



ABN 99 009 179 551

Financial Report

For The Year Ended

30 June 2008

Imugene Limited ABN 99 009 179 551
Financial Report – 30 June 2008

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Corporate directory

Directors

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

Company Secretary

Ms Julie Foster

Registered and Principal Office

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

C/- La Trobe University
Kingsbury Drive
Bundoora
Victoria 3086

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

Mc Andrews Held & Malloy Ltd
500 West Madison Street
34th Floor
Chicago, IL 60661

Auditor

Deloitte Touche Tohmatsu
240 St Georges Terrace
Perth WA 6000

Bankers

Australia and New Zealand Banking
Group Limited

Stock Exchange Listing

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

Website and Email

www.imugene.com
imugene@imugene.com

Directors' Report

30 June 2008

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 2008 ("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 (first appointed 30 August 2002)
Dr Warwick Lamb (first appointed 30 August 2002)
Mr Roger Steinepreis (first appointed 29 January 2002)

Each director held their office from 1 July 2007 until the date of this report.

Current directors

Mr Graham Dowland - Chairman

Qualifications - B.Com, CA

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

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

Other Current Directorships of Australian Listed public companies

Mr Dowland is also a non-executive director of Aurora Oil & Gas Limited and Chairman of Eureka Energy Limited.

Former Directorships of Australian Listed public companies in the last 3 years

Mr Dowland previously held the position of Chairman of Mint Wireless Ltd between October 2006 and January 2008.

Directors' Report

30 June 2008 (continued)

Dr Warwick Lamb - Managing Director

Qualifications – BVSc, M Vet Clin Stud, FACVSc

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

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

Other Current Directorships of Australian Listed public Companies

None.

Former Directorships of Australian Listed public companies in the 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 21 years.

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

Other Current Directorships of Australian Listed public companies

Mr Steinepreis is a director of:

Comtel Corporation Ltd

Avonlea Minerals Ltd

Adavale Resources Ltd

Former Directorships of Australian Listed public companies in the last 3 years

Commoditel Limited

Pocketmail Group Limited

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

Ms Julie Foster

Qualifications – BA(Hons), ACA (ICAEW)

Appointed 29 May 2008

Ms Foster has a degree in Accounting and Finance and is a Chartered Accountant (UK). She is also currently Company Secretary for ASX Listed Eureka Energy Limited. Ms Foster previously worked for Chartered Accounting firms in both the UK and Perth.

Mr Alexander Neuling

Qualifications – BSc (Hons) ACA (ICAEW) ACIS

Resigned 29 May 2008

Directors' Report

30 June 2008 (continued)

Principal activities

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

Dividends

No dividends have been declared, provided for or paid in respect of the financial year ended 30 June 2008.

Summary review of operations

For the financial year ending 30 June 2008 the Group recorded a net loss of \$1,910,925 (2007: \$2,304,263) and a net cash outflow from operations of \$1,272,900 (2007: \$1,702,853)

During the year the company invited its shareholders to subscribe to a fully underwritten, non-renounceable rights issue on the basis of 1 new share for every 10 fully paid ordinary shares held at an issue price of 14 cents per share. The net cash inflow of \$1,727,411 together with existing cash reserves at the start of the year, were primarily applied towards the development of the range of poultry and pig vaccines including the PRRS vaccine animal trials, extension of the patent protection within both families of patents and the implementation of an expanded vaccine development program.

Coccidiosis vaccine trial

In May 2008 Imugene announced that a trial conducted in collaboration with Abic Biological Laboratories Teva Ltd (Abic) testing variations of coccidiosis vaccine candidates had proved successful in providing protection against the coccidiosis disease. The vaccine candidates were constructed by Imugene using its patented Fowl Adenoviral Vector (FAV) delivery system and Abic's patented coccidian genetic material. One vaccine candidate proved to be a clear best performer and further development of the vaccine will be undertaken in the next quarter to determine aspects such as minimum dose and optimum date of administration for protection.

PRRS vaccine trial

In October 2007 Imugene announced that trials to identify the optimal PAV based PRRS vaccine candidate to be progressed to the development program had been completed in the US. During late 2007 and early 2008 the optimised vaccine underwent final modifications and improvements as a result of external scientific information aimed at increasing the vaccine efficacy. In July 2008 the revised and optimised PRRS vaccine commenced trials at a specialist pig trial facility in the US. On 20 August 2008 Imugene announced that the preliminary results from the trials show that the PRRS vaccine provides a very high degree of protection against the PRRS disease when two doses are administered either orally or by injection.

Imugene will use these results in discussions with major international animal health companies with a view to possible licensing agreements.

Consolidated results

	2008 \$	2007 \$
Consolidated loss before income tax benefit	(2,149,664)	(2,561,309)
Income tax benefit	238,739	257,046
Net loss	<u>(1,910,925)</u>	<u>(2,304,263)</u>

Directors' Report

30 June 2008 (continued)

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.

Post balance date events

Subsequent to year-end, the Company received \$142,000 (inclusive of GST) from AusIndustry under its Commercial Ready grant in respect of the quarters to 31 March 2008, and 30 June 2008.

On 20 August 2008, the Company announced that the preliminary results from the recent trials of the modified PRRS vaccine have been successful. The PRRS vaccine has proved to be highly effective in the degree of protection it provides against the PRRS disease. The directors anticipate that these results will be used in discussions with major international animal health companies with a view to possible licensing agreements.

As at the date of this report there are no matters or circumstances, which have arisen since 30 June 2008 that have significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2008, 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 2008, of the Consolidated Entity.

Likely developments

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

- (a) likely developments in the entities' operations; or
- (b) the expected results of these operations,

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

Environmental regulation

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

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

Employees

	2008	2007
The number of full time equivalent people employed by the Consolidated Entity at balance date (including consultants)	5	5

Directors' Report

30 June 2008 (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	7,667,576	500,000
Warwick Lamb	7,670,002	2,500,000
Roger Steinepreis	4,990,046	-

There were no shares granted to directors during the year as remuneration.

Meetings of Directors

The following table sets out the number of meetings of the Company's directors held during the year ended 30 June 2008, and the number of meetings attended by each director (includes matters decided by circulating resolution).

	No. eligible to attend	No. attended
Full board meetings		
Graham Dowland	6	6
Warwick Lamb	6	6
Roger Steinepreis	6	6
Audit committee meetings		
Graham Dowland	2	2
Warwick Lamb	2	2
Roger Steinepreis	2	1

Share Options

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

Description	2008 Number	Exercise Price	Expiry
Unlisted performance options	4,350,000	\$ 0.25	31-Dec-09
Unlisted advisor incentive options	3,000,000	\$ 0.20	31-Mar-11
Total	<u>7,350,000</u>		

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

Directors' Report

30 June 2008 (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

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

Details of key management personnel

(i) Directors

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

(ii) Other key management personnel of the Group

Dr Michael Sheppard	Chief Scientific Officer
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Details of executives (including the highest paid executives of the Company and the Group)

Mr Alex Neuling	Company Secretary (1 July 2007 to 29 May 2008)
Ms Julie Foster	Company Secretary (Appointed 29 May 2008)

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

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

A separate remuneration committee has not been formed. 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.

Directors' Report

30 June 2008 (continued) – Remuneration report

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

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.

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

There is currently no board policy in relation to the person granted the option limiting his or her exposure to risk in relation to the securities. The remuneration committee intends to review whether such a policy would be likely to be of benefit during the coming financial year.

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 2008, 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 2008, short term incentives paid or payable to key management personnel of the Company / Group totalled \$20,000 & were awarded to Michael Sheppard on the basis of a contractual agreement. Bonuses paid or payable during this and the prior financial year were 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.

100% of the bonus granted on 14 December 2007 was paid in the 2008 financial year. There were no forfeitures. The maximum short term incentive bonus for the 2008 financial year is \$20,000. The minimum amount of short term incentive bonus assuming Michael Sheppard did not meet the personal performance target for the financial year is nil.

The bonus paid to Michael Sheppard represents 9.76% of remuneration received for the 2008 financial year.

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

Directors' Report

30 June 2008 (continued) – Remuneration report

B. Details of remuneration (audited)

Amounts of remuneration

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

100% of 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.

Relationship between the remuneration policy and company performance

There is no relationship between the remuneration policy for key management personnel and the company's performance.

The tables below set out summary information about the consolidated entity's earnings and movement in shareholder wealth for the five years to June 2008:

	\$ 30 June 2008	\$ 30 June 2007	\$ 30 June 2006	\$ 30 June 2005	\$ 30 June 2004
Revenue	92,214	165,534	63,251	389,501	123,598
Net loss before tax	(2,149,664)	(2,561,309)	(2,439,279)	(2,116,968)	(2,785,629)
Net loss after tax	(1,910,925)	(2,304,263)	(2,187,219)	(1,794,208)	(2,115,675)

Imugene Limited adopted the Australian equivalents to International Financial Reporting Standards with effect from 1 July 2004, which resulted in various changes to its accounting policies from that date. The results for the year ended 30 June 2004 are reported in accordance with Imugene Limited's previous accounting policies as permitted under Australian accounting standards as applicable at that time.

	30 June 2008	30 June 2007	30 June 2006	30 June 2005	30 June 2004
Share price at start of year	\$ 0.25	\$ 0.10	\$ 0.13	\$ 0.21	\$ 0.19
Share price at end of year	\$ 0.07	\$ 0.25	\$ 0.10	\$ 0.13	\$ 0.21
Basic loss per share	(1.4)	(1.8)	(1.7)	(1.5)	(2.0)
Diluted loss per share	(1.4)	(1.8)	(1.7)	(1.5)	(2.0)

Imugene Limited adopted the Australian equivalents to the International Financial Reporting Standards with effect from 1 July 2004, which resulted in various changes to its accounting policies from that date. The basic and diluted earnings per share for the year ended 30 June 2004 were calculated in accordance with Imugene Limited's previous accounting policies as permitted under Australian accounting standards as applicable at that time.

Directors' Report

30 June 2008 (continued) – Remuneration report

B. Details of remuneration (audited)

Amounts of remuneration (continued)

Amounts paid or payable to key management personnel of the Company / Group. Alex Neuling and Julie Foster are not key management personnel of the Group but are company executives.

	Short-term benefits			Post-employment benefits		Share-based payment	
	Cash salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Retirement benefits	Options	Total
2008	\$	\$	\$	\$	\$	\$	\$
<i>Non-executive directors</i>							
Roger Steinepreis	25,000	-	-	-	-	-	25,000
Sub-Total non-executive directors	25,000	-	-	-	-	-	25,000
<i>Executive directors</i>							
Graham Dowland	174,996	-	-	-	-	23,703	198,699
Warwick Lamb	180,762	-	37,425	20,642	-	118,515	357,344
<i>Other key management personnel</i>							
Michael Sheppard	160,550	20,000	-	14,450	-	11,540	206,540
<i>Executives - Company secretary</i>							
Alex Neuling (1/7/07 to 29/05/08) *	-	-	-	-	-	-	-
Julie Foster (Appointed 29/05/08) *	-	-	-	-	-	-	-
Totals	541,308	20,000	37,425	35,092	-	153,758	787,583

	Short-term benefits			Post-employment benefits		Share-based payment	
	Cash salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Retirement benefits	Options	Total
2007	\$	\$	\$	\$	\$	\$	\$
<i>Non-executive directors</i>							
Roger Steinepreis	25,000	-	-	-	-	-	25,000
Sub-Total non-executive directors	25,000	-	-	-	-	-	25,000
<i>Executive directors</i>							
Graham Dowland	174,000	-	-	-	-	57,587	231,587
Warwick Lamb	181,573	-	47,469	20,642	-	287,935	537,619
<i>Other key management personnel</i>							
Michael Sheppard	146,789	20,000	-	13,211	-	180,791	360,791
Richard Brandon (14/6/06 to 14/12/06)	67,664	-	-	5,907	-	-	73,571
<i>Executives - Company secretary</i>							
Alex Neuling *	-	-	-	-	-	15,387	15,387
Totals	595,026	20,000	47,469	39,760	-	541,700	1,243,955

*Alex Neuling and Julie Foster are not remunerated by Imugene or any related party. Imugene has contracted a management company to provide a number of services to the Group. The provision of company secretarial services is part of the management fee paid. It is not possible to calculate accurately the proportion of the fee specifically relating to the company secretarial service.

Directors' Report

30 June 2008 (continued) – Remuneration report

C. Service agreements (audited)

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

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

Mr Graham Dowland, *Chairman*

- Term of agreement – indefinite
- Consultancy fee inclusive of superannuation and taxes, but excluding GST of \$175,000 per annum, to be reviewed annually by the board
- Payment of a termination benefit on early termination by the 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 2008 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 2008 of \$175,000.
- 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.

Directors' Report

30 June 2008 (continued) – Remuneration report

D. Share-based compensation (audited)

Options

During the financial year, the following share-based payments arrangements to key management personnel were in existence:

Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date
24 Aug 2005	31 Jan 2006	31 Oct 2007	\$0.50	\$0.01
24 Aug 2005	24 Aug 2005	31 Oct 2007	\$0.38	\$0.03
18 Jan 2007	18 Jan 2007	31 Dec 2009	\$0.25	\$0.16
18 Jan 2007	18 Jan 2008	31 Dec 2009	\$0.25	\$0.17

Details of options over ordinary shares in the Company provided as remuneration to each director of Imugene and each of the key management personnel of the Parent Entity and the Group are set out below. When exercisable, each option is convertible into one ordinary share of Imugene.

	No. of options granted during the year		No. of options vested during the year		During the financial year	
	2008	2007	2008	2007	% of grant vested	% of grant forfeited
Directors of Imugene Limited						
Graham Dowland	-	500,000	250,000	250,000	100%	-
Warwick Lamb	-	2,500,000	1,250,000	1,250,000	100%	-
Other key management personnel of the Group						
Michael Sheppard	-	1,250,000	150,000	1,100,000	100%	-
Alex Neuling	-	100,000	-	100,000	100%	-

Fair Value of Options

The fair value of each option is estimated on the date of grant using the Black-Scholes Option Valuation Model.

No options were granted to KMP during the year ended 30 June 2008.

The model inputs for options granted during the year ended 30 June 2007 included:

	2007
Dividend yield	-
Expected volatility	95.2%
Historical volatility	95.2%
Risk-free interest rate	5.9%
Expected life of option	1.5 years

Directors' Report

30 June 2008 (continued) – Remuneration report

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 (2007: none).

E. Additional Information (audited)

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

No cash bonuses were forfeited during the year by directors or key management personnel or remained unvested at year-end.

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

Name	A Remuneration consisting of options %	B Value at grant date \$	C Value at exercise date \$	D Value at lapse date \$
Directors of Imugene Limited				
Graham Dowland	12%	-	-	-
Warwick Lamb	33%	-	-	-
Roger Steinepreis	0%	-	-	-
Other key management personnel of the Group				
Michael Sheppard	6%	-	-	-

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

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

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

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

Directors' Report

30 June 2008 (continued)

Auditor's Independence Declaration

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included on page 15 of the Annual 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 Ms Julie Foster (formerly Mr Alex Neuling-1 July 2007 to 29 May 2008) 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

8 September 2008

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

8 September 2008

Dear Board Members

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 2008, 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



Mark Gover
Partner
Chartered Accountants

Independent Auditor's Report to the members of Imugene Limited

We have audited the accompanying financial report of Imugene Limited, which comprises the balance sheet as at 30 June 2008 and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 18 to 45.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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



Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

- (a) the financial report of Imugene Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report on pages 7 to 13 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Imugene Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Mark Gover
Partner
Chartered Accountants
Perth, 8 September 2008

Income Statement
For the financial year ended 30 June 2008

		Consolidated		Parent entity	
	Note	2008	2007	2008	2007
		\$	\$	\$	\$
Revenue from continuing operations	(5)	92,214	165,534	825,975	901,362
Other income	(6)	<u>315,630</u>	<u>310,723</u>	<u>315,630</u>	<u>310,723</u>
Total income		407,844	476,257	1,141,605	1,212,085
Research and development		(1,132,644)	(1,077,187)	(1,350,341)	(1,055,520)
Business development		(191,582)	(303,209)	(191,582)	(303,209)
Commercialisation expenses	(7)	(570,932)	(936,819)	(226,878)	(484,983)
Corporate and administration costs		(662,350)	(720,351)	(644,331)	(703,332)
Impairment writedown of investment in controlled entities	(7)	<u>-</u>	<u>-</u>	<u>(878,137)</u>	<u>(1,226,350)</u>
Loss before income tax benefit		(2,149,664)	(2,561,309)	(2,149,664)	(2,561,309)
Income tax benefit	(8)	<u>238,739</u>	<u>257,046</u>	<u>238,739</u>	<u>257,046</u>
Net loss attributable to members of Company		<u>(1,910,925)</u>	<u>(2,304,263)</u>	<u>(1,910,925)</u>	<u>(2,304,263)</u>
Earnings / (loss) per share					
Basic loss per share (cents per share)	(25)	(1.4)	(1.8)		
Diluted loss per share (cents per share)	(25)	(1.4)	(1.8)		

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

Balance Sheet
As at 30 June 2008

	Note	Consolidated		Parent entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Current assets					
Cash and cash equivalents	(9)	1,619,678	1,099,226	1,482,886	868,618
Trade and other receivables	(10)	60,771	1,226	54,635	1,226
Tax assets	(11)	189,869	525,460	189,869	525,460
Total current assets		<u>1,870,318</u>	<u>1,625,912</u>	<u>1,727,390</u>	<u>1,395,304</u>
Non-current assets					
Receivables	(12)	-	-	3,391,834	2,892,548
Other financial assets	(13)	-	-	310,332	1,188,470
Property, plant and equipment	(14)	9,944	10,151	9,944	10,151
Intangible assets	(15)	3,283,165	3,624,305	-	-
Total non-current assets		<u>3,293,109</u>	<u>3,634,456</u>	<u>3,712,110</u>	<u>4,091,169</u>
Total assets		<u>5,163,427</u>	<u>5,260,368</u>	<u>5,439,500</u>	<u>5,486,473</u>
Current liabilities					
Trade and other payables	(16)	400,940	472,618	677,013	698,723
Provisions	(17)	92,425	87,932	92,425	87,932
Total liabilities		<u>493,365</u>	<u>560,550</u>	<u>769,438</u>	<u>786,655</u>
Net assets		<u>4,670,062</u>	<u>4,699,818</u>	<u>4,670,062</u>	<u>4,699,818</u>
Equity					
Contributed equity	(18)	14,907,453	13,180,042	14,907,453	13,180,042
Reserves	(19)	960,003	806,245	960,003	806,245
Accumulated losses	(19)	(11,197,394)	(9,286,469)	(11,197,394)	(9,286,469)
Total equity		<u>4,670,062</u>	<u>4,699,818</u>	<u>4,670,062</u>	<u>4,699,818</u>

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

Cash flow statement
For the financial year ended 30 June 2008

	Note	Consolidated		Parent entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Cash flows from operating activities					
Receipts from customers		25,488	65,413	500	-
Payments to suppliers and employees		(2,111,826)	(2,381,408)	(1,986,137)	(2,363,877)
Income tax repayments received		574,331	273,648	574,331	273,648
Other income		239,107	339,494	239,107	341,067
Net cash outflow from operating activities	(24)	(1,272,900)	(1,702,853)	(1,172,199)	(1,749,162)
Cash flows from investing activities					
Payments for property, plant and equipment		(2,499)	-	(2,499)	-
Interest received		68,440	104,835	61,555	96,704
Net cash inflow from investing activities		65,941	104,835	59,056	96,704
Cash flows from financing activities					
Proceeds from issue of shares		1,828,072	-	1,828,072	-
Issue costs		(100,661)	-	(100,661)	-
Net cash inflow from financing activities		1,727,411	-	1,727,411	-
Net increase / (decrease) in cash and cash equivalents		520,452	(1,598,018)	614,268	(1,652,458)
Cash and cash equivalents at the beginning of the year		1,099,226	2,697,244	868,618	2,521,076
Cash and cash equivalents at the end of the year	(9)	1,619,678	1,099,226	1,482,886	868,618

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 2008

	Note	Consolidated		Parent entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Share Capital					
At the beginning of the year		13,180,042	13,180,042	13,182,042	13,180,042
Issue of shares during the year	(18)	1,828,072	-	1,828,072	-
Costs of issue	(18)	(100,661)	-	(100,661)	-
At the end of the year	(18)	14,907,453	13,180,042	14,907,453	13,180,042
Share Based Payment Reserve					
At the beginning of the year		806,245	264,545	806,245	264,545
Option expense	(19)	153,758	541,700	153,758	541,700
At the end of the year	(19)	960,003	806,245	960,003	806,245
Accumulated losses					
At the beginning of the year		(9,286,469)	(6,982,206)	(9,286,469)	(6,982,206)
Loss for the year	(19)	(1,910,925)	(2,304,263)	(1,910,925)	(2,304,263)
At the end of the year	(19)	(11,197,394)	(9,286,469)	(11,197,394)	(9,286,469)
Total Equity					
At the beginning of the year		4,699,818	6,462,381	4,699,818	6,462,381
At the end of the year		4,670,062	4,699,818	4,670,062	4,699,818
Net income recognised directly in equity					
Loss for the year		-	-	-	-
		(1,910,925)	(2,304,263)	(1,910,925)	(2,304,263)
Total recognised income and expense for the year		(1,910,925)	(2,304,263)	(1,910,925)	(2,304,263)

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

1. Corporate information

The financial report of Imugene Limited (the Company or "Imugene") for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 8 September 2008.

Imugene Limited ("parent entity") is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange. The financial report includes separate financial statements for Imugene as an individual entity and the consolidated entity comprised by Imugene and its subsidiaries ("Group or Consolidated Entity").

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

2. Summary of significant accounting policies

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

a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars, which is Imugene Limited's functional and presentation currency.

Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of Imugene Limited complies with International Financial Reporting Standards (IFRS).

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the reporting period ending 30 June 2008.

The Directors have assessed the impact of these new or amended Standards and Interpretations (to the extent relevant to the Group) and no such revisions or new Standards and Interpretations are expected to have any material impact on the accounting policies of the Group.

Going Concern

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

The Group incurred a net loss of \$1,910,925 for the year to 30 June 2008 and had a net cash outflow from operations of \$1,272,900 for the year. Notwithstanding this, the financial report has been prepared on a going concern basis based on: Available cash assets at year-end of \$1,619,678; receipts of approximately \$130,000 under government grants subsequent to year-end; and, the expectation that the Company will be able to source additional funds if required by means of additional equity and / or debt fund raisings.

The directors consider it probable that the Company will complete a combination of transactions including commercial agreements that will provide additional uncommitted funds for the company's operations. It is also possible that a capital raising will be undertaken before the end of the current financial year. At present the Company has a number of funding alternatives open to it and will continue to assess these options to identify the most advantageous alternative.

In the event that a fund raising cannot be completed within this timeframe, it is expected that expenditure commitments can be deferred sufficiently to enable the Group to continue as a going concern for the foreseeable future.

b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Imugene Limited as at 30 June 2008 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the

2. Summary of significant accounting policies (continued)

impairment of the asset transferred. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Imugene Limited.

c) Foreign currency

All foreign currency transactions during the financial year are translated into the functional currency using the exchange rate prevailing at the date of the transaction.

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

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

d) Revenue recognition

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

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

Management fees to subsidiaries

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

Sale of goods

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

Royalties, licence fees and milestone payments

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

Interest income

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

Dividends

Dividends are recognised as revenue when the right to receive payment is established.

e) 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.

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

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

f) Income tax

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

Deferred tax

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

2. Summary of significant accounting policies (continued)

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

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

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

Current and deferred tax for the period

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

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

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

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

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable or payable to other entities in the Group.

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

g) Impairment of assets

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

An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

2. Summary of significant accounting policies (continued)

h) Cash and cash equivalents

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

i) Financial assets

Investments in subsidiaries are measured at cost.

Other financial assets are classified as financial assets 'at fair value through the profit or loss', 'held to maturity investments', 'available for sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose for which the financial assets were acquired and is determined at the time of initial recognition.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables, loans, and other receivables are subsequently recorded at amortised cost, using the effective interest method, less impairment.

Impairment

The consolidated entity assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

j) Property, Plant and equipment

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

Depreciation is calculated on a straight line basis so as to write off the cost of each asset, net of residual values over their estimated useful lives, as follows:

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

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

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

k) 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.

Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets 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.

2. Summary of significant accounting policies (continued)

Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Intangible assets acquired in a business combination

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

l) Payables

Trade payables and other accounts payable represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

m) 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.

n) Employee benefit

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

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

o) Defined contribution superannuation plans

Contributions to defined contribution superannuation plans are expensed when incurred.

p) Share-based payments

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

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

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

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions

2. Summary of significant accounting policies (continued)

about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

q) 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.

Contributed equity

Ordinary shares are classified as equity.

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

r) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

s) Good and services tax

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

- i. where the amount of GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense; or
- ii. for receivables and payables which are stated inclusive of GST receivable or payable.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of other receivables or payables in the balance sheet. 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 are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

3. Financial risk management

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

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

The Group and the parent entity hold the following financial instruments:

3. Financial risk management (continued)

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	1,619,678	1,099,226	1,482,886	868,618
Loans and receivables	60,771	1,226	54,635	1,226
	<u>1,680,449</u>	<u>1,100,452</u>	<u>1,537,521</u>	<u>869,844</u>
Financial liabilities				
Amortised cost	<u>400,940</u>	<u>442,275</u>	<u>677,013</u>	<u>668,380</u>

a) Market risk

i. Foreign exchange risk

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

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

The parent entity's financial assets and liabilities are all denominated in Australian dollars. The carrying amounts of the Groups financial assets and liabilities are denominated in Australian dollars except as set out below:

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	US \$	US \$	US \$	US \$
Financial assets				
Cash and cash equivalents	<u>12,798</u>	<u>114,789</u>	<u>-</u>	<u>-</u>

Group sensitivity

Based on the financial instruments held at 30 June 2008, had the Australian dollar weakened/strengthened by 10% against the US dollar with all the other variables held constant, the Group's loss for the year would have been \$1,300 lower / higher (2007 - \$14,000 lower / higher) mainly as a result of foreign exchange gains/losses on translation of US dollar denominated financial instruments as detailed in the above table. The loss is less sensitive to movements in the Australian dollar / US dollar exchange rates in 2008 than 2007 because of the decreased amount of US dollar denominated cash and cash equivalents. The Group's exposure to other foreign exchange movements is not material.

Parent entity sensitivity

The parent entity's exposure to foreign exchange movements is not material.

ii. Interest rate risk

As at and during the year ended on balance date the Group had no significant interest-bearing assets or liabilities other than liquid funds on deposit. As such, the Group's income and operating cash flows (other than interest income from funds on deposit) are substantially independent of changes in market

3. Financial risk management (continued)

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

		Consolidated		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Financial assets					
Cash and cash equivalents	Floating rate*	<u>1,619,678</u>	<u>1,099,226</u>	<u>1,482,886</u>	<u>868,618</u>

* Weighted average effective interest rate 6.1% (2007 - 5.1%)

Group sensitivity

At 30 June 2008, if interest rates had changed by +/- 80 basis points from the year end rates with all other variables held constant, the loss for the year would have been \$13,000 lower / higher (2007 – change of 80 basis points: \$12,000 lower / higher), mainly as a result of lower / higher interest income from cash and cash equivalents.

Parent entity sensitivity

At 30 June 2008, if interest rates had changed by +/- 80 basis points from the year end rates with all other variables held constant, the loss for the year would have been \$10,000 lower / higher (2007 – change of 80 basis points: \$7,000 lower / higher), mainly as a result of lower / higher interest income from cash and cash equivalents.

iii. **Commodity price risk**

The Group is not exposed to commodity price risk.

b) **Credit risk**

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

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on page 28.

		Consolidated		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Cash at bank and short-term bank deposits					
AA Rated		<u>1,619,678</u>	<u>1,099,226</u>	<u>1,482,886</u>	<u>868,618</u>

c) **Liquidity risk**

Prudent liquidity risk 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. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

3. Financial risk management (continued)

Maturities of financial liabilities

Group – As at the reporting date the Group had total financial liabilities of \$400,940 (2007: \$442,275), comprised of non interest-bearing trade creditors and accruals with a maturity of 1 - 3 months.

Parent Entity – As at the reporting date the Parent Entity had total financial liabilities of \$677,013 (2007: \$668,380), comprised of non interest-bearing trade creditors and accruals with maturity of 1-3 months.

d) Fair value estimation

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

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

e) Capital risk management

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

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

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

4. Critical accounting estimates & judgements

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

a) Significant accounting 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 19.

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 2008, the carrying value of Patents, licences and other rights is \$3,283,165 (2007: \$3,624,305).

5. Revenue

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
From continuing operations				
<i>Sales revenue</i>				
Management fees	-	-	765,647	807,800
	-	-	765,647	807,800
<i>Other revenue</i>				
Sub-license /contract research fees	25,000	63,841	-	-
Interest	67,214	101,693	60,328	93,562
	92,214	165,534	60,328	93,562
	92,214	165,534	825,975	901,362

6. Other income

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Government grants	315,130	309,151	315,130	309,151
Other	500	1,572	500	1,572
	315,630	310,723	315,630	310,723

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

Imugene announced on 8 November 2006 that it had been awarded an Australian government Commercial Ready grant to produce and test vaccines to protect chickens from the avian influenza. The total grant amount is expected to be approximately \$880,000 on a matched funding basis. Originally the payments were to be drawn over two years in line with the Company's actual and forecast spending on the project. During the year the Company was granted a variation to extend the project period to a total of two years and six months. As at balance sheet date, an amount of \$45,680 has been classified as accrued income in relation to receipts under the grant (refer to note 10). (2007: \$30,343 deferred income – refer note 16).

Previously, funding has also been received under two Biotechnology Innovation Fund grants (also on a matched funding basis) for projects which have been completed.

7. Expenses

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Depreciation of non-current assets				
Tangible fixed assets	2,706	4,565	2,706	4,565
Commercialisation expenses				
Patent expenses	38,210	178,107	35,296	67,411
Employee expenses	191,582	417,572	191,582	417,572
Amortisation of intangibles	341,140	341,140	-	-
	570,932	936,819	226,878	484,983
Impairment writedown				
Investments in wholly-owned subsidiaries	-	-	(878,137)	(1,226,350)

8. Income Tax

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Current tax	189,869	202,929	189,869	202,929
Under provision recognised in prior years	48,870	54,117	48,870	54,117
	238,739	257,046	238,739	257,046

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

Accounting loss before tax from continuing operations	(2,149,664)	(2,561,309)	(2,149,664)	(2,561,309)
Tax at the Australian statutory income tax rate of 30% (2007: 30%)	(644,899)	(768,393)	(644,899)	(768,393)
Tax effect of amounts which are not deductible /(taxable) in calculating taxable income				
Research & development expenses (claimed under Tax Concession)	187,148	187,791	187,148	187,791
Share-based payment expense	46,127	162,510	46,127	162,510
Sundry other	-	10,969	-	5,887
Tax effect of temporary timing differences in relation to unrecognised deferred tax assets / liabilities: (i) (ii)				
Impairment writedown	-	-	263,441	367,156
Patent costs	11,463	45,564	10,589	18,909
Sundry other	(65,574)	(10,968)	(54,605)	(10,968)
	(465,735)	(372,527)	(192,199)	(37,108)
Less tax losses not recognised (ii)	465,735	372,527	192,199	37,108
Research & Development Tax Concession				
Current Year	189,869	202,929	189,869	202,929
Under provision recognised in prior year	48,870	54,117	48,870	54,117
Income tax benefit	238,739	257,046	238,739	257,046

(i) Deferred tax liability arising from temporary differences attributable to:

Amounts recognised in profit or loss	(42,728)	(56,380)	(42,278)	(56,380)
Less set off of deferred tax assets under set-off provisions	42,728	56,380	42,278	56,380

(ii) Deferred tax assets not recognised

Arising from temporary differences attributable to:

Amounts recognised in profit or loss	126,444	317,384	1,872,197	1,426,976
Amounts recognised directly in equity	76,379	81,461	76,379	81,461
Carried forward tax losses	2,224,522	1,758,787	2,224,522	1,758,787

9. Current assets – Cash and cash equivalents

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash at bank and in hand – AUS dollars	1,606,354	963,957	1,482,886	868,618
Cash at bank and in hand – US dollars	13,324	135,269	-	-
	<u>1,619,678</u>	<u>1,099,226</u>	<u>1,482,886</u>	<u>868,618</u>

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

(a) Foreign exchange and Interest rate risk exposure

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

10. Current assets – Trade and other receivables

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Accrued income (refer note 6)	45,680	-	45,680	-
Goods and services tax recoverable	6,136	-	-	-
Other	8,955	1,226	8,955	1,226
	<u>60,771</u>	<u>1,226</u>	<u>54,635</u>	<u>1,226</u>

(a) Foreign exchange and Interest rate risk exposure

Information about the Group's and the parent entity's exposure to foreign exchange risk and interest rate risk in relation to trade and other receivables is provided in note 3.

(b) Fair value

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

11. Current assets – Tax assets

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Research & development tax concession receivable	189,869	525,460	189,869	525,460

12. Non-current assets – Receivables

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Receivables from wholly-owned subsidiaries				
At amortised cost	<u>-</u>	<u>-</u>	<u>3,391,834</u>	<u>2,892,548</u>

(a) Fair values

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Receivables from wholly-owned subsidiaries	<u>-</u>	<u>-</u>	<u>3,391,834</u>	<u>2,892,548</u>

The loans to subsidiaries are interest free and have no fixed repayment terms. No allowance has been made for doubtful debts.

13. Non-current assets – Other financial assets

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Investments in wholly-owned subsidiaries				
At cost	-	-	6,695,912	6,695,912
Less impairment write-down	<u>-</u>	<u>-</u>	<u>(6,385,580)</u>	<u>(5,507,442)</u>
	<u>-</u>	<u>-</u>	<u>310,332</u>	<u>1,188,470</u>

(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 2008 consisted of:

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

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

At balance date amounts receivable from controlled entities totalled \$3,391,834 (2007: \$2,892,548).

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

(b) Investments in Controlled Entities

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding	
			2008 %	2007 %
Controlled Entities				
Brightsun Investments Pty Ltd	Australia	Ordinary	100	100
VectoGen Pty Ltd	Australia	Ordinary	100	100
BioMimic Technologies Pty Ltd	Australia	Ordinary	100	100
Paragen Pty Ltd	Australia	Ordinary	100	100

(c) Ultimate Parent Company

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

14. Non-current assets – Property, plant & equipment

	Consolidated		Parent entity	
	2008 \$	2007 \$	2008 \$	2007 \$
Plant & equipment				
At cost	32,366	29,866	32,366	29,866
Accumulated depreciation	<u>(24,857)</u>	<u>(22,348)</u>	<u>(24,857)</u>	<u>(22,348)</u>
Total plant and equipment (a)	7,509	7,518	7,509	7,518
Fixtures and Fittings				
At cost	3,675	3,675	3,675	3,675
Accumulated depreciation	<u>(1,240)</u>	<u>(1,042)</u>	<u>(1,240)</u>	<u>(1,042)</u>
Total fixtures and fittings (a)	<u>2,435</u>	<u>2,633</u>	<u>2,435</u>	<u>2,633</u>
Total net book value	<u>9,944</u>	<u>10,151</u>	<u>9,944</u>	<u>10,151</u>

(a) Reconciliations

Plant and Equipment

Carrying amount at beginning of year	7,518	19,382	7,518	19,382
Additions	2,499	-	2,499	-
Disposals	-	(7,512)	-	(7,512)
Depreciation expense	<u>(2,508)</u>	<u>(4,352)</u>	<u>(2,508)</u>	<u>(4,352)</u>
Total plant & equipment	<u>7,509</u>	<u>7,518</u>	<u>7,509</u>	<u>7,518</u>

Fixtures and Fittings

Carrying amount at beginning of year	2,633	2,846	2,633	2,846
Depreciation expense	<u>(198)</u>	<u>(213)</u>	<u>(198)</u>	<u>(213)</u>
Total fixtures and fittings	<u>2,435</u>	<u>2,633</u>	<u>2,435</u>	<u>2,633</u>

15. Non-current assets –Intangible assets

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Patents, licences and other rights				
Opening cost	<u>5,117,095</u>	5,117,095	-	-
Closing cost	<u>5,117,095</u>	5,117,095	-	-
Accumulated amortisation at the start of the year	<u>(1,492,790)</u>	(1,151,650)	-	-
Amortisation charge	<u>-</u>	(341,140)	-	-
Accumulated amortisation at the end of the year	<u>(1,833,930)</u>	(1,492,790)	-	-
Opening net book amount	<u>3,624,305</u>	3,965,445	-	-
Closing net book amount	<u>3,283,165</u>	3,624,305	-	-

The Group holds a number of patents and licences in relation to its Adenoviral Vector Delivery platform technology. The patented Porcine and Fowl Adenoviral Vector Delivery Systems (PAV and FAV) are biological platform technologies for the pig and poultry industry. From these two systems, vaccines and biologically based productivity enhancers are constructed. There are no unfulfilled performance conditions in relation to the Group's rights to use these patents and licences, however under the terms of the licences the Group is responsible for the upkeep of the patents and patent applications. Imugene's R&D expenditure during the period relates principally to the continued development of these technologies and the vaccines and vaccine candidates derived from them.

The carrying amount of these patents and licences of \$3,283,165 (2007: \$3,624,305) will be fully amortised in 10 years (2007: 11 years). It remains Imugene's strategy to realise the value of these assets by progressing vaccines derived from the technologies through to a stage where remaining regulatory, marketing and manufacturing processes can be licensed or otherwise outsourced to major animal health companies and / or contract facilities.

16. Current liabilities – Trade and other payables

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Trade payables	<u>379,526</u>	419,045	<u>379,516</u>	419,035
Deferred Income (refer note 6)	-	30,343	-	30,343
Other payables	<u>21,414</u>	23,230	<u>297,497</u>	249,345
	<u>400,940</u>	472,618	<u>677,013</u>	698,723

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

(a) Fair value

The carrying amount of trade payables is a reasonable approximation of fair value.

(b) Foreign exchange risk exposure

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

17. Current liabilities – Provisions

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Employee benefits - annual leave	<u>92,425</u>	87,932	<u>92,425</u>	87,932
	<u>92,425</u>	87,932	<u>92,425</u>	87,932

17. Current liabilities – Provisions (continued)

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

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

18. Contributed equity

	Consolidated & Parent entity		Consolidated & Parent entity	
	2008	2007	2008	2007
	Shares	Shares	\$	\$
(a) Share capital				
Fully paid ordinary shares	<u>143,637,520</u>	<u>130,579,564</u>	<u>14,907,453</u>	<u>13,180,042</u>

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

(b) Movements in ordinary share capital

Description	Date	Number of shares	\$
Opening balance	01 July 2006	130,579,564	13,180,042
Balance	30 June 2007	<u>130,579,564</u>	<u>13,180,042</u>
Rights issue	23 January 2008	4,212,495	589,749
Placement	31 January 2008	8,845,161	1,238,323
Less: transaction costs arising on issue			<u>(100,661)</u>
Closing balance	30 June 2008	<u>143,637,220</u>	<u>14,907,453</u>

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 20.

(a) Rights issue

On 3 December 2007 the company invited its shareholders to subscribe to a fully underwritten, non-renounceable rights issue on the basis of 1 share for every 10 fully paid ordinary shares held at an issue price of \$0.14 per share.

4,212,495 ordinary shares were taken up in the rights issue raising \$589,749 before costs of issue.

The first \$200,000 (1,428,571 shares) of the shortfall were sub-underwritten by the directors of Imugene. 7,416,590 shortfall shares were issued to professional and sophisticated investor clients nominated by the underwriter. The total amount raised from the underwritten shares was \$1,238,323 before costs of issue.

19. Reserves and accumulated losses

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
(a) Share-based payment reserve				
Balance 1 July	806,245	264,545	806,245	264,545
Option expense	153,758	541,700	153,758	541,700
Balance 30 June	960,003	806,245	960,003	806,245
(b) Accumulated losses				
Balance 1 July	9,286,469	6,982,206	9,286,469	6,982,206
Net loss for the year	1,910,925	2,304,263	1,910,925	2,304,263
Balance 30 June	11,197,394	9,286,469	11,197,394	9,286,469

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

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

	Consolidated & Parent entity	
	2008	2007
	\$	\$
Recognised as part of		
Research & development expense	81,494	277,887
Business development expense	36,132	95,420
Commercialisation expense	36,132	153,007
Corporate and Administration expense	-	15,386
	153,758	541,700

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

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

The weighted average fair value of options granted during the year was \$0.002 per option (2007: \$0.16). Key inputs to the model used in the calculation were as follows:

- Expected price Volatility – 35.5% (2007: 95%) 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 in note 20)
- Expiry dates – (contractual expiry date of options, as disclosed in note 20)
- Share price at grant date -\$0.07. (2007: \$0.30)

20. Options

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

Description	2008 Number	2007 Number	Exercise Price	Expiry
Unlisted performance options				
Type 1	-	4,633,333	\$ 0.225	31-Oct-07
Type 6	-	333,333	\$ 0.375	31-Oct-07
Type 7	-	200,000	\$ 0.500	31-Oct-07
Type 9	4,350,000	4,350,000	\$ 0.250	31-Dec-09
Type 10	3,000,000	-	\$ 0.200	31-Mar-11
Total	<u>7,350,000</u>	<u>9,516,666</u>		

The options issued during the year vest on 30 September 2008. There are no specific vesting conditions attached. Options carry no dividend or voting rights. Upon exercise, each option is convertible into one ordinary share to rank pari passu in all respects with the Company's existing fully paid ordinary shares.

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

	2008 Number	2007 Number
At 1 July	9,516,666	15,666,666
Granted during the year		
Type 9	-	4,350,000
Type 10	3,000,000	-
Expired during the year		
Listed Options	-	(4,250,000)
Type 1	(4,633,333)	-
Type 2	-	(2,000,000)
Type 3	-	(2,000,000)
Type 4	-	(2,000,000)
Type 5	-	(200,000)
Type 6	(333,333)	-
Type 7	(200,000)	-
Type 8	-	(50,000)
At 30 June	<u>7,350,000</u>	<u>9,516,666</u>

21. Key management personnel disclosures

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

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

- (b) Other than the directors, 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.

2008

Dr Michael Sheppard (Chief Scientific Officer)

2007

Dr Michael Sheppard (Chief Scientific Officer)

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

In addition, the Company Secretary, Julie Foster appointed 29 May 2008, is deemed a Company executive under s9 of the *Corporations Act 2001*. Alex Neuling held the office of Company Secretary from 1 July 2007 to 29 May 2008 and therefore is deemed a company executive under s9 of the *Corporations Act 2001*, for this period.

- (c) Key management personnel compensation

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Short term employee benefits	598,733	662,495	598,733	662,495
Post-employment benefits	35,092	39,760	35,092	39,760
Share-based payments	153,758	541,700	153,758	541,700
	<u>787,583</u>	<u>1,243,955</u>	<u>787,583</u>	<u>1,243,955</u>

21. Key management personnel disclosures (continued)

Equity instrument disclosures relating to key management personnel

(i) Option holdings

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

	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance when ceased to hold office	Balance at the end of the year	Vested and exercisable	Unvested
2008								
Directors of Imugene Limited								
Graham Dowland	500,000	-	-	-	-	500,000	500,000	-
Warwick Lamb	2,500,000	-	-	-	-	2,500,000	2,500,000	-
Roger Steinepreis	-	-	-	-	-	-	-	-
Other key management personnel of the Group								
Michael Sheppard	1,500,000	-	-	(250,000)	-	1,250,000	1,250,000	-
2007								
Directors of Imugene Limited								
Graham Dowland	2,500,000	500,000	-	(2,500,000)	-	500,000	250,000	250,000
Warwick Lamb	2,500,000	2,500,000	-	(2,500,000)	-	2,500,000	1,250,000	1,250,000
Roger Steinepreis	-	-	-	-	-	-	-	-
Other key management personnel of the Group								
Michael Sheppard	1,500,000	1,250,000	-	(1,250,000)	-	1,500,000	1,350,000	150,000

21. 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 start of the year	Acquired	Other changes	Balance at the end of the year
2008				
Directors of Imugene Limited				
Graham Dowland	6,790,002	877,574	-	7,667,576
Warwick Lamb	6,400,001	1,270,001	-	7,670,002
Roger Steinepreis	4,263,678	726,368	-	4,990,046
Other key management personnel of the Group				
Michael Sheppard	156,589	115,659	-	272,248
2007				
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	-	(72,000)	156,589

(iii) Loans to key management personnel

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

(iv) Other transactions with key management personnel

During the year, Vetspec Pty Ltd and VSC Services Pty Ltd, companies of which Dr Warwick Lamb is a director and beneficial shareholder, provided a serviced office (in Sydney) and other administration services to the Company. For the year ended 30 June 2008, the Company paid totalling \$66,000 (2007: \$66,000) to Vetspec Pty Ltd and VSC Services Pty Ltd and this has been recognised in the financial statements as an expense.

The aggregate amount recognised as an expense in relation to these transactions is \$66,000 (2007: \$66,000).

22. 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	
	2008	2007	2008	2007
	\$	\$	\$	\$
Deloitte Touche Tohmatsu for: - an audit or review of financial reports and other audit work under the Corporations Act 2001	53,700	40,625	35,000	40,625
Unrelated audit firms for audit of regulatory returns	1,200	3,500	1,200	3,500
Total remuneration for audit services	54,900	44,125	36,200	44,125

23. 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.

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

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Loss for the year	(1,910,925)	(2,304,263)	(1,910,925)	(2,304,263)
Depreciation and amortisation	343,846	345,705	2,706	4,565
Share based payment (note 19)	153,758	541,700	153,758	541,700
Interest income	(67,214)	(101,693)	(60,328)	(93,562)
Provision for employee benefits	4,493	14,495	4,493	14,495
Impairment writedown on investments in wholly-owned subsidiaries	-	-	878,137	1,226,350
Loss on disposal of fixed assets	-	7,511	-	7,511
Decrease /(increase) in working capital	203,142	(206,308)	(240,040)	(1,145,958)
Net cash outflow from operating activities	(1,272,900)	(1,702,853)	(1,172,199)	(1,749,162)

25. Earnings / (Loss) per share

	Consolidated	
	2008	2007
	Cents	Cents
Basic / diluted loss per share		
Loss attributable to the ordinary equity holders of the Company	<u>(1.4)</u>	<u>(1.8)</u>
	\$	\$
Loss used in calculation of basic / diluted loss per share		
Loss	<u>(1,910,925)</u>	<u>(2,304,263)</u>
	Number	Number
Weighted average number of ordinary shares / potential ordinary shares used as the denominator in calculating basic / diluted loss per share	<u>136,431,579</u>	<u>130,579,564</u>

The options on issue (note 20) 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:

26. Subsequent events

Subsequent to year-end, the Company received \$142,000 (inclusive of GST) from AusIndustry under its Commercial Ready grant in respect of the quarters to 31 March 2008, and 30 June 2008.

On 20 August 2008, the Company announced that the preliminary results from the recent trials of the modified PRRS vaccine have been successful. The PRRS vaccine has proved to be highly effective in the degree of protection it provides against the PRRS disease. The directors anticipate that these results will be used in discussions with major international animal health companies with a view to possible licensing agreements.

Other than as disclosed above, no event has arisen since 30 June 2008 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.

27. Contingencies

The Consolidated Entity has no contingent assets or liabilities at balance date (2007: none).

28. Related party transactions

There have been no transactions with related parties during the year ended 30 June 2008 other than as disclosed elsewhere in the financial report (2007: none).

In the directors' opinion:

- (a) The financial statements and notes set out on pages 18 to 44 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 2008 and of their performance, 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

The directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the *Corporations Act 2001*.

A handwritten signature in black ink, appearing to read "Graham Dowland", with a long horizontal line extending from the end of the signature.

GRAHAM DOWLAND
Chairman

Perth, 8 September 2008