to attract international interest and validation.

Imugene owns a valuable product portfolio developed from the platform adenoviral vectors and this value continues to increase as scientific, regulatory and other commercial milestones are achieved. The advanced products within this portfolio are enabling us to deliver our ultimate aim – maximum return to shareholders with minimum dilution.

Imugene's objective remains consistent in the focus of both funds and effort on the products nearest to market and those that have the greatest potential to yield the greatest returns to shareholders on the capital invested in their research and development.

Imugene has applied its business strategy consistently over the past year which has increased the capital value of the advanced products with minimal capital outlays. This strategy has meant that only a comparatively low level of cash burn was required to achieve these value increases.

The poultry products have made excellent progress, with several successful trials, construction of new vaccine candidates for the Avian Influenza and Coccidiosis diseases and progression through the OGTR regulatory process in Australia. We have an active period scheduled with trials of our new Bird Flu vaccines and poultry Coccidiosis vaccine to occur in the near future.

The commercialisation of the pig vector products was delayed by the uncertainty created by the patent interference process in the US, the major pig products market in the world. The interference has now been successfully resolved in Imugene's favour, resulting in an improved intellectual property position in the US. With this patent uncertainty resolved, the commercial discussions with potential interested parties have resumed and the pig products research and development has again moved forward.

Recently we resolved not to continue our involvements with the development of the Receptor Mimic Technology and focus our resources on the vector products development.

Your board remains confident of the financial prospects for Imugene. Our advanced products continue to progress through the commercialisation process and we are excited about our new vaccine constructs that are moving into animal trials.

On behalf of the board, I thank you, our shareholders, for your support. I also thank our team of professionals for their dedicated work during the year.

Graham Dowland
Chairman

October 2006

EXECUTIVES' REPORT

POULTRY PRODUCTS

Imugene is working on a range of products in three major areas for the poultry industry:

1. **The Poultry Productivity Enhancer** – designed to boost the immune system by increasing the levels of a natural component of the chickens immune system. The result is improved bird health, better feed conversion and lower costs of production. This product has applications in the Broiler (meat producing birds) market.
2. **Avian Influenza Vaccines** – designed to protect poultry flocks from the H5N1 Avian Influenza virus. Two vaccines are under development with vaccines for the Broiler market and for the Breeder and egg layers markets.
3. **Coccidiosis Vaccines** – designed to provide immunity to flocks from Coccidiosis, a disease that has become the second biggest poultry health product category. The vaccine candidates have been made under contract for Abic Biological Laboratories, the veterinary products division of Teva Pharmaceutical Industries Ltd.

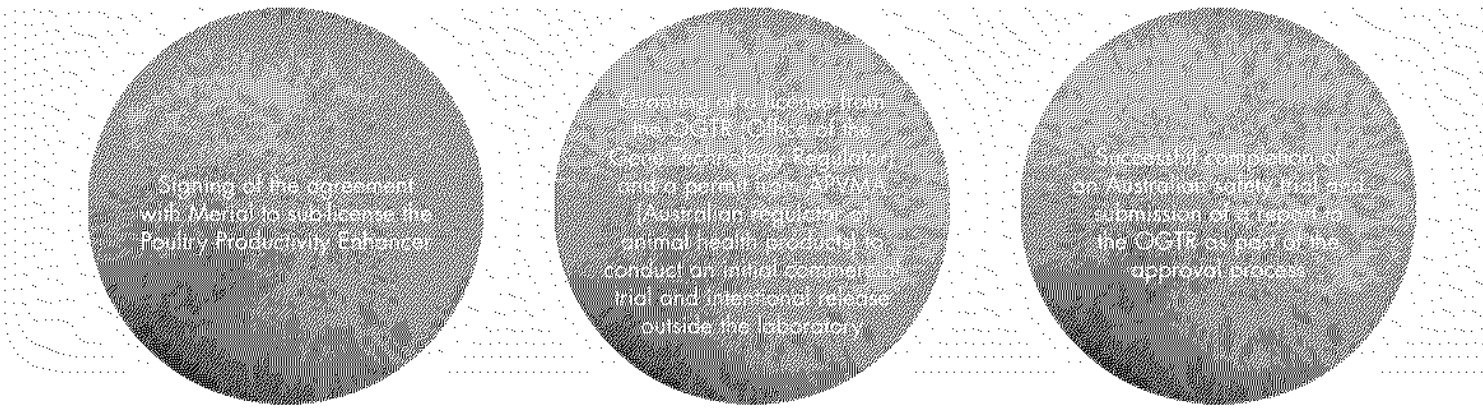
Each of these vaccines use the adenoviral vector delivery technology to deliver specific genetic material to produce the desired immune response in each chicken.

Why is Imugene focused on vaccines for the Poultry Market?

There are over 48 billion broilers (meat producing birds) produced every year world wide. Over half of these birds are intensively reared in large scale commercial sheds. Imugene products target the large market for products to prevent illness and improve productivity on these large commercial farms. Poultry products make up approximately 25% of the global annual spend on animal health products. The majority of expenditure in poultry is on vaccines and drugs to prevent illness and maintain flock health. In the major markets of the US and Europe, annual broiler production is over 15 billion birds. The poultry industry in the first world countries is highly concentrated and vertically integrated. For example, more than 90% of US broiler production is by the top 20 producer companies.

Intensive rearing of tens of thousands of birds in large sheds presents management challenges for producers.

SIGNIFICANT EVENTS THAT OCCURRED DURING THE YEAR INCLUDE:



Over time with production efficiencies and cost reductions, the retail price of chicken meat, in real terms, has reduced. Additionally, profit margins have tightened and the poultry industry in advanced countries is recognised as a very progressive industry that utilises technologies and modern animal husbandry efficiencies extensively to keep unit costs low.

The major factors affecting poultry production margins are:

- feed costs,
- the amount of feed required to produce meat (Food Conversion Ratio - FCR),
- husbandry labour costs including costs of administering disease treatments,
- bird health and survival rates,
- the cost of treatment and preventative medicines,
- regulatory and ethical considerations.

The key to successful intensive broiler production is to maximise bird health and weight gain in the shortest possible time for the least cost.

For many years antibiotics have been the principal prophylactic used to prevent bacterial infections in the intensive poultry rearing countries. Antibiotics are easily and relatively cheaply administered as feed additives, however, their benefits have been on the decline. Moreover, their use as growth promoters is being banned – In Canada and Europe antibiotics are banned from use in feed as growth promotants. In the US, only four antibiotics are approved for use in chicken feed. This regulatory ban, combined with public pressure for chicken meat free of drugs and chemicals, has increased the demand for alternative health enhancing and disease prevention products.

Whist vaccines or chemical treatments do exist for diseases such as Bird Flu and Coccidiosis they have limitations either in efficacy, safety, or cost of administration.

The Imugene vaccines are being developed as a viable alternative of next generation products for these markets. The Imugene vaccines are biological, safe, residue-free, contain no chemicals or antibiotics, can be produced cheaper than antibiotics and are inexpensively administered via water, feed, eggs or aerosol. These attributes are significant advantages for the poultry producer and consumer.

POULTRY PRODUCTIVITY ENHANCER (PPE) VACCINE

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

The PPE, Imugene's most advanced product, improves bird health by boosting the bird's immune system to prevent diseases. This improvement in bird health results in greater weight gains, improved feed conversion and other producer efficiencies.

The product is designed for all intensive producers of broiler chickens. Following extensive efficacy and safety trialing, Imugene granted an exclusive world-wide sub-licence for this product to Merial Limited in October 2005. One of the world's largest animal health products companies, Merial is now responsible for finalising this product's commercial development & obtaining the regulatory approvals necessary to market and distribute the vaccine to producers throughout the world.

Merial is internationally recognised for its expertise and infrastructure in all areas of animal health products – all of which is being applied to finalise the PPE development to maximise its worldwide sales.

The PPE has achieved a significant step towards commercial release in Australia, with the completion of the Office of Gene Technology Regulator (OGTR) required safety trials. These trial results re-confirmed this product's safety with all the regulatory trial design endpoints being easily satisfied.

Background to the Poultry Productivity Enhancer Vaccine

Imugene's Poultry Productivity Enhancer is a patented fowl adenovirus-based vaccine. When administered, a harmless adenovirus infection results in the production of a natural component of the immune system, a cytokine known as gamma interferon. Gamma interferon acts to boost the immune system resulting in increased resistance to a range of bacterial and viral infections. (antibiotics in feed can only be used to treat bacterial infections and have no effect on viral infections). Increased protection against these infections improves growth rates, reduces mortality and improves feed conversion ratios, thereby reducing the cost of production.

Previous clinical trials have demonstrated significant results:

- Finishing weight gains 13.7% better than untreated birds and 15.8% above global industry best practice "Ross Standard".
- Improved feed conversion 11.7% above the Ross Standard and 9.2% better than untreated birds.
- Efficacy regardless of the presence or absence antibiotics in feed.
- Vaccine is safe to poultry and does not infect any other species.
- No residue of the vaccine in treated birds.

Merial Sub-License Deal for the Poultry Productivity Enhancer Vaccine

In October 2005 Imugene and Merial finalised the arrangements for the exclusive sub-license agreement which granted Merial the global rights to develop and sell Imugene's PPE.

Merial is a world leading animal health company and is the joint venture between Merck & Co. and sanofi-aventis. Merial is the widely recognised leader in poultry disease management. Merial provides a comprehensive range of products to enhance the health, well-being and performance of a wide range of animals. Merial employs approximately 5,000 people and operates in more than 150 countries worldwide. Its 2005 sales were in excess of US$1.9 billion. For more information, please see www.merial.com.

Following the execution of the sub-licence, Merial commenced the commercialisation process for the global rollout of the PPE.

Partnering with Merial is ideal – they possess very experienced product development teams, sophisticated sales, marketing and distribution networks and a well established and enviable international presence. In addition, Merial specialises in poultry disease management and in commercialising recombinant viral vaccines.

With these resources and track record, Merial is best placed to rapidly establish a dominant worldwide market position for the Poultry Productivity Enhancer.

While the details of the licence agreement are confidential, Imugene has earned sign up fees in 2005 and 2006 which will be followed by milestone payments based on the product development process and royalty payments on product sales following successful commercialisation. The agreement includes agreed minimum performance requirements and timelines. The licence grants Merial the right to use the Fowl Adenovirus Delivery Vector only for this poultry product and Imugene retains the rights to develop other products from the platform poultry technology.

Safety Trials & Regulatory Approvals

Results from the 2006 PPE trials re-confirmed all safety parameters of the vaccine.

The trials were undertaken to document certain product safety parameters to enable additional regulatory approvals from the Office of Gene Technology Regulator (OGTR) and Australian Pesticides & Veterinary Medicines Association (APVMA).

The safety information generated included studies to detect any possible effects on insects, sparrows starlings and pigeons. These recent studies confirmed the results of prior studies which had indicated no incidental effects.

The initial poultry trial was undertaken in contracted poultry shed trial facilities over 42 days from hatch. A total of 545 chickens (including controls) were divided into 10 groups for the studies. All chickens were fed commercial broiler feed containing antibiotics. Test birds received a range of doses at various times to evaluate dose and timing responses.

The licence to undertake this trial outside full laboratory containment was issued to Imugene after submission of an expansive technical dossier of information and data based on previous laboratory trials. The OGTR concluded that over an extensive range of parameters the Poultry Productivity Enhancer posed no or negligible risk to humans or the environment.

Following completion of the trial, Imugene has commenced preparation of the final submission dossier to the OGTR. Pursuant to an OGTR request, Imugene subsequently conducted one further safety trial to document that the vaccine does not infect pigeons. Imugene is now in the process of applying to the OGTR for full intentional release of the PPE.

Further approvals from the APVMA will be required to allow product sales in Australia. These regulatory approvals focus on the product claims and manufacturing processes. When these approvals are obtained, the Poultry Productivity Enhancer can be sold to commercial growers in Australia.

THE SAFETY ASPECTS OF THE TRIAL ARE SUMMARISED AS FOLLOWS:

1.	Detect the duration of shedding for the vaccine following treatment in chickens	Confirmation of consistent vaccine shedding times shown in previous trials
2.	Detect any spread from treated chickens to untreated chickens in close contact	No spread from treated chickens to untreated chickens in the same pen
3.	Confirm the vaccine does not infect bird species that may be found in close proximity to commercial chickens (sparrows and starlings)	No infection of sparrows or starlings when directly treated with a chicken dose of the vaccine
4.	Confirm other bird species (sparrows and starlings) cannot be infected with the vaccine when housed with treated chickens	No spread to sparrows or starlings housed with treated chickens
5.	Confirm other bird species (sparrows and starlings) cannot be infected with the vaccine when housed outside the shed of treated chickens	A minimum dose at which no significant beneficial effects were seen in chickens
6.	Monitor for any vaccine in the flooring material (litter)	No vaccine in floor litter material
7.	Detect the duration of shedding for the vaccine following treatment in chickens	Confirmation of consistent vaccine shedding times shown in previous trials
8.	Check for any residual vaccine on shed surfaces after normal cleaning	No detectable vaccine on surfaces after normal shed cleaning

POULTRY AVIAN INFLUENZA VACCINES

Introduction

Imugene recently achieved a significant milestone in the Avian Influenza project with the successful completion of laboratory development of the two avian influenza (H5N1 strain Bird Flu) vaccine candidates. These vaccine candidates are now ready for challenge trials in chickens to confirm efficacy in protecting chickens from avian influenza.

Imugene began work in early 2004 on the development of influenza vaccines for chickens using its patented fowl adenovirus (FAV) platform. This was in response to the threat to both poultry and human health from the severe H5N1 strain of the virus that causes "Bird Flu".

Following a period of ineffectual contract research, Imugene earlier this year began developing the Bird Flu vaccine projects at its own facilities. This work expanded the original contract research to focus on developing two Bird Flu vaccine candidates. One vaccine for the broiler bird market and the other for the broiler breeder & egg layer markets. These vaccines require different characteristics to suit each type of bird. Both vaccines utilised synthetic genetic material sourced and produced in Europe.

The two vaccine candidates differ as the commercial requirements for broilers and breeders or layers vary. The primary aim for a commercial Bird Flu vaccine for broilers is to provide immunity early in a bird's life but the protection need only be short term as broiler birds typically reach market weight by 42-49 days of age.

Layer birds and birds used for breeding stock for the broiler market require longer lasting immunity. The vaccine designed for layers and breeders uses two antigens (rather than the single antigen used in the broiler vaccine) to elicit both antibody and cell mediated immunity.

The trial vaccines utilise Imugene's proven Adenoviral Delivery Vector technology to deliver the necessary genetic material to stimulate the birds' immune system to protect against infection with the Bird Flu virus.

The vaccine candidates have now been thoroughly verified by a series of in-house and external in-vitro tests and are proven to be correctly constructed. A pilot trial to test both candidates in a Bird Flu challenge trial using poultry has been designed and negotiations are underway to secure a trial facility and starting date.

Background to the Avian Influenza Disease

The highly pathogenic (H5N1) form of the avian influenza virus remains a major threat to the global chicken industry. As has been evidenced in recent outbreaks, regions of the world have been forced to cull millions of birds, human consumption has reduced and trade restrictions imposed.

Avian influenza is also a major human food safety and health issue. According to the Food and Agriculture Organization (FAO), over 200 million poultry have died or been culled since the end of 2003 as a result of influenza outbreaks. The largest declines have happened in Vietnam and Thailand, with the numbers there equal 15 to 20% of the stock of poultry. The World Bank has reported that in Romania, which has suffered more than 100 outbreaks, domestic poultry sales fell by 80%, with the obvious financial pressure being born by producers.

As of October 2006, the W.H.O. confirmed human avian influenza infection in 252 people with 148 deaths. Concern remains of the potential for further spread among humans and a pandemic infection. In dense human populations, where domestic pigs and wild and domestic birds live in close proximity with people, the mingling and exchange of human and animal viruses and the viral RNA can occur more easily.

IMUGENE RECENTLY ACHIEVED A SIGNIFICANT MILESTONE IN THE AVIAN INFLUENZA PROJECT WITH THE SUCCESSFUL COMPLETION OF LABORATORY DEVELOPMENT OF THE TWO AVIAN INFLUENZA (H5N1 STRAIN BIRD FLU) VACCINE CANDIDATES.

If uncontrolled, this strain has the potential to further mutate and cause a human pandemic. Effective Bird Flu vaccines in chickens are an important part of control measures initiated by governments to limit the spread of this virus spread.

Why is the Imugene Vaccine an important tool to control Avian Influenza?

Imugene's Bird Flu vaccine could be used to protect the world's poultry industry from further avian influenza outbreaks in the regions where the disease is known to exist and halt the spread towards Australia, Europe and the US.

A successful vaccine must be able to be administered quickly and cheaply to millions of birds. The Imugene vaccine under development can be administered to birds through drinking water or by aerosol spray.

To be viable for administration to millions of chickens in markets worldwide, the vaccine must be safe, effective and able to be quickly and easily administered on a large scale. Imugene's vaccine, due to the inherent advantages of the adenoviral vector delivery technology such as the advantage of oral administration in the drinking water, can achieve all of these requirements.

This risks of a human pandemic and its associated costs are substantialy reduced by controlling avian influenza in the poultry industry.

How is the disease currently treated?

In areas of disease outbreak, infected birds are all culled and birds within a 25-100km radius of the infection site are likely to be vaccinated to prevent the spread of the disease. The Bird Flu vaccines currently used in these situations suffer two significant problems.

- they require each bird to be individually injected, thus the labour cost is extremely high. Whilst such costs may be absorbed within the Broiler Breeder or Egg Layer Bird markets, these vaccines are not considered viable for mass producing poultry broiler markets,

and

- most current vaccines impose unacceptable safety risks.

  'Live attenuated' flu virus vaccines pose a high risk of mutating and forming new and possibly more virulent strains of Bird Flu. Compounding the problem with the existing live attenuated vaccines is that during an avian influenza outbreak, diagnostic tests cannot distinguish vaccinated (uninfected) birds from those affected by the disease. The Imugene vaccine delivers only a portion of the flu genetic material instead of the whole virus. This makes the Imugene vaccines safe by preventing mutations or recombination with human flu viruses. Killed virus vaccines require injections, often multiple injections and higher doses to produce protective immunity.

Advantages of the Imugene Vaccine

- Administered orally (via water) or by aerosol.
- Cost effective to manufacture, transport and handle.
- Residue free in animal, extremely safe for humans and animals alike and importantly for the human food chain.
- No genetic modification of the animal.
- Ability to differentiate between infected and vaccinated birds, a vital consideration for the international poultry industry (import and export of chicken products).

  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 translates into the major benefit of allowing countries to undertake a vaccination program to protect whole areas or countries whilst still maintaining surveillance for disease outbreaks and ensuring human safety. As the vaccinated birds can be differentiated from infected birds, export markets are safely protected.
- Easily and quickly adapted to protect against other strains of influenza that may arise.

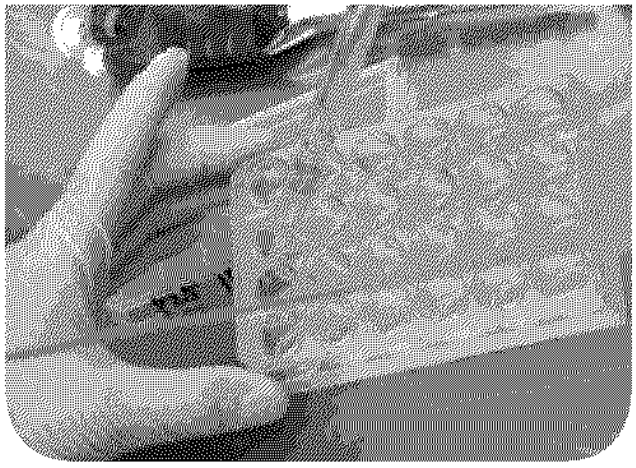
Generation of the New AI Vaccine Candidates

Imugene's initial Bird Flu vaccine candidate made in 2004 was made under contract research utilising fowl adenovirus constructs containing the haemagglutinin (HA) gene from H5N1. However, the HA gene was later found, following an unsuccessful trial, not to be expressed.

Dr Mike Sheppard and his team have engineered two new constructs of HA and NP (nucleoprotein) expression by the constructs. More protein produced from such a promoter means a stronger protective immune response to the vaccine.

Progress in 2006 has been rapid:

1. The generation of a new vaccine construct for the broiler market – requiring fast, rather than long-lasting immunity,
2. The generation of a new vaccine construct for the Broiler Breeder and Egg Layer markets – requiring long lasting immunity,
3. The generation of new constructs each containing the HA (haemagglutinin and the "H" of H5N1) and NP (nucleoprotein) genes,
4. Intensive laboratory testing of these constructs to ensure they produce the protein products of the inserted genes,
5. Initiation of clinical trials aimed at demonstrating vaccine efficacy.



The key differentiating features of these new constructs is protein production and the potential of the vaccines to provide short and long-term immunity for application across the industry (not just broilers).

Following review and assessment of the efficacy clinical trial data, further clinical trials will be conducted to determine the appropriate dosage, timing and route of administration. Trials demonstrating safety for regulatory compliance can be run concurrently.

All of the challenge trials must be undertaken with extreme care due to the danger of working with the H5N1 Bird Flu virus.

	BROILER VACCINE FAV - HA	BREEDER/LAYER VACCINE FAV - HA AND NP
Gene Selection and Synthesis	HA - completed	NP - Completed
Gene insertion into Fowl Adenovirus (FAV)	Completed	Completed
Detection of inserted gene	positive	positive
FAV isolation following gene insertion	positive	positive
Test for correct HA or NP protein production	positive	positive

HA = Haemagglutinin from H5N1 avian influenza NP = Nucleoprotein from H5N1 avian influenza

Testing of the Vaccine Candidates

A series of laboratory-based tests on the Imugene vaccine candidates have determined that the vaccine constructs produce the desired proteins. Each of the vaccine candidates have demonstrated they contain the gene and produce the desired HA and NP proteins. The next step is to test the vaccines in an animal trial where the chickens are vaccinated with the Imugene vaccines and then challenged with the live avian influenza virus to determine if a sufficient immune response is generated to protect the chickens from the effects of the avian influenza virus.

Such challenge trials must be performed in special biological containment facilities. Imugene has identified and requested proposals from a number of biological containment laboratories around the world that can perform such trials.

Market Potential of Avian Influenza Vaccines

With the unique safety and economic advantages offered by Imugene's avian influenza vaccines the drivers of market potential are:

- country by country,
  - mandating vaccination for all chickens,
  - stockpiling of vaccines,
  - surveillance programs,
- disease outbreaks and the need to protect national flocks,
- reduction in the likelihood of transmission to humans by bird vaccination.

Currently, the United States Department of Agriculture maintains a bank of 40 million doses of avian influenza vaccine for use in birds and is currently expanding the bank by another 30 million additional doses. In addition, the European Commission adapted new legislation in December 2005 for vaccination of poultry from farms with confirmed low pathogenic influenza and which is to be implemented by 1 July 2007. Italy, France and The Netherlands are currently vaccinating. The Chinese government announced plans in 2005 to vaccinate all 14 billion of its farm birds. The vaccines to be used in each of these programs have a negative impact on safety, efficacy or producer economics.

POULTRY COCCIDIOSIS VACCINES

Background

In December 2005, Imugene agreed with Abic Biological Laboratories Teva Ltd., (Abic) the animal health division of Israeli-based Teva Pharmaceutical Industries Ltd, to construct a new vaccine for the poultry Coccidiosis prevention market using the fowl adenovirus platform technology.

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

Current treatment for this disease in broilers is through the use of 'Coccidiostats', a range of chemicals that control rather than completely prevent Coccidiosis. Current Coccidiostats are declining in efficacy due to developing resistance. Use of Coccidiostats is also under increasing pressure from regulatory authorities and consumers similar to that seen with in feed antibiotics. Chemical residues are of concern as is the constant emergence of resistant variants.

Vaccine Development Collaboration

Abic is part-funding the vaccine product development study which will combine Imugene's patented adenoviral vector delivery system with patented Coccidia genes supplied and owned by Abic.

A 'non-vectored' sub-unit Coccidia vaccine based on these Abic owned genes is currently sold by Abic for the broiler breeder markets. This sub-unit vaccine is used for the maternal immunisation of their offspring chicks in various countries. The Abic vaccine can only be delivered by injection. Imugene's Vector Delivery System has the potential to allow a successful 'vectored' vaccine to be introduced to the much larger broiler markets by making the vaccine suitable and cost effective for administration to broiler sheds on a large scale.

A 'vectored' vaccine product will be an overwhelming commercial proposition to poultry producers because of its safe and low cost of delivery (via water or areosol) to large poultry populations.

Pursuant to the Abic research contract Imugene was forwarded the two patented Coccidia genes owned by Abic for insertion into the adenoviral vector delivery system to produce a range of vaccine candidates.

The research contract work was recently finalised and Imugene has constructed most of the required versions of the vaccine candidates ready for animal trialling. Laboratory-based confirmation tests have been successfully completed and determined the correct gene insertion.

The Next Steps

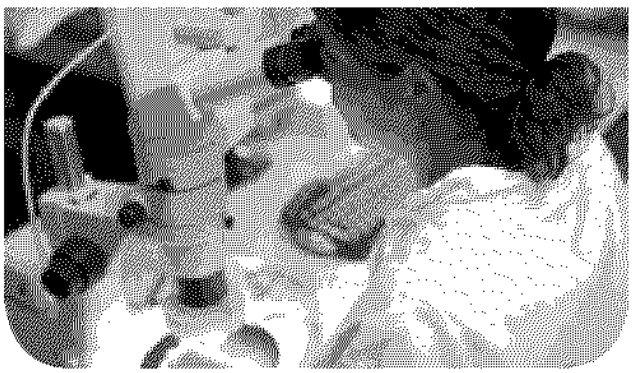
These vaccine candidates are ready for poultry trialling by Abic. The results from these trials will be assessed by both Abic and Imugene and, if successful, the two companies must agree the basis upon which the vaccine is to be commercialised.

Commercialising the Coccidiosis vaccine will require both companies entering into licensing arrangements whereby Abic contributes its patented Coccidia genes and Imugene contributes its adenoviral delivery system. It is likely that Abic will be granted the global rights to distribute this vaccine with Imugene receiving royalty income on sales.

About Abic

Abic is a quality producer of pharmaceuticals and veterinary products. Abic Biological Laboratories is wholly owned by Teva Pharmaceutical Industries Ltd. The veterinary division under the name of Abic has emerged as a major force in the Israeli veterinary market.

Teva Pharmaceutical Industries Ltd, headquartered in Israel, is among the top 20 pharmaceutical companies and among the largest generic pharmaceutical companies in the world. The Company develops, manufactures and markets generic and innovative human pharmaceuticals and active pharmaceutical ingredients. Close to 90% of Teva's sales are in North America and Europe.



About Coccidiosis

The disease is caused by seven different species of Coccidia (genus Eimeria), which are single celled parasites that live in the gut wall of their host. These Coccidia are host-specific: turkeys and other species are not infected by fowl Coccidia and vice-versa. The different species of Coccidia live in different parts of the gut and can be divided into those causing intestinal Coccidiosis (the majority) or caecal Coccidiosis (one species). Apart from causing weight loss and poor feed conversion, the death rate from Coccidian infection in chicks and in adult birds can also be high. The magnitude of the impact of Coccidiosis is such that disease control practices are essential. Current treatment for the disease in broilers is through the use of 'Coccidiostats', a range of chemicals that control rather than completely prevent Coccidiosis.

Market Potential for Imugene 'Vectored' Coccidosis Vaccine

In 2004 in the UK, Coccidiostats accounted for 31% of antimicrobial sale (by tonne) for all food animals. In the USA in 2001, 74% of all producers used some form of Coccidiostat accounting for an increased cost of US$3 per tonne of food.

There are a number of drivers of market need for other Coccidia control measures:

- Coccidiostats only control (not prevent) disease,
- Current Coccidiostats are declining in efficacy due to developing resistance,
- The use of Coccidiostats is under increasing pressure from regulatory authorities and consumers because of chemical residues,
- Coccidiosis has such a dramatic impact on commercial poultry production it is unlikely that poultry industries will be forced to cease Coccidiostat use unless there are effective alternatives.

An effective vaccine is available. The 'non-vectored' sub-unit Coccidia vaccine is currently sold by Abic for the breeder market (1.4 billion birds in 2005). However, it is expensive and laborious to administer this vaccine as it requires injection. As the Imugene vector delivery system vaccine does not require injection, it is ideal for mass administration to many billions of birds via their drinking water or via aerosol using minimal labour. Thus the vaccine can potentially be used in the much larger broiler market.

PIG PRODUCTS

Pork is the world's most widely eaten meat, production in 2005 equalling 92 million tonnes from 1.3 billion animals, currently increasing at 1.37% per annum. As a comparison, beef and veal production was 60 million tonnes. As a nutritional source, pork protein nears the 116 million metric tonnes of wheat that were produced worldwide in 2004. In Australia in 2005, the industry produced 388,434 tonnes of meat, worth $164 million. Some 55% of all slaughter pigs come from the Asia/Pacific region. Increases in pork production are due to the increased pig numbers and slaughter weight – from 67 kg in 1977 to 78 kg on 2005.

THE MOST SIGNIFICANT ADVANCEMENT MADE DURING THE YEAR WAS THE SUCCESSFUL PATENT INTERFERENCE RESOLUTION AND IMPROVEMENT IN IMUGENE'S OVERALL PATENT POSITION IN THE US – THE MAJOR PIG PRODUCTS MARKET.

The favourable resolution of the US patent interference in conjunction with new patents recently filed by Imugene, has significantly improved the commercial position and value of the pig product portfolio. Negotiations have now been renewed to progress the pig vaccine products.

The Imugene vaccines under development for pig diseases address the intensive production markets. The following figures and influences on the pig industry lead Imugene to believe the market size for each of its pig vaccines under development is in the hundreds of millions of dollars.

- 1.3 billion pigs are slaughtered for human consumption each year,
- The US produces the largest number of intensively raised pigs (104 million pa),
- Collectively the European Union produces 20% of the world's total pig production (255 million pigs pa),
- China produces the largest number of pigs but most are raised in non-intensive conditions. As China becomes more industrialised and open, further production is likely to be intensive, leading to consolidation vertical integration and increased market potential for the Imugene products,
- Disease outbreaks in cattle and subsequent trade bans on beef influence pork consumption considerably.

Currently, the total value of the global pig health products market is estimated to be US$4.45 billion per annum, with $1.36 billion being in-feed antibiotics, and "biologics" (vaccines etc) contributing ~$US376 million. Imugene aims to capture part of the in-feed antibiotic and biologics markets. Imugene will also create new markets by providing vaccines for diseases for which effective vaccines are not currently available. These potential new markets are worth several hundred million dollars.

THE MAJOR PORCINE DISEASES –

THE FOCUS OF IMUGENE'S VACCINE DEVELOPMENT

Market Potential of the Imugene Vaccine Delivery System

The Imugene porcine adenoviral delivery vector ("PAV") is perfectly suited to providing an effective and viable treatment for many pig diseases. The PAV is suitable for mass delivery, is safe and can allow differentiation between vaccinated and infected pigs. The market opportunity for effective vaccines is large given the lack of competitors and the absence of effective vaccines for several major pig diseases. Imugene is working to develop products to ensure it is first to market with safe and effective vaccines that can be easily administered. If successful, Imugene would benefit through licensing the PAV delivery vector for global sales of these vaccines.

PORCINE REPRODUCTIVE AND RESPIRATORY SYNDROME (PRRS)

PRRS is one of the most economically important diseases of pigs worldwide causing estimated annual industry losses of up to US$1 billion. Initially recognised in the US in 1987, the disease spread rapidly to Europe in 1990 and subsequently across the rest of the world. Australia is one of three countries considered to be PRRS free. The disease is characterised by abortion, premature farrowing, stillborn and mummified piglets, respiratory disease with loss by death and chronic poor performance of nursing and weaned pigs.

Market Potential of the PRRS Vaccine

There is no current effective treatment for this major viral infection. Vaccines developed to date have suffered from either poor performance or safety problems. Attempted control of PRRS on the farm by management processes have been tedious and labour intensive process and have delivered only limited success. There is a desperate need for an effective vaccine that is easy to administer, safe and that allows vaccinated pigs to be differentiated from infected pigs.

The Imugene PRRS vaccine meets these market needs. Through the use of the Imugene patented adenoviral delivery vector platform technology, the vaccine was successful in its first proof of concept trial. The trial demonstrated the vaccine prevented the disease in vaccinated pigs. As a result of this successful trial, several multinational animal health companies initiated contact with Imugene and will review the existing data for potential licensing opportunities.

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

The PAV-PRRS vaccine with the CMV promoter is ready for testing in pigs. Following the initial successful validation trial, Imugene has concentrated on developing the vaccine using the upgraded and more powerful promoter within the adenoviral delivery vector platform technology. This optimisation has successfully been completed. Development activity for this product is now solely concentrating on the commercialisation and licensing of the PRRS vaccine.

The PAV-PRRS vaccine cannot be adequately tested in Australia for quarantine reasons as the disease does not occur in Australia. Imugene is in discussions with several companies to progress clinical trials in the US and intends to license the vaccine to a major international animal health company for further trials, product development work and worldwide sales.

PIG RESPIRATORY DISEASE – COLLABORATION WITH MERIAL ("PAV-MERIAL")

Imugene is working on developing a pig vaccine candidate using its adenoviral delivery technology together with patented genetic material provided and owned by Merial. The initial vaccine candidate has been trialled in Europe with promising results. The vaccine candidate has since undergone reconstruction to incorporate the new CMV promoter in the platform PAV. Based on updated information about the disease, optimisation of the vaccine candidates is currently underway. The vaccine cannot be adequately tested here in Australia for quarantine reasons.

Further development on the PAV-MERIAL vaccine will include:

- Generation of new optimised constructs containing Merial genes,
- Testing of these constructs.

OTHER PROJECTS

Imugene constantly reviews and assesses external technologies and projects for possible in licensing or acquisition opportunities to compliment our existing products. Our reviews focus on comparing the benefits with the risks – both commercial and technical risks.

Imugene will only advance projects or technology applications that are commercially compelling.

Receptor Mimic Technology (RMT)

During the year Imugene undertook a review of the RMT in light of the results from the three most recently held trials. The Imugene field trials identified areas in which further research was required before the RMT could be considered for progression in a commercial product development program. The principal areas requiring further research relate to the delivery system and dosage rates. As part of our considered review of this portfolio, Imugene has decided to discontinue its involvement with the RMT.

Flea Vaccine Research

Imugene has undertaken an evaluation of the research approaches and techniques that could be employed to screen for potential flea vaccine candidates. This work is of low priority relative to our advanced adenoviral products.

Our initial flea research was undertaken with Murdoch University. Imugene has acquired, for a nominal amount, the remaining equity interest in the special purpose company, Paragen Pty Ltd, established to undertake the research.

NEW LABORATORY FACILITY

In March this year, a new laboratory was opened at La Trobe University for exclusive use of Imugene. The laboratory is fully equipped to enable Imugene to perform all of its vector-based scientific work. The laboratory provides Dr Mike Sheppard (Chief Scientific Officer) and his team direct input and better control of activities to ensure scientific milestones can be met on time and within budget. In the short time since Imugene has occupied the laboratory, major improvements have been made to both the poultry and pig adenovirus vector delivery system.

PATENT STATUS

Imugene's intellectual property position strengthened during the year. The key advances were:

- **Poultry Patent granted in Europe**

  The European granting of the patent to the fowl adenovirus vector. This patent is one of the families of patents licensed to Imugene. This patent has now progressed to National Phase which means the patent is assessed by individual patent offices in Great Britain, Germany, France, Italy, Belgium and the Netherlands.

- **Pig Patent strengthened in the US**

  Imugene successfully resolved the porcine adenovirus (PAV) patent interference in the US during the year.

  As a result, Imugene's intellectual property position in relation to the porcine adenovirus has significantly strengthened. The patent interference resolution will now allow the rapid development of our pig vaccines and has greatly assisted with our commercial negotiations with potential collaboration partners. The US is the largest market for Imugene's pig vaccines and the patent resolution in our favour was commercially very important.

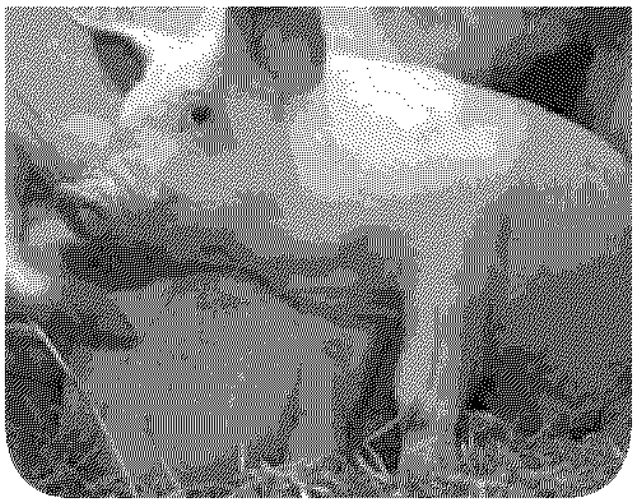
Background to the US Patent Interference Proceedings

During the year Imugene was subjected to an 'Interference Hearing'. This process, managed by the US Patent Office, occurs in certain situations when there is simultaneous application for two or more patents by separate inventive entities directed to the same subject matter. The interference proceeding only affects the US PAV patent application. Irrespective of patent application filing dates, the interference seeks to determine the party which was the "first-to-invent" rather than a "first-to-file". This process can be very time consuming and expensive but ultimately will determine which party will be granted the exclusive rights in the US to the subject matter of the interference.

Imugene secured a favourable resolution to the PAV patent interference process in the US through agreement between the parties. The result being Imugene now owns both parties' intellectual property in the US, allowing Imugene to control and finalise the resolution with the US patent judge.

The resolution is proceeding with an application to the US Patent Office for the re-issue of the existing patent and the issue of the interfering patent application to Imugene. The subject matter of the two patents that led to the interference will be removed from one patent and retained in only one of the patents.

As Imugene now owns both patents in the US, the resolution reinforces Imugene's exclusive rights. The completion process is now under the control of Imugene and our US patent attorneys. Although the terms of the agreements are confidential, Imugene can confirm that the agreed adjusted financial arrangements are equivalent to, or better than, the previous license arrangements.



• Pig Patent Application – scientific improvement applied for in major markets

In July 2006, Imugene submitted a provisional patent to the United States patent office covering additional improvements to the porcine adenovirus vector. The improvements make vaccines made using the porcine adenovirus vector more effective and provide significant further commercial advantages, such as possible dose reduction and reduced frequency of administration. The patent also covers human, cattle, sheep, dog and monkey adenoviruses.

POULTRY ADENOVIRUS PATENT (FAV)

COUNTRY/JURISDICTION	PATENT/APPLICATION NO.	STATUS
United States	6296852	Granted
Australia	676042	Granted
New Zealand	263772	Granted
Europe	94912411.9	Allowed, validation pending in Germany, Great Britain, France, Italy, Belgium, The Netherlands
Japan	6522542	Granted

PIG ADENOVIRUS PATENT (PAV)

COUNTRY/JURISDICTION	PATENT/APPLICATION NO.	STATUS
United States	09/485512	Pending*
United States	6492343	Granted*
New Zealand	503039	Granted
Europe	98938527.3	Pending
Japan	2000-509443	Pending
Vietnam	20000211	Granted
Brazil	98111841	Granted
Canada	98809116X	Pending
Hong Kong	1103506.0	Pending
Indonesia	2000-0491	Granted
Korea	2000-70001486	Pending
Mexico	2000-001562	Pending

**Patent resulting from interference hearing and resolution.*

NOVEL AVIAN CYTOKINES AND GENETIC SEQUENCES ENCODING SAME ('CHICKEN GAMMA INTERFERON') (DERIVED FROM PCT/AU96/00114)

COUNTRY/JURISDICTION	PATENT/APPLICATION NO.	STATUS
United States	6642032 / 6083724	Granted
Australia	689028	Granted
New Zealand	302188	Granted
Europe	2214453	Under prosecution (Office action filed)
Canada	6522542	Under prosecution (Office action filed)
Mexico	976735	Pending (Office action not yet issued)

NEW PAV PATENT APPLICATION

COUNTRY/JURISDICTION	PATENT/APPLICATION NO.	STATUS
United States	60/833985	Submitted as provisional July 28, 2006

DIRECTORS' REPORT
30 JUNE 2006

The directors of Imugene Limited present their report on the Consolidated Entity consisting of Imugene Limited ("the Company" or "Imugene") and the entities it controlled at the end of, or during, the year ended 30 June 2006 ("Consolidated Entity" or "Group").

Directors

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

Mr Graham Dowland
Dr Warwick Lamb
Mr Roger Steinepreis

Each director held their office from 1 July 2005 until the date of this report.

Current directors

Mr Graham Dowland - Executive Chairman
Qualifications - B.Com, CA

Mr Dowland has for the past 18 years, been involved as either a significant shareholder, director or senior consultant / advisor with a number of public companies listed on Stock Exchanges in Australia, Canada and the United Kingdom with operations internationally. These companies have been and continue to be involved in various industries including pharmaceutical research and development – specifically human and animal biotechnology, gold mining and exploration, oil and gas exploration and production, manufacturing, and industrial technology development and marketing.

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

Other Current Directorships of Listed Companies:

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

Former Directorships of Listed Companies in Last 3 years:
None.

Dr Warwick Lamb - Managing Director
Qualifications – BVSc, M Vet Clin Stud, FACVSc

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

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

Other Current Directorships of Listed Companies:
None

Former Directorships of Listed Companies in Last 3 years:
None.

Mr Roger Steinepreis - Non-Executive Director
Qualifications - B.Juris LLB

Roger Steinepreis graduated from the University of Western Australia where he completed his law degree. He was admitted as a barrister and solicitor of the Supreme Court of Western Australia in 1987 and has been practising as a lawyer for approximately 17 years.

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

Other Current Directorships of Listed Companies:

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

Former Directorships of Listed Companies in Last 3 years:

Commoditel Limited (August 2003 – December 2003)

Ottoman Energy Limited (January 2004 – November 2004)

Reward Minerals Limited (June 2002 – June 2002)

Special responsibilities

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

Company Secretary

Mr Alexander Neuling
Qualifications – BSc (Hons) ACA (ICAEW)

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

Principal activities

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

Employees

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

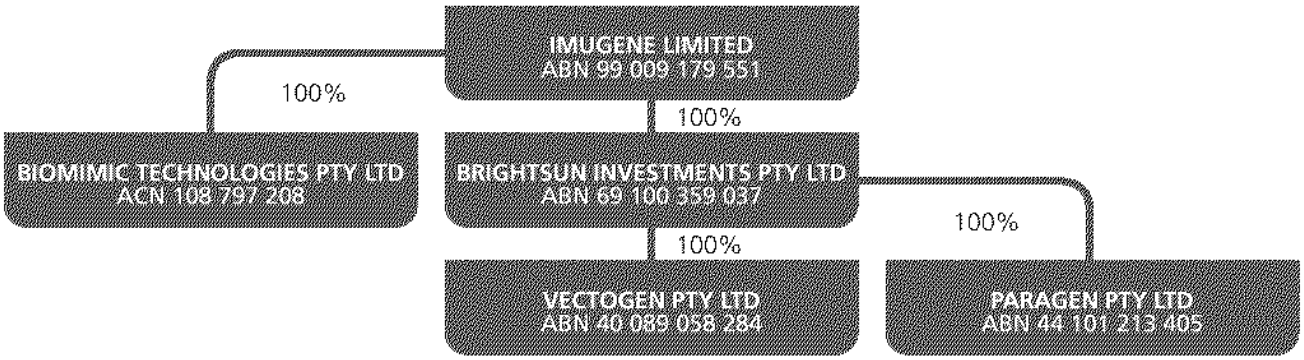
Dividends

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

DIRECTORS' REPORT
30 JUNE 2006 (CONTINUED)

Corporate structure

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



Consolidated results

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

Post balance date events

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

(a) the operations, in financial years subsequent to 30 June 2006, of the Consolidated Entity constituted by Imugene Limited and the entities it controls from time to time;

(b) the results of those operations; or

(c) the state of affairs, in financial years subsequent to 30 June 2006, of the Consolidated Entity.

Significant changes in the state of affairs

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

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

Environmental regulation

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

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

Likely developments

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

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

(b) the expected results of these operations,

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

DIRECTORS' REPORT
30 JUNE 2006 (CONTINUED)

Information on directors' interests in securities of Imugene

	INTEREST IN SECURITIES AT THE DATE OF THIS REPORT	
	FULLY PAID ORDINARY SHARES	EXECUTIVE PERFORMANCE OPTIONS
Graham Dowland	6,790,002	2,500,000
Warwick Lamb	6,400,001	2,500,000
Roger Steinepreis	4,263,678	-

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

Meetings of Directors

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

	NO. ELIGIBLE TO ATTEND	NO. ATTENDED
Full board meetings		
Graham Dowland	5	5
Warwick Lamb	5	5
Roger Steinepreis	5	5
Audit committee meetings		
Graham Dowland	2	2
Warwick Lamb	2	2
Roger Steinepreis	2	2
Remuneration committee meetings		
Graham Dowland	1	1
Warwick Lamb	-	-
Roger Steinepreis	1	1

Share Options

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

DESCRIPTION	ASX CODE	2006 NUMBER	EXERCISE PRICE	EXPIRY
Listed options	IMUO	**4,250,000**	$0.500	31-Jan-07
Unlisted performance options				
	IMUAI	**4,633,333**	$0.225	31-Oct-07
	IMUAY	**2,000,000**	$0.300	31-Dec-06
	IMUAY	**2,000,000**	$0.250	31-Dec-06
	IMUAY	**2,000,000**	$0.250	31-Dec-06
	IMUAK	**200,000**	$0.300	31-Dec-06
	IMUAM	**333,333**	$0.375	31-Oct-07
	IMUAZ	**200,000**	$0.500	31-Jan-07
	IMUAW	**50,000**	$0.300	31-Jan-07
Total		**15,666,666**		

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

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

DIRECTORS' REPORT
30 JUNE 2006 (CONTINUED) - REMUNERATION REPORT

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

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

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

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

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

The objective of the remuneration committee is to ensure that pay and rewards are competitive and appropriate for the results delivered. The charter adopted by the remuneration committee aims to align rewards with achievement of strategic objectives. The remuneration framework applied provides a mixture of fixed and variable pay and a blend of short and long term incentives as appropriate.

Non-executive directors

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

Retirement benefits and allowances

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

Other benefits

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

Executives

Executive pay and reward consists of Base pay, Short term performance incentives, Long term performance incentives and other remuneration such as superannuation. Long term performance incentives to date have comprised options granted at the discretion of the Remuneration Committee in order to align the objectives of executives with shareholders and the Company. Vesting conditions for options granted during the year are linked to periods of service.

- Base pay

Executives are offered a competitive level of base pay which comprises the fixed (unrisked) component of their pay and rewards. Base pay for senior executives is reviewed annually to ensure market competitiveness. There are no guaranteed base pay increases included in any senior executives' contracts.

- Short term incentives

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

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

B. Details of remuneration (audited)

Amounts of remuneration

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

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

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

No remuneration was paid to directors or other Key Management Personnel of the Group by Group companies other than Imugene Limited, accordingly remuneration paid to Key Management Personnel of the Group is the same as that paid to Key Management Personnel of the Company.

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

DIRECTORS' REPORT
30 JUNE 2006 (CONTINUED) - REMUNERATION REPORT

B. Details of remuneration (audited) (continued)

Amounts paid or payable to Key Management Personnel of the Company / Group

	SHORT-TERM BENEFITS			POST-EMPLOYMENT BENEFITS		SHARE-BASED PAYMENT	
2006	CASH SALARY AND FEES $	CASH BONUS $	NON-MONETARY BENEFITS $	SUPER-ANNUATION $	RETIREMENT BENEFITS $	OPTIONS $	TOTAL $
Non-executive directors							
Roger Steinepreis	25,000	-	-	-	-	-	25,000
Sub-Total non-executive directors	**25,000**	**-**	**-**	**-**	**-**	**-**	**25,000**
Executive directors							
Graham Dowland	139,000	-	-	36,000	-	-	175,000
Warwick Lamb	181,308	100,000	48,050	20,642	-	-	350,000
Company secretary							
Alex Neuling	44,037	-	-	3,963	-	3,775	51,775
Other key management personnel							
Michael Sheppard	146,789	-	-	13,211	-	-	160,000
Richard Brandon (from 14/6/06)	5,505	-	-	495	-	-	6,000
Paul MacLeman (1/7/05 to 31/1/06)	91,999	-	-	7,875	-	(11,316)	88,558
Totals	**633,637**	**100,000**	**48,050**	**82,187**	**-**	**(7,541)**	**856,333**
2005							
Non-executive directors							
Roger Steinepreis	25,000	-	-	-	-	-	25,000
Sub-Total non-executive directors	**25,000**	**-**	**-**	**-**	**-**	**-**	**25,000**
Executive directors							
Graham Dowland	139,000	125,000	-	36,000	-	51,481	351,481
Warwick Lamb	142,673	125,000	17,877	14,450	-	51,481	351,481
Company secretary							
Alex Neuling (appointed 4 January 2005)	20,642	-	-	1,858	-	-	22,500
Other key management personnel							
Michael Sheppard	146,789	-	-	13,211	-	34,192	194,192
Paul MacLeman	98,295	-	-	8,847	-	55,305	162,447
Colin Hort (1/7/04 to 28/10/04)	25,229	-	-	2,271	-	4,173	31,673
Totals	**597,628**	**250,000**	**17,877**	**76,637**	**-**	**196,632**	**1,138,774**

C. Service agreements (audited)

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

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

Mr Graham Dowland, Executive Chairman

- Term of agreement – two years from 1 September 2005
- Consultancy fee inclusive of superannuation and taxes, but excluding GST of $175,000 per annum, to be reviewed annually by the board
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to six months consultancy fees

Dr Warwick Lamb, Managing Director

- Term of agreement – indefinite
- Base salary, inclusive of superannuation for the year ended 30 June 2006 of $250,000, to be reviewed annually by the board
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to base salary for twelve months

Dr Michael Sheppard, Chief Scientific Officer

- Term of agreement – rolling annual, anniversary on 21 March.
- Base salary, inclusive of superannuation for the year ended 30 June 2006 of $160,000, to be reviewed annually by the board
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to base salary and benefits for the remainder of the contract term.

Dr Richard Brandon, Business Development Officer

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

DIRECTORS' REPORT
30 JUNE 2006 (CONTINUED) - REMUNERATION REPORT

D. Share-based compensation (audited)

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

Options granted to Key Management Personnel in the current financial year

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

	GRANT DATE	NUMBER	EXERCISE PRICE	EXPIRY DATE	SHARE PRICE AT GRANT DATE	VALUE PER OPTION AT GRANT DATE	VESTING DATE
Directors							
None							
Other Executives							
Mr Alex Neuling	24-Aug-05	200,000	$0.50	31-Jan-07	$0.16	$0.01	31-Jan-06
		50,000	$0.30	31-Jan-07	$0.16	$0.02	On grant date
Dr Colin Hort	24-Aug-05	133,333	$0.38	31-Oct-07	$0.16	$0.03	On grant date

Options granted to Key Management Personnel in the previous financial year

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

	GRANT DATE	NUMBER	EXERCISE PRICE	EXPIRY DATE	SHARE PRICE AT GRANT DATE	VALUE PER OPTION AT GRANT DATE	VESTING DATE
Directors							
None							
Other Executives							
Dr Paul MacLeman	31-Jan-05	1,000,000*	$0.50	31-Oct-07	$0.28	$0.09	31-Oct-07
	31-Jan-05	200,000	$0.38	31-Oct-07	$0.28	$0.12	31-Oct-05
	31-Jan-05	200,000	$0.30	31-Dec-06	$0.28	$0.10	1-Feb-05
Dr Michael Sheppard	24-Feb-05	250,000	$0.50	31-Jan-07	$0.25	$0.06	On grant date

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

Options granted in 2003

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

	GRANT DATE	NUMBER	EXERCISE PRICE	EXPIRY DATE	SHARE PRICE AT GRANT DATE	VALUE PER OPTION AT GRANT DATE	VESTING DATE
Directors	27-Nov-03	1,250,000	$0.25	31-Dec-06	$0.14	$0.13	01-Jul-05
Other Executives	27-Nov-03	250,000	$0.25	31-Dec-06	$0.14	$0.13	01-Jul-05

Fair Value of Options

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

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

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

No options provided as remuneration to directors or Key Management Personnel as remuneration were exercised during the year (2005: none).

E. Additional Information (unaudited)

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

No cash bonuses were forfeited during the year by directors or Key Management Personnel or remained unvested at year-end. No options granted as remuneration to directors or Key Management Personnel remain unvested at year end.

DIRECTORS' REPORT
30 JUNE 2006 (CONTINUED) - REMUNERATION REPORT

E. Additional Information (unaudited) (continued)

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

2006	A REMUNERATION CONSISTING OF OPTIONS %	B VALUE AT GRANT DATE $	C VALUE AT EXERCISE DATE $	D VALUE AT LAPSE DATE $	TOTAL OF COLUMNS B-D $
Directors of Imugene Limited					
Graham Dowland	0%	-	-	-	-
Warwick Lamb	0%	-	-	-	-
Roger Steinepreis	0%	-	-	-	-
Company Secretary					
Alex Neuling	7%	3,775	-	-	3,775
Other key management personnel of the Group					
Michael Sheppard	0%	-	-	-	-
Paul MacLeman*	-13%	(11,316)	-	-	(11,316)
Richard Brandon	0%	-	-	-	-

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

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

C The value at exercise date of options that were granted as part of remuneration and were exercised during the year

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

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

DIRECTORS' REPORT
30 JUNE 2006 (CONTINUED)

Auditor's Independence Declaration

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included on page 32 of the Financial Report.

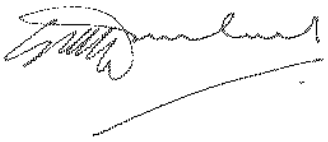
Non-Audit Services

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

Insurance of Officers and Auditors

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

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



GRAHAM DOWLAND
Executive Chairman
Perth, Western Australia

18 September 2006

AUDITORS' INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Woodside Plaza
Level 14
240 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

DX 206
Tel: +61 (0) 8 9365 7000
Fax: +61 (0) 8 9365 7001
www.deloitte.com.au

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

18 September 2006

Dear Sirs

Imugene Limited

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

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

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

AT Richards

AT RICHARDS
Partner
Chartered Accountants

Member of
Deloitte Touche Tohmatsu

INDEPENDENT AUDIT REPORT TO MEMBERS OF IMUGENE LIMITED

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Woodside Plaza
Level 14
240 St Georges Terrace
Perth WA 6000
GPO Box A46
Perth WA 6837 Australia

DX 206
Tel: +61 (0) 8 9365 7000
Fax:+61 (0) 8 9365 7001
www.deloitte.com.au

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Imugene Limited ("the Company") and the consolidated entity, for the financial year ended 30 June 2006 as set out on pages 35 to 65. The consolidated entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

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

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

Audit approach

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

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

INDEPENDENT AUDIT REPORT TO MEMBERS OF IMUGENE LIMITED (CONTINUED)

Deloitte.

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

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

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

Audit Opinion

In our opinion:

(1) the financial report of Imugene Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(2) the compensation disclosures that are contained under the heading "remuneration report" of the directors' report comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

AT Richards

AT RICHARDS
Partner
Chartered Accountants

Perth, 18 September 2006

INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

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

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

BALANCE SHEET
AS AT 30 JUNE 2006

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

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

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

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

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

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies

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

Basis of preparation

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

Compliance with International Financial Reporting Standards

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

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

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

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

(a) Cash and cash equivalents

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

(b) Employee benefits

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

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

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

Defined contribution superannuation plans

Contributions to defined contribution superannuation plans are expensed when incurred.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued)

(c) Financial assets

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

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

Loans and receivables

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

(d) Financial instruments issued by the Company

Debt and equity instruments

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

Transaction costs on the issue of equity instruments

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

(e) Foreign currency

Foreign currency transactions

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

Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date.

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

(f) Good and services tax

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

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

ii. for receivables and payables which are recognised inclusive of GST.

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

(g) Government grants

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

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

(h) Impairment of assets

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

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

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

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

(i) Income tax

Current tax

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

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued)

Deferred tax

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

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

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

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

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

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

The Company and all its wholly-owned Australian resident entities are part of a tax consolidated Group under Australian taxation law. Imugene Limited is the head Entity in the tax-consolidated Group.

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

(j) Intangible assets

Patents, trademarks and licenses

Patents, trademarks and licences are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over their expected useful lives of 15 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

Research and development costs

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

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

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

Intangible assets acquired in a business combination

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

(k) Payables

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

(l) Principles of consolidation

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies (continued)

(m) Property, plant and equipment

Plant and equipment and fixtures & fittings are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.

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

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

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

(n) Provisions

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

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

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

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

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

(o) Revenue recognition

Sale of goods

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

Royalties, licence fees and milestone payments

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

Dividend and interest revenue

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

(p) Share-based payments

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

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

2. Financial risk management

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

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

(a) Market risk

i. Foreign exchange risk

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

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

NOTES TO THE FINANCIAL STATEMENTS

2. Financial risk management (continued)

(a) Market risk (continued)

ii. Interest rate risk

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

	NOTE	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	VARIABLE INTEREST RATE	NON-INTEREST BEARING	TOTAL
		%	$	$	$
2006					
Financial Assets					
Cash and deposits		5.5%	2,697,244	-	2,697,244
Tax assets	**(8)**		-	542,062	542,062
Trade and other receivables			-	41,442	41,442
Total Financial Assets			2,697,244	583,504	3,280,748
Financial Liabilities					
Payables	**(12)**		-	732,603	732,603
Total Financial Liabilities			-	732,603	732,603
Net Financial Assets/(Liabilities)			2,697,244	(149,099)	2,548,145
2005					
Financial Assets					
Cash and deposits		5.5%	4,346,447	-	4,346,447
Tax assets	**(8)**		-	286,991	286,991
Trade and other receivables			-	109,563	109,563
Total Financial Assets			4,346,447	396,554	4,743,001
Financial Liabilities					
Payables	**(12)**		-	362,630	362,630
Total Financial Liabilities			-	362,630	362,630
Net Financial Assets/(Liabilities)			4,346,447	33,924	4,380,371

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

iii. Commodity price risk

The Group is not exposed to commodity price risk.

(b) Credit risk

The Group trades only with recognised, trustworthy third parties and it is the Group's policy to perform credit verification procedures in relation to any customers wishing to trade on credit terms with the Group.

(c) Liquidity risk

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

3. Critical accounting estimates & judgements

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

(a) Significant accounting judgements

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

Deferred tax assets

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

(b) Significant accounting estimates and assumptions

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

Share-based payment transactions

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

Impairment of assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. Revenue

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
From continuing operations				
Sales revenue				
Services	**-**	-	**894,845**	652,234
	-	-	**894,845**	652,234
Other revenue				
Sub-licence fees	**66,690**	-	**-**	-
Interest	**196,561**	135,302	**192,727**	131,373
	263,251	135,302	**192,727**	131,373
	263,251	135,302	**1,087,572**	783,607

5. Other income

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
Government grants	**100,662**	254,199	**100,662**	254,199
Net foreign exchange gains	**2,421**	-	**-**	-
	103,083	254,199	**100,662**	254,199

6. Expenses

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

7. Income tax

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
Current tax	**268,414**	286,991	**268,414**	286,991
Under (over) recognised in prior years	**(16,354)**	35,769	**(16,354)**	(18,583)
	252,060	322,760	**252,060**	268,408

NOTES TO THE FINANCIAL STATEMENTS

7. Income tax (continued)

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

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
Accounting loss before tax from continuing operations	**(2,439,279)**	(2,311,742)	**(2,442,341)**	(2,231,538)
Tax at the Australian statutory income tax rate of 30% (2005: 30%)	**(731,784)**	(693,523)	**(732,702)**	(669,461)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income				
Research & development expenses (claimed under Tax Concession)	**253,505**	246,164	**245,615**	246,164
Share-based payment expense	**(918)**	58,432	**(918)**	58,432
Sundry other	**(30,593)**	(15,331)	**(29,393)**	(15,678)
Tax effect of timing differences in relation to unrecognised deferred tax assets / liabilities: (i) (ii)				
Writedown to recoverable amount	**-**	-	**357,211**	267,117
Patent costs	**141,157**	29,061	**137,569**	10,486
Sundry other	**19,963**	6,662	**19,963**	6,062
	(348,670)	(368,535)	**(2,655)**	(96,878)
Less tax losses not recognised (ii)	**348,670**	368,535	**2,655**	96,878
	-	-	**-**	-
Research & Development Tax Concession				
Current Year	**268,414**	286,991	**268,414**	286,991
Over / (under) recognised in prior year	**(16,354)**	35,769	**(16,354)**	(18,583)
Income tax benefit	**252,060**	322,760	**252,060**	268,408
(i) Deferred tax liability arising from temporary differences				
Amounts recognised in profit or loss	**(52,031)**	(49,942)	**(52,031)**	(32,668)
Less set off of deferred tax assets under set-off provisions	**52,031**	49,942	**52,031**	32,668
	-	-	**-**	-
(ii) Deferred tax assets not recognised				
Arising from temporary differences attributable to:				
Amounts recognised in profit or loss	**241,105**	32,668	**32,668**	1,037,098
Amounts recognised directly in equity	**81,461**	99,467	**99,467**	116,741
Carried forward tax losses	**1,387,261**	1,038,592	**393,993**	392,256

8. Current assets – Tax assets

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
Research & development tax concession receivable	**542,062**	286,991	**542,062**	286,991

9. Non-current assets – Other financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

(a) Wholly–owned Group

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

Inter-Company account

Imugene provides working capital to its controlled entities. Transactions between Imugene and other controlled entities in the wholly owned Group during the year ended 30 June 2006 consisted of:

(i) Working capital advanced by Imugene Limited;

(ii) Provision of services by Imugene Limited, and

(iii) Expenses paid by Imugene Limited on behalf of its controlled entities.

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

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

(b) Investments in Controlled Entities

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING 2006 %	EQUITY HOLDING 2005 %
Controlled Entities				
Brightsun Investments Pty Ltd	Australia	Ordinary	100	100
VectoGen Pty Ltd	Australia	Ordinary	100	100
BioMimic Technologies Ltd	Australia	Ordinary	100	100
Paragen Pty Ltd	Australia	Ordinary	100*	37.5

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

(c) Ultimate Parent Company

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

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

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
Plant & equipment				
At cost	**41,531**	28,394	**41,531**	28,394
Accumulated depreciation	**(22,149)**	(17,367)	**(22,149)**	(17,367)
Total plant and equipment (Note 10(a))	**19,382**	11,027	**19,382**	11,027
Fixtures and Fittings				
At cost	**4,184**	4,184	**4,184**	4,184
Accumulated depreciation	**(1,338)**	(614)	**(1,338)**	(614)
Total fixtures and fittings (Note 10(a))	**2,846**	3,570	**2,846**	3,570
Total written down value	**22,228**	14,597	**22,228**	14,597
(a) Reconciliations				
Plant and Equipment				
Carrying amount at beginning of year	**11,027**	15,317	**11,027**	15,317
Additions	**13,138**	1,974	**13,138**	1,974
Depreciation expense	**(4,783)**	(6,264)	**(4,783)**	(6,264)
Total plant & equipment	**19,382**	11,027	**19,382**	11,027
Fixtures and Fittings				
Carrying amount at beginning of year	**3,570**	3,326	**3,570**	3,326
Additions	**-**	515	**-**	515
Depreciation	**(724)**	(271)	**(724)**	(271)
Total fixtures and fittings	**2,846**	3,570	**2,846**	3,570

NOTES TO THE FINANCIAL STATEMENTS

11. Non-current assets – Intangible assets

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
Patents, licences and other rights				
Opening cost	**5,117,095**	5,117,095	-	-
Closing cost	**5,117,095**	5,117,095	-	-
Accumulated amortisation at the start of the year	**(810,510)**	(469,370)	-	-
Amortisation charge	**(341,140)**	(341,140)	-	-
Accumulated amortisation at the end of the year	**(1,151,650)**	(810,510)	-	-
Opening net book amount	**4,306,585**	4,647,725	-	-
Closing net book amount	**3,965,445**	4,306,585	-	-

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

12. Current liabilities – Trade and other payables

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

13. Provisions

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

14. Contributed equity

	PARENT ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	SHARES	SHARES	$	$
(a) Share capital				
Fully paid ordinary shares (i)	**130,579,564**	130,579,564	**13,180,042**	13,180,042

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

(b) Movements in ordinary share capital

DESCRIPTION	NOTE	DATE	NUMBER	ISSUE PRICE	$
Opening balance		1-Jul-04	**108,118,080**		**8,164,842**
Option conversion	(i)	2-Sep-04	200,000	$0.1125	22,500
Share and option placement	(ii)	3-Dec-04	13,475,000	$0.2500	3,368,750
Option conversion	(i)	22-Dec-04	2,261,484	$0.1125	254,417
Share and option placement	(ii)	20-Jan-05	6,525,000	$0.2500	1,631,250
Less: transaction costs arising on placements					(261,717)
Balance		1-Jul-05	**130,579,564**		**13,180,042**
Closing balance		30-Jun-06	**130,579,564**		**13,180,042**

(i) Information in relation to options on issue, including details of all options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year is set out in Note 16.

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

15. Reserves and accumulated losses

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

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

NOTES TO THE FINANCIAL STATEMENTS

16. Options

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

DESCRIPTION	NOTE	ASX CODE	2006 NUMBER	2005 NUMBER	EXERCISE PRICE	EXPIRY
Listed options		IMUO	**4,250,000**	4,250,000	$0.500	31-Jan-07
Unlisted performance options						
Type 1		IMUAI	**4,633,333**	4,633,333	$0.225	31-Oct-07
Type 2		IMUAY	**2,000,000**	2,000,000	$0.300	31-Dec-06
Type 3		IMUAY	**2,000,000**	2,000,000	$0.250	31-Dec-06
Type 4		IMUAY	**2,000,000**	2,000,000	$0.250	31-Dec-06
Type 5	(a)	IMUAO	**-**	1,000,000	$0.500	31-Oct-07
Type 6		IMUAK	**200,000**	200,000	$0.300	31-Dec-06
Type 7	(a)	IMUAM	**333,333**	200,000	$0.375	31-Oct-07
Type 8	(a)	IMUAZ	**200,000**	-	$0.500	31-Jan-07
Type 9	(a)	IMUAW	**50,000**	-	$0.300	31-Jan-07
Total			**15,666,666**	16,283,333		

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

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

DESCRIPTION	NOTE GRANT DATE	ASX CODE	2006 NUMBER	2005 NUMBER
At 1 July			**16,283,333**	13,094,817
Granted during the year				
Type 1	24-Feb-05	IMUO	**-**	4,250,000
Type 5	31-Jan-05	IMUAO	**-**	1,000,000
Type 6	31-Jan-05	IMUAK	**-**	200,000
Type 7	24-Aug-05	IMUAM	**133,333**	200,000
Type 8	24-Aug-05	IMUAZ	**200,000**	-
Type 9	24-Aug-05	IMUAW	**50,000**	-
Cancelled during the year				
Type 5		IMUAO	**(1,000,000)**	-
Exercised during the year			**-**	(2,461,484)
At 30 June			**15,666,666**	16,283,333

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

17. Key Management Personnel disclosures

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

Mr Graham Dowland (Executive Chairman)

Dr Warwick Lamb (Managing Director)

Mr Roger Steinepreis (Non-executive Director)

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

2006	2005
Dr Michael Sheppard (Chief Scientific Officer)	Dr Michael Sheppard (Chief Scientific Officer)
Dr Paul MacLeman (Chief Operating Officer, resigned 31 January 2006)	Dr Paul MacLeman (Chief Operating Officer, appointed 1 November 2005)
Dr Richard Brandon (Business Development Officer, appointed 14 June 2006)	Dr Colin Hort (resigned 28 October 2004)

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

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

(c) Key Management Personnel compensation

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

The Company has taken advantage of the relief provided by ASIC Class order 06/50 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A to D of the remuneration report on pages 24 to 29.

Equity instrument disclosures relating to Key Management Personnel

(i) Option holdings

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

	BALANCE AT 1 JULY	GRANTED DURING THE YEAR AS COMPENSATION	EXERCISED DURING THE YEAR	OTHER CHANGES DURING THE YEAR	BALANCE AT 30 JUNE	VESTED AND EXERCISABLE AT 30 JUNE
2006						
Directors of Imugene Limited						
Graham Dowland	2,500,000	-	-	-	2,500,000	2,500,000
Warwick Lamb	2,500,000	-	-	-	2,500,000	2,500,000
Roger Steinepreis	-	-	-	-	-	-
Other key management personnel of the Group						
Michael Sheppard	1,500,000	-	-	-	1,500,000	1,500,000
Paul MacLeman	1,400,000	-	-	(1,000,000)	400,000	400,000
Richard Brandon	-	-	-	-	-	-
Alex Neuling	-	250,000	-	-	250,000	250,000
2005						
Directors of Imugene Limited						
Graham Dowland	2,523,334	-	(23,334)	-	2,500,000	2,500,000
Warwick Lamb	2,546,667	-	(46,667)	-	2,500,000	2,500,000
Roger Steinepreis	1,060,741	-	(1,060,741)	-	-	-
Other key management personnel of the Group						
Michael Sheppard	1,250,000	250,000	-	-	1,500,000	1,500,000
Paul MacLeman	-	1,400,000			1,400,000	1,400,000
Colin Hort	133,334	133,333	(133,334)	-	133,333	133,333

Details of options provided as remuneration and shares issued on exercise of such options, together with the terms and conditions of the options, can be found in section D of the remuneration report on pages 28 to 29.

NOTES TO THE FINANCIAL STATEMENTS

17. Key Management Personnel disclosures (continued)

(ii) Share holdings

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

	BALANCE AT 1 JULY	EXERCISE OF OPTIONS	OTHER CHANGES	BALANCE AT 30 JUNE
2006				
Directors of Imugene Limited				
Graham Dowland	6,790,002	-	-	6,790,002
Warwick Lamb	6,400,001	-	-	6,400,001
Roger Steinepreis	4,263,678	-	-	4,263,678
Other key management personnel of the Group				
Michael Sheppard	228,589	-	-	228,589
Richard Brandon	-	-	-	-
Alex Neuling	-	-	-	-
2005				
Directors of Imugene Limited				
Graham Dowland	6,766,668	23,334	-	6,790,002
Warwick Lamb	6,353,334	46,667	-	6,400,001
Roger Steinepreis	3,202,937	1,060,741	-	4,263,678
Other key management personnel of the Group				
Michael Sheppard	90,500	-	138,089	228,589
Paul MacLeman	-	-	-	-
Alex Neuling	-	-	-	-

(iii) Loans to Key Management Personnel

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

(iv) Other transactions with Key Management Personnel

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

During the year, Vetspec Pty Ltd, a Company of which Dr Warwick Lamb is a director and beneficial shareholder, provided a serviced office (in Sydney) and other administration services to the Company. For the year ended 30 June 2006, the Company paid $51,000 (2005: $36,000) to Vetspec Pty Ltd and this has been recognised in the financial statements as an expense.

The aggregate amount recognised as an expense in relation to these transactions is $51,778 (2005: $65,075).

18. Remuneration of auditors

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

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

19. Segment information

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

21. Earnings / (Loss) per share

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

The options on issue (Note 16) represent potential ordinary shares but are not dilutive as they would decrease the loss per share. Accordingly they have been excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share.

22. Subsequent events

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

23. Contingencies

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

24. Explanation of transition to Australian equivalents to IFRS

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

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

(a) Reconciliation of reported equity

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

		CONSOLIDATED		PARENT ENTITY	
		AGAAP	AIFRS	AGAAP	AIFRS
	NOTE	$	$	$	$
Net assets		5,431,668	**5,431,668**	5,405,816	**5,405,816**
Representing:					
Contributed equity		8,164,842	**8,164,842**	8,164,842	**8,164,842**
Share based payment reserve	**(c)**	-	**72,831**	-	**72,831**
Accumulated losses	**(c)**	(2,733,174)	**(2,806,005)**	(2,759,029)	**(2,831,860)**
		5,431,668	**5,431,668**	5,405,813	**5,405,813**

		CONSOLIDATED	PARENT ENTITY
		$	$
Total equity under AGAAP		5,431,668	5,405,816
Increase in accumulated losses on application of AASB2	**(c)**	(72,831)	(72,831)
Associated increase in share-based payment reserve	**(c)**	72,831	72,831
Total equity under AIFRS		5,431,668	5,405,816

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

		CONSOLIDATED		PARENT ENTITY	
		AGAAP	AIFRS	AGAAP	AIFRS
	NOTE	$	$	$	$
Net assets		8,652,660	**8,652,660**	5,405,816	**5,405,816**
Representing:					
Contributed equity		13,180,042	**13,180,042**	13,180,042	**13,180,042**
Share based payment reserve	**(c)**	-	**267,605**	-	**267,605**
Accumulated losses	**(c)**	(4,527,382)	**(4,794,987)**	(4,527,382)	**(4,794,987)**
		8,652,660	**8,652,660**	8,652,660	**8,652,660**

		CONSOLIDATED	PARENT ENTITY
		$	$
Total equity under AGAAP		8,652,660	8,652,660
Increase in accumulated losses on application of AASB2	**(c)**	(267,605)	(267,605)
Associated increase in share-based payment reserve	**(c)**	267,605	267,605
Total equity under AIFRS		8,652,660	8,652,660

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

(c) Equity-based payments

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

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

DIRECTORS' DECLARATION

In the directors' opinion:

(a) The financial statements and notes set out on pages 35 to 65 are in accordance with the *Corporations Act 2001*, including:

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

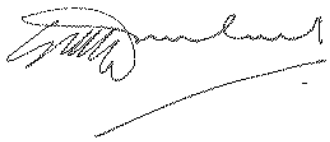
  (ii) Giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2006 and of its performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

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

(c) the audited remuneration disclosures set out on pages 24 to 30 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures* and the Corporations Regulations 2001.

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

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



GRAHAM DOWLAND
Executive Chairman
Perth, Western Australia

18 September 2006

ADDITIONAL STOCK EXCHANGE INFORMATION

Corporate Governance

Introduction

Imugene Limited ACN 009 179 551 (**"Company"**) has adopted systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised below.

The following additional information about the Company's corporate governance practices is set out on the Company's website at www.imugene.com :

- Corporate governance disclosures and explanations;
- Statement of Board and Management Functions;
- Nomination Committee Charter;
- policy and procedure for selection and appointment of new directors;
- summary of code of conduct for directors and key executives;
- summary of policy on securities trading;
- Audit Committee Charter;
- policy and procedure for selection of external auditor and rotation of audit engagement partners;
- summary of policy and procedure for compliance with continuous disclosure requirements;
- summary of arrangements regarding communication with and participation of shareholders;
- summary of Company's risk management policy and internal compliance and control system;
- process for performance evaluation of the Board, Board committees, individual directors and key executives;
- Remuneration Committee Charter; and
- Corporate Code of Conduct.

Explanations for departures from best practice recommendations

During the Reporting Period the Company has complied with each of the Ten Essential Corporate Governance Principles[1] and the corresponding Best Practice Recommendations[2] as published by the ASX Corporate Governance Council ("ASX Principles and Recommendations"), other than in relation to the matters specified below.

PRINCIPLE REF	RECOMMENDATION REF	NOTIFICATION OF DEPARTURE	EXPLANATION FOR DEPARTURE
2	2.1	The Board comprises one non-executive director and two executive directors, none of whom satisfy the test of independence in box 2.1 of the ASX Corporate Governance Council's Principles of Good Corporate Governance ("Independence Test").	The Board considers that its current composition is adequate for the Company's current size and operations and includes an appropriate mix of skills and expertise relevant to the Company's investments. Imugene Limited considers industry experience and specific expertise to be important attributes of its board members.
2	2.2	The Chairman does not satisfy the ASX Corporate Governance Council's Independence Test.	Notwithstanding that Mr Dowland does not satisfy all aspects of the Independence Test, the Board considers that its current structure is appropriate for the Company's size and operations. In addition, Mr Dowland has played a key role in re-directing the Company and has extensive experience as both a director and chairman of various listed companies, making him the most qualified Board member for this role. In situations where it would be inappropriate for Mr Dowland to act as chairman (for example, when there is a conflict of interest), the Board has appointed Mr Roger Steinepreis as the lead non-executive director.
2	2.4	A separate nomination committee has not been formed.	Given the Board comprises three members and director appointments are relatively infrequent, it was decided that no efficiencies would be achieved by establishing a separate nomination committee. The whole board carries out the duties which would otherwise be undertaken by the nomination committee and each member excludes him or herself from matters in which he has a material person interest and otherwise ensures compliance with all aspects of the Corporations Act in relation to related party transactions.
4	4.2	A separate audit committee has not been formed.	The whole Board carries out the duties of the audit committee. In so acting, the whole Board follows the Audit Committee Charter a copy of which is available to shareholders on request.
4	4.3	The full Board carries out the functions of an audit committee which is not in compliance with the criteria specified in the best practice recommendation 4.3.	Due to the small scale of the Company's business and the size of the Board, the Board does not consider that the Company will gain any benefit from a separate audit committee.

[1] A copy of the Ten Essential Corporate Governance Principles are set out on the Company's website under the section entitled "Corporate Governance".

[2] A copy of the Best Practice Recommendations are set out on the Company's website under the section entitled "Corporate Governance".

ADDITIONAL STOCK EXCHANGE INFORMATION

Skills, experience, expertise and term of office of each director

A profile of each director containing the applicable information is set out in the Directors' Report.

Identification of independent directors

The board currently has no directors that satisfy the test of independence in box 2.1 of ASX Corporate Governance Council's Principles of Good Corporate Governance ("Independence Test")

Statement concerning availability of independent professional advice

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his/her office as a director then, provided the director first obtains approval for incurring such expense from the chairperson, the Company will pay the reasonable expenses associated with obtaining such advice.

Names of nomination committee members and their attendance at committee meetings

The full Board carries out the functions of a nomination committee in accordance with the Nomination Committee Charter. Details of meetings of the Board and committees are disclosed in the Directors' Report.

Names and qualifications of audit committee members

The full Board carries out the functions of an Audit Committee in accordance with the Audit Committee Charter.

The relevant financial expertise and industry experience of each of the Board members is set out in the Directors' Report.

Number of audit committee meetings and names of attendees

Details of meetings of the Board and committees are disclosed in the Directors' Report.

Confirmation whether performance evaluation of the board and its members have taken place and how conducted

During the Reporting Period an evaluation of the Board and its members was carried out by the Board. External consultants were not used.

Company's remuneration policies

Details of the Company's remuneration policies are disclosed in the Remuneration Report contained in the Directors' Report.

Names of remuneration committee members and their attendance at committee meetings.

The full Board carries out the functions of a Remuneration Committee in accordance with the Remuneration Committee Charter. Details of meetings of the Board and committees are in the Directors' Report.

Existence and terms of any schemes for retirement benefits for non-executive directors

The Company does not have any schemes relating to retirement benefits for non-executive directors.

Shareholder Information

The shareholder information set out below was applicable as at 29 September 2006.

1. Twenty largest shareholders

ORDINARY SHARES	NUMBER	PERCENTAGE
Queensland Investments Corporation	7,497,997	5.74%
Dr Warwick Lamb	6,150,001	4.71%
Mrs Treffina Dowland	4,830,001	3.70%
Blueknight Corporation Pty Ltd	4,263,678	3.27%
Merrill Lynch (Australia) Nominees Pty Ltd <Berndale A/C>	3,955,512	3.03%
Mcrae Investments Pty Ltd	2,471,666	1.89%
Techstart Australia Pty Ltd	2,387,738	1.83%
Donwillow Pty Ltd	2,000,000	1.53%
Eurasia Pty Ltd <Mintec Australia>	1,666,667	1.28%
Mr SJ & Mrs CM Moyle <Moyle Family Super Fund A/C>	1,500,000	1.15%
Lost Ark Nominees Pty Ltd <ONM BPFAM A/C>	1,499,479	1.15%
Mr Gordon Menzies Wilson	1,254,833	0.96%
Greenfield Company Limited	1,200,000	0.92%
Lost Ark Nominees Pty Ltd <D2 A/C>	1,060,741	0.81%
Lost Ark Nominees Pty Ltd <PST A/C>	1,054,959	0.81%
Lost Ark Nominees Pty Ltd <Mya Super A/C>	1,050,000	0.80%
ANZ Nominees Limited <Cash Income A/C>	1,000,521	0.77%
Darley Pty Ltd	1,000,000	0.77%
Rollason Pty Ltd <The Giorgetta S/Plan A/C>	1,000,000	0.77%
Wainford Holdings Ltd	1,000,000	0.77%
Total top 20	**47,843,793**	**36.66%**
Other	82,735,771	63.34%
Total ordinary shares on issue	**130,579,564**	**100.00%**

ADDITIONAL STOCK EXCHANGE INFORMATION

Shareholder Information (continued)

2. Twenty largest optionholders

LISTED OPTIONS	NUMBER	PERCENTAGE
Queensland Investments Corporation	739,000	17.39%
Cogent Nominees Pty Ltd	475,396	11.19%
Lost Ark Nominees Pty Ltd	358,534	8.44%
Thirteenth Cinsaut Pty Ltd	285,070	6.71%
Koubou Pty Ltd <Investments A/C>	270,000	6.35%
Dr Michael George Sheppard	250,000	5.88%
Westpac Custodian Nominees Ltd	240,000	5.65%
Merrill Lynch (Australia) Nominees Pty Ltd <Berndale A/C>	205,000	4.82%
Tricom Nominees Pty Ltd <LPG A/C>	100,000	2.35%
Asia Union Investments Pty Ltd	95,000	2.24%
Equity Trustees Ltd <SGH PI Absolute Return Fund Premium Client>	95,000	2.24%
National Nominees Ltd	80,000	1.88%
Droga Capital Pty Ltd <Droga Capital No. 2 A/C>	76,000	1.79%
Vitruvius Pty Ltd	60,000	1.41%
Fortis Clearing Nominees Pty Ltd	52,000	1.22%
Mrs Tracey Lee Filippello	50,000	1.18%
Mr Sean Leaver	50,000	1.18%
Lost Ark Nominees Pty Ltd <BR Potts Fam A/C>	50,000	1.18%
Rolfason Pty Ltd <The Giorgetta S/Plan A/C>	50,000	1.18%
Kippilaw Pastoral Company Pty Ltd	40,000	0.94%
Total top 20	**3,621,000**	**85.22%**
Other	629,000	14.78%
Total listed optionholders	**4,250,000**	**100.00%**

3. Distribution of equity securities

	ORDINARY SHARES	LISTED OPTIONS	UNLISTED OPTIONS
1 - 1,000	603	-	-
1,001 - 5000	382	5	-
5,001 - 10,000	447	6	-
10,001 - 100,000	863	37	-
100,001 - and above	196	8	13
	2,491	56	13

4. Unquoted securities

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

Performance options – exercise price of $0.225 and expiry date of 31 October 2007

	NUMBER
Lost Ark Nominees Pty Ltd <D1 A/C>	1,079,851

5. Voting rights

See Notes 14 and 16 to the Financial Statements.

6. On-market buy back

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

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

See Corporate Directory.

CORPORATE DIRECTORY

Directors

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

Company Secretary

Mr Alex Neuling

Registered and Principal Office

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

Telephone: (61 2) 9870 7330
Facsimile: (61 2) 9888 9338

Perth Office

Level 20, Allendale Square
77 St Georges Terrace
Perth WA 6000
Australia

Telephone: (61 8) 9440 2660
Facsimile: (61 8) 9440 2699

Share Register

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth WA 6000
Australia

Telephone: 1300 557 010
International: (61 8) 9323 2000
Facsimile: (61 8) 9323 2033

Solicitors

Steinepreis Paganin

Patent Attorney

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

Auditor

Deloitte Touche Tohmatsu
240 St Georges Terrace
Perth WA 6000

Bankers

Australia and New Zealand Banking Group Limited

Stock Exchange Listing

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

Website and Email

www.imugene.com
imugene@imugene.com

BIOLOGICAL METHODS FOR ANIMAL HEALTH & DISEASE CONTROL

IMUGENE LIMITED

ABN 98 009 179 551

Level 1, 14-20 Delhi Road, North Ryde, NSW 2113
PO Box 307, North Ryde, NSW 1670

Tel +61 2 9870 7330 Fax +61 2 9888 9338

www.imugene.com