

Innate Immunotherapeutics Limited

ACN 165 160 841

Financial Statements for the year ended 31 March 2018

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DIRECTORS' REPORT

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 2018.

DIRECTORS

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

Michael Quinn (resigned 4 May 2018)

Simon Wilkinson

Liz Hopkins (resigned 4 May 2018)

Christopher Collins (resigned 4 May 2018)

Andrew Sneddon (resigned 4 May 2018)

Robert Peach

Christian Behrenbruch (appointed 4 May 2018)

Christopher Burns (appointed 4 May 2018)

Warwick Tong (appointed 4 May 2018)

Andrew Cooke (appointed 4 May 2018)

INFORMATION ON DIRECTORS & COMPANY SECRETARY

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

Michael Quinn (BSc, BEc, MBA (Harvard) – 70 years) – Non-Executive Chairman (resigned 4 May 2018)

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 was a Director and Chairman of the Company from 19 September 2013 to 4 May 2018.

Simon Wilkinson – Managing Director and CEO (61 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) – 54 years) – Non-Executive Director (resigned 4 May 2018)

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 Ara, a government-funded tertiary education institute in New Zealand. Mrs Hopkins has previously been Deputy Chair of NZBIO and was CEO at Wool Equities/Keratec,

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CEO at Encoate (a start-up biotech), and Chief Development Officer at NeuronZ. Elizabeth currently provides consultancy services to a range of Government entities and private companies. 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. Elizabeth was reappointed as a Director on 17 October 2013 until 4 May 2018.

Christopher Collins (BSc., MBA – 68 years) – Non-Executive Director (resigned 4 May 2018)

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. In 2011 he 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. Mr Collins was a Director from 20 February 2006 to 4 May 2018.

Andrew Sneddon (BEcon, CA – 61 years) – Non-Executive Director (resigned 4 May 2018)

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, ServiceRocket International Pty Ltd, ServiceRocket R&D Pty Ltd, ServiceRocket Pty Ltd and the chairman of, Elastagen Pty Ltd 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 a Director from 19 September 2013 to 4 May 2018.

Robert Peach (Ph.D. – 62 years) – Non-Executive Director

Mr 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\$7.8B. Robert held senior executive and scientific positions in other companies including Apoptos, Biogen Idec, IDEC and Bristol-Myers Squibb, supporting in-licensing, 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 of AdAlta Pty Limited and Avalia Immunotherapies, and is a consultant to several other biotechnology companies. Robert is the co-author of 70 scientific publications and book chapters, and 26 patents and patent applications. 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.

Christian Behrenbruch (B.Eng (Hons) D.Phil (Oxon) MBA JD FIEAust GAICD – 43 years) – Non Executive Director (appointed 4 May 2018)

Mr Behrenbruch has twenty years of healthcare entrepreneurship and executive leadership experience in medtech and biotechnology. He has previously served in a CEO or Executive Director capacity at Mirada Solutions, CTI Molecular Imaging (now Siemens Healthcare), Fibron Technologies and ImaginAb, Inc. Chris a former Director of Momentum Biosciences LLC, Siemens Molecular Imaging Ltd, Radius Health Ltd (now Adaptix) and was the former Chairman of Cell Therapies P/L (a partnership with the Peter MacCallum Cancer Centre) and is currently CEO of Telix Pharmaceuticals Limited (ASX:TLX) and a non-executive director of Factor Therapeutics (ASX:FTT). Christian is Chairman of the Monash Engineering and IT Foundation Board and is an Adjunct Professor at Monash University. Chris holds a PhD in biomedical

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engineering from the University of Oxford, an executive MBA jointly awarded from New York University, HEC Paris and the London School of Economics (TRIUM Program) and a Juris Doctor (Law) from the University of Melbourne.

Christopher Burns (B.Sc. (Hons) PhD FRACI FRSC – 54 years) - Non Executive Director (appointed 4 May 2018)

Mr Burns is an experienced drug discovery leader having worked in various roles in pharma, biotech and academia for 25 years. After completing a PhD in Organic Chemistry at the University of Melbourne Chris undertook post-doctoral studies in the USA before moving to Pfizer UK, where he worked on a variety of drug discovery projects. After 5 years he returned to Australia as a Research Fellow at the University of Sydney with the CRC for Molecular Engineering and Technology and after two years moved to the biotechnology company Ambri as Head of Chemistry. Chris then moved to the Melbourne-based biotech as Head of Medicinal Chemistry and later as Research Director. During this time he led teams in the discovery of two anti-cancer agents that have entered clinical trial, including the drug momelotinib which successfully completed Phase III studies. Most recently Chris was a Laboratory Head at the Walter and Eliza Hall Institute of Medical Research in Melbourne and is now CEO and Research Director at privately-held MetaboloQ Pharmaceuticals. Mr Burns is the inventor on over 30 patents and a co-author on over 50 scientific publications and is a fellow of the Royal Society of Chemistry (UK) and the Royal Australian Chemical Institute.

Warwick Tong (MB ChB MPP GAICD – 67 years) - Non Executive Director (appointed 4 May 2018)

Dr Tong is a NZ trained physician with more than 25 years' experience in the Pharmaceutical and Biotechnology industry. After his early career in General Medical Practice Warwick has held a wide variety of roles in the pharmaceutical and biotech industry in Glaxo (New Zealand), GlaxoWellcome (Singapore), GSK (London), Surface Logix (Boston) and CTx - Cancer Therapeutics CRC (Melbourne). His roles have included; Medical Director, Regional Business Development Director (Asia Pacific), Commercial Strategy Director (International) and SVP Development (USA). Until April 2018 he was CEO and Director of CTx CRC Ltd and is Chair of the CTx commercialisation company CTxONE. He is a member of the Governance Board of the ARC Centre of Excellence Convergent Bio Nano Science, a member of the Scientific Advisory Board of the Maurice Wilkins Centre in Auckland NZ, the Advisory Board of Cortex Health, Melbourne, Chair of Biomedical Research Australia (BioMedVic) and a member of the Industry Advisory Board, School of Biomedical Sciences, University of Melbourne. Warwick was educated at the University of Auckland and Victoria University, Wellington, New Zealand and is a Graduate of the Australian Institute of Company Directors. Dr Tong was elected Chairman of the Board on 25 June 2018.

Andrew Cooke (LLB – 57 years) – Non-Executive Director (appointed 4 May 2018) & Company Secretary

Mr Cooke holds a law degree from Sydney University and has extensive experience in law, corporate finance, governance and compliance. As a Non-Executive Director and Company Secretary of a number of ASX listed companies he has over 25 years of boardroom experience and has developed a practical blend of legal and commercial acumen. He has served as a consultant to listed, public and private companies in the resources, property and biotech sectors focussing on stock exchange and regulatory compliance and a wide range of corporate transactions. Mr. Cooke is also a Non-Executive Director of Arc Exploration Limited since 11 October 2016. Andrew has been the Company Secretary since 11 October 2013.

PRINCIPAL ACTIVITIES

During the early part of the financial year, the Group concluded the clinical phase of the Phase 2B trial of MIS416 in patients with secondary progressive multiple sclerosis and undertook the analysis of the related trial data. In June it was announced that the trial had not been successful. As a consequence day to day scientific and drug manufacturing operations, which were all based in Auckland, were wound down and staff involved in

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these activities were made redundant. All plant and equipment were disposed of and the leasehold of the Auckland premises ceased on 31 December 2017.

In late March 2018, following an active search and review of a number of new technologies that could potentially be acquired and/or merged into the Group, a conditional agreement was entered into to acquire all of the shares of Amplia Therapeutics Pty Ltd ("Amplia") in consideration for the issue of fully paid shares in the Company. The acquisition was subsequently completed on 4 May 2018. In acquiring Amplia, the Company acquired Amplia's Focal Adhesion Kinase ("FAK") cancer programme.

OPERATING RESULTS

The Group total comprehensive loss after tax for the year ended 31 March 2018 was \$4,340,008 (2017: Loss after tax \$7,018,412).

DIVIDENDS PAID OR RECOMMENDED

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

REVIEW OF OPERATIONS

The year witnessed the unexpected failure of a long running clinical development programme in secondary progressive multiple sclerosis. The Group's Phase 2B randomised, double-blind, placebo-controlled trial of the efficacy and safety of MIS416 in the treatment of subjects with secondary progressive multiple sclerosis did not show clinically meaningful or statistically significant differences in measures of neuromuscular function or patient reported outcomes. The adverse consequences of this outcome were significant and resulted in compassionate patients ultimately losing access to drug, staff redundancies, and a major loss of shareholder value.

During this very stressful period, the Board sought to communicate as clearly and effectively as possible with all the affected groups and in particular to support the Group's long serving and dedicated employees.

The Board also considered options for the Group's future and in particular possible opportunities to rebuild shareholder value.

Following the review of a number of opportunities that might have been suitable to acquire and/or merge into the business, the Board elected to pursue the acquisition of a very promising pipeline of Focal Adhesion Kinase ("FAK") inhibitors held by Melbourne based Amplia Therapeutics Pty Ltd ("Amplia").

In reaching this decision, Directors took into account multiple factors including:

- the strong biologic rationale supporting FAK as a potentially important target in a range of fibrotic diseases, including both cancers and fibrosis;
- the apparent superiority of Amplia's FAK inhibitors compared to competing molecules in terms of drug-like properties, biological selectivity and manufacturability;
- strong IP position with composition of matter patents issued or in national phase in major markets;
- straightforward clinical pathway to advance at least one of the drug candidates towards USA IND Phase 2 readiness;
- potential 'multiple shots on goal' arising from having two related but differentiated drug candidates and the several disease targets including pancreatic cancer; and
- the quality and relevant experiences of the Amplia founders and their academic collaborators.

A conditional agreement to acquire all the shares in Amplia in exchange for new shares in the Company was reached in late March. The transaction was approved by shareholders on 26 April and completed on 4 May 2018.

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FINANCIAL POSITION

The Group loss after tax for the year ended 31 March 2018 was \$4,297,580 (2017: \$7,076,319). This result included non-cash expenses of depreciation and amortisation of \$20,161 (2017: \$36,952) and share based compensation of \$74,524 (2017: \$928,994). Since 31 March 2017, the net assets of the Group have decreased by \$4,264,708 to be \$2,364,248 at 31 March 2018.

In September 2017 the Group received a Research and Development tax incentive payment of \$1,848,693 from the Australian Government (2017: \$1,824,007). This primarily related to clinical trial expenditure in the previous financial year. The Group expects to receive a further R&D incentive payment of approximately \$167,643 in respect of qualifying expenses during the financial year to 31 March 2018. This expected payment has been included as a future receivable in the financial statements to 31 March 2018 (2017: \$1,463,046).

Research and development expenses decreased to \$3,224,437 (2017: \$6,036,112). This reflected the completion of the Group's Phase 2B safety and efficacy trial of MIS416 in patients with secondary progressive multiple sclerosis and the subsequent closure of the day to day scientific and drug manufacturing operations in Auckland.

Share based compensation decreased to \$74,524 (2017: \$928,994). This is a non cash expense and related to the amortisation of options previously issued to Directors and employees. No new options were issued to Directors or employees during the financial year.

The Group did not issue any new shares or options during the financial year. At 31 March 2018, Innate Immunotherapeutics Limited had 225,625,991 ordinary shares on issue and 15,675,000 options outstanding (2017: 225,625,991 shares and 24,160,000 options).

As a consequence of winding down Auckland operations in late 2017, the Groups non current assets, comprising plant and equipment, were disposed of resulting in a nil value at 31 March 2018 (2017: \$162,219). Current liabilities were also significantly reduced to \$279,422 (2017: 907,873). Property lease commitments ceased on 31 December 2017. The Group has no debt.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Following the unsuccessful Phase 2B clinical trial, the Group suspended further clinical development of MIS416 and closed down it's Auckland based operations. On 26 April 2018 the Company's shareholders approved the acquisition of Amplia. The Company will now primarily focus on the development of Amplia's FAK inhibiting drug candidates for application in immuno-oncology and other indications.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 26 April 2018 the Company's shareholders approved the 10 into 1 consolidation of the Company's issued share capital. As a result the number of issued shares reduced to 22,562,995. On the same date, shareholders also approved the issue of 18,460,308 fully paid ordinary shares (on a post consolidation basis) for the acquisition of Amplia at a deemed issue price of \$0.21 per share. On completion of the acquisition, the Company had 41,023,303 shares on issue. The accounting for this consolidation of issued shares and the acquisition of Amplia are not included in these financial statements.

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.

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FUTURE DEVELOPMENTS

Focal Adhesion Kinase or "FAK" has emerged as an important target in both fibrotic cancers such as pancreatic and ovarian cancer as well as non-cancer fibrosis such as idiopathic pulmonary fibrosis. The FAK inhibiting assets AMP886 and AMP945 which are now held by the Group through the acquisition of Amplia represent highly attractive compounds for clinical development possessing excellent potency and drug-like properties, biological selectivity, bioavailability and manufacturing scale-up potential.

The Group plans to advance the development of these drug candidates as rapidly as possible. The clinical development plan currently envisages a healthy volunteer Phase 1 dose finding, safety and tolerability study in Australia which is expected to provide the necessary data to underpin a subsequent Phase 2 study in a patient population.

The Group, with assistance from the new Amplia team, will also consider possible opportunities to reposition the existing MIS416 immunomodulatory technology into the immuno-oncology space.

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
Other KMP	
Gill Webster	Chief Scientific Officer (CSO)
Jeff Carter	Chief Financial Officer (CFO)
Janette Dixon	Vice President Corporate Development (VPCD)

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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 Peach (chair), Mr Behrenbuch (appointed 4 May 2018) and Mr Burns (appointed 4 May 2018) 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. For the financial year ended 31 March 2018, 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 non-executive 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.

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Directors' and other Key Management Personnel Remuneration - 31 March 2018

Details of the nature and amount of each element of the remuneration of each Director and KMP for the year ended 31 March 2018, are shown in the table below:

	Short-Term Benefits			Post-Employment Benefits		Long Service Leave (\$)	Share based payments ⁶ (\$)	Total (\$)
	Cash Salary & Fees (\$)	Cash Bonus (\$)	Non-monetary Benefits (\$)	Super-annuation (\$)	Retirement benefits (\$)			
2018								
Directors								
<i>Non –Executive</i>								
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	20,000	-	-	-	-	-	-	20,000
<i>Executive</i>								
Simon Wilkinson	334,735 ²	-	-	-	-	-	1,453	336,188
Total Directors	417,566	-	-	2,169	-	-	1,453	421,188
Gill Webster ³	273,610	-	-	-	-	-	29,341	302,951
Jeff Carter ⁴	94,600	-	-	-	-	-	2,374	96,974
Janette Dixon ⁵	135,496	-	-	-	-	-	9,780	145,276
Total KMP	503,706	-	-	-	-	-	41,495	545,201

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. This amount includes his annual salary of NZ\$230,000 and a retention payment of NZ\$132,346 which was paid in April 2018. No directors fees are paid to Mr Wilkinson.

³ Ms Webster's employment ceased 31 December 2017. The cash salary amount includes a retention payment of NZ\$36,000 as well as a redundancy payment of NZ\$31,515.

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 at \$7,525 per month.

⁵ Ms Dixon is VP Corporate Development and her services are provided by Ms Dixon's service company. The Company entered into a contract for her services at NZ\$18,334 per month. This service ceased 30 November 2017.

⁶ Share based payments have all been in the form of options vesting during the period.

The Board set no other performance criteria for KMP during the year to 31 March 2018 and no other bonuses were paid to them.

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Directors' and other Key Management Personnel Remuneration - 31 March 2017

Details of the nature and amount of each element of the remuneration of each Director and KMP for the year ended 31 March 2017, are shown in the table below:

	Short-Term Benefits			Post-Employment Benefits		Long Service Leave (\$)	Share based payments ⁵ (\$)	Total (\$)
	Cash Salary & Fees (\$)	Cash Bonus (\$)	Non-monetary Benefits (\$)	Super-annuation (\$)	Retirement benefits (\$)			
2017								
Directors								
<i>Non –Executive</i>								
Michael Quinn	22,831	-	-	2,169	-	-	111,042	136,042
Christopher Collins	-	-	-	-	-	-	-	-
Andrew Sneddon ¹	20,000	-	-	-	-	-	74,028	94,028
Elizabeth Hopkins	20,000	-	-	-	-	-	74,028	94,028
Robert Peach	20,000	-	-	-	-	-	123,380	143,380
<i>Executive</i>								
Simon Wilkinson ²	216,614	-	-	-	-	-	239,174	455,788
Total Directors	299,445	-	-	2,169	-	-	621,652	923,266
Gill Webster	199,726	942	-	-	-	-	142,542	343,210
Jeff Carter ³	105,905	-	-	-	-	-	8,290	114,195
Janette Dixon ⁴	207,203	-	-	-	-	-	49,030	256,233
Total KMP	512,834	942	-	-	-	-	199,862	713,638

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 directors 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 at \$6,000 per month. A new contract was entered into from 1 May 2016 to 30 June 2017 at \$7,525 per month.

⁴ Ms Dixon is VP Corporate Development and her services are provided by Ms Dixon's service company. The Company entered into a contract for her services at NZ\$18,334 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 vesting during the period.

The Board set no other performance criteria for KMP during the year to 31 March 2017 and no other bonuses were paid to them.

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Options issued as part of remuneration for the year ended 31 March 2018

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 options issued to Directors or the named KMP's during the year ended 31 March 2018.

Options issued as part of remuneration for the year ended 31 March 2017

The following options were issued to Directors and KMP's as part of remuneration during the year ended 31 March 2017. The options issued to Directors were approved by shareholders at the Annual General Meeting on 31 August 2016.

2017	Date of Issue	Number	Vesting	Strike Price	Expiry	Value (\$)
Directors						
<i>Non-Executive</i>						
Michael Quinn	31-Aug-16	900,000	Immediately	\$0.65	31-Aug-18	111,042
Christopher Collins	-	-	-	-	-	-
Andrew Sneddon	31-Aug-16	600,000	Immediately	\$0.65	31-Aug-18	74,028
Elizabeth Hopkins	31-Aug-16	600,000	Immediately	\$0.65	31-Aug-18	74,028
Robert Peach	31-Aug-16	1,000,000	Immediately	\$0.65	31-Aug-18	123,380
<i>Executive</i>						
Simon Wilkinson	31-Aug-16	1,750,000	Immediately	\$0.65	31-Aug-18	215,915
Total Directors		4,850,000				598,393
Other KMP						
			Service Conditions Only for Vesting			
Gill Webster	27-Apr-16	1,500,000	1/2 in 12 months then 1/3 rd of the remainder at the beginning of each quarter thereafter	\$0.50	27-Apr-18	159,960
Jeff Carter	27-Apr-16	100,000	1/2 in 12 months then 1/3 rd of the remainder at the beginning of each quarter thereafter	\$0.50	27-Apr-18	10,664
Janette Dixon	27-Apr-16	500,000	1/2 in 12 months then 1/3 rd of the remainder at the beginning of each quarter thereafter	\$0.50	27-Apr-18	53,320
Total KMP		2,100,000				223,944

No other options were issued to Directors or other Key Management Personnel during the year to 31 March 2017.

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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. Since 27 June 2016 Ms Webster is paid an annual salary of NZ\$205,200 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. Ms Webster ceased as an employee on 31 December 2017.

Jeff Carter - CFO

On 1 May 2016, the Company entered into a consultancy agreement with Mr Carter's service company, Joblak Pty Ltd to 30 June 2017. Pursuant to the terms of the Agreement, Mr Carter's company is paid a monthly amount of \$7,525 for Mr Carter to perform the part time role of Chief Financial Officer of the Company.

Janette Dixon - VPCD

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's company was paid a monthly amount of NZ\$9,167 for Ms Dixon 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 18 August 2015 Ms Dixon's contract was amended and increased to NZ\$18,334 per month and her role was changed to VP Corporate Development. Ms Dixon's services ceased on 30 November 2017.

Non-Executive Directors

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

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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. No options were issued during the year ended 31 March 2018. The terms and conditions of the options issued during the year ended 31 March 2017 can be found above ("Options Issued as part of Remuneration for the year ended 31 March 2017").
- (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 including all options that are vested are exercisable at year end.

2018 - 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						
<i>Non-Executive</i>						
Michael Quinn	2,525,000	-	-	-	2,525,000	2,525,000
Christopher Collins	4,125,000	-	-	(1,250,000)	2,875,000	2,875,000
Andrew Sneddon	1,725,000	-	-	-	1,725,000	1,725,000
Elizabeth Hopkins	1,600,000	-	-	-	1,600,000	1,600,000
Robert Peach	1,000,000	-	-	-	1,000,000	-
<i>Executive</i>						
Simon Wilkinson	5,800,000	-	-	(1,300,000)	4,500,000	4,500,000
Total Directors	16,775,000	-	-	(2,550,000)	14,225,000	14,225,000
Other KMP						
Gill Webster	2,700,000	-	-	(2,700,000)	-	-
Jeff Carter	100,000	-	-	-	100,000	100,000
Janette Dixon	700,000	-	-	(700,000)	-	-
Total Other KMP	3,500,000	-	-	(3,400,000)	100,000	100,000

* Expired unexercised/lapsed during the year.

2017 - 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						
<i>Non-Executive</i>						
Michael Quinn	1,625,000	900,000	-	-	2,525,000	2,525,000
Christopher Collins	4,125,000	-	-	-	4,125,000	4,125,000
Andrew Sneddon	1,125,000	600,000	-	-	1,725,000	1,725,000
Elizabeth Hopkins	1,000,000	600,000	-	-	1,600,000	1,600,000
Robert Peach	-	1,000,000	-	-	1,000,000	1,000,000

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	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
2017 - Options						
<i>Executive</i>						
Simon Wilkinson	4,050,000	1,750,000	-	-	5,800,000	5,508,333
Total Directors	11,925,000	4,850,000	-	-	16,775,000	16,483,333
Other KMP						
Gill Webster	1,200,000	1,500,000	-	-	2,700,000	900,000
Jeff Carter	200,000	100,000	(200,000)	-	100,000	-
Janette Dixon	500,000	500,000	(300,000)	-	700,000	175,000
Total Other KMP	1,900,000	2,100,000	(500,000)	-	3,500,000	1,075,000

* Expired unexercised/lapsed 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

	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
2018 - Shares					
Directors					
<i>Non-Executive</i>					
Michael Quinn	2,011,604	-	-	(2,011,604) ¹	-
Christopher Collins	37,899,139	-	-	-	37,899,139
Andrew Sneddon	976,004	-	-	(611,111) ²	364,893
Elizabeth Hopkins	20,919	-	-	-	20,919
Robert Peach	560,000	-	-	-	560,000
<i>Executive</i>					
Simon Wilkinson ³	111,111 ³	-	-	-	111,111
Total Directors	41,578,777	-	-	(2,622,715)	38,956,062
Other KMP					
Gill Webster	-	-	-	-	-
Jeff Carter	-	-	-	-	-
Janette Dixon	300,000	-	-	(300,000) ⁴	-
Total Other KMP	300,000	-	-	(300,000)	-

¹ These shares were sold on market on 29 June 2017.

² These shares were sold on market on 28 June 2017.

³ These shares were held directly by Mr Wilkinson's spouse. However, they have been included in this disclosure as a personally related party interest.

⁴ These shares were sold during the year on market.

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OTHER

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 2018.

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	2018	2016	2016	2015	2014
EPS (cents)	(1.90)	(3.33)	(2.73)	(3.04)	(3.81)
Dividends (cents per share)	-	-	-	-	-
Net profit/loss (\$000)	(4,297)	(7,076)	(4,943)	(5,237)	(4,495)
Share Price (cents)	7.6	76.5	18.0	18.5	25.0

End of Remuneration Report

OPTIONS

At the date of this report unissued shares, pre consolidation on 2 May 2018, of the Group under option are:

Expiry Date	Exercise Price	Number as at 31 March 2018	Number exercised/lapsed during year ended 31 March 2018	Number exercised/lapsed post reporting date
22-Jul-17	USD 0.60	-	1,400,000	-
24-Sep-17	USD 0.40	-	1,250,000	-
14-Feb-18	USD 0.40	-	625,000	-
27-Apr-18	AUD 0.50	300,000	2,890,000	300,000
1-May-18	USD 0.40	625,000	-	625,000
15-Jul-18	USD 0.40	625,000	-	-
31-Aug-18	AUD 0.65	4,850,000	-	-
19-Sep-18	AUD 0.40	625,000	-	-
5-Nov-18	USD 0.40	2,250,000	-	-
5-Nov-18	AUD 0.45	4,500,000	-	-
20-Aug-19	AUD 0.40	1,750,000	-	-
22-Oct-19	AUD 0.40	150,000	2,320,000	-
		15,675,000	8,485,000	925,000

Post consolidation the number of shares under option, on the date of this report, were 1,475,000.

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DIRECTORS' INTERESTS

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

	Ordinary Shares	Options
Simon Wilkinson	-	450,000
Robert Peach	56,000	100,000
Andrew Cooke	-	-
Christian Behrenbruch	2,492,142 ¹	-
Chris Burns	2,215,237 ¹	-
Warwick Tong	1,661,428 ¹	-
	6,424,807	550,000

¹These shares are subject to Voluntary Escrow for 24 months from 4 May 2018.

The above table is after the consolidation that occurred on 2 May 2018. It only includes details for Directors that were Directors as the date of this report. 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	
	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended	Number Eligible to attend	Number Attended
Attendances were:						
Michael Quinn	15	15	-	-	1	1
Simon Wilkinson	15	15	-	-	-	-
Elizabeth Hopkins	15	13	8	7	-	-
Christopher Collins	15	15	-	-	1	1
Andrew Sneddon	15	14	8	7	-	-
Robert Peach	15	14	-	-	1	1

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

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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. This insurance expired 30 November 2017.

DIRECTORS' BENEFITS

Since 1 April 2018, 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 \$10,000 for the 2017 lodgements. They will be paid between \$8,000 and \$10,000 for the 2018 lodgement. Grant Thornton were also engaged to provide tax advice and other accounting services and were paid \$18,000 for these services in 2017. They will be paid approximately \$18,000 for these services in 2018.

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 2018 and a copy of this declaration forms part of the Directors' Report.

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



WARWICK TONG
Chairman
20 June 2018



SIMON WILKINSON
Chief Executive Officer

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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 2018, 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, 20 June 2018

Grant Thornton Audit Pty Ltd ACN 130 913 594
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Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2018

	Note	Year ended March 2018 \$	Year ended March 2017 \$
Sales revenue		-	-
Other operating income	4	642,837	1,831,294
Total revenue and other operating income		642,837	1,831,294
Research and development expenses		(3,224,437)	(6,036,112)
Patent and associated expenses		(102,693)	(205,466)
Business development expenses		(192,307)	(297,181)
General and administration expenses		(1,353,266)	(1,464,100)
Depreciation & amortisation		(20,161)	(36,952)
Share based compensation (employee & non-employee)		(74,524)	(928,994)
Operating deficit before financing costs		(4,324,551)	(7,137,511)
Interest income		26,971	61,192
Financial expenses		-	-
Net financial expense		26,971	61,192
Loss before income tax expense		(4,297,580)	(7,076,319)
Income tax expense/(benefit)	11	-	-
Loss after income tax expense/(benefit)		(4,297,580)	(7,076,319)
Other comprehensive income/(loss)			
<i>Items that may be subsequently reclassified to profit/loss</i>			
Exchange differences of foreign exchange translation		(42,428)	57,907
Total comprehensive loss		(4,340,008)	(7,018,412)
Basic and diluted earnings per share (weighted)	18	(1.9)	(3.3)

The accompanying notes form part of these financial statements

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Consolidated Statement of Financial Position for the year ended 31 March 2018

	Note	Year ended March 2018 \$	Year ended March 2017 \$
Current assets			
Cash and cash equivalents	3	2,229,190	5,763,357
Accounts receivable		244,363	131,770
Prepayments		-	33,890
Research & development tax incentive receivable		167,643	1,436,046
Other current assets		2,474	9,547
Total current assets		2,643,670	7,374,610
Non current assets			
Property, plant and equipment	5	-	162,219
Total non current assets		-	162,219
Total assets		2,643,670	7,536,829
Current liabilities			
Accounts payable and accrued liabilities	6	279,422	907,873
Total current liabilities		279,422	907,873
Non current liabilities		-	-
Total liabilities		279,422	907,873
Equity			
Paid-in capital	15	123,019,417	123,018,641
Reserves		(350,313)	389,354
Accumulated losses		(120,304,856)	(116,779,039)
Total equity		2,364,248	6,628,956
Total equity and liabilities		2,643,670	7,536,829

The accompanying notes form part of these financial statements

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Consolidated Statement of Changes in Equity for the year ended 31 March 2018

	Paid-in Capital	Share Option Reserve	Foreign Currency Translation	Accumulated Losses	Total equity
	\$	\$	\$	\$	\$
Balance at 1 April 2016	114,230,766	1,309,329	(1,834,096)	(109,702,720)	4,003,279
(Loss) after income tax for the year	-	-	-	(7,076,319)	(7,076,319)
Other comprehensive (loss) after tax	-	-	57,907	-	57,907
Total comprehensive (loss)	-	-	57,907	(7,076,319)	(7,018,412)
Capital raising (net of costs)	8,715,095	-	-	-	8,715,095
Exercised options	72,780	(72,780)	-	-	-
Issue/vesting of share options	-	928,994	-	-	928,994
	8,787,875	856,214	57,907	(7,076,319)	2,625,677
Balance at 31 March 2017	123,018,641	2,165,543	(1,776,189)	(116,779,039)	6,628,956
(Loss) after income tax for the year	-	-	-	(4,297,580)	(4,297,580)
Other comprehensive (loss) after tax	-	-	(42,428)	-	(42,428)
Total comprehensive (loss)	-	-	(42,428)	(4,297,580)	(4,340,008)
Other costs	776	-	-	-	776
Expired/lapsed options	-	(771,763)	-	771,763	-
Issue/vesting of share options	-	74,524	-	-	74,524
	776	(697,239)	(42,428)	(3,525,817)	(4,264,708)
Balance at 31 March 2018	123,019,417	1,468,304	(1,818,617)	(120,304,856)	2,364,248

The accompanying notes form part of these financial statements

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Consolidated Statement of Cash Flows for the year ended 31 March 2018

	Note	Year ended March 2018 \$	Year ended March 2017 \$
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Dividends received		-	356
Interest received		28,491	63,196
Rent received		24,340	32,919
R&D incentive received		1,848,693	1,824,007
Payments to suppliers		(3,870,454)	(6,677,843)
Payments to employees		(1,579,874)	(1,404,639)
Net cash outflow from operating activities	14	<u>(3,548,804)</u>	<u>(6,162,004)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Purchase of property, plant and equipment		(4,419)	(46,527)
Disposal of property, plant and equipment		6,284	-
Net cash inflow/(outflow) from investing activities		<u>1,865</u>	<u>(46,527)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Issue of ordinary shares		-	8,917,021
Capital raising and listing costs		(12,911)	(201,926)
Net cash inflow from financing activities		<u>(12,911)</u>	<u>8,715,095</u>
Net increase/(decrease) in cash held		(3,559,850)	2,506,564
Foreign exchange effect on cash and cash equivalent balances		25,683	56,171
Cash at the beginning of the year		<u>5,763,357</u>	<u>3,200,622</u>
Cash at the end of the year		<u><u>2,229,190</u></u>	<u><u>5,763,357</u></u>
<u>CASH BALANCES IN THE STATEMENT OF FINANCIAL POSITION</u>			
Cash and cash equivalents	3	<u>2,229,190</u>	<u>5,763,357</u>
Closing cash balance		<u><u>2,229,190</u></u>	<u><u>5,763,357</u></u>

The accompanying notes form part of these financial statements

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Notes to the Financial Statements for the year ended 31 March 2018

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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 2017. 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. Management

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have performed a preliminary assessment and have determined that when these standards are adopted for the first time they are unlikely to have any significant impact on the Group. Specifically, AASB 9 Financial Instruments, AASB 15 Revenues and AASB 16 Leases are not expected to have any impact.

(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 and reflects the pattern of consumption of the future economic benefits of these assets and is 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 and drug manufacturing industrialisation.

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) Share Capital

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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.

(i) 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.

(j) Goods & 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.

(k) 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.

(l) Other Income

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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.

The expected R&D incentive payment for qualifying R&D expenditure is recognised on an accruals basis by applying AASB 120 and is included as "other operating income".

(m) 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.

(n) 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

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costs are allocated to share capital.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

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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.

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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.

(t) 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.

(u) 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.

(v) Going Concern

The financial statements have been prepared on a going concern basis after taking into consideration the net loss for the year of \$4,297,580 and the cash and cash equivalents balance of \$2,229,190. 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. In June 2017 the Company announced that the top line results from the Phase 2B trial of MIS416 for the treatment of secondary progressive multiple sclerosis (SPMS) had failed to demonstrate efficacy. As a result the Company terminated the SPMS clinical programme and has closed its Auckland based physical operations.

On 26 April 2018 the Company's shareholders approved the issue of 18,460,308 fully paid ordinary shares (on a post consolidation basis) for the acquisition of Amplia Therapeutics Pty Ltd. The Company is now pursuing alternative opportunities using the acquired licences, knowhow and technology. The exploitation of these opportunities will require future funding. The Directors continue to monitor these ongoing funding requirements and are of the opinion that the financial

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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 the R&D future tax incentive accrued. This is based on management's assessment of the qualifying R&D expenses and the expected recoverability of this government R&D tax incentive payment.

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3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	March 2018	March 2017
	\$	\$
Cash at bank (NZD)	3,402	39,439
Cash at bank (AUD)	77,207	455,166
Cash at bank (USD)	214,939	497,345
Cash at bank (EUR)	936	27,870
Demand deposits (NZD)	286,746	528,087
Demand deposits (AUD)	1,645,960	715,450
Short term deposits (AUD)	-	3,500,000
	<u>2,229,190</u>	<u>5,763,357</u>

4. OPERATING LOSS

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

	March 2018	March 2017
	\$	\$
<i>Crediting:</i>		
Interest received	26,971	61,192
R&D tax incentive received in excess of the amount accrued in the prior year	412,647	362,067
R&D future tax incentive accrued	167,643	1,436,046
<i>Charging:</i>		
Foreign exchange (gain)/loss	(18,011)	55,327
Depreciation - Leasehold improvements	1,290	2,181
- Plant and equipment	15,465	26,476
- Office furniture and fittings	3,406	8,295
(Profit)/Loss on sale of property, plant and equipment	141,414	(261)
Rent and leasing expense	86,543	147,956
Employee benefits	1,616,268	1,433,962
Share based compensation - employees & directors	74,524	928,994

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5. PROPERTY, PLANT & EQUIPMENT

	Leasehold Improvements \$	Plant and Equipment \$	Office Furniture and Fittings \$	Total \$
Gross carrying amounts				
Balance at 1 April 2016	105,529	894,178	48,170	1,047,877
Additions	-	39,495	7,032	46,527
Disposals	-	(9,620)	-	(9,620)
Foreign currency translation	1,348	10,308	615	12,271
Balance at 31 March 2017	106,877	934,361	55,817	1,097,055
Balance at 1 April 2017	106,877	934,361	55,817	1,097,055
Additions	-	3,719	700	4,419
Disposals	(110,329)	(965,932)	(60,663)	(1,136,924)
Foreign currency translation	3,452	27,852	4,146	35,450
Balance at 31 March 2018	-	-	-	-
Depreciation and impairment losses				
Balance at 1 April 2016	83,550	776,977	35,887	896,414
Depreciation for the year	2,181	26,476	8,295	36,952
Disposals	-	(8,864)	-	(8,864)
Foreign currency translation	1,001	9,124	209	10,334
Balance at 31 March 2017	86,732	803,713	44,391	934,836
Balance at 1 April 2017	86,732	803,713	44,391	934,836
Depreciation for the year	1,290	15,465	3,406	20,161
Disposals	(88,999)	(828,226)	(48,297)	(965,522)
Foreign currency translation	977	9,048	500	10,525
Balance at 31 March 2018	-	-	-	-
Carrying amounts				
At 31 March 2017	20,145	130,648	11,426	162,219
At 31 March 2018	-	-	-	-

At the reporting date no items of property, plant and equipment were held under finance leases (March 2017 nil).

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6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 2018 \$	March 2017 \$
Trade accounts payables	1,139	88,171
Employee related payables	173,159	169,598
Other accruals	94,510	639,822
Preference shares unpaid	10,614	10,282
	<u>279,422</u>	<u>907,873</u>

7. SUBSIDIARIES

Entity	Principal Activity	Country of Incorporation	Percentage Owned (%)	
			2018	2017
Head Entity				
Innate Immunotherapeutics Limited	Research & Development	Australia	N/A	N/A
Subsidiaries of Innate Immunotherapeutics Limited				
Innate Immunotherapeutics (NZ) Limited	Drug Manufacturing	New Zealand	100	100

8. 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 & Other Key Management Personnel Remuneration

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

	March 2018 \$	March 2017 \$
Short-term benefits (including retention & redundancy payments)	921,272 ¹	813,221
Post-employment benefits	2,169	2,169
Share based payments	42,948	821,514
	<u>966,389</u>	<u>1,636,904</u>

¹This includes retention payments of \$155,518 and redundancy payments of \$29,114.

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9. SHARE BASED COMPENSATION

On 12 November 2013 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. For options granted in the year ended 31 March 2017 the following detail was used to estimate the fair value of options granted:

	Employees	Directors
Grant date	27/04/16	31/08/16
Share price	\$0.33	\$0.405
Exercise price	\$0.50	\$0.65
Expected volatility	80%	80%
Option lives (at issue)	2 years	2 years
Expected dividend yield	0%	0%
Risk free interest rate	1.94%	1.44%
Fair value at grant date	10.66 cents	12.34 cents

There were no options granted to employees or directors during the year ended 31 March 2018.

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	March 2018		March 2017	
	Number of options	Weighted Average Exercise price	Number of options	Weighted Average Exercise price
Employee Options				
Share options on issue at start of year	5,660,000	\$0.46	3,220,000	\$0.40
Share options granted	-	-	3,190,000	\$0.50
Share options transferred	-	-	-	-
Share options exercised	-	-	(750,000)	\$0.40
Share options forfeited/lapsed	(5,210,000)	\$0.46	-	-
Share options expired	-	-	-	-
Share options on issue at end of period	450,000	\$0.47	5,660,000	\$0.46
Share options exercisable at end of period	450,000	\$0.47	1,715,000	\$0.40
Weighted average remaining contractual life (years)		0.6		1.7
Directors Options				
Share options on issue at start of year	12,400,000	\$0.56	7,550,000	\$0.50
Share options transferred (non-employee)	-	-	-	-
Share options granted	-	-	4,850,000	\$0.65
Share options forfeited	-	-	-	-
Share options exercised	-	-	-	-
Share options expired	(1,300,000)	\$0.80	-	-
Share options on issue at end of period	11,100,000	\$0.53	12,400,000	\$0.56
Share options exercisable at end of period	11,100,000	\$0.53	12,108,333	\$0.56
Weighted average remaining contractual life (years)		0.7		1.5

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.

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Share based compensation granted as part of financing arrangements during 2018 Nil (2017 Nil) was:

	March 2018		March 2017	
	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	(1,875,000)	-	-	-
Share options on issue at end of period	4,125,000	\$0.52	6,000,000	\$0.51
Share options exercisable at end of period	4,125,000	\$0.50	6,000,000	\$0.51
Weighted average remaining contractual life (years)		0.5		1.2

10. SEGMENT INFORMATION

The Group has no operating segments as management review financial information on a consolidated basis. During the financial period the Group had activities conducted in both Australia and New Zealand.

	March 2018		March 2017	
	Revenue	Non-current Assets	Revenue	Non-current Assets
	\$	\$	\$	\$
Australia	617,622	-	1,798,113	-
New Zealand	25,215	-	33,181	162,219
	642,837	-	1,831,294	162,219

11. 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 equity raisings, 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 its operations in New Zealand and has maintained its branch residency in New Zealand for tax purposes. As outlined in Note 1, the Group has maintained its functional

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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% (2017: 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 2018 \$	Year ended March 2017 \$
Loss before taxation	(4,297,580)	(7,076,319)
Provision for income taxes at statutory rates	(1,203,322)	(1,981,369)
Tax effect of permanent differences		
Share based compensation	20,867	260,118
Other non-deductible/(non-assessable) items	34	35
Unrecognised temporary differences	724,397	1,260,242
Unrecognised tax losses	458,024	460,974
Income tax expense	-	-
The tax effect of temporary differences that give rise to deferred tax assets and liabilities are as follows:		
Current assets:		
Provision for holiday pay	9,558	32,687
Provision for site restoration	-	5,116
Other accruals	14,280	11,627
Deferred research and development costs	3,797,258	2,956,817
Non- current assets:		
Intellectual property	2,188,967	1,918,229
Net operating loss to carry forward	3,164,818	2,620,155
Total deferred tax assets at 28%	9,174,881	7,544,631
Deferred tax not recognised	9,174,881	7,544,631
Net deferred tax asset	-	-

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12. OPERATING LEASES

Minimum non-cancellable lease payments are as follows:

	March 2018 \$	March 2017 \$
Within one year	-	62,556
One- two years	-	-
	<u>-</u>	<u>62,556</u>

In 2017 one property was 25% sub-leased for the same period as the original lease with the landlords. The minimum stream of rental income from this sub-lease was as follows:

Within one year	-	10,706
One- two years	-	-
	<u>-</u>	<u>10,706</u>

13. COMMITMENTS AND CONTINGENT LIABILITIES

Intellectual Property Royalties - Vendors

Net revenues on product sales and licence revenues arising from the use of MIS416 to treat various diseases (including multiple sclerosis), as described in a number of patent applications filed between 1996 and 2015, are subject to quarterly royalty payments as follows:

- (i) 1.75% expiring August 2020 (up to a maximum aggregate of US\$29,166,665), plus
- (ii) 1.00% expiring September 2020 (up to a maximum aggregate of US\$16,666,666), plus
- (iii) 3.25% expiring August 2022 in relation to treating HIV or expiring at the end of the respective granted patents in relation to treating other diseases (up to a maximum aggregate of US\$54,166,664), plus
- (iv) Only in relation to treating Alzheimer's disease, 3.00% expiring at the end of the relevant patent (if granted) which was applied for in 2009.

Patents if granted expire approximately 20 years from the date of filing the patent application. In relation to the use of MIS416 to treat multiple sclerosis, the granted patents will expire in approximately 2029 (unless allowed to lapse/relinquished earlier) with some slight variation depending on the country of jurisdiction.

Collaborations

The Group has not entered into any formal collaborative arrangements that give rise to significant contingencies or capital commitments as at 31 March 2018 (March 2017: Nil).

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

	March 2018 \$	March 2017 \$
Net Deficit after Tax	(4,297,580)	(7,076,319)
Non Cash Items:		
Depreciation	20,161	36,952
(Gain)/Loss on sale of assets	141,414	(526)
Share based compensation	74,524	928,994
Foreign exchange movements	(55,645)	-
Changes in Working Capital:		
Accounts receivable and prepayments	1,196,773	71,379
Accounts payable and accruals	(628,451)	(122,484)
Net Cash Outflow From Operating Activities	<u>(3,548,804)</u>	<u>(6,162,004)</u>

15. SHAREHOLDERS' EQUITY

Ordinary Shares

At 31 March 2018, 225,625,991 ordinary shares (March 2017: 225,625,991) 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 2018		March 2017	
	No. of shares	\$	No. of shares	\$
At start of the period	225,625,911	123,018,641	196,442,177	114,230,766
Shares issued (net of share issue costs)	-	-	29,183,814	8,715,095
Other costs	-	776	-	-
Exercised and exercised options – reserves transfer	-	-	-	72,780
At end of period	<u>225,625,991</u>	<u>123,019,417</u>	<u>225,625,991</u>	<u>123,018,641</u>

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Shares Issued

No new shares were issued during 2018 (2017: 29,183,814 new shares were issued).

Options

The Company has on issue 15,675,000 share options to employees, directors and non-employees as at 31 March 2018 (March 2017: 24,160,000).

Share Based Compensation

The movement in fair value of employee, director and non-employee share options of \$74,524 (2017: \$928,994) corresponds with the amount recorded in expenses during the period and represents the fair value of vested and issued options.

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 expire/lapse/are exercised.

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.

16. 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 2018		March 2017	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
	\$	\$	\$	\$
Non derivative financial assets				
Loans and Receivables				
(i) Accounts receivable	244,363	244,363	131,770	131,770
(ii) Other receivables	167,643	167,643	1,436,046	1,436,046
Non derivative financial liabilities				
At Amortised Cost				
(i) Accounts payable and accrued liabilities	279,422	279,422	907,873	907,873

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.

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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 2018 the Group held NZ\$307,680 (2017: NZ\$621,256), US\$165,094 (2017: US\$360,268) and Euro 583 (2017: 19,955) in such accounts and deposits. Should exchange rates strengthen by 10% this would have an impact of A\$50,600 (2017: A\$109,270).

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 2018, the Group held \$1,932,705 (2017: \$4,743,537) 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 \$9,660 (2017: \$23,720).

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						
	Carrying amount	Contractual cash flows	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
2018 March						
Accounts payable and accrued liabilities	279,422	279,422	279,422	-	-	-
	279,422	279,422	279,422	-	-	-
2017 March						
Accounts payable and accrued liabilities	907,873	907,873	907,873	-	-	-
	907,873	907,873	907,873	-	-	-

On 13 December 2013 all redeemable preferences shares (“RPS”), convertible notes and loans from shareholders were either converted into company shares or were fully repaid. As at 31 March 2018 the Group had no such liabilities other than \$10,614 (2017: \$10,182) of unpaid RPS due to holders not being contactable and accordingly liquidity risk is minimal.

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17. AUDITORS REMUNERATION

	March 2018 \$	March 2017 \$
Audit and review of financial statements		
Grant Thornton - Australia	42,000	46,000
Remuneration for audit and review of financial statements	42,000	46,000
Other Services		
Grant Thornton Australia		
Taxation compliance	13,000	9,000
Assistance on preparation of R&D rebate	10,000	10,000
Overseas Grant Thornton network firms		
Accounting services	-	-
Taxation compliance	5,000	10,000
Total other service remuneration	28,000	29,000
Total auditor's remuneration	70,000	75,000

18. 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 2017 or 2018).

The weighted average number of shares for both basic and diluted EPS in 2018 was 225,625,991 (2017: 212,734,166).

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 2018	March 2017
Basic EPS - cents	(1.9)	(3.3)
Diluted EPS - cents	(1.9)	(3.3)

19. 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

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- Whether or not the new issue is restricted to existing shareholders.

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.

20. SUBSEQUENT EVENTS

On 26 April 2018 the Company's shareholders approved the 10 into 1 consolidation of the Company's issued share capital. As a result the number of issued shares reduced to 22,562,995. On the same date, shareholders also approved the issue of 18,460,308 fully paid ordinary shares (on a post consolidation basis) for the acquisition of Amplia at a deemed issue price of \$0.21 per share. The main assets of Amplia include the Focal Adhesion Kinase inhibiting drug candidates AMP886 and AMP945. On completion of the acquisition, the Company had 41,023,303 shares on issue. The accounting for this consolidation of issued shares and the acquisition of Amplia have not yet been finalised and are not included in these financial statements.

Other than the above, 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.

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Directors' Declaration

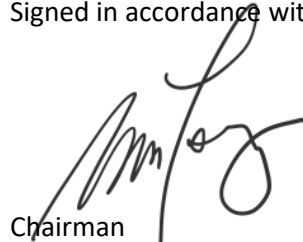
In the opinion of the Directors of Innate Immunotherapeutics Limited:

- (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 2018 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 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 2018.

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

Signed in accordance with a resolution of the Directors:



Chairman
Warwick Tong



Chief Executive Officer
Simon Wilkinson

Dated the 20th of June 2018

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

Report on the audit of the financial report

Opinion

We have audited the financial report of Innate Immunotherapeutics Limited (the Company), which comprises the statement of financial position as at 31 March 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Company's financial position as at 31 March 2018 and of its financial performance for the year then ended; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company incurred a net loss of \$4,297,580 during the year ended 31 March 2018 and a closing cash balance of \$2,229,190. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Research and Development rebate income Note 4	
<p>For all eligible Research and Development expenditures, the Company will receive a 43.5% rebate collectible from the Australian Commonwealth Government. At 31 March 2018, the Company has accrued a material amount relating to the tax incentive claimed for the year then ended.</p> <p>This area is a key audit matter due to the inherent complexities in interpreting and applying the Research and Development tax incentive legislation, and that this is a key source of income for the Company.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • enquiring with management to obtain an understanding of the process to apply for and prepare the claim; • evaluating the nature of the expenditures for appropriateness in relation to the Research and Development claim policy and evaluating comparability against historical approved claims; • utilising our internal Research and Development tax expert to: <ul style="list-style-type: none"> - assess the eligibility of amounts claimed against the tax incentive criteria; - inspect copies of relevant correspondence with AusIndustry and the Australian Tax Office related to the claims; • testing the mathematical accuracy of the calculation and agreeing inputs to supporting documentation; and • assessing the appropriateness of the related financial statement disclosures.

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 31 March 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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* and for 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.

In preparing the financial report, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our auditor's report.

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the Directors' report for the year ended 31 March 2018.

In our opinion, the Remuneration Report of Innate Immunotherapeutics Limited, for the year ended 31 March 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.



Grant Thornton Audit Pty Ltd
Chartered Accountants



M A Cunningham
Partner - Audit & Assurance

Melbourne, 20 June 2018