Healthcare - Biotechnology

Overview Report

Innate Immunotherapeutics Limited

Equity | New Zealand
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VIRIATHUS®

Lisa Springer +1 212 380 6200
Research Analyst
lisa.springer@viriathus.com

Company Description:

Innate Immunotherapeutics Limited is developing new treatments for Secondary Progressive Multiple Sclerosis (MS) and other significant diseases based on a transformational micro-particle technology that modulates the body's natural immune response. The Company's lead drug candidate based on this technology, MIS416, has been proven safe, well-tolerated and significantly improved the clinical status of most patients with the secondary progressive form of MS in interim data recently released from a Phase IIA dose confirmation study. Innate plans to commence a large, multi-site Phase IIB proof-of-concept clinical trial early next year that will be completed in mid to late 2014. A successful outcome from this Phase IIB clinical trial would enable Innate to monetize the value of its proprietary technology through an outright sale to a big Pharma company. An independent appraisal pegs the base case current value of Innate's technology at $214 million, which would represent a nearly 3-fold return on shareholder investment.

Overview Report Highlights:

- **Technology addresses unmet medical need and huge market.** Approximately 250,000 to 350,000 people in the United States have been diagnosed with Multiple Sclerosis. On initial diagnosis, approximately 85% of patients have the 'early-stage' relapsing-remitting form of the disease (RRMS) and 65% of these patients will subsequently develop secondary progressive Multiple Sclerosis (SPMS). At present, there are eight drugs approved for the treatment of RRMS, but none that specifically address SPMS. The average cost for these MS drugs in the U.S. is $34,000 a year and four of the eight drugs gross more than $1 billion a year. A drug that could slow or arrest the normal course of SPMS would be extremely attractive to big Pharma companies and address an estimated $6 billion annual market.
- **Additional trials underway as cancer co-therapy and vaccine adjuvant.** In addition to Innate's Phase II clinical program in SPMS, academic collaborators are evaluating MIS416 as co-therapy for treating certain cancers and as a vaccine adjuvant. Researchers in the U.S. have derived promising initial results from studies of MIS416 in mouse models in ovarian and peritoneal cancer and Japanese researchers are carrying out early stage human trials of MIS416 as a cancer treatment vaccine adjuvant to treat patients with prostate or bladder cancer. Research collaborations cost Innate nothing, build awareness of its novel technology and may result in new formulations and/or application that could be separately patented.

Innate has patents pending for its technology in the United States, major EU markets, Australia and New Zealand and established pilot scale cGMP manufacturing capabilities. The Company reported interim results in mid-June that show significant improvements in half the patients in Phase 1B/2A clinical trials and is in the process of raising $15 million.

Financial Data (USD):

2012 Offering Price: ……..…….....**$1.15**
Market Capitalization (mln): …….....**$109.3**
Shares Outstanding (mln): …….....**95.1**
Options Outstanding (mln): ….…….....**8.34**
Cumulative Capital Raised (mln): ….…….……**$40**
Exchange: ……..……**Not Listed**

Recent Milestones:

- New Zealand regulators (Medsafe) recommend that MS416 be advanced directly into Phase 1B/2A safety and dose confirmation clinical trials and waive requirement for early-stage clinical studies in healthy subjects.
- Dose confirmation Phase 2A clinical trial fully enrolled target 15 subjects with SPMS. June interim analysis of 12 (of 15) subjects shows MIS416 is safe and well tolerated and 80% of subjects showed marked improvement in at least one measure of their MS related clinical status.

Phase 2A Dose Confirmation Study, Interim Results:

- 50% of patients showed at least 30% improvement in physical function
- 50% of patients had greater than 50% improvement in cognitive function
- 60% of patients exhibited at least 10% improvement in MS Functional Composite

Corporate Contact Information:

Simon Wilkinson, CEO
Innate Immunotherapeutics Limited
4B Walls Road
Penrose, Auckland, 1061
New Zealand
Email: simon@innateimmuno.com

Balance Sheet (NZ$)	March 2012
Cash	1,551,072
Assets	7,261,607
Shareholders' Equity	4,038,897
Long-Term Obligations	269,213
LT Debt to Equity Ratio	6.7%

P&L Data NZ$ (000)	2009	2010	2011	2012
Income	12	165	845	784
R&D	2,793	1,351	1,243	1,671
Pre-Tax Loss	(6,015)	(5,101)	(3,141)	(4,215)
Net Loss	(6,015)	(5,101)	(3,141)	(4,215)

Cash Flow: (NZ$)	2009	2010	2011	2012
From Operations	(4,006)	(2,556)	(2,061)	(1,648)
From Investing	4	9	6	3
From Financing	3,025	2,096	3,439	304

Innate Immunotherapeutics Limited

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Company Overview

Innate Immunotherapeutics is developing a treatment for secondary progressive MS based on a proprietary technology that modulates the body's natural immune system response.

Innate Immunotherapeutics Limited (formerly Innate Therapeutics) is a public, unlisted biotechnology company based in New Zealand. The Company has developed a proprietary micro-particle technology for stimulating the body's natural immune system response and has Phase II clinical trials underway of a lead drug candidate, MIS416, based on that technology. MIS416 is being evaluated as a potential treatment for the secondary progressive form of Multiple Sclerosis (SPMS), which affects nearly 40% of MS patients. At present, there are eight approved MS drugs but none that are effective in treating SPMS. Anecdotal evidence from a compassionate use program showed MIS416 was safe, well-tolerated and delivered measurable improvement in the four of the five SPMS patients treated. In addition, Innate recently released interim results from Phase IB/IIA dose escalation and confirmation studies that demonstrate that MIS416 delivered a greater than 50% improvement in cognitive function and at least a 30% improvement in physical function in half of the treated patients. As well, 60% of the patients showed at least a 10% improvement in MS Functional Composite Scores (MSFC), with 30% showing greater than 30% improvement. The Company expects to release the final results from this 15 patient clinical trial in September. Innate plans to follow up with a substantive proof-of-concept Phase IIB study involving approximately 100 patients and multiple sites. This study has a targeted completion date of late-2014. Successful Phase IIB results will position Innate for maximum returns on the sale of its technology. Innate is headquartered in Auckland, New Zealand and commenced operations in 2000, following its acquisition of Probe Pharmaceutical Corporation Limited, which owned a patented platform technology for treating pathogen-related diseases. MIS416is the second drug candidate to be developed by the company.

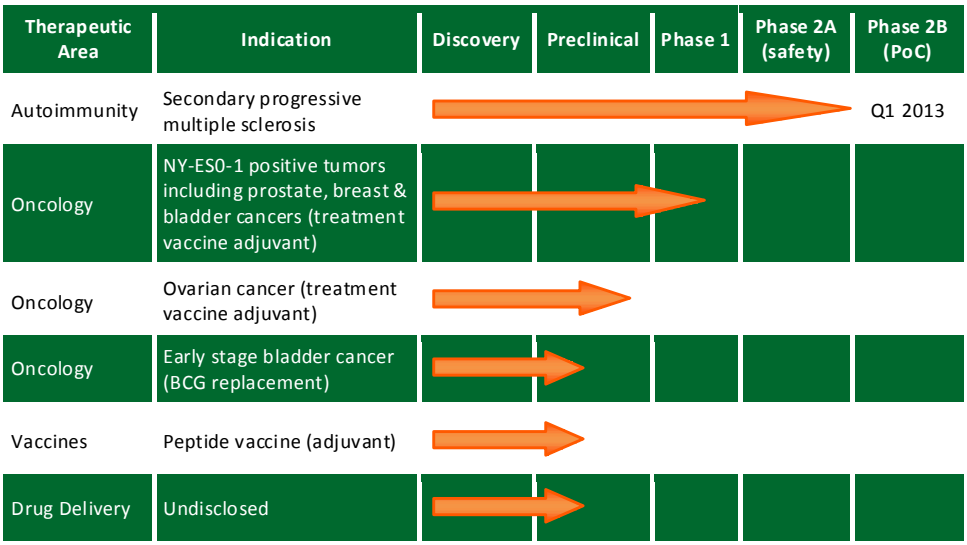
Multiple Sclerosis (MS) is a chronic, often debilitating disease that attacks the central nervous system. It is the most common disabling neurological disease in young adults, According to the National Institute of Neurological Disorders and Stroke, about 250,000–350,000 people in the United States have been diagnosed with MS. Worldwide, MS occurs in approximately one percent of the population. Northern Europe, the northern United States, southern Australia, and New Zealand have the highest prevalence, with more than 30 cases per 100,000 people. The worldwide market for MS drugs is currently valued at US$10 billion and forecast to peak at US$16 by 2020.

Interim results from Phase IIA dose confirmation studies show half of the patients treated with MIS416 experienced a 50% improvement in cognitive function (as measured by PASAT) and a 30% improvement in physical function (as measured by SF-36 profile of function health).

About 85% of MS patients are diagnosed with the relapsing-remitting form of the disease (RRMS) and 65% of these patients will subsequently develop secondary progressive disease (SPMS). There are eight drugs approved to treat RRMS, including four that each generate more than $1 billion of annual sales. These drugs reduce the severity of relapses and/or lengthen the period of remission, but are not a cure. However, RRMS drugs have not proven effective in treating SPMS. An effective drug for SPMS addresses a huge unmet medical need and a market with an estimated valued of US$6 billion annually.

In addition to therapeutic uses in SPMS, Innate's immune system modulation technology has potential applications in other important disease areas such as cancer and infectious disease. Pre-clinical studies are underway in cancers known to be immune-sensitive such as prostate, colon and rectal cancer. In addition, researchers are evaluating MIS416 as a cancer vaccine adjuvant. These research collaborations involve little or no cost to Innate, build awareness of its novel technology and may result in new formulations of MIS416 that are separately patentable. Innate's academic collaborators include Victoria University, University of Auckland and University of Otago in New Zealand, University of Melbourne in Australia and two sites in the United States - Purdue University in Lafayette, Indiana and Rosswell Park Cancer Institute in Buffalo, New York.

Innate plans to maximize the value of its IP portfolio by conducting large Phase IIB clinical trials next year in patients with SPMS. Successful outcomes from Phase IIB trials will likely attract the interest of big Pharma companies and enable Innate to secure the best possible sale price for its technology.



Intellectual Property Portfolio

Innate has patented its technology in New Zealand and the United States and has patents pending in other foreign countries.

Innate was issued a New Zealand patent for its lead drug candidate MIS416 as a treatment for MS in 2010. This patent has a 20-year term and expires in June 2030. The Company has also secured a patent in the United States that protects the MIS416 formulation and its use in treating immunological conditions, where the drug acts by stimulating the immune system. This patent, obtained by amending an already existing patent application, has a short life and expires in October 2017. Patent applications in the United States, major EU markets, and Australia claiming the use of MIS416 to treat MS are currently under examination. In addition, patent applications seeking to protect the use of MIS416 to separately treat cancer and certain infections entered national phases in the United States, Canada, Europe, Japan, China, Australia and Brazil in 2011 and are pending approval.

Facilities and Manufacturing

Innate operates from leased premises in Auckland, New Zealand and has established pilot-scale GMP manufacturing with the ability to supply needed amounts of MIS416 for pre-clinical and clinical trials. The manufacturing process is straightforward and production costs per dose are less than 5% of estimated product revenues per patient.

Management

Simon Wilkinson has led Innate Immunotherapeutics as its Executive Director and CEO since 2004. Mr. Wilkinson has 25 years of experience in finance and business management, including 10 years in biotech. He was a partner in ODL Capital, the New Zealand investment firm that helped Innate raise $16 million and introduced the Company to nearly half of its current 1,700 shareholders. Since taking the helm six years ago, Mr. Wilkinson has helped Innate raise another $25 million and overseen the

Company's transformation from a polyclonal passive immunotherapeutic HIV company to one focusing on innate immunity utilizing a proprietary immune-stimulating particle. Earlier in his career, Mr. Wilkinson served as an officer in the Royal New Zealand Navy and as an independent director of several private companies across a variety of industries. Innate's Chief Scientific Officer, Gill Webster is an expert in the field of Flow Cytometry and led research teams at Cyclacel Dundee UK and Genesis Research and Development prior to joining Innate. She holds a Ph.D. in Immunology from the University of London and completed post-doctoral work in cancer gene regulation at the University of Glasgow. Chief Business Development Officer Peter Bradley brings more than 25 years of experience in healthcare business development to Innate. He has held management positions in R&D and sales and marketing at several large healthcare companies and previously ran his own biotechnology commercialization consulting business.

Financial Overview

Innate has relied on funds raised through equity offerings, R&D tax credits, grants and awards, as well as miscellaneous income from reagent sales and minor contract research, to fund operations. During FY2012 ending in March, Innate consumed $1.65 million of cash in operations, which was funded primarily from cash on the balance sheet. Innate ended FY 2012 with cash and equivalents of $1.48 million and 95.1 million shares outstanding. The Company recorded a $4.21 million operating deficit in FY 2012 and an accumulated net loss since inception totaling $119.60 million. The operating deficit and accumulated net loss include the amortization of the Company's intellectual property.

Innate plans to raise US$15 million, which will be used to fund Phase IIB trials of MIS416 scheduled to begin next year.

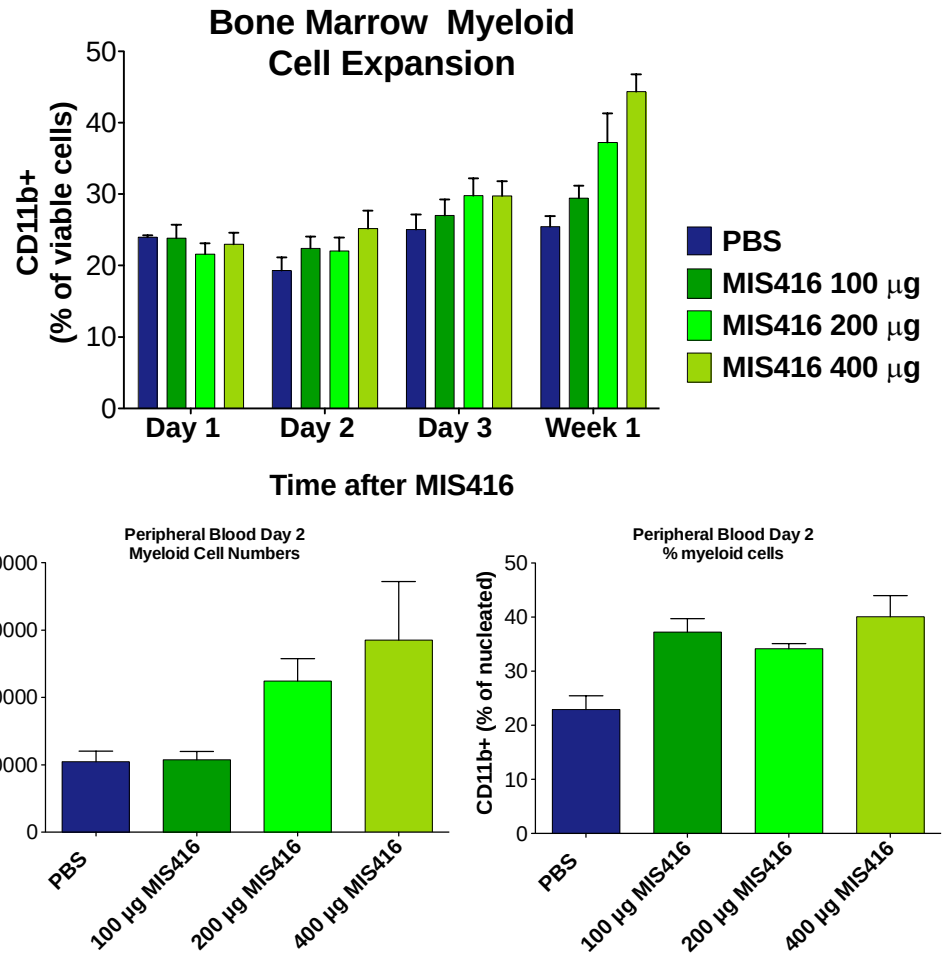
Innate is in the process of raising US$15 million, which will be used to advance its lead drug candidate into Phase IIB clinical trials. Management estimates costs for Phase IIB trials of $6 million. These trials will involve approximately 100 patients and multiple sites and are scheduled to commence in early 2013, with a tentative completion date in mid to late 2014. The balance of the proceeds will fund continuing preclinical development in other potential indications, administrative overhead and general corporate expenses for the next 48 months.

Products/Technology Overview

Innate's technology switches on powerful disease-fighting mechanisms that are part of the body's natural innate and adaptive immune system.

Innate's core technology is based on a unique therapeutic micro-particle that has the ability to: 1) turn off certain immune mechanisms that lead to auto-immune diseases such as MS and 2) induce the immune system to fight certain cancers and infections. Specifically, the technology works by linking multiple, naturally-occurring ligands (TLR9 and NOD2 ligands) to a safe, stable micron-sized particle. These ligands activate synergistic innate signaling pathways. The technology exploits cellular uptake mechanisms to deliver the ligand-carrying micro-particles to cells in the immune system that induce both innate and adaptive immunity.

In the context of MS, MIS416 targets myeloid cells, causing an increase in the number of these cells expressing markers of both regulatory and anti-inflammatory activity. Importantly, myeloid cells containing MIS416 are able to cross natural barriers into the brain, where these cells stimulate resident microgia cells that are part of the Central Nervous System to clear away myelin debris, enabling myelin repair to take place, and reduce inflammation by producing anti-inflammatory signals.



Innate's immune response modulators differ from monoclonal antibodies in that they don't act directly on a target. Instead, they switch on immune system disease-fighting

mechanisms and/or immune system control mechanisms. The immune system consists of various biological barriers and processes that protect against disease by identifying and destroying external threats (infectious agents) and internal threats (cancer cells). Surveillance cells that are part of the innate immune system recognize the pattern of an invading pathogen and activate the appropriate attack cells or mechanisms to destroy the invader. The same process of recognizing and destroying disease is triggered when cells mutate into early-stage cancer cells. When the innate immune system becomes overwhelmed, the adaptive immune system kicks in, providing the last but usually most potent line of defense. The cells that drive the adaptive process (antibodies and killer T-cells) must be custom-made by the immune system to match the pathogen, which is a generally slow process. However, once created, these cells can be produced in massive quantities to overwhelm the threat.

Autoimmune Disease

Autoimmune diseases arise when immunologic tolerance mechanisms break down, which results in processes associated with the presence of antibodies, T-cells or general inflammation. Therapies that can selectively manipulate the production of cytokines (messenger proteins that regulate inflammatory response) and antibodies are thus attractive clinical candidates.

Innate's lead drug candidate, MIS416, has immunomodulation properties with important application in the treatment of autoimmune diseases such as MS. Specifically, MIS416 induces soluble factors such as type 1 interferon and TGF-beta, which act at the level of immune deviation regulatory T-cell induction. MIS416 has also demonstrated the ability to activate natural killer and natural killer T cells, which are thought to play a role in preventing autoimmune disease, and inhibit cytokine levels, thus avoiding a prolonged inflammatory cytokine storm and its adverse side effects.

Infectious Disease

Mechanisms of the immune system exploit pathogen-recognizing receptors to rapidly induce anti-viral cytokines. Agents that can specifically activate these pathways may provide anti-viral protection. MIS416 is designed to induce high levels of IFN-alpha and other cytokines that induce broad-spectrum innate anti-viral immunity. Importantly, the simultaneous production of regulatory cytokines modulates the immune system response and avoiding over-stimulation and an inflammatory cytokine storm. This regulated response is accomplished by exploiting the immune-stimulatory properties of certain pattern-recognition receptor ligands. Uptake of MIS416 is limited to the targeted innate immune cell subsets, thus avoiding clinically unacceptable side effects.

Cancer

MIS416 is being evaluated as a vaccine adjuvant that can promotes potent, long-lived adoptive T cell immunity.

The activation of the anti-tumor mechanisms in the body's innate immune system has been well established as a therapeutic approach to treating cancer. Many cancer therapies work by activating natural killer cells, which are known to play a key role in identifying and destroying tumors. In addition, natural killer T cells and myeloid dendritic cells provide additional innate anti-tumor defense mechanisms to kill tumor targets. Myeloid dendritic cells initiate a primary immune response by activating lymphocytes and secreting cytokines.

Broadly acting immune cell-specific stimulants like MIS416 that can be administered systemically may better able contain the spread of cancers that occur spontaneously or as a result of dissemination following cancer surgery. In pre-clinical studies, MIS416 has shown the ability to significantly reduce the occurrence of lung metastases following establishment of a tumor burden. In addition, when used as a co-therapy, MIS416 resulted in a greater reduction in the number of lung metastases when compared to an individual therapy (such as radiation) alone.

Micro-Particle Adjuvant

There is a great need for a vaccine adjuvant that can promote long-lived adoptive T cell immunity. In particular, new adjuvants are needed that can promote protective cellular Th1 response. Many vaccines fail because of the lack of an appropriate adjuvant to support the development of long-lived cellular immunity. Classical antigen- presenting cells have long been considered primary targets for vaccination, but researchers now recognize that a potent Th1 response also requires simultaneous activity by key accessory cells such as plasmacytoid cells (which can produce large amounts of type 1 interferon), natural killer cells and natural killer T cells.

Business Strategy

Innate's strategy for maximizing the value of its immunomodulation technology is to advance its lead product candidate MIS416 into Phase IIB trials next year and, assuming successful outcomes from these trials, pursue an outright sale of its technology. The Company's main clinical focus is applications for its technology in Secondary Progressive MS, but various collaborators are also evaluating MIS416 as a therapy for certain immune-sensitive cancers and infectious diseases and as a vaccine adjuvant. Pre-clinical studies are ongoing with academic and/or research institutions in in Australia, New Zealand and the United States. These studies have no cost for Innate and benefit the Company by building awareness of its technology. In addition, these studies may potentially lead to new formations of MIS416 that are separately patentable (such as MIS416 combined with an antigen).

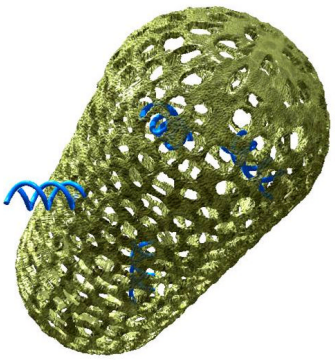
The Company's plan is to preserve the stand-alone value of MIS416 as a therapeutic agent and not seek separate licensing partners in different disease areas. By keeping the franchise value of its drug candidate intact, Innate ensures the best possible price when it sells its IP portfolio.

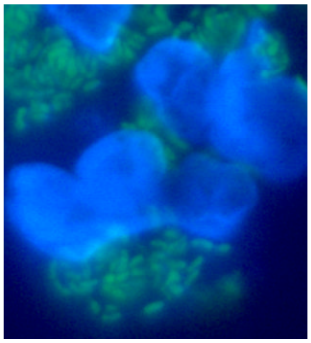
Clinical Trials in Multiple Sclerosis

Innate has selected Secondary Progressive Multiple Sclerosis (SPMS) as the first disease target for MS416. SPMS was chosen because there is a large potential market ($6 billion a year) and significant unmet need in this patient population. At present, there are no drugs approved to effectively treat SPMS. In addition, there are several large Pharma companies, including Biogen Idec, Novartis, EMD Serono, Teva, and Pfizer, which already have MS drugs in their portfolios and would most likely be interested in acquiring a promising SPMS drug candidate.

Innate plans to keep the franchise value of MIS416 intact, thus maximizing an eventual sale price for its technology.

Innate gathered anecdotal evidence three years ago from treating small numbers of SPMS patients on a "compassionate use" basis. The evidence suggested that MIS416 is safe, well-tolerated by patients and effective in improving symptoms of SPMS in these patients. Twelve MS patients were treated as part of the compassionate use program, including six patients with SPMS. Of these six, five reported significant, sustained improvement in their MS-related clinical symptoms while undergoing treatment. This favorable outcome led New Zealand drug regulators to waive an early stage Phase I clinical program for MIS416 in healthy subjects and recommend instead that the drug advance directly into Phase IB/IIA trials in patient population.





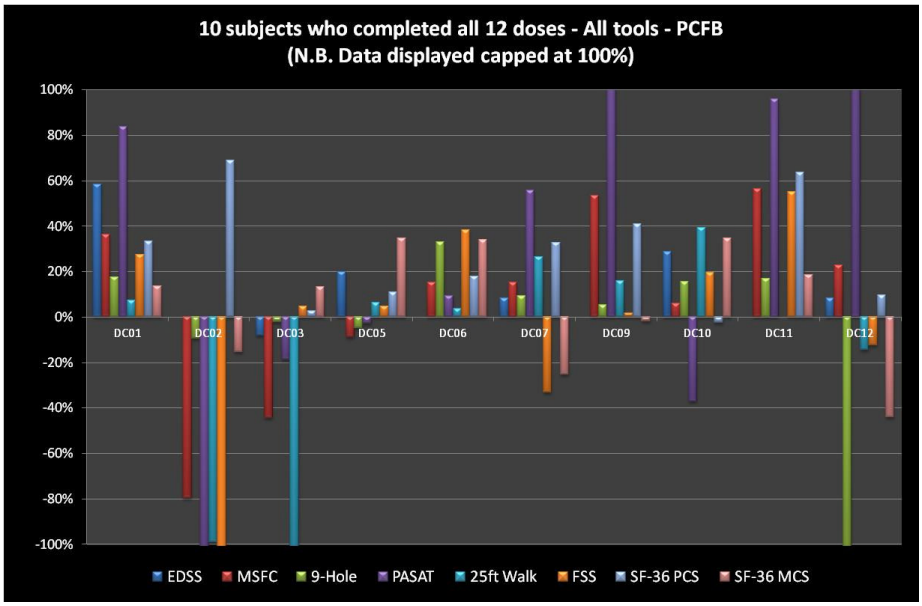
The Company commenced its clinical program for MIS416 in October 2010 in a dose escalation study that involved 16 patients with progressive MS. The patients were divided into four groups, with each group receiving different doses, and treated weekly for four weeks. This initial study was completed in October 2011 and validated that MS416 is safe and well tolerated at individual doses up to 600 micrograms. In addition, New Zealand regulators evaluated safety data from a six month dosing study in animals and gave Innate approval in October 2011 to proceed with a 12 week dose confirmation study.

In January 2012, Innate began a 12-week dose confirmation study in in patients with SPMS. The purpose of the study was to assess the safety and tolerability of MS416 at weekly doses of 500 micrograms over a 12-week period. Patients were also closely monitored for changes in their MS-related clinical status over the course of the study. The clinical tools that were used to assess these patients include the Expanded Disability Status Scale (EDSS), the Multiple Sclerosis Functional Composite (MSFC) measure, the Fatigue Severity Scale (FSS) and the short form general health survey (SF-36).

Innate received partial funding support for the study from the New Zealand Government and Fast Forward, LLC, a research entity supported by the National MS Society in the United States and EMD Serono. Fast Forward, LLC contributed US$550,000 as well as clinical expertise and the New Zealand Ministry of Science and Innovation contributed US$450,000 of funding.

An initial group of six patients finished dosing in early April and another group consisting of four patients completed dosing in early June. A final group of five patients will complete dosing in early July.

Innate issued an interim analysis in mid-June 2012 based on study data from the first 10 patients who completed all 12 doses of the drug. Most of the patients treated with MIS416 showed significant improvement in their clinical status. Half of the patients showed a greater than 50% improvement in cognitive function (as measured by the PASAT) and at least a 30% improvement in physical function (measured against the SF-36 profile of functional health). In addition, 60% of the patients showed at least a 10% improvement in the MS Functional Composite Score, and 30% experienced a greater than 30% improvement. No patient appeared to experience progression or exacerbation of symptoms. The most common side effects were headache, pyrexia, chills and muscle spasms. Innate expects to release final results from the dose confirmation study in September 2012.



Based on these favorable interim results, Innate now plans to commence a larger, multi-site Phase IIB trial in patients with SPMS. This trial will likely involve sites in both Australia and New Zealand and roughly 100 patients. Innate hopes to begin Phase IIB trials in early 2013 and has a targeted completion date in mid- to late- 2014.

Clinical Trials as a Cancer Vaccine Adjuvant

The Company is actively encouraging collaborations that may lead to new uses for MIS416 as a co-therapy or vaccine adjuvant.

Academic collaborators in Japan have been recruiting patients for a Phase IB safety trial of a cancer treatment vaccine that uses MIS416 as an adjuvant. The study group consists of patients who have prostate or bladder cancers and have not responded to other treatments. Their vaccine candidate leverages MIS416 capabilities as an immune response "booster" working in concert with a proprietary tumor antigen that serves as an immune system "trigger." Recruiting patients for this study has been difficult because patient must have a tumor that expresses the same kind of antigen as contained in the vaccine and researchers are contemplating making changes to the design of the study. Innate is supplying MIS416 for the study and assisting in study protocol design.

Studies in Ovarian and Peritoneal Cancers

Researchers at the Roswell Park Cancer Institute in Buffalo, New York recently evaluated the anti-tumor effect of an undisclosed agent when used in combination with MIS416 as a treatment for ovarian cancer. The study used mouse models.

Their research found using this combination heighted the anti-tumor effect and mediated the T-cell effect, thereby leading to superior anti-tumor immunity. These studies may lay the groundwork for future clinical trials of the combinatorial for immunizing patients with ovarian cancer.

Evidence from mouse models in peritoneal cancer suggests the combination of MIS416, a tumor-specific antigen and the undisclosed agent induces effective anti-tumor immunity with far superior survival and enhancement of anti-tumor effector memory cells.

Evaluating Mechanism of Action

In the past 12 months, Innate's in-house science team has made considerable progress in identifying and understanding the way MIS416 works in patients with SPMS. By understanding the drug's mechanism of action, Innate hopes to accelerate the drug approval process, which in turn would make MIS416 even more valuable to a potential big Pharma company acquirer.

Although SPMS develops in 65% of patients that have the relapsing remitting form of the disease (RRMS), RRMS drugs are ineffective in treating SPMS. Researchers believe this is because the disease mechanism of SPMS is different from RRMS and there is a growing body of evidence that suggests SPMS is driven by mechanisms within the Central Nervous System whereas RRMS disease drivers involve immune system processes in periphery systems. This suggests that, to be effective in treating SPMS, a drug must cross barriers into the Central Nervous System. Innate researchers recently confirmed that myeloid cells containing MIS416 can cross barriers into the brain. There these cells may be responsible for directly ingesting myelin debris and/or may stimulate CNS resident microglia cells to ingest myelin debris caused by MS thus allowing myelin repair to take place. At the same time, these MIS416-containing cells reduce inflammation by producing anti-inflammatory signals. The Company expects to publish its research findings within the next 12 months.

Other studies involving MIS416 are underway at the following universities and medical institutions:

- Victoria University of Wellington, New Zealand
- University of Auckland, New Zealand
- University of Otago, New Zealand
- Roswell Park Cancer Institute, Buffalo, New York, USA
- Purdue University, West Lafayette, Indiana, USA
- University of Melbourne, Australia

R&D collaborations are structured so that Innate contributes supplies of MIS416, intellectual capital and input into study design of the study. The research collaborator provides additional resources, expertise and intellectual property in the specific disease condition. To date, Innate has not sought to enter into any commercial arrangements arising as a result of these pre-clinical studies but rather to use the data obtained to reinforce and broaden its understanding of the drug and its other potential applications.

Market Overview

Innate is developing applications for its technology in areas of significant unmet medical need that represent large markets such as Multiple Sclerosis, infectious disease and cancer. The Company has selected Secondary Progressive Multiple Sclerosis (SPMS) as its first disease indication.

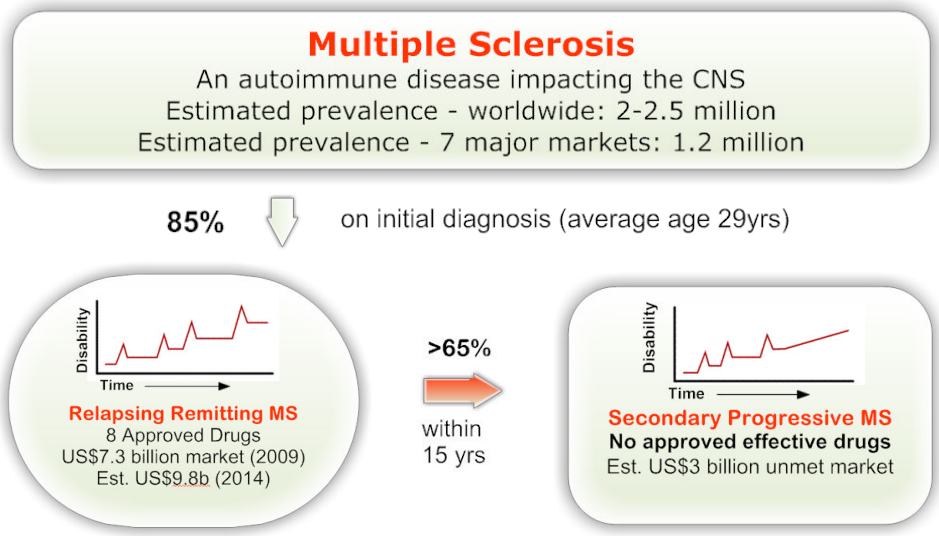
Multiple Sclerosis

MS affects more than 2.5 million people worldwide. There are eight MS drugs that together generate billions of dollars of annual sales, but no drug is effective in treating secondary progressive MS.

Multiple Sclerosis (MS) is a chronic inflammatory disorder of the central nervous system (CNS). It usually affects young adults in their 20s or 30s and is one of the most common causes of non-traumatic disability among young and middle-aged adults. MS-related health care costs are estimated to exceed $10 billion annually in the United States.

There are several different forms of MS, with classifications based on clinical symptoms. Relapsing-remitting MS (RRMS) is the most common form of the disease, in which symptoms appear for several days to weeks, then resolve spontaneously. After tissue damage accumulates over years, about 65% of patients will be diagnosed with Secondary Progressive MS (SPMS), in which pre-existing neurologic deficits gradually worsen. Relapses occur during the early stages of SPMS, but become less common as the disease progresses. About 15% of patients suffer gradually worsening symptoms from the onset without clinical relapses, which defines Primary Progressive MS (PPMS). Patients with PPMS tend to be older, have fewer abnormalities on brain MRIs, and generally do not respond to standard MS therapies.

MS affects more than 350,000 people in the United States and 2.5 million worldwide. In the United States, prevalence is estimated at approximately 90 per 100,000 populations. MS symptoms can begin as early as 10 years of age, but typically begin between the ages of 20 and 40, with a mean age of 32 years. Women outnumber men by a ratio of almost 2-to-1, although SPMS the ratio in SPMS is closer to 1-to-1. MS affects whites more than blacks, although blacks appear to become disabled earlier, suggesting more tissue destructive injury. The prevalence of MS varies by location, but generally increases traveling further from the equator in either hemisphere. It is unclear whether this pattern is due to environmental influence, genetic difference, or variable surveillance.



On average, patients have clinical relapses every 1 to 2 years during the relapsing-remitting phase of the disease. Serial MRI studies show lesions develop up to 10 to 20 times more frequently than clinical relapses. Thus, although RRMS has clinically active and quiet periods, inflammatory lesions are developing and evolving almost continuously. A current hypothesis states that overt progression of disability (SPMS) occurs when ongoing irreversible tissue injury exceeds a critical threshold beyond which the Central Nervous System can no longer compensate.

Signs and Symptoms

MS can affect any area of the brain, optic nerve, or spinal cord and cause a variety of neurologic symptoms. Relapses generally involve episodes of numbness, weakness, or lack of coordination affecting an arm, leg, or both. Disease localized to the spinal cord can cause sensory or motor changes involving one side of the body or below a certain spinal cord level. Brainstem involvement can manifest as diplopia, altered sensation in the face, or ataxia. Inflammation of the optic nerve (optic neuritis) usually manifests as blurry vision with painful eye movements. Other common symptoms of MS include bladder and bowel dysfunction, decreased memory, fatigue, and affective disorders such as depression.

Outcomes

MS is a heterogeneous disease with a variable clinical course. Patients can progress rapidly over several months to death, or they might have a few relapses and then remain clinically stable for decades. Although there is significant variability between patients, average time from disease onset to difficulty walking is 8 years; walking with a cane is 15 years; and wheelchair-bound is 30 years.

It is difficult to predict which patients will progress and which will remain relatively stable over time. There are several prognostic factors of later outcome. Older age at onset, initial symptoms involving cerebellar, spinal, or pyramidal systems, and higher initial clinical activity (frequent attacks and increased disability progression in the first five years) are unfavorable prognostic factors. Prognostic radiologic measures include brain and spinal cord atrophy and gadolinium-enhancing lesions. MRI measures are also useful tools when evaluating the effects of MS therapies.

Treatment

Initial treatment of MS usually starts during the acute relapse. Several studies have found that treatment with corticosteroids can shorten the length of relapse and might even improve long-term outcome. A typical regimen is 500 to 1000 mg of intravenous methylprednisolone followed by a tapering dose of oral prednisone over several weeks.

There is a huge unmet medical need for a drug that can reliably slow or arrest SPMS. This unmet need translates into a US$6 billion market.

After the acute relapse is treated, consideration turns to disease-modifying therapy. Current therapies target immune dysfunction and resulting neural tissue damage with the goal of preventing or at least reducing the long-term risk of clinically significant disability. At present, there are only eight drugs approved for the treatment of MS. Four of these are considered first line therapies. These include: interferon beta -1a (Avonex and Rebif), interferon beta- 1b (Betaseron and Extavia) and glatiramer acetate (Copaxone). These interferon medications are recombinant products with an amino-acid sequence that is identical or nearly identical to human interferon beta. Glatiramer acetate is a polypeptide based on the amino-acid sequence of myelin protein. All of these

medications appear to modulate the immune system response in MS, although they work through different mechanisms.

Several studies comparing interferon to glatiramer acetate found similar efficacies on both clinical and imaging outcomes. Studies evaluating different doses and frequencies found greater short-term efficacy with high-dose, high frequency interferon, which is balanced by increased adverse effects and greater incidence of neutralizing antibodies. Neutralizing antibodies significantly reduce the long-term efficacy of these medications, which is important when therapy is expected to continue for years. Each of these treatments is administered via injection and is expensive, with prices averaging as much as $36,000 per patient per year. The most important limitation of these agents is their only partial effectiveness. A substantial percentage of patients treated with these medications continue to evidence clinical disease as measured by relapse, progression of disability, or new T2 lesions as seen on brain MRI.

There are also a few monoclonal antibodies that have been approved for the treatment of MS. Natalizumab (Tysabri) is administered by intravenous infusion and works by blocking access for lymphocytes to the Central Nervous System. Studies indicate Natalizumab reduces clinical relapses by 55% to 67% and new brain lesions by 92%, although it is remains unclear whether the drug enters the Central Nervous System or exerts its effect entirely from the periphery.

Natalizumab is relatively well tolerated. The most common side effects are headache, fatigue, anxiety, menstrual irregularities, peripheral edema, and routine infections (upper respiratory infection, pharyngitis) and hypersensitivity reactions such as hives are occasionally observed. A more serious concern is reports of progressive multifocal leukoencephalopathy (PML) in patients treated with Natalizumab. PML is a serious viral infection of the brain, arising from the ubiquitous JC virus carried by more than 85% of adults. Because of the threat posed by PML, Natalizumab is not a first-line treatment and only used in patients who respond poorly to standard MS therapies.

Alemtuzmab (Campath 1H) is a monoclonal antibody that works by killing T cells. A number of anti-cancer treatments have also been tried, although these are not licensed for treating MS. Mitoxantrone (Novantrone) is a chemotherapy medication labeled for both RRMS and SPMS. However, its infusion side effects can be severe and high toxicity prevents its ongoing use. Cyclophosphamide, methotrexate, azathioprine and cyclosporine have all been studied in clinical trials in MS. Each was found to be possibly effective in altering the course of RRMS, but cyclosporine had an unacceptable risk-to-benefit ratio.

Current therapies are preventive, not restorative. As the disease progresses, response to therapy typically declines. Although some trials showed beta-interferon medications can be used in SPMS patients experiencing relapses, these drugs are not effective once progression of the disease is fully established. There is a huge unmet medical need for a drug that can reliably slow or arrest the normal course of SPMS.

Management & Board of Directors

Simon Wilkinson
Director, Chief Executive Officer

Simon Wilkinson has been a director and CEO of Innate for eight years and involved with the Company for 12 years. As CEO, Wilkinson has helped Innate obtain $25 million of funding and led the Company's transformation from a passive immunotherapeutic HIV focus to a focus on innate immunity utilizing a proprietary micro- particle. Before joining Innate, Wilkinson co-founded and led private equity firm ODL Capital, which is part of the O'Donoghue Lindsay Group of Christchurch, New Zealand. From 2001 to 2004, ODL Capital served as the lead domestic broker for Innate and helped the Company secure more than $16 million of funding and introduced Innate to approximately 750 of its current 1,700 shareholders. Prior to becoming involved in biotech, Wilkinson spent 20 years in finance, banking and business management. He has advised both public and private companies on acquisitions, organizational structures, funding and contractual negotiations across a variety of industries. He began his career in retail banking after serving as an officer in the Royal New Zealand Navy, where he was awarded the Navy League Sword of Honor – the Navy's top honor for an officer in training.

Liz Hopkins
Independent Executive Director

Liz Hopkins has more than 20 years of experience in successfully commercializing science outcomes. She spent 10 years with Pfizer's European headquarters, including the last two years as Global Project Manager. She has served as a named officer at several biotech start-ups. Her past positions include Chief Development Officer of NeuronZ, Chief Executive Officer of Encoate and Chief Executive Officer of Wool Equities/Keratec, which owned a biomedical technology. Hopkins holds a degree in Pharmacology from Oxford University.

Greg Moyle
Non-Executive Chairman

Greg Moyle co-founded New Zealand Financial Planning after careers in accounting, with the New Zealand Police and with the Corporate Fraud Unit of the Justice Department. In addition, Moyle recently completed a term as an elected member of the Auckland City Council. He also holds the rank of Major in the Auckland Infantry Battalion of the Territorial Army.

Christopher Collins
Non-Executive Director, US-based

Chris Collins has over 30 years of experience in business management. He founded Nuttall Gear Corporation, which was subsequently acquired by Altra Holdings (Nasdaq: AIMC). Collins has helped acquire, manage and make profitable 17 companies representing various industries. He recently completed a four-year term as the elected County Executive of Erie County in Western New York State and is currently the Republican Party nominee for the 27th Congressional District of New York. Collins resides in Rochester, New York.

Gill Webster
Chief Scientific Officer

Gill Webster serves as Chief Scientific Officer of Innate. She is an expert in the field of Flow Cytometry and before joining Innate, held senior research positions with Cyclacel Dundee in the United Kingdom and Genesis Research and Development in New Zealand. She has published research in the areas of transplantation and cancer molecular and cellular immune-biology. Webster obtained a Ph.D. in Immunology from the University of London and completed post-doctoral work in immune cell-based cancers and mechanisms underlying cancer gene regulation pathways at the University of Glasgow and the University of Dundee Wellcome Trust Biomedical Research Center in the UK.

Peter Bradley
Chief Business Development Officer

Peter Bradley has over 25 years of biotech industry experience and proven skills in developing, commercializing and marketing technology-based products. Before joining Innate, he ran his own biotechnology commercialization consulting business and held

positions as Head of Research and Development and as Sales and Marketing Manager for biotech companies.

Margaret Rhoades
Quality Assurance Manager

Rhodes obtained a New Zealand Certificate of Science (Chemistry) and a graduate degree in Quality Management (with distinction) from the Auckland Institute of Technology. Prior to joining Innate, she was employed by Warner Lambert/Parke Davis and as a consultant she helped companies implement and audit ISO 9000 quality systems.

Ken Tucker
Production Manager

Ken Tucker obtained a New Zealand Certificate of Science and a diploma in Medical Laboratory Technology. Before joining Innate, he worked for the Auckland Regional Blood Center as a technician and was responsible for the production of human plasma fractions such as Factor VIII. He has experience running medical and quality control laboratories and in the installation and testing of clean room air filtration systems.

Innate also complements the talents of its in-house research team with its consulting relationships with several world-class scientific advisors.

Michael Silverman, MD, FACP
Clinical Trial Consultant

Michael Silverman consults with Innate on strategy and operational planning for clinical trials. He has directed clinical trials at the Sterling Winthrop Research Institute, managed therapeutics R&D at the Sandoz Research Institute and gained biotech and small pharma start-up experience directing clinical research at Telor and Biopure. He was part of the Pharmaceutical Strategy Group at KMPG before leaving that firm to found his own consulting firm (Biostrategics Consulting).

Benjamin Segal, MD
Clinical Consultant (Multiple Sclerosis)

Benjamin Segal is the Hollom Garrett Professor of Neurology and Director of the Hollom Garrett Program in Neuroimmunology at the University of Michigan in Ann Arbor, as well as the Director of the University of Michigan Multiple Sclerosis Center.

Jim Taylor, PhD
Trials Consultant –FDA Regulatory Affairs and Manufacturing

Jim Taylor advises Innate on FDA regulatory affairs and manufacturing. His previous positions include Corporate VP and Chief Regulatory Officer at ImmunoGen, VP of Regulatory Affairs for Carter-Wallace, North American Director of Drug Regulatory Affairs for ICI Pharmaceuticals (now Astra-Zeneca) and Senior Research Scientist and Regulatory Liaison Officer for Pfizer. He has been involved in the active preparation and support of more than 50 new INDs and provides ongoing advice and support for many investigational and marketed drug and biological products.

Fred Reno, PhD
Toxicology Consultant

Fred Reno is an internationally renowned consulting toxicologist with expertise in pre-clinical drug development, strategies for product safety valuation and liaison with regulatory affairs. He has over 30 years of related experience, including 20 years with Hazelton Laboratories.

Competitive Valuations

The ideas of using the body's own immune system to treat disease attracted significant research attention in the mid to late-1990s, but multiple failures led to widespread discouragement. More recently, however, research breakthroughs have rekindled interest in this approach within the scientific community and provided momentum for immunomodulation therapies to reach the next level as new treatments are devised that combine these therapies with traditional drugs, radiation and other therapies.

Immunomodulation therapies are thought to hold the key to keeping cancer patients permanently disease-free.

Most current research programs in immunomodulation focus on applications in treating cancer. Many specialists think immunomodulation therapies may hold the key to keeping patients that have been treated for cancer permanently disease-free. A major problem with existing cancer drugs is that most only delay the recurrence of the disease and cannot offer a cure. That is because cancer tumors often eventually develop resistance to drugs or some cancer cells survive after surgery and/or radiation and re-grow. The hope is that channeling the long-term activity of the body's natural immune system can break the recurrence cycle and provide a permanent cure.

At present, there are over 20 cancer immunotherapies in pipeline development, according to market research firm Decision Resources and two FDA approved immunotherapy drugs – Provenge (owned by Dendreon Corp) for prostate cancer and Yervoy (owned by Bristol Myers Squibb) for melanoma. Other immunotherapy drugs are being developed for lung, brain and kidney cancers.

Provenge received FDA approval last year. This drug works by combining some of the patient's own immune system cells with a specific protein created by prostate cancers. Although the exact mechanism of action is not fully understood, it is believed that Provenge activates other immune cells that perceive the cancer as a threat and attack it. Yervoy is an antibody that binds to a molecule on certain immune system cells and triggers these cells to become active and fight the cancer.

The field of immunomodulation therapies once belonged exclusively to small biotechs, but recent successes have attracted the attention of large Pharma companies.

The FDA limits use of Provenge and Yervoy to patients who have advanced forms of disease and few other treatment options. Provenge has shown few side-effects in clinical trials, but Yervoy can trigger immune-related reactions that are sometimes fatal in patients. The price of these drugs is also prohibitive. A full course of treatment with Yervuy costs around US$120,000 and Provenge costs upwards of US$90,000.

Despite their limitations, these drugs are viewed as harbingers of a new class of therapies that could gain a significant share of the $75 billion worldwide market for oncology drugs. Scores of new immunotherapy vaccines and immune system modifiers are being tested against a variety of cancers.

At least a dozen therapies are set to deliver key mid-stage or late-stage clinical trial data over the next 12 months. Researchers think positive results from these trials could serve as a tipping point for the field. GlaxoSmithKline has a lung cancer vaccine in late-stage clinical development, Amgen is working on a vaccine for melanoma and Galena Biopharma is developing a breast cancer vaccine for use following surgery. Other companies with immunomodulation drugs in late stage clinical testing include Vical and NewLink Genetics. Both are public companies and have stock market values of $258 million and $317 million, respectively.

The basic idea behind all these drugs is the same – train a patient's immune system to attack the cancer, but new approaches incorporate a more complete understanding of the components of the immune system response. In addition to activating a variety of cells to attack tumors, these new drugs also incorporate modifying mechanisms that keep the immune system in check or turn it loose.

The development of immunomodulation therapies was once limited mostly to smaller biotechs, but the recent success of Yervoy has attracted the attention of large Pharma companies. Last year, Amgen spent $1.5 billion to acquire two businesses with cancer immunotherapy drugs in late-stage clinical trials. More recently, GlaxoSmithKline signed a collaborative agreement with Agenus agreeing to pay $9 million upfront towards the development of an adjuvant to add firepower to GlaxoSmithKline vaccines.

Valuations of Development-Stage Drug Candidates

A study by an investment banking firm looked at prices big Pharma companies were paying for drug candidates in mid to late-stage clinical trials. The analysis showed acquisition values ranging from $1 billion (paid by Amgen to acquire a cancer-killing virus therapy in Phase III trials) to $131 million (paid by Emergent for a Phase II drug candidate for Rheumatoid Arthritis and Lupus). The analysis looked at 11 acquisitions of drug candidates completed between 2009 and 2011. Of these, six of the acquired drugs had completed Phase II trials. The average purchase price for these drugs was $738 million and the median price was $620 million. Prices that pharmaceutical acquirers were willing to pay for drug candidates that had not yet completed Phase II trials were significantly lower. The average purchase price of these drugs was $430 million and the median purchase price was $560 million. There were only two acquisitions of drug candidates still in Phase I/Phase II clinical trials. Sanofi-Aventis agreed to pay $135 million upfront and make milestone payments totaling $541 million for a technology platform with applications in protecting retinal cells from degeneration and Nestle's Alcon paid $150 million upfront and agreed to $589 million in milestone payments for an antibody fragment technology with applications in treating various eye diseases.

The significantly higher price paid on average for drugs that had completed Phase II clinical trials validates Innate's business strategy and confirms that the Company will maximize the value of its IP portfolio by advancing MIS416 through Phase II clinical trials before pursuing a sale of its technology.

Third-Party Valuation of MIS416

Innate hired Destum Partners, a consulting firm specializing in the valuation of science technologies, to provide an independent valuation of MIS416. For purposes of the study, Destum Partners assumed market launch of MIS416 in 2019, a 10% share of the SPMS patient market in the first year of the launch, rising to 15% in the second year and peaking at 40% six years after launch. For the U.S. market, Destum Partners estimates sales will peak at US$2 billion (in 2025) and that MIS416 will generate sales totaling US$13 billion over 12 years. Estimates for the European market are sales peaking at US$770 million in 2025 and totaling US$5 billion over 12 years. The analysis assumes a potential market of 400,000 SPMS patients in the U.S., 380,000 patients in Europe and 1% a year market growth.

The base case valuation Destum Partners derives for MIS416 at the drug's current development stage is US$214 million, with potential values ranging from US$189 million at the low end to US$239 million at the high end. If $15 million being raised in the current financing round is included, shareholders will have invested a total of approximately US$55 million in Innate. At a US$214 million sale price for the technology, shareholders would realize a nearly 3-fold return on their investment. Even at the US$189 million low-end valuation, the return on shareholder investment is nearly 250%.

Recent Milestones

Interim Data from Phase IIA Trial Confirms Positive Outcome

On June 15, 2012, Innate released interim data from its Phase IIA dose confirmation study of MS461 in patients with SPMS. The data evaluated 10 patients who have completed all dosing and showed that once weekly dosing at 500µg for 12 weeks was safe and well tolerated. More importantly, the data showed that 50% of the SPMS patients treated experienced a greater than 50% improvement in cognitive function and at least a 30% improvement in physical function as a result of the treatment. Innate plans to release final results of the clinical study this September.

Anecdotal Evidence from "Compassionate Use" Suggests MIS416 is Safe, Well-Tolerated and Effective

During June 2012, Innate released anecdotal evidence gathered from treating small numbers of SPMS patients on a "compassionate use" basis with MIS416. Twelve MS patients were treated, including six patients with SPMS. Of these six, five reported significant, sustained improvement in their MS-related clinical symptoms while undergoing treatment with MIS416.

Innate Begins Dose Confirmation Phase of Clinical Trial

In January 2012, Innate commenced the dose confirmation phase of the Company's clinical trial of MIS416 in patients with Secondary Progressive MS. This follows the successful completion of dose escalation studies. The purpose of the trial is to confirm that MIS416 is safe and well tolerated by patients and also establish to a dose level for Phase IIB clinical trials scheduled to commence in 2013.

Innate Granted License to Manufacture MIS416 as Human Therapeutic

In September 2011, the New Zealand Ministry of Health (MedSafe) renewed Innate's license to manufacture MIS416 as a medicine. Approval by MedSafe confirms that MIS416 is being manufactured to the stringent standards of cGMP, which is a requirement for any agent entering human clinical trials. Innate is one of only a handful of New Zealand companies licensed by the Ministry of Health to manufacture medicines.

Innate Micro-particle Demonstrates Broad Spectrum Effect Against Recurrent Cancer or Metastatic Disease

In 2011 Innate presented data at the American Association for Cancer Research (AACR) annual meeting that demonstrates broad-spectrum effects of its proprietary micro-particle immune response modifier against recurrent cancer or metastatic disease. The preclinical data Innate presented at the conference suggests that MIS416 has both single agent activity and synergistic anti-cancer effects when used in combination with radiation.

Patent Application for MIS416 as a Treatment for MS

In 2009, Innate filed a further patent application relating to its micro-particle immune stimulator platform. The patent claims the therapeutic use of MIS416 as a treatment for multiple sclerosis, including Secondary Progressive MS.

The patent claims in part reflect anecdotal evidence gathered by treating small numbers of SPMS patients with MIS416 on a compassionate use basis under Section 25 of the New Zealand Medicines Act.

Investment Risks

Development Stage Products

The process for securing marketing approval of a new drug is both costly and time-consuming. Moving from discovery to commercialization typically involves multiple and progressively larger clinical trials that can take several years to complete and cost tens of millions of dollars. Innate's lead drug candidate MIS416 has demonstrated safety, tolerability and favorable clinical outcomes in Phase IB/IIA clinical trials, but may fail to reach clinical endpoints in follow up 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.

Commercial Success Depends on Widespread Market Acceptance

The market for immunomodulators is still in its infancy. Innate's success depends on large-scale acceptance of its technology within the scientific community and interest from large Pharma companies that are potential acquirers of the technology.

Technology Obsolescence

Only a small percentage of drugs that enter clinical trials are eventually approved. Bringing a new drug from discovery phase through commercial sales can cost upwards of $800 million and require several years of progressively larger clinical trials.

Innate believes it is strongly positioned by its IP portfolio and the competitive advantages of its technology, which include the ability to target innate cells and processes inside the Central Nervous System. However, there is risk that Innate'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.

Regulatory Risk

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 approved effective drugs to treat SPMS. New Zealand regulators waived an early-stage Phase I program for MIS416 based on anecdotal evidence from compassionate use of the drug and recommended instead that it advance directly into Phase II trials in SPMS patients.

Financing Risk

Innate needs additional funds for Phase II clinical trials and is in the process of securing $15 million of new capital. There is no guarantee that this amount of funding will be obtained. Insufficient funds could halt or delay clinical trials, which would reduce the value of Innate's IP portfolio.

Intellectual Property Risk

Innate's commercial success depends on its ability to obtain, maintain and protect its IP portfolio. Additionally, success may depend on the Company's ability to enforce and defend its IP portfolio against third-party legal challenges.

Going Concern Risk

Innate's viability as a going concern is dependent on favorable outcomes from Phase II clinical trials of MIS416. If Phase IIB clinical trials fail to hit endpoints, Innate could be forced to halt development of the drug and discontinue operations.

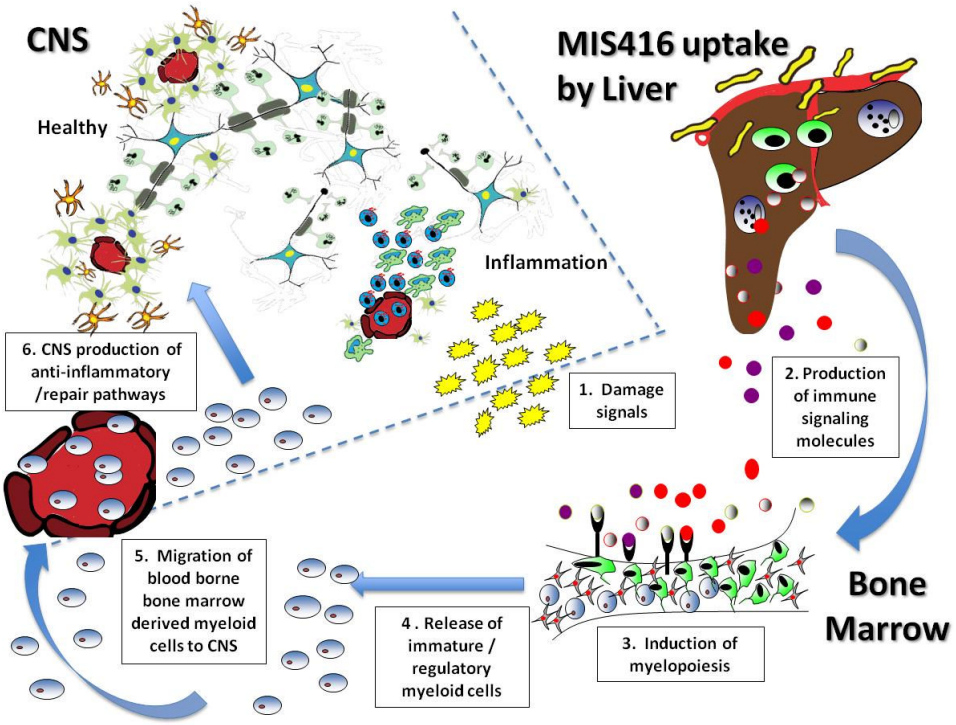
Summary

Innate Immunotherapeutics is developing new drugs for MS, cancer and other disease indications based on a proprietary micro-particle technology that has the ability to modulate the body's innate immune system response. The technology works by linking multiple, naturally occurring ligands to a stable micron-sized particles. The ligands activate signaling pathways that carry the micro-particles to cells in the immune system that induce both innate and adaptive immunity.

The Company has chosen Secondary Progressive Multiple Sclerosis (SPMS) as its first disease indication. MS is a chronic, debilitating disease that affects some 2 million people worldwide. Approximately 85% of MS patients are initially diagnosed this Relapsing Remitting MS (RRMS) and 65% of these patients will eventually be diagnosed with Secondary Progressive MS. At present, there are eight drugs approved for the treatment of RRMS but none that are effective in SPMS. Experts estimate that a successful SPMS drug would address a US$6 billion annual market.

Promising drug candidates at similar stages of development have sold at prices ranging from $131 million to $1 billion, and an independent appraisal recently established a $214 million baseline value for Innate's technology.

Innate's lead drug candidate MIS416 has immunomodulation properties that make it promising as a treatment for autoimmune disorders, especially SPMS. Researchers believe existing RRMS drugs are ineffective in treating SPMS because these drugs target cells of the adaptive wing of the immune system within the periphery. There is a growing body of evidence suggesting that the disease mechanisms behind SPMS involves cells of the innate wing of the immune system and processes inside Central Nervous System. MIS416 targets innate cells and has recently shown the ability to cross barriers into the brain. Once cells targeted by MIS416 are in the Central Nervous System they may directly or indirectly become involved in the clearance of myelin debris, encourage myelin repair and reduce inflammation by producing anti-inflammatory signals.



Anecdotal evidence gathered over 3 years from "compassionate use" of MIS416 in patients with SPMS showed significant clinical improvement in five of six patients and was a reason that New Zealand drug regulators waived an early stage clinical program for MIS416 and recommended instead that the drug advance directly to dose escalation/ confirmation clinical trials. In June 2012, Innate released interim data from patients who had completed all dosing. The results were extremely encouraging. MIS416 was safe and well-tolerated by all of the patients and 50% of the subjects experienced significant improvement in their clinical symptoms as a result of the treatment. Half of the patients showed a greater than 50% improvement in cognitive function and a 30% or greater improvement in physical function. Innate expects to release the final results from the Phase 1B/2A clinical trial by September 2012.

The Company is in the process of securing additional funding that will be used to advance MIS416 into a substantive Phase II proof of concept clinical trial. This trial will involve approximately 100 patients and multiple sites in Australia and New Zealand. Innate plans to commence the proof-of-concept II trial in early 2013 and complete the study by late 2014. Once the Phase II trial is completed, Innate plans to publish its results and pursue a buyer for its technology, providing an exit for investors.

Innate is evaluating applications for MIS416 in MS, but also encouraging research collaborations that are exploring applications for its technology in cancer, infectious disease and as a vaccine adjuvant. These research collaborations cost Innate nothing and benefit the Company by creating awareness of its technology. Another benefit is the potential for new formulations of MIS416 that are separately patentable resulting from these relationships. Japanese researchers are evaluating MIS416 as a cancer vaccine adjuvant and U.S. scientists are studying MIS416 in combination with other agents as a treatment for ovarian cancer.

Simon Wilkinson has been CEO of Innate for eight years and involved with the Company for 12 years. He has more than 25 years of finance and business management experience, including 10 years in biotech. Before joining Innate, Wilkinson led a private equity group that served as Innate's lead domestic broker. As CEO, Wilkinson has helped Innate secure $25 million of funding. Innate has a small in-house research team, world-class scientific advisors, cGMP manufacturing capabilities and research collaborations with top universities and institutions across New Zealand, Australia and the United States.

Investment banking studies show prices paid recently for promising new drug candidates that range from $1 billion at the high end to $131 million at the low end and also confirm higher prices paid on average for drugs advanced through Phase II clinical trials. This validates Innate's business strategy and confirms that maximum value can be obtained by completing Phase II clinical trials of MIS416 prior to pursuing a sale of the technology.

A third-party valuation of Innate's technology prepared by consulting firm Destum Partners estimates MIS416 could generate peak combined U.S. and European sales of $2.8 billion. Their analysis assumes MIS416 gains a 40% share of the SPMS patient market within six years of its launch. Destum Partners has established a baseline value of US$214 million for Innate's technology and a valuation range of between US$189 million and US$239 million. Including the current US$15 million financing round, shareholders will have $55 million invested in the Company. If the baseline valuation of US$214 million is accurate, shareholders could potentially realize a nearly 3-fold return on their investment in Innate.

Naturally, the value of MIS416 increases as the drug candidate advances through development. After the successful completion of Phase IIB trials, Destum Partners estimates Innate's technology would be worth as much as US$475 million. Based on $55 million of shareholder capital invested in Innate, a technology sale post Phase IIB clinical trials could provide a nearly 10-fold return for investors.

Income Statement

For the Fiscal Period Ending	Reclassified 2008	2009	2010	2011	2012
Currency	*NZD*	*NZD*	*NZD*	*NZD*	*NZD*
Revenue	-	-	-	-	-
Cost of sales	-	-	-	-	-
Gross profit	**-**	**-**	**-**	**-**	**-**
Other operating income	2,140	12,154	164,645	845,295	784,150
Research and development expenses	(3,003,082)	(2,792,870)	(1,351,439)	(1,243,088)	(1,670,770)
Business Development			(292,139)	(418,381)	(371,920)
General Expenses	(622,426)	(601,370)	(573,991)	(299,706)	(253,520)
Administrative expenses	(2,877,964)	(2,667,493)	(2,857,023)	(1,555,739)	(2,180,203)
Operating deficit before financing costs	(6,501,332)	(6,049,579)	(4,910,001)	(2,671,619)	(3,692,263)
Financial income	163,974	80,385	17,014	34,449	57,137
Financial expenses	(67)	(45,578)	(315,997)	(503,909)	(579,513)
Net financial income	163,907	34,807	(298,963)	(469,460)	(522,376)
Operating deficit before taxation	**(6,337,425)**	**(6,014,772)**	**(5,100,761)**	**(3,141,079)**	**(4,214,639)**
Tax expense	**-**	**-**	**-**	**-**	**-**
Net deficit after taxation	(6,337,425)	(6,014,772)	(5,100,761)	(3,141,079)	(4,214,639)
Other Comprehensive Income	-	-	-	-	-
Total Comprehensive Loss	**(6,337,425)**	**(6,014,772)**	**(5,100,761)**	**(3,141,079)**	**(4,214,639)**

Balance Sheet

Balance Sheet as of:	Reclassified June-30-2008	June-30-2009	June-30-2010	June-30-2011	June-30-2012
Currency	*NZD*	*NZD*	*NZD*	*NZD*	*NZD*
Current Assets					
Cash and cash equivalents	2,866,007	1,991,534	1,437,141	2,821,279	1,475,596
Accounts receivable	33,873	25,854	14,343	348,214	49,244
Income tax refund	48,211	16,446	22,153	13,548	26,232
Other current assets	140,987	101,621	21,375	64,521	-
Total current assets	3,089,078	2,135,455	1,495,012	3,247,562	1,551,072
Non Current Assets					
Property, plant and equipment	1,108,953	933,051	381,330	304,823	252,831
Investments	7,077	7,077	7,077	-	-
Intangible assets	12,006,941	10,369,632	8,732,323	7,095,014	5,457,704
Total non current assets	13,122,971	11,309,760	9,120,730	7,399,837	5,710,535
Total Assets	**16,212,049**	**13,445,215**	**10,615,742**	**10,647,399**	**7,261,607**
Current Liabilities					
Accounts payable and accrued liabilities	311,861	341,604	202,548	245,802	605,452
Redeemable preference shares	-	-	-	-	1,579,989
Convertible notes	-	-	-	-	765,616
Embedded derivative	-	-	-	-	2,440
Total current liabilities	311,861	341,604	202,548	245,802	2,953,497
Non current liabilities					
Redeemable preference shares	-	847,819	1,037,263	1,276,889	-
Convertible notes	-	494,055	748,603	846,240	267,403
Embedded derivative	-	693,601	894,129	42,559	1,810
Total non current liabilities		2,035,475	2,679,995	2,165,688	269,213
Total liabilities	**311,861**	**2,377,079**	**2,882,543**	**2,411,490**	**3,222,710**
Equity					
Paid-in capital	119,487,282	120,670,002	122,240,452	124,128,922	123,642,195
Accumulated losses	(103,587,094)	(109,601,866)	(114,507,253)	(115,893,013)	(119,603,298)
Total equity	**15,900,188**	**11,068,136**	**7,733,199**	**8,235,909**	**4,038,897**
Total equity and liabilities	**16,212,049**	**13,445,215**	**10,615,742**	**10,647,399**	**7,261,607**

Cash Flow

Balance Sheet as of: *Currency*	Reclassified June-30-2008 *NZD*	June-30-2009 *NZD*	June-30-2010 *NZD*	June-30-2011 *NZD*	June-30-2012 *NZD*
Cash Flows from Operating Activities					
Receipts from customers	1,500	11,500	99,424	61,223	56,610
Dividends received	640	654	668	348	333
Interest received	163,974	80,385	17,014	34,449	57,137
Rent received					29,150
Grants Received	-	-	60,344	333,890	694,092
Payments to suppliers	(3,343,772)	(3,204,805)	(1,640,025)	(2,384,354)	(1,804,037)
Payments to employees	(966,696)	(891,720)	(1,042,366)	(534,227)	(616,949)
Income tax refunded /(paid)	64,218	31,765	(5,707)	8,865	(12,821)
Interest paid	(67)	(34,194)	(45,366)	(563)	(51,126)
R&D Tax Credit	-	-	-	418,898	-
Net cash outflow from operating activities	(4,080,202)	(4,006,415)	(2,556,014)	(2,061,471)	(1,647,611)
Cash Flows from Investing Activities					
Purchase of property, plant and equipment	(24,659)	(3,728)	(15,299)	(8,302)	(8,765)
Proceeds from sale of property, plant and equipment	5,600	-	6,069	7,524	6,286
Purchase of Investments	-	-	-	7,077	-
Net cash outflow from investing activities	(19,059)	(3,728)	(9,230)	6,299	(2,479)
Cash Flows from Financing Activities					
Issue of redeemable preference shares	-	1,306,956	-	-	-
Issue of ordinary shares	2,011,721	671,377	1,736,860	3,439,310	304,407
Issue of convertible promissory notes	-	1,046,225	359,437	-	-
Repayments from Buckler Biodefense Inc.	15,727	-	-	-	-
Net cash inflow from financing activities	2,027,448	3,024,558	2,096,297	3,439,310	304,407
Net increase/(decrease) in cash held	(2,071,813)	(985,585)	(468,947)	1,384,138	(1,345,683)
Cash at the beginning of the period	5,295,391	2,866,007	1,991,534	1,437,141	2,821,279
Effect of exchange rate changes on cash	(357,571)	111,112	(85,446)	-	-
Cash at the end of the period	2,866,007	1,991,534	1,437,141	2,821,279	1,475,596
Cash Balances in the Balance Sheet					
Cash and cash equivalents	2,866,007	1,991,534	1,437,141	2,821,279	1,475,596
Closing cash balance	2,866,007	1,991,534	1,437,141	2,821,279	1,475,596

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