Innate Immunotherapeutics

Annual Report 2016

On 13 April 2016, we announced that we had closed enrolment into our Phase 2B placebo controlled efficacy trial of MIS416 in patients with SPMS. With this significant clinical development milestone achieved, we can now advise that the Phase 2B study should be completed in April next year and that a substantive initial clinical trial report should be released about four months later.

Contents

AGM

NOTICE is given that the Annual General Meeting of the Company will be held at Grant Thornton, Seagrass Room, Level 17, 383 Kent Street, Sydney NSW Australia at 11.00am on Wednesday, 31 August 2016.

Chairman's Letter

I can also report strong ongoing interest in the Phase 2B study from several major pharmaceutical companies. If the clinical trial is successful, Innate will pursue a major partnering transaction with one of these interested parties.

Dear Fellow Shareholder

On behalf of Innate Immunotherapeutics' Board and management, I am pleased to provide you with our 2016 Annual Report.

Innate has made significant progress in the past year.

In May 2015 the Company was invited to join the Multiple Sclerosis Outcome Assessments Consortium (MSOAC). The Consortium includes clinicians and researchers at leading international academic institutions, pharmaceutical companies active in the development of MS-related therapies, regulators including the FDA, and patient advocacy groups including the National MS Society. MSOAC is undertaking the development of a clinical outcome assessment tool for use in future MS clinical trials. Such a tool, which could comprise a number of clinical tests, would improve and accelerate the evaluation of new therapies for progressive MS. We are the first pre-market stage company to be invited to join this group which I think further validates the importance of our current clinical programme in secondary progressive multiple sclerosis (SPMS).

In September we announced the appointment of Dr Robert Peach as an additional independent director. Dr Peach has over 25 years of drug discovery and development experience in the Pharmaceutical and Biotechnology industry with a specific focus in recent years on MS. In 2009 he co-founded Receptos and was Chief Scientific Officer. Receptos raised US$59 million in venture capital and US$800 million in an IPO and three subsequent follow-on offerings before being acquired in August 2015 Celgene for US$7.8 billion.

On 13 April 2016, we announced that we had closed enrolment into our Phase 2B placebo controlled efficacy trial of MIS416 in patients with SPMS. With this significant clinical development milestone achieved, we can now advise that the Phase 2B study should be completed in April next year and that a substantive initial clinical trial report should be released about four months later.

I can also report strong ongoing interest in the Phase 2B study from several major pharmaceutical companies. If the clinical trial is successful, Innate will pursue a major corporate or partnering transaction with one of these interested parties.

In the meantime, MIS416 continues to provide a significant and sustained benefit as self-reported by a group of SPMS sufferers in New Zealand who have been accessing the drug on a continuous 'compassionate use' basis for between one year and almost eight years. Late last year several of these patients described their experience with MIS416 to a Melbourne based MS patient advocacy group. Videos of these interviews can be viewed on Innate's website.

We continue to be very grateful for the encouragement and support of our shareholders. Since September 2015, the Company has successfully raised A$10.5 million (~$3.4 million being subject to shareholder approval at our upcoming AGM) of additional capital by placements and a rights issue. These funds will ensure that we have sufficient cash reserves to complete the current 2B trial, explore other potential applications for our technology, advance the development of an industrial scale manufacturing method for our drug and also seek FDA approval for an investigational new drug programme in the United States.

I would like to sincerely thank the board, management and staff for their focus on the task at hand – which is to prove that MIS416 can make a significant difference to the lives of people suffering with SPMS. If we can accomplish this over the next 12 months then I think our efforts will be well rewarded.

Michael A Quinn
CHAIRMAN

CEO's Report

SPMS – WHAT IS IT AND WHY DO WE CARE?

Secondary progressive multiple sclerosis (SPMS) is a highly disabling form of multiple sclerosis (MS) that currently affects about 30% of MS sufferers worldwide. Unfortunately there are no approved drugs available to provide safe, effective, long-term ongoing treatment for people with SPMS.

In the absence of effective treatment, most people suffering SPMS become progressively more disabled over time and life expectancy is shortened. Their symptoms can include upper and lower extremity disabilities, visual disturbances, balance and coordination problems, fatigue, bladder and bowel problems, sexual dysfunction, and cognitive and emotional disturbances. As a result people with SPMS are often forced to leave the work force years or decades before normal retirement age with the result that the disease can be as financially crippling as it is physically and emotionally disabling.

We care about SPMS because for almost eight years we have been supplying our drug candidate MIS416 on 'compassionate grounds' to a small number of general medical practitioners in New Zealand who are caring for their patients with SPMS. As a result of monitoring the effects of MIS416 treatment in these patients we have become very familiar with these women and men and the daily challenges they face. We care because over two thirds of these women and men have reported to us that MIS416 has made a real and sustained difference to how they now get on with their activities of daily living. It is because of this patient self-reporting, and the reports from the doctors, care givers and supporters of these patients, that Innate Immunotherapeutics commenced the formal clinical trialling of MIS416 in people with SPMS.

The United States National MS Society (NMSS) also greatly cares about the significant unmet medical in people living with SPMS and they were instrumental in our decision to pursue SPMS as the first disease to treat with MIS416. The NMSS provided us with US$550,000 to partly fund the initial clinical trials of MIS416. The NMSS is currently our 8th largest shareholder.

SPMS – WHAT ARE WE DOING ABOUT IT?

Our early clinical programme in SPMS commenced with a four week Phase 1B trial in 18 patients with progressive MS and a 12 week Phase 2A trial in 15 patients with SPMS. The usual requirement to carry out a Phase 1A 'first in man' study in healthy subjects was waived by the NZ regulator recognising that we had already been providing MIS416 to some patients on compassionate grounds. The 1B and 2A studies demonstrated that MIS416 was safe and well tolerated by the patients.

In the open label non-placebo controlled 2A study, the effects of MIS416 treatment on the patient's MS related clinical status were recorded and earlier this year were subjected to expert third party post hoc analysis. This analysis concluded that all but 1 of the 11 patients who completed the 2A study meet or exceeded the threshold for being a clinical 'responder' on at least 1 measure of clinical status and that there was statistical significance to this finding. These results are expected to be peer reviewed and published in more detail in the second half of 2016.

We are now on the homeward stretch of a Phase 2B randomised double blinded placebo controlled trial of MIS416 in subjects with SPMS. The trial is being conducted at 5 sites in Australia and 2 sites in New Zealand. Recruitment commenced in late 2014 and in April this year we announced that the trial had achieved full enrolment. In fact we successfully enrolled 93 patients compared to the study target of 90. Patients in the study have been randomised on a 2:1 basis to receive either MIS416 or a non-active placebo once weekly for 52 weeks. With enrolment now complete we know that the clinical phase of trial should be completed by the end of April 2017. We expect to report the results of the trial about four months later, in August or September 2017.

What are we doing about the patients who have completed the trial?

To date about 20 patients have completed their 12 months on the study. Almost all of these patients have requested post-trial access to MIS416 and we have been working closely with the trial sites and the patients' general medical practitioners to ensure that wherever possible this can happen. In Australia such post-trial 'open label' access takes place under the Therapeutic Goods Administration (TGA) 'Special Access Scheme'. In New Zealand it takes place under an exemption available to doctors to use an unapproved medicine where there are no other effective treatment options. We will keep in regular contact with these former trial patients to collect on going information and about what effects MIS416 treatment is having on their daily lives.

IF IT WORKS CAN MIS416 BE USED IN OTHER NEUROLOGICAL CONDITIONS?

In SPMS the body's ability to the repair the myelin 'insulation' which surrounds the axons in the central nervous system (CNS) cannot keep up with the ongoing damage occurring to this protective myelin sheath. The exact causes/mechanisms of this ongoing damage to the myelin in SPMS are still not well understood. What scientists working in the field have established however is that myeloid derived innate immune cells can play a vital role in limiting inflammation and promoting myelin repair in CNS disorders including progressive MS. What we have shown is that in numerous preclinical studies MIS416 targets these important myeloid derived innate cells.

If our current Phase 2B study proves that MIS416 has a positive clinical effect in patients with SPMS then it is very likely that an ability to limit inflammation and promote myelin repair could be highly relevant to certain other neurological conditions. Accordingly during the past 12 months we have filed new patent applications seeking to protect the use of MIS416 to treat epilepsy and Alzheimer's disease and the use of MIS416 for the protection and/or repair of the nervous system.

WHAT ARE WE DOING TO PREPARE FOR PHASE 3 APPROVAL TRIALS?

Clinical trialling is inherently a risky business and many promising drug candidates do not advance to Phase 3 approval trials. We have a significant degree of confidence that at the end of the current Phase 2B trial MIS416 will show a positive and meaningful treatment effect compared to placebo treatment. This confidence comes from the ongoing positive reports from the SPMS sufferers in our compassionate use programme and also our understanding of the drug's mechanism of action. We are also confident that a successful Phase 2B result will generate the necessary investment and/or partnering interest to finance a Phase 3 programme.

Given these factors, we are accelerating preparations for Phase 3. In particular we have started a project to develop an industrial scale manufacturing method for the production of MIS416. We are also now seeking approval from the United States Food and Drug Administration for an Investigational New Drug programme in the United States. Both these initiatives could materially reduce the transition time from the end of a successful Phase 2B and the commencement of a Phase 3 approval programme. Such initiatives could also have a materially positive effective on the value of a commercial transaction at the end of the 2B trial.

WHAT ELSE HAVE WE BEEN DOING IN THE PAST 12 MONTHS?

The current 2B study is generating a regular patient blood samples which are being intensively analysed by our in-house science team and also a network of international scientific collaborators. We are seeking to further refine our understanding of the drug's mechanism of action and to also potentially discover biomarkers that could be used to refine patient selection and treatment effect.

Our collaborative cancer vaccine work is ongoing with the clinical and financial 'heavy lifting' being undertaken by our colleagues at Mie University (Japan) and Roswell Park Cancer Institute (Buffalo, NY). The Mie University Phase 1 trial of MIS416 combined with their proprietary cancer antigen in up to 24 patients with a sub type of refractory urothelial cancer (UC) or castration-resistant prostate cancer (CRPC) has reported acceptable safety and tolerability in refractory UC and CRPC patient with promising anti-tumour efficacy in CRPC patients. Further trials are being considered. Roswell Park are continuing with the preparation of an investigational New Drug (IND) application for discussion with the FDA in support of a clinical programme in ovarian cancer.

Preclinical evaluation for whether the immuno-modulating microparticles that comprise MIS416, if delivered orally, could target the correct immune cells and generate the appropriate immune response is ongoing. While early results have been encouraging, a considerable amount of work remains to be done before we can realistically assess whether an oral formulation of MIS416 would be effective.

IN SUMMARY

It has been an extremely busy 12 months for our small team of nine full time and three part time employees. It has also been extremely busy at the seven sites conducting the Phase 2B trial with the leading three sites managing up to 20 patient visits per week at each site. Everyone involved with the SPMS programme is committed to achieving clinical success and we are all looking forward to completion of the trial in April next year and the release of the results in August or September 2017.

Innate Immunotherapeutics Limited
ACN 165 160 841

Financial Statements

For the year ended 31 March 2016

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Directors' Report

for the year ended 31 March 2016

Your directors present their report on Innate Immunotherapeutics Limited (the "Company") and its subsidiary Innate Immunotherapeutics (NZ) Limited (together the "Group") for the year ended 31 March 2016.

DIRECTORS

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

Michael Quinn

Simon Wilkinson

Liz Hopkins

Christopher Collins

Andrew Sneddon

Robert Peach (appointed 2 September 2015)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

INFORMATION ON DIRECTORS

Details of the current directors' qualifications, experience and responsibilities are detailed below:

Michael Quinn (BSc, BEc, MBA (Harvard) – (68 years) – *Non-Executive Chairman*

Mr Quinn co-founded Innovation Capital in 1999 and is Managing Partner of the firm. Michael's experience encompasses a broad range of industries including banking, high technology plastics, environmental, electronics, wireless, alternative energy, pharmaceutical and medical device industries in US, Europe and Australia. Michael has advised and mentored numerous companies in operational, strategic and financial matters. As an executive and director he has participated in ASX, AIM, NASDAQ and NYSE initial public offerings and has extensive M&A experience.

In 2013 Michael retired as a director of ResMed Inc (ASX and NYSE: RMD), after 21 years. ResMed is a world leader in the respiratory healthcare market. Michael also co-founded Memtec which was acquired by US Filter in 1997 for US$400 million.

Michael is a Director and Chairman of the Company and was appointed on 19 September 2013.

Simon Wilkinson – *Managing Director and CEO* (59 years)

Mr Wilkinson was formerly a partner in Christchurch based ODL Capital, the principal New Zealand fundraiser for the Company between 2001 and 2004. Simon has spent 30 years in finance, banking and business management, after training as an officer in the Royal New Zealand Navy. He was appointed a Director of the Company on 22 November 2004. Simon is also the sole Director of the Group's subsidiary, Innate Immunotherapeutics (NZ) Limited.

Elizabeth Hopkins (BSc. (Hons) – 52 years) – *Non-Executive Director*

Mrs Hopkins trained at Oxford University and holds a First Class Honours degree in Pharmacology. She has spent over 20 years successfully commercialising science outcomes and holds several Director positions, including being a Ministerial appointment to the Council of International Accreditation New Zealand. Mrs Hopkins has previously been Deputy Chair of NZBIO and was CEO at Wool Equities/Keratec, CEO at Encoate (a start-up biotech), and Chief Development Officer at NeuronZ. Elizabeth is currently Director, Research and Innovation at Lincoln University (Christchurch, NZ). Before moving to New Zealand in 2001, she was with Pfizer's European headquarters for 10 years, the last 2 years as a Global Project Manager. Elizabeth was previously a director of the Company from 1 June 2009 until 19 September 2013 and was reappointed as a Director on 17 October 2013.

Christopher Collins (BSc., MBA – 66 years) – *Non-Executive Director*

Mr Collins has over 30 years of experience in business management. He founded Nuttall Gear Corporation (New York), which was subsequently acquired by Altra Holdings (NASDAQ: AIMC). Chris has helped acquire, manage and make profitable 17 companies across a range of industries. He recently completed a 4 year term as the elected County Executive of Erie County in Western New York State and is now the Congressman for the 27th Congressional District of New York. Mr Collins resides in Clarence, New York. He was appointed a Director on 20 February 2006.

Andrew Sneddon (BEcon, CA – 59 years) – *Non-Executive Director*

Mr Sneddon is a former partner of PricewaterhouseCoopers (**PwC**). In his PwC role, he led the Life Sciences Practise and specialised in fast growth and emerging technology companies working with many companies from start-up to successful global corporations. Andrew has extensive experience in a wide range of technical areas including mergers and acquisitions, business and strategic planning, audit, valuation, capital raising and stock exchange listings on the Australian, NASDAQ and London Stock Exchanges. He has worked across a broad range of industries and is currently a non-executive director at ClearView Wealth Limited and the chairman of Traditional Therapies Limited, Elastagen Pty Ltd, ServiceRocket Inc, Fusion Payments Limited and TGR BioSciences Pty Ltd. Andrew is also a member of the Audit and Compliance Committees of the Crescent Capital Private Equity Funds. He was appointed as a Director on 19 September 2013.

Robert Peach (Ph.D. – 60 years) – *Non-Executive Director* (appointed 2 September 2015)

Dr Peach has over 25 years of drug discovery and development experience in the Pharmaceutical and Biotechnology industry. In 2009 he co-founded Receptos Limited, becoming Chief Scientific Officer and raising US$59m in venture capital and US$800m in an IPO and three subsequent follow-on offerings. In August 2015 Receptos was acquired by Celgene for US$7.8 billion. Robert held senior executive and scientific positions in other companies including Apoptos, Biogen Idec, IDEC and Bristol-Myers Squibb, supporting inlicensing, acquisition and venture investments. His extensive drug discovery and development experience in autoimmune and inflammatory diseases, and cancer has resulted in multiple drugs entering clinical trials and 3 registered drugs. He is currently on the Board of Directors and Scientific Advisory Board of Avalia Immunotherapies and is a consultant for several other biotechnology companies. Robert is the co-author of 70 scientific publications and book chapters, and 17 patents. He was educated at the University of Canterbury and the University of Otago, New Zealand. He was appointed as a Director on 2 September 2015.

INFORMATION ON COMPANY SECRETARY

Andrew J. Cooke (LLB, FGIA – 55 years) – *Company Secretary*

Mr Cooke has extensive experience in law, corporate finance and is the Company Secretary of a number of ASX listed companies. He is responsible for stock exchange and regulatory compliance as well as general company secretarial requirements. Andrew was appointed Company Secretary on 11 October 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Group during the financial year was the research and development of its lead drug candidate (MIS416) to treat secondary progressive multiple sclerosis ("SPMS"). In addition the Group continued to evaluate other clinical applications for its unique immune modulating technology.

There were no significant changes in the nature of the Group's principal activity during the financial year.

OPERATING RESULTS

The Group total comprehensive loss after tax for the year ended 31 March 2016 was $5,098,578 (2015: Loss after tax $5,084,582).

DIVIDENDS PAID OR RECOMMENDED

No dividends were paid or declared during the financial year or after reporting date.

REVIEW OF OPERATIONS

The Group's primary focus for the year has been to achieve the recruitment of the 90 patients required for the Phase 2B trial of MIS416 in patients with SPMS. This was achieved in April 2016 when in fact 93 patients were successfully enrolled into the study.

In parallel with this principal activity, the preclinical evaluation of the use of the Group's immunomodulating technology in other diseases or conditions resulting in the filing of several new patent family applications. These included the use of MIS416 to treat epilepsy, Alzheimer's disease, and to protection and/or repair of the nervous system. It is important to note however that filing patent application is just one of the early steps in the extensive process of evaluating whether a drug may really work in the targeted indications.

The Group has continued to support a number of patients in New Zealand with SPMS who, together with their doctors, have sought ongoing access to MIS416 on compassionate grounds. Since the early 'compassionate use' patients self-reported significant benefits associated with treatment, a further 26 New Zealand patients have also accessed MIS416 in the absence of any approved effective ongoing treatments for this chronic and disabling neurological disease. Of these 27 patients, 15 patients are continuing to receive MIS416 either once weekly or fortnightly. The 12 patients no longer receiving MIS416 have stopped treatment either because of a lack of any apparent benefit (6 patients) or for a variety of personal reasons (6 patients). In the 21 patients who have self-reported benefits while being on MIS416 treatment, such benefits have included reductions in pain, fatigue, and mental confusion and improvements in bladder control, visual acuity, cognition and coordination. At the same time there have been no signs of significant dose intolerance or cumulative toxicity arising from this chronic treatment.

FINANCIAL POSITION

The Group loss after tax for the year ended 31 March 2016 was $4,943,098 (2015: $5,236,578). This result included non-cash expenses of depreciation and amortisation of $568,416 (2014: $1,548,278) and Share-based compensation of $228,067 (2014: $178,141). Since 31 March 2015, the net assets of the Group have decreased by $862,758 to be $4,003,279 at 31 March 2016.

In September 2015, the Group received a Research and Development tax incentive payment of $801,375 from the Australian Government (2015: nil) relating to clinical trial expenditure in the previous financial year. The Group expects to receive a further R&D incentive payment of $1,461,940 in respect of qualifying expenses during the financial year to 31 March 2016. This expected R&D incentive has been included as future receivable in the financial statements to 31 March 2016 (2015: Nil).

In November 2015, the Group raised $4,073,600 (before issue related expenses) through the issue of 23,962,355 new ordinary shares. The issue price was A$0.17 per share being a 2.0 cent premium over the 20 day VWAP prior to 18 September 2015. On completion if this issue, Innate Immunotherapeutics Limited had 196,442,177 ordinary shares on issue.

With the exception of research and development expenses and business development expenses, other costs were generally in line with the previous year.

Research and development expenses increased significantly to $4,746,280 (2015: $1,901,443) reflecting the ramping up of the Group's SPMS clinical trial. This increase was in line with revised expectations. Business development expenses increased to $271,209 (2015: $139,764) reflecting a marked step up in interactions with potential industry acquirers or partners.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs during the 2016 financial year or existing at the time of this report.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 13 April 2016, the Group announced that it had closed enrolment into the Company's Phase 2B placebo controlled efficacy trial of MIS416 in patients with SPMS. The study had exceeded the original recruitment target of 90 subjects with the successful enrolment of the 93 patients in total.

On 27 April 2016, the Company issued 3,190,000 options under the Employee Option Scheme (exercise price $0.50; expiry date 27 April 2018).

On 10 June 2016, the Company announced a private placement and a rights issue to raise additional working capital of $5,425,000. It is proposed to issue 10,009,032 shares at US18¢ each under the private placement to sophisticated U.S. investors. The rights issue, to qualifying Australian and New Zealand shareholders, will be on a 1 for 9 basis and, if fully subscribed, would result in the issue of 12,105,314 shares at either A$0.25 or NZ$0.27 each. The additional working capital or the issue of shares have not been included in the financial statement for the year ended 31 March 2016.

No other matter or circumstance has arisen since the end of the financial year which is not otherwise dealt with in this report or in the Consolidated Financial Statements that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

FUTURE DEVELOPMENTS

With the Group's Phase 2B trial now fully enrolled, completion of the clinical phase of the study should occur in April 2017. Directors plan to release a top level analysis of the trial data in a Clinical Study Report about four months later. They believe that a successful trial result could quickly translate into a major corporate or partnering transaction.

The Group has also embarked on an important project to develop an industrial scale manufacturing method for the production of MIS416. Successful completion of this project could help reduce the transition time between a successful Phase 2B result and a Phase 3 approval trial.

To also help reduce such a transition time, the Group is also now seeking approval from the United States Food and Drug Administration for an Investigational New Drug programme in the United States.

Meanwhile the Group continues to carry out preclinical evaluation of a possible oral formulation of MIS416.

ENVIRONMENTAL ISSUES

The Group was in compliance with all the necessary environmental regulations throughout the period and no related issues have arisen since the end of the financial year to the date of this report.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of the Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

REMUNERATION REPORT

The Directors of the Group present the Remuneration Report for non-executive directors, executive directors and other key management personnel ("KMP"), prepared in accordance with the Corporations Act 2001 and the Corporations Regulations 2001.

Directors and KMP disclosed in this report

Name	Position
Directors	
Michael Quinn	Chairman and Non-Executive Director
Simon Wilkinson	Chief Executive Officer and Managing Director (CEO)
Elizabeth Hopkins	Non-Executive Director
Christopher Collins	Non-Executive Director
Andrew Sneddon	Non-Executive Director
Robert Peach	Non-Executive Director (appointed 2/9/15)
Other KMP	
Gill Webster	Chief Scientific Officer (CSO)
Jeff Carter	Chief Financial Officer (CFO)
Janette Dixon	Vice President Business Development (VPBD)

Role of the Remuneration Committee

The Remuneration Committee is a committee of the Board. Its primary purpose is to:

- Assist the Board in fulfilling its oversight responsibilities relating to the remuneration of officers, directors, and executives of the Company.
- Advise the Board regarding the Company's remuneration philosophies, practices, and procedures.
- Advise the Board regarding key senior management succession planning, including recruiting, hiring, development, and retention, and termination of key senior executives.

The objective of the Committee, currently comprising Directors Mr Collins (chair) and Mr Quinn, is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Company.

Non-executive directors remuneration policy

Fees and payments to non-executive directors reflect the demands, which are made on, and the responsibilities of, the directors. Taking into account the need to conserve cash, the Board approved an annual base fee of $25,000 for the Chairman and $20,000 for the other non-executive directors (which also covers serving on a committee), paid six monthly in arrears. Long-term incentives are provided through participation in the Employee Share Option Plan. Mr Collins is prevented by US congressional rules from receiving any cash or equity compensation for being a director of the Company.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The fee pool limit was set at $300,000 at the 2014 Annual General Meeting.

There are no retirement allowances for non-executive directors, in line with guidance from the ASX Corporate Governance Council on nonexecutive directors' remuneration. Superannuation contributions to Australian resident non-executive directors are made where required under the Australian superannuation guarantee legislation.

Executive remuneration policy

The Remuneration Committee is responsible for approving remuneration packages applicable to executive directors and other KMP of the Group. The Remuneration Committee is to ensure that the remuneration package properly reflects the person's duties and responsibilities and that the remuneration is competitive in attracting, retaining and motivating people of high quality and standard.

Executive directors of the Group do not receive director's fees and are not currently provided with retirement benefits.

Executive directors and KMP are remunerated primarily by means of cash benefits and may receive cash bonuses based on the achievement of individually set key performance indicators. However the Group's need to preserve cash may result in the cash component of remuneration being insufficient to match that which is offered by other companies to personnel in comparable positions or with similar skill sets. Accordingly the Group may use share options where necessary to mitigate this and to also provide for medium term shareholder and KMP goal alignment.

To enable share options to be included as part of Director and KMP remuneration, an Employee Share Option Plan was adopted by on 12 November 2013.

Directors' and other Key Management Personnel Remuneration – 31 March 2016

Details of the nature and amount of each element of the remuneration of each Director and KMP for the year ended 31 March 2016, are shown in the table below:

	Short-Term Benefits			Post-Employment Benefits		Long-Term Benefits		
2016	Cash Salary & Fees ($)	Cash Bonus ($)	Non-monetary Benefits ($)	Super annuation ($)	Retirement benefits ($)	Long Service Leave ($)	Share-based payments[6] ($)	Total ($)
Directors								
Non-Executive								
Michael Quinn	22,831	–	–	2,169	–	–	–	25,000
Christopher Collins	–	–	–	–	–	–	–	–
Andrew Sneddon[1]	20,000	–	–	–	–	–	–	20,000
Elizabeth Hopkins	20,000	–	–	–	–	–	–	20,000
Robert Peach[2]	11,667	–	–	–	–	–	–	11,667
Executive								
Simon Wilkinson[3]	212,474	–	–	–	–	–	87,303	299,777
Total Directors	**286,972**	**–**	**–**	**2,169**	**–**	**–**	**87,303**	**376,444**
Gill Webster	178,898	–	–	–	–	–	60,760	239,658
Jeff Carter[4]	80,500	–	–	–	–	–	–	80,500
Janette Dixon[5]	160,901	–	–	–	–	–	25,316	186,217
Total KMP	**420,299**	**–**	**–**	**–**	**–**	**–**	**86,076**	**506,375**

1. Director's fees of $20,000 were paid to Mr Sneddon's service company, Jalba Consulting Pty Ltd.
2. Mr Robert Peach was appointed as a Director on 2 September 2015.
3. Mr Wilkinson is the CEO. His annual salary is NZ$230,000. No director's fees are paid to Mr Wilkinson.
4. Mr Carter's CFO services are provided by Mr Carter's service company, Joblak Pty Ltd. The Company entered into a contract for his services from 1 June 2014 for an initial term up to 31 May 2015 at $6,000 per month. By mutual agreement this was extended to 30 June 2015 and thereafter on a month by month basis until 30 April 2016. A new 12 month contract was entered into from 1 May 2016 at $7,525 per month.
5. Ms Dixon commenced as VPBD on 1 September 2014. The Company entered into a contract for her services from 1 September 2014 at NZ$9,167 per month. On 1 September 2015 Ms Dixon's contract was increased to NZ$18,334 per month. The agreement may be terminated by either party with 60 days notice.
6. Share-based payments have all been in the form of options vesting during the period. There were no new options issued to the above named KMPs during the year.

The Board set no other performance criteria for KMP during the year to 31 March 2016 and no other bonuses were paid to them.

Directors' and other Key Management Personnel Remuneration – 31 March 2015

	Short-Term Benefits			Post-Employment Benefits		Long-term Benefits		
2015	Cash Salary & Fees ($)	Cash Bonus ($)	Non-monetary Benefits ($)	Super annuation ($)	Retirement benefits ($)	Long Service Leave ($)	Share-based payments[5] ($)	Total ($)
Directors								
Non-Executive								
Michael Quinn	22,831	–	–	2,169	–	–	–	25,000
Christopher Collins	–	–	–	–	–	–	–	–
Andrew Sneddon[1]	20,000	–	–	–	–	–	–	20,000
Elizabeth Hopkins	20,000	–	–	–	–	–	–	20,000
Executive								
Simon Wilkinson[2]	212,957	–	–	–	–	–	83,845	296,802
Total Directors	**275,788**	**–**	**–**	**2,169**	**–**	**–**	**83,845**	**361,802**
Gill Webster	181,652	–	–	–	–	–	34,922	216,574
Jeff Carter[3]	85,100	–	–	–	–	–	19,408	104,508
Janette Dixon[4]	59,414	–	–	–	–	–	14,551	73,965
Total KMP	**326,166**	**–**	**–**	**–**	**–**	**–**	**68,881**	**395,047**

1. Director's fees of $20,000 were paid to Mr Sneddon's service company, Jalba Consulting Pty Ltd.
2. Mr Wilkinson is the CEO. His annual salary is NZ$230,000. No director's fees are paid to Mr Wilkinson.
3. Mr Carter's CFO services are provided by Mr Carter's service company, Joblak Pty Ltd. The Company entered into a contract for his services from 1 June 2014 for an initial term up to 31 May 2015 at $6,000 per month.
4. Ms Dixon commenced as VPBD on 1 September 2014. The Company entered into a contract for her services from 1 September 2014 at NZ$9,167 per month. The agreement may be terminated by either party with 60 days notice.
5. Share-based payments have all been in the form of options.

Options issued as part of remuneration for the year ended 31 March 2016

Options may be issued to executives as part of their remuneration. The options are issued to encourage goal alignment between executives, directors and shareholders. There were no new options issued to Directors or the named KMP's during the year ended 31 March 2016.

Options issued as part of remuneration for the year ended 31 March 2015

The following options were issued to Directors as part of remuneration during the year ended 31 March 2015.

2015	Date of Issue	Number	Vesting	Strike Price	Expiry	Value ($)
Directors						
Simon Wilkinson	20 Aug 14	1,750,000	1/3rd in 12 months then 1/8th of the remainder at the beginning of each quarter thereafter	$0.40	20 Aug 19	195,860
Total Directors		**1,750,000**				
Other KMP						
Gill Webster	22 Oct 14	1,200,000	1/3rd in 12 months then 1/8th of the remainder at the beginning of each quarter thereafter	$0.40	22 Oct 19	116,448
Jeff Carter	22 Oct 14	200,000	Immediately	$0.40	22 Oct 19	19,408
Janette Dixon	22 Oct 14	500,000	1/3rd in 12 months then 1/8th of the remainder at the beginning of each quarter thereafter	$0.40	22 Oct 19	48,520
Total KMP		**1,900,000**				**184,376**

The ASX classified all of the options issued on 12 November 2013 to the Directors as restricted securities for a period of 24 months from the date of official quotation of the securities, being from 23 December 2013. These options became unrestricted on 23 December 2015.

No other options were issued to, or exercised by, Directors or other Key Management Personnel during the year to 31 March 2016.

Employment Contracts

Simon Wilkinson – CEO

On 26 June 2014, the Company entered into an Employment Agreement with Mr Wilkinson as CEO and Managing Director. Pursuant to these terms, Mr Wilkinson was to be paid a salary of NZ$180,000 per annum for the period 1 October 2013 to 31 December 2013 and thereafter NZ$230,000 per annum. Either party may terminate the Employment Agreement by the giving of one month's written notice to the other.

Gillian Webster – CSO

On 1 February 2010, the Company entered into an updated employment agreement with Ms Webster, which was amended by a letter agreement dated 24 September 2014. Pursuant to these terms, Ms Webster is paid an annual salary of NZ$190,000 to perform the role of Chief Scientific Officer of the Company. The Employment Agreement provides that any intellectual property rights created, developed or improved by Ms Webster during the performance of her duties under the Employment Agreement vest in the Company and will be transferred and assigned to the Company without further consideration. Either party may terminate the Employment Agreement by the giving of one month's written notice to the other.

In the event of redundancy, the Company may be required to make termination payment based on a sliding scale. Where the employee has been employed by the Company for 3 or more years, the Company must pay 4 weeks' salary, plus an additional week's salary for every complete year of service after the first 2 completed years.

Jeff Carter – CFO

On 3 July 2014, the Company entered into a consultancy agreement with Mr Carter's service company, Joblak Pty Ltd. Pursuant to the terms of the Agreement, Mr Carter is paid a monthly amount of $6,000 to perform the part time role of Chief Financial Officer of the Company. The Agreement was for an initial term expiring 31 May 2015. By mutual agreement this arrangement was extended to 30 June 2015 and thereafter on a month by month basis until 30 April 2016. A new 12 month contract was entered into from 1 May 2016 at $7,525 per month.

Janette Dixon – VPBD

On 1 September 2014, the Company entered into a consultancy agreement with Ms Dixon's service company, Biocomm Pacific Ltd. Pursuant to the terms of the Agreement, Ms Dixon is paid a monthly amount of NZ$9,167 to perform the part time role of Vice President Business Development of the Company. Under the agreement Ms Dixon may also be entitled to a cash bonus of 10% of the upfront money received for each deal related to developing commercial opportunities for the Company's non-MS related assets. The agreement may be terminated by either party with 60 days notice. Since 1 September 2015, Ms Dixon's contract was increased to NZ$18,334 per month.

Non-Executive Directors

There are no contracts in place for non-executive directors.

Directors' and other Key Management Personnel Equity Holdings

i. Options provided as remuneration and shares issued on the exercise of such options are outlined below. The terms and conditions of the options issued during the year ended 31 March 2015 can be found above ("Options Issued as part of Remuneration for the year ended 31 March 2015"). No options were issued during the year ended 31 March 2016.

ii. The number of unlisted options over ordinary shares in the company held by each director of the company and other KMP (including related parties) of the Group are set out below. All options that are vested are exercisable.

2016 – Options	Balance at start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year*	Balance at the end of the year	Vested and exercisable at year end
Directors						
Non-Executive						
Michael Quinn	1,722,349	–	–	(97,349)	1,625,000	1,625,000
Christopher Collins	6,028,953	–	–	(1,903,953)	4,125,000	4,125,000
Andrew Sneddon	1,188,548	–	–	(63,548)	1,125,000	1,125,000
Elizabeth Hopkins	1,000,000	–	–	–	1,000,000	1,000,000
Robert Peach	–	–	–	–	–	–
Executive						
Simon Wilkinson	4,050,000	–	–	–	4,050,000	3,175,000
Total Directors	**13,989,850**	**–**	**–**	**(2,064,850)**	**11,925,000**	**11,050,000**
Other KMP						
Gill Webster	1,816,759	–	–	(616,759)	1,200,000	500,000
Jeff Carter	200,000	–	–	–	200,000	200,000
Janette Dixon	500,000	–	–	–	500,000	208,334
Total Other KMP	**2,516,759**	**–**	**–**	**(616,759)**	**1,900,000**	**908,334**

* Expired unexercised during the year.

iii. The number of shares in the Company held by each director of the company and other KMP (including personally related parties) of the Group are set out below.

2016 – Shares	Balance at start of the year	Granted during the year as compensation	Received during the year upon exercise of options	Other changes during the year	Balance at the end of the year
Directors					
Non-Executive					
Michael Quinn[1]	806,062	–	–	400,000	1,206,062
Christopher Collins[2]	25,899,139	–	–	8,000,000	33,899,139
Andrew Sneddon[3]	254,192	–	–	550,000	804,192
Elizabeth Hopkins	–	–	–	–	–
Robert Peach	–	–	–	–	–
Executive					
Simon Wilkinson	50,000	–	–	–	50,000
Total Directors	**27,009,393**	**–**	**–**	**8,950,000**	**35,959,393**
Other KMP					
Gill Webster	–	–	–	–	–
Jeff Carter	–	–	–	–	–
Janette Dixon[4]	–	–	–	289,747	289,747
Total Other KMP	**–**	**–**	**–**	**289,747**	**289,747**

1. 300,000 shares were bought in the private placement on 20 November 2015 @ $0.17 per share (as approved by shareholders on 30 October 2015). The remaining 100,000 shares were purchased during the year on market.
2. These shares were bought in the private placement on 20 November 2015 @ $0.17 per share (as approved by shareholders on 30 October 2015).
3. 300,000 shares were bought in the private placement on 20 November 2015 @ $0.17 per share (as approved by shareholders on 30 October 2015). The remaining 250,000 shares were purchased during the year on market.
4. These shares were purchased during the year on market.

iv. As part of the IPO, loyalty rights were issued in 2014 to those individuals and entities who were shareholders of the Company immediately prior to the IPO on the basis of one loyalty right for every three ordinary shares held prior to the IPO. The number of loyalty rights in the Company held by each director of the company and other KMP (including personally related parties) of the Group are set out below. There were no loyalty rights issued in 2015 or 2016.

Loyalty rights	Granted during 2014	Balance at the end of year 2016
Directors		
Non-Executive		
Michael Quinn	138,889	138,889
Christopher Collins	3,819,445	3,819,445
Andrew Sneddon	–	–
Elizabeth Hopkins	–	–
Executive		
Simon Wilkinson	33,333	33,333
Total Directors	**3,991,667**	**3,991,667**
Other KMP		
Gill Webster	–	–
Jeff Carter	–	–
Janette Dixon	–	–
Total Other KMP	**–**	**–**

v. Loans to Directors and Other Key Management Personnel

There were no loans to any directors of the Company or other KMP of the Group during the financial year ended 31 March 2016.

vi. Other Transactions with Directors and Other Key Management Personnel

There were no other transactions with directors of the Company or other KMP of the Group during the financial year.

Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholder wealth, the Board have regard to the following indices in respect of the current financial year and the previous four financial years:

Item	2016	2015	2014	2013	2012
EPS (cents)	(2.73)	(3.04)	(3.81)	(3.56)	(3.42)
Dividends (cents per share)	–	–	–	–	–
Net profit/loss ($'000)	(4,943)	(5,237)	(4,495)	(3,388)	(3,256)
Share Price (cents)*	18.0	18.5	25.0	N/A	N/A

* Note – The Company was admitted to the official list of the ASX on 23 December 2013 and accordingly comparatives prior to that date are not available.

OPTIONS

At the date of this report unissued shares of the Group under option are:

Expiry Date	Exercise Price	Number as at 31 March 2016	Number exercised during year ended 31 March 2016	Number exercised post reporting date
22 July 2017	USD 0.60	1,400,000	–	–
24 September 2017	USD 0.40	1,250,000	–	–
14 February 2018	USD 0.40	625,000	–	–
1 May 2018	USD 0.40	625,000	–	–
15 July 2018	USD 0.40	625,000	–	–
19 September 2018	AUD 0.40	625,000	–	–
5 November 2018	USD 0.40	2,250,000	–	–
5 November 2018	AUD 0.45	4,500,000	–	–
20 August 2019	AUD 0.40	1,750,000	–	–
22 October 2019	AUD 0.40	3,220,000	–	–
		16,870,000	**–**	**–**

DIRECTORS' INTERESTS

Particulars of Directors' interests in shares and options as at the date of this report are as follows:

	Ordinary Shares	Options	Loyalty Rights[1]
Michael Quinn	1,206,062	1,625,000	138,889
Christopher Collins	33,899,139	4,125,000	3,819,445
Andrew Sneddon	804,192	1,125,000	–
Elizabeth Hopkins	–	1,000,000	–
Simon Wilkinson	50,000	4,050,000	33,333
	35,959,393	**11,925,000**	**3,991,667**

1. Simultaneous with the issue of shares under the IPO in 2013, existing shareholders were issued 1 free Loyalty Right for every 3 shares held immediately prior to the IPO. A Loyalty Right can be converted into a free share conditional upon the planned Phase 2B trial of MIS416 being successful. Otherwise, the Rights expire on 19 December 2016. Further details are disclosed in the Group's Replacement Prospectus dated 25 November 2013.

Further information regarding the above interests and net movements throughout the reporting period is disclosed in Note 9 (Related Parties) to the Financial Statements accompanying this Directors' Report.

MEETINGS OF DIRECTORS

During the financial year, meetings of directors (including committee meetings) were held.

	Directors' Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
Attendances were:	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended
Michael Quinn	12	11	–	–	1	1
Simon Wilkinson	12	12	–	–	–	–
Elizabeth Hopkins	12	12	8	7	–	–
Christopher Collins	12	12	–	–	1	1
Andrew Sneddon	12	11	8	8	–	–
Robert Peach	4	4	–	–	–	–

AUDIT COMMITTEE

The Group has an Audit Committee. Details of the composition, role and Terms of Reference of the Audit Committee are contained in the Statement of Corporate Governance Practices accompanying this Report and are available on the Company's website at http://tinyurl.com/IIL-AuditCharter

During the reporting period, the Audit Committee consisted of the following Non-executive, Independent Directors:

- Mr Sneddon (Chairman)
- Mrs Hopkins

The Group's lead signing and review External Audit Partner, CEO, CFO and selected consultants attend meetings of the Audit Committee by standing invitation.

DIRECTORS' AND AUDITORS' INDEMNIFICATION

During or since the end of the financial year the company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

a. The Company entered into Deeds of Indemnity, Insurance and Access, dated 13 September 2013, in favour of directors Quinn and Sneddon, the Australia resident directors who joined the Board prior to the Company's migration to Australia.
b. The Company has paid premiums to insure all directors of the parent entity and officers of the consolidated entity against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

DIRECTORS' BENEFITS

Since 1 April 2015, no director has received or become entitled to receive a benefit because of a contract made by the Company, or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest.

This statement excludes a benefit included in the aggregate amount of remuneration received or due and receivable by directors and shown in the company's accounts, or the fixed salary of a full-time employee of the parent entity, controlled entity, or related body corporate.

NON-AUDIT SERVICES

The external auditors, Grant Thornton, have been engaged to assist the Company lodge its Australian R&D incentive claim for its expenditure on its lead drug candidate MIS416. They were paid $24,000 for the 2015 lodgements. They will be paid between $8,000 and $10,000 for the 2016 lodgement. Grant Thornton were also engaged to provide tax advice and other accounting services and were paid $18,500 for these services for 2016.

AUDIT INDEPENDENCE

The lead auditor has provided the Auditor's Independence Declaration under section 307C of the *Corporations Act 2001* (Cth) for the year ended 31 March 2016 and a copy of this declaration forms part of the Directors' Report.

Signed in accordance with a resolution of the Board of Directors.

Michael A Quinn
CHAIRMAN

22 June 2016

Simon Wilkinson
CHIEF EXECUTIVE OFFICER

Auditor's Independence Declaration

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Auditor's Independence Declaration
To the Directors of Innate Immunotherapeutics Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Innate Immunotherapeutics Limited for the year ended 31 March 2016, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M. A. Cunningham
Partner - Audit & Assurance

Melbourne, 22 June 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 March 2016

	Note	Year ended March 2016 $	Year ended March 2015 $
Sales revenue		–	–
Other operating income	4	2,294,745	30,309
Total revenue and other operating income		2,294,745	30,309
Research and development expenses		(4,746,280)	(1,901,443)
Patent and associated expenses		(250,346)	(237,989)
Business development expenses		(271,209)	(139,764)
General and administration expenses		(1,247,786)	(1,422,938)
Depreciation and amortisation		(568,416)	(1,548,278)
Share-based compensation (employee and non-employee)		(228,067)	(178,141)
Operating deficit before financing costs		(5,017,359)	(5,398,244)
Interest income		74,273	161,678
Financial expenses		(12)	(12)
Net financial expense		74,261	161,666
Loss before income tax expense		(4,943,098)	(5,236,578)
Income tax expense/(benefit)	12	–	–
Loss after income tax expense/(benefit)		(4,943,098)	(5,236,578)
Other comprehensive income/(loss)			
Items that may be subsequently reclassified to profit/loss			
Exchange differences of foreign exchange translation		(155,480)	151,996
Total comprehensive loss		5,098,578	5,084,582
Basic and diluted earnings per share (weighted)	19	(2.7)	(3.0)

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

for the year ended 31 March 2016

	Note	Year ended March 2016 $	Year ended March 2015 $
Current assets			
Cash and cash equivalents	3	3,200,622	4,088,896
Accounts receivable		76,871	26,130
Prepayments		135,099	480,044
Research and development tax incentive receivable		1,461,940	–
Other current assets		8,641	29,413
Total current assets		4,883,173	4,624,483
Non-current assets			
Property, plant and equipment	6	151,463	160,407
Intangible assets	5	–	534,043
Total non-current assets		151,463	694,450
Total assets		**5,034,636**	**5,318,933**
Current liabilities			
Accounts payable and accrued liabilities	7	1,031,357	452,896
Total current liabilities		1,031,357	452,896
Non-current liabilities		**–**	**–**
Total liabilities		**1,031,357**	**452,896**
Equity			
Paid-in capital	16	114,230,766	110,223,013
Reserves		(524,767)	(597,354)
Accumulated losses		(109,702,720)	(104,759,622)
Total equity		**4,003,279**	**4,866,037**
Total equity and liabilities		**5,034,636**	**5,318,933**

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 March 2016

	Paid-in Capital $	Share Option Reserve $	Foreign Currency Translation $	Accumulated Losses $	Total equity $
Balance at 1 April 2014	110,223,013	903,121	(1,830,612)	(99,523,044)	9,772,478
(Loss) after income tax for the year	–	–	–	(5,236,578)	(5,236,578)
Other comprehensive (loss) after tax	–	–	151,996	–	151,996
Total comprehensive (loss)	–	–	151,996	(5,236,578)	(5,084,582)
Issue/vesting of share options	–	178,141	–	–	178,141
	–	178,141	151,996	(5,236,578)	(4,906,441)
Balance at 31 March 2015	110,223,013	1,081,262	(1,678,616)	(104,759,622)	4,866,037
(Loss) after income tax for the year	–	–	–	(4,943,098)	(4,943,098)
Other comprehensive (loss) after tax	–	–	(155,480)	–	(155,480)
Total comprehensive (loss)	–	–	(155,480)	(4,943,098)	(5,098,578)
Capital raising (net of costs)	4,007,753	–	–	–	4,007,753
Issue/vesting of share options	–	228,067	–	–	228,067
	4,007,753	228,067	(155,480)	(4,943,098)	(862,758)
Balance at 31 March 2016	114,230,766	1,309,329	(1,834,096)	(109,702,720)	4,003,279

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 March 2016

	Notes	Year ended March 2016 $	Year ended March 2015 $
Cash Flows from Operating Activities			
Dividends received		342	330
Interest received		70,623	158,400
Rent received		31,098	30,055
R&D incentive received		801,375	–
Payments to suppliers		(4,471,553)	(3,300,089)
Payments to employees		(1,146,192)	(866,441)
Interest paid		(12)	(12)
Net cash outflow from operating activities	15	**(4,714,319)**	**(3,977,757)**
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(39,058)	(25,031)
Net cash inflow/(outflow) from investing activities		**(39,058)**	**(25,031)**
Cash Flows from Financing Activities			
Issue of ordinary shares		4,073,600	–
Capital raising and listing costs		(65,847)	–
Net cash inflow from financing activities		**4,007,753**	**–**
Net increase/(decrease) in cash held		(745,624)	(4,002,788)
Foreign exchange effect on cash and cash equivalent balances		(142,650)	149,932
Cash at the beginning of the year		4,088,896	7,941,752
Cash at the end of the year		**3,200,622**	**4,088,896**
Cash Balances in the Statement of Financial Position			
Cash and cash equivalents	3	3,200,622	4,088,896
Closing cash balance		**3,200,622**	**4,088,896**

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

for the year ended 31 March 2016

TABLE OF NOTES

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation

The financial statements presented are for the entity Innate Immunotherapeutics Limited ("Innate") and its controlled entities as a consolidated entity (the "Group"). Innate is a listed public company, incorporated and domiciled in Australia on 11 October 2013. Innate was formerly a New Zealand domiciled company.

The financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. Compliance with Australian Accounting Standards ensures the consolidated financial statements and notes of the Group comply with International Financial Reporting Standards ("IFRS"). Innate is a for profit entity for the purposes of reporting under Australian Accounting Standards.

The financial statements have been prepared on an accruals basis and are based on historical costs and do not take into account changing money values or, except where stated, current valuations of financial assets. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless otherwise stated.

The functional currency of the Group is New Zealand dollars. The presentation currency of the Group is Australian dollars.

In applying Australian Accounting Standards management must make judgement regarding carrying values of assets and liabilities that are not readily apparent from other sources. Assumptions and estimates are based on historical experience and any other factors that are believed reasonable in light of the relevant circumstances. These estimates are reviewed on an ongoing basis and revised in those periods to which the revision directly affects.

All accounting policies are chosen to ensure the resulting financial information satisfies the concepts of relevance and reliability.

b. Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Group, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 10 Consolidated Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity. In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising with the consolidated entity are eliminated in full.

A list of controlled entities is found in Note 8 of the Financial Statements.

c. Effect of New and Revised Standards

A number of new and revised standards are effective for annual periods beginning on or after 1 April 2015. None of these had a material impact on the financial statements of the Group.

A number of new and revised standards have been issued but are not yet effective. When these standards are adopted for the first time they are unlikely to have any significant impact on the Group.

d. Cash and Cash Equivalents

Cash and cash equivalents comprise of cash on hand, at call deposits with banks or financial institutions, bank bills and investments in money market instruments where it is easily convertible to a known amount of cash and subject to an insignificant risk of change in value.

e. Property, Plant and Equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. 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 diminishing value basis to expense the cost of the assets over their estimated useful lives as follows:

Leasehold improvements	4 to 13 years
Plant and equipment	4 to 11 years
Office furniture and fittings	2 to 13 years

Depreciation is charged to profit or loss within the Statement of Profit or Loss and Other Comprehensive Income. The residual value and useful life of property, plant and equipment is reassessed annually.

Repairs and maintenance and gains or losses on sale or disposal of assets are reflected in profit or loss within Statement of Profit or Loss and Other Comprehensive Income as incurred. Major renewals and betterments are capitalised.

f. Foreign Currencies

The functional currency of the Group is New Zealand dollars. The presentation currency of the Group is Australian dollars.

Transactions denominated in foreign currencies are converted at the exchange rate current at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are converted at exchange rates current at reporting date. Foreign exchange gains or losses are included in profit or loss within the Statement of Profit or Loss and Other Comprehensive Income.

g. Research and Development

Research expenses include direct and overhead expenses for drug discovery and research, pre-clinical trials and, more recently, for costs associated with clinical trial activities.

When a project reaches the stage where it is reasonably certain that future expenditure can be recovered through the processes or products produced, development expenditure is recognised as a development asset (other intangible asset).

h. Intangible Assets other than Goodwill

Other intangible assets relate to Intellectual Property acquired for use in research and development activity. The Intellectual Property has a finite life and is measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised in profit or loss within the Statement of Profit or Loss and Other Comprehensive Income on a straight line basis over the estimated useful life from the date available for use as follows:

Intellectual property	15 years

Amortisation is charged to the Statement of Profit or Loss and Other Comprehensive Income. The useful life of the intellectual property is reassessed annually.

i. Share Capital

Ordinary shares are classified as equity. Costs associated with the issue of raising capital are recognised in shareholders' equity as a reduction of the share proceeds received. Other expenses such as legal fees are charged to profit and loss within the Statement of Profit or Loss and Other Comprehensive Income in the period the expense is incurred.

j. Earnings Per Share

Basic Earnings Per Share

Basic earnings per share is determined by dividing net profit after income tax attributable to members 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

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

k. Goods and Services Tax

The Statement of Profit or Loss and Other Comprehensive Income and Statement of Cash Flows have been prepared so that all components are presented exclusive of GST. All items in the Statement of Financial Position are presented net of GST, with the exception of receivables and payables, which include GST invoiced.

l. Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss within the Statement of Profit or Loss and Other Comprehensive Income except to the extent that it relates to items recognised directly in Other Comprehensive Income, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

m. Other Income

Other income is recognised to the extent that it is probable that the economic benefit will flow to the Group and the income can be reliably measured. Where amounts are received in respect of future product deliveries, such amounts are deferred until such time as the criteria above for recognition of revenue are met.

The Group's other income includes sub-lease rental and other sundry income. Income from sub-leased property is recognised in the Statement of Profit or Loss and Other Comprehensive Income on a straight line basis over the term of the lease.

During the year the Company received an R&D incentive payment for qualifying R&D expenditure for the year ended 31 March 2015. This was included in "other income" for the current year ended 31 March 2016. The expected future R&D incentive, for qualifying R&D expenditure for the year ended 31 March 2016, has been accrued and is also included in "other income" for the current year ended 31 March 2016. It has been established that the conditions of this future R&D incentive have been met and that the expected amount of the incentive can be reliably measured.

n. Statement of Cash Flows

The Statement of Cash Flows has been prepared using the direct approach. Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, intangible assets and investments.

Financing activities are those that result in changes in the size and composition of the capital structure. Cash is considered to be cash on hand and current accounts and demand deposits in banks, net of bank overdrafts.

Operating activities are all transactions and events that are not investing or financing activities.

o. Share-based Compensation

The Group operates equity-settled share-based remuneration plans for its employees. None of the Group's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees and directors are rewarded using share-based payments, the fair values of employees' and directors' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are allocated to share capital.

p. Impairment

The Group assesses at each reporting date whether there is objective evidence that an asset or group of assets is impaired. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down and the impairment loss is recognised in profit or loss within the Statement of Profit or Loss and Other Comprehensive Income.

q. Finance Income and Expenses

Finance income

Finance income comprises of interest income. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses

Finance expenses comprised of interest expense on borrowings. All borrowing costs are recognised in profit and loss of Statement of Profit or Loss and Other Comprehensive Income using the effective interest method.

r. Operating Expenses

Operating expenses are recognised in profit or loss within the Statement of Profit or Loss and Other Comprehensive Income upon utilisation of the service or at the date of their origin.

s. Operating Leases

Operating leases are leases whereby the lessor retains substantially all the risks and rewards of ownership. The lease payments are recognised as an expense in the periods the amounts are payable.

t. Financial Instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

For financial instruments traded in active markets, the quoted market prices or dealer price quotations are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing as at reporting date.

Financial assets and liabilities are measured subsequently as described below.

Financial assets

For the purpose of subsequent measurement financial assets other than those designated as hedging instruments are classified into one of the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include items that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

The Group does not currently have any financial assets designated into this category.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less impairment allowances.

The Group's trade and other receivables fall into this category of financial instruments.

Trade and other receivables are considered for impairment when there is objective evidence that the Group will not be able to collect all amounts due according to their original terms of the receivables. If there is objective evidence that impairment exists for individual loans and receivables, the impairment loss is calculated as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows using the original effective interest rate. Receivables with a short duration are not discounted.

Held-to-Maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held to-maturity if the Group has the intention and ability to hold them until maturity.

The Group does not currently have any financial assets designated into this category.

Available-for-Sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

The Group does not currently have any financial assets designated into this category.

Financial liabilities

The Group's financial liabilities include trade and other payables. All financial liabilities are measured subsequently at amortised cost using the effective interest method.

Trade and other payables 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.

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at fair value through profit or loss.

Derivative financial instruments

At the reporting date the Group did not undertake any form of hedge accounting.

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: Quoted prices in active markets for the same instrument (i.e. without modification or repackaging);

Level 2: Quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data and yield curve information provided by the Group's bankers; and

Level 3: Valuation techniques for which significant inputs are not based on observable market data.

u. Post Employment Benefits and Short-term Employee Benefits

The Group does not provide any post employment benefits other than superannuation contributions where required by statutory obligations. Short-term employee benefits are included in current liabilities, measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement. There are no long-term employee benefits.

v. Segment Reporting

A segment is a component of the Group entity that earns revenues or incurs expenses whose results are regularly reviewed by the chief operating decision makers and for which discrete financial information is prepared. The Group has no operating segments, management review financial information on a consolidated basis. It has established entities in more than one geographical area, however the activities from these entities comparative to the Group are considered immaterial for the purposes of segment reporting.

w. Going Concern

The financial statements have been prepared on a going concern basis after taking into consideration the net loss for the year of $4,943,098 and the cash and cash equivalents balance of $3,200,622. The going concern basis contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the ordinary course of business. The going concern of the Group is dependent upon it maintaining sufficient funds for its operations and commitments. The Directors continue to monitor the ongoing funding requirements of the Group. The Directors believe that sufficient funds can be secured if required by a combination of capital raising, debt financing, licensing partnerships, sale of assets or joint ventures to enable the Group to continue as a going concern and as such are of the opinion that the financial statements have been appropriately prepared on a going concern basis.

2. CRITICAL ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 4 – estimate and receipt of future R&D tax incentive
- Note 10 – measurement of share-based payments.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	March 2016 $	March 2015 $
Cash at bank (NZD)	19,470	35,550
Cash at bank (AUD)	171,369	110,364
Cash at bank (USD)	182,206	1,402
Demand deposits (NZD)	27,462	2,041,580
Short-term deposits (AUD)	2,800,115	1,900,000
	3,200,622	4,088,896

4. OPERATING LOSS

Operating loss from continuing activities is stated after crediting and charging:

	March 2016 $	March 2015 $
Crediting:		
Interest received	74,273	161,678
R&D tax incentive received (financial year ended 2015)	801,375	–
R&D future tax incentive accrued (financial year ended 2016)	1,461,940	–
Charging:		
Foreign exchange (gain)/loss	(43,685)	119,397
Depreciation – Leasehold improvements	2,364	2,617
– Plant and equipment	23,027	24,448
– Office furniture and fittings	8,982	5,229
(Profit)/Loss on sale of property, plant and equipment	799	(213)
Amortisation of intangible assets	534,043	1,515,984
Interest expense	12	12
Rent and leasing expense	138,032	137,686
Employee benefits	1,222,101	1,013,092
Share-based compensation – employees and directors	228,067	178,141

The Company received $801,375 as the R&D tax incentive for qualifying R&D expenses, for the first time, during the year ended 31 March 2015. This was accounted for in the current year as “Other Income” and was not accrued as a receivable in 2015. As a result of receiving this first amount the Company has decided there is sufficient certainty to now accrue for this future R&D tax incentive, associated with qualifying 2016 R&D expenses, as a receivable. This amount of $1,461,940 has also been included as “Other Income” in the current year.

5. INTANGIBLE ASSETS

	March 2016 $	March 2015 $
Intellectual property		
Gross carrying amount		
Balance 1 April	24,031,606	22,997,647
Additions/disposals	–	–
Foreign currency translation	(1,878,813)	1,033,959
Balance 31 March	22,152,793	24,031,606
Accumulated amortisation		
Balance 1 April	23,497,563	20,953,405
Additions/disposals	–	–
Amortisation for the year	534,043	1,515,984
Foreign currency translation	(1,878,813)	1,028,174
Balance 31 March	22,152,793	23,497,563
Net intangible assets	**–**	**534,043**

The Group acquired a family of issued and pending patents relating primarily to the Group's former clinical programme in HIV. This specific intellectual property was acquired effective August 2000 through the issue of 6,247,662 ordinary shares of the Group and is recorded at cost, amortised over 15 years on a straight line basis. This intangible asset has now been fully amortised. While the HIV clinical programme was abandoned in 2008, part of the originally acquired intellectual property was able to be amended such that a previous divisional patent application in the United States was subsequently granted in 2012. The granted patent (US 8,110,203) protects the use of MIS416 as an adjuvant, which continues to be a potential commercial application for the Group's technology. This issued patent expires 10 October 2017. Patents relating to the Company's current clinical programme and other applications of the Company's current technology, have terms of 20 years from priority dates in 2008 and 2009.

6. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements $	Plant and Equipment $	Office Furniture and Fittings $	Total $
Gross carrying amounts				
Balance at 1 April 2014	109,554	893,547	32,210	1,035,311
Additions	–	9,471	16,858	26,329
Disposals	–	–	(979)	(979)
Foreign currency translation	4,927	40,489	1,449	46,865
Balance at 31 March 2015	114,481	943,507	49,538	1,107,526
Balance at 1 April 2015	114,481	943,507	49,538	1,107,526
Additions	–	28,012	9,926	37,938
Disposals	–	(5,525)	(5,182)	(10,707)
Foreign currency translation	(8,952)	(71,816)	(6,112)	(86,880)
Balance at 31 March 2016	105,529	894,178	48,170	1,047,877
Depreciation and impairment losses				
Balance at 1 April 2014	81,694	763,765	28,720	874,179
Depreciation for the year	2,617	24,448	5,229	32,294
Disposals	–	–	(766)	(766)
Foreign currency translation	3,823	36,042	1,547	41,412
Balance at 31 March 2015	88,134	824,255	34,730	947,119
Balance at 1 April 2015	88,134	824,255	34,730	947,119
Depreciation for the year	2,364	23,027	8,982	34,373
Disposals	–	(5,151)	(5,015)	(10,166)
Foreign currency translation	(6,948)	(65,154)	(2,810)	(74,912)
Balance at 31 March 2016	83,550	776,977	35,887	896,414
Carrying amounts				
At 31 March 2015	26,347	119,252	14,808	160,407
At 31 March 2016	21,979	117,201	12,283	151,463

At the reporting date no items of property, plant and equipment were held under finance leases (March 2015: nil).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 2016 $	March 2015 $
Trade accounts payables	73,546	75,097
Employee related payables	155,404	139,340
Other accruals	792,253	227,445
Preference shares unpaid	10,154	11,014
	1,031,357	**452,896**

8. SUBSIDIARIES

			Percentage Owned (%)	
Entity	**Principal Activity**	**Country of Incorporation**	**2016**	**2015**
Head Entity				
Innate Immunotherapeutics Limited	Research and Development	Australia	N/A	N/A
Subsidiaries of Innate Immunotherapeutics Limited				
Innate Immunotherapeutics (NZ) Limited	Drug Manufacturing	New Zealand	100	100

9. RELATED PARTIES

a. Parent Entity

The immediate parent and ultimate controlling party of the Group is Innate Immunotherapeutics Limited. Interests in subsidiaries are set out in Note 8.

b. Directors and Other Key Management Personnel Remuneration

The total compensation to directors and other key management personnel during the year was:

	March 2016 $	March 2015 $
Short-term benefits	707,271	601,954
Post-employment benefits	2,169	2,169
Long-term benefits	173,379	152,726
	882,819	**756,849**

10. SHARE-BASED COMPENSATION

On 12 November 2103 a new Employee Plan was implemented (the "Employee Plan"). Under the terms of the Employee Plan, the Board nominates participants in the Employee Plan and in respect of each nomination the Board determines the number of options and exercise prices (which shall not be below the share price on the date of the grant). The Employee Plan establishes an Option Limit which is equal to 10% of the diluted ordinary share capital of the Company as at the date of issue.

Options granted are cancelled if not exercised within one month of the termination of the grantee's employment or association with the Company, except in certain situations such as death or disability, or at the discretion of the Board. All options are exercisable into ordinary shares on a one for one basis.

The fair value of options granted is estimated using the Black-Scholes option-pricing model. Unless otherwise stated, all categories of options adopt the same model as follows:

March 2015	Employees	Directors
Share price	$0.19	$0.21
Exercise price	$0.40	$0.40
Expected volatility	80%	80%
Option lives (at issue)	5 years	5 years
Expected dividend yield	0%	0%
Risk free interest rate	2.80%	2.92%

March 2016	Employees[1]	Directors[1]
Share price	$0.20	–
Exercise price	$0.40	–
Expected volatility	80%	–
Option lives (at issue)	4.5 years	–
Expected dividend yield	0%	–
Risk free interest rate	2.06%	–

1. There were no options granted to directors during the year ended 31 March 2016. There was only one grant of options to a new employee during the year ended 31 March 2016.

	March 2016		March 2015	
Employee Options	Number of options	Weighted Average Exercise price	Number of options	Weighted Average Exercise price
Share options on issue at start of year	4,291,759	$0.34	1,471,759	NZ$0.31
Share options granted	200,000	$0.40	3,020,000	$0.40
Share options transferred	–	–	–	–
Share options exercised	–	–	–	–
Share options forfeited	–	–	–	–
Share options expired	(1,271,759)	NZ$0.20	(200,000)	NZ$1.00
Share options on issue at end of period	3,220,000	$0.40	4,291,759	$0.34
Share options exercisable at end of period	1,458,333	$0.40	1,471,759	$0.21
Weighted average remaining contractual life (years)		3.6 yrs		1.3 yrs

10. SHARE-BASED COMPENSATION continued

	March 2016		March 2015	
Director's Options	Number of options	Weighted Average Exercise price	Number of options	Weighted Average Exercise price
Share options on issue at start of year	7,550,000	$0.50	5,800,000	$0.50
Share options transferred (non-employee)	–	–	–	–
Share options granted	–	–	1,750,000	$0.40
Share options forfeited	–	–	–	–
Share options exercised	–	–	–	–
Share options expired	–	–	–	–
Share options on issue at end of period	7,550,000	$0.50	7,550,000	$0.50
Share options exercisable at end of period	6,675,000	$0.52	5,800,000	$0.52
Weighted average remaining contractual life (years)		2.6 yrs		3.6 yrs

The above details relate to Share-based compensation granted to employees and directors. Share-based compensation granted as consideration for loans by directors, which were granted to them in their capacity as financiers, are separately included within the Financing Options table below.

Share-based compensation granted as part of financing arrangements during 2016 Nil (2015 Nil) was:

	March 2016		March 2015	
	Number of options	Weighted Average Exercise price	Number of options	Weighted Average Exercise price
Financing Options				
Share options on issue at start of year	6,000,000	$0.51	6,000,000	$0.51
Share options granted	–		–	
Share options transferred	–		–	
Share options exercised	–		–	
Share options expired	–		–	
Share options on issue at end of period	6,000,000	$0.51	6,000,000	$0.51
Share options exercisable at end of period	6,000,000	$0.51	6,000,000	$0.51
Weighted average remaining contractual life (years)		2.2 yrs		3.0 yrs

11. SEGMENT INFORMATION

The Group has no operating segments as management review financial information on a consolidated basis. Clinical trialling activity in support of the Group's drug R&D previously took place in New Zealand but subsequent to the migration of place of incorporation to Australia, is being conducted in Australia. Preclinical R&D, drug manufacturing, and day to day administration are carried out in New Zealand.

	March 2016		March 2015	
	Revenue $	Non-current Assets $	Revenue $	Non-current Assets $
Australia	2,263,315	–	–	–
New Zealand	31,430	151,463	30,309	694,450
	2,294,745	**151,463**	**30,309**	**694,450**

12. PROVISION FOR INCOME TAX

In assessing the reliability of deferred tax assets, management considers whether it is probable that all of the deferred tax asset will be realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable income and compliance with continuity of ownership requirements.

Based upon the level of projections for future taxable income over the periods in which the temporary differences are available to reduce income taxes payable, and uncertainties over continuity of ownership having regard to the Company's recent equity raising, management has established a valuation provision for the full amount of the deferred tax assets related to the net operating loss carried forward.

The Company has continued it's operations in New Zealand and has maintained it's branch residency in New Zealand for tax purposes. As outlined in Note 1, the Group has maintained it's functional currency in New Zealand dollars but has presented it's financial position and results in Australian dollars. The statutory tax rate in New Zealand is 28% (2015: 28%).

The provision for income taxes for continuing operations differs from the amount computed by applying the statutory rates to the Company's earnings from continuing operations before taxes as a result of the following differences:

	Year ended March 2016 $	Year ended March 2015 $
Loss before taxation	(4,943,098)	(5,236,578)
Provision for income taxes at statutory rates	(1,384,067)	(1,466,242)
Tax effect of permanent differences		
Amortisation of intellectual property	141,173	424,476
Share-based compensation	63,859	49,879
Other non-deductible/(non-assessable) items	34	34
Unrecognised temporary differences	752,702	–
Unrecognised tax losses	426,299	991,853
Income tax expense	–	–

12. PROVISION FOR INCOME TAX continued

The tax effect of temporary differences that give rise to deferred tax assets and liabilities are as follows:

	Year ended March 2016 $	Year ended March 2015 $
Current assets:		
Provision for holiday pay	32,661	25,443
Provision for site restoration	5,173	5,185
Other accruals	8,890	14,428
Deferred research and development costs	1,810,776	1,140,848
Non-current assets:		
Intellectual property	1,882,315	1,816,338
Net operating loss to carry forward	2,201,052	1,767,214
Total deferred tax assets at 28%	5,940,867	4,769,456
Deferred tax not recognised	(5,940,867)	(4,769,456)
Net deferred tax asset	–	–

13. OPERATING LEASES

Minimum non-cancellable lease payments are as follows:

	March 2016 $	March 2015 $
Within one year	61,524	132,041
One – two years	–	32,649
	61,524	**164,690**

One property is 25% sub-leased for the same period as the original lease with the landlords. The minimum stream of rental income from this sub-lease is as follows:

Within one year	10,301	24,487
One – two years	–	8,162
	10,301	**32,649**

14. COMMITMENTS AND CONTINGENT LIABILITIES

Intellectual Property Royalties – Vendors

In conjunction with the acquisition of the a family of patents entitled "Compositions And Methods For Treating Viral Infections", the Group granted the vendors royalties from the future net revenues which may be derived from the sale of products described in these patents which includes the use of MIS416 and any improvements thereto. The royalties, which are payable quarterly, amount to 6% of net revenues to a maximum aggregate royalty of US$100 million payable quarterly. Of the total 6% total royalties, 1.75% expires August 2020, 1% expires September 2020 and 3.25% expires August 2022.

New families of patents have subsequently been created by the Group by virtue of several new patent application filings. These include the use of MIS416 to treat various diseases and conditions including multiple sclerosis, cancer, infection, Alzheimer's disease, epilepsy, protection and/or repair of the nervous system, and radiation protection.

The extension of the use of MIS416 would result in a further royalty of 3.25% from any future net revenues which may be derived from the sale of MIS416. However, in the case of Alzheimer's there is also a royalty of 3% of any proceeds from the commercialisation of the patent. These new families of patents have various application dates from 2009 and if granted would have a term of approximately 20 years from the filing of the application. At this stage it is not possible to reasonably estimate the amount of any such future royalties. Currently, the Group is conducting a Phase 2B study focussed on the use of MIS416 for multiple sclerosis. This patent was filed in 2010. The maximum amount payable to the inventor of MIS416 of US$54,166,664 is an aggregate amount of all royalties across all patent families.

Claim for Royalties

The Group has received a claim from Dr Gelder for royalties he believes are due to him on a small amount of certain products sold by Innate and on a larger amount of certain products disposed of by Innate. The Group informed Dr Gelder that in the Group's view there has been no commercialisation of products which are subject to the Royalty Agreement between the parties and accordingly there are no royalties due under the Agreement. Dr Gelder commenced proceedings and the matter was heard in the High Court (Auckland, New Zealand) earlier this year. The Court has not yet made a ruling. Innate defended the matter vigorously but cannot predict the likely outcome.

Clinical Trial

The Group has entered into a master services agreement with INC Research in relation to the provision of clinical research and related services, more specifically the management of the Group's current Phase 2B trial of MIS416 in patients with SPMS. In the event that the trial is terminated prior to completion, INC Research is entitled to a cancellation fee of 5% of the remaining professional fees that would otherwise be incurred.

Collaborations

The Group has not entered into any formal collaborative arrangements that give rise to significant contingencies or capital commitments as at 31 March 2016 (March 2015: Nil).

15. RECONCILIATION OF NET DEFICIT AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES

	March 2016 $	March 2015 $
Net Deficit after Tax	(4,943,098)	(5,236,578)
Non-Cash Items:		
Depreciation	34,373	32,294
Amortisation of intangibles	534,043	1,515,984
(Gain)/Loss on sale of assets	799	160
Share-based compensation	228,067	178,141
Changes in Working Capital:		
Accounts receivable and prepayments	(1,146,964)	(516,923)
Accounts payable and accruals	578,461	49,165
Income taxes payable/(receivable)	–	–
Net Cash Outflow From Operating Activities	(4,714,319)	(3,977,757)

16. SHAREHOLDERS' EQUITY

Ordinary Shares

At 31 March 2016, 196,442,177 ordinary shares (March 2015: 172,479,822) were issued and fully paid. All ordinary shares rank equally as to voting, dividends and liquidation. There are no reserved shares of the Group. The shares have no par value.

	March 2016		March 2015	
	No. of shares	$	No. of shares	$
At start of the period	172,479,822	110,223,013	172,479,822	110,223,013
Shares issued (net of share issue costs)	23,962,355	4,007,753	–	–
At end of period	196,442,177	114,230,766	172,479,822	110,223,013

Shares Issued

During 2016, 23,962,355 new shares were issued.

No new shares were issued during 2015.

Options

The Company has on issue 16,870,000 share options to employees, directors and non-employees as at 31 March 2016 (March 2015: 24,268,758).

Share-based Compensation

The movement in fair value of employee, director and non-employee share options of $228,067 (2015: $178,141) corresponds with the amount recorded in expenses during the period and represents the fair value of vested and issued options.

Loyalty Rights Issued

As part of the IPO in 2014, 33,031,926 loyalty rights were issued to those individuals and entities who were shareholders of the Company immediately prior to the IPO on the basis of one loyalty right for every three ordinary shares held prior to the IPO. The loyalty rights will vest if the Company receives the final clinical study report relating to the Company's Phase 2B trial of its drug candidate in patients with SPMS and concludes that the drug is safe, reasonably well tolerated (or better), and recommends that the drug be further investigated in Phase 3 trial. The Company, in its sole discretion, will determine if the vesting condition has been satisfied. Each vested loyalty right has an exercise price of nil and can be converted into one ordinary share. The loyalty rights are not transferable and expire on 19 December 2016.

Share Option Reserve

The share option reserve is used to record the fair value of options as at each reporting date. The values of options are transferred between equity components as they vest.

Foreign Currency Translation Reserve

The foreign currency translation reserve is used to allow for translation differences on conversion from the functional currency to the presentational currency.

17. FINANCIAL INSTRUMENTS

Categories of financial instruments, including fair value of financial instruments

The classification of each class of financial assets and liabilities, and their fair values are as follows:

	March 2016		March 2015	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Non-derivative financial assets				
Loans and Receivables				
i. Cash and cash equivalents	3,200,622	3,200,622	4,088,896	4,088,896
ii. Accounts receivable	76,871	76,871	26,130	26,130
iii. Other receivables	1,461,940	1,461,940	–	–
Non-derivative financial liabilities				
At Amortised Cost				
i. Accounts payable and accrued liabilities	1,031,357	1,031,357	452,896	452,896

Financial Risks

The financial risks associated with the Group's financial assets and liabilities include credit risk, interest rate risk, liquidity risk and currency risk.

Credit Risk – Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, investments, loans and receivables. The maximum credit risk is the face value of these financial instruments. However, the Group considers the risk of non-recovery of these accounts to be minimal.

Maximum Risk Exposure – The maximum credit risk exposures are the carrying amounts of the financial assets and financial liabilities listed under the "*Categories of Financial Instruments, including Fair Value of Financial Instruments*" table. No financial assets are either past due or impaired. There are no collateral and other credit enhancements for the financial assets.

Currency Risk – Currency risk is the risk of loss to the Group arising from adverse changes in foreign exchange rates. The Group now has an Australian dollar presentation currency and is exposed to currency risk in respect of amounts held in foreign currency bank accounts and demand deposits. At 31 March 2016 the Group held NZ$52,030 (2015: NZ$2,122,770) and US$139,515 in such accounts and deposits. Should exchange rates strengthen by 10% this would have an impact of A$22,910 (2015: A$188,830).

Interest Rate Risk – Interest rate risk is the risk of loss to the Company arising from adverse changes in interest rates. The Group has no interest bearing debt and is only exposed to interest rate risk in respect of amounts held in bank current accounts and demand deposits. At 31 March 2016, the Group held $2,827,577 (2015: $3,941,582) in such accounts and deposits. A 50 basis points (0.5%) decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. For each interest rate movement of 50 basis points lower, assuming all other variables were held constant, the Group's loss for the year would increase by $14,000 (2015: $20,000).

Liquidity Risk – Liquidity risk is the risk that the Group will encounter difficulty in raising funds at short notice to meet commitments associated with financial instruments. The Group's non-derivative and derivative financial liabilities have contractual maturities as summarised below:

		Contractual cash flow maturities				
2016 March	**Carrying amount**	**Contractual cash flows**	**Within 6 month**	**6 to 12 months**	**1 to 5 years**	**Later than 5 years**
Accounts payable and accrued liabilities	1,031,357	1,031,357	1,031,357	–	–	–
				–	–	–
2015 March						
Accounts payable and accrued liabilities	452,896	452,896	452,896	–	–	–
	452,896	452,896	452,896	–	–	–

On 13 December 2013 all redeemable preferences shares, convertible notes and loans from shareholders were either converted into company shares or were fully repaid. As at 31 March 2016 the Group had no such liabilities other than $10,153 (2015: $10,540) of unpaid RPS due to holders not being contactable and accordingly liquidity risk is minimal.

18. AUDITOR'S REMUNERATION

	March 2016 $	**March 2015 $**
Audit and review of financial statements		
Grant Thornton – Australia	44,500	43,000
Overseas Grant Thornton network firms	–	–
Remuneration for audit and review of financial statements	**44,500**	**43,000**
Other Services		
Grant Thornton Australia		
Taxation compliance	8,500	–
Assistance on preparation of R&D rebate	8,000	17,000
Overseas Grant Thornton network firms		
Accounting services	–	9,259
Taxation compliance	10,000	6,477
Total other service remuneration	**26,500**	**32,736**
Total auditor's remuneration	**71,000**	**75,736**

19. EARNINGS PER SHARE

Both basic and diluted earnings per share ("EPS") have been calculated in accordance with paragraph 9 and 18 of AASB 133 using the loss attributable to shareholders of the Group as the numerator (i.e. no adjustments to loss were necessary in 2015 or 2016).

The weighted average number of shares for both basic and diluted EPS in 2016 was 181,145,660 (2015: 172,479,822).

Options and loyalty rights have not been included in the weighted average number of ordinary shares outstanding for the purpose of calculating diluted EPS as they do not meet the requirements for inclusion under AASB 133. Options and loyalty rights are non-dilutive as the Group result was a loss.

	March 2016	March 2015
Basic EPS – cents	(2.7)	(3.0)
Diluted EPS – cents	(2.7)	(3.0)

20. CAPITAL MANAGEMENT

When managing capital, management's objective is to ensure that the Group has sufficient cash to continue as a going concern. Until such time as the Group produces revenues from sales or out-licensing, cash principally comes from the issue of new securities to new and/or existing shareholders.

When pricing such new share issues, the Board takes into account multiple factors including:

- Market conditions for high risk investments;
- Estimation of current market value of the Group's IP;
- The dilution effect of new issues on existing shareholders; and
- Whether or not the new issue is restricted to existing shareholders.

The Group estimates that approximately $4,000,000 (2015: $7,700,000) will be required to complete the Phase 2B clinical trial of MIS416. The Group expects that $1,800,000 should be received as an R&D incentive payment on this remaining research and development in relation to the Phase 2B trial of MIS416.

Management has no plans to pay a dividend to the holders of ordinary shares until, at the earliest, such time as the Company produces internally generated revenues.

The Group is not subject to externally imposed capital requirements.

21. SUBSEQUENT EVENTS

On 27 April 2016, the Company issued 3,190,000 options under the Employee Option Scheme (exercise price $0.50; expiry date 27 April 2018).

On 10 June 2016, the Company announced a private placement and a rights issue to raise additional working capital of $5,425,000. It is proposed to issue 10,009,032 shares at US18¢ each under the private placement to sophisticated U.S. investors. The rights issue, to qualifying Australian and New Zealand shareholders, will be on a 1 for 9 basis and, if fully subscribed, would result in the issue of 12,105,314 shares at either A$0.25 or NZ$0.27 each. The additional working capital or the issue of shares have not been included in the financial statement for the year ended 31 March 2016.

No other matter or circumstance has arisen since the end of the financial year which is not otherwise dealt with in this report or in the Consolidated Financial Statements that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Directors' Declaration

In the opinion of the Directors of Innate Immunotherapeutics Limited:

a. The Consolidated Financial Statements and Notes of Innate Immunotherapeutics Limited are in accordance with the Corporations Act 2001, including
   i. Giving a true and fair view of its financial position as at 31 March 2016 and its performance for the financial year ended on that date; and
   ii. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
b. There are reasonable grounds to believe that Innate Immunotherapeutics Limited will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and the Chief Financial Officer for the financial year ended 31 March 2016.

Note 1 confirms that the Consolidated Financial Statements also comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Michael A Quinn
CHAIRMAN

Simon Wilkinson
CHIEF EXECUTIVE OFFICER

Dated the 22nd of June 2016

Independent Auditor's Report

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W www.grantthornton.com.au

Independent Auditor's Report
To the Members of Innate Immunotherapeutics Limited

Report on the financial report

We have audited the accompanying financial report of Innate Immunotherapeutics Limited (the "Company"), which comprises the consolidated statement of financial position as at 31 March 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to 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 Company's preparation of the financial report that gives a true and fair view 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 Company'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.

Grant Thornton

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

Independence

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

Auditor's opinion

In our opinion:

a the financial report of Innate Immunotherapeutics Limited is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the consolidated entity's financial position as at 31 March 2016 and of its performance for the year ended on that date; and

  ii complying with Australian Accounting Standards and the Corporations Regulations 2001.

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Material uncertainty regarding going concern

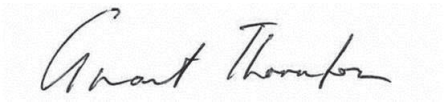
Without qualification to the conclusion expressed above, we draw attention to Note 1 to the financial statements which notes an operating loss after tax of $4,943,098 for the year ended 31 March 2016. This condition, along with other matters set forth in Note 1, indicates the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 31 March 2016. 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 on the remuneration report

In our opinion, the remuneration report of Innate Immunotherapeutics Limited for the year ended 31 March 2016, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M. A. Cunningham
Partner - Audit & Assurance

Melbourne, 22 June 2016

Shareholder Information

as at 18 July 2016

a. Number of IIL shareholders **2,502**
b. Total shares issued **208,548,615**
c. Percentage of total holdings by or on behalf of the 20 largest shareholders **52.52%**
d. Distribution schedule of holdings

	Ordinary Shares
1 – 1,000	421
1,001 – 5,000	674
5,001 – 10,000	325
10,001 – 100,000	851
100,001 and over	231

e. Shareholders with less than a marketable parcel: **512**
f. Voting rights: Every member present personally or by proxy or attorney etc, shall, on a show of hands, have one vote and on a poll shall have one vote for every share held.

TOP 20 HOLDERS OF ORDINARY FULLY PAID SHARES

Rank	Name	Shares	%
1.	Christopher Collins	33,899,139	16.25
2.	National Nominees Limited	23,338,466	11.19
3.	Caitlin Collins	5,200,000	2.49
4.	Cameron Collins	5,200,000	2.49
5.	Patricia Watkins + Michael Pollard + John Phibbs <Watkins Family A/C>	3,777,500	1.81
6.	Probe International Inc	3,692,689	1.77
7.	Mr Glenn Arthurs	3,631,539	1.74
8.	Fast Forward LLC	3,500,000	1.68
9.	Chep II LLC	3,125,319	1.50
10.	Moore Family Nominee Pty Ltd <Moore Family Super Fund A/C>	3,081,779	1.48
11.	D Ross Arthurs <Ttee Fbo Glenn W Arthurs Grant>	2,851,121	1.37
12.	Mr Neil Ross Brown	2,798,192	1.34
13.	Citicorp Nominees Pty Limited	2,744,922	1.32
14.	Thomas Massung	2,620,415	1.26
15.	Picton Cove Pty Ltd	2,280,653	1.09
16.	Cubrc Inc	2,080,566	1.00
17.	Mr A Mcmillan + Mrs S Mcmillan <Mcmillan Super>	1,645,436	0.79
18.	Merrill Lynch (Australia) Nominees Pty Limited	1,401,399	0.67
19.	A + B Wiltshire + D Rishworth<Wiltshire Family>	1,371,999	0.66
20.	Rubi Holdings Pty Ltd <John Rubino S/F A/C>	1,294,218	0.62

Substantial Shareholders	Shares to which Entitled	% of Issued Capital
Christopher Collins	33,899,139	16.25
Australian Ethical Investment	23,064,739	11.06

Corporate Directory

INNATE IMMUNOTHERAPEUTICS LIMITED

ABN 16 165 160 841

A public company incorporated in Victoria and listed on the Australian Securities Exchange (Code: IIL).

Directors

Michael Quinn (Non-Executive Chairman)

Simon Wilkinson (Managing Director and CEO)

Elizabeth Hopkins (Non-Executive Director)

Christopher Collins (Non-Executive Director)

Andrew Sneddon (Non-Executive Director)

Robert Peach (Non-Executive Director)

Andrew J. Cooke (Company Secretary)

Registered Office

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Website: www.innateimmuno.com

New Zealand Office

4B Walls Road
Penrose
Auckland 1061 New Zealand

Telephone: + 64 9 525 0532

Auditors

Grant Thornton Audit Pty Ltd
Australia

Share Registry

Computershare Investor Services Pty Limited
Level 4, 60 Carrington Street
Sydney NSW 2000 Australia

Telephone: 1300 850 505 (within Australia)
+ 61 3 9415 4000 (outside Australia)
Facsimile: + 61 2 8235 8150
Website: www.investorcentre.com/contact

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