Innate
**Immuno**therapeutics
ACN 165 160 841



# Replacement Prospectus

This Replacement Prospectus has been issued to provide information on the offer of up to 60,000,000 New Shares to be issued at a price of A$0.20[1] per New Share to raise up to A$12,000,000 before costs (**Public Offer**). The Public Offer has a Minimum Subscription of A$10,000,000.

This Replacement Prospectus has also been issued in connection with the offer of approximately 23,525,455 New Shares and 5,881,469 Conversion Options[2], on the basis of 1 free attaching Conversion Option for every 4 New Shares subscribed, to Innate Noteholders, RPS Holders and Loan Counterparties under the Conversion Offer, as described in Section 5.11.

**Notes:**

1. NZ$0.23 per New Share for Applicants applying within New Zealand. Refer to Sections 5.7 and 13.15.
2. Conversion Options are exercisable at A$0.30 on or before the second anniversary of the date of issue. For a summary of the terms and conditions of Conversion Options, refer to Section 11.2

**This document is important and should be read in its entirety. If after reading this Replacement Prospectus you have any questions about the Securities being offered under this Replacement Prospectus or any other matter, then you should consult your stockbroker, accountant or other professional adviser. The Securities offered by this Replacement Prospectus should be considered speculative. Refer to Section 7 for details relating to risk factors.**

Joint Lead Managers

PATERSONS
THE AUSTRALIAN STOCKBROKER

Morgans IN ALLIANCE WITH CIMB

# Contents

# 1. Important Information

This Replacement Prospectus is dated 25 November 2013 (**Prospectus**) and a copy of this Prospectus was lodged with ASIC on that date. It replaces the prospectus dated 18 November 2013. ASIC and ASX take no responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

The expiry date of this Prospectus is the date 13 months after the date this Prospectus was lodged with ASIC (**Expiry Date**). No Securities will be issued on the basis of this Prospectus after the Expiry Date.

Applications for New Shares offered pursuant to this Prospectus can only be submitted by lodging an Application Form that accompanies or is attached to this Prospectus, or a paper copy of the Public Offer Application Form in the on-line version of this Prospectus, in accordance with the instructions on the reverse of the relevant Application Form.

Innate Immunotherapeutics Limited (**Company**) will apply for admission of the New Shares to Official Quotation by ASX within 7 days of the date of this Prospectus.

## Restrictions on Distribution of this Prospectus

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

No action has been taken to lodge this Prospectus in any jurisdiction outside of Australia. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and therefore persons into whose possession this document comes should seek advice on and observe any such restrictions. Any failure to comply with these restrictions constitutes a violation of applicable securities laws. This Prospectus is not to be distributed in, and no offer of Securities is to be made in, countries other than Australia except to the extent permitted below.

**New Zealand**

**Warning Statement to New Zealand investors**

New Zealand investors are advised:

(a) This offer to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act 2001 and Regulations. In New Zealand, this is Part 5 of the Securities Act 1978 and the Securities (Mutual Recognition of Securities Offerings – Australia) Regulations 2008.

(b) The Offers and the content of the offer document are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act 2001 and Regulations (Australia) set out how the offer must be made.

(c) There are differences in how securities are regulated under Australian law. For example, the disclosure of fees for collective investment schemes is different under the Australian regime.

# 1. Important Information (Continued)

(d) The rights, remedies, and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies, and compensation arrangements for New Zealand securities.

(e) Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to the Offers. If you need to make a complaint about the Offers, please contact the Financial Markets Authority, Wellington, New Zealand. The Australian and New Zealand regulators will work together to settle your complaint.

(f) The taxation treatment of Australian securities is not the same as for New Zealand securities.

(g) If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

(h) The Offers may involve a currency exchange risk. The currency for the Securities is not New Zealand dollars. The value of the New Shares will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant.

(i) If you expect the Securities to pay any amounts in currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

(j) If the Securities are able to be traded on a securities market and you wish to trade the Securities through that market, you will have to make arrangements for a participant in that market to sell the Securities on your behalf. If the securities market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the Securities and trading may differ from securities markets that operate in New Zealand.

**United States**

To the extent that the Conversion Offer cannot be made to US resident Innate Noteholders, RPS Holders and Loan Counterparties under this Prospectus, an equivalent offer will be made to those US resident Innate Noteholders, RPS Holders and Loan Counterparties, who are Accredited Investors, under a US Offering Supplement. US resident Innate Noteholders, RPS Holders and Loan Counterparties should refer to the US Offering Supplement (if any).

**Foreign Jurisdictions outside of Australia and New Zealand (including United States)**

The Offers under this Prospectus do not constitute a public offer in any jurisdiction outside Australia and New Zealand. This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful. The distribution of this Prospectus in jurisdictions outside Australia and New Zealand may be restricted by law and any person who comes into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. This Prospectus has been prepared to conform to the securities laws of Australia. No action has been taken to register or qualify the Securities or the Offers, or otherwise to permit a public offering of the Securities, in any jurisdiction outside Australia, other than New Zealand.

This Prospectus may not be released or distributed in the United States or otherwise outside Australia (other than New Zealand). This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. The Securities have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States, and may not be offered or sold in the United States, or to, or for the account or benefit of a US Person, except in a transaction exempt from the registration requirements of the US Securities Act and applicable United States state securities laws. This Prospectus is not being provided to any investor outside Australia or New Zealand. This Prospectus does not constitute an offer or invitation to potential investors to whom it would not be lawful to make such an offer or invitation.

## Disclaimer

Except as required by law, and only to the extent required, neither the Company nor any other person warrants or guarantees the future performance of the Company, or any return on any investment made pursuant to this Prospectus.

No person is authorised to give information or to make any representation in connection with this Prospectus, which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company or any other person in connection with this Prospectus.

## Risk Factors

Any investment in the Company, and the Securities offered pursuant to this Prospectus should be considered highly speculative. You should also read the "Risk Factors" in Sections 4.5 and 7 for a discussion of certain risk factors that you should consider, before deciding to invest in Securities or the Company. Potential investors should also consider consulting their professional advisers before deciding whether to apply for Securities pursuant to this Prospectus.

## Forward-looking Statements

This Prospectus contains forward-looking statements which are identified by words such as "believes", "estimates", "expects', "intends", "may", "will", "would", "could", or "should" and other similar words that involve risks and uncertainties.

These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this Prospectus, are expected to take place.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, the Directors and management of the Company. Key risk factors are detailed in Sections 4.5 and 7. These and other factors could cause actual results to differ materially from those expressed in any forward-looking statements.

The Company cannot and does not give assurances that the results, performance or achievements expressed or implied in the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

# 1. Important Information (Continued)

### Prospectus Availability

Persons in Australia may also obtain a copy of this Prospectus during the Offer Period (free of charge) from the Company's website www.innateimmuno.com or by calling the Share Registry on 1300 439 118 (if calling within Australia) and +61 3 9415 4085 (if calling from outside Australia) between 8.30am and 5.00pm (AEDT) Monday to Friday. Investors in other jurisdictions (including the US) are not entitled to access a copy of the Prospectus on the Company's website. Persons who access the electronic version of this Prospectus on the Company's website should ensure they download and read the entire Prospectus. None of the information on the Company's website is incorporated by reference into this Prospectus.

The Corporations Act prohibits any person passing onto another person an Application Form unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered version of this Prospectus. The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the Application Form it was not provided together with the electronic Prospectus and any relevant supplementary or replacement Prospectus. No Application Form will be accepted in electronic form.

### Exposure Period

The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. Potential investors should be aware that this examination may result in the identification of deficiencies in the Prospectus and, in those circumstances, any application that has been received may need to be dealt with in accordance with section 724 of the Corporations Act.

Pursuant to section 727(3) of the Corporations Act, applications for New Shares under this Prospectus will not be accepted by the Company until after the Exposure Period. No preference will be conferred on persons who lodge Applications prior to the expiry of the Exposure Period.

### Share Certificates no longer documents of title

Existing Securityholders should note that, from Admission, certificates which have previously been issued in respect of Securities will cease to have effect as documents of title in relation to those Securities. For further information, refer to Section 5.15.

### Definitions and Glossary, Financial Amounts and Time

Definitions of certain terms used in this Prospectus are contained in Section 15. All references to currency are to Australian dollars and all references to time are to AWST, unless otherwise indicated.

### Privacy

Please read the privacy statements in Section 13.11. By submitting an Application Form, accompanying this Prospectus, you consent and agree to the matters outlined in Section 13.11.

### Enquiries

For further information in relation to the Offers, please call the Share Registry on 1300 439 118 (if calling within Australia) and +61 3 9415 4085 (if calling from outside Australia).

## 2. Chairman's Letter

Dear Investor,

On behalf of the Board of Directors, it is with great pleasure that I invite you to become a shareholder of Innate Immunotherapeutics Limited, a company trialling a drug candidate to treat secondary progressive multiple sclerosis (**SPMS**). Worldwide, 30% of all multiple sclerosis (**MS**) sufferers have SPMS and currently there are no approved drugs for the safe and effective, ongoing treatment of this highly disabling form of the disease.

Five years ago, in New Zealand, the first patient with SPMS was treated with our drug under an exemption in the NZ Medicines Act that allows a doctor to use an unapproved drug if their patient consents and has few if any other treatment options. After six months of treatment, this patient reported a number of improvements to her disabilities which they regarded as being significant. Since then, 16 further patients with SPMS have been treated under "compassionate use" conditions. Of the total 17 patients treated in this manner, 14 have reported significant improvements in their MS symptoms after six months or more of treatment.

In late 2010, the US National MS Society supported the advancing of our drug candidate, MIS416, into formal clinical trials by awarding the Company a US$550,000 grant. This, together with a similar amount from the New Zealand Government, helped finance a Phase 1B and 2A trial during which the drug raised no safety concerns and in most patients treated for three months, showed clear signs of positive effect. This trial was completed in late 2012 and it is now time to step up to the next stage on the path to regulatory approval by initiating a larger double blind placebo controlled Phase 2B efficacy trial in Australia starting in the second quarter of 2014.

If there is a positive outcome from the upcoming trial, we hope to maximise the value of our technology by partnering with a major pharmaceutical company active in the MS market. To that end, it is important to note that pharmaceutical companies with existing drugs to treat early stage MS appear to be actively seeking drugs to treat SPMS and we have engaged early and positively with these companies.

To finance the Phase 2B trial, and provide for the Company's operational needs over the next three years, we are now seeking to raise between A$10 and A$12 million and to then obtain a listing on the Australian Securities Exchange. At the date of this Prospectus, the Company has received firm commitments for the subscription of New Shares, under the Public Offer, totalling A$5 million. This includes a firm commitment of A$3 million from Australian Ethical Smaller Companies Trust. Refer to Section 5.9 for further information.

The funds raised from the Public Offer will be focused on the Phase 2B trial and, like all such trials, is considered high risk. Potential investors should refer to Sections 4.5 and 7 in relation to risk factors associated with the Company and an investment in the Securities. However, we are encouraged by the fact that a small number of patients, who have been treated with the drug for several years, have self reported improvements in their MS related disabilities, with no apparent notable side effect or safety issues. I believe the Offers present an opportunity to invest in an exciting new treatment for SPMS, a disease that currently has no other effective ongoing treatment option, a substantial potential market, and one that could make an enormous difference to the lives of people afflicted by this debilitating disease.

On behalf of my fellow Directors, and our very loyal and hard working staff, I look forward to welcoming you as a shareholder of Innate Immunotherapeutics.

Yours sincerely,

Michael A Quinn
**Chairman**
25 November 2013

# 3. Key Offer Information

| Key Dates for the Offers[1] | Date |
|---|---|
| Lodgement Date (Prospectus lodged with ASIC and ASX) | 25 November 2013 |
| Exposure Period ends | 25 November 2013 |
| Opening Date of the Offers | 26 November 2013 |
| Closing Date of the Offers (5:00pm AWST) | 11 December 2013 |
| Expected date for allotment of Securities and despatch of holding statements | 17 December 2013 |
| Shares commence trading on ASX on a normal basis | 20 December 2013 |

**Notes:**

1. Dates and times in this Prospectus are indicative only and subject to change. The Company, in conjunction with the Joint Lead Managers, reserves the right, subject to the Corporations Act, ASX Listing Rules and other applicable laws to withdraw, or vary the dates and times of, the Offers without notice. The Directors also reserve the right to withdraw all or part of the Offers at any time prior to the issue of the Securities.

| Key Statistics relating to the Offers[1,2] | |
|---|---|
| Offer price per New Share | A$0.20[3] |
| New Shares offered under the Public Offer | 60,000,000 |
| Approximate number of New Shares offered under the Conversion Offer | 23,525,455 |
| Total number of Shares on issue upon Admission | 182,621,232 |
| Approximate number of Conversion Options[4] offered under the Conversion Offer | 5,881,469 |
| Total number of Options on issue upon Admission | 21,234,117 |
| Loyalty Rights to be issued on completion of the Offers[5] | 33,031,926 |
| Total Loyalty Rights on issue upon Admission | 33,031,926 |
| Maximum amount to be raised under this Prospectus[6] | $12,000,000 |

**Notes:**

1. Assumes Allotment occurs on or about 17 December 2013 and that the A$ to US$ exchange rate is A$1.00 : US$0.95 and that the A$ to NZ$ exchange rate is A$1.00 : NZ$1.1364 on that date. To the extent that Allotment occurs earlier or later than 17 December 2013 or that the exchange rates are different to those referred to above, the A$ amount of outstanding dividends payable on the RPS, and face value / principal (as the case may be) and interest payable in respect of the Innate Notes and Loans

will be lower or higher and, accordingly, the total number of New Shares and Conversion Options to be issued pursuant to the Conversion Offer will be adjusted.

2. The above table takes into account the effect of rounding. Fractional entitlements to Conversion Options will be rounded up under the Conversion Offer.
3. NZ$0.23 per New Share for Applicants applying within New Zealand. Refer to Sections 5.7 and 13.15.
4. Conversion Options are exercisable at A$0.30 on or before the second anniversary of the date of issue. For a summary of the terms and conditions of Conversion Options, refer to Section 11.2.
5. On completion of the Offers, Loyalty Rights will be issued to those individuals and entities who were existing Shareholders immediately prior to the date of this Prospectus, on the basis of one (1) Loyalty Right for every three (3) Shares held immediately prior to the date of the Prospectus. For details of the terms and conditions of the Loyalty Rights, refer to Section 11.5.
6. The Public Offer is subject to a Minimum Subscription of A$10 million. Refer to Section 5.3 for further information.

# 4. Investment Overview

## 4.1 The Offers

This Prospectus contains:

(a) a public offer of up to 60,000,000 New Shares to be issued at a price of A$0.20[1] per New Share, to raise up to A$12,000,000 (before costs) (**Public Offer**); and

(b) an offer of approximately 23,525,455 New Shares and 5,881,469 Conversion Options, on the basis of 1 free attaching Conversion Option for every 4 New Shares subscribed, to Innate Noteholders, RPS Holders and Loan Counterparties (**Conversion Offer**).

**Notes:**
1. NZ$0.23 per New Share for Applicants applying within New Zealand. Refer to Sections 5.7 and 13.15.
2. Conversion Options are exercisable at A$0.30 on or before the second anniversary of the date of issue. For a summary of the terms and conditions of Conversion Options, refer to Section 11.2.

The Public Offer and the Conversion Offer are, collectively, the **Offers**. The key information relating to the Offers is contained in Section 5.

At the date of this Prospectus, the Company has received firm commitments for the subscription of New Shares, under the Public Offer, totalling A$5 million. This includes a firm commitment of A$3 million from Australian Ethical Smaller Companies Trust. Refer to Section 5.9 for further information.

The allocation of Securities under the Public Offer will be at the absolute discretion of the Joint Lead Managers and the Company. The Joint Lead Managers and the Company reserve the right to reject any Application or to issue a lesser number of Securities than those applied for under the Public Offer. The Joint Lead Managers and the Company may, in their absolute discretion, give preference to certain investors in accepting Applications under the Public Offer. Where the number of Securities issued is less than the number applied for under the Public Offer, surplus Application Monies will be refunded (without interest) as soon as reasonably practicable after the Closing Date. For further information, refer to Section 5.10.

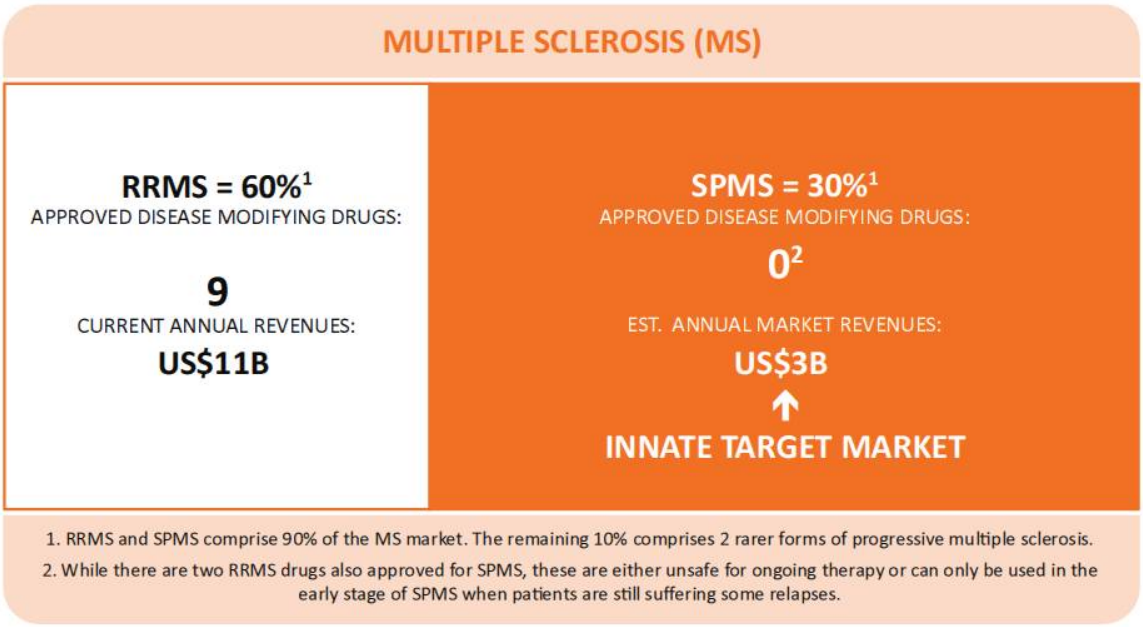
## 4.2 Business of the Company

Innate Immunotherapeutics Limited is a medical biotechnology company, which has a Phase 2B drug candidate, MIS416, to treat SPMS. The Company acquired its rights to all of the intellectual property and technology relating to MIS416, by virtue of direct assignment from the inventors under royalty agreements and/or employment agreements. A summary of the royalty agreements is set out in Section 12.1 and a summary of the relevant employment agreement (with the Company's Chief Scientific Officer) is set out in Section 12.4.

MS is a chronic disease of the central nervous system, where the body's immune system attacks the myelin sheath surrounding the nerve fibres. The damaged myelin disrupts the communication mechanism of parts of the central nervous system. This results in a wide range of symptoms, which may include loss of balance and muscle coordination, difficulty walking, slurred speech, tremors, stiffness, cognitive impairment, depression, fatigue and bladder problems.

There are two main forms of MS, an early 'relapsing-remitting' stage of disease and, a later, more disabling 'secondary-progressive' stage of disease. There are now nine disease modifying drugs approved to mitigate the effects of relapsing-remitting disease, but no approved disease modifying drugs for the effective ongoing treatment of SPMS, which is the progressive and highly disabling form of MS.

The lack of treatment options for patients with SPMS is a real challenge for the 30% of MS patients with the SPMS form of the disease. The potential market size for a safe and effective SPMS drug today is estimated to be approximately US$3 billion. This is the market that the Company is targeting with its MIS416 drug candidate.




The Company has completed Phase 1B and 2A trials, which demonstrated that MIS416 appears safe at the doses trialed. In addition, over the past five years, 17 patients with SPMS have been treated with MIS416 under a compassionate use programme, which is permitted under NZ Medicines Act. Under this programme, 14 patients with SPMS have reported significant improvement in their MS symptoms after six months or more of treatment. Further details regarding the Phase 1B and Phase 2A trials are set out in Section 6.5.

Pharmaceutical companies with existing RRMS therapies are actively seeking drugs to treat SPMS and the Company has already engaged with target acquirers or partners to share Phase 1B/2A data and to involve them in the Phase 2B trial design process.

The Public Offer will raise capital to fund the next stage of clinical trials of MIS416 in patients suffering from SPMS. The Phase 2B trial will be a placebo controlled, efficacy trial and is due to commence in Australia in the second quarter of 2014.

If Phase 2B trials are successfully completed, which the Company anticipates will occur in late 2015, the Company hopes to be in a position to maximise the value of its technology through a major partnering or acquisition transaction. The Offers presents an opportunity to invest in an exciting new

treatment for a disease that currently has no other effective, ongoing treatment options and a substantial potential market.

### 4.3 Key dependencies affecting the Company

The success of the Company will be subject to the following key dependencies:

(a) the Company's ability to design, obtain Ethics Committee approvals for, recruit patients to participate in, manage and complete a Phase 2B clinical trial;

(b) the Company's continuing ability to successfully manufacture MIS416 for use in clinical trials;

(c) the Company continuing to obtain trial outcomes that confirms the safety of MIS416;

(d) the Company obtaining trial outcomes that continue to support the clinical development of MIS416 as a drug candidate for the effective treatment of patients with SPMS;

(e) the Company maintaining the MIS416 intellectual property in good standing and demonstrating resilience to patent challenges; and

(f) the Company maintaining access to capital markets in order to fund opportunities for accelerated development.

### 4.4 Key benefits associated with the Company's business

Despite the inherent risks in the development of pharmaceutical products, the Board believes that an investment in the Company's business has potential upside for the following reasons:

(a) the Company has a Phase 2B drug candidate which is showing strong potential to treat SPMS;

(b) there are currently no safe and effective long-term treatments for this highly disabling form of MS, once it is fully established into the progressive phase of the disease;

(c) in completed Phase 1B/2A trials, the drug was safe and some patients treated with the drug have reported a range of significant improvements to disabilities caused by SPMS;

(d) the Company is now raising funds to finance a placebo controlled Phase 2B efficacy trial due to commence in Australia in the second quarter of 2014; and

(e) on completion of this study, expected late 2015, the Company's strategy is to partner with 'big pharma' in order to complete marketing approval trials and address the unmet medical need of an estimated market of approximately US$3 billion in the US and Europe.

### 4.5 Key risks associated with the Company's business, the Securities and the Offers

An investment in Securities of the Company, and in the Company generally, should be regarded as highly speculative, as there are risks associated with investing in the Securities offered pursuant to this Prospectus, or otherwise investing in the Company. A discussion of these risks is set out in Section 7 and investors should consider these risks before making any investment decision.

The following are some of the key investment risks to which the Company is exposed:

(a) **Development stage products**

The process for securing marketing approval of a new drug is both costly and time consuming. Moving from discovery to commercialisation typically takes several years to complete and can cost tens of millions, or even hundreds of millions, of dollars. There are no guarantees that commercialisation of MIS416 will occur in a timely manner, or at all.

(b) **Intellectual property risks**

The successful development of MIS416 is dependent on the Company's ability to obtain and maintain patents and to operate without infringing the proprietary rights of third parties. While the Company has, and will continue to implement all reasonable measures to protect its intellectual property, there can be no assurance that these measures will be sufficient. An Intellectual Property Title Report, prepared by Shelston IP, and relating to the intellectual property held by the Company, is set out in Section 10.

(c) **Intellectual property limitations**

Patents protecting intellectual property have a finite life, and in the case of the patents (issued or pending) protecting the use of MIS416 to treat MS, these will expire in 2029. There are no guarantees that revenues from a successful commercialisation of MIS416 would extend past that date.

(d) **Freedom to operate**

The Company is not aware of any party whose rights may be infringed by the exploitation of Company's intellectual property. However, a formal "freedom to operate" opinion has not been obtained by the Company.

(e) **Technology obsolescence and competition**

There is risk that the Company's products and technology may be rendered obsolete by new products or technologies that are safer, more effective and/or less expensive to administer and manufacture. In this regard, the Company notes that, at the date of this Prospectus, it is aware of two drug candidates undergoing Phase 3 clinical trials in patients with fully developed SPMS, being the same patient population targeted by MIS416. For further information, refer to Section 6.6. Commercialisation of any of these competing drug candidates may have a material adverse affect on MIS416's prospects and the prospects of the Company.

(f) **Reliance on specialised Leased Premises**

The Company expects to have completed the manufacture of sufficient MIS416 for use in the Phase 2B trial by mid-2014. Until that time, the Company is reliant on specialised leasehold improvements it has made to the premises it leases (**Leased Premises**) for the manufacture of MIS416. If the Company were to lose the right to occupy the Leased Premises, or the Leased Premises were to be damaged or destroyed, prior to mid-2014, it would have a material adverse impact on the Company's activities.

# 4. Investment Overview (Continued)

(g) **Requirements for additional capital and dilution risk**

The Company will need to raise additional funds to achieve its clinical and commercial objectives. Insufficient funds could halt or delay clinical trials, which would reduce the value of the Company's intellectual property. Given the considerable funding required to commercialise a new drug, unless investors continue to participate in capital raisings undertaken by the Company, its is highly likely that an investor's initial interest in the Company will be significantly diluted as a result of further funding initiatives undertaken by the Company.

(h) **Partnership with major pharmaceutical company**

While the Company is optimistic about its prospects of partnering with a major pharmaceutical company, if the outcome of Phase 2B trial is positive, there can be no guarantees that any such partnering arrangement or transaction will be concluded. Any proposals relating to a partnering or licencing arrangement in relation to MIS416 may not be available on acceptable terms and/or may be highly conditional.

(i) **Going concern risk**

The Company's viability as a going concern is dependent on favourable outcomes from Phase 2B clinical trials of MIS416. If Phase 2B clinical trials fail to meet the objectives set by the Company, the Company could be forced to halt development of MIS416 and discontinue its business.

(j) **Regulatory risks**

New drugs are regulated by government agencies and must be approved for commercial sales. The risk exists that MIS416 may not satisfy the stringent requirements for marketing approval, or that the approval process may take longer than expected. Existing or new regulation may increase costs and cause delays, which are outside the control of the Company.

(k) **Liability**

The testing, manufacturing and marketing of human healthcare products entails an inherent risk of liability. A product liability claim may damage the Company's reputation by raising questions about MIS416's safety and efficacy, as well as potentially creating significant financial liability for the Company.

(l) **Reliance on third party manufacturers and contractors**

The Company will rely on third parties, such as contract research organisations, to conduct clinical trials. If these third parties do not carry out their contractual duties, meet deadlines or conduct trials in accordance with regulatory requirements, the Company may not receive regulatory approvals for, or be able to commercialise, MIS416.

(m) **Dependence on key personnel**

The Company is dependent on a number of key personnel. The loss of any key staff member could cause significant disruption and time delays, and adversely impact the Company's

capacity to achieve its objectives. The CEO does not have a formal employment contract and is currently retained on a month to month basis at the will of the Board. Following Admission, the Board intends to offer the CEO a formal employment contract. Refer to Section 12.5 for further information.

## 4.6 Key financial information

Assuming the Company raises the Minimum Subscription of A$10 million (refer to Section 5.3) and the Public Offer proceeds, the Company's reviewed pro forma statement of financial position as at 30 June 2013 has net assets of A$11,235,000. This takes into account a range of subsequent events and transactions, as detailed in Section 8.4 and is made up of A$11,426,000 of assets (including cash of A$8,359,000 and intangible assets of A$2,866,000) and liabilities of A$191,000.

Assuming the Company raises the Maximum Subscription of A$12 million and the Public Offer proceeds, the Company's reviewed pro forma statement of financial position as at 30 June 2013 has net assets of A$13,133,000. This takes into account a range of subsequent events and transactions, as detailed in Section 8.4 and is made up of A$13,324,000 of assets (including cash of A$10,257,000 and intangible assets of A$2,866,000) and liabilities of A$191,000.

Both of these scenarios assume that only the Conversion Offer Minimum Subscription is obtained under the Conversion Offer. Refer to Section 5.11.

## 4.7 Effect of the Offers on the capital structure of the Company

The effect of the Offers on the capital structure of the Company is set out in Section 8.3.

## 4.8 Issue of Loyalty Rights

Simultaneous with the completion of the Offers, Loyalty Rights will be issued to those individuals and entities who were existing Shareholders immediately prior to the date of this Prospectus, on the basis of one (1) Loyalty Right for every three (3) Shares held immediately prior to the date of the Prospectus. In aggregate, a total of 33,031,926 Loyalty Rights will be issued. For details of the terms and conditions of the Loyalty Rights, refer to Section 11.5.

## 4.9 Timing of the Offers

The key dates of the Offers are detailed in Section 3.

## 4.10 Use of proceeds from the Public Offer

Refer to Section 8.1 for details of how the Company intends to apply funds raised from the Public Offer and its existing cash reserves.

## 4.11 Proceeds of the Public Offer

Based on the Minimum Subscription of A$10 million, and assuming the Public Offer proceeds, funds from the Public Offer will be used to finance a Phase 2B trial of MIS416 in an expected 90 patients with SPMS. The cost of this trial is expected to be A$6 million. The balance of the proceeds (net of the estimated issue costs of approximately A$1.2 million, plus A$300,000 for redemption of RPS and

# 4. Investment Overview (Continued)

repayment of Innate Notes, assuming that only the Conversion Offer Minimum Subscription amount is obtained under the Conversion Offer, repayment of a short term loan (A$159,327), and payment of taxes due in respect of interest on debts (A$53,224)), will be used to fund the ongoing operations of the Company. These operations include drug manufacturing, science, patent expenses associated with gaining new patents and annual renewal fees for existing patents, business development, management and general administration.

To the extent that proceeds from the Public Offer exceed A$10 million, and assuming the Public Offer proceeds, the Company will apply those additional proceeds towards initiating the Investigational New Drug (IND) application process with the FDA, accelerating the development of another application of the Company's technology, which might include using MIS416 in combination with another agent to produce a potential cancer treatment vaccine or the use of MIS416 on a standalone basis to potentially treat a disease other than SPMS (**Second Candidate**), and financing ongoing operations.

See Section 8.1 for further details on the use of funds received from the Public Offer.

The Company expects to qualify for the Australian Government's R&D tax incentive programme, which currently returns 45% of the cost of eligible R&D expenditure to qualifying Companies (**R&D Incentive**). Providing this incentive remains unchanged, the Company expects to receive incentive payments of approximately A$2.7 million. This amount, together with the balance of the proceeds of the Public Offer (based on the Minimum Subscription of A$10 million), after Phase 2B trial expenses, should fund the Company's ongoing operations for approximately 30 months. If the Maximum Subscription of A$12 million is raised under the Public Offer and, after allowing for the costs of initiating the IND process and accelerating the Second Candidate, the Company should have sufficient cash to fund the Company's ongoing operations for approximately 38 months. If the R&D Incentive is reduced, then this funded operational period will shorten.

## 4.12 Reasons to invest

There are a number of compelling reasons you should consider applying for Securities under the Offers:

- ✓ Innate Immunotherapeutics has a Phase 2B drug candidate to treat secondary progressive multiple sclerosis (SPMS).
- ✓ There are currently no safe and effective long-term treatments for this highly disabling form of MS, once it is fully established into the progressive phase of the disease.
- ✓ In completed Phase 1B/2A trials, the drug appeared safe at the doses trialed and some patients treated with the drug have reported a range of significant improvements to disabilities caused by their disease.
- ✓ The Company is now raising funds to finance a placebo-controlled Phase 2B efficacy trial due to commence in Australia in the second quarter of 2014.
- ✓ On completion of this study, expected late 2015, the Company's strategy is to partner with 'big pharma' in order to complete approved trials and enter the US$3 billion market in the US and Europe.

While there are compelling reasons you should consider applying for Securities under the Offers, there are also risks associated with such an investment. See Section 7 for key risks associated with the Offers and the Company.

### 4.13 Restricted Securities

Other than Conversion Options, none of the Securities issued pursuant to the Offers are expected to be Restricted Securities. The Company intends to make an application to ASX for relief from the requirement to escrow the Conversion Options issued pursuant to the Conversion Offer.

ASX has provided in principle advice that it will treat approximately 6,977,703 Shares, 10,275,000 existing Options and 3,765,111 Loyalty Rights held (or to be held) by related parties and promoters of the Company as Restricted Securities and, therefore, these Shares, Options and Loyalty Rights will be subject to Restriction Agreements, required by ASX. In addition, a number of existing Shareholders have entered into Voluntary Restriction Agreements. For further information, refer to Sections 5.5 and 13.8.

# 5. Details of the Offers

## 5.1 The Offers

This Prospectus contains:

(a) a public offer of up to 60,000,000 New Shares to be issued at a price of A$0.20[1] per New Share, to raise up to A$12,000,000 (before costs) (**Public Offer**); and

(b) an offer of approximately 23,525,455 New Shares and 5,881,469 Conversion Options, on the basis of 1 free attaching Conversion Option for every 4 New Shares subscribed to Innate Noteholders, RPS Holders and Loan Counterparties (**Conversion Offer**).

**Notes:**

1. NZ$0.23 per New Share for Applicants applying within New Zealand. Refer to Sections 5.7 and 13.15.
2. Conversion Options are exercisable at A$0.30 on or before the second anniversary of the date of issue. For a summary of the terms and conditions of Conversion Options, refer to Section 11.2.

The Public Offer and the Conversion Offer are, collectively, the **Offers**. The purpose and effect of the Public Offer, and the use of funds raised, are set out in Section 8.

## 5.2 Opening and Closing Dates of the Public Offer

For the Public Offer, the Company will accept completed Public Offer Application Forms from 9:00am AWST on 26 November 2013 until 5:00pm AWST on 11 December 2013, or such other date as the Directors in their absolute discretion shall determine, subject to the requirements of the Listing Rules and Corporations Act (**Public Offer Closing Date**).

For details regarding the opening and closing dates of the Conversion Offer, refer to Section 5.11.

## 5.3 Minimum Subscription

The Public Offer is subject to minimum subscriptions for 50,000,000 New Shares at A$0.20 per New Shares (to raise A$10,000,000) being received under the Public Offer (**Minimum Subscription**). If the Minimum Subscription is not achieved within 3 months of the date of this Prospectus, or such longer period as is permitted under the Corporations Act, the Company will not issue any Securities and will repay all application monies for the Securities within the time prescribed in the Corporations Act, without interest.

At the date of this Prospectus, the Company has received firm commitments for the subscription of New Shares, under the Public Offer, totalling A$5 million. This includes a firm commitment of A$3 million from Australian Ethical Smaller Companies Trust. Refer to Section 5.9 for further information.

The Public Offer is also subject to the Conversion Offer Minimum Subscription being achieved. Refer to Section 5.11 for details relating to the Conversion Offer Minimum Subscription.

## 5.4 Issue of Loyalty Rights

Simultaneous with the completion of the Offers, Loyalty Rights will be issued to those individuals and entities who were existing Shareholders immediately prior to the date of this Prospectus, on the basis of one (1) Loyalty Right for every three (3) Shares held immediately prior to the date of the Prospectus. In aggregate, a total of 33,031,926 Loyalty Rights will be issued. Subject to satisfaction of a vesting condition and compliance with the Corporations Act and the Listing Rules, the Loyalty Rights will be exercised automatically into the equivalent number of Shares. For details of the terms and conditions of the Loyalty Rights, refer to Section 11.5 and for details of the effect of the Offers on the capital structure of the Company, refer to Section 8.3.

## 5.5 Voluntary Restriction Agreements

The Company intends to seek to enter into escrow agreements with existing Shareholders, who collectively hold up to 19.9% of the existing issued Shares, to impose restrictions on their ability to transfer their existing Shares for a period of 24 months from the date on which the Shares commence trading on ASX, subject to limited exceptions (each a **Voluntary Restriction Agreement**). Refer to Section 12.8 for a summary of the terms of the proposed Voluntary Restriction Agreements. At the date of this Prospectus, 23 existing Shareholders, representing approximately 19,643,773 Shares (19.8% of Shares on issue at the date of this Prospectus) have entered into Voluntary Restriction Agreements.

In addition to the Voluntary Restriction Agreements, Director, Chris Collins, and his Associates, have provided the Company with written confirmation that if ASX does not impose escrow restrictions on Shares held by them on Admission, they do not intend to deal in those Shares for a period of 24 months from the date on which the Shares commence trading on ASX. The Company has not entered into any agreement with Chris Collins in relation to these arrangements as any such agreement would result in the Company obtaining a relevant interest in the Shares held by Chris Collins and his Associates. The Company already has a relevant interest in 19.8% of its Shares pursuant to the Voluntary Restriction Agreements. Entering into any agreement with Chris Collins would result in the Company breaching the takeover prohibition in section 606 of the Corporations Act.

Other than Conversion Options, none of the Securities issued pursuant to the Offers are expected to be classified as Restricted Securities. The Company intends to make an application to ASX for relief from the requirement to escrow the Conversion Options issued pursuant to the Conversion Offer.

ASX has provided in principle advice that it will treat approximately 6,977,703 Shares, 10,275,000 existing Options and 3,765,111 Loyalty Rights held by related parties and promoters of the Company as Restricted Securities for a period of 24 months from the date on which the Shares commence trading on ASX and, therefore, these Shares, Options and Loyalty Rights will be subject to Restriction Agreements, required by ASX. For further information, refer to Section 13.8.

The combined amount of Shares that will be covered by ASX imposed Restriction Agreements, Voluntary Escrow Agreements and the statement of intention by Chris Collins and his Associates is 45,041,041 Shares, representing approximately 24.66% of the Shares on issue on Admission, assuming the maximum subscription under the Offers.

# 5. Details of the Offers (Continued)

## 5.6 Fees and commission

Pursuant to the Offer Management Agreement, which is summarised in Section 12.6, the Company will pay the Joint Lead Managers a total selling fee equal to 5% of the gross proceeds of the Public Offer to be split equally between them. In addition, the Company will pay to each Joint Lead Manager a corporate advisory fee of A$50,000. The Joint Lead Managers will be responsible for paying any stamping fees that the Joint Lead Managers agree to pay to retail brokers.

## 5.7 How to apply – action required by Applicants in relation to the Public Offer

Accompanying and forming part of this Prospectus is a Public Offer Application Form for use by Applicants in applying for Securities under the Public Offer. To participate in the Public Offer, the Public Offer Application Form must be completed and received, together with the Application Monies, in accordance with the instructions on its reverse side. Applications in relation to the Public Offer must be received by the Share Registry by 5.00pm (AWST) on the Public Offer Closing Date at the relevant mailing address:

**In the case of Applicants applying from within Australia:**

Computershare Investor Services Pty Limited
GPO Box 2115
Melbourne VIC 3001

**In the case of Applicants applying from within New Zealand:**

Computershare
Private Bag 92119
Auckland 1142

Applicants resident in Australia should make their cheques payable in A$, based on an issue price of A$0.20 per New Share. Applicants resident in New Zealand should make their cheques payable in NZ$, based on an issue price of NZ$0.23 per New Share. All cheques should be made payable to "Innate Immunotherapeutics Limited" and be crossed "Not Negotiable".

Applications must be for a minimum of 10,000 New Shares (i.e. A$2,000 or NZ$2,300) and, thereafter, in multiples of 2,500 New Shares (i.e. A$500 or NZ$575). Applications for less than the minimum accepted Application of 10,000 New Shares will not be accepted.

An original completed and lodged Public Offer Application Form (or paper copy of the Public Offer Application Form from the on-line version of this Prospectus), together with a cheque for the Application Monies, constitutes a binding and irrevocable offer to subscribe for the number of New Shares specified in the Public Offer Application Form. The Public Offer Application Form does not have to be signed to be a valid Application. An Application will be deemed to have been accepted by the Company upon allotment of the New Shares.

The Public Offer may be closed at an earlier date and time at the discretion of the Directors, without prior notice. Applicants are, therefore, encouraged to submit their completed Public Offer Application Form as early as possible. However, the Company reserves the right to extent the Public Offer or accept late Applications.

## 5.8 Broker firm applicants

If you have received a 'firm' allocation of New Shares from your broker, your Application and payment procedures will differ in two important respects from those described above:

(a) your Application cheque must be made **payable to the broker** (not "Innate Immunotherapeutics Limited"); and

(b) your completed Public Offer Application Form and cheque must be **delivered to the broker** directly (not the Share Registry).

Applicants who receive a firm allocation of New Shares must lodge their Public Offer Application Form and Application Monies with the relevant broker in accordance with the relevant broker's directions in order to receive their firm allocation. Your broker will act as your agent in submitting your Application.

The Company, the Share Registry and the Joint Lead Managers take no responsibility for any acts or omissions by your broker in connection with your Application, Public Offer Application Form or Application Monies.

The procedure should be explained to you in further detail by your broker. If you have a firm allocation of New Shares and are in any doubt about what action to take, you should immediately contact the broker who has made you the firm offer.

## 5.9 Commitments in relation to the Public Offer

At the date of this Prospectus, the Company has received firm commitments for the subscription of New Shares, under the Public Offer, totalling A$5 million. This includes a firm commitment of A$3 million from Australian Ethical Smaller Companies Trust.

## 5.10 Allotment and allocation policy

Application Monies will be held in trust for Applicants until allotment of the Securities. Any interest that accrues will be retained by the Company. No allotment of Securities under the Prospectus will occur unless the Minimum Subscription is raised.

The allocation of New Shares under the Public Offer will be at the absolute discretion of the Joint Lead Managers and the Company. The Joint Lead Managers and the Company reserve the right to reject any Application or to issue a lesser number of New Shares than those applied for under the Public Offer. The Joint Lead Managers and the Company may, in their absolute discretion, give preference to certain investors in accepting Applications under the Public Offer. Where the number of New Shares issued is less than the number applied for under the Public Offer, surplus Application Monies will be refunded (without interest) as soon as reasonably practicable after the Closing Date.

New Shares under the Public Offer are expected to be allotted on or about 17 December 2013. It is the responsibility of Applicants to determine their allocation prior to trading in the New Shares issued under the Public Offer. Applicants who sell Securities before they receive their holding statements do so at their own risk.

# 5. Details of the Offers (Continued)

If ASX does not grant permission for Official Quotation of the New Shares within three months after the date of this Prospectus (or within such longer period as may be permitted by ASIC) none of the Securities offered by this Prospectus will be allotted and issued. If no allotment and issue is made, all Application Monies will be refunded to Applicants, without interest, and each Applicant waives the right in respect of any interest.

## 5.11 Conversion Offer

***Background***

In 2008 and 2009, the Company raised funds through the issue of RPS and Innate Notes. Both the RPS and Innate Notes are convertible into Shares, at the election of the holder. If they are not converted into Shares, the RPS and Innate Notes are required to be redeemed or repaid (as the case may be) for cash. From late 2012 through to November 2013, the Company financed its operations from a small number of loans (**Loans**) made available by a number of individuals and entities (**Loan Counterparties**).

The Company has resolved that, subject to obtaining the Conversion Offer Minimum Subscription (refer below) from RPS Holders, Innate Noteholders and Loan Counterparties pursuant to the Conversion Offer, the RPS will be redeemed (**RPS Redemption**) and all outstanding principal and interest due under the Innate Notes and Loans will be repaid (the **Innate Note Repayment** and the **Loans Repayment**, respectively), as set out below.

Assuming the Conversion Offer Minimum Subscription is achieved, any remaining RPS or Innate Notes on issue will be redeemed and any outstanding Loans repaid from the proceeds of the Public Offer. Accordingly, on Admission, there will no longer be any RPS or Innate Notes on issue, or Loans outstanding.

If the Conversion Offer Minimum Subscription is not achieved, the Offers will not proceed. See below for further details on the Conversion Offer Minimum Subscription. In such circumstances, the Company's proposed listing on ASX will not proceed and the Company will seek alternative funding arrangements to redeem the RPS and Innate Notes and repay the Loans in accordance with their terms and conditions.

***Conversion Offer***

In addition to the New Shares being offered under the Public Offer, pursuant to this Prospectus, the Company is offering a total of approximately 23,525,455 New Shares and 5,881,469 Conversion Options by offering:

(a) to RPS Holders, the opportunity to subscribe for New Shares at an issue price of A$0.20 per New Share, together with 1 free attaching Conversion Option for every 4 New Shares subscribed. The subscription monies owed by an RPS Holder who accepts this offer will be set-off against monies owing by the Company to the RPS Holder in respect of the RPS Redemption;

(b) to Innate Noteholders, the opportunity to subscribe for New Shares at an issue price of A$0.20 per New Share, together with 1 free attaching Conversion Option for every 4 New Shares subscribed. The subscription monies owed by an Innate Noteholder who accepts this offer will

be set-off against monies owing by the Company to the Innate Noteholder in respect of the Innate Note Repayment; and

(c) to certain counterparties (**Loan Counterparties**) to short term loans the Company has in place (**Loans**), the opportunity to subscribe for New Shares at an issue price of A$0.20 per New Share, together with 1 free attaching Conversion Option for every 4 New Shares subscribed. The subscription monies owed by a Loan Counterparty who accepts the this offer will be set-off against monies owing by the Company to the Loan Counterparty under the Loans Repayment,

(collectively, the **Conversion Offer**). Pursuant to the Conversion Offer, fractional entitlements to New Shares and Conversion Options will be rounded up.

***RPS***

The amount to be paid to RPS Holders in connection with the RPS Redemption is calculated by adding the original subscription amount of the RPS to the outstanding dividends payable on the RPS. On or about 17 December 2013 (being the time at which the Company expects Allotment to occur), the total of the original subscription amounts of all 237 RPS Holders, plus outstanding dividends on the those RPS (but excluding taxes of approximately A$36,710), will be approximately A$1,754,129.

At the date of this Prospectus, the Company has not sought or obtained any binding commitment from the RPS Holders to subscribe for the Conversion Offer. However, assuming all RPS Holders were to accept the Conversion Offer, approximately 8,770,751 New Shares and 2,192,775 Conversion Options would be issued to those RPS Holders.

***Innate Notes***

The amount to be paid to Innate Noteholders in connection with the Innate Note Repayment is calculated by adding the face value of the Innate Notes to the outstanding interest on the Innate Notes. On or about 17 December, 2013 (being the time at which the Company expects Allotment to occur), the total of the face value of the Innate Notes, plus the outstanding interest payable on the Innate Notes (but excluding taxes of approximately A$7,140), will be approximately A$1,302,217.

At the date of this Prospectus, the Company has not sought or obtained any binding commitment from the Innate Noteholders to subscribe for the Conversion Offer. However, assuming all Noteholders were to accept the Conversion Offer, approximately 6,511,102 New Shares and 1,627,790 Conversion Options would be issued to the Innate Noteholders.

***Loans***

The amount to be repaid to Loan Counterparties in connection with the Loans Repayment is calculated by adding the principal and interest owing under all Loans. On or about 17 December, 2013 (being the time at which the Company expects Allotment to occur), the total amount of outstanding principal and interest (but excluding taxes of approximately A$9,374) which will be owed by the Company to Loan Counterparties under the Loans will be approximately A$1,808,047.

At the date of this Prospectus, the Company has received written confirmations from all of the Loan Counterparties (who are all sophisticated investors) that they will subscribe for Securities under the Conversion Offer equal to the value of A$1,648,719 worth of principal and interest (but excluding

taxes). On this basis, the Company expects to issue approximately 8,243,602 New Shares and 2,060,904 Conversion Options under the Conversion Offer to the Loan Counterparties.

The difference between the amounts for which commitments have been received and the total amount of principal and interest owing on the Loan, being A$159,327, will be repaid out of the proceeds of the Public Offer. Refer to Section 5.12.

In addition to the amounts stated above in relation to the RPS Holders, Innate Noteholders and the Loan Counterparties, the Company will owe approximately A$53,223 in withholding taxes, on the debt accrued interest, to the New Zealand Inland Revenue Department, on behalf of the RPS Holders, Innate Noteholders, and Loan Counterparties, and this amount will be paid out of the proceeds of the Public Offer.

***Conversion Offer Minimum Subscription***

The Conversion Offer is subject to obtaining a minimum aggregate subscription amount from the RPS Holders, Innate Noteholders and Loan Counterparties of A$4,405,065, which would result in the issue of 22,025,326 New Shares and 5,506,332 Conversion Options (**Conversion Offer Minimum Subscription**). If the Conversion Offer Minimum Subscription is not achieved within 3 months of the date of this Prospectus, or such longer period as is permitted under the Corporations Act, the Company will not issue any Securities and will repay all application monies (if any) for the Securities within the time prescribed in the Corporations Act, without interest.

The Conversion Offer is also subject to the Minimum Subscription being achieved under the Public Offer. Refer to Section 5.3 for further information.

***Offer Period for the Conversion Offer***

The Conversion Offer shall be open for the same period as the Public Offer, unless the Directors advise otherwise. Therefore, Applications under the Conversion Offer will be accepted from 9:00am AWST on 26 November 2013 until 5:00pm AWST on 11 December 2013 (**Conversion Offer Closing Date**). The Directors reserve the right to extend the Conversion Offer Closing Date and keep the Conversion Offer open beyond the Public Offer Closing Date.

***Effect of the Conversion Offer***

Assuming the Public Offer proceeds, the maximum number of New Shares and Conversion Options that may be issued in respect of the RPS and Innate Notes, and the commitments that have been received from all Loan Counterparties, under the Conversion Offer, is as follows:

| Category | Amount (A$) | Shares to be issued pursuant to the Conversion Offer[1] | Conversion Options to be issued pursuant to the Conversion Offer[1] |
|---|---|---|---|
| Innate Noteholders | 1,302,217 | 6,511,102 | 1,627,790 |
| Loan Counterparties | 1,648,719 | 8,243,602 | 2,060,904 |
| RPS Holders | 1,754,129 | 8,770,751 | 2,192,775 |
| **Total** | **4,705,065** | **23,525,455** | **5,881,469** |

**Notes:**

1. Assumes Allotment occurs on or about 17 December 2013 and that the A$ to US$ exchange rate is A$1.00 : US$0.95 and that the A$ to NZ$ exchange rate is A$1.00 : NZ$1.1364 on that date. To the extent that Allotment occurs earlier or later than 17 December 2013 or that the exchange rates are different to those referred to above, the A$ amount of outstanding dividends payable on the RPS, and face value / principal (as the case may be) and interest payable in respect of the Innate Notes and Loans will be lower or higher and, accordingly, the total number of New Shares and Conversion Options to be issued pursuant to the Conversion Offer will be adjusted.
2. The above table takes into account the effect of rounding. Pursuant to the Conversion Offer, fractional entitlements to New Shares and Conversion Options will be rounded up.

For further information on the effect of the Conversion Offer, and the Offers generally, refer to Section 8

***How to Apply***

An application for Securities under the Conversion Offer can only be made by Innate Noteholders, RPS Holders and Loan Counterparties on the Conversion Offer Application Form, which will be provided to Innate Noteholders, RPS Holders and Loan Counterparties, together with a copy of this Prospectus.

Applications in relation to the Conversion Offer must be received by the Share Registry by 5.00pm (AWST) on the Conversion Offer Closing Date.

***US Resident Innate Noteholders, RPS Holders and Loan Counterparties***

To the extent that the Conversion Offer cannot be made to US resident Innate Noteholders, RPS Holders and Loan Counterparties under this Prospectus, an equivalent offer will be made to those US resident Innate Noteholders, RPS Holders and Loan Counterparties, who are Accredited Investors, under a US Offering Supplement. US resident Innate Noteholders, RPS Holders and Loan Counterparties should refer to the US Offering Supplement (if any).

## 5.12 Directors' interests and intentions in relation to the Conversion Offer

Christopher Collins, a Director, is both an Innate Noteholder and a Loan Counterparty. On or about 17 December 2013 (being the time at which the Company expects Allotment to occur), Mr Collins will be owed approximately A$332,584 in total of face value plus interest on the Innate Notes held by

# 5. Details of the Offers (Continued)

him and, approximately, a further A$1,274,823 in principal and interest as a Loan Counterparty. Mr Collins has indicated that he intends to apply for Securities under the Conversion Offer equal to the full amount of the face value and interest payable on the Innate Notes held by him, (being A$332,584) and, further, that he intends to apply for Securities under the Conversion Offer equal to A$1,115,495 of the A$1,274,823 owed to him as a Loan Counterparty, being a total of approximately A$1,448,080, pursuant to the Conversion Offer. The balance owed to Mr Collins as a Loan Counterparty, being A$159,327 will be repaid out of the proceeds of the Public Offer. For further information refer to Sections 13.6(a) and 13.6(b).

In addition, as an advance under the Additional Facility (refer to Section 13.6(a)), Mr Collins has advanced an amount of A$110,000 to the Company in connection with the required advance payment of the ASX Listing Fees, as part of the Company's application for Admission, and this amount will also be repaid out of the proceeds of the Public Offer.

Michael Quinn, a Director, is an Innate Noteholder and a company he is associated with, Kaylara Pty Ltd, is a Loan Counterparty. On or about 17 December 2013 (being the time at which the Company expects Allotment to occur), Mr Quinn will be owed approximately A$25,708 in total of face value plus interest payable on the Innate Notes held by him and Kaylara Pty Ltd will be owed A$50,878 (including principal and interest) as a Loan Counterparty. Mr Quinn has indicated that he intends to apply for Securities under the Conversion Offer equal to the full amount of the face value and interest payable on the Innate Notes held by him, (being A$25,708) and, further, that Kaylara Pty Ltd intends to apply for Securities under the Conversion Offer equal to the full amount of the A$50,878 owed to it as a Loan Counterparty. Accordingly, on Admission, the Company will no longer owe any money to Mr Quinn or Kaylara Pty Ltd, in their capacities as an Innate Noteholder and a Loan Counterparty. For further details refer to Sections 13.6(c) and 13.6(d).

Andrew Sneddon, a Director, is a Loan Counterparty. On or about 17 December 2013 (being the time at which the Company expects Allotment to occur), Mr Sneddon will be owed approximately A$50,878 (including principal and interest) as a Loan Counterparty. Mr Sneddon has indicated that he intends to apply for Securities under the Conversion Offer equal to the full amount he is owed as a Loan Counterparty, being A$50,878. Accordingly, on Admission, the Company will no longer owe any money to Mr Sneddon, in his capacity as a Loan Counterparty. For further information, refer to Section 13.6(e).

## 5.13 Official Quotation by ASX

The Company will make an application to ASX within 7 days of the date of this Prospectus for Official Quotation of the Shares.

If approval is not granted by ASX within 3 months after the date of this Prospectus, the Company will not issue the Securities and will repay all Application Monies (where applicable) as soon as practicable, without interest.

A decision by ASX to grant Official Quotation of the Shares is not to be taken in any way as an indication of ASX's view as to the merits of the Company or the Securities.

Subject to approval being granted by ASX, it is expected that the Official Quotation and trading of the Shares will commence on ASX on a normal basis on 20 December 2013.

Applicants who sell their Securities before they receive their holding statements will do so at their own risk. The Company disclaims all liability, in tort (including negligence), statute or otherwise, to persons who trade Securities before receiving their holding statements.

## 5.14 Overseas Applicants

No action has been taken to register or qualify the Securities or the Offers, or otherwise to permit the public offering of Securities in any jurisdiction outside Australia, other than New Zealand.

To the extent that the Conversion Offer cannot be made to US resident Innate Noteholders, RPS Holders and Loan Counterparties under this Prospectus, an equivalent offer will be made to those US resident Innate Noteholders, RPS Holders and Loan Counterparties, who are Accredited Investors, under a US Offering Supplement. US resident Innate Noteholders, RPS Holders and Loan Counterparties should refer to the US Offering Supplement.

The distribution of this Prospectus within jurisdictions outside Australia and New Zealand may be restricted by law and persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of those laws.

The Prospectus does not constitute an offer of Securities in any jurisdiction where, or to any person to whom, it would be unlawful to issue this Prospectus.

It is the sole responsibility of any overseas Applicant to ensure compliance with all laws of any country relevant to his or her application. The return of a duly completed Application Form will be taken by the Company to constitute a representation and warranty that there has been no breach of such law and that all necessary approvals and consents have been obtained.

## 5.15 Clearing House Electronic Sub-Register System (CHESS) and Issuer Sponsorship

The Company will not be issuing certificates in respect of the Securities. The Company is a participant in CHESS, for those investors who have, or wish to have, a sponsoring stockbroker. Investors who do not participate through CHESS will be issuer sponsored by the Company. Because the sub-registers are electronic, ownership of Securities can be transferred without having to rely on paper documentation.

Electronic registers mean that the Company will not be issuing certificates to investors. Instead, investors will be provided with a statement (similar to a bank account statement) that sets out the number of Securities issued to them under this Prospectus. The notice will also advise holders of their Holder Identification Number ("HIN") or Security Holder Reference Number ("SRN") and explain, for future reference, the sale and purchase procedures under CHESS and issuer sponsorship. Securityholders need to quote their HIN or SRN, as applicable, in all dealings with a stockbroker or the Share Registry.

Further monthly statements will be provided to Securityholders, if there have been any changes in their Security holding in the Company during the preceding month.

# 5. Details of the Offers (Continued)

Existing Securityholders should note that, from Admission, certificates which have previously been issued in respect of Securities will cease to have effect as documents of title in relation to those Securities.

## 5.16 Rights attaching to Securities

From issue, the New Shares issued under this Prospectus will rank equally in all respects with existing Shares. A summary of the important rights attaching to Shares, as set out in the Company's Constitution, is set out in Section 11.1.

A summary of the terms and conditions of the Conversion Options is set out in Section 11.2.

## 5.17 Withdrawal

The Directors may, at any time, decide to withdraw this Prospectus and the Offers, in which case the Company will return all Application Monies without interest within 28 days of giving notice of the withdrawal.

## 5.18 Enquiries

Enquiries relating to this Prospectus should be directed to the Share Registry on 1300 439 118 (if calling within Australia) and +61 3 9415 4085 (if calling from outside Australia).

# 6. Company and Overview of MIS416

## 6.1 Overview

Innate Immunotherapeutics is a medical biotechnology company with a Phase 2B drug candidate, MIS416, to treat SPMS. The Company acquired its rights to all of the intellectual property and technology relating to MIS416, by virtue of a direct assignment from the inventors under royalty agreements and/or employment agreements. A summary of the royalty agreements is set out in Section 12.1 and a summary of the relevant employment agreement (with the Company's Chief Scientific Officer) is set out in Section 12.4.

MS is a chronic disease of the central nervous system (brain and spinal cord). It is the most common disabling neurological disease affecting young adults and has a life long impact. Because MS involves multiple areas of the central nervous system, it is characterised by a variable and complex range of symptoms, including visual disturbance, fatigue, pain, reduced mobility and coordination, cognitive impairment, and mood changes. Average age at onset is between 20 and 40, and 75% of people with MS are women. Thus, MS tends to strike people in their most productive years. It affects ability to fulfil expected life roles at a stage when careers, relationships, and adult life in the community are consolidating, with resulting impact on work, family, and social life.

When MS first presents, approximately 85% of patients are diagnosed with a "relapsing-remitting" form of MS (**RRMS**) where the sufferer experiences clearly defined attacks of worsening neurologic function. These attacks, called relapses, flare-ups, or exacerbations, are followed by periods of partial or complete recovery periods (remissions). Despite there being nine drugs approved to provide ongoing treatment for RRMS, 60% of sufferers develop a secondary-progressive disease course (**SPMS**) in which the disease worsens more steadily, with or without occasional flare-ups, minor recoveries, or plateaus. There are no approved drugs available to provide safe, effective, long-term ongoing treatment for SPMS sufferers.

MIS416 has now undergone pre-clinical, Phase 1 and Phase 2A trials examining its use as a novel therapy for progressive forms of MS, in particular, SPMS. These trials, together with a compassionate use programme run in NZ over the past five years, indicate that MIS416 appears safe at the doses trialed and, additionally, some patients have reported improvements as a result of treatment. Relocation to Australia has given the Company proximity to a larger MS patient population, ensuring that it is well placed for the next phase of MIS416 drug development – a larger, placebo controlled Phase 2B study in patients with SPMS. Results of this trial are anticipated in late 2015.

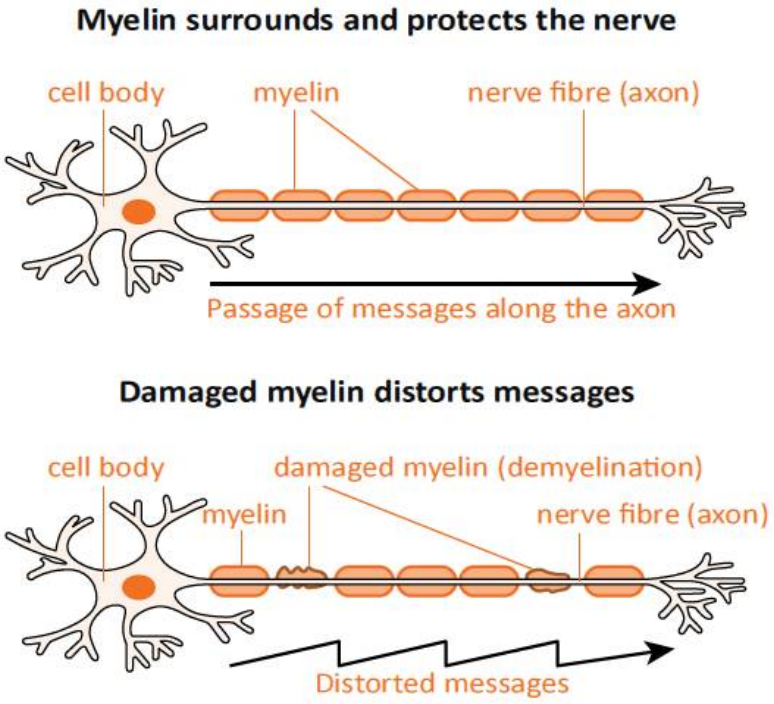
## 6.2 The science

The Company's technology targets the human innate immune system. The innate immune system is the body's first line of defence against external disease causing agents (pathogens) such as bacteria and viruses, and internally caused diseases such as cancer. Disorders of the immune system can also cause or contribute to autoimmune diseases such as MS and type 1 diabetes, as well as inflammatory diseases such as rheumatoid arthritis and inflammatory bowel disease. While the innate immune system is responsible for mounting the body's initial defence against pathogens, it also plays a critical role in controlling (or regulating) the overall immune response.

# 6. Company and Overview of MIS416 (Continued)

The Company's unique, biologically derived, microparticle MIS416, can target both the regulatory functions and the defensive (pathogenic) functions of the innate immune system.

In SPMS, the immune system attacks the central nervous system (brain, spinal cord, and optic nerves). As part of this attack, myelin (the fatty substance that surrounds and protects the nerve fibres in the central nervous system) is damaged, as well as the nerve fibres themselves. The damaged myelin forms scar tissue (sclerosis), which gives the disease its name.




**Myelin surrounds and protects the nerve**

When any part of the myelin sheath or nerve fibre is damaged or destroyed, nerve impulses travelling to and from the brain and spinal cord are distorted or interrupted, producing the variety of symptoms that can occur in MS. To make matters worse, the attack on the myelin sets off an inflammatory response that can both cause further damage, and prevent or hinder repair to the myelin.

Laboratory experiments using mouse and human systems strongly indicate that MIS416 can reduce (or down regulate) such inflammation. In a patient with SPMS, this activity could result in prevention of further damage caused by inflammation as well as create a more favourable environment for myelin repair. This scenario has been demonstrated in an animal model of chronic MS, where MIS416 has a clear anti-inflammatory effect in the brain and spinal cord.

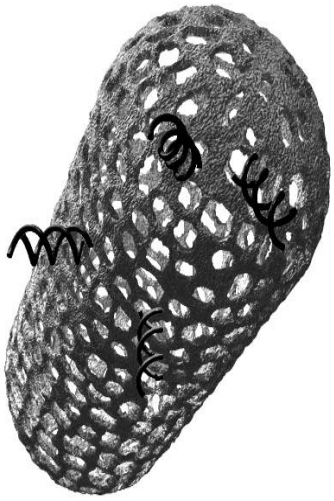
## 6.3 The technology

The Company's core technology is a unique, therapeutic microparticle, which induces the innate immune system to fight certain cancers and infections, or turns off certain immune mechanisms, which contribute to autoimmune diseases such as MS. This same technology can also be used in the

design of better vaccines to potentially prevent or treat diseases such as influenza, cancer, malaria, or tuberculosis.

The microparticle at the core of this technology provides a unique delivery system for a suite of both known, and novel, immune system triggers or modulators. Incorporating or attaching selected modulators to the microparticle can deliver these triggers reliably to specific cells of the innate immune system. In addition, the microparticle and selected modulators can be targeted to different cells in the immune system depending on the route of delivery of the microparticle to the patient. For example, intravenous delivery will target different cells and trigger a different innate immune response compared to subcutaneous delivery of the same microparticle.

The first drug candidate developed using this technology, MIS416, combines two well described immunomodulators. These are nucleotide-binding oligomerization domain-containing protein 2 (**NOD2**) and toll-like receptor 9 (**TLR9**).



**Schematic of the lead drug candidate – MIS416**
The immunomodulator microparticle (~0.5 x ~2.0 micron)
with cross linked NOD2 ligands (muramyl dipeptide repeats)
and incorporated TLR9 ligands (protected bacterial nucleic acid)

When delivered systemically (intravenous delivery), blood borne myeloid immune cells rapidly take up the MIS416 microparticles and transport these to the liver where the NOD2 and TLR9 modulators activate a specific innate immune response.

**Key Benefits and Advantages of Our Technology**

We believe the key benefits and advantages are:

**Novel target**

- ✓ The innate immune system is fast becoming recognised as a target for the treatment of a range of diseases including infection, cancer, and autoimmune disorders.

# 6. Company and Overview of MIS416 (Continued)

- ✓ Our microparticle technology allows important regulators of innate immunity to be safely targeted.

### Versatility

- ✓ Our microparticle can be targeted to different parts of the immune system to achieve different outcomes by changing the route of administration and/or changing the immune modulators that are incorporated in the microparticle.
- ✓ This technology can be used alone or in combination with other therapies or antigens to treat or prevent certain diseases.

### Safety

- ✓ Animal studies, together with human experience to date, have indicated that our lead candidate, MIS416, appears safe in therapeutic doses.

### Manufacturing

The microparticles are manufactured using a biological fermentation process where Propionibacterium acnes (**P.acnes**) bacteria are first grown in bulk batches, killed, purified and biochemically modified to ensure the incorporation of the desired immune modulators. The Company manufactures clinical trial material (MIS416 for use in patients) at its leased pilot scale production facility in Auckland, NZ. MIS416 is manufactured in this facility in compliance with the requirements of "Good Manufacturing Practice" (**GMP**) and the facility and process are audited annually by the NZ Government Department of Health (**Medsafe**).

### Applications

There are several distinct facets to the Company's microparticle technology, which potentially make it applicable to a variety of disease targets and applications. At a top level, the microparticle (with select innate immune modulators incorporated) can be administered on its own to induce certain immune responses. This is referred to as "standalone use". Alternatively, the microparticle can be combined with proteins or peptides from target pathogens (bacteria or viruses) or tumours to form either a vaccine to prevent disease or a vaccine to treat an existing disease including cancer. When used as part of a vaccine, the microparticle is referred to as an "adjuvant" and the proteins or other materials from the target pathogen are referred to as "antigens".

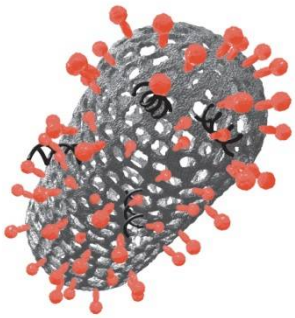
At the next level down, the standalone use can be directed towards a defensive outcome such as inducing the innate immune system to mount a stronger response to infection or the presence of cancer cells. Alternatively, the standalone use can be directed towards a regulatory outcome such as reducing the inflammation component in a disease such as MS. This ability to achieve different outcomes arises from factors such as the route of administration, the modulators incorporated into the microparticle, and the patient's own immune system's status at the time of treatment. An immune system's status changes in response to whether it is being challenged by infection or cancer, for example, or whether the immune system itself is damaged or disordered.

**Targets (Standalone Use)**

| | |
|---|---|
| **SPMS** | The Company's lead clinical candidate MIS416 has completed human Phase 1B and Phase 2A trials in SPMS and a Phase 2B trial is planned to commence in the second quarter of 2014. |
| **Infection** | MIS416 has been tested in an animal influenza model (H1N1) and significantly inhibited weight loss and increased survival to 100% compared to 70% in the control treated group. Testing in a number of other infection animal models has also produced positive results. |
| **Cancer** | MIS416 has been tested in a metastatic breast cancer mouse model and treatment inhibited the formation of lung metastases. Testing in a lung cancer mouse model showed MIS416 treatment inhibited the number of lung metastases. |
| **Radiation Protection** | MIS416 has been tested in an animal radiation protection model and treatment post exposure increased survival from 30% to 100% in a sub-lethal study and from 0% to 50% in a lethal irradiation study. |

**Targets (Adjuvant)**

| | |
|---|---|
| **Cancer** | MIS416 has been combined with a specific cancer antigen (details not available due to confidentiality agreement) and the resultant cancer treatment vaccine for refractory urothelial or prostate cancer is in human Phase 1 safety trials in Japan. The academic research centre carrying out the study is sponsoring the trial and results are not expected before mid 2014. |
| **Cancer** | MIS416 is being extensively evaluated as the adjuvant in preclinical cancer treatment vaccine studies designed to provide animal model-based proof of concept data. The clinical and academic investigators at the collaborating institution are sponsoring this work. |

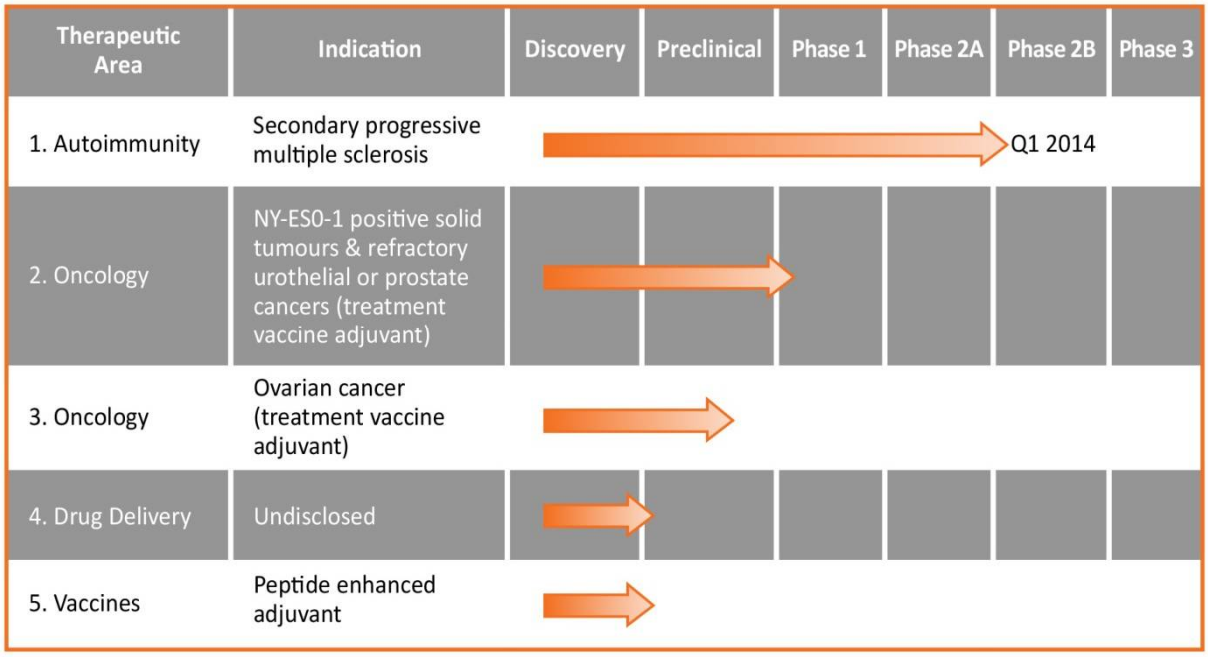


**Schematic of the microparticle with tumour antigens attached**

# 6. Company and Overview of MIS416 (Continued)

## 6.4 Pipeline

The Company's innate immune targeting technology has a range of potential additional applications including the treatment of certain infections and cancers, the treatment or prevention of radiation induced injury, and the development of new vaccines. The applications or indications under active development by the Company alone, or in collaboration with academic partners, are shown in the following pipeline summary.




1. **Autoimmunity:** This is the Company's lead programme, MIS416 for the treatment of SPMS. The requirement to conduct Phase 1 safety trials in healthy volunteers was waived by the New Zealand drug regulator, Medsafe, and instead the Company was able to conduct its first clinical trials in the target patient population. A Phase 1B dose escalation study in 16 patients with progressive MS was completed in NZ in October 2011 and a Phase 2A dose confirmation study in 15 patients with SPMS was completed in July 2012. The Company expects to commence recruiting 90 patients with SPMS for a Phase 2B trial in the second quarter of 2014.

2. **Oncology:** A clinician's sponsored and funded cancer treatment vaccine programme being carried out at the Mie University Graduate School of Medicine (Japan). MIS416 has been combined with the sponsor's proprietary cancer antigen to form a vaccine for administration to patients with certain types of cancers, who have not responded to other forms of treatment. A Phase 1 trial to evaluate the safety, tolerability and immune response to the vaccine commenced recruiting in March 2011. The Sponsor allowed a two year period to recruit up to 24 patients but advised in late 2011 that recruitment had been slow. Eligibility criteria were broadened and by December 2012, 10 patients had been recruited into the study. The Company does not expect to receive any results from the trial sponsor until later in 2014 and the Company has not granted any commercial rights to the Sponsor.

3. **Oncology:** A collaboration with the Division of Gynecologic Oncology and Center for Immunotherapy at Roswell Park Cancer Institute (Buffalo, NY). The parties are collecting preclinical data on the efficacy of a vaccine formulation, containing MIS416 and a model tumour antigen, before proceeding further to develop a vaccine formulation intended for the treatment of human ovarian cancer. The Company is making supplies of MIS416 available and is also carrying out some of the data analysis. The Company has not granted any commercials rights to the collaborators with respect to this programme.

4. **Drug Delivery:** A research and development collaboration with the University of Otago (Dunedin, NZ). The parties are exploring whether the microparticle technology can be used to deliver other drugs to certain cells of the immune system. Any new intellectual property developed will be owned by the Company in consideration of an agreed payment.

5. **Vaccines:** A research and development collaboration with the University of Otago (Dunedin, NZ). The parties are exploring whether the microparticle's adjuvant properties and characteristics can be altered by attaching certain peptides to the microparticle. Any new intellectual property developed will be owned by the Company in consideration of an agreed payment.

## 6.5 Preclinical and clinical data

The development of a drug as a candidate to treat a target disease (or indication) takes place in two significant phases, being preclinical and clinical. During the preclinical phase a drug is tested in laboratory and animal systems designed to predict the likely safety and efficacy of the drug in humans. If the preclinical results are positive, a drug then moves into the clinical development phase where it is trialed in humans. Clinical development normally takes place in phases where "Phase 1" trials emphasise safety, "Phase 2" trials gather preliminary data on effectiveness, and "Phase 3" trials gather more information about safety and effectiveness. Multiple trials can take place with in each Phase of clinical development.

**MIS416 Preclinical**

**Safety:** The potential for MIS416 to cause toxicities in humans has been evaluated in animal studies, which have shown that at dose levels (in animals) equivalent to the dose level to that trialed in humans, MIS416 appears safe.

**Efficacy:** The potential for MIS416 to be effective in treating humans with SPMS has been evaluated in the experimental autoimmune encephalomyelitis (EAE) mouse model. The EAE model has been the most popular animal model for MS over the past 30 years. MIS416 treatment in this model correlated with a significant resolution of EAE induced disease.

**MIS416 Clinical**

**Compassionate Use:** Under NZ Medicines Act, a doctor may prescribe an unapproved experimental medicine, providing such a medicine is produced pursuant to a Licence to Manufacture Medicines issued by the NZ Ministry of Health. Using this discretion, several doctors in New Zealand have prescribed MIS416 to treat patients with both SPMS and also the rarer form of progressive MS called primary progressive multiple sclerosis (**PPMS**). The first such patient was treated in late 2008 and over the past five years, 23 patients with either SPMS or PPMS have been treated with MIS416 in this

# 6. Company and Overview of MIS416 (Continued)

way. It is important to note that this "compassionate use" of MIS416 has taken place outside the strict rules of a formal clinical trial and so any reports (from either patients or doctors) about the effects of such treatment are only anecdotal. Furthermore, such treatment has taken place in a manner that does not control for any placebo effects that may have been experienced by the patients.

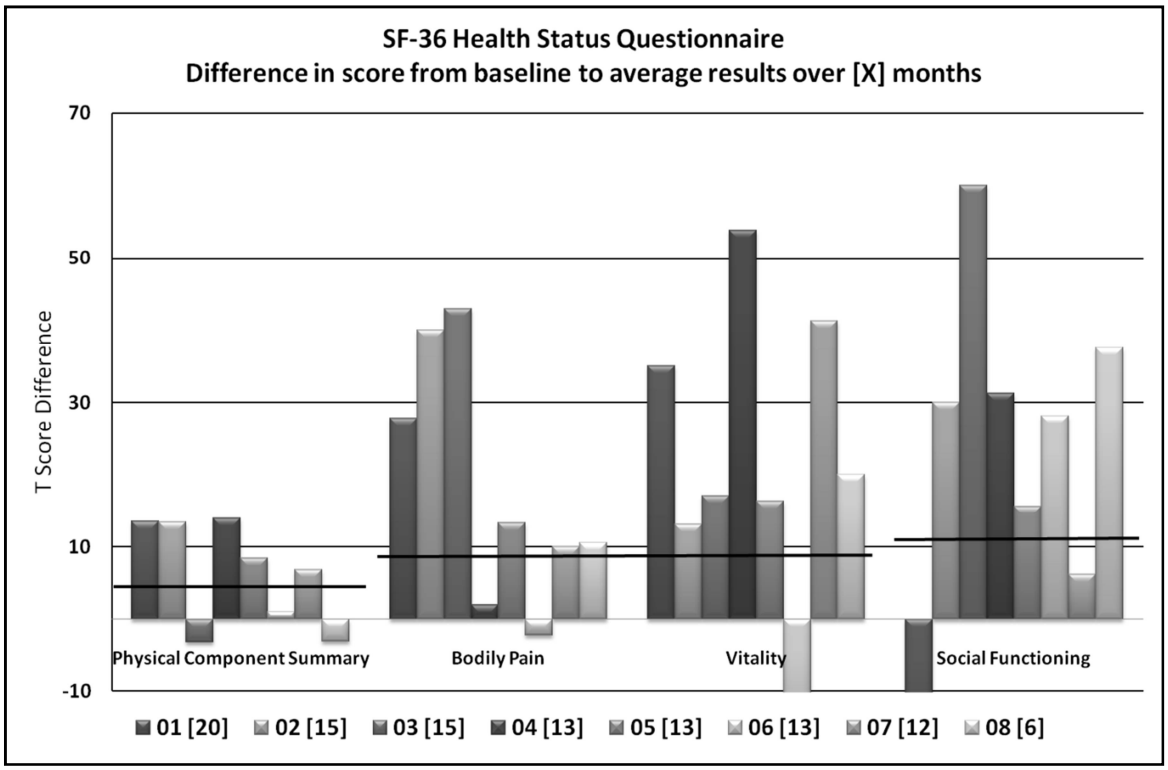
Of the 23 patients who have been part of this informal MS compassionate use programme, 17 patients have suffered from SPMS and six from PPMS. Included among these 23 patients are 14 patients, who were part of the Phase 1B/2A clinical trial described in Annexure A and who subsequently joined the compassionate programme in order to remain on MIS416 treatment.

**Safety:** The doctors prescribing MIS416 to patients in the compassionate use programme have monitored the safety of MIS416, in part, by taking regular blood tests. The results of these tests have been provided to the Company and show that there have been no apparent drug related toxicities associated with MIS416 treatment. The most common patient-reported adverse side effects following dosing have been fever and chills, headaches, and tiredness. Patients report that these occur and resolve within the first 12-24 hours following treatment and often abate or disappear after several treatments.

**Efficacy:** Of the 17 patients with SPMS who have been on MIS416 for six months or more, 14 have reported improvements to a number of their MS related signs and symptoms. These improvements have been reported to (and recorded by) the Company in ongoing telephone or face to face interviews with the patients. Eight SPMS patients who had formerly been subjects in the Phase 1B/2A trial and who have subsequently joined the compassionate use programme, completed the SF-36 Health Status Questionnaire (SF-36) prior to recommencing treatment and, thereafter, every three months.

The SF-36 is a widely used, extensively validated, health survey instrument for appraising quality of life and comprises eight specific scales and two summary scales. A positive change in scale score between tests of more than a certain value indicates that the patient has responded to treatment to an extent that has been determined (by the developers of the SF-36) to be clinically meaningful or important.

The following figure displays the results for three specific scales and one summary scale where 60% or more of the patients met or exceeded the responder definition to a 95% confidence level.




Health Status Questionnaire (SF-36) difference between the baseline score and the average of the quarterly retest scores over the last [specified] number of months for the eight SPMS patients who were previously on the Phase 2A trial and for whom SF-36 results are available. Results are presented for three of the eight specific scales (Bodily Pain, Vitality, and Social Functioning) and one of the two summary scores (Physical Component Summary). The developers of the SF-36 have determined that the minimum changes in score to be considered "important" (to a confidence level of 95%) for the above scales are: PCS – 5.3; Bodily Pain – 9.5; Vitality – 9.5; and Social Functioning – 10.5. These clinically meaningful thresholds are represented by horizontal solid black lines.

Over the past 12 months, the Company has been approached by approximately 30 New Zealand based patients with SPMS wanting to participate in the next formal clinical trial of MIS416. The Company has decided, for both logistical and financial reasons, that the next formal trial of MIS416 will be conducted solely in Australia. (Refer below for details of the planned Phase 2B trial). However, the Company is mindful of the impact this decision may have on the patients who have already expressed a keen interest in trial participation. Accordingly, these patients will be given the opportunity to access MIS416 as part of the ongoing compassionate use programme. We would expect at least 15 of these patients to start accessing MIS416 from early next year. Although the compassionate use programme is not a clinical trial, we will be able to use some of the Phase 2B assessments, such as the SF-36 Health Status Questionnaire, measures of grip strength, and hand and upper extremity function, to evaluate and report on the effect of MIS416 treatment in these new patients on a regular basis.

**B. Completed Clinical Trials:** A Phase 2 open label safety trial of MIS416 was completed in late 2012. See Annexure A for details.

**C. Planned Clinical Trials:** The following clinical trial will be conducted using part of the proceeds from the Public Offer.

# 6. Company and Overview of MIS416 (Continued)

**Title:** A Phase 2B Randomized, Double-Blind, Placebo-Controlled Trial of the Efficacy and Safety of MIS416 in the Treatment of Subjects with Secondary Progressive Multiple Sclerosis.

**Proposed Design:** A multi-centre, randomized, double-blind, placebo-controlled trial of MIS416 in 90 subjects with SPMS. Subjects will be randomly assigned in a 2:1 ratio to either treatment with MIS416 weekly or to matching placebo (saline). Participation in the trial will continue for one year. The dose of MIS416 will be 125 µg for the first dose, 250 µg for the second dose, and 500 µg for subsequent doses. A Safety Review Team comprised of the Co-Principal Investigators, the Sponsor's medical monitor, and an independent clinical expert, will be empanelled and will monitor safety on an ongoing basis.

**Proposed Objectives**

The primary objectives of this study are:

1. To determine the efficacy of MIS416, relative to standard care, when administered repeatedly by weekly intravenous (**IV**) administration to subjects with secondary progressive multiple sclerosis (**SPMS**), as assessed by its effect on measures of neuromuscular function, disability, and health status; and

2. To determine the safety and tolerability of a weekly regimen of MIS416 under the circumstances of this trial.

The secondary objectives of this study are:

1. To assess the effects of MIS416 on other measures of disease activity in this population, including the Expanded Disability Status Scale (**EDSS**) and the frequency of clinical relapses;

2. To determine the effect of MIS416 on magnetic resonance imaging (**MRI**) markers of disease activity and neurodegeneration, including whole brain atrophy (**WBA**) and Magnetization Transfer Ratio (**MTR**); and

3. To assess, in a subset of subjects, the pharmacodynamics (**PD**) effects of MIS416, including effects on serum, peripheral blood mononuclear cell (**PBMC**), and cerebral spinal fluid cytokine/chemokine levels and expression patterns.

Proposed measures of neuromuscular function, disability, and health status will include:

- Patient reported outcomes including the SF-36 Health Status Questionnaire, an MS specific quality of life questionnaire (yet to be selected), pain and fatigue severity scales.

- Clinically measured outcomes including the six-minute walk test (to measure fatigue), the symbol digit modalities test (to measure cognition), Sloan low-contrast letter visual acuity test, and measures of grip strength, hand and upper extremity function.

**Subject Selection Criteria:** Males and females aged 18 years or over, with a confirmed diagnosis of SPMS, an Expanded Disability Status Scale (**EDSS**) score of 4.0 to 7.0 at screening, an increase of at least 1.0 points EDSS in the previous two years (if EDSS at Screening is 4.0-5.5), or of at least 0.5 points if EDSS at Screening is 6.0 or 7.0. Absence of MS relapses for at least one year prior to baseline and not on any immunomodulating or immunosuppressive drugs.

**Trial Locations:** It is planned to conduct the study in accordance with the principles of good clinical practice (**GCP**) at between six and nine sites in Australia. These sites will be predominantly the larger public hospitals, which have dedicated neurology departments with suitable MRI and radiology equipment required for the trial.

**Expected Duration:** Subject to gaining consents to conduct the trial from the relevant ethics committees in a timely fashion, the treatment of subjects is expected to commence in the second quarter of 2014. Recruiting the required 90 subjects is expected to take no longer than six months, as the SPMS patient population is believed to be well motivated to participate in clinical studies. Based on a six month recruitment period, the last subject would receive their last dose in late 2015 and a Clinical Study Report could be expected in early 2016.

**Expected Cost:** Cost estimates have been provided by three clinical research organisations experienced at running Phase 2 neurological studies in Australia. Based on those estimates, the expected cost of the study should be approximately A$6 million.

## 6.6 Market opportunity

**Market Description and Size**

MS is a disease that affects approximately 30 in 100,000 people worldwide. The disease is more common in people who live farther from the equator and is also more common in regions with northern European populations and/or their descendants. In the seven major drug markets (the US, Japan, France, Germany, Italy, Spain, and the UK), the prevalence of diagnosed MS is even higher (80 cases per 100,000), with almost three women for every man. At any given time, patients with RRMS account for approximately 55% of all patients with MS and patients with SPMS account for approximately 30%.

| Country | Prevalence (per 100,100) | Incidence (per 100,100) | Total # of people with MS 2008 (est.) |
|---|---|---|---|
| **U.S.** | 135 | 4 | 400,000 |
| **U.K.** | 110 | 6 | 85,000 |
| **Germany** | 149 | 2.85 | 122,000 |
| **Italy** | 90 | 3 | 54,000 |
| **France** | 80 | -- | 80,000 |
| **Spain** | 59 | 3.8 | 40,000 |
| | | | **Total EUS:** 380,000 |
| | | | **Total U.S. + EU5:** 780,000 |
| | | | **Total Worldwide:** 2,500,000 |

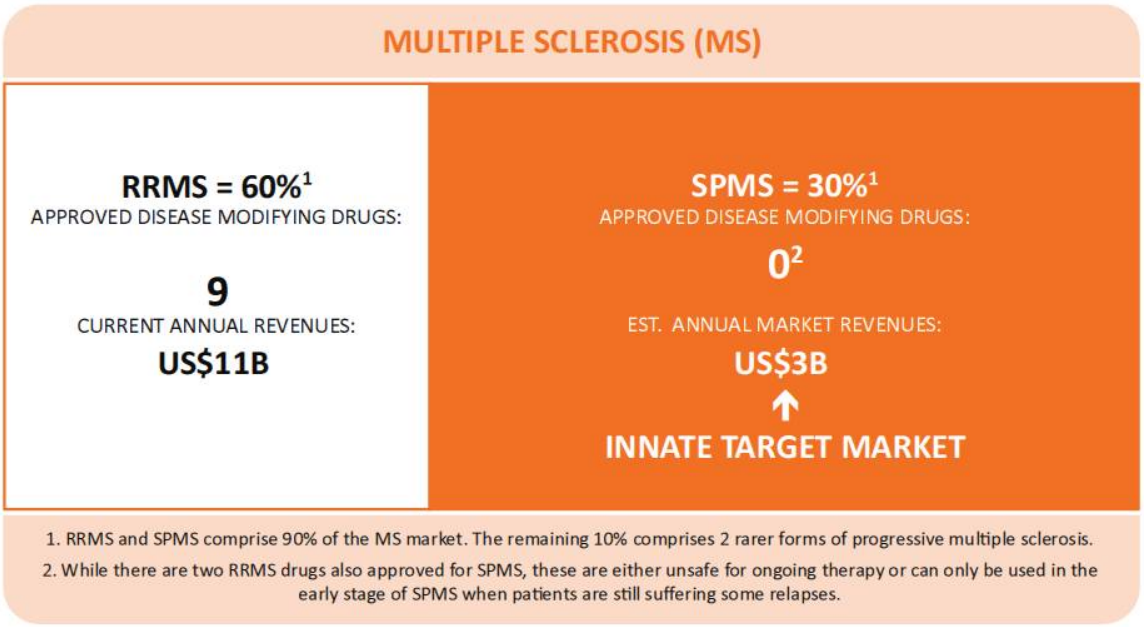
- The prevalence growth rate is estimated at 1%
- Prevalence: Estimated total number of cases of MS at a particular point in time in a specified population usually given as number per 100,000 population
- Incidence: Estimated number of new cases of MS diagnosed over a defined period of time in a specified population usually given as a number per 100,000 population

There are currently nine disease-modifying drugs (agents) approved by the FDA to reduce disease activity and disease progression in patients with RRMS. In 2010, the worldwide market for MS

# 6. Company and Overview of MIS416 (Continued)

disease modifying therapies was in excess of US$11 billion per annum. It is estimated that this market will increase to US$16 billion by 2019 after which it is likely to stabilise.

While there are two RRMS drugs also approved for SPMS, these are either unsafe for ongoing therapy (mitoxantrone) or can only be used during the transition stage from RRMS to SPMS when patients may still experience occasional acute relapses (interferon beta 1b). Using the 2010 MS worldwide market estimate of US$11 billion and the estimated 30% prevalence of SPMS worldwide, the current unmet SPMS market size can be calculated to be approximately US$3.0 billion. The Company is positioning MIS416 to address this commercially significant, and therapeutically important, market.




**Competition**

The need to develop disease modifying drugs to treat progressive MS is obvious. Many existing drugs, both for RRMS and for the treatment of some other diseases have been unsuccessfully trialed in SPMS. Currently, two RRMS drugs are approved (by the US Food and Drug Administration) for SPMS but their use is limited. Interferon beta 1b (brand names Betaseron and Extavia) is approved for SPMS but is limited only to those patients who are still having relapses. Mitoxantrone (brand name Novantrone) is also approved in SPMS but the risks of cardiotoxicity and therapy-related acute leukaemia with mitoxantrone prevents prolonged usage.

The Company is aware of the following SPMS drug candidates currently undergoing clinical trials.

| Agent | Sponsor | Phase | Status | Description |
|---|---|---|---|---|
| **Industry sponsored studies** | | | | |
| **Tysabri** (natalizumab) | Biogen Idec | **3** | **2012: Ongoing** A Multicenter, Randomized, Double-Blind, Placebo-Controlled Study of the Efficacy of Natalizumab on Reducing Disability Progression in Subjects With SPMS (NCT01416181) | An injectable humanized antibody acts by preventing certain immune cells from passing into the central nervous system via the blood-brain barrier. It is currently approved for RRMS however is subject to a FDA black box warning of potential serious side effects, namely progressive multifocal leukoencephalopathy (**PML**). |
| **Siponimod** (BAF312) | Novartis | **3** | **2013 Recruiting** Exploring the Efficacy and Safety of Siponimod in Patients With SPMS (NCT01665144) | An oral in the same drug class as fingolimod (Gilenya) which is approved for RRMS. It causes certain immune cells to be retained in the lymph glands. In August 2013, an MS patient being treated with Gilenya was reported to be infected with PML (see Tysabri safety issue above). Drugs with the same mechanism of action as Gilenya, such as Siponimod, could potentially suffer from similar serious safety issues. |
| **Masitinib** | AB Science | **2** | **2013: Recruiting** A Study to Compare Efficacy and Safety of Masitinib to Placebo in the Treatment of Patients With PPMS (Phase 3) or Relapse-free SPMS (Phase 2). (NCT01433497) | An oral which blocks processes involved in inflammation and immune responses. Targets mast cells, a type of cell involved in allergy and inflammation. Is licensed in Europe for veterinary use. Now being investigated in a range of human diseases, including treatment of tumours, rheumatoid arthritis. The Company does not believe the mast cells are important primary targets in the treatment of SPMS. |

# 6. Company and Overview of MIS416 (Continued)

| Agent | Sponsor | Phase | Status | Description |
|---|---|---|---|---|
| **Academic sponsored studies** | | | | |
| **Rituximab** | NIH | **2** | **2012: Recruiting** Double Blind Combination of Rituximab by Intravenous and Intrathecal Injection Versus Placebo in Patients With Low-Inflammatory SPMS (NCT01212094) | A monoclonal antibody approved to treat certain types of blood cancer (leukaemia and lymphomas). Targets B cells which may contribute to damage of the myelin sheath in MS. In the current trial the antibodies are in part being injected into the spinal cord. |
| **Amiloride, Ibudilast, Riluzole** | University College London | **2** | **2013: Not yet Recruiting** A Multi-arm Randomised, Double Blind Placebo-controlled Clinical Trial Comparing the Efficacy of 3 Neuroprotective Drugs in SPMS (NCT01910259) | Three re-purposed drugs (Ibudilast, Riluzole and Amiloride) already in human use with good safety records. Believed to target one or more of the pivotal neurodegenerative causing pathways implicated in SPMS |
| **Simvastatin** | Imperial College London | **2** | **2012: Completed** A Phase II Randomised, Placebo-Controlled Clinical Trial of Simvastatin in Patients With SPMS (NCT00647348) | Statins may reduce the immune response in MS that causes damage to myelin. However, a 2009 study (McGill University), demonstrates that statin therapy in mice inhibits myelin repair or remyelination. |

The above information has been sourced from http://clinicaltrials.gov, the US National Institutes of Health clinical trial protocol registration system, by searching on the term "SPMS". Trials targeting SPMS patients who have only recently progressed from RRMS to SPMS and who are still experienced relapses have been excluded, as this is not the target population for MIS416.

A distinction is made between industry (Pharma) sponsored studies and academic sponsored studies, as the latter involve drugs that have been approved for other indications and are being "re-purposed" for SPMS. As these drugs are no longer subject to patent protection, financing Phase 3 trials may be a significant challenge for these programmes.

## 6.7 Our strategy

The Company's strategy is to rapidly maximize the value of its microparticle technology to position the technology for a major partnering or acquisition transaction in 2016. This will be achieved by:

(a) Demonstrating the efficacy of lead candidate MIS416 in a Phase 2B trial in SPMS, a disease that has a significant unmet medical need and which also represents a substantial commercial opportunity.

(b) Supporting the SPMS clinical programme by:

(i) continuing to collect longitudinal safety and patient reported efficacy data from the Company's MIS416 compassionate use programme;

(ii) continuing to perfect the understanding of the MIS416 mechanism of action in SPMS;

(iii) submitting an IND application to the US Food and Drug Administration (**FDA**);

(iv) working with key MS academics and clinicians, regulators, and potential Pharma partners to establish appropriate Phase 3 approval endpoints.

(c) Demonstrating the application of the microparticle technology in other important diseases or applications where harnessing the power of the innate immune system could be a viable therapeutic strategy.

(d) Further building the profile of the technology through active collaborations with leading academic researchers around the world.

(e) Expanding the range of commercialisation options to ensure that both major and speciality Pharma companies, significant investors, and international capital markets are aware of the technology and its significant potential.

## 6.8 Intellectual property

The Company's intellectual property portfolio represents its most valuable asset and currently comprises five patent/patent application "families":

(a) **Family 1 relates to the Company's earlier HIV drug candidate.** These issued patents (with priority dating from 1996) also describe the composition of the Company's microparticle technology but no claims for the independent therapeutic use of the technology were made at the time of application.

(b) **Family 2 claims the use of the Company's microparticle technology in the treatment of various neoplastic conditions, including solid tumours and various malignancies.** Whereas it is claimed that the microparticle is effective in targeting and activating the relevant components of the immune system to aid in destructions of cancer (neoplastic) cells on a standalone basis, it is also claimed that the efficacy of the microparticle can be further enhanced and focused by coupling certain ligands to the surface of the microparticle. Co-therapy with other cancer therapeutics is also claimed, as too is the use of the microparticle as part of a vaccine for treating cancer. Patents in Family 2 have been granted in Australia and NZ and are pending in major markets. The Family has a priority date of April 2008.

(c) **Family 3 claims the use of the Company's microparticle technology in the treatment of bacterial and viral infections** based on the ability of the microparticle to induce a broad range of innate anti-bacterial and anti-viral immune responses. It is also claimed that the efficacy of the microparticle can be further enhanced and focused by coupling certain ligands to the surface of the microparticle. Co-therapy with other anti-infection therapeutics is also claimed as too is the use of the microparticle as part of a vaccine for treating infections. Patents in Family 3 have been granted in Australia and NZ and are pending in major markets. The Family has a priority date of April 2008.

# 6. Company and Overview of MIS416 (Continued)

(d) **Family 4 claims the use of the Company's microparticle technology in the treatment of radiation exposure, radiation poisoning, and mitigating the toxic effects of radiotherapy.** The claims are based, in part, on the surprising observation that the microparticle is capable of inducing de novo synthesis of immunomodulatory cytokines that are known to have clinical utility in either preventing haematopoietic or bone marrow damage, or accelerating bone marrow restoration following exposure to radiation, particularly ionising radiation. Patents in Family 4 have been granted in NZ, accepted in Australia and Europe, and are pending in the US. The Family has a priority date of September 2008.

(e) **Family 5 claims the use of the Company's microparticle technology in the treatment of multiple sclerosis,** and is based on the notion that the microparticle comprising muramyl dipeptide and nucleic acid motifs is capable of modulating several aspects of the immune system simultaneously and may represent a more effective treatment for MS, of both the progressive and relapsing-remitting type. Patents in Family 5 have been granted in Australia, the US, and NZ and are pending in other major markets. The Family has a priority date of June 2009.

The Company is the current sole owner of the intellectual property rights residing in inventions described in the five patent families and acquired its rights to all the described intellectual property by virtue of direct assignment from the inventors under royalty agreements and/or employment agreements. A summary of the royalty agreements is set out in Section 12.1 and a summary of the relevant employment agreement (with the Company's Chief Scientific Officer) is set out in Section 12.4 . In most countries, granted patents have a fixed term of 20 years from the date of filing. The Company is not aware of any party whose rights may be infringed by exploitation of inventions described in the five patent families. As far as the Company is aware, it will be able to freely exploit the patented inventions in all relevant jurisdictions.

For further information on patents held by, or applied for, by the Company in respect of its technology, please refer to the Intellectual Property Title Report, prepared by Shelston IP, in Section 10.

## 6.9 History

The Company was registered under the laws of New Zealand on 31 May 2000, as Virionyx Corporation Limited (**Virionyx**). On 25 January 2001, Innate acquired all of the shares in Probe Pharmaceuticals Corporation Limited (**Probe**), and on 26 March 2001, Virionyx acquired all of the assets and liabilities of Probe by way of amalgamation. On 1 April 2009, the Company changed its name to Innate Therapeutics Limited and then to Innate Immunotherapeutics Limited on 1 August 2009. On 11 October 2013, following a process to migrate its place of incorporation, the Company was registered as a public company in Australia. On 25 October 2013, the Company was registered on the overseas company register in New Zealand.

The Company was foundered to develop and trial a novel anti-HIV therapy. Following Phase 1 trials conducted at Beth Israel Deaconess Medical Centre (Harvard Medical School, Boston) and the initiation of a multi-centre Phase 2 trial in the US, this programme was suspended and then subsequently closed down in 2008. New developments in HIV therapy called into question the need for an infusional therapy of the type the Company had been developing and the commercial case for ongoing investment in such a therapy could no longer be supported.

In parallel with the Phase 2 HIV drug programme, the Company had been further evaluating a unique immune modulating technology, which had spun out of the early HIV therapy development programme. The closing of the HIV programme in 2008 enabled the Company to focus its resources on this new "innate immune system" targeting technology. The lead drug candidate arising from this technology is "MIS416" and its initial disease target (or indication) is SPMS, a condition for which there are no approved effective ongoing treatments.

## 6.10 Board and Management

### Directors' profiles

The names and details of the Directors in office, as at the date of this Prospectus, are:

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

Michael co-founded Innovation Capital Limited 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. From 1992 until 14 November 2013, Michael was a director of ResMed, a world leader in the respiratory healthcare market. Michael also co-founded Memtec which was acquired by US Filter in 1997 for US$400 million. Michael is Chairman of the New South Wales Entrepreneurship Centre Ltd.

**Simon Wilkinson – Executive Director and CEO**

Simon was formerly a partner in Christchurch based ODL Capital, the principal New Zealand fund raiser for the Company since 2001. He has spent 20 years in finance, banking and business management, after training as an officer in the Royal New Zealand Navy.

**Liz Hopkins (B.Sc. (Hons)) – Non-Executive Director**

Liz trained at Oxford University and holds a First Class Honours degree in Pharmacology. She has spent 20 years successfully commercialising science outcomes and holds several Director positions, including being a Ministerial appointment to the Council of International Accreditation New Zealand. She has previously been Deputy Chair of NZBIO and was CEO at Wool Equities/Keratec, CEO at Encoate (a start-up biotech), and Chief Development Officer at NeuronZ. Before moving to New Zealand in 2001, she was with Pfizer's European headquarters for ten years, the last two years as a Global Project Manager.

**Christopher Collins (B.Sc., MBA) – Non-Executive Director**

Chris has over 30 years of experience in business management. He founded Nuttall Gear Corporation (New York), which was subsequently acquired by Altra Holdings (NASDAQ: AIMC). Chris has helped acquire, manage and make profitable 17 companies across a range of industries. He recently completed a four 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. Chris resides in Clarence, New York.

# 6. Company and Overview of MIS416 (Continued)

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

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

## Management

Following Admission, senior management of the Company will be as it is at present. In addition to Simon Wilkinson, whose details and experience appears above, the Company's senior management team will comprise the following individuals:

**Gill Webster – Chief Scientific Officer**

Gill obtained her PhD in Immunology from the University of London. Gill obtained postdoctoral research experience investigating the development of immune cell-based cancers and mechanisms underlying cancer gene regulation pathways, at the University of Glasgow, UK and the University of Dundee Wellcome Trust Biomedical Research Centre, UK. As an expert in the field of Flow Cytometry, she held senior scientific research positions at Cyclacel, Dundee, UK and Genesis Research and Development, New Zealand for several years prior to joining the Company. Gill's research publications are in the fields of transplantation and cancer molecular and cellular immunobiology.

**Jeff Carter – Chief Financial Officer**

Jeff has served as a member of the board of directors of Unilife Corporation since April 2006. He has also served as chief financial officer and company secretary of Unilife until January 2009. Jeff has more than 30 years of expertise in professional accounting, investment banking, corporate finance and commercial / strategic planning roles. He is a Chartered Accountant and has a Masters in Applied Finance from Macquarie University. Jeff was a chief financial officer of various publicly listed healthcare companies prior to joining Unilife, and has also held senior positions with Coca Cola Amatil, Santos, Canadian Imperial Bank of Commerce and Touche Ross.

**Margaret Rhoades – Quality Assurance Manager**

Margaret has a New Zealand Certificate of Science (Chemistry) and a Graduate Diploma in Quality Management (with distinction) from the Auckland Institute of Technology. Prior to joining the Company, Margaret worked in the pharmaceutical industry with Warner Lambert/Parke Davis and as a consultant, assisting companies with the implementation and auditing of ISO 9000 quality systems.

**Ken Tucker – Production Manager**

Ken has a New Zealand Certificate of Science and a Diploma in Medical Laboratory Technology. He has wide experience in the processing of human and animal blood. His previous position was at the Auckland Regional Blood Centre as technologist responsible for the production of human plasma fractions, such as Factor VIII. He has experience in medical and quality control laboratories, and in the installation and testing of cleanroom air filtration systems.

## 6.11 Corporate Governance

The primary responsibility of the Board is to represent and advance Shareholders' interests and to protect the interests of stakeholders. To fulfil this role the Board is responsible for the overall corporate governance of the Company including its strategic direction, establishing goals for management, and monitoring the achievement of these goals.

The Board recognises the need for the Company to operate with the highest standards of behaviour and accountability.

Subject to the exceptions detailed below, the Company seeks to follow the best practice recommendations for listed companies as outlined in ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (**Recommendations**) where appropriate for its size and the complexity of its operations.

As the Company's activities increase in size, scope and/or nature, the Company's corporate governance will be reviewed by the Board and amended as appropriate.

Copies of the Company's corporate governance policies are available on the Company's website at www.innateimmuno.com.

The Company will provide an explanation of any departures from the Recommendations in its future annual reports. The table below addresses where the Company has departed from the Recommendations.

| Principles and Recommendations | Status |
|---|---|
| **Recommendation 1.2** – Companies should disclose the process for evaluating the performance of senior executives. | Non-Compliant. Currently, the Board does not have a formal policy for the evaluation of the performance of its senior executives. As the Company expands, the Board intends to establish formal, quantitative and qualitative performance evaluation procedures. |
| **Recommendation 2.4** – The Board should establish a nomination committee. | Non-compliant. Due to the size of the Board, it was determined that the Board will execute the functions of the nominations committee and that a separate nominations committee was not necessary. |

# 6. Company and Overview of MIS416 (Continued)

| Principles and Recommendations | Status |
|---|---|
| **Recommendations 3.2** – Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them. | Non-Compliant. Due to the scope and size of the Company's operations, the Board does not have a formal diversity policy in line with the ASX's Corporate Governance guidelines.<br><br>The Company believes that the promotion of diversity on its Board and within the organisation generally is good practice.<br><br>The Board acknowledges the benefits of and will seek to achieve diversity during the process of employment at all levels without detracting from the principal criteria for selection and promotion of people to work within the Company based on merit.<br><br>The Board believes that there is no detriment to the Company in not adopting a formal diversity policy or in not setting gender diversity objectives as the Company is committed to providing all employees with fair and equal access to employment opportunities and nurturing diversity within the Company. This is evident by one the Directors being a woman (Ms Liz Hopkins (Non-Executive Director)). In addition, two members of the senior management team are also females. |
| **Recommendation 3.3** – Companies should disclose in each annual report the measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them. | Non-Compliant. Refer to 3.2. |
| **Recommendation 3.4** – Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board. | Non-compliant. While the majority of the Company's employees are women, the Company does not intend to disclose this information in its annual report going forward. |
| **Recommendation 3.5 –** Companies should provide the information in the Guide to reporting on Principle 3. | Non-Compliant. Refer to 3.2. |

| Principles and Recommendations | Status |
|---|---|
| **Recommendation 4.2** – The audit committee should be structured so that it:<br>• consists only of non-executive directors<br>• consists of a majority of independent directors<br>• is chaired by an independent chair, who is not chair of the board<br>• has at least 3 members | Non-compliant. The Company's audit committee only has 2 members. In all other respects, it complies with Recommendation 4.2. |
| **Recommendation 4.4** – Companies should provide the information indicated in the Guide to reporting on Principle 4. | Non-compliant, as the Company will not be making public the procedures for selection an appointment of external auditor, as required by this Recommendation. However, going forward, the Company will publish the information required in its annual report, in accordance with this Recommendation. As stated above, a copy of the audit committee charter is posted on the Company's website. |
| **Recommendation 7.1** – Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies. | Non-compliant. In light of the nature and extent of the Company's operations and activities, the Company has established informal policies for the oversight and management of material business risks. |
| **Recommendation 7.2** – The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of it material business risks. | Non-compliant. In light of the nature of the Company's operations and activities, formal and informal policies for the oversight and management of the various business risks associated with the Company's activities are conducted at the Board level by all of the Directors. |
| **Recommendation 7.4** – Companies should provide the information indicated in the Guide to reporting on Principle 7. | Non-Compliant. Refer to 7.1. |

# 6. Company and Overview of MIS416 (Continued)

| Principles and Recommendations | Status |
|---|---|
| **Recommendation 8.2 –** The remuneration committee should be structured so that it:<br>• consists of a majority of independent directors;<br>• is chaired by an independent director; and<br>• has at least 3 members. | Non-compliant. Christopher Collins is not regarded as independent because he is a substantial shareholder of the Company. Simon Wilkinson is also not regarded as independent because he is an executive Director. Consequently, the remuneration committee does not consist of a majority of independent Directors and is not chaired by an independent Director. |

# 7. Risk Factors

The Securities offered under this Prospectus are considered highly speculative. An investment in the Company is not risk free and the Directors strongly recommend that potential investors consider the risks factors described below, together with information contained elsewhere in this Prospectus, before deciding whether to apply for New Shares and to consult their professional advisers before deciding whether to apply for New Shares pursuant to this Prospectus.

The proposed future activities of the Company are subject to a number of risks and other factors which may impact its future performance. Some of these risks can be mitigated by the use of safeguards and appropriate controls. However, many of the risks are outside the control of the Company and cannot be mitigated.

Investors should be aware that the performance of the Company may be affected and the value of its Securities may rise or fall over any given period. Some of the factors which investors should consider before they make a decision whether or not to apply for New Shares, but are not limited to, the risks in this Section.

## 7.1 Company specific risks

(a) **Development stage products**

The process for securing marketing approval of a new drug is both costly and time consuming. Moving from discovery to commercialisation typically involves multiple and progressively larger clinical trials that can take several years to complete and cost tens, and even hundreds, of millions of dollars. MIS416 has demonstrated favourable safety and clinical outcomes in Phase 1B/2A clinical trials, but may fail to reach required clinical endpoints in subsequent trials.

There are many reasons a new drug can fail to reach the market, including unacceptable clinical results, a product candidate that is not cost-effective or economic to manufacture, or issues regarding product safety. Based on the existing costs to make MIS416 at pilot scale (which is not normally the most cost effective scale at which to make a drug), MIS416 manufacturing costs fall within the range of what would normally be considered appropriate by the pharmaceutical industry. This current cost effectiveness could change if either costs went up or selling price went down to a significant degree.

(b) **Intellectual property risks**

The success of the development of MIS416 is dependent on the Company's ability to obtain and maintain patents and to operate without infringing the proprietary rights of third parties.

Maintaining the patent position for the products that are proposed to be produced by the Company will involve complex legal and factual questions. The risks and uncertainties faced with respect to patents and other proprietary rights include the following:

(i) the claims of any patents acquired may not provide meaningful protection;

(ii) the patents issued may not provide a competitive advantage or commercially significant protection;

(iii) third parties may challenge patents issued to the Company and, given the complex nature of MIS416, this could lead to expensive and lengthy disputes for which there can be no guaranteed outcome; and

(iv) third parties may independently develop similar or alternative products.

While the Company has, and will continue to, implement all reasonable measures to protect its intellectual property, there can be no assurance that these measures will be sufficient. Competitors may infringe the Company's proprietary rights and it may be required to file infringement claims which can be expensive and time consuming to prepare and prosecute.

Conversely, the Company must develop, manufacture, market and sell its products without infringing the proprietary rights of third parties and may become party to, or threatened with, litigation regarding intellectual property rights with respect to MIS416 and related technology.

Even if resolved in the Company's favour, litigation or other legal proceedings relating to IP claims may cause the Company to incur significant expenses and could distract technical and management personnel from their normal responsibilities. Furthermore, some competitors may be able to sustain the costs of litigation or proceedings more effectively that the Company because of greater financial resources.

An Intellectual Property Title Report, prepared by Shelston IP, and relating to the intellectual property held by the Company, is set out in Section 10.

(c) **Intellectual property limitations**

Patents protecting intellectual property have a finite life, and in the case of the patents (issued or pending) protecting the use of MIS416 to treat MS, these will expire in 2029. Patents (issued or pending) protecting the use of MIS416 to treat or prevent cancer and infection were filed in 2008 and, where issued, will expire in 2028. There are no guarantees that revenues from a successful commercialisation of MIS416 to treat MS or other diseases would extend past patent expiry dates.

(d) **Freedom to operate**

The Company is not aware of any party whose rights may be infringed by the exploitation of Company's intellectual property however a formal "freedom to operate" opinion has not been obtained by the Company.

(e) **Technology obsolescence and competition**

The Directors believe that the Company's technology has several competitive advantages, which includes the ability to target innate cells and processes inside the central nervous system. However, there is risk that the Company's products and technology may be rendered obsolete by new products or technologies that are safer, more effective and/or less expensive to administer and manufacture. In this regard, the Company notes that, at the date of this Prospectus, it is aware of two drug candidates undergoing Phase 3 clinical trials in patients

with fully developed SPMS, being the same patient population targeted by MIS416. For further information, refer to Section 6.6.

Many of the Company's competitors (including pharmaceutical companies, universities and other research institutions) have greater financial and technical resources and development, production and marketing capabilities than the Company. Further, many of these companies and other institutions have more experience in clinical trials, regulatory approvals, and the commercialisation of products.

Commercialisation of any competing drug candidates may have a material adverse affect on MIS416's prospects and the prospects of the Company. If the Company's competitors develop and market products that are equally effective or more effective than MIS416, then the Company's commercial opportunity may be reduced or eliminated.

(f) **Reliance on specialised leased premises**

The Company expects to have completed the manufacture of sufficient MIS416 for use in Phase 2B trial by mid-2014. Until that time, the Company is reliant on specialised leasehold improvements it has made to the premises it leases (**Leased Premises**), in particular, a clean room and related quality assurance laboratories. If the Company were to lose the right to occupy the Leased Premises, or the Leased Premises were to be seriously damaged or destroyed, it would have a material adverse impact on the Company's activities.

(g) **Requirements for additional capital and dilution risk**

The Company is raising funds to undertake Phase 2B clinical trials. The Company has developed a budget for the Phase 2B clinical trial, based on quotations received from three clinical research organisations, together with the third party MRI analysis provider. However, there is no guarantee that the amount of funding raised pursuant to the Public Offer will be sufficient to undertake the trial as planned. The Company will also need to raise additional funds to obtain regulatory approvals if the clinical trials are successful and to commercialise MIS416 if regulatory approvals are obtained. Additional funding (equity or debt) may not be available on acceptable terms, or at all, and unfavourable trial results may adversely affect the Company's ability to raise such funding.

Given the considerable funding required to commercialise a new drug, unless investors continue to participate in capital raisings undertaken by the Company, its is highly likely that an investor's initial interest in the Company will be significantly diluted as a result of further issues of Securities, and funding initiatives, undertaken by the Company.

(h) **Partnership with major pharmaceutical company**

While the Company is optimistic about its prospects of partnering with a major pharmaceutical company, if the outcome of Phase 2B trial is positive, there can be no guarantees that any such partnering arrangement or transaction will be concluded. Any proposals relating to a partnering or licencing arrangement in relation to MIS416 may not be available on acceptable terms and/or may be highly conditional. While such a partnering or licensing arrangement may provide the Company with additional funding, it may have a dilutionary effect on an

investor's or Shareholder's interest in the Company or access to potential earnings from commercialisation of MIS416.

(i) **Going concern risk**

The Company's viability as a going concern is dependent on favourable outcomes from Phase 2 clinical trials of MIS416. If Phase 2B clinical trials fail to meet the objectives the Company set for them, the Company could be forced to halt development of MIS416 and discontinue its business.

(j) **Regulatory risks**

New drugs are regulated by government agencies and must be approved for commercial sales. The risk exists that MIS416 may not satisfy the stringent requirements for marketing approval, or that the approval process may take longer than expected. However, there is also a possibility that MIS416 may find a faster path to market since the drug addresses a significant unmet medical need. At present, there are no drugs specifically approved to treat SPMS.

In addition, the Company will depend on clinical investigators and medical institutions to enrol patients in the Company's clinical trials and other third parties to perform data collection and analysis. As a result, it may face costs and delays outside of its control.

(k) **Liability**

The testing, manufacturing and marketing of human healthcare products entails an inherent risk of liability. The Company intends to obtain insurance appropriate to the scope of its operations but it may not be able to acquire product liability insurance at a reasonable cost. A product liability claim may give rise to significant financial liabilities as well as damage the Company's reputation by raising questions about MIS416's safety and efficacy.

(l) **Reliance on third party manufacturers and contractors**

The Company will rely on third parties, such as contract research organisations, to conduct clinical trials. The Company's reliance on the third parties for clinical development activities reduces its control over these activities but does no relieve it of its responsibilities. The Company is responsible for ensuring that the clinical trials are conducted in accordance with good clinical practices to ensure that the data and reported results are credible and accurate.

The Company is also required to register ongoing clinical trials and provide the results within required timeframes. Failure to do so may result in fines, adverse publicity and civil and criminal sanctions. These third parties may also have relationships with other entities, some of which may be the Company's competitors. If these third parties do not carry out their contractual duties, meet deadlines or conduct trials in accordance with regulatory requirements, the Company may not receive regulatory approvals for, or be able to commercialise, MIS416.

(m) **Dependence on key personnel**

The Company is dependent on a number of key personnel. While the Company does have succession plans in place where possible, in certain circumstances, there may not be a person

in the business who could quickly step in if one of the Company's key staff left. While this risk would not necessarily lead to the failure of the Company's business, the loss of any key staff member could cause significant disruption and time delays, and adversely impact the Company's capacity to achieve its objectives.

The CEO does not have a formal employment contract and is currently retained on a month to month basis at the will of the Board. Following Admission, the Board intends to offer the CEO a formal employment contract. Refer to Section 12.5 for further information.

(n) **Exit / sale risk**

Whether holders of Securities receive a return on their investment, or whether they even receive any or all of their investment back, ultimately relies on the Company being able to sell MIS416 to a company with the funds and willingness to complete further trials and successfully obtain approval to sell MIS416, or the Company being acquired pursuant to a transaction where a third party acquires all of the Securities of the Company. Such sales / acquisitions can often include milestones (such as trial success and drug approval) or conditions, which if not achieved or satisfied, might mean any outstanding sale price is not collectable or that the transaction does not proceed at all. Depending on how the sale is structured, income tax may be payable by the Company on the sale proceeds, which would reduce the amount available to distribute to Securityholders or, alternatively, income tax may be payable by a Securityholder in relation to the disposal of their Securities.

## 7.2 General risks

(a) **Securities investments**

Applicants should be aware that there are risks associated with any securities investment. The prices at which the Company's Securities trade may be above or below the price of the Offers and may fluctuate in response to a number of factors including:

(i) results of clinical trials of MIS416 or competitive therapies;

(ii) the success of competitive products or technologies;

(iii) announcements about scientific discoveries, technological innovations or new or changed commercial products;

(iv) regulatory or legal developments in the United States and other countries;

(v) developments or disputes concerning patents or other proprietary rights;

(vi) the recruitment or departure of key personnel;

(vii) the level of expenses related to MIS416 or clinical trials;

(viii) the release or expiration of lock-up or other transfer restrictions on the Company's Securities;

(ix) the exercise of Loyalty Rights into an equivalent number of Shares;

(x) actual or anticipated changes in estimates as to financial results, development timelines or recommendations by securities analysts;

(xi) variations in the Company's financial results or those of companies that are perceived to be similar to the Company including changes caused by changes in financial accounting standards or practices or taxation rules or practices;

(xii) changes in the structure of health care payment systems;

(xiii) substantial future sales or perceived sales of Securities in the public market;

(xiv) market conditions in the pharmaceutical and biotechnology sectors and issuance of new or changed securities analysts' reports or recommendations;

(xv) announcements regarding litigation or other proceedings that involve the Company;

(xvi) war or acts of terrorism or catastrophic disasters that disrupt world trade or adversely affect confidence in financial markets;

(xvii) other general economic, industry and market conditions; and

(xviii) other factors described in this Prospectus.

Further, the stock market has experienced significant price and volume fluctuations in recent times. There can be no guarantee that these trading prices will be sustained. These factors may materially affect the market price of Securities, regardless of Company's operational performance.

(b) **Share market conditions**

The market price of the Securities may fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

(c) **Economic risk**

The future viability of the Company is also dependent on a number of other factors affecting the performance of all industries and not just the pharmaceutical and biotechnology industries including, but not limited to, the following:

(i) general economic conditions;

(ii) the strength of the equity and debt markets in Australia and throughout the world and, in particular, investor sentiment towards the pharmaceutical and biotechnology sectors;

(iii) movement in, or outlook on, interest rates and inflation rates; and

(iv) natural disasters, social upheaval or war.

(d) **Future capital needs and additional funding**

The future capital requirements of the Company will depend on many factors including its business development activities. The Company believes its available cash and the net proceeds of the Public Offer should be adequate to fund its business activities in the short term as stated in this Prospectus.

Should the Company require additional funding there can be no assurance that additional financing will be available on acceptable terms, or at all. Any inability to obtain additional finance, if required, would have a material adverse effect on the Company's business and its financial condition and performance.

(e) **Policies and legislation**

Any material adverse changes in government policies or legislation of New Zealand, Australia and the US or any other country in which the Company may seek to commercialise its technology may affect the viability and profitability of the Company. Given the Company's activities, policies with respect to research and development incentives and the reimbursement of the cost of development of the Company's technology may have a material affect on the Company.

(f) **Exchange rates**

The Company will be exposed to exchange rate fluctuations by virtue of the fact that the Company will have New Zealand domiciled operating costs, while having its head office located in Australia. Following Admission, the Company plans to hold at least one year's operating cost in New Zealand dollars, as a means of minimising any risk of currency fluctuations. Notwithstanding this, currency fluctuations may have an adverse affect on the Company's financial position.

# 8. Purpose and Effect of the Offers

## 8.1 Purpose of the Offers

The purpose of the Offers is to raise up to A$12,000,000 (before expenses of the Offers), pursuant to the Public Offer, and to retire debt (including redemption of the RPS) through the Conversion Offer.

To the extent that only the Minimum Subscription is raised, the Directors intend to apply the proceeds from the Public Offer towards meeting costs associated with funding a Phase 2B clinical trial of MIS416, redeeming RPS from Non-Participating RPS Holders and repaying Loan Counterparties in respect of amounts which do not participate in the Conversion Offer (refer to Section 5.11), and operating and working capital expenses, as allocated in the table below relating to the Minimum Subscription. To the extent that the Company raises more than the Minimum Subscription, it will apply additional proceeds towards commencing an FDA Investigational New Drug application and accelerating the development of the Second Candidate, as indicated in the table below relating to the Maximum Subscription.

The table below illustrates the intended use of funds based on:

(a) the Minimum Subscription that may be raised under the Public Offer; and

(b) the Maximum Subscription that may be raised under the Public Offer.

| Use of Funds | Minimum Subscription of A$10 Million Amount ($A) | Maximum Subscription of A$12 Million Amount[3] (A$) |
|---|---|---|
| Funds on hand at the date of this Prospectus | 48,000 | 48,000 |
| Funds raised from the Public Offer | 10,000,000 | 12,000,000 |
| **Total Funds Available** | **A$10,048,000** | **A$12,048,000** |
| Redemption of RPS Holders and repayment of Innate Noteholders assuming that only the Conversion Offer Minimum Subscription is achieved under the Conversion Offer[1] | 300,000 | 300,000 |
| Repayment of short term advance to Loan Counterparty[2] | 159,237 | 159,237 |
| Payment of withholding taxes on debt accrued interest[3] | 53,223 | 53,223 |
| Phase 2B Clinical Trial | 6,000,000 | 6,000,000 |
| Commence FDA Investigational New Drug application | - | 350,000 |
| Development of Second Candidate | - | 500,000 |
| Operating Costs and Working Capital | 2,360,450 | 3,408,540 |
| Costs of the Offers[4] | 1,175,000 | $1,277,000 |
| **TOTAL** | **A$10,048,000** | **A$12,048,000** |

**Notes:**

1. Assumes Allotment (and redemption of RPS and repayment of Innate Notes) occurs on or about 17 December 2013 and that the A$ to US$ exchange rate is A$1.00 : US$0.95 and that the A$ to NZ$ exchange rate is A$1.00 : NZ$1.1364 on that date. To the extent that Allotment (and redemption and repayment) occurs earlier or later than 17 December 2013 or that the exchange rates are different to those referred to above, the A$ amount of outstanding dividends payable on the RPS, and face value and interest payable in respect of the Innate Notes will be lower or higher and, accordingly, this figure will be adjusted
2. This amount is also subject to adjustment, based on the information provided in Note 1. This amount is payable to Chris Collins, a director. Refer to Section 5.12
3. To be paid to the New Zealand Inland Revenue Department in respect of debt accrued interest on the RPS, Innate Notes and Loans. Refer to Section 5.11.
4. The costs of the Offers include listing fees of A$99,000 (based on the Maximum Subscription), which are required to be paid to ASX on lodgement of the application for Admission. This cost will be covered by a short term advance by Director Mr Chris Collins, under the Additional Facility, and will be repaid out of the proceeds of the Public Offer. Refer to Section 13.6(a) for further details regarding the Additional Facility.
5. To the extent that the Company raises more than A$10 million, but less than A$12 million, the Company will scale back the amount allocated to the commencement of the FDA Investigational New Drug application process and the acceleration of the Second Candidate.

The Board believes that its current cash reserves and the funds raised from the Public Offer will provide the Company with sufficient working capital to achieve the Company's stated objectives, as detailed in this Prospectus.

As noted in the table above, the Company has commitments consistent with its business objectives to spend at least half of its cash.

It should be noted that the above activities and budget will be subject to modification on an ongoing basis, depending on the results obtained from the Company's activities as they are carried out. The Board reserves the right to reallocate the use of funds accordingly.

The issue of Securities pursuant to the Offers is considered to be the best available option in the Company's circumstances to raise funds for meeting the Company's strategic objectives and to retire debt. However, this type of funding and this investment carry with it various risks. Please refer to Section 7 for a discussion of certain risk factors.

## 8.2 Effect of the Offers

The principal effect of the Offers, assuming the Company raises A$12 million, pursuant to the Public Offer (and that only the Conversion Offer Minimum Subscription is obtained under the Conversion Offer), and assuming no Options are exercised or other Securities issued before Allotment, are as follows[1]:

(a) cash reserves of the Company will initially increase by approximately A$10,209,000 (after expenses of the Offers of A$1,277,000 and redeeming RPS of RPS Holders and repayment of Innate Notes and Loan Counterparties (and related taxes) totalling A$512,550, and the Company's liabilities will decrease by approximately A$4,919,000 such that the Company will have no debt liabilities.

(b) the Company will issue approximately 82,025,326[2] New Shares at an issue price of A$0.20 per New Share;

(c) the Company will issue up to approximately 5,506,332[3] Conversion Options; and

(d) the Company will issue 33,031,926 Loyalty Rights[4].

**Notes:**

1. Assumes Allotment (and redemption of RPS and repayment of Innate Notes and Loans) occurs on or about 17 December 2013 and that the A$ to US$ exchange rate is A$1.00 : US$0.95 and that the A$ to NZ$ exchange rate is A$1.00 : NZ$1.1364 on that date. To the extent that Allotment (and redemption and repayment) occurs earlier or later than 17 December 2013 or that the exchange rates are different to those referred to above, the A$ amount of outstanding dividends payable on the RPS, and face value / principal (as the case may be) and interest payable in respect of the Innate Notes and Loans will be lower or higher. Accordingly, the total number of New Shares and Conversion Options to be issued pursuant to the Conversion Offer, and amounts to be redeemed or repaid) will be adjusted.
2. If the maximum number of New Shares are issued under the Conversion Offer, a further 1,500,129 New Shares will be issued.
3. If the maximum number of Conversion Options are issued under the Conversion Offer, a further 375,137 Conversion Options will be issued.
4. Refer to Sections 11.5 for further details, including the terms and conditions.
5. The above figures take into account the effect of rounding. Pursuant to the Conversion Offer, fractional entitlements to New Shares and Conversion Options will be rounded up.

## 8.3 Effect of the Offers on capital structure

Assuming the maximum number of New Shares and Conversion Options are issued under the Conversion Offer, and assuming no Options are exercised, no other Securities are issued before Allotment, the capital structure of the Company, on completion of the Offers, will be as follows:

### Shares

| | Minimum Subscription of A$10 Million | Maximum Subscription of A$12 Million |
|---|---|---|
| Shares currently on issue | 99,095,777 | 99,095,777 |
| Shares issued under the Public Offer | 50,000,000 | 60,000,000 |
| Shares issued pursuant to the Conversion Offer[1,2] | 23,525,455 | 23,525,455 |
| Shares on issue on Admission[2] | 172,621,232 | 182,621,232 |

**Notes:**

1. Assumes Allotment occurs on or about 17 December 2013 and that the A$ to US$ exchange rate is A$1.00 : US$0.95 and that the A$ to NZ$ exchange rate is A$1.00 : NZ$1.1364 on that date. To the extent that Allotment occurs earlier or later than 17 December 2013 or that the exchange rates are different to those referred to above, the A$ amount of outstanding dividends payable on the PRS, and face value / principal (as the case may be) and interest payable in respect of the Innate Notes and Loans

will be lower or higher and, accordingly, the total number of New Shares and Conversion Options to be issued pursuant to the Conversion Offer will be adjusted. If only the Conversion Offer Minimum Subscription is obtained under the Conversion Offer, there will be 171,121,103 Shares on issue on Admission on the basis of the Minimum Subscription of A$10 million under the Public Offer and 181,121,103 Shares on issue on the basis of a Maximum Subscription of A$12 million under the Public Offer.

2. The above table takes into account the effect of rounding. Pursuant to the Conversion Offer, fractional entitlements to New Shares will be rounded up to the nearest whole number.

## Options[1,2]

| | Minimum Subscription of A$10 Million | Maximum Subscription of A$12 Million |
|---|---|---|
| Options[3] currently on issue | 15,352,648 | 15,352,648 |
| Conversion Options[4] issued pursuant to the Conversion Offer[5] | 5,881,469 | 5,881,469 |
| Total Options on Admission[5] | 21,234,117 | 21,234,117 |

**Notes:**

1. Assumes Allotment occurs on or about 17 December 2013 and that the A$ to US$ exchange rate is A$1.00 : US$0.95 and that the A$ to NZ$ exchange rate is A$1.00 : NZ$1.1364 on that date. To the extent that Allotment occurs earlier or later than 17 December 2013 or that the exchange rates are different to those referred to above, the A$ amount of outstanding dividends payable on the PRS, and face value / principal (as the case may be) and interest payable in respect of the Innate Notes and Loans will be lower or higher and, accordingly, the total number of New Shares and Conversion Options to be issued pursuant to the Conversion Offer will be adjusted.
2. The above table takes into account the effect of rounding. Fractional entitlements to Conversion Options will be rounded up pursuant to the Conversion Offer.
3. These comprise:
   (a) 200,000 Options with an exercise price of NZ$1.00, expiring 1 April 2014.
   (b) 1,271,759 Options with an exercise price of NZ$0.20, expiring 1 February 2016.
   (c) 2,250,000 Options with an exercise price of US$0.40, expiring 5 November 2018.
   (d) 625,000 Options with an exercise price of A$0.40, expiring 19 September 2018.
   (e) 4,500,000 Options with an exercised price of A$0.45, expiring 12 November 2018.
   (f) 1,500,000 Options with an exercise price of NZ$10.00,expiring on Admission.
   (g) 1,400,000 Options with an exercise price of US$0.60, expiring 22 July 2017.
   (h) 1,250,000 Options exercisable at US$0.40, expiring 24 September 2017.
   (j) 625,000 Options exercisable at US$0.40, expiring 1 May 2018.
   (k) 480,889 Options exercisable at NZ$0.20, expiring 1 February 2016.
   (l) 625,000 Options exercisable at US$0.40, expiring 14 February 2018.
   (m) 625,000 Options exercisable at US$0.40, expiring 15 July 2018.
4. Conversion Options exercisable at A$0.30 and expire 24 months from the date of issue. Refer to Section 11.2 for full terms and conditions.
5. Assumes the maximum number of Conversion Options are issued under the Conversion Offer. If only the Conversion Offer Minimum Subscription is obtained under the Conversion Offer, there will be 20,058,980 Options on issue on Admission on the basis of both the Minimum Subscription of A$10 million and Maximum Subscription of A$12 million under the Public Offer, as 375,137 fewer Conversion Options will be issued.

# 8. Purpose and Effect of the Offers (Continued)

## Loyalty Rights

| | Minimum Subscription of A$10 Million | Maximum Subscription of A$12 Million |
|---|---|---|
| Loyalty Rights currently on issue | - | - |
| Loyalty Rights[1] issued on completion of the Offers | 33,031,926 | 33,031,926 |
| **Total Loyalty Rights on issue on Admission** | **33,031,926** | **33,031,926** |

**Notes:**

1. Refer to Section 11.5 for further details, including the terms and conditions of the Loyalty Rights.

As the RPS will be redeemed out of the proceeds of the Public Offer and all outstanding principal and interest due under the Innate Notes will be repaid out of the proceeds of the Public Offer, on Admission, there will no longer be any RPS or Innate Notes on issue.

## 8.4 Effect of the Offers on financial position

(a) **Overview**

This section contains a summary of the Historical Financial Information and Pro Forma Historical Financial Information (collectively referred to as the Financial Information) in relation to the Company which the Directors consider relevant to investors.

Investors should note that the Company's financial year ends on 31 March.

The Financial Information comprises the following:

(1) Historical Financial Information

- Audited Statement of Comprehensive Income for the Company for the years ended 31 March 2013, 31 March 2012, and 31 March 2011 , and a reviewed Statement for the three months to 30 June 2013 as set out in Section 8.4(c); and
- Audited Statement of Financial Position of the Company as at 31 March 2013 and a reviewed Statement as at 30 June 2013 as set out in section 8.4(d).

(2) Pro Forma Financial Information

- Pro Forma Statement of Financial Position of the Company as at 30 June 2013, as set out in section 8.4(d), including the Financial Information of the Company as at 30 June 2013 which assumes the pro forma transactions set out in Notes to the Financial Information in Section 8.4, Note 4 have occurred at 30 June 2013.

The Financial Information contained in this section of the Prospectus is presented in an abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with New Zealand equivalents to International Financial Reporting Standards ("NZIFRS") and the Companies Act 1993 and Financial Reporting Act 1993. In the view of the Directors of the Company, the omitted disclosures would provide no further relevant information to potential investors.

The Financial Information should be read in conjunction with the risk factors associated with an investment in the Company set out in Sections 4.5 and 7, the Investigating Accountant's Report and the other information contained in this Prospectus.

Investors should note the scope and limitations of the Investigating Accountant's Report.

(b) **Basis of Preparation of the Financial Information**

(1) Historical Financial Information

The Historical Financial Information has been compiled from the financial statements of the Company as at 31 March 2013, 31 March 2012, and 31 March 2011 and management accounts as at 30 June 2013.

The Historical Financial Information for the years ended 31 March 2013, 31 March 2012 and 31 March 2011, audited by Grant Thornton New Zealand Audit Partnership, was compiled in New Zealand dollars which has since been converted into the Company's presentation currency, Australian Dollars (A$) and reviewed by Grant Thornton Audit Pty Ltd, along with the unaudited management accounts to 30 June 2013.

(2) Pro Forma Financial Information

The Pro Forma Financial Information of the Company has been compiled from the reviewed financial information of the Company and the Financial Information of the Company for the three months ending 30 June 2013, which has been reviewed by Grant Thornton Audit Pty Ltd.

The financial statements of the Company for the year ending 31 March 2013, the three months ending 30 June 2013 and the proforma financial statements of the Company are converted into the Company's presentation currency, Australian Dollars (A$), which has been reviewed by Grant Thornton Audit Pty Ltd.

**Foreign Currency Translation**

In accordance with the requirements of NZIFRS, the Company has adopted the foreign currency translation accounting policy set out in Notes to the Financial Information in Section 8.4, Note 3(b) where assets and liabilities of the Company and its controlled entities are translated at exchange rates in effect at reporting date. Revenue and expenses are translated at the exchange rates in effect at the date of the transaction. Exchange differences arising are recognised directly to the Group's foreign currency translation reserve in the Statement of Financial Position.

# 8. Purpose and Effect of the Offers (Continued)

(c) **Historical Statement of Comprehensive Income**

Set out below is the Historical Statement of Comprehensive Income of the Company for the periods 1 April 2011 to 31 March 2011, 1 April 2011 to 31 March 2012, 1 April 2012 to 31 March 2013, and 1 April 2013 to 30 June 2013. All amounts are stated in Australian dollars. New Zealand dollar amounts have been converted to Australian dollars using an average exchange rate of NZ$1.00 A$0.7774 for the year ending 31 March 2011, NZ$1.00 to A$ 0.7724 for the year ending 31 March 2012, NZ$1.00 to A$0.7891 for the year ending 31 March 2013, and NZ$1.00 to A$0.8288 for the three months ending 30 June 2013.

| | Historical (Reviewed) 3 Months 30 June 2013 A$'000 | Historical (Audited) Year Ended 31 March 2013 A$'000 | Historical (Audited) Year Ended 31 March 2012 A$'000 | Historical (Audited) Year Ended 31 March 2011 A$'000) |
|---|---|---|---|---|
| Other operating income | 7 | 249 | 606 | 657 |
| Gain on modification of derivative financial instruments | - | 253 | - | - |
| Research and development expenses | (136) | (773) | (1,291) | (966) |
| Business development expenses | (41) | (237) | (287) | (325) |
| General expenses | (48) | (192) | (195) | (233) |
| Administrative expenses (including amortisation and depreciation) | (509) | (2,116) | (1,685) | (1,210) |
| Operating deficit before financing costs | (727) | (2,816) | (2,852) | (2,077) |
| Financial income | 0 | 3 | 44 | 27 |
| Financial expenses | (79) | (575) | (447) | (392) |
| Net financial expense | (79) | (572) | (403) | (365) |
| Operating deficit before taxation | (806) | (3,388) | (3,255) | (2,442) |
| Tax expense | - | - | - | - |
| Net deficit after taxation | (806) | (3,388) | (3,255) | (2,442) |
| Other Comprehensive Income | (11) | (53) | - | - |
| Total Comprehensive Loss | **(817)** | **(3,441)** | **(3,255)** | **(2,442)** |

(d) **Historical and Pro Forma Statement of Financial Position**

The pro forma Statement of Financial Position set out below has been prepared to illustrate the effect of the Offers and assumes completion of the pro forma transactions as if they had occurred on 30 June 2013. All amounts are stated in Australian dollars. New Zealand dollar amounts recorded at 31 March 2013 and 30 June 2013 have been converted to Australian dollars using an exchange rate

of NZ$1.00 to A$0.8014 and NZ$1.00 to A$0.8401 respectively, being the exchange rates on the respective dates.

| | Note | Audited 31 March 2013 A$'000 | Reviewed 30 June 2013 A$'000 | Reviewed Pro Forma Minimum Subscription A$'000 | Reviewed Pro Forma Maximum Subscription A$'000 |
|---|---|---|---|---|---|
| **Current Assets** | | | | | |
| Cash | | 117 | 48 | 8,359 | 10,257 |
| Accounts receivable | | 14 | 33 | 33 | 33 |
| Income tax refund | | 1 | 1 | 1 | 1 |
| Shareholder loans receivable | | - | 687 | - | - |
| Total current assets | | 132 | 769 | 8,393 | 10,291 |
| **Non Current Assets** | | | | | |
| Property, plant and equipment | | 167 | 167 | 167 | 167 |
| Intangible assets | 6 | 3,061 | 2,866 | 2,866 | 2,866 |
| Total non current assets | | 3,228 | 3,033 | 3,033 | 3,033 |
| **Total Assets** | | 3,360 | 3,802 | 11,426 | 13,324 |
| **Current Liabilities** | | | | | |
| Accounts payable and accrued liabilities | 7 | 220 | 191 | 191 | 191 |
| Shareholders loans (**Loans**) | 8 | 725 | 1,818 | - | - |
| Redeemable Preference Shares | 8 | 1,373 | 1,791 | - | - |
| Convertible Notes (**Innate Notes**) | 8 | 968 | 1,310 | - | - |
| Embedded derivative | 8 | 42 | - | - | - |
| Total current liabilities | | 3,328 | 5,110 | 191 | 191 |
| **Total liabilities** | | 3,328 | 5,110 | 191 | 191 |
| **Equity** | | | | | |
| Paid-in capital | 9 | 98,301 | 103,048 | 116,278 | 118,176 |
| Reserves | | 399 | 510 | 510 | 510 |
| Accumulated losses | 10 | (98,668) | (104, 866) | (105,553) | (105,553) |
| **Total equity** | | **32** | **(1,308)** | **11,235** | **13,133** |
| **Total equity and liabilities** | | **3,360** | **3,802** | **11,426** | **13,324** |

# 8. Purpose and Effect of the Offers (Continued)

The historical Statement of Financial Position at 31 March 2013 has been extracted from the audited financial statements of the Company, which were presented in NZ$, and the Statement of Financial Position as at 30 June 2013 has been extracted from the reviewed management accounts of the Company as at that date plus adjustments as noted elsewhere in this financial information section.

## Notes to the Financial Information

### 1. GENERAL INFORMATION

The historical financial information presented is for the Company, a profit orientated company previously incorporated and domiciled in New Zealand and registered under that Country's Companies Act 1993. On 11 October 2013, the Company registered as an Australian public unlisted company limited by shares. Refer to Note 12.

### 2. BASIS OF PREPARATION

**Statement of Compliance**

The financial information has been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") and the measurement and recognition requirements of the Companies Act 1993 and the Financial Reporting Act 1993, which ensures compliance with International Financial Reporting Standards ("IFRS"). There are no material differences between NZ GAAP and Australian accounting standards.

**Measurement Base**

The financial information has been prepared on a historical cost basis with the exception of:

- Financial instruments at fair value through profit or loss are measured at fair value.
- Share-based payment arrangements are measured at fair value.

The methods used to measure fair values are discussed further in note 3(o).

The accrual basis of accounting has been used unless otherwise stated and the financial statements have been prepared on a going concern basis.

**Functional and Presentation Currency**

The financial information is presented in Australian Dollars (A$), the Company's functional currency is New Zealand Dollars (NZ$). Numbers presented are rounded to the nearest thousand dollars.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the financial information.

The significant accounting policies used in the preparation of this financial information are summarised below:

(a) **Property, Plant and Equipment**

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

Depreciation is calculated on a diminishing value basis to expense the cost of the assets over their estimated useful lives as follows:

| | |
|---|---|
| Leasehold improvements | 10 to 11 years |
| Plant and equipment | 1 to 11 years |
| Office furniture and fittings | 1 to 13 years |

Depreciation is charged to profit or loss within the statement of comprehensive income and disclosed within "administration" expense. 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 Comprehensive Income as incurred. Major renewals and betterments are capitalised.

(b) **Foreign Currencies**

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 balance date. Foreign exchange gains or losses are included in profit or loss within the Statement of Comprehensive Income.

(c) **Research and Development**

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

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

(d) **Intangible assets other than Goodwill**

Other intangible assets relate to Intellectual Property acquired for use in research and development activity.

The Intellectual Property has a finite life and is measured at cost less accumulated amortisation and accumulated impairment losses.

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

| | |
|---|---|
| Intellectual property | 15 years |

Amortisation is charged to the Statement of Comprehensive Income and disclosed within Administration expense. The useful life of the intellectual property is reassessed annually.

(e) **Share Capital**

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

(f) **Goods & Services Tax**

The Statement of Comprehensive Income has 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.

(g) **Income Tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss within the Statement of 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.

(h) **Other Income**

Other income is recognised to the extent that it is probable that the economic benefit will flow to the Company 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 Company's other income includes grant income, sub-lease rental and other sundry income.

For grant revenue the company recognises it over the period in which the related expenses are incurred.

Income from sub-leased property is recognised in the Statement of Comprehensive Income on a straight line basis over the term of the lease.

(i) **Share-Based Compensation**

The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted.

The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the Statement of Comprehensive Income is the product of (i) the grant date fair value of the award; (ii) the current best estimate of the number of awards that will vest, taking in to account such factors as the likelihood of employee turnover during the vesting period; and (iii) the expired portion of the vesting period.

The charge to the Statement of Comprehensive Income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity.

(j) **Impairment**

The Company 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 Comprehensive Income.

(k) **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 Comprehensive Income using the effective interest method.

(l) **Operating Expenses**

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

(m) **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.

(n) **Investments**

Investments are carried at the lower of cost or net realisable value.

(o) **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 transactions 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 balance date.

Financial assets and liabilities are measured subsequently as described below.

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

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

The Company 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 Company's cash and cash equivalents and 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 Company 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 Company has the intention and ability to hold them until maturity.

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

*Financial liabilities*
The Company'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 Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

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

*Derivative financial instruments*
At the reporting date the Company did not undertake any form of hedge accounting.

*Compound financial instruments*
The Company has issued redeemable preference shares that can be ordinary shares at the option of the holder at a NZ$ denominated exercise price. The contractual obligation arising from this embedded derivative is an equity instrument (the contract results in a 'fixed for fixed' exchange as required).

The liability portion is valued initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognised as the difference between the fair value of the instrument as a whole and the fair value of the liability portion. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to their initial recognition, the liability portion is measured at amortised cost using the effective interest method. The equity portion is not re-measured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognised in profit or loss. Distributions to the equity holders are recognised against equity, net of any tax benefit.

*Embedded derivatives*
The Company has issued convertible promissory notes (**Innate Notes**) that can be ordinary shares at the option of the holder at a US$ denominated exercise price. The functional currency is however NZ$ therefore the contractual obligation arising from the embedded derivative is not an equity instrument (due to exchange rate volatilities, the contract does not result in a 'fixed for fixed' exchange as required). As such, the derivative component is a derivative liability.

The contractual obligation arising from the debt obligation under each instrument is a financial liability that should be accounted for on an effective interest basis. The note is effectively presented as the net present value of the cash flows assuming a given market yield being the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognising the components of the instrument separately.

The carrying amount of the equity instrument represented by the option to convert the instrument into ordinary shares is then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole.

The derivative component is recognised as a liability at issue and then again at period end, with any differences recorded as income or expenditure.

*Determination of fair value and fair value hierarchy*
The Company 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 Company's bankers; and

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

## 4. PRO FORMA ADJUSTMENTS

The pro forma financial information has been prepared to illustrate the effect of the Public Offer and the Conversion Offer and is based on the assumption that the transactions and events contemplated in this Prospectus, summarised below and referred to as the pro forma adjustments, had taken place on or before 30 June 2013.

### 4.1 Subsequent Events

Subsequent to 31 March 2013, a further shareholder advance of US$250,000 (A$263,000) was received. This amount, together with interest thereon at 8% pa, will participate in the Conversion

Offer (Securities equal to the value of the outstanding amount and interest will be applied for under the Conversion Offer, as described in Section 5.11). Subsequent to 30 June 2013, further shareholder advances of US$250,000 (A$263,000), and A$250,000 were received. These amounts, together with interest thereon at 8% pa, will participate in the Conversion Offer (Securities equal to the value of the outstanding amounts and interest will be applied for under the Conversion Offer, as described in Section 5.11). An additional further shareholder advance of US$150,000 (A$158,000) was received as a bridging loan until completion of the Offers. This amount, including interest thereon at 8% pa, will be repaid out of the proceeds of the Public Offer. The total of these shareholder advances has been included in the accounts as at 30 June 2013 in order to align with the liabilities recognised at 20 December 2013 values as discussed in note 8. These advances have been used by the Company for operating purposes from 1 July 2013 till completion of the Offers. As such the accumulated losses have been increased by A$687,000 to reflect the usage of this cash during the period 1 July 2013 until completion of the Offers (refer to note 10).

### 4.2 Minimum Subscription

- The issue of 50,000,000 New Shares at an issue price of A$0.20 per New Share, to raise A$10,000,000 pursuant to the Public Offer;
- The payment expenses associated with the Offers (including advisory, legal, accounting, listing and administrative fees) estimated to be A$1,175,000. In accordance with Australian Accounting Standards an amount of A$1,175,000 has been offset against share capital.

### 4.3 Maximum Subscription

- The issue of an additional 10,000,000 New Shares at an issue price of A$0.20 per New Share, to raise a further A$2,000,000 (“Maximum Subscription”) pursuant to the Public Offer; and
- Additional expenses associated with the over subscription are estimated to be A$102,000. In accordance with Australian Accounting Standards an additional amount of A$102,000 has been directly off set against share capital.
- A deferred tax asset has not been recognised in relation to the capitalised costs of the Offers due to the uncertainty surrounding the economic benefits that will flow to the Company in future periods.

## 5. CRITICAL ESTIMATES AND JUDGEMENTS

The preparation of financial information 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:

- measurement of the recoverable amounts of the intangible assets

# 8. Purpose and Effect of the Offers (Continued)

## 6. INTANGIBLE ASSETS

The Company's intangible assets are comprised of issued patents, patent applications, manufacturing know how, and scientific knowledge and data. Immediately following incorporation in 2000, the Company acquired a family of issued and pending patents relating primarily to the former lead drug candidate PEHRG214. This specific intellectual property was acquired effective August 2000 through the issue of 6,247,662 ordinary shares of the Company and is recorded at cost, amortised over 15 years on a straight line basis, with a remaining life of two years. The Company has subsequently developed new intellectual property relating to the current lead drug candidate MIS416. This is represented by issued and pending patents seeking to protect the use of MIS416 to treat certain diseases or conditions. The current value of the MIS416 related intellectual property has not been specifically assessed to date.

The ultimate realisation of the carrying value of intellectual property is dependent on the Company successfully developing its biopharmaceutical products so that it generates sufficient cash flows to recover the carrying value of this asset. The key assumptions when assessing whether there are any indications of impairment of the Company's overall intellectual property are as follows:

- The commercial market for drugs being developed by the Company.
- The reasonable cost of goods versus the likely selling prices of those drugs.
- The availability of industry partners to assist with commercialisation.
- The preclinical and clinical data generated to date in support of the drug candidates.
- The progress and status of the various patent applications.
- The time to revenue verses the remaining life of the patents.

On the above basis, the Directors believe that the carrying value of the Company's intangible assets has not been impaired.

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | Audited 31 March 2013 A$'000 | Reviewed 30 June 2013 A$'000 | Reviewed Pro Forma Minimum Subscription A$'000 | Reviewed Pro Forma Maximum Subscription A$'000 |
|---|---|---|---|---|
| Trade accounts payables | 43 | 115 | 115 | 115 |
| Employee related payables | 38 | 18 | 18 | 18 |
| Interest/dividends accrued | 73 | - | - | - |
| Other accruals | 66 | 58 | 58 | 58 |
| | 220 | 191 | 191 | 191 |

Interest and dividends accrued to 30 June 2013 have been included in the balances of Loans Shareholders, Redeemable Preference Shares, and Innate Notes at 30 June 2013. Refer Note 8.

## 8. LOAN SHAREHOLDERS, REDEEMABLE PREFERENCE SHARES, INNATE NOTES, EMBEDDED DERIVATIVE

| | Audited 31 March 2013 A$'000 | Reviewed 30 June 2013 A$'000 | Reviewed Pro Forma Minimum Subscription A$'000 | Reviewed Pro Forma Maximum Subscription A$'000 |
|---|---|---|---|---|
| Loan Shareholders | 725 | 1,818 | - | - |
| Redeemable Preference Shares | 1,373 | 1,791 | - | - |
| Innate Notes | 968 | 1,310 | - | - |
| Embedded derivative | 42 | - | - | - |
| | 3,108 | 4,919 | | |

The above amounts owing at 30 June 2013 have been calculated as at 17 December 2013 and include interest and taxes thereon to that date so as to more accurately reflect the final values of the liabilities prior to the Offers. Of this total amount owing, assuming that only the Conversion Offer Minimum Subscription is obtained, A$4,405,000 will be converted into equity under the Conversion Offer. The remaining amount owing A$512,050 (comprising $300,000 to be paid in relation to redemption of RPS and repayment of Innate Notes, A$159,327 to be paid to Chris Collins in his capacity as a Loan Counterparty and A$53,223 in withholding taxes on debt accrued interest in relation to the RPS, Innate Notes and Loans), will be repaid out of the proceeds of the Public Offer. The assumed exchange rates as at 17 December 2013 are NZ$1.00 equals A$0.88 and A$1.00 equals US$0.95.

## 9. PAID IN CAPITAL

**Ordinary Shares**

| | Audited 31 March 2013 A$'000 | Reviewed 30 June 2013 A$'000 | Reviewed Pro Forma Minimum Subscription A$'000 | Reviewed Pro Forma Maximum Subscription A$'000 |
|---|---|---|---|---|
| Paid-in capital | 98,301 | 103,048 | 103,048 | 103,048 |
| *Pro forma transactions:* | | | | |
| Proceeds from shares issued | - | - | 10,000 | 12,000 |
| Debt instruments converted | | | 4,405 | 4,405 |
| Costs of the Offers | - | - | (1,175) | (1,277) |
| Total issued capital | 98,301 | 103,048 | 116,278 | 118,176 |

# 8. Purpose and Effect of the Offers (Continued)

Paid-in capital at 31 March 2013 was NZ$122,661. This paid-in capital was converted at 31 March 2013 to $98,301 using an exchange rate of NZ$1.00 to A$0.8041 and converted at 30 June 2013 to $103,048 using an exchange rate of NZ$1.00 to A$0.8401. The movement in paid-in capital from 31 March to 30 June 2013 results from the differing exchange rates

| | Historical # of Shares 31 March 2013 | Historical # of Shares 30 June 2013 | Pro Forma Post Minimum Subscription # of Shares | Pro Forma Post Maximum Subscription # of Shares |
|---|---|---|---|---|
| Number of Shares on issue | 95,095,777 | 95,095,777 | 95,095,777 | 95,095,777 |
| New Shares issued subsequently | - | 4,000,000 | 4,000,000 | 4,000,000 |
| *Pro forma transactions:* | | | | |
| New shares issued to subscribers under the Public Offer | - | - | 50,000,000 | 60,000,000 |
| New Shares issued under the Conversion Offer (assuming that only the Conversion Offer Minimum Subscription is obtained)[1] | - | - | 22,025,326 | 22,025,326 |
| Total Shares on issue | 95,095,777 | 99,095,777 | 171,121,103 | 181,121,103 |

**Notes:**

1. If the maximum number of New Shares is issued under the Conversion Offer, this number will increase by 1,500,129 New Shares under both scenarios.

**Redeemable Preference Shares**

| | Historical # of Shares 31 March 2013 | Historical # of Shares 30 June 2013 | Pro Forma Post Minimum Subscription # of Shares | Pro Forma Post Maximum Subscription # of Shares |
|---|---|---|---|---|
| Issued Redeemable Preference Shares | 2,329,424 | 2,329,424 | - | - |
| | 2,329,424 | 2,329,424 | - | - |

## 10. ACCUMULATED LOSSES

Accumulated losses for the period 1 April 2013 to 30 June 2013 have increased from A$98,668,000 to A$104,866,000. The actual loss for this period was A$806,000 (refer "Historical Statement of Comprehensive Income"). The remaining amount of A$5,392,000 was primarily due to the impact of the movement in the foreign exchange rate from 31 March 2013 of NZ$1.00 to A$0.8041 to 30 June 2013 of NZ$1.00 to A$0.8401

Accumulated losses in the Proforma accounts have increased by A$687,000 which comprises the further shareholder advances post 30 June 2013 together with accrual of interest and dividends on liabilities from 30 June 2013 to anticipated repayment date, being 17 December 2013, and an assumed foreign exchange rate of A$1.00 to US$0.95 as at that repayment date. These advances have been used by the Company for operating purposes from 1 July 2013 till completion of the Offers. As such the accumulated losses have been increased by A$687,000 to reflect the usage of this cash during the period 1 July 2013 until completion of the Offers.

## 11. SHARE OPTIONS

| | Historical # of Options 30 June 2013 | Pro Forma Post Minimum Subscription # of Options | Pro Forma Post Maximum Subscription # of Option |
|---|---|---|---|
| Number of Options on issue 31 March 2013 | 10,821,023 | 10,821,023 | 10,821,023 |
| Options lapsed subsequent | (93,375) | (93,375) | (93,375) |
| Options exercised subsequent | (4,000,000) | (4,000,000) | (4,000,000) |
| Options issued since | 8,625,000 | 8,625,000 | 8,625,000 |
| Number of Options on issue pre Prospectus | 15,352,648 | 15,352,648 | 15,352,648 |
| *Pro forma transactions:* | | | |
| Conversion Options issued pursuant to the Conversion Offer(assuming that only the Conversion Offer Minimum Subscription is obtained)[1] | - | 5,506,332 | 5,506,332 |
| **Total pro forma Options on issue** | **15,352,648** | **20,858,980** | **20,858,980** |

**Notes:**

1. If the maximum number of Conversion Options are issued under the Conversion Offer, this number will increase by 375,137 Conversion Options under both scenarios.

# 8. Purpose and Effect of the Offers (Continued)

**Classes of Share Options on Issue**

| Option Holder | Exercise Price | Expiry Date | Number Held |
|---|---|---|---|
| Employee Options[1] | Various | Various | 1,471,759 |
| Directors | US$0.60 | 22/7/17 | 1,300,000 |
| Directors | A$0.45 | 5/11/18 | 2,000,000 |
| Directors (holding debt)[2] | US$0.40 | Various | 4,125,000 |
| Directors (holding debt) | A$0.40 | 19/9/18 | 2,750,000 |
| Non employees | NZ$10.00 | on IPO | 1,500,000 |
| Non employees | NZ$0.20 | 1/2/16 | 480,889 |
| Non employees | US$0.60 | 22/7/17 | 100,000 |
| Non employees (holding debt) | US$0.40 | 14/2/18 | 625,000 |
| Non employees (holding debt) | US$0.40 | 15/7/18 | 625,000 |
| Non employees (holding debt) | A$0.40 | 19/9/18 | 375,000 |
| **Total** | | | **15,352,648** |

**Notes:**

1. At 31 March 2013 Employee options had a weighted NZ$0.36 and an average term to expiry of 2.84 years
2. 1,250,000 options expire 24/9/17; 625,000 options expire 1/5/18; 2,250,000 options expire 5/11/18

**Proforma affect on Classes of Share Options on Issue**

| Option Holder | Number Options Held in Each Class Pre Public Offer | Pro Forma Post Minimum Subscription # of Options | Pro Forma Post Maximum Subscription # of Option |
|---|---|---|---|
| Employee Options | 1,471,759 | 1,471,759 | 1,471,759 |
| Directors | 3,300,000 | 3,300,000 | 3,300,000 |
| Directors (converting debt) | 6,875,000 | 8,844,431 | 8,844,431 |
| Non employees[1] | 1,500,000 | - | - |
| Non employees | 580,889 | 580,889 | 580,889 |
| Non employees (holding debt)[2] | 1,625,000 | 5,161,901 | 5,161,901 |
| **Total** | **15,352,648** | **19,358,980** | **19,358,980** |

**Notes:**

1. 1,500,000 non employee options with an exercise price of NZ$10 per share expire unless exercised upon the Company completing the Offers. The proforma position assumes that these options will not be exercised and will therefore lapse.
2. If the maximum number of Conversion Options are issued under the Conversion Offer, then the number of number of Options held by Non-employees (holding debt) increases by 375,137 under both the Minimum Subscription A$10 million and Maximum Subscription A$12 million scenarios.

## 12. COMPANY MIGRATION TO AUSTRALIA

The Company was originally incorporated under the laws of New Zealand on 31 May 2000 and has undertaken business continuously since that date as a public unlisted company in that country. At a meeting on 28 August 2013, shareholders approved the migration of the Company from New Zealand to Australia and on 11 October 2013 the Australian Securities and Investment Commission registered the Company as Australian public unlisted company limited by shares and assigned it ACN 165 160 841. While the Company has now been re-incorporated in the State of Victoria, its New Zealand based staff and assets remain in place and the Company continues, in part, to operate in that Country. Accordingly the Company has been registered by the New Zealand Companies Office as an overseas company carrying on business in New Zealand. At this time, the Company remains a tax resident of New Zealand. Under New Zealand tax law, a Company must meet a shareholder continuity test in order to carry forward tax losses from one year to the next. As a result of the Offers the Company will probably not meet this test and will therefore lose any currently carried forward tax losses.

## 8.5 Effect of the Offers on control and substantial Shareholders

As at the date of this Prospectus, the following persons had a Relevant Interest in 5% or more in the Shares on issue:

| Name | Number of Shares | Percentage of Shares |
|---|---|---|
| Christopher Collins[1] | 17,858,334 | 18.02% |
| Probe | 5,896,262 | 5.95% |

**Notes:**

1. 11,458,334 Shares are held directly by Christopher Collins. A further 3,200,000 Shares are held by Caitlin C Collins, Christopher Collins' daughter, and a further 3,200,000 Shares are held by Cameron C Collins, Christopher Collins' son.

# 8. Purpose and Effect of the Offers (Continued)

Based on the information known at the date of this Prospectus, on Admission, the following persons will have a Relevant Interest in 5% or more of the Shares on issue:

| Name | Number of Shares | Percentage of Shares[2] |
|---|---|---|
| Christopher Collins[1] | 25,098,732 | 14.67% |
| Australian Ethical Smaller Companies Trust | 15,000,000 | 8.76% |

**Notes:**

1. 18,698,732 Shares will be held directly by Christopher Collins. A further 3,200,000 Shares will be held by Caitlin C Collins, Christopher Collins' daughter, and a further 3,200,000 Shares will be held by Cameron C Collins, Christopher Collins' son.
2. Assumes that only the Minimum Subscription is achieved under the Public Offer and that only the Conversion Offer Minimum Subscription is achieved under the Conversion Offer and, therefore, the total number of Shares on issue, upon Admission, will be 171,121,103 Shares.

On admission, no entity or individual (either alone or together with any Associates) will hold a Relevant Interest in 20% or more of the Shares on issue.

## 8.6 Dividends

The Company has not paid a dividend since it was incorporated on 31 May 2000. The Board is not able to indicate when and if dividends will be paid in the future, as payment of any dividend will depend on the future profitability, financial position and cash requirements of the Company.

# 9. Investigating Accountant's Report

Grant Thornton

The Board of Directors
Innate Immunotherapeutics Limited
48 Penrose Road
Auckland
New Zealand

25 November 2013

Grant Thornton Audit Pty Ltd
ACN 130 913 594

The Rialto, Level 30
525 Collins St
Melbourne Victoria 3000
GPO Box 4736
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
**W www.grantthornton.com.au**

Dear Sirs

**INVESTIGATING ACCOUNTANT'S REPORT**
**ON REVIEWED HISTORICAL FINANCIAL INFORMATION**

**Introduction**

Grant Thornton Audit Pty Ltd ("Grant Thornton") has been engaged by Innate Immunotherapeutics Limited ("Innate" or "the Company") to prepare an Investigating Accountant's Report ("the Report") for inclusion in a Prospectus to be dated on or about 25 November 2013 ("the Prospectus"). The Prospectus relates to the issue of 50,000,000 fully paid ordinary shares at $0.20 each amounting to $10,000,000 ("Minimum Subscription") with the ability to accept a further 10,000,000 fully paid ordinary shares at $0.20 each amounting to $2,000,000 ("Over Subscription), together referred to as the "Public Offer" and an offer of a total of approximately 23,525,455 Shares, together with 5,881,469 free attaching options on the basis of one (1) free option for every four (4) Shares subscribed for (Options), to the holders of the Company's redeemable preference shares, convertible promissory notes and counterparties to short term loans granted to the Company, with the subscription monies owed being set off against monies owed by the Company to these parties, referred to as the "Conversion Offer". The Public Offer and the Conversion Offer collectively are referred to as the "Offers".

Expressions referred to in the Prospectus have the same meaning in this report.

**Financial information**

Grant Thornton has been requested to prepare a report covering the historical Statement of Comprehensive Income and Statement of Financial Position (together referred to as "the historical financial information") and the pro forma Statement of Financial Position ("pro forma financial information") as described below and disclosed in the Financial Information Section of this Prospectus ("Section 8.4").

This report has been prepared for inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this Report or on the historical and pro forma financial information to which it relates for any purposes other than the purpose for which it was prepared.

**Historical financial information**

The historical financial information of the Company comprises the Statement of Comprehensive Income for the financial years ended 31 March 2011, 31 March 2012 and 31 March 2013 and for the three month period ended 30 June 2013, the Statement of Financial Position for the financial year ended 31 March 2013 and the period ended 30 June 2013 and the accompanying notes, as set out in Section 8.4. The historical financial information for the financial years ended 31 March 2011, 31 March 2012 and 31 March 2013 has been extracted from the audited financial statements of the Company. The audit was performed by the Grant Thornton New Zealand Audit Partnership with an unqualified opinion with an emphasis of matter issued. The historical financial information for the three months ended 30 June 2013 has been extracted from the reviewed financial statements of the Company.

**Pro forma financial information**

The pro forma historical financial information of the Company comprises the pro forma Statement of Financial Position as at 30 June 2013, which assumes the pro forma transactions as set out in Section 8.4 – Note 4.2 had occurred on 30 June 2013.

The Directors of the Company are responsible for the preparation and presentation of the historical and pro forma financial information, including the determination of the pro forma adjustments, which have been prepared in accordance with New Zealand Accounting Standards and other mandatory professional reporting requirements in New Zealand ("NZGAAP"), which ensure compliance with International Financial Reporting Standards ("IFRS").

The historical and pro forma financial information included in this Prospectus is presented in an abbreviated form in so far as it does not include all the disclosures required under NZGAAP applicable to annual financial reports prepared in accordance with the Companies Act 1993.

**Scope**

**Review of the pro forma financial information**

We have reviewed the pro forma financial information in order to report whether anything has come to our attention which causes us to believe that the pro forma financial information of the Company as at 30 June 2013 is not presented fairly, on the basis of the pro forma transactions and adjustments described in Section – Note 4.2 of the Prospectus, in accordance with the recognition and measurement principles prescribed by NZGAAP and in accordance with the accounting policies adopted by the Company and disclosed in Section 8.4 – Note 3.

Grant Thornton

We have conducted our review of the historical financial information in accordance with ASRE 2405 "Review of Historical Information Other than a Financial Report". We have made such enquiries and performed such procedures as we, in our professional judgment, considered reasonable in the circumstances including:

- a review of work papers, accounting records, other documents and reports;
- a review of the pro forma transactions and adjustments used as the basis for the pro forma financial information;
- a comparison of consistency in application of the recognition and measurement principles of NZGAAP, and the accounting policies adopted by the Company; and
- enquiry of Directors, management and others.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

**Subsequent events**

Apart from the matters dealt with in this report and having regard to the scope of our review, to the best of our knowledge and belief, no additional material transactions or events outside the ordinary business of the Company have come to our attention that require comment on or adjustment to the information referred to in our report or that would cause such information to be misleading or deceptive.

**Conclusion**

**Review of the pro forma financial information**

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that the pro forma financial information of the Company as at 30 June 2013 is not presented fairly, on the basis of the pro forma transactions and adjustments described in Section 8.4 – Note 4.2 of the Prospectus, in accordance with the recognition and measurement principles prescribed in NZGAAP and in accordance with the accounting policies adopted by the Company.

**Independence**

Grant Thornton does not have any interest in the outcome of the Offers other than in connection with the preparation of this report, participation in limited due diligence procedures and acting as statutory auditor for the Company, for which normal professional fees will be received.

**Liability**

Grant Thornton has consented to the inclusion of this Report in the Prospectus and to the reference to this Report in the Prospectus, in the form and context in which they are included.

Grant Thornton

Any liability of Grant Thornton in relation to the likely audience of the Prospectus is limited to the inclusion of this Report in the Prospectus (and any references in the Prospectus to the Report to which Grant Thornton has consented). Grant Thornton makes no representation regarding, and has no liability for, any other statements or other material in, or any omissions from, the Prospectus.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M. A. Cunningham
Partner – Audit & Assurance

## 10. Intellectual Property Title Report



Shelston ip

PATENT ATTORNEY REPORT IN RESPECT OF
INNATE IMMUNOTHERAPEUTICS LIMITED

Patent Attorney Report - Shelston IP November 2013

## 1. INTRODUCTION

This Patent Attorney Report has been prepared by Shelston IP, Patent and Trade Mark Attorneys, for inclusion in a prospectus to be dated on or about 15 November 2013, relating to the issue of ordinary shares in Innate Immunotherapeutics Limited, ACN 165 160 841.

Shelston IP currently manages the intellectual property portfolio on behalf of Innate Immunotherapeutics Limited. Neither Shelston IP nor any of its partners has any entitlement to any securities in Innate Immunotherapeutics Limited, or has any other interest in the promotion of Innate Immunotherapeutics Limited.

## 2. ABOUT SHELSTON IP

Shelston IP is a well established, Sydney based, firm of patent and trade mark attorneys. With over 150 professional and support staff, and in excess of 100 years of experience in the development of efficient and responsive case management systems and practices, Shelston IP is a leading Australasian intellectual property firm providing high quality, commercially relevant, intellectual property advice and services.

Shelston IP can and does offer a full range of professional advice in all areas of Intellectual Property law including Patents, Designs, Trade Marks, Copyright and Fair Trading. The firm offers a wealth of technical and intellectual property expertise and experience across all disciplines, and has specialist teams practicing in the fields of chemistry, chemical engineering, pharmaceuticals and biotechnology.

## 3. INTELLECTUAL PROPERTY PROTECTION - BACKGROUND

Intellectual property is a valuable and tangible asset which needs to be carefully and diligently protected. It encompasses statutory and common law rights which provide protection in relation to products, processes, trade names, designs, drawings, plant breeders rights and circuit layouts in industry, science or commerce. Patents for inventions are one important type of Intellectual property which protects inventors of a product or process for a period sufficient for them to enjoy the returns of their investment.

A patent is a statutory monopoly which confers on the owner of the patent the exclusive right to make, use, or sell the invention as defined in the patent claims throughout the territory of the country granting the patent.

The grant of a patent in one country does not confer any rights in any other country. A patent has a fixed term, which in most countries is 20 years from the date of filing of the patent application, and in many countries, including Australia, the United States, Japan, and the countries of the European Patent Convention, extension of term is available for patents for pharmaceutical substances.

A patent right is obtained by filing a patent application together with a patent specification, which describes the invention and includes a set of claims which define the monopoly which is sought. In certain jurisdictions, such as New Zealand, Australia and the United States, it is possible to file a provisional application in order to establish a priority date in respect of the invention. The priority date so established will be recognised in most industrialised countries, and New Zealand's and Australia's major trading partners, as long as a corresponding complete application is filed within 12 months from the date of filing of the provisional application. The complete application is examined by the relevant patent office before it can proceed to grant.

Each country has its own national patent laws and there is unfortunately no such thing as a "world" patent. Generally, in order to obtain patent protection overseas, it is ultimately

Shelston ip



necessary to file separate patent applications in each country of interest. There are, however, a number of international conventions and treaties which can be used to facilitate or defer this procedure.

International conventions enable a provisional patent application to be used as the first step in obtaining patent rights in other countries, which claim priority from the initial provisional patent application. Most commonly a single international patent application is lodged under the provisions of the Patent Cooperation Treaty (PCT), which designates the countries in which the applicant may subsequently wish to proceed. A PCT application is subject to an international search, and if desired, to International Preliminary Examination. If the application is to proceed, it must be entered into the "National Phase" in each of the desired countries. Alternatively, under another international convention (Paris Convention), patent applications may be filed in individual desired countries within 12 months of the priority date. All of the major industrialised countries belong to these conventions.

Further, a single patent application may be lodged in respect of the countries of the European Patent Convention (currently 38 countries). All or only some of the countries may be selected. This is called a European patent application and it may also be extended to certain other countries that are not yet full signatories to the European Patent Convention. A European patent application is examined by the European Patent Office, and once granted, must be registered and maintained in each individual country in which it is desired to have a patent.

Examination of a patent application can be quite rigorous, and may require amendment or limitation of the claims. In some countries, once the application has been allowed by the Examiner the grant of a patent may be opposed by a competing party. For example in Australia there is a pre-grant opposition in Europe there is post-grant opposition. Opposition may result in refusal or revocation of the patent, or may result in further limitation of the claims.

Patents and patent applications are property rights which can be sold, licensed, mortgaged etc. Patents and patent applications may be lodged in the name of one or more applicants. In the absence of a specific agreement to the contrary, it is generally assumed that joint applicants hold equal shares in the rights to the invention.

## 4. INNATE IMMUNOTHERAPEUTICS LIMITED – OUTLINE OF THE PATENT PORTFOLIO

The current intellectual property portfolio of Innate Immunotherapeutics Limited consists of 5 patent/patent application families.

The details of the patent portfolio are summarised in Schedule I, and each of the patent/patent applications and application families is discussed in more detail in Section 7 of the Report.

## 5. SCOPE OF THIS REPORT

In compiling this Report, in respect of each patent and patent application the filing particulars have been confirmed, the current status ascertained, the patent specifications reviewed, and any prior art cited during searches and/or examination considered where applicable. In addition, novelty searches have been conducted where indicated by the International division of the New Zealand Patent Office and patent offices of other jurisdictions in which patent applications have been examined, and any relevant prior art reviewed. We have formulated an opinion as to the patentability or otherwise of each invention in light of all relevant prior art known to us.

As far as possible, the information in this Report is current as at 1 November 2013.

## 6. OVERVIEW OF PATENTABILITY ANALYSIS

Analyses performed for the purposes of this Report focus on the assessment of novelty and inventive step criteria for patentability, as set out in the Patents Act 1990. On the whole, our opinion on the patentability of each invention in the patent portfolio, as far as those for which patentability searches have been completed are concerned, is favourable. There are no aspects of the prior art reviewed thus far that give cause for serious concern in terms of the pending applications having patentable subject matter of commercially relevant scope. This opinion should, however, be read in the light of Section 9 of the Report, entitled "Limitations, Disclaimers and Caveats".

## 7. DETAILED REPORT

### 7.1 Compositions And Methods For Treating Viral Infections (Family 1)

#### 7.1.1 Outline Of The Technology

This invention is described in the original family of patents and in general terms relates to use of various HIV peptides to generate anti-HIV antibodies specific for certain epitopes that are non-immunogenic (or immune silent) in humans. Such antibody preparations can then be used for passive immunisation in the treatment of HIV infection. The invention also encompasses the preparation and use of a muramyl dipeptide microparticle (MDP-microparticle) as an adjuvant, whereby the HIV peptides are complexed to the microparticle and used to immunise animals.

In this invention the MDP-microparticle is used as a conventional adjuvant, to boost the immune system and hence get a better immune response to the HIV peptides coupled to the microparticle.

#### 7.1.2 Validity Opinion

All patents in this family have been granted. On the basis of examination reports issued by the Patent Offices in the various jurisdictions and our review of the patent specifications we are of the opinion that it would be difficult to challenge the validity of the claims as granted in the various jurisdictions.

### 7.2 Compositions And Methods For Treatment Of Neoplastic Disease (Family 2)

#### 7.2.1 Outline Of The Technology

This invention is based on the unexpected observation that the MDP-microparticle itself, ie. "naked" or un-functionalised microparticle, is capable of activating several different immune cell subsets that are central to induction of a broad range of innate anti-neoplastic immune responses. The activation profile is in part due to the presence of immunostimulatory nucleic acid motifs within the microparticle. This makes the MDP-microparticle useful as a therapeutic agent in its own right. The invention encompasses use of the MDP-microparticle in the treatment of various neoplastic conditions, including solid tumours and various malignancies, by administration of the "naked" MDP-microparticle to patients requiring the treatment.

Whereas the MDP-microparticle compositions of this invention are themselves effective in targeting and activating the relevant components of the immune system to aid in destructions of neoplastic cells, the efficacy of the microparticle compositions can be further enhanced and focused by certain ligands that can be coupled to the surface of the microparticles.

### 7.2.2 Validity Opinion

This family includes two granted patents while remaining patent applications are pending and under examination in other jurisdictions. On the basis of examination reports issued by the Patent Offices in a number of jurisdictions it is our opinion that this patent application family includes subject matter that can be validly patented by Innate Immunotherapeutics Limited over the prior art of which we are presently aware, to provide commercially relevant patent protection in all major jurisdictions.

## 7.3 Anti-Infective Agents And Uses Thereof (Family 3)

### 7.3.1 Outline Of The Technology

This invention has been motivated by the lack of safe and efficacious preventions or treatments for viral and/or bacterial infection, and is in part based on the unique and advantageous properties of the MDP-microparticle to stimulate the innate immune system. The presence of nucleic acid fragments, probably of bacterial origin, is partly responsible for its capability of selectively targeting and activating several different immune cell subsets that are central to induction of a broad range of innate and adaptive anti-infective immune responses. More specifically this invention relates to use of the MDP-microparticle in the treatment of bacterial and viral infections based on the ability of the microparticles to induce a broad range of innate anti-bacterial and anti-viral immune responses. The MDP-microparticle can be used for this purpose without having to complex the microparticle with specific bacterial or viral antigens in order to generate a strong immune response against the microorganisms. The compositions of this invention are able to kill bacteria and viruses (ie. are microbicidal) but also act to prevent bacterial and viral growth/proliferation/replication (ie. are microbistatic). Both types of activity are advantageous in the prophylactic or therapeutic treatment of bacterial and/or viral infections.

The MDP-microparticle may also be functionalised with one or more additional ligands capable of enhancing innate anti-infective immune responses and/or with bacterial or viral antigens, to further boost or focus the immune response.

### 7.3.2 Validity Opinion

This family includes two granted patents while remaining patent applications are pending and under examination in other jurisdictions. On the basis of examination reports issued by the Patent Offices in a number of jurisdictions it is our opinion that this patent application family includes subject matter that can be validly patented by Innate Immunotherapeutics Limited over the prior art of which we are presently aware, to provide commercially relevant patent protection in all major jurisdictions.

## 7.4 Compositions And Methods For Treatment Of Radiation Exposure (Family 4)

### 7.4.1 Outline Of The Technology

This invention relates to a further use of the MDP-microparticle *per se*, and relates generally to the prophylactic or therapeutic treatment of radiation exposure, radiation poisoning, and mitigating the toxic effects of radiotherapy, by administration of the "naked" microparticle, either before or after exposure, to subjects requiring such treatment. This invention is in part based on a surprising observation that MDP-microparticle is capable of inducing *de novo* synthesis of immunomodulatory cytokines that are known to have clinical utility in either preventing haematopoietic or bone marrow damage, or accelerating bone marrow restoration following exposure to radiation, particularly ionising radiation.

To enhance the prevention or repair of damage due to exposure to radiation such as ionising radiation, the MDP-microparticle may be combined with one or more immunostimulatory

ligands, bound to or within the microparticle, that is(are) capable of stimulating *de novo* synthesis of immunomodulatory cytokines that are known to either prevent haematopoietic damage or accelerate bone marrow restoration following exposure to ionising radiation.

### 7.4.2 Validity Opinion

This family includes one granted patent and two accepted patent applications. The remaining patent applications are pending and under examination in other jurisdictions. On the basis of examination reports issued by the Patent Offices in a number of jurisdictions it is our opinion that this patent application family includes subject matter that can be validly patented by Innate Immunotherapeutics Limited over the prior art of which we are presently aware, to provide commercially relevant patent protection in all major jurisdictions.

## 7.5 Compositions And Methods For Treatment Of Multiple Sclerosis (Family 5)

### 7.5.1 Outline Of The Technology

This invention relates to use of the MDP-microparticle *per se*, in the treatment of multiple sclerosis (MS), and is based on the notion that the MDP-microparticle comprising nucleic acid motifs and capable of modulating several aspects of the immune system simultaneously, may represent a more effective treatment for MS, of both the progressive and relapsing-remitting type.

The invention shows that use of MDP-micropartcile in a patient with progressive MS, and in animal models of relapsing-remitting MS, that multi-dose treatment with a composition comprising MDP-microparticle is efficacious as a stand-alone therapy, without causing significant side-effects. In contrast to other approved agents for treatment of MS, MDP-microparticle is non-toxic and non-immunogenic, and is suitable for long term treatment.

The MDP-micropartcile, being a multi-modal immune response modifier which activates a wide range of immunoregulatory pathways implicated in the management of MS, induces natural anti-inflammatory mediators, which serves to inhibit certain de-regulated immune cell responses, reduces the serum levels of adhesion molecules important in leucocyte trafficking, and thereby alter the incidence and severity of disease.

### 7.5.2 Validity Opinion

This family includes three granted patents. The remaining patent applications are pending and under examination in other jurisdictions. On the basis of examination reports issued by the Patent Offices in a number of jurisdictions it is our opinion that this patent application family includes subject matter that can be validly patented by Innate Immunotherapeutics Limited over the prior art of which we are presently aware, to provide commercially relevant patent protection in all major jurisdictions.

## 7.6 Ownership and Title

Inventorships and chain of title (ownership), *vis-à-vis* relevant assignment and other documentation, have been reviewed and confirmed to be accurate and up to date.

Innate Immunotherapeutics Limited is the current sole owner of intellectual property rights residing in inventions described in the 5 patent families. Innate Immunotherapeutics Limited acquired its rights to all the intellectual property encompassed by the 5 patent families by virtue of direct assignment from the inventors.

### 7.7 Freedom to Operate

We are not aware of any party whose rights may be infringed by exploitation of inventions described in the 5 patent families. As far as we are aware, Innate Immunotherapeutics Limited and its licensees and collaborators will be able to exploit the patented inventions in all relevant jurisdictions.

## 8. OTHER INTELLECTUAL PROPERTY

Innate Immunotherapeutics Limited is also in possession of valuable intellectual property in the form of know-how and confidential information, relating to microparticle technology and use of the microparticle compositions.

Innate Immunotherapeutics Limited has an active research and development program that will generate additional intellectual property, both registrable and non-registrable (ie. know-how and confidential information), in respect of novel compositions based on the original microparticle technology, and applications of such novel compositions.

## 9. LIMITATIONS, DISCLAIMERS AND CAVEATS

### 9.1 SEARCH LIMITATIONS

#### 9.1.1 Limitations Due To Time Period and Geographical Coverage

The initial validity searches conducted by the New Zealand Patent Office and the results of which are in part relied upon in this Report, would have been substantially computer based and as such, would have been limited in terms of the time periods and the geographical areas covered. Thus, databases used by the New Zealand Patent Office may not include older published documents and may not cover certain jurisdictions. All searches are subject to the accuracy and scope of the records searched as well as to the indexing and classification of those records. Moreover, any search strategy will inevitably involve some compromise between scope and cost.

#### 9.1.2 Limitations Due to Unpublished Documents

Additionally, searches cannot reveal potentially relevant patent documents which have not been officially published at the time of conducting the search. In most countries, publication of patent applications does not occur until 18 months from the earliest priority date and consequently, patent searches would not normally reveal applications filed in the preceding 18 months. The United States is an exception where certain older patent applications are not published until grant, which typically occurs between two to four years from the U.S. filing date. There may also be delays between official publication and the implementation of information onto the relevant databases.

#### 9.1.3 Limitations Due To Forms of Prior Art Other Than Patent Documents

It should also be appreciated that no novelty search can ever be entirely conclusive because some forms of prior art such as prior public use, prior commercial exploitation and prior publication in non-patent literature, cannot be systematically searched.

#### 9.1.4 Search Results Indicative But Not Conclusive

The searches conducted by different patent offices provide a reasonable indication of the patentability or otherwise of the inventions in the patent portfolio. However, the above and other factors make it impossible to guarantee that every conceivably relevant prior art record

has been revealed. Any conclusions on validity based on these or any other searches should therefore be regarded as indicative, and not conclusive.

**9.1.5 Novelty Searches Provide No Guarantee of Non-Infringement**

The present searches do not provide any guarantee that the subject inventions may be commercially exploited without risk of infringement of earlier patents.

**9.2 OTHER IMPORTANT NOTES AND CAVEATS**

**9.2.1 Examination Reports In One Country Not Binding In Other Countries**

In most countries, patent applications undergo an independent search and examination by the local Patent Office, the results of which are not binding in other jurisdictions. Similarly, international PCT search and examination reports are not binding on national patent applications during subsequent examination in the national phase. Such reports should therefore be regarded as indicative only and not determinative of patentability. It should also be appreciated that the grant of a patent in one country provides no guarantee that patents will grant in other jurisdictions.

**9.2.2 Scope of Claims May Vary during Examination**

It is often necessary during the examination of a patent application to define the invention more specifically by amendment of the claims, so as to distinguish relevant prior art. As a result of this process, there may be variations in the claims between countries, reflecting in part the different examination procedures and threshold requirements for patentability, according to national laws. Whilst this is relatively standard procedure, in certain circumstances, such amendments may affect the scope and hence the commercial significance of the resultant patent protection.

**9.2.3 Grant of Patent Provides No Guarantee of Validity**

A granted patent provides no guarantee of validity. In most jurisdictions, a patent application undergoes a substantive examination process before proceeding to grant which confers an initial presumption of validity. However, the validity of a patent may be challenged at any time after grant, by way of revocation proceedings filed in a Court of competent jurisdiction.

**9.2.4 Grant of Patent Provides No Guarantee of Non-Infringement**

The grant of a patent provides no guarantee that the patentee is entitled to commercially exploit the patented invention, since the working of an invention, even if validly patented, may infringe an earlier patent or other intellectual property rights.

For and on behalf of:
**SHELSTON IP**

**SCHEDULE I**
PATENT PORTFOLIO
INNATE IMMUNOTHERAPEUTICS LTD

## Family 1

**Title:** **COMPOSITIONS AND METHODS FOR TREATING VIRAL INFECTIONS**
**Applicant:** **Innate Immunotherapeutics Ltd**
**Inventors:** **Frank Gelder**
**Earliest Priority Date:** **10 October 1996**

| Country/Region | Official No. | Case Status |
|---|---|---|
| Australia | 732809 | Granted |
| Australia | 2006200454 | Granted |
| Canada | 2268372 | Granted |
| China | ZL97198743.2 | Granted |
| Hong Kong | 1023371 | Granted |
| Korea | 0547049 | Granted |
| Korea | 0667121 | Granted |
| Mexico | 212679 | Granted |
| Mexico | 226008 | Granted |
| New Zealand | 334941 | Granted |
| New Zealand | 507680 | Granted |
| Singapore | 65162 | Granted |
| USA | 6,043,347 | Granted |
| USA | 6,258,599 | Granted |
| USA | 6,335,017 | Granted |
| USA | 6,670,181 | Granted |
| USA | 8,110,203 | Granted |

**SCHEDULE I**
PATENT PORTFOLIO
INNATE IMMUNOTHERAPEUTICS LTD

**Family 2**

**Title: COMPOSITIONS AND METHODS FOR TREATMENT OF NEOPLASTIC DISEASE**
**Applicant: Innate Immunotherapeutics Ltd**
**Inventors: Gill Webster & Frank Gelder**
**Earliest Priority Date: 1 April 2008**
**National Phase of: PCT/NZ2009/000049**

| Country/Region | Official No. | Case Status |
|---|---|---|
| Australia | 2009232504 | Granted |
| Brazil | PI0906311-0 | Pending |
| Canada | 2719216 | Pending |
| China | 200980112531.7 | Pending |
| Europe | 09726844.5 | Pending |
| Japan | 2011-502885 | Pending |
| New Zealand | 567096 | Granted |
| USA | 12/935871 | Pending |

**SCHEDULE I**
PATENT PORTFOLIO
INNATE IMMUNOTHERAPEUTICS LTD

**Family 3**

**Title:** **ANTI-INFECTIVE AGENTS AND USES THEREOF**
**Applicant:** **Innate Immunotherapeutics Ltd**
**Inventors:** **Gill Webster & Frank Gelder**
**Earliest Priority Date:** **1 April 2008**
**National Phase of:** **PCT/NZ2009/000048**

| Country/Region | Official No. | Case Status |
|---|---|---|
| Australia | 2009232503 | Granted |
| Brazil | PI0906312-9 | Pending |
| Canada | 2719252 | Pending |
| China | 200980112374.X | Pending |
| Europe | 09728770.0 | Pending |
| Japan | 2011-502884 | Pending |
| New Zealand | 567095 | Granted |
| USA | 12/935317 | Pending |

**SCHEDULE I**
PATENT PORTFOLIO
INNATE IMMUNOTHERAPEUTICS LTD

**Family 4**

**Title: COMPOSITIONS AND METHODS FOR TREATMENT OF RADIATION EXPOSURE**
**Applicant: Innate Immunotherapeutics Ltd**
**Inventors: Gill Webster & Frank Gelder**
**Earliest Priority Date: 30 September 2008**
**National Phase of: PCT/NZ2009/00207**

| Country/Region | Official No. | Case Status |
|---|---|---|
| Australia | 2009300442 | Accepted |
| Brazil | PI0913783-1 | Pending |
| Canada | 2738622 | Pending |
| Europe | 09818038.3 | Accepted |
| Japan | 2011-530016 | Pending |
| New Zealand | 571665 | Granted |
| USA | 13/121796 | Pending |

**SCHEDULE I**
PATENT PORTFOLIO
INNATE IMMUNOTHERAPEUTICS LTD

**Family 5**

**Title: COMPOSITIONS AN METHODS FOR TREATMENT OF MULTIPLE SCLEROSIS**
**Applicant: Innate Immunotherapeutics Ltd**
**Inventors: Gill Webster & Frank Gelder**
**Earliest Priority Date: 16 June 2009**
**International Application: PCT/NZ2010/000112**

| Country/Region | Official No. | Case Status |
|---|---|---|
| Australia | 2010260585 | Granted |
| Brazil | PI1009606-0 | Pending |
| Canada | 2688766 | Pending |
| China | 201080026791.5 | Pending |
| Europe | 10789788.6 | Pending |
| Hong Kong | 12107888.6 | Pending |
| Israel | 216993 | Pending |
| India | 167/DELNP/2012 | Pending |
| Japan | 2012-516022 | Pending |
| Mexico | MX/a/2011/013661 | Pending |
| New Zealand | 577731 | Granted |
| USA | 12/639773 | Granted |

# 11. Rights Attaching to Securities

## 11.1 New Shares and Shares

The New Shares to be issued pursuant to this Prospectus will rank equally in all respects with existing Shares.

The following is a summary of the more significant rights attaching to the Shares. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders in the Company. To obtain such a statement, persons should seek independent legal advice.

Full details of the rights attaching to the Shares are set out in the Company's Constitution (a copy of which is available for inspection at the Company's registered office during normal business hours or on the Company's website at www.innateimmuno.com). The rights attaching to these Shares are also regulated by the Corporations Act, the ASX Listing Rules, the ASX Settlement Operating Rules and the common law.

(a) **General meetings**

Each Shareholder is entitled to receive notice of and to attend general meetings of the Company and to receive all notices, financial reports and other documents required to be sent to Shareholders under the Constitution, the Corporations Act or the ASX Listing Rules. The notice must state the general nature of business and any other matters required by the constitution, the Corporations Act or the ASX Listing Rules.

Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with section 249D of the Corporations Act and the Constitution of the Company.

(b) **Voting rights**

At general meetings of Shareholders or classes of Shareholders:

(i) each Shareholder entitled to vote may vote in person or by proxy, attorney or representative;

(ii) on a show of hands, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has one vote; and

(iii) on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder shall, in respect of each fully paid Share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the Share, but in respect of partly paid shares, shall have a fraction of a vote equivalent to the proportion which the amount paid up bears to the total issue price for the share.

(c) **Dividend rights**

The Directors may from time to time declare a dividend to be paid to Shareholders entitled to the dividend. The dividend shall (subject to the rights of any preference shareholders and to the rights of the holders of any shares created or raised under any special arrangement as to dividends) be payable on all Shares in accordance with the Corporations Act.

Dividends are payable out of the Company's profits and are declared by the Directors. The Directors may from time to time pay to the Shareholders such interim dividends as they may determine. No dividends shall be payable except out of profits. A determination by the Directors as to the profits of the Company shall be conclusive. No dividend shall carry interest as against the Company. The Directors may set aside out of the profits of the Company such amounts as they may determine as reserves, to be applied at the discretion of the Directors, for any purpose for which the profits of the Company may be properly applied.

(d) **Winding up**

If the Company is wound up, the liquidator may, with the authority of a special resolution, divide among the Shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as he considers fair upon any property to be so divided, and may determine how the division is to be carried out as between the Shareholders or different classes of shareholders.

The liquidator may, with the authority of a special resolution, vest the whole or any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no Shareholder is compelled to accept any Shares or other securities in respect of which there is any liability. Where an order is made for the winding up of the Company or it is resolved by special resolution to wind up the Company, then on a distribution of assets to members, Shares classified by ASX as restricted securities and which are subject to escrow restrictions at the time of the commencement of the winding up shall rank in priority after all other Shares.

(e) **Transfer of Shares**

Generally, Shares in the Company are freely transferable, subject to formal requirements, the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia and the transfer not being in breach of the Corporations Act or the ASX Listing Rules.

The Company may decline to register any transfer where permitted to do so by the ASX Listing Rules and must decline to register a transfer of Shares where required by the ASX Listing Rules.

(f) **Changes to capital structure**

The issue of any Share in the Company is under the control of the Directors. The Directors may issue Shares on such terms and with such rights or restrictions, as they think fit, subject to the Constitution, the Corporations Act and the ASX Listing Rules.

# 11. Rights Attaching to Securities (Continued)

(g) **Variation of rights**

At present the Company has ordinary shares and redeemable preference shares on issue. It is proposed that, on Admission, the Company will only have ordinary shares on issue. If at any time the share capital of the Company is divided into different classes of shares, the rights attached to a class (unless otherwise provided by terms of issue of the shares of that class), whether or not the Company is being wound up, may be varied or abrogated with the consent in writing of the holders of 75% of the issued shares of that class, or if authorised by a special resolution at a separate meeting of the holders of the shares of that class.

(h) **Constitution**

The Constitution can only be amended by a special resolution (that is, a resolution that has been passed by at least 75% of the votes cast by Shareholders entitled to vote on the resolution). Whilst the Company is listed, at least 28 days' written notice of a meeting to consider a special resolution must be given.

## 11.2 Conversion Options

The following terms and conditions shall apply to each Conversion Option (each an **Option**):

(a) **Entitlement**

Each Option entitles the holder to subscribe for one Share upon exercise of the Option.

(b) **Exercise Price and Expiry Date**

The Options have an exercise price of A$0.30 (**Exercise Price**) and an expiry date of the second anniversary from the date of issue (**Expiry Date**).

(c) **Exercise period**

The Options are exercisable at any time on or prior to the Expiry Date.

(d) **Notice of Exercise**

The Options may be exercised by notice in writing to the Share Registry (**Notice of Exercise**) and payment of the Exercise Price for each Option being exercised. Any Notice of Exercise of an Option received by the Share Registry will be deemed to be a notice of the exercise of that Option as at the date of receipt.

(e) **Shares issued on exercise**

Shares issued on exercise of the Options rank equally with the then shares of the Company.

(f) **Quotation of Shares on exercise**

Application will be made by the Company to ASX for quotation of the Shares issued upon the exercise of the Options.

(g) **Timing of issue of Shares**

Within 10 Business Days after the receipt of a Notice of Exercise given in accordance with these terms and conditions and payment of the Exercise Price for each Option being exercised, the Company will allot and issue the Shares pursuant to the exercise of the Options.

(h) **Participation in new issues**

There are no participation rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options. However, Innate will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 10 Business Days after the issue is announced. This will give the holders of Options the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.

(i) **Adjustment for bonus issues of Shares**

If the Company makes a bonus issue of Shares or other securities to existing Shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment):

(i) the number of Shares which must be issued on the exercise of an Option will be increased by the number of Shares which the holder of Options would have received if the holder of Options had exercised the Option before the record date for the bonus issue; and

(ii) no change will be made to the Exercise Price.

(j) **Adjustment for rights issue**

If the Company makes an issue of Shares pro rata to existing Shareholders there will be no adjustment of the Exercise Price of an Option.

(k) **Adjustments for reorganisation**

If there is any reconstruction of the issued share capital of the Company, the rights of the holders of Options may be varied to comply with the Listing Rules which apply to the reconstruction at the time of the reconstruction.

(l) **No Quotation of the Options**

The Company will not apply for quotation of the Options on ASX.

(m) **Options not transferable**

The Options are not transferable.

# 11. Rights Attaching to Securities (Continued)

(n) **Lodgement instructions**

Cheques shall be in Australian currency made payable to the Company and crossed "Not Negotiable". The application for Shares on exercise of the Options with the appropriate remittance should be lodged at the Share Registry.

## 11.3 Employee Options issued under the Old Employee Share Option Plan

At the date of this Prospectus, there are 1,471,759 Employee Options on issue under the Company's Old Employee Share Option Plan. The Old Employee Options have the exercise prices and expiry dates set out in the table below.

| Number of Employee Options | Exercise Price | Expiry Date |
|---|---|---|
| 200,000 | NZ$1.00 | 1 April 2014 |
| 1,271,759 | NZ$0.20 | 1 February 2016 |

The following provides a summary of the further key terms of Options issued under the Old Employee Share Option Plan:

(a) **Exercise price**

The exercise price of an Option shall be determined by the Board or, otherwise, shall be the weighted average closing sale price per Share on the relevant stock exchange on which the Shares are quoted.

(b) **Expiry Date**

No Option shall have an expiry date of longer than 5 years from its date of grant (**Expiry Date**).

(c) **Vesting**

Each Option vests on the date or dates determined by the Board (**Vesting Date**).

(d) **Exercise Period**

Each Option is exercisable at any time commencing on the Vesting Date and ending on the Expiry Date (**Exercise Period**).

(e) **Notice of Exercise**

Each Option may be exercised by giving written notice to the Company at any time during the Exercise Period. The notice (**Exercise Notice**) must be provided to the Company two workings days prior to the exercise of the Option and

(i) specify the number of Options being exercised; and

(ii) be accompanied by payment of the Exercise Price for each Option being exercised.

(f) **Shares issued on exercise**

Shares issued on exercise of the Options rank equally with the then Shares currently on issue.

(g) **Official Quotation of Shares on exercise**

Application will be made by the Company to the relevant stock exchange for official quotation of the Shares issued upon the exercise of the Options.

(h) **Participation in new issues and bonus issues**

There are no participation rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options.

(i) **Adjustment for bonus issues of Shares**

No adjustment will be made to the Exercise Price or number of Shares issued on the exercise of an Option if the Company makes a bonus issue of Shares or other securities to existing Shareholders.

(j) **Adjustment for rights issues**

If the Company makes an issue of Shares pro rata to existing Shareholders (except where the issue is in lieu of dividends of by way of dividend reinvestment) the Exercise Price of an Option will be reduced according to the following formula:

$$\text{New exercise price} = O - \frac{E\left[P - (S + D)\right]}{N + 1}$$

| | | |
|---|---|---|
| O | = | the old Exercise Price of the Option. |
| E | = | the number of underlying Shares into which one Option is exercisable. |
| P | = | weighted average closing sale price per Share on the relevant stock exchange, on which the Shares are traded, during the 5 trading days ending on the day before Shares lose their entitlement to the tights issue. |
| S | = | the subscription price of a Share under the pro rata issue. |
| D | = | the dividend due but not yet paid on the existing underlying Shares (except those to be issued under the pro rata issue). |
| N | = | the number of Shares with rights or entitlements that must be held to receive a right to one new share. |

# 11. Rights Attaching to Securities (Continued)

(k) **Adjustments for reorganisation**

If there is any reorganisation of the issued share capital of the Company, the number of Options, Exercise Price and rights of the Optionholder will be varied to the extent necessary to comply with the relevant listing rules which apply to the reorganisation and so that the Optionholder will not receive a benefit that Shareholders do not receive.

(l) **Transfer**

Options cannot be transferred without the prior approval of the Board.

## 11.4 Employee Options issued under the New Employee Share Option Plan

At the date of this Prospectus, there are 4,500,000 Employee Options on issue under the Company's New Employee Share Option Plan, which was adopted on 12 November 2013. The Employee Options issued under the New Employee Share Option Plan have the exercise price and expiry dates set out in the table below:

| Number of Employee Options | Exercise Price | Expiry Date |
|---|---|---|
| 4,500,000 | A$0.45 | 12 November 2018 |

A summary of the terms and conditions of the New Employee Share Option Plan, including general terms of Options issued pursuant to it, is set out below.

(a) **Eligibility**

The Remuneration Committee may offer Options (including Incentive Stock Options) to any person who is employed by, or is a director, officer, executive or engaged as a consultant of the Company or any related body corporate of the Company and whom the Remuneration Committee determines is eligible to participate in the New Employee Share Option Plan (**Eligible Employee**).

(b) **Offer and Option Agreement**

On making an offer of Options to an Eligible Employee, the Company must provide the Eligible Employee with an Option agreement (**Option Agreement**), which for the purposes of acceptance, must be signed and returned to the Company within 5 Business Days.

(c) **Consideration**

The consideration payable for the grant of Options under the New Employee Share Option Plan is nil.

(d) **Exercise price**

The exercise price of Options granted under the New Employee Share Option Plan shall be determined by the Remuneration Committee, but shall not be less than the price of Shares at the date of grant of the Options.

(e) **Expiry of Options**

Options will expire at 5:00pm on the expiry date set out in the relevant Option Agreement (**Expiry Date**). Any Options not exercised by the Expiry Date automatically lapse.

(f) **Exercise conditions**

When granting the Options, the Remuneration Committee may impose such conditions on the exercise of the Options as it considers fit.

(g) **Exercise of Options**

Subject to the satisfaction of any exercise conditions, and provided the exercise of Options would not result in breach of applicable laws, the Options may be exercised during any period and on any terms specified in the Option Agreement, in whole or in part by lodging the following with the Company Secretary:

(i) the certificate for the Options (if any);

(ii) duly completed and signed exercise notice; and

(iii) the subscription money for the relevant Shares, being the number of Options specified in the exercise notice multiplied by the exercise price.

(h) **Options not transferable**

Options awarded under an Option Agreement are not transferable otherwise than by will or the laws of intestacy and may be exercised during the Optionholder's lifetime only by the Optionholder. If the Optionholder dies, his or her legal representative shall stand in his or her place for the purposes of exercising Options, subject only to prior production to the Company of such evidence as would be required to permit the legal personal representative to become registered as a Shareholder.

(i) **Quotation of Shares issued upon exercise of Options**

After Shares have been allotted on exercise of Options, the Company will promptly make application to ASX for official quotation of the Shares on ASX.

(j) **Cancellation of Options**

Notwithstanding any provision of the New Employee Share Option Plan, the Remuneration Committee may cancel an Option if, at any time, an Eligible Employee is in breach of any term and condition of employment of that Eligible Employee.

(k) **Bonus issues and new issues**

The Options do not confer any rights to participate in either a bonus issue, or new issue, of Shares by the Company.

# 11. Rights Attaching to Securities (Continued)

(l) **Equal ranking**

Any Shares allotted pursuant to an exercise of Options shall rank parri passu in all respects with other Shares on issue at the date of allotment.

(m) **Forfeiture of Options and Shares**

An Eligible Employee will forfeit any right or interest in outstanding Options under the Option Plan to the Company if:

(i) he or she ceases to be an Eligible Employee at a time when the Eligible Employee is not entitled to exercise such outstanding Options; or

(ii) in the opinion of the Remuneration Committee, the Eligible Employee has:

(A) been dismissed with cause;

(B) committed an act of fraud, defalcation, or gross misconduct in relation to the affairs of the Company, or any related body corporate,

and the Remuneration Committee directs that such outstanding Options be forfeited.

An Eligible Employee will automatically forfeit any Shares that the Eligible Employee has acquired pursuant to an Option Agreement between the Company and the Eligible Employee if in the opinion of the Remuneration Committee, the Eligible Employee has:

(i) been dismissed with cause;

(ii) committed an act of fraud, defalcation, or gross misconduct in relation to the affairs of the Company, or any related body corporate,

and the Remuneration Committee directs that such outstanding Options be forfeited.

In relation to forfeited Shares, the Company must pay the Eligible Employee, for each forfeited Shares, an amount equal to the lesser of:

(i) the exercise price per Share; or

(ii) the Share price at the date of forfeiture, as determined by the auditor of the Company.

(n) **Recapitalisation and reorganisation**

The terms upon which Options will be granted will not prevent the Options from being reorganised as required by the ASX Listing Rules on the reorganisation of the capital of the Company.

The Company must give notice to an Optionholder of any adjustment to the number of Shares to which the Optionholder is entitled to subscribe for, or be issued, on the exercise of an Option or the exercise price per Option.

(o) **Restrictions in dealing in Shares**

There may be restrictions placed on the Eligible Employee in dealing with any Shares acquired under the New Employee Share Option Plan. Any such restrictions will be contained in the Option Agreement.

(p) **Administration and amendment**

The Remuneration Committee will administer the ESOP and has the power to:

(i) determine procedures from time to time for administration of the New Employee Share Option Plan;

(ii) amend or modify the terms or conditions of the New Employee Share Option Plan;

(iii) resolve conclusively all questions of fact or interpretation arising in connection with the New Employee Share Option Plan; and

(iv) delegate the exercise of its powers or discretions arising under the New Employee Share Option Plan.

(q) **Shares the subject of the New Employee Share Option Plan**

The total number of Shares that shall be reserved for issuance under the New Employee Share Option Plan and any other employee share scheme in the Company shall not exceed 10% of the diluted ordinary share capital of the Company as at the date of issue of the relevant Options under the New Employee Share Option Plan.

(r) **No assignment of Options**

Options may not be assigned, transferred or encumbered in any way by an Optionholder. Any such assignment, transfer or encumbrance shall cause an Option to lapse immediately. However, this shall not prevent the exercise of Options by the estate of a deceased Optionholder, in accordance with the New Employee Share Option Plan.

## 11.5 Loyalty Rights

Simultaneous with the issue of Securities under the Offers, the Company will issue an aggregate total of 33,031,926 Loyalty Rights to those individuals and entities who were Shareholders of the Company immediately prior to the date of this Prospectus, on the basis of one (1) Loyalty Right for every three (3) Shares held immediately prior to the date of this Prospectus.

The following terms and conditions shall apply to each Loyalty Right (**Right**).

(a) **Eligibility**

The Participant is a Shareholder at the date on which the Company makes application for quotation of its Securities on ASX (**Eligible Shareholder**).

## 11. Rights Attaching to Securities (Continued)

(b) **Issue price**

Each Right shall be granted to the Participant for nil cash consideration.

(c) **Terms of the Rights**

(i) The Rights will not be listed on any stock exchange.

(ii) A Participant has no legal or equitable interest in a Share by virtue of acquiring a Right. A Participant's rights in relation to any grant of Rights are purely personal and contractual.

(iii) A Participant must not sell, transfer, mortgage, charge or otherwise deal with or encumber any Rights.

(d) **Exercise Price**

The exercise price of a Right shall be nil (**Exercise Price**).

(e) **Expiry Date**

Each Right expires 36 months from the date of issue (**Expiry Date**).

(f) **Vesting Condition**

(i) Each Right will automatically convert to a vested Right (**Vested Right**) if the Company receives the final clinical study report (**Report**) relating to the Company's Phase 2B trial of its drug candidate in patients with secondary progressive multiple sclerosis and that the Report concludes that the drug is safe, reasonably well tolerated (or better), and that the Report recommends that the drug be further investigated in Phase 3 trial (**Vesting Condition**).

(ii) The Company, in its sole discretion, will determine if the Vesting Condition has been satisfied.

(g) **Automatic exercise of Vested Rights**

(i) Subject to clause (g)(ii), Vested Rights will be automatically exercised into the equivalent number of Shares.

(ii) The allocation of Shares to a Participant following the automatic exercise of the Vested Rights is subject to such allocation not contravening the Corporations Act or the Listing Rules.

(iii) The Company shall within a reasonable period of time allot or transfer to the Participant the relevant number of Shares.

(iv) If the Participant has died, the Participant's legal personal representative shall stand in the place of the Participant for the purposes of clause (g)(iii), subject only to prior production to the Company of such evidence as would be required to permit the legal

personal representative to become registered as a shareholder in respect of Shares held by the Participant.

(v) From and including the date of allotment to a Participant of any Shares upon the automatic exercise of Vested Rights, the Participant shall:

(A) be the absolute indefeasible beneficial owner of those Shares; and

(B) subject to the Corporations Act and the Listing Rules, be entitled to sell, transfer, dispose of, mortgage, pledge or otherwise deal with those Shares or any interest therein in every manner whatsoever.

(vi) In the case where the Participant dies or becomes bankrupt, the legal personal representative of the deceased Participant, or the trustee in bankruptcy of the bankrupt Participant, shall be the only person recognised as having any title to the Shares of the Participant issued in accordance with the Right.

(vii) Shares issued on exercise of a Vested Right shall rank pari passu in all respect with Shares already on issue on the date of exercise of the Right.

(viii) After Shares have been allotted pursuant to clause (g)(iii), the Company will promptly make application for official quotation of those Shares on the ASX.

(h) **Lapse of Rights**

All Rights held by the Participant will lapse if the Company does not satisfy Vesting Condition by the Expiry Date.

(i) **Transfer of Rights**

Except on the death of a Participant, Rights may not be transferred, assigned or novated.

(j) **Security Interest**

Subject to clause (i), Participants will not grant a Security Interest in or over or otherwise dispose of or deal with any Rights or any interest in them until the relevant Shares are either issued or transferred to that Participant, and any such Security Interest or disposal or dealing will not be recognised in any manner by the Company.

(k) **Dividend and voting rights**

Rights will not attract dividends and voting rights until the Rights have been exercised and Shares allocated to the Participant.

(l) **Adjustment for bonus issue**

(i) If, during the life of any Right, securities are issued pro rata to the Company's shareholders generally by way of bonus issue, the Eligible Employee shall be entitled, upon later exercise of the Right, to receive in addition to the number of Shares comprised in the Right an allotment or transfer of so many additional securities as would

have been issued to a shareholder who, on the date for determining entitlements under the bonus issue, held Shares equal in number to the Shares comprised in the Right exercised.

(ii) Additional securities to which the Eligible Employee becomes so entitled shall, as from the time securities are issued pursuant to the bonus issue and until those additional securities are allotted or transferred, be regarded as securities comprised in the relevant application of clause (m)(i) and any adjustments which, after the time just mentioned, are made under clause (n) to the number of securities comprised in a Right shall also be made to the additional securities as if they were securities comprised in the Right.

(m) **Adjustment for reconstruction**

In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company (not being a reconstruction referred to in clause (m)), the number of Rights or the Exercise Price (or both) shall be reconstructed (as appropriate) in accordance with the Listing Rules of the ASX (applying at that time) and in a manner which will not result in any additional benefits being conferred on a Participant of a Right which is not conferred on holders of Shares, but in all other respects the terms of exercise will remain unchanged.

(n) **Adjustments cumulative**

Full effect shall be given to clauses (l) and (m) as and when occasions of their application arise and in such manner that the effect of the successive application of them are cumulative, the intention being that the adjustments they progressively effect shall be such as to reflect in relation to the Shares and securities comprised in a Right the adjustments which on the occasions in question are progressively effected in relation to Shares already on issue.

(o) **No participation rights**

There are no participation rights or entitlements inherent in the Rights and Participants will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Rights.

(p) **Definitions**

In this summary of the terms and conditions of Loyalty Rights:

**Participant** means an Eligible Shareholder who holds a Right, from time to time.

**Security Interest** means any mortgage, pledge, charge, lien, encumbrance, assignment, security, interest, preferential right, set-off or any other security arrangement.

**Vesting Condition** means the condition in clause (f)(i).

# 12. Material Contracts

## 12.1 Royalty Agreements

The Company is party to a number of royalty agreements, summaries of which are set out below.

(a) **Gelder Royalty and Option Agreement**

On 14 August 2000, the Company entered into a royalty and option agreement with Frank Gelder (**Gelder**) and Probe International Inc. (**Probe**) (**Gelder Royalty and Option Agreement**).

Pursuant to the Gelder Royalty Agreement, the Company, agreed to pay a royalty to Gelder or Probe (as they direct) in consideration for Probe assigning to the Company certain technologies invented by Gelder (**Gelder Patents**).

The royalty to be paid under the Gelder Royalty Agreement is equivalent to 3.25% of the Company's net revenues derived from the sale of "products", as defined in the Gelder Royalty and Option Agreement (**Products**), until 18 February August 2022, up to a maximum of US$54,166,664.

Products include the drug now referred to as MIS416.

In addition, under the terms of the Gelder Royalty and Option Agreement, Gelder and Probe granted the Company an option to acquire any augmented technologies developed by Gelder and Probe in relation to the Gelder Patents (**Augmented Patent Developments**) in consideration for the right to receive 6% of the net revenues that the Company may derive from the exploitation of the Augmented Patent Developments.

(b) **Taylor Royalty Agreement**

On 26 September 2000, the Company entered into a royalty agreement with Kathy Taylor (**Taylor**) (**Taylor Royalty Agreement**).

Pursuant to the Taylor Royalty Agreement, Taylor agreed to terminate her rights to a share of royalty payments from Probe Pharmaceuticals Corporations Limited and Probe USA Inc in relation to exploitation of the Gelder Patents (**Probe Royalty Entitlement**).

In consideration for Taylor agreeing to terminate the Probe Royalty Entitlement, the Company agreed to pay Taylor a royalty of 1% of the Company's net revenues derived from the sale of Products until 26 September 2020, up to a maximum of US$16,666,666.

As stated in Section 12.1(a), Products include the drug now referred to as MIS416.

(c) **Smith Royalty Agreement**

On 16 October 2000, the Company entered into a royalty agreement with James Smith (**Smith**) (**Smith Royalty Agreement**).

Pursuant to the Smith Royalty Agreement, the Company agreed to pay Smith a royalty of 0.05% of the net revenues that the Company may derive from the sale of Products up until 25 August 2020, up to a maximum of $833,333.

As stated in Section 12.1(a), Products include the drug now referred to as MIS416.

(d) **Cantrell Royalty Agreement**

On 16 October 2000, the Company entered into a royalty agreement with Henry Cantrell (**Cantrell**) (**Cantrell Royalty Agreement**).

Pursuant to the Cantrell Royalty Agreement, the Company agreed to pay Cantrell a royalty of 0.4% of the net revenues that the Company may derive from the sale of Products up until 25 August 2020, up to a maximum of US$6,666,666.

As stated in Section 12.1(a), Products include the drug now referred to as MIS416.

(e) **Taber Royalty Agreement**

On 31 October 2000, the Company entered into a royalty agreement with Jane Taber (**Taber**) (**Taber Royalty Agreement**).

Pursuant to the Taber Royalty Agreement, the Company agreed to pay Taber a royalty of 0.4% of the net revenues that the Company may derive from the sale of Products up until 25 August 2020, up to a maximum of US$6,666,666.

As stated in Section 12.1(a), Products include the drug now referred to as MIS416.

(f) **Allison and Mills Royalty Agreement**

On 31 December 2000, the Company entered into a royalty agreement with William Allison (Allison) and George Mills (**Mills**) (**Allison and Mills Royalty Agreement**).

Pursuant to the Allison and Mills Royalty Agreement, the Company Agreed to pay:

(i) Allison a royalty of 0.225% of the net revenues that the Company may derive from the sale of Products up until 25 August 2020, up to a maximum of US$3,750,000; and

(ii) Mills a royalty of 0.675% of the net revenues that the Company may derive from the sale of Products up until 25 August 2020, up to a maximum of US$11,250,000.

As stated in Section 12.1(a), Products include the drug now referred to as MIS416.

## 12.2 Research Agreement with University of Otago

Pursuant to an agreement between the Company and the University of Otago (**University**), dated 9 May 2011 and letter of variation dated 11 November 2013 (**Research Agreement**), the University has agreed to undertake research to develop novel RNAi delivery strategies for immunomodularity RNAi (**Research**).

In consideration for the University undertaking the Research, the Company is required to pay to the University 20% of all net royalties, milestone payments received by it and arising from commercialisation of:

(a) all results, outcomes, conclusions, products, discoveries, inventions, reports, data (in whatever form or format including all supporting data), materials (including substances, compounds and biological and genetic materials), research processes, research protocols, lab books, associated documents and research notes, memoranda and other writings or drawings (whether or not patentable or otherwise capable of intellectual property protection), created, discovered, invented, reduced to practice or developed during or as a result of performance of the Research but shall not include any of the University's or the Company's intellectual property rights at or following the date of the Research Agreement (**Results**); and

(b) all intellectual property rights in and to the Results,

up to a maximum of NZ$1,500,000.

Unless otherwise extended by the parties or terminated in accordance with its terms, the Research Agreement expires on 9 May 2015.

Either party may terminate the Research Agreement if the other party is in material breach of the Research Agreement and such breach is not remedies within 20 business days of receipt of a notice, describing the breach, from the other party.

### 12.3 MSA for Clinical Research and Related Services

Prior to Allotment, the Company intends to enter into a master services agreement with INC Research, LLC (**INC**) in relation to the provision of clinical research and related services (**MSA**).

Pursuant to the proposed MSA, the Company agrees to retain INC to perform services (**Services**), which will be detailed in negotiated work orders (**Work Orders**), in connection with the support of clinical investigation, management and/or research of the Company's Phase 2B trial of MIS416.

In consideration for the Services, the Company will pay INC fees, expenses and pass through costs in accordance with a detailed budget, as described in each Work Order. In addition, the Company is required to reimburse INC for out-of-pocket expenses incurred by INC from Company-approved third parties in connection with the performance of the Services.

The MSA has a term of 5 years, unless terminated earlier. Either party may terminate the MSA, and any associated Work Orders, upon the giving of 30 days' written notice to the other party.

Under the MSA, the Company has agreed to indemnify INC and its directors, employees, officers and certain other specified people connected with INC against all losses and claims whatsoever which relate to or arise from or in relation to the MSA or the Services. INC has agreed to indemnify the Company and its directors, employees, officers and certain other specified people connected with the Company against all losses and claims whatsoever which arise from or in connection with INC's negligence or intentional misconduct.

The MSA is governed by the laws of the State of Delaware.

# 12. Material Contracts (Continued)

## 12.4 Chief Scientific Officer's Employment Contract

On 1 February 2010, the Company entered into an employment agreement with Gill Webster (**Webster**), which was amended by a letter agreement dated 2 February 2012 (together **Employment Agreement**).

Pursuant to the terms of the Employment Agreement, Webster is paid an annual salary of NZ$170,625 to perform the role of Chief Scientific Officer of the Company. Significantly, the Employment Agreement provides that any intellectual property rights created, developed or improved by 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 anything further being done by Webster.

The Employment Agreement may be terminated by either party by the giving of one month's written notice to the other. The Company may terminate the Employment Agreement forthwith (and without compensation) if Webster, among other things:

(a) commits any serious or persistent breach of any provision the Employment Agreement;

(b) is guilty of any misconduct or neglect in the discharge of her duties;

(c) becomes bankrupt or makes any arrangement with her creditors; or

(d) is convicted of any criminal offence, other than an offence which in the reasonable opinion of the Chief Executive Officer does not affect Webster's position as an employee of the Company.

In the event of redundancy, the Company may be required to make termination payment to Webster, based on a sliding scale. If Webster 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. Where Webster has not been employed for 1 year, no termination payment is required.

The Employment Agreement contains other customary terms for an employment agreement, including in relation to confidentiality and restricted activities.

## 12.5 Chief Executive Officer's employment arrangements

Prior to 30 September 2013, the Chief Executive Officer (**CEO**) was employed pursuant to an agreement with the CEO's management company, Dreadnought Management Ltd. As part of the process of migrating the Company's place of incorporation to Australia, and in preparation for the Company's proposed Admission, the Company and the CEO mutually terminated the previous arrangement. Consequently, the CEO is presently retained on a month to month basis at the will of the Board. The only terms of the arrangement being that the CEO is paid NZ$15,000 per month and will receive a bonus of NZ$150,000 upon Admission.

Following Admission, the Board intends to offer the CEO an employment contract incorporating customary terms for the CEO of a medical biotechnology company.

## 12.6 Offer Management Agreement

On 18 November 2013 (**Execution Date**), the Company and the Joint Lead Managers entered into an Agreement (**Offer Management Agreement**), pursuant to which the Joint Lead Managers agreed to arrange and manage the Public Offer and use their reasonable endeavours to procure subscriptions for New Shares under the Public Offer.

Pursuant to the Offer Management Agreement, the Company has agreed to:

(a) pay the Joint Lead Managers a total selling fee of 5% of the gross proceeds of the Public Offer to be split equally between them;

(b) pay each Joint Lead Manager a corporate advisory fee of A$50,000; and

(c) pay for and reimburse the Joint Lead Managers for all costs and expenses of and incidental to the Public Offer. This includes the costs and expenses for promotion, advertising, printing, travel, legal, accommodation and other disbursements relating to the Public Offer. The Company will pay the legal fees and disbursements of the Joint Lead Managers up to a maximum of $25,000 plus GST. The Joint Lead Managers must obtain the Company's consent prior to incurring any expense in excess of $2,000 (excluding legal fees).

The Joint Lead Managers are responsible for paying any stamping fees that the Joint Lead Managers may agree to pay to retail brokers.

The obligations of the Joint Lead Managers are subject to, and conditional on, among other things, satisfaction or wavier of each of the following conditions:

(a) (**institutional investment commitment**) institutional investors providing to the Company or the Joint Lead Managers valid Applications representing in aggregate A$5,000,000 on or before the Public Offer Closing Date (refer to Section 5.9 for details of the firm commitments received to date);

(b) (**Due diligence**) the Company implementing and completing due diligence investigations for the Prospectus to the satisfaction of the Joint Lead Managers on or before the date the Prospectus is lodged with ASIC (**Lodgement Date**);

(c) (**Due diligence report**) the delivery of a due diligence report, which must also be addressed to and expressed to be for the benefit of the Joint Lead Managers, in a form and substance satisfactory to the Joint Lead Managers in their absolute discretion, to the Company on or before the Lodgement Date;

(d) (**Legal opinion**) the Company's legal advisers giving a legal opinion to the Joint Lead Managers in relation to the Prospectus, Public Offer, Conversion Offer and due diligence investigations which is addressed to, and expressed to be for the benefit of, the Company, the Directors, the members of the due diligence committee and the Joint Lead Managers, on or before the Lodgement Date;

(e) (**Prospectus**) the Prospectus being lodged with ASIC on or before the Lodgement Date in the form which the Joint Lead Managers consented to be named;

## 12. Material Contracts (Continued)

(f) (**ASX Waivers**) the Company obtaining any required ASX waivers on or before 16 December 2013 (**Approval Date**);

(g) (**Conversion Offer Minimum Subscription**) the Company obtaining the Conversion Offer Minimum Subscription on or before the Conversion Offer Closing Date; and

(h) (**ASX Approval**) ASX indicating in writing by 5:00pm AWST on the Approval Date that it will grant Admission.

A Joint Lead Manager may terminate their obligations under the Offer Management Agreement by providing notice to the Company and the other Joint Lead Manager, if certain events occur, including:

(a) (**ASX indices**) The S&P All Ordinaries Index is, at the close of trading on two consecutive Business Days during the Offer Period or on the Public Offer Closing Date, at a level which is 90% or less than the level at the close of trading on the Execution Date;

(b) **(Breach of material contracts)** A material contract referred to in the Prospectus is, without the prior written consent of the Joint Lead Managers:

(i) breached by the Company, where the counterparty has given, or would likely give, a notice of termination or a notice to remedy the breach;

(ii) terminated (whether by breach or otherwise);

(iii) altered or amended in any way; or

(iv) found to be void or voidable;

(c) **(Listing)** ASX makes any official statement to any person, or indicates to the Company or one or both of the Joint Lead Managers that:

(i) the Company will not be admitted to the Official List or will be granted but is subject to non-customary conditions;

(ii) the Company will not be admitted to the Official List before the Approval Date;

(iii) the notification given by the Share Registry to the Company indicates that the shareholder "spread" requirement in Condition 7 of Listing Rule 1.1 will not be satisfied; or

(iv) a condition for admission to the Official List is not satisfied to enable the New Shares and New Options to be granted quotation on the date set out in the Prospectus or such later date as the Joint Lead Managers approve in writing and before the expiry of the date which is 3 months after the date of the Prospectus;

(d) **(Default)** The Company is in default or breach of term, condition, warranty or undertaking of the Offer Management Agreement which is either incapable of remedy or is not remedied within five Business Days after the Joint Lead Managers give written notice requiring it to be remedied;

(e) **(Prospectus)** The following events occur in relation to the Prospectus:

(i) the Company fails to lodge the Prospectus with ASIC on the Lodgement Date without the Joint Lead Managers' prior written consent;

(ii) there is an omission from the Prospectus of required information;

(iii) the Prospectus contains a misleading or deceptive statement;

(iv) a statement in the Prospectus becomes misleading or deceptive;

(v) a forecast in the Prospectus becomes incapable of being met or unlikely to be met in the projected time;

(vi) the Prospectus does not comply with section 710(1) of the Corporations Act; or

(vii) a new circumstance arises that is materially adverse from an investor's point of view that requires the Company to issue a supplementary or replacement prospectus;

(f) **(Withdrawal or repayment)** Without limiting any other termination event:

(i) the Company is required to repay any Application Monies or give Applicants the option to withdraw their applications and be repaid under section 724(2) of the Corporations Act;

(ii) a person has the right to return the New Shares and have their Application Monies repaid under sections 737 or 738 of the Corporations Act; or

(iii) ASIC requires repayment of any Application Monies;

(g) **(Business)** The Company disposes, or agrees to dispose, of its main undertaking or the whole, or a substantial part, of its business or property or ceases or threatens to cease to carry on business, without the prior written consent of the Joint Lead Managers;

(h) **(Timetable)** The date of an event specified in section 3 of the Prospectus is delayed for more than three Business Days without the Joint Lead Managers' prior written consent;

(i) **(Insolvency event)** An Insolvency Event occurs in respect to the Company; or

(j) **(Supplementary Prospectus)** The Joint Lead Managers reasonably form the view that a supplementary prospectus must be lodged and the Company does not lodge a supplementary prospectus in the form, with the content and within the time reasonably required by the Joint Lead Managers;

(k) **(Termination events)** An event occurs and a Joint Lead Manager determines, acting reasonably, that it has or would have a material adverse effect on the Public Offer or is likely to give rise to liability for the Joint Lead Manager under any law or regulation, which includes any of the following events:

## 12. Material Contracts (Continued)

(i) **(Financial position)** A materially adverse change, or development involving a prospective materially adverse change, occurs in the financial or trading position of the Company;

(ii) **(Withdrawal of consent)** A person who previously consented to the inclusion of its, his or her name in the Prospectus, withdraws that consent;

(iii) **(Prosecution)** Any of the following occur:

(A) a Director or member of senior management of the Company is charged with an indictable offence relating to a financial or corporate matter;

(B) a government agency commences or announces an intention to commence public proceedings against the Company, a Director or member of senior management of the Company which is not dismissed, withdrawn or permanently stayed within 5 Business Days; or

(C) a Director is disqualified from managing a corporation;

(iv) **(Market conditions)** Any change or disruption in the national or international political, financial or economic conditions which has or is likely to have an adverse effect on the Public Offer including without limitation any significant epidemic or pandemic;

(v) **(Change in management)** A change in the board of directors of the Company or in senior management occurs without the prior written consent of the Joint Lead Managers;

(vi) **(Charge)** The Company charges or agree to charge, the whole or a substantial part of its business or property (excluding existing charges existing at the date of the Offer Management Agreement) without the prior written consent of the Joint Lead Managers;

(vii) **(Hostilities)** there is an outbreak of hostilities or a material escalation of hostilities (whether or not war has been declared) after the date of this agreement involving countries such as Australia, the United Kingdom or the United States of America, or a terrorist act is perpetrated on any of those countries or any diplomatic, military, commercial or political establishment of any of those countries anywhere in the world which causes loss of life or significant loss or damage to property, or a national emergency is declared in any of those countries; and

(viii) **(Failure to comply)** The Company fails to materially comply with its Constitution, a relevant law, governmental agency policy or guideline or any agreement the Company has entered into.

The Offer Management Agreement also contains a number of terms and conditions, indemnities, representations and warranties from the Company to the Joint Lead Managers that are considered standard for an agreement of this nature.

## 12.7 Deeds of Indemnity, Access and Insurance

The Company has entered into Deeds of Indemnity, Insurance and Access with each of Michael Quinn and Andrew Sneddon (each a **Deed**) and intends to enter into a Deed with each of the remaining Directors and officers of the Company (each an **Indemnified Party**) within in a reasonable time after Admission. Set out below is a summary of the material terms of the Deed.

(a) **General indemnity**

The Company agrees to indemnify the Indemnified Party against all liabilities incurred by the Indemnified Party as a director or officer of the Company or a Relevant Company, to the extent permitted by law.

The indemnity includes "legal expenses", which are defined as expenses incurred:

(i) in defending any proceedings relating to the Indemnified Party's position with the Company or a Relevant Company, whether civil or criminal, in which judgment is given in the Indemnified Party's favour or in which the Indemnified Party is acquitted or which are withdrawn before judgment;

(ii) in connection with any administrative proceedings relating to the Indemnified Party's position with the Company or a Relevant Company, except proceedings which give rise to civil or criminal proceedings against the Indemnified Party in which judgment is not given in the Indemnified Party's favour or in which the Indemnified Party is not acquitted or which arise out of conduct involving a lack of good faith; or

(iii) in connection with any proceedings relating to the Indemnified Party 's position with the Company or a Relevant Company, whether civil or criminal, in which relief is granted to the Indemnified Party under the Corporations Act by the court.

(b) **Other indemnities**

The Indemnified Party must repay to the Company any amount paid to the Indemnified Party under the Deed to the extent that the Indemnified Party receives money or is reimbursed under the insurance policy maintained by the Company in relation to Section 12.7(e) below or any other contract of insurance, or otherwise from any third party, in respect of any matters the subject of a payment or advance from the Company under the Deed. The Indemnified Party must repay any such amount within 30 days after receipt of the relevant payment.

(c) **Insurance**

To the extent permitted by law, the Company agrees that from the date of the Indemnified Party 's appointment until the Retirement Date, and, subject to Section 12.7(e), during the Insurance Run-Off Period, it will use its reasonable endeavours to procure and pay the premium for an insurance policy which insures the Indemnified Party against all liabilities incurred by the Indemnified Party acting directly or indirectly as a director or officer of the Company or a Relevant Company.

(d) **Access**

During the Access Period, the Company is required to provide the Indemnified Party with access to the Company's records (including, among others, Board papers, minutes, legal opinions, and other documents which the Company is required to keep by law). In addition, the Indemnified Party is entitled to make a copy of such documents.

(e) **Insurance run-off**

The provisions of the Deed relating to the provision and payment of the premium for an insurance policy insuring the Indemnified Party during the Insurance Run-Off Period are subject to Shareholder approval (to the extent required), in accordance with the requirements of the Corporations Act.

The Company has obtained advice that the provision of and/or payment of a premium for an insurance policy insuring a Director during the Insurance Run-Off Period constitutes a "benefit" within the meaning of Chapter 2D of the Corporations Act and, therefore, requires Shareholder approval under Chapter 2E of the Corporations Act, in accordance with section 200B of the Corporations Act.

The Company intends to seek Shareholder approval under Chapter 2E of the Corporations Act at a later date and, as such, the provisions of the Deed relating to the provision of and/or payment of an insurance premium during the Insurance Run-Off Period will not take effect until such approval has been obtained.

## 12.8 Voluntary Restriction Agreements

As set out in Section 5.5, the Company intends to seek to enter into escrow agreements with existing Shareholders, who collectively hold up to 19.8% of the issued Shares as at the date of this Prospectus, to impose restrictions on their ability to transfer their existing Shares for a period of 24 months from the date on which Shares commence trading on ASX, subject to limited exceptions (each a **Voluntary Restriction Agreement**).

A summary of the terms of the Voluntary Restriction Agreement that the Company has entered into with existing Shareholders, and intends to enter into with other existing Shareholders is set out below.

Pursuant to the Voluntary Restriction agreement, the Shareholder agrees that, during the Voluntary Escrow Period (as defined below), the Shareholder may not:

(a) dispose of, or agree to dispose of, the Shares held by them (**Escrowed Securities**);

(b) create, or agree or offer to create, any security interest in the Escrowed Securities; or

(c) cause or allow the effective ownership or control of the Escrowed Securities to change or be transferred,

(the **Escrow Restrictions**).

The Company and the Shareholder agree that the Escrow Restrictions will expire on the earlier of the following (**Voluntary Escrow Period**):

(a) the expiry of the 24 month period from the date on which Shares commence trading on ASX;

(b) the date on which both:

(i) the offeror under a takeover offer in respect of all Shares in the Company announces that it has achieved acceptances in respect of more than 50% of the Shares in the Company; and

(ii) that takeover bid has become unconditional;

(c) the date on which the Company announces that Shareholders have, at a Court convened meeting of Shareholders, voted in favour, by the necessary majority, of a proposed scheme of arrangement under which all Shares in the Company are to be either cancelled or transferred to a third party;

(d) the date on which the Company announces that it has received a final clinical study report for the Phase 2B trial it is conducting in relation to MIS416; or

(e) the date on which the Company announces that it has granted a licence for the use of MIS416 to treat multiple sclerosis in one or more of the following countries: United Kingdom, France, Germany, Italy, Spain, the United States of America and Japan.

During the Voluntary Escrow Period, the Share Registry may apply a holding lock to the Escrowed Securities.

# 13. Additional information

## 13.1 Litigation and claims

So far as the Directors are aware, there is no current or threatened civil litigation, arbitration proceedings or administrative appeals, or criminal or governmental prosecutions of a material nature in which the Company is directly or indirectly concerned which is likely to have a material adverse effect on the business or financial position of the Company.

## 13.2 Interests of Directors

No Director of the Company (or entity in which they are a partner or director) has, or has had in the 2 years before the date of this Prospectus, any interests in:

(a) the formation or promotion of the Company; or

(b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion of the Offers; or

(c) the Offers, and

no amounts have been paid or agreed to be paid and no value or other benefit has been given or agreed to be given to:

(d) any Director to induce him or her to become, or to qualify as, a Director; or

(e) any Director of the Company for services which he or she (or entity in which they are a partner or director) has provided in connection with the formation or promotion of the Company or the Offer,

except as disclosed in this Prospectus and as set out in this Section 13.

## 13.3 Directors holdings

The Directors and their related entities have the following interests in the Securities of the Company as at the date of this Prospectus:

| Director | Shares Held | % of Total Shares on Issue | Options |
|---|---|---|---|
| Simon Wilkinson | 100,000[1] | 0.10% | 2,300,000[2] |
| Christopher Collins | 17,858,334[3] | 18.02% | 4,125,000[4] |
| Liz Hopkins | - | - | 1,000,000 |
| Michael Quinn | 416,667[5] | 0.42% | 1,625,000 |
| Andrew Sneddon | - | - | 1,125,000 |

**Notes:**

1. Simon Wilkinson holds 50,000 Shares directly and a further 50,000 Shares are held by Mr Wilkinson's wife. 25,000 Shares are held by the GP120 Trust of which Mr Wilkinson is a trustee but not a beneficiary.
2. 1,300,000 Options are exercisable on or before 22 July 2017 at an exercise price of US$0.60). The remaining 1,000,000 Options are exercisable at A$0.45 on or before 5 November 2018. Mr Wilkinson will become entitled to a further 700,000 Options upon commencement of the Phase 2B trial. These Options will have an exercise price of US$0.60 and will expire on the fifth anniversary of the date of issue.
3. 11,458,334 Shares are held directly by Christopher Collins. A further 3,200,000 Shares are held by Caitlin C Collins (Christopher Collins' daughter) and a further 3,200,000 Shares are held by Cameron C Collins (Christopher Collins' son).
4. These comprise:
   (a) 1,250,000 exercisable at US$0.40 and expiring 24 September 2017.
   (b) 625,000 exercisable at US$0.40 and expiring 1 May 2018.
   (c) 1,250,000 exercisable at US$0.40 and expiring 5 November 2018.
   (d) 1,000,000 exercisable at US$0.40 and expiring 5 November 2018.
5. These Shares are held directly by Mr Quinn.

Based on the intentions of the Directors as at the date of this Prospectus in relation to the Public Offer and, where applicable, pursuant to the Conversion Offer, the Directors and their related entities will have the following interests in the Securities of the Company, on Admission:

| Director | Shares Held | % of Total Shares on Issue[6] | Options | Loyalty Rights |
|---|---|---|---|---|
| Simon Wilkinson[1] | 100,000 | 0.06% | 2,300,000 | 33,333 |
| Christopher Collins[2] | 25,098,732 | 14.54% | 5,935,100 | 5,952,778 |
| Liz Hopkins[3] | - | - | 1,000,000 | - |
| Michael Quinn[4] | 799,599 | 0.46% | 1,720,733 | 138,889 |
| Andrew Sneddon[5] | 254,390 | 0.15% | 1,188,598 | - |

**Notes:**

1. Simon Wilkinson holds 50,000 Shares directly and a further 50,000 Shares are held by Mr Wilkinson's wife. The GP120 Trust of which Mr Wilkinson is a trustee but not a beneficiary also holds 25,000 Shares. 1,300,000 Options are exercisable on or before 22 July 2017 at an exercise price of US$0.60). The remaining 1,000,000 Options are exercisable at A$0.45 on or before 5 November 2018. Mr Wilkinson will become entitled to a further 700,000 Options upon commencement of the Phase 2B trial. These Options will have an exercise price of US$0.60 and will expire on the fifth anniversary of the date of issue. 16,667 Loyalty Rights will be held directly by Mr Wilkinson and the remaining 16,666 Loyalty Rights will be held by his wife.
2. 18,698,732 Shares will be held directly by Christopher Collins. A further 3,200,000 Shares will be held by Caitlin C Collins, Christopher Collins' daughter, and a further 3,200,000 Shares will be held by Cameron C Collins, Christopher Collins' son. The Options held directly by Mr Collins comprise:
   (a) 1,250,000 exercisable at US$0.40 and expiring 24 September 2017.

(b) 625,000 exercisable at US$0.40 and expiring 1 May 2018.
(c) 1,250,000 exercisable at US$0.40 and expiring 5 November 2018.
(d) 1,000,000 exercisable at US$0.40 and expiring 5 November 2018.
(e) 1,810,100 Conversion Options.

In relation to the Loyalty Rights, 3,819,444 will be held directly by Mr Collins. A further 1,066,667 will be held by each of Caitlin C Collins (Christopher Collins' daughter) and Cameron C Collins (Christopher Collins' son)

3. Comprising 1,000,000 Employee Options issued under the New Employee Share Option Plan, exercisable at A$0.45 and expiring 5 November 2018.
4. 416,667 Shares are held directly by Mr Quinn. A further 382,932 Shares will be held by Kaylara Pty Ltd ATF Straflo Superannuation Fund. The Options comprise 1,500,000 Employee Options granted under the New Employee Share Option Plan, exercisable at A$0.45 and expiring 5 November 2018, 125,000 options exercisable at A$0.40 and expiring 19 September 2018, and 95,733 Conversion Options. All Options will be held by Kaylara Pty Ltd ATF Straflo Superannuation Fund. All Loyalty Rights will be held directly by Mr Quinn.
5. The Shares will be held by Andrew & Judy Sneddon <The Sneddon Family Trust A/C>. The Options comprise: 1,000,000 Employee Options granted pursuant to the New Employee Share Option Plan, exercisable at A$0.45 and expiring 5 November 2018, 125,000 Options exercisable at A$0.40 and expiring 19 September 2018, and 63,598 Conversion Options.
6 Based on a minimum subscription of A$10,000,000 and a total of 172,621,232 Shares on issue on Admission.

## 13.4 Remuneration of Directors

The current Directors have received the following remuneration since 31 March 2011:

| Director | 01/04/11-31/03/12 | 01/04/12-31/03/13 | 01/04/13-Present |
|---|---|---|---|
| Simon Wilkinson | NZ$180,000 | NZ$180,000 | NZ$120,000[1] |
| Christopher Collins[2] | - | - | - |
| Liz Hopkins | NZ$50,000 | NZ$50,000 | NZ$33,334[3] |
| Michael Quinn | - | - | -[4] |
| Andrew Sneddon | - | - | -[5] |

**Notes:**

1. In addition to his current remuneration of NZ$15,000 per month, Mr Wilkinson will receive a bonus of NZ$150,000 upon Admission.
2. As a Congressman in the US House of Representatives, Mr Collins is precluded from receiving any remuneration from the Company.
3. From Admission, Ms Hopkins will receive annual remuneration of A$20,000
4. From Admission, Mr Quinn will receive annual remuneration of A$25,000.
5. From Admission, Mr Sneddon will receive annual remuneration of A$20,000.

## 13.5 Interests of promoters, experts and advisers

Other than as set out below or elsewhere in this Prospectus, no:

(a) person named in this Prospectus as having performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of the Prospectus (or entity in which they are a partner or director);

(b) promoter of the Company; or

(c) underwriter (but not a sub-underwriter) to the Offers or a financial services licensee names in this Prospectus as a financial services licensee involved in the issue,

holds, or has held in the 2 years before the date of lodgement of this Prospectus with ASIC, any interest in:

(d) the formation or promotion of the Company; or

(e) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offers; or

(f) the Offers,

and no amounts have been paid or agreed to be paid and no value or other benefit has been given or agreed to be paid to any of these persons for services provided in connection with the formation or promotion of the Company or the Offers, except as disclosed in this Prospectus and as follows:

(a) Hardy Bowen has acted as legal advisers to the Company as to matters of Australian law in relation to the Offers. The Company estimates it will pay Hardy Bowen A$175,000 for these services. Subsequently, fees will be charged in accordance with normal charge out rates.

(b) Grant Thornton Audit Pty Ltd has prepared the Investigating Accountant's Report included in Section 9 and Grant Thornton New Zealand Audit Partnership has provided information to assist with the completion of this report. In respect of this work, the Company will pay approximately A$20,000 to Grant Thornton Audit Pty Ltd and A$10,000 to Grant Thornton New Zealand Audit Partnership.

(c) Shelston IP has prepared the Intellectual Property Title Report included in Section 10. In respect of this work, the Company will pay approximately A$4,000 to Shelston IP.

(d) Patersons Securities Ltd has been engaged to act as Joint Lead Manager to the Public Offer. In respect of this work, the Company will pay to Patersons Securities Ltd a corporate advisory fee A$50,000 plus such fees that payable under the terms of the Offer Management Agreement, based on the amount of funds raised under the Public Offer. Refer to Sections 12.6 and 13.10 for further information.

(e) Morgans Corporate Limited has been engaged to act as Joint Lead Manager to the Public Offer. In respect of this work, the Company will pay to Morgans Corporate Limited a corporate advisory fee A$50,000 plus such fees that are payable under the terms of the Offer Management Agreement, based on the amount of funds raised under the Public Offer. Refer to Sections 12.6 and 13.10 for further information.

# 13. Additional Information (Continued)

(f) Buchan Pty Ltd, the Company's corporate affairs and public relations advisers are entitled to be paid up to $50,000 in respect of services provided to the Company in connection with the Public Offer.

The amounts disclosed above are exclusive of any amount of GST payable by the Company in respect of those amounts.

## 13.6 Related Party transactions

Except as set out below and elsewhere in this Prospectus, the Directors are not aware of any material transactions between the Company and related parties and/or Directors.

(a) **Loan agreements with Christopher C Collins**

(i) 24 September 2012 and 5 November 2013

On 24 September 2012, the Company entered into loan agreement with Christopher C Collins, a Director (**Collins Loan No.1**), which was subsequently amended pursuant to a letter agreement dated 5 November 2013 (**Letter Agreement**). Under the terms of the Collins Loan No.1, Collins advanced US$500,000 to the Company. Interest is charged at the rate of 8% per annum and the loan is repayable on completion of the Company's next capital raising, following the date of the loan, or 12 months from the first draw down, whichever is earlier. In addition, Collins was issued with 1,250,000 options (exercisable at US$0.40 on or before 27 October 2017).

Under the Letter Agreement, the Company agreed to issue a further 1,250,000 options (exercisable at US$0.40 on or before the fifth anniversary of the date of issue) in consideration for Mr Collins agreeing to extend the final payment date under the Collins Loan No.1 from the date which is 12 months from first draw down to 30 April 2014. Pursuant to the Letter Agreement, Mr Collins agreed that he will apply for Securities under the Conversion Offer equal to the value of all principal and interest owing under the Collins Loan No.1, as described in Section 5.11.

In addition, under the Letter Agreement, Mr Collins agreed to make available to the Company an additional loan facility of US$300,000, which may be drawn down at any time before 5:00pm AEDT on 20 December 2013 (**Additional Facility**). Any amount drawn down under the Additional Facility incurs interest at the rate of 8% per annum. All principal and interest owing under the Additional Facility must be repaid within 30 days of the Company's listing on ASX. In consideration for making the Additional Facility available, the Company agreed to issue Mr Collins a further 1,000,000 options exercisable at A$0.40 on or before the fifth anniversary of the date of issue.

(ii) 3 May 2013

On 3 May 2013, the Company entered into loan agreement with Christopher C Collins (**Collins Loan No.2**). Under the terms of the Collins Loan No.2, Collins advanced US$250,000 to the Company. Interest is charged at the rate of 8% per annum and the loan is repayable on completion of the Company's next capital raising, following the date of the loan, or 12 months from the first drawn down, whichever is earlier. In addition,

Collins was issued with 625,000 options (exercisable at US$0.40 on or before 1 May 2018).

(iii) 10 July 2013

On 10 July 2013, the Company entered into loan agreement with Christopher C Collins (**Collins Loan No.3**). Under the terms of the Collins Loan No.2, Collins advanced US$250,000 to the Company. Interest is charged at the rate of 8% per annum and the loan is repayable on completion of the Company's next capital raising, following the date of the loan, or 12 months from the first drawn down, whichever is earlier. In addition, Collins was issued with 625,000 options (exercisable at US$0.40 on or before 10 July 2018).

Mr Collins has indicated that he will apply for Securities under the Conversion Offer equal to the value of the outstanding principal and interest under the Collins Loan No.1, Collins Loan No.2 and Collins Loan No.3, as described in Section 5.11.

(b) **Innate Notes held by Christopher C Collins**

On 1 February 2009, the Company entered into a convertible promissory note with Mr Collins (**Collins Innate Note**). The key terms of the Collins Innate Note are as follows:

(i) Principal Amount: US$225,000;

(ii) Interest Rate: 8% per annum;

(iii) Due Date: originally, the due date was 1 February 2013. However, the Company and Mr Collins have agreed to extend this to 27 December 2013;

(iv) Conversion Rights: convertible into Shares, at any time, at the election of the holder. All principal and interest shall convert at the rate of A$0.30 per Share.

Mr Collins has indicated that he will apply for Securities under the Conversion Offer, equal to the face value and the outstanding interest of the Collins Innate Note, as described in Section 5.11.

(c) **Kaylara Loan Agreement**

On 19 September 2013, the Company entered into a loan agreement with Kaylara Pty Ltd <Straflo Superannuation Fund> (**Kaylara**), a company of which Mr Quinn is a director (**Kaylara Loan Agreement**).

Under the terms of the Kaylara Loan Agreement, Kaylara advanced the Company A$50,000. Interest accrues at the rate of 8% per annum. The Company must repay the amount advanced and all interest at the completion of the Public Offer. Alternatively, Kaylara may elect to convert all outstanding principal and interest into Shares at a conversion price of A$0.30.

As described in Section 5.11, Kaylara will apply for Securities under the Conversion Offer equal to the value of the debt outstanding under the Kaylara Loan Agreement.

(d) **Innate Notes held by Michael Quinn**

On 1 August 2009, the Company entered into a convertible promissory note with Mr Quinn (**Quinn Innate Note**). The key terms of the Quinn Innate Note are as follows:

(i) Principal Amount: US$18,000;

(ii) Interest Rate: 8% per annum;

(iii) Due Date: originally, the due date was 1 February 2013. However, the Company and Mr Collins have agreed to extend this to 3 December 2013;

(iv) Conversion Rights: convertible into Shares, at any time, at the election of the holder. All principal and interest shall convert at the rate of A$0.30 per Share.

Mr Quinn has indicated that he will apply for Securities under the Conversion Offer, equal to the face value and the outstanding interest of the Quinn Innate Note, as described in Section 5.11.

(e) **Sneddon Loan Agreement**

On 19 September 2013, the Company entered into a loan agreement with Andrew Sneddon and Judy Sneddon <The Sneddon Family Trust A/C> (**Sneddon Loan Agreement**).

Under the terms of the Sneddon Loan Agreement, Andrew Sneddon and Judy Sneddon advanced the Company A$50,000. Interest accrues at the rate of 8% per annum. The Company must repay the amount advanced and all interest at the completion of the Public Offer. Alternatively, Andrew and Judy Sneddon may elect to convert all outstanding principal and interest into Shares at a conversion price of A$0.30.

As described in Section 5.11, Mr Sneddon will apply for Securities under the Conversion Offer equal to the value of the debt outstanding under the Sneddon Loan Agreement.

The Board considers that all of the agreements referred to in this Section 13.6 are on "arm's length" terms, given that, with the exception of the Additional Facility, they are on the same terms as agreements with other RPS Holders, Innate Noteholders and Loan Counterparties. The Board considers the Additional Facility to be on "arm's length" terms as it was the best offer available to the Company to provide short term bridging finance.

## 13.7 Taxation implications

The acquisition and disposal of Securities will have tax consequences, which will differ depending on the individual financial affairs of each Shareholder and/or investor. All Shareholders and potential investors in the Company are urged to take independent financial advice about the taxation and any other consequences of investing in the Company.

To the maximum extent permitted by law, the Company, its officers and each of their respective advisers accept no liability or responsibility with respect to the taxation consequences of subscribing for Securities under this Prospectus.

## 13.8 Restricted Securities

Chapter 9 of the Listing Rules prohibits holders of Restricted Securities from disposing of those securities or an interest in those securities, or agreeing to dispose of those securities or an interest in those securities, for the relevant restriction periods. The holder is also prohibited from granting a security interest over those securities.

ASX has provided the Company with in-principle advice that the following Securities held (or to be held) by related parties and promoters of the Company will be classified as Restricted Securities for a period of 24 months, from the date that the Shares commence trading on ASX:

| Type of Security | Number Classified as Restricted Securities |
|---|---|
| Shares | 6,977,703 |
| Existing Options | 10,275,000 |
| Loyalty Rights | 3,765,111 |

In addition, the Company expects that all Conversion Options (being 5,881,469 Conversion Options) issued pursuant to the Conversion Offer will be classified as Restricted Securities. Other than the Conversion Options, none of the Securities to be issued pursuant to the Offers are expected to be classified as Restricted Securities. As noted in Section 4.13, the Company intends to make an application to ASX for relief from the requirement to escrow the Conversion Options issued pursuant to the Conversion Offer.

As noted, in Section 5.5, in addition to the Restricted Securities, at the date of this Prospectus, 23 existing Shareholders, representing approximately 19,643,773 Shares (19.8% of Shares on issue at the date of this Prospectus) have entered into Voluntary Restriction Agreements.

In addition to the Voluntary Restriction Agreements, Director, Chris Collins, and his Associates, have provided the Company with written confirmation that if ASX does not impose escrow restrictions on Shares held by them on Admission, they do not intend to deal in those Shares for a period of 24 months from the date on which the Shares commence trading on ASX. The Company has not entered into any agreement with Chris Collins in relation to these arrangements as any such agreement would result in the Company obtaining a relevant interest in the Shares held by Chris Collins and his Associates. The Company already has a relevant interest in 19.8% of its Shares pursuant to the Voluntary Restriction Agreements. Entering into any agreement with Chris Collins would result in the Company breaching the takeover prohibition in section 606 of the Corporations Act.

The combined number of Shares which will be covered by ASX imposed Restriction Agreements, Voluntary Escrow Agreements and the statement of intention by Chris Collins and his Associates is 45,041,041 Shares, representing approximately 24.66% of the Shares on issue on Admission, assuming the Maximum Subscription under the Offers.

# 13. Additional Information (Continued)

## 13.9 ASX Waivers

ASX has provided in-principle advice that it will grant the Company waivers from the following Listing Rules:

| Listing Rule (LR) | Nature of Waiver |
|---|---|
| LR 1.1 (condition 11) | To permit the Company to have 1,752,348 options on issue with an exercise price of less than A$0.20 (the options have an exercise price of NZ$0.20). |
| LR 6.16, 6.19, 6.20 and 6.22 | To permit the Company to continue the Old Employee Option Plan, notwithstanding that it does not comply with:<br>• LR 6.16 in relation to allowing the rights of an optionholder to be changed to comply with the Listing Rules applying to a reorganisation of capital;<br>• LR 6.19 in relation to the fact that an option's terms must contain a statement of the rights of a holder to participate in new issues, without exercising the option;<br>• LR 6.20 in relation to the fact an option must not confer the right to participate in a new issue without the exercising the option, except in limited circumstances; and<br>• LR 6.22 in relation to the fact that an option may confer a right to a change in exercise price, or a change to the number of underlying securities over which it can be exercised in certain circumstances. |

## 13.10 Expenses of the Offers

The total expenses of the Offers payable by the Company are shown in the table below[1]:

| | Minimum Subscription of A$10 Million | Maximum Subscription of A$12 Million |
|---|---|---|
| ASIC Lodgement Fee | 2,000 | 2,000 |
| ASX Listing Fee | 97,000 | 99,000 |
| Joint Lead Manager Fees[2] | 600,000 | 700,000 |
| Legal Fees (Australia)[3] | 200,000 | 200,000 |
| Legal Fees (NZ) | 4,000 | 4,000 |
| Legal Fees (US) | 5,000 | 5,000 |
| Investigating Accountant's Report | 30,000 | 30,000 |
| Patent Attorney (Shelston IP) Fees | 5,000 | 5,000 |

| | Minimum Subscription of A$10 Million | Maximum Subscription of A$12 Million |
|---|---|---|
| Marketing Fees | 60,000 | 60,000 |
| Printing and despatch | 25,000 | 25,000 |
| Share Registry | 15,000 | 15,000 |
| CEO bonus upon Admission | 132,000 | 132,000 |
| **TOTAL** | **1,175,000** | **1,277,000** |

**Notes:**

1. All figures have been rounded to the nearest thousand dollars.
2. This figure includes a corporate advisory fee of A$50,000 payable to each Joint Lead Manager and a total fee equal to 5% of the gross proceeds of the Public Offer.
3. This figure includes the legal fees of the Company's Australian legal advisers and the legal fees of the Joint Lead Managers' legal advisers.

## 13.11 Unmarketable parcels

Following Admission, the Company reserves the right to utilise the provisions of its Constitution which empower the Company to sell Shares held by a member, where the total number of Shares held by a member is less than a marketable parcel.

Pursuant to the ASX Operating Rules, a "marketable parcel" refers to a parcel of securities which has a value of not less than A$500, based on the closing price of those securities.

## 13.12 Privacy

The Company collects information about each Applicant provided on an Application Form for the purposes of processing the Application and, if the Application is successful, to administer the Applicant's Security holding in the Company.

By submitting an Application Form, each Applicant agrees that the Company may use the information provided by an Applicant on the Application Form for the purposes set out in this privacy disclosure statement and may disclose it for those purposes to the Share Registry, the Company's related bodies corporate, agents, contractors and third party service providers, including mailing houses and professional advisers, and to ASX and regulatory authorities.

If an Applicant becomes a Shareholder, the Corporations Act requires the Company to include information about the Shareholder (including name, address and details of the Shares held) in its public register. The information contained in the Company's public register must remain there even if that person ceases to be a Shareholder. Information contained in the Company's register is also used to facilitate distribution payments and corporate communications (including the Company's financial results, annual reports and other information that the Company may wish to communicate to its Shareholders) and compliance by the Company with legal and regulatory requirements.

# 13. Additional Information (Continued)

If you do not provide the information required on the Application Form, the Company may not be able to accept or process your Application. An Applicant has a right to gain access to the information that the Company holds about that person subject to certain exemptions under law. A fee may be charged for access. Access requests must be made in writing to the Company's registered office.

## 13.13 Consents

Each of the parties referred to in this Section 13.13:

(a) has given the following consents in accordance with the Corporations Act which have not been withdrawn as at the date of lodgement of this Prospectus with ASIC; and

(b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than a reference to its name and a statement included in this Prospectus with the consent of that party as specified in this Section.

Hardy Bowen has given and has not, before the date of this Prospectus, withdrawn its written consent to be named as legal adviser to the Company as to matters of Australian law.

Grant Thornton Audit Pty Ltd has given its written consent to be named as Investigating Accountant to the Company, and to the inclusion of the Investigating Accountant's Report in Section 9 in the form and context in which it is included, and to the inclusion of the financial information in Section 8.4 in the form and context in which it is included. Grant Thornton Audit Pty Ltd has not withdrawn its consent prior to lodgement of this Prospectus with ASIC.

Grant Thornton New Zealand Audit Partnership has given its written consent to being named as auditor of the historical financial information for the years ended 31 March 2013, 31 March 2012 and 31 March 2011 compiled in New Zealand dollars, which has since been converted into the Company's presentation currency, Australian Dollars (A$), and reviewed by Grant Thornton Audit Pty Limited and included in Section 8.4. Grant Thornton New Zealand Audit Partnership has not withdrawn its consent prior to lodgement of this Prospectus with ASIC.

Shelston IP has given its written consent to be named as the Company's patent attorneys and to the inclusion of the Intellectual Property Title Report in Section 10 in the form and context in which the report was included. Shelston IP has not withdrawn its consent prior to lodgement of this Prospectus with ASIC.

Patersons Securities Ltd has given its written consent to being named as Joint Lead Manager to the Public Offer. Patersons Securities Ltd has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

Morgans Corporate Limited has given its written consent to being named as Joint Lead Manager to the Public Offer. Morgans Corporate Limited has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

Computershare Investor Services Pty Limited has given and, as at the date hereof, has not withdrawn, its written consent to be named as Share Registry in the form and context in which it is named. Computershare Investor Services Pty Limited has had no involvement in the preparation of any part of the Prospectus other than being named as Share Registry. Computershare Investor

Services Pty Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of the Prospectus.

Buchan Pty Ltd has given its written consent to being named as the Company's corporate affairs and public relations advisers. Buchan Pty Ltd has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

Australian Ethical Smaller Companies Trust has given its written consent to being named in the Prospectus in the form and context in which it is named. Australian Ethical Smaller Companies Trust has not withdrawn its consent prior to the lodgement of this Prospectus with ASIC.

None of the parties referred to above in this Section 13.13 authorised or caused the issue of this Prospectus or the making of the Offers.

Each of the Directors has given their written consent to being named in this Prospectus in the context in which they are named and have not withdrawn their consent prior to lodgement of this Prospectus with ASIC.

## 13.14 Electronic Prospectus

Pursuant to Class Order 00/44, ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an Electronic Prospectus on the basis of a paper Prospectus lodged with ASIC and the issue of shares in response to an electronic application form, subject to compliance with certain provisions. If you have received this Prospectus as an Electronic Prospectus please ensure that you have received the entire Prospectus accompanied by the Application Form(s). If you have not, please email the Company and the Company will send to you, for free, either a hard copy or a further electronic copy of this Prospectus or both.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the Electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered. In such a case, the Application Monies received will be dealt with in accordance with section 722 of the Corporations Act.

## 13.15 Exchange rates

For the purposes of converting the issue price of New Shares from A$ to NZ$ and for converting the value of NZ$ and US$ denominated amounts to A$, the following exchange rates have been used, unless indicated otherwise.

(a) A$1.00 : NZ$1.1364 (being the equivalent of NZ$1.00 : A$0.88); and

(b) A$1.00 : US$0.95.

## 14. Directors' Responsibility Statement and Consent

This Prospectus is authorised by the Company and lodged with ASIC pursuant to section 718 of the Corporations Act.

Each of the Directors of the Company has consented to the lodgement of this Prospectus with ASIC, in accordance with section 720 of the Corporations Act, and has not withdrawn that consent.

Mr Michael A Quinn
**Chairman**
For and on behalf of Innate Immunotherapeutics Limited

Date: 25 November 2013

## 15. Glossary of Terms

| | |
|---|---|
| **A$ or AUD** | means Australian dollars. |
| **Access Period** | means, in relation to the Company or a Relevant Company, the period commencing on the Effective Date and expiring on the date 7 years after the Retirement Date. |
| **Accredited Investors** | has the meaning given in Regulation D under the US Securities Act of 1933. |
| **Admission** | means admission of the Company to the Official List, following completion of the Offers. |
| **AEDT** | means Australian Eastern Daylight Time, as observed in Sydney, New South Wales. |
| **Allotment** | means the allotment of the Securities being offered pursuant to this Prospectus. |
| **Applicant** | means an investor seeking to apply for New Shares using an Application Form pursuant to this Prospectus. |
| **Application** | means an application made to subscribe for New Shares under this Prospectus. |
| **Application Form** | means the Public Offer Application Form and/or the Conversion Offer Application Form, as the context requires. |
| **Application Monies** | means monies received from persons applying for New Shares pursuant to the Public Offer under this Prospectus. |
| **ASIC** | means the Australian Securities and Investments Commission. |
| **Associate** | has the meaning given in the Corporations Act |
| **ASX** | means ASX Limited ABN 98 008 624 691 or, as the context requires, the financial market conducted by it. |
| **ASX Listing Rules or Listing Rules** | means the official listing rules of ASX. |
| **AWST** | means Australian Western Standard Time, as observed in Perth, Western Australia. |
| **Board** | means the board of directors of the Company. |
| **Business Day** | means a day on which trading takes place on ASX. |
| **CEO** | has the meaning given in Section 12.5. |

# 15. Glossary of Terms (Continued)

| | |
|---|---|
| **Closing Date** | means the Public Offer Closing Date or the Conversion Offer Closing Date, as the context requires. |
| **Code** | means the United States *Internal Revenue Code of 1986*, as amended or replaced from time to time. |
| **Company, Innate or Innate Immunotherapeutics** | means Innate Immunotherapeutics Limited ABN 16 165 160 841. |
| **Constitution** | means the Constitution of the Company from time to time. |
| **Conversion Offer** | has the meaning given in Section 5.11. |
| **Conversion Offer Application Form** | means the Conversion Offer Application Form provided to Innate Noteholders, RPS Holders and Loan Counterparties, together with this Prospectus |
| **Conversion Offer Closing Date** | has the meaning given in Section 5.11. |
| **Conversion Offer Minimum Subscription** | has the meaning given in Section 5.11. |
| **Conversion Option** | means an Option having the terms set out in Section 11.2 |
| **Corporations Act** | means the *Corporations Act 2001* (Cth). |
| **Directors** | means the directors of the Company. |
| **EDSS** | has the meaning given in Section 6.5. |
| **Effective Date** | means the later of:<br>(a) the date and time at which the Director is or was appointed as a Director of the Company; or<br>(b) the date and time at which the Company was registered as an Australian public company. |
| **Employee Options** | means an Option issued under the Old Employee Share Option Plan or the New Employee Share Option Plan. |
| **Ethics Committee** | means a group formally designated to protect the rights, safety and well-being of humans involved in a clinical trial by reviewing all aspects of the trial and approving its start-up. |
| **Exposure Period** | means the period of 7 days after the date of lodgement of the original prospectus dated 18 November 2013. This period may be extended by ASIC by not more than 7 days pursuant to section 727(3) of the Corporations Act. |
| **FDA** | has the meaning given in Section 6.7. |
| **GMP** | has the meaning given in Section 6.3. |

| | |
|---|---|
| **Group** | means the Company and each of its subsidiaries (if any) from time to time. |
| **Incentive Stock Options** | means an Option that satisfies the requirements of section 422 of the Code. |
| **IND** | has the meaning given in Section 4.11. |
| **Indemnified Party** | has the meaning given in Section 12.7. |
| **Innate Note Repayment** | has the meaning given in Section 5.11. |
| **Innate Notes** | means promissory notes of the Company with a face value of:<br>(a) US$639,000 issued on 31 January 2009;<br>(b) US$72,000 issued on 31 July 2009; and<br>(c) US$171,000 issued on 31 August 2009. |
| **Innate Noteholders** | means the holders of Innate Notes. |
| **Insolvency Event** | means any of the following events concerning a party:<br>(a) if an administrator, liquidator, receiver, receiver and manager or other controller (as defined in the Corporations Act) is appointed to, or over, any of the property or undertaking of the party;<br>(b) if the party becomes bankrupt;<br>(c) if the party suspends payment of its debts generally;<br>(d) if a controlling trustee is appointed to, or over, any of the property or undertaking of the party;<br>(e) the party or the party's property or undertaking becomes subject to a personal insolvency arrangement under part X of the *Bankruptcy Act 1966* (Cth) or a debt agreement under part IX of the *Bankruptcy Act 1966* (Cth);<br>(f) if the party is unable to pay its debts when they become due and payable;<br>(g) if the party ceases to carry on business; or<br>(h) if any event happens in Australia or any other country or territory in respect of a party that is similar to any of the events or circumstances referred to in this definition. |

# 15. Glossary of Terms (Continued)

| | |
|---|---|
| **Insurance Run-off Period** | means that period commencing on the Retirement Date and expiring on the earlier of:<br>(a) the date 7 years after the Retirement Date; or<br>(b) where run-off insurance cannot be procured at reasonable premiums for the full period in paragraph (a), the latest date to which run-off insurance can be procured. |
| **Intellectual Property Title Report** | means the report contained in Section 10. |
| **Investigating Accountant** | means Grant Thornton Audit Pty Ltd. |
| **Investigating Accountant's Report** | means the report contained in Section 9. |
| **Joint Lead Managers** | means Patersons and Morgans. |
| **Killer T cells** | means a type of immune cell which can destroy other cells. |
| **Leased Premises** | has the meaning given in Section 4.5(f). |
| **Loan Counterparties** | has the meaning given in Section 5.11. |
| **Loans** | has the meaning given in Section 5.11. |
| **Loans Repayment** | has the meaning given in Section 5.11. |
| **Lodgement Date** | means the date referred to in Section 3. |
| **Loyalty Rights** | means the Loyalty Rights having the terms and conditions set out in Section 11.5. |
| **Maximum Subscription** | means the subscription of 60,000,000 New Shares at A$0.20 per New Share under the Public Offer to raise A$12,000,000. |
| **Medsafe** | has the meaning given in Section 6.3. |
| **Morgans** | means Morgans Corporate Limited ABN 32 010 539 607 |
| **Minimum Subscription** | has the meaning given in Section 5.3. |
| **MIS416** | the name of the Company's first drug candidate developed using the Company's technology. |
| **MRI** | has the meaning given in Section 6.5. |
| **MS** | means multiple sclerosis. |
| **MTR** | has the meaning given in Section 6.5. |
| **NOD2** | has the meaning given in Section 6.3. |

| | |
|---|---|
| **New Employee Share Option Plan** | means the Company's Employee Share Option Plan adopted on 5 November 2013, and summarised in Section 11.4. |
| **New Shares** | means Shares offered under this Prospectus. |
| **Non-Participating RPS Holders** | Means RPS Holders who do not participate in the Conversion Offer. |
| **NZ$** | means New Zealand dollars, the lawful currency of New Zealand. |
| **Offer Period** | means the period between the Opening Date and the relevant Closing Date during which an Offer is open for acceptance. |
| **Offers** | means the Public Offer and the Conversion Offer. |
| **Official List** | has the same meaning as in the ASX Listing Rules. |
| **Official Quotation** | means official quotation by ASX in accordance with the Listing Rules. |
| **Old Employee Share Option Plan** | means the Company's Employee Share Option Plan, adopted on 25 January 2001. |
| **Opening Date** | means the date referred to in Section 3. |
| **Option** | means an option to subscribe for a Share. |
| **Optionholder** | means a holder of Options. |
| **P.acnes** | has the meaning given in Section 6.3. |
| **Patersons** | means Patersons Securities Limited ABN 69 008 896 311. |
| **PBMC** | has the meaning given in Section 6.5. |
| **PD** | has the meaning given in Section 6.5. |
| **Phase 1B** | means a human drug trial conducted in accordance with the principles of Good Clinical Practice and designed primarily to evaluate the safety of a drug candidate. |
| **Phase 2A** | means a human drug trial conducted in accordance with the principles of Good Clinical Practice and designed primarily to evaluate the safety of a drug candidate although some early efficacy data may also be evaluated. |
| **Phase 2B** | means a human drug trial conducted in accordance with the principles of Good Clinical Practice and designed primarily to evaluate the efficacy of a drug candidate. |
| **PML** | has the meaning given in Section 6.6. |
| **PPMS** | means primary progressive multiple sclerosis. |

# 15. Glossary of Terms (Continued)

| | |
|---|---|
| **Probe** | has the meaning given in Section 6.9. |
| **Prospectus** | means this replacement prospectus dated 25 November 2013 replacing the prospectus dated 18 November 2013. |
| **Public Offer** | has the meaning given in Section 4.1. |
| **Public Offer Application Form** | means the Public Offer Application Form, which accompanies this Prospectus. |
| **Public Offer Closing Date** | has the meaning given in Section 5.2. |
| **R&D Incentive** | has the meaning given in Section 4.11. |
| **Relevant Company** | Relevant Company means any Subsidiary of the Company of which a Director is at any time after the date of the Deed appointed as a director. |
| **Relevant Interest** | has the meaning given in the Corporations Act. |
| **Restricted Securities** | has the meaning given in the Listing Rules. |
| **Restriction Agreement** | means a Restriction Agreement required by ASX, in accordance with Chapter 9 of the Listing Rules. |
| **Retirement Date** | means the date on which a Director ceases to hold office as a Director. |
| **RNA** | means ribonucleic acid. |
| **RNAi** | means RNA interference. |
| **RPS** | means redeemable preference shares issued by the Company. |
| **RPS Holders** | means the holders of RPS. |
| **RPS Redemption** | has the meaning given in Section 5.11. |
| **RRMS** | means relapsing-remitting multiple sclerosis. |
| **Second Candidate** | has the meaning given in Section 4.11. |
| **Securities** | means New Shares, Shares, and/or Conversion Options, as the context requires. |
| **Securityholder** | means a holder of Securities. |
| **Shareholder** | means a holder of Shares. |
| **Share** | means a fully paid ordinary share in the capital of the Company. |
| **Share Registry** | means Computershare Investor Services Pty Limited. |

| | |
|---|---|
| **SPMS** | means secondary progressive multiple sclerosis. |
| **Subsidiary** | has the meaning given in section 9 of the Corporations Act. |
| **Th1** | means T helper cells type 1. |
| **TLR9** | has the meaning given in Section 6.3. |
| **US$** | means US dollars, the lawful currency of the US. |
| **US or U.S.** | means United States of America, its territories and possessions, any state of the United States and the District of Colombia. |
| **US Offering Supplement** | means the US Offering Supplement (if any) which accompanies this Prospectus provided to US resident Innate Noteholders, RPS Holders and Loan Counterparties. |
| **Virionyx** | has the meaning given in Section 6.9. |
| **Voluntary Restriction Agreement** | has the meaning given in Section 5.5. |
| **WBA** | has the meaning given in Section 6.5. |

# Annexure A – Phase 2 Open Label Safety Trial of MIS416

**Title** – A Phase 2, open-label, dose-escalation study evaluating the safety, tolerability, and pharmacodynamics of intravenously administered MIS416 in patients with chronic progressive multiple sclerosis. (Protocol number MIS416:201) [Clinicaltrials.gov unique identifier NCT01191996] N.B. "Chronic progressive" MS is a term that covers both secondary progressive and primary progressive MS.

**Design** – This was a single centre, open-label, non-randomized, dose-escalation study, conducted in 2 phases: a dose-escalation (**DE**) phase, using MIS416 beginning dose 125 µg/week administered IV once weekly for 4 doses; and a dose-confirmation (**DC**) phase, in a cohort expansion at or below the MTD of MIS416, dosed once weekly for up to 12 doses

**Number of Subjects** – 19 were recruited in the DE phase, 15 in the DC phase. 34 subjects were analysed in total: 3 in DE1, 7 in DE2, 3 in DE3, 6 in DE4 and 15 in DC

**Dropout rate** – Of the 34 subjects recruited, 5 were withdrawn from treatment due to adverse events and 2 withdrew consent (for personal reasons).

**Subject Demographics** – Overall, mean age was 52.1 years; mean weight, 71 kg; and mean body mass index (**BMI**), 24.8 kg/m2. The dose panel groups were demographically similar to each other in terms of age, weight, BMI and EDSS scores. 20 (58.8%) patients were female.

**Control Group** – There was no control group in this study.

**Objectives (Endpoints)** – The primary objectives of this study were to determine the safety and tolerability, dose-limiting toxicities (**DLTs**), maximum tolerated dose (**MTD**), and recommended Phase 2 dose (**RP2D**) of intravenously (IV) administered MIS416 weekly in patients with chronic progressive multiple sclerosis (**CPMS**); and to assess the pharmacodynamic (**PD**) effects of MIS416.

The secondary objectives of this study were to document any changes in MS clinical status occurring during the dose-confirmation phase, as determined by the Multiple Sclerosis Functional Composite (**MSFC**), Fatigue Severity Scale (**FSS**), Short Form Health Survey (**SF-36**), and Expanded Disability Status Scale (**EDSS**); the frequency of clinical relapses; and signs of clinical activity on serial cranial MRI scans; and to evaluate, in exploratory fashion, any correlations between clinical, radiological and PD outcomes.

**Outcomes** – Based on the data, results, and considerations presented in this Clinical Study Report, the authors of the report concluded that:

- MIS416, administered IV at a dose of 500 mcg once a week is safe and relatively well tolerated in this patient population.
- The most common AEs (pyrexia, headache, fatigue, myalgia and muscle stiffness) were transient and expected.
- 3 possibly drug-related SAEs were reported, 1 of muscular weakness and 2 of electrocardiographic changes There were no other important electrocardiographic findings in

this trial. The Medical Monitor judged the electro-cardiographic changes as possibly related to acute post-dose fever and resulting tachycardia.

- The occurrence of mild elevations of liver enzymes is consistent with known pharmacologic behaviour of MIS416.
- No AEs appear with significantly increased frequency in the DC group alone, suggesting that in any given individual, the AE profile of MIS416 will be defined within the first month of dosing.
- The incidence of AEs is appreciably lower in the DC group (dose escalation over 2 weeks to a maximum dose of 500 µg/week) than in the DE4 group (level dose of 500-600 µg/week) providing a strong rationale for the RP2D dosing schedule by suggesting that it may have a better safety profile despite more prolonged exposure.
- There were no other changes in laboratory findings vital signs, electrocardiograms, or MRI scans that are indicative to safety concerns.
- Interferon-inducible proteins and soluble adhesion molecules are upregulated in the absence of a detectable systemic inflammatory response and the PD response shows rapid induction of protein by 24 hours, which subsequently diminishes over the following 7 days.
- 82% of subjects showed a 20% or greater improvement in at least 1 measure of clinical status.
- **It can be recommended that further investigation into the safety and efficacy of MIS416 in chronic progressive MS is justified in a larger randomized Phase 2 clinical trial.**

This page has been left blank intentionally

# Innate Immunotherapeutics Limited
# ABN 16 165 160 841

**Need assistance?**
**Phone**
(within Australia) 1300 439 118
(outside Australia) +61 3 9415 4085

Please return your completed form to:
**Computershare Investor Services Pty Limited**
**GPO Box 2115, Melbourne VIC 3001**
(if you are resident in Australia) or
**Computershare Investor Services Limited**
**Private Bag 92119, Auckland 1142**
(if you are residend in New Zealand)



# Public Offer Application Form

## Public Offer closes 5.00pm (AWST) on 11 December 2013

Applicants should contact their Broker for information on how to submit this Public Offer Application Form and Application Monies.
This Public Offer Application Form relates to the Public Offer by Innate Immunotherapeutics Limited of New Shares, that will be issued under the replacement prospectus ("Prospectus") lodged with the Australian Securities and Investments Commission on 25 November 2013.
This Public Offer Application Form is important. If you are in doubt as to how to deal with it, please contact your financial adviser or other professional adviser. You should read the entire Prospectus carefully before completing this Public Offer Application Form. To meet the requirements of the Corporations Act, this Public Offer Application Form must not be distributed unless included in, or accompanied by, the Prospectus. Capitalised terms have the meaning given to them in the Prospectus. Your application may not be accepted in full and Innate Immunotherapeutics Limited reserves the right to scale back your application.

### STEP 1 New Shares applied for

Enter the number of New Shares you wish to apply for. The Application must be for a minimum of 10,000 New Shares (A$2,000 or NZ$2,300). Applications for greater than 10,000 New Shares must be in multiples of 2,500 New Shares (A$500 or NZ$575). Enter the amount of the Application Monies. To calculate this amount, multiply the number of New Shares applied for by the offer price which is A$0.20 or NZ$0.23, depending on whether you are applying from within Australia or within New Zealand.

### STEP 2 Applicant name(s) and postal address

Enter the full name you wish to appear on the confirmation statement. This must be either your own name or the name of a company. Up to three joint applicants may register. You should refer to the table overleaf for the correct forms of registrable title(s). Applications using the wrong form of names may be rejected. CHESS participants should complete their name identically to that presently registered in CHESS. Enter your postal address for all correspondence. All communications to you from the Registry will be mailed to the person(s) and address as shown. For joint applicants, only one address can be entered. Enter your contact name and telephone number. This information may be used to communicate other matters to you subject to Innate Immunotherapeutics Limited's privacy statement. This is not compulsory but will assist us if we need to contact you.

### STEP 3 CHESS Holdings Only

Innate Immunotherapeutics Limited will apply to ASX for Shares to participate in CHESS, operated by ASX Settlement Pty Limited, a wholly owned subsidiary of ASX. In CHESS, Innate Immunotherapeutics Limited will operate an electronic CHESS subregister of shareholdings and an electronic issuer sponsored subregister of shareholdings.
Together, the two subregisters will make up Innate Immunotherapeutics Limited's principal register of Shares. Innate Immunotherapeutics Limited will not be issuing certificates to applicants in respect of New Shares allotted.
If you are a CHESS participant (or are sponsored by a CHESS participant) and you wish to hold New Shares allotted to you under this Application on the CHESS subregister, enter your CHESS HIN.
Otherwise, leave the section blank and on allotment you will be sponsored by Innate Immunotherapeutics Limited and a "Securityholder Reference Number" ("SRN") will be allocated to you.
Please note that if you supply a CHESS HIN but the name and address details on your Application Form do not correspond exactly with the registration details held at CHESS, your application will be deemed to be made without the CHESS HIN, and any New Shares issued will be held on the issuer sponsored subregister.

### STEP 4 Application payment

Applications and Application Monies under the Public Offer must be received by the Share Registry by no later than 5.00pm (AWST) on 11 December 2013. Cheque(s) or bank draft(s) must be in Australian dollars and drawn on an Australian branch of an Australian bank (in the case of Applicants applying within Australia) or in New Zealand dollars and drawn on a New Zealand branch of a New Zealand Bank (in the case of Applicants applying from within New Zealand), must be crossed 'Not Negotiable' and must be made payable to 'Innate Immunotherapeutics Limited'.

### Lodgement instructions

There is no maximum value of New Shares that may be applied for by an Applicant under the Public Offer. The allocation of New Shares under the Public Offer will be at the absolute discretion of the Joint Lead Managers and Innate Immunotherapeutics Limited. The Joint Lead Managers and Innate Immunotherapeutics Limited reserve the right to reject any Application or to issue a lesser number of New Shares than those applied for under the Public Offer. The Joint Lead Managers and Innate Immunotherapeutics Limited may, in their absolute discretion, give preference to certain investors in accepting Applications under the Public Offer. Where the number of New Shares issued is less than the number applied for under the Public Offer, surplus Application Monies will be refunded (without interest) as soon as reasonably practicable after the Closing Date.
Innate Immunotherapeutics Limited may determine a person to be eligible to participate in the Public Offer, and may amend or waive the Public Offer application procedures or requirements, in its discretion in compliance with applicable laws.
The Public Offer opens at 9.00 am (AWST) on 26 November 2013 and is expected to close at 5.00 pm (AWST) on 11 December 2013. Innate Immunotherapeutics Limited and the Joint Lead Managers may elect to extend the Public Offer or any part of it, or accept late applications either generally or in particular cases. The Public Offer, or any part of it, may be closed at any earlier date and time, without further notice. Applicants are therefore encouraged to submit their applications as early as possible. Please contact your Broker for instructions.

### Privacy Statement

Personal information is collected on this form by Computershare Investor Services Pty Limited (CIS), as registry for Innate Immunotherapeutics Limited for the purpose of maintaining registers of Securities and facilitating payments and other corporate actions and communications. Your personal information may be disclosed to related bodies corporate of CIS, to external service companies such as print or mail service providers, or as otherwise required or permitted by law. If you would like details of your personal information held by CIS, or you would like to correct information that is inaccurate, incorrect or out of date, please contact CIS. In accordance with the Corporations Act, you may be sent material (including marketing material) approved by Innate Immunotherapeutics Limited in addition to general corporate communications. You may elect not to receive marketing material by contacting CIS. You can contact CIS using the details provided on the front of this Application Form or e-mail privacy@computershare.com.au.

# Public Offer Application Form

**STEP 1** **Enter the number of New Shares you wish to apply for**

I/we apply for: | Price per New Share: **A$0.20/ NZ$ 0.23** | Application payment: **A$/ NZ$** .

**STEP 2** **Applicant names(s) and postal address**

**Individual / joint applications - refer to naming standards for correct form of registrable title(s)**

Title or company name | Given name(s) | Surname

Joint applicant 2 or account designation

Joint applicant 3 or account designation

**Postal address**

Unit | Street number | Street name or PO box

Street name or PO box (continued)

City/Suburb/Town | State | Postcode

**Contact details**

Contact name | ( ) Phone number

**STEP 3** **CHESS Holdings Only - supply your Holder Identification Number** X

**STEP 4** **Cheque(s) must be crossed 'Not Negotiable' and made payable to 'Innate Immunotherapeutics Limited'.**

Drawer | Cheque number | BSB number | Account number | **A$/ NZ$** Amount of payment

## Acceptance of the Public Offer

By returning this Public Offer Application Form with your application monies:
- you declare that this Application is completed and lodged according to the Prospectus and the declarations/statements on this Public Offer Application Form;
- you represent and warrant that you have read and understood the Prospectus and that you acknowledge the matters, and make the warranties and representations, contained in the Prospectus and this Public Offer Application Form;
- you declare that all details and statements made are complete and accurate;
- you declare that each applicant, if a natural person, is at least 18 years old;
- you declare that you are located in Australia, not acting for the account or benefit of any person in the United States;
- you represent and warrant that the law of any other place does not prohibit you from being given the Prospectus and any supplementary or replacement prospectus or making an Application on this Public Offer Application Form;
- you provide authorisation to be registered as the holder of New Shares issued to you and agree to be bound by the Constitution and the Prospectus;
- you apply for the number of New Shares set out on or determined in accordance with this Application Form and agree to be issued such number of New Shares, a lesser number or none;
- you acknowledge that New Shares are not deposit liabilities of Innate Immunotherapeutics Limited, are not guaranteed or insured by any government or other person, are not protected accounts under Australian banking legislation, give Holders no claim on Innate Immunotherapeutics Limited except as provided in the Constitution and that the investment performance of New Shares is not guaranteed by Innate Immunotherapeutics Limited;
- you acknowledge that the information contained in the Prospectus (or any supplementary or replacement prospectus) is not investment advice or a recommendation that New Shares are suitable for you, given your investment objectives, financial situation or particular needs;
- your application to acquire New Shares is irrevocable and may not be varied or withdrawn except as allowed by law;
- you acknowledge that an application may be rejected without giving any reason, including where this Public Offer Application Form is not properly completed or where a cheque submitted with this Public Offer Application Form is dishonoured or for the wrong amount; and
- you acknowledge that if you are not issued any New Shares or you are issued fewer New Shares than the number that you applied and paid for as a result of a scale back, all or some of your Application Monies (as applicable) will be refunded to you (without interest) in accordance with the Corporations Act.

## Correct forms of registrable titles

Applications must be made in the name(s) of natural persons, companies or other legal entities in accordance with the Corporations Act. At least one full given name and surname is required for each natural person. The name of the beneficial owner or any other registrable name may be included by way of an account designation or completed as described in the correct forms of registrable title(s) below.

| Type of investor | Correct form of registration | Incorrect form of registration |
|---|---|---|
| Individual - Use given name(s) in full, not initials | Mr John Alfred Smith | J.A Smith |
| Joint - Use given name(s) in full, not initials | Mr John Alfred Smith & Mrs Janet Marie Smith | John Alfred & Janet Marie Smith |
| Company - Use company title, not abbreviations | ABC Pty Ltd | ABC P/L; ABC Co |
| Trusts - Use trustee(s) personal name(s) - Do not use the name of the trust | Ms Penny Smith <Penny Smith Family A/C> | Penny Smith Family Trust |
| Deceased Estates - Use executor(s) personal name(s) - Do not use the name of the deceased | Mr William Smith <Est John Smith A/C> | Estate of Late John Smith |
| Minor (a person under the age of 18) - Use the name of a responsible adult with an appropriate designation | Mr John Alfred Smith <Peter Smith A/C> | Peter Smith |
| Partnerships - Use partners personal name(s) - Do not use the name of the partnership | Mr John Smith & Mr William Smith <John Smith & Son A/C> | John Smith & Son |
| Clubs/Unincorporated Bodies/Business Names - Use office bearer(s) personal name(s) - Do not use the name of the club etc | Mrs Janet Smith <ABC Tennis Association A/C> | ABC Tennis Association |
| Superannuation Funds - Use the name of trustee of the fund - Do not use the name of the fund | John Smith Pty Ltd <Super Fund A/C> | John Smith Pty Ltd Superannuation Fund |

# Innate Immunotherapeutics Limited
# ABN 16 165 160 841

**Need assistance?**
**Phone**
(within Australia) 1300 439 118
(outside Australia) +61 3 9415 4085

Please return your completed form to:
**Computershare Investor Services Pty Limited**
**GPO Box 2115, Melbourne VIC 3001**
(if you are resident in Australia) or
**Computershare Investor Services Limited**
**Private Bag 92119, Auckland 1142**
(if you are residend in New Zealand)



# Public Offer Application Form

## Public Offer closes 5.00pm (AWST) on 11 December 2013

Applicants should contact their Broker for information on how to submit this Public Offer Application Form and Application Monies.
This Public Offer Application Form relates to the Public Offer by Innate Immunotherapeutics Limited of New Shares, that will be issued under the replacement prospectus ("Prospectus") lodged with the Australian Securities and Investments Commission on 25 November 2013.
This Public Offer Application Form is important. If you are in doubt as to how to deal with it, please contact your financial adviser or other professional adviser. You should read the entire Prospectus carefully before completing this Public Offer Application Form. To meet the requirements of the Corporations Act, this Public Offer Application Form must not be distributed unless included in, or accompanied by, the Prospectus. Capitalised terms have the meaning given to them in the Prospectus. Your application may not be accepted in full and Innate Immunotherapeutics Limited reserves the right to scale back your application.

### STEP 1 New Shares applied for

Enter the number of New Shares you wish to apply for. The Application must be for a minimum of 10,000 New Shares (A$2,000 or NZ$2,300). Applications for greater than 10,000 New Shares must be in multiples of 2,500 New Shares (A$500 or NZ$575). Enter the amount of the Application Monies. To calculate this amount, multiply the number of New Shares applied for by the offer price which is A$0.20 or NZ$0.23, depending on whether you are applying from within Australia or within New Zealand.

### STEP 2 Applicant name(s) and postal address

Enter the full name you wish to appear on the confirmation statement. This must be either your own name or the name of a company. Up to three joint applicants may register. You should refer to the table overleaf for the correct forms of registrable title(s). Applications using the wrong form of names may be rejected. CHESS participants should complete their name identically to that presently registered in CHESS. Enter your postal address for all correspondence. All communications to you from the Registry will be mailed to the person(s) and address as shown. For joint applicants, only one address can be entered. Enter your contact name and telephone number. This information may be used to communicate other matters to you subject to Innate Immunotherapeutics Limited's privacy statement. This is not compulsory but will assist us if we need to contact you.

### STEP 3 CHESS Holdings Only

Innate Immunotherapeutics Limited will apply to ASX for Shares to participate in CHESS, operated by ASX Settlement Pty Limited, a wholly owned subsidiary of ASX. In CHESS, Innate Immunotherapeutics Limited will operate an electronic CHESS subregister of shareholdings and an electronic issuer sponsored subregister of shareholdings.
Together, the two subregisters will make up Innate Immunotherapeutics Limited's principal register of Shares. Innate Immunotherapeutics Limited will not be issuing certificates to applicants in respect of New Shares allotted.
If you are a CHESS participant (or are sponsored by a CHESS participant) and you wish to hold New Shares allotted to you under this Application on the CHESS subregister, enter your CHESS HIN.
Otherwise, leave the section blank and on allotment you will be sponsored by Innate Immunotherapeutics Limited and a "Securityholder Reference Number" ("SRN") will be allocated to you.
Please note that if you supply a CHESS HIN but the name and address details on your Application Form do not correspond exactly with the registration details held at CHESS, your application will be deemed to be made without the CHESS HIN, and any New Shares issued will be held on the issuer sponsored subregister.

### STEP 4 Application payment

Applications and Application Monies under the Public Offer must be received by the Share Registry by no later than 5.00pm (AWST) on 11 December 2013. Cheque(s) or bank draft(s) must be in Australian dollars and drawn on an Australian branch of an Australian bank (in the case of Applicants applying within Australia) or in New Zealand dollars and drawn on a New Zealand branch of a New Zealand Bank (in the case of Applicants applying from within New Zealand), must be crossed 'Not Negotiable' and must be made payable to 'Innate Immunotherapeutics Limited'.

### Lodgement instructions

There is no maximum value of New Shares that may be applied for by an Applicant under the Public Offer. The allocation of New Shares under the Public Offer will be at the absolute discretion of the Joint Lead Managers and Innate Immunotherapeutics Limited. The Joint Lead Managers and Innate Immunotherapeutics Limited reserve the right to reject any Application or to issue a lesser number of New Shares than those applied for under the Public Offer. The Joint Lead Managers and Innate Immunotherapeutics Limited may, in their absolute discretion, give preference to certain investors in accepting Applications under the Public Offer. Where the number of New Shares issued is less than the number applied for under the Public Offer, surplus Application Monies will be refunded (without interest) as soon as reasonably practicable after the Closing Date.
Innate Immunotherapeutics Limited may determine a person to be eligible to participate in the Public Offer, and may amend or waive the Public Offer application procedures or requirements, in its discretion in compliance with applicable laws.
The Public Offer opens at 9.00 am (AWST) on 26 November 2013 and is expected to close at 5.00 pm (AWST) on 11 December 2013. Innate Immunotherapeutics Limited and the Joint Lead Managers may elect to extend the Public Offer or any part of it, or accept late applications either generally or in particular cases. The Public Offer, or any part of it, may be closed at any earlier date and time, without further notice. Applicants are therefore encouraged to submit their applications as early as possible. Please contact your Broker for instructions.

### Privacy Statement

Personal information is collected on this form by Computershare Investor Services Pty Limited (CIS), as registry for Innate Immunotherapeutics Limited for the purpose of maintaining registers of Securities and facilitating payments and other corporate actions and communications. Your personal information may be disclosed to related bodies corporate of CIS, to external service companies such as print or mail service providers, or as otherwise required or permitted by law. If you would like details of your personal information held by CIS, or you would like to correct information that is inaccurate, incorrect or out of date, please contact CIS. In accordance with the Corporations Act, you may be sent material (including marketing material) approved by Innate Immunotherapeutics Limited in addition to general corporate communications. You may elect not to receive marketing material by contacting CIS. You can contact CIS using the details provided on the front of this Application Form or e-mail privacy@computershare.com.au.

# Public Offer Application Form

**STEP 1** **Enter the number of New Shares you wish to apply for**

I/we apply for: | Price per New Share: **A$0.20/ NZ$ 0.23** | Application payment: **A$/ NZ$** .

**STEP 2** **Applicant names(s) and postal address**

**Individual / joint applications - refer to naming standards for correct form of registrable title(s)**

Title or company name | Given name(s) | Surname

Joint applicant 2 or account designation

Joint applicant 3 or account designation

**Postal address**

Unit | Street number | Street name or PO box

Street name or PO box (continued)

City/Suburb/Town | State | Postcode

**Contact details**

Contact name | ( ) Phone number

**STEP 3** **CHESS Holdings Only - supply your Holder Identification Number** X

**STEP 4** **Cheque(s) must be crossed 'Not Negotiable' and made payable to 'Innate Immunotherapeutics Limited'.**

Drawer | Cheque number | BSB number | Account number | **A$/ NZ$** Amount of payment

## Acceptance of the Public Offer

By returning this Public Offer Application Form with your application monies:
- you declare that this Application is completed and lodged according to the Prospectus and the declarations/statements on this Public Offer Application Form;
- you represent and warrant that you have read and understood the Prospectus and that you acknowledge the matters, and make the warranties and representations, contained in the Prospectus and this Public Offer Application Form;
- you declare that all details and statements made are complete and accurate;
- you declare that each applicant, if a natural person, is at least 18 years old;
- you declare that you are located in Australia, not acting for the account or benefit of any person in the United States;
- you represent and warrant that the law of any other place does not prohibit you from being given the Prospectus and any supplementary or replacement prospectus or making an Application on this Public Offer Application Form;
- you provide authorisation to be registered as the holder of New Shares issued to you and agree to be bound by the Constitution and the Prospectus;
- you apply for the number of New Shares set out on or determined in accordance with this Application Form and agree to be issued such number of New Shares, a lesser number or none;
- you acknowledge that New Shares are not deposit liabilities of Innate Immunotherapeutics Limited, are not guaranteed or insured by any government or other person, are not protected accounts under Australian banking legislation, give Holders no claim on Innate Immunotherapeutics Limited except as provided in the Constitution and that the investment performance of New Shares is not guaranteed by Innate Immunotherapeutics Limited;
- you acknowledge that the information contained in the Prospectus (or any supplementary or replacement prospectus) is not investment advice or a recommendation that New Shares are suitable for you, given your investment objectives, financial situation or particular needs;
- your application to acquire New Shares is irrevocable and may not be varied or withdrawn except as allowed by law;
- you acknowledge that an application may be rejected without giving any reason, including where this Public Offer Application Form is not properly completed or where a cheque submitted with this Public Offer Application Form is dishonoured or for the wrong amount; and
- you acknowledge that if you are not issued any New Shares or you are issued fewer New Shares than the number that you applied and paid for as a result of a scale back, all or some of your Application Monies (as applicable) will be refunded to you (without interest) in accordance with the Corporations Act.

## Correct forms of registrable titles

Applications must be made in the name(s) of natural persons, companies or other legal entities in accordance with the Corporations Act. At least one full given name and surname is required for each natural person. The name of the beneficial owner or any other registrable name may be included by way of an account designation or completed as described in the correct forms of registrable title(s) below.

| Type of investor | Correct form of registration | Incorrect form of registration |
|---|---|---|
| Individual - Use given name(s) in full, not initials | Mr John Alfred Smith | J.A Smith |
| Joint - Use given name(s) in full, not initials | Mr John Alfred Smith & Mrs Janet Marie Smith | John Alfred & Janet Marie Smith |
| Company - Use company title, not abbreviations | ABC Pty Ltd | ABC P/L; ABC Co |
| Trusts - Use trustee(s) personal name(s) - Do not use the name of the trust | Ms Penny Smith <Penny Smith Family A/C> | Penny Smith Family Trust |
| Deceased Estates - Use executor(s) personal name(s) - Do not use the name of the deceased | Mr William Smith <Est John Smith A/C> | Estate of Late John Smith |
| Minor (a person under the age of 18) - Use the name of a responsible adult with an appropriate designation | Mr John Alfred Smith <Peter Smith A/C> | Peter Smith |
| Partnerships - Use partners personal name(s) - Do not use the name of the partnership | Mr John Smith & Mr William Smith <John Smith & Son A/C> | John Smith & Son |
| Clubs/Unincorporated Bodies/Business Names - Use office bearer(s) personal name(s) - Do not use the name of the club etc | Mrs Janet Smith <ABC Tennis Association A/C> | ABC Tennis Association |
| Superannuation Funds - Use the name of trustee of the fund - Do not use the name of the fund | John Smith Pty Ltd <Super Fund A/C> | John Smith Pty Ltd Superannuation Fund |

# Corporate Directory

| | | |
|---|---|---|
| **Directors** | Non-Executive Chairman – Mr Michael Quinn<br>Executive Director & CEO – Mr Simon Wilkinson<br>Non-Executive Director – Ms Liz Hopkins<br>Non-Executive Director– Mr Christopher Collins<br>Non-Executive Director –Mr Andrew Sneddon | |
| **Company Secretary** | Andrew Cooke | |
| **Registered Office** | Suite 4.01, 35 Lime Street<br>SYDNEY NSW 2000<br>Telephone: +61 2 8003 3650<br>Website: www.innateimmuno.com | |
| **Share Registry** | Computershare Investor Services Pty Limited<br>Yarra Falls, 452 Johnston Street<br>Abbotsford VIC 3067<br>Telephone: +61 3 9415 4000 or 1300 855 080<br>Website: www.computershare.com/au | |
| **Australian Legal Advisers** | Hardy Bowen Lawyers<br>Level 1, 28 Ord Street<br>WEST PERTH WA 6005<br>Telephone: +61 8 9211 3600<br>Facsimile: +61 8 211 3690<br>Website: www.hardybowen.com | |
| **Joint Lead Managers** | Patersons Securities Limited<br>Level 23, Exchange Plaza<br>2 The Esplanade<br>PERTH WA 6000<br>Telephone: +61 8 9263 1111<br>Facsimile: +61 8 9325 5123<br>Website: www.psl.com.au | Morgans Corporate Limited<br>Level 9, Aurora Place<br>88 Phillip Street<br>SYDNEY NSW 2000<br>+61 2 8215 5055<br>+61 2 9258 8055<br>www.morgans.com.au |
| **Investigating Accountant** | Grant Thornton Audit Pty Ltd<br>The Rialto, Level 30<br>525 Collins Street<br>MELBOURNE VIC 3000<br>Telephone: +61 3 8320 2222<br>Facsimile: +61 3 8320 2200<br>Website: www.granthornton.com.au | |
| **Patent Attorney** | Shelston IP<br>Level 21, 60 Margaret Street<br>SYDNEY NSW 2000<br>Tel: +61 2 9777 1111<br>Fax: +61 2 9241 4666<br>Website: www.shelstonip.com | |
| **Proposed ASX Code** | IIL | |

Innate Immunotherapeutics



Innate Immunotherapeutics Limited
ACN 165 160 841