BioDiem

BioDiem Ltd · Annual Report 2010

ABN 20 096 845 993

Contents

BioDiem brings a clear commercial focus to the biopharmaceutical development business. We aim to develop cost-effectively a select number of technologies with commercial potential that have advanced data on efficacy and safety, and outlicence them to final development and marketing.

Highlights of the year

Research on BDM-E to generate new intellectual property.

Nobilon commenced a Phase II clinical trial of the LAIV in Europe.

Two new commercial projects identified – LAIV as a vaccine vector and BDM-I as an anti-microbial for human use.

BioDiem regained the manufacturing and marketing rights for the LAIV technology in Japan. Japan represents the second largest pharmaceutical market in the world.

The first product launch outside Russia and the CIS for the LAIV technology took place in July 2010 with an H1N1 (swine flu) vaccine, NasoVac, being marketed in India.

Chairman's letter

The first product launch outside Russia and the CIS for the LAIV technology took place in July 2010 with an H1N1 (swine flu) vaccine, NasoVac, being marketed in India.

Dear Shareholder,

The Board is very pleased with the performance of the Company this past year which has been one of consolidation for BioDiem and building on our previous progress.

The most important events during the year concerned our LAIV technology. Since our last annual report the "swine flu" (H1N1) pandemic has continued to cause international concern. Reportedly, the fastest moving pandemic seen since the 1918 Spanish Flu pandemic, it has spread worldwide. With this in mind, it was with great satisfaction that we saw our first Live Attenuated Influenza Vaccine product, NasoVac for the H1N1 (swine) pandemic flu strain, launched by the Serum Institute in India in July this year. This is the first market release of our LAIV technology outside Russia and the CIS, and has received much media coverage in India. The launch was enabled through our relationship with the World Health Organization which last year signed an agreement with our licensee, Nobilon, to gain access to the LAIV technology for the public markets in developing countries. We anticipate the finalisation of agreements concerning the supply of the LAIV technology to developing country private markets in the coming months fom which we will derive royalties.

During the year Nobilon, now part of the pharmaceutical giant Merck, undertook a Phase II clinical trial in Europe following a successful Phase I clinical trial and we anticipate results from Phase II trial later this year. Since the end of the year, in July 2010, as a consequence of the merger of Merck and Schering-Plough, Merck announced the phase-out of operations at a number of R&D sites around the world. One of these sites is the Nobilon facility at Boxmeer in the Netherlands, which is one of the areas where work on BioDiem's LAIV has been taking place. We continue to co-operate with Merck under their licence with us and are in discussions with them about the ongoing development of the LAIV program under that agreement.

In December last year, BioDiem regained the full Japanese rights to the LAIV technology and is engaged in discussions with companies for those rights.

In late 2009 we undertook a complete strategic review of our project portfolio in order to recognise opportunities for earlier revenue. Our projects, BDM-E and BDM-I, are fully reported on in the Review of Operations section of this report. As a result of the review process the Company has identified two significant commercial opportunities.

The first is utilising the LAIV technology as a vaccine vector; that is using it as the backbone to design other novel vaccines. Vaccines are the highest growth therapeutic sector and BioDiem is positioned to increase its visibility as a potential development partner in this market. Confirmatory studies on the use of the LAIV technology as a vector will take place over the coming year. We are also refocussing the BDM-I product for human therapeutic use. Previously it has been developed for use in animal feeds but recent work has demonstrated that it may have a greater commercial potential as an antimicrobial in humans. Work on these two projects will continue over the coming year with a view to licensing them out at the earliest opportunity.

During the year the Company undertook a capital raising via a Rights Issue to raise $7.6m. By its close in June, $3.5m was raised and the directors have the authority to place the balance by 21 September 2010.

In May 2010 there were changes to the BioDiem Board of directors: the addition of Ms Julie Phillips, the Company's Chief Executive Officer, the appointment of Professor Arthur Li, as a non-executive director, and the resignation of Dr John Brown, non-executive director.

I am delighted that Professor Arthur Li has joined our Board and welcome him. Julie Phillips has completed her first year as the CEO of the Company and the Board is pleased with her achievements and the commercial focus and direction of the Company. I would also like to thank Dr John Brown for his important contribution over the past three years.

To my other fellow directors, Don Brooks and Professor Larisa Rudenko, go my thanks for their ongoing dedication and service. I would like to offer a special thanks to Professor Larisa Rudenko who has committed an enormous amount of her time to support the LAIV programs of the WHO, the CDC, Nobilon and PATH on BioDiem's behalf. Her efforts have contributed to the successful launch of NasoVac in India in July.

On behalf of my fellow Directors, we are delighted with the achievements made over the year and the opportunity to share them with you in this annual report. We also thank our shareholders who took part in our Rights Issue for their continued support.

We look forward to the coming year and are confident that BioDiem will build on its strong base of this year.

Yours sincerely,

Hugh Morgan AC
Chairman

Review of operations

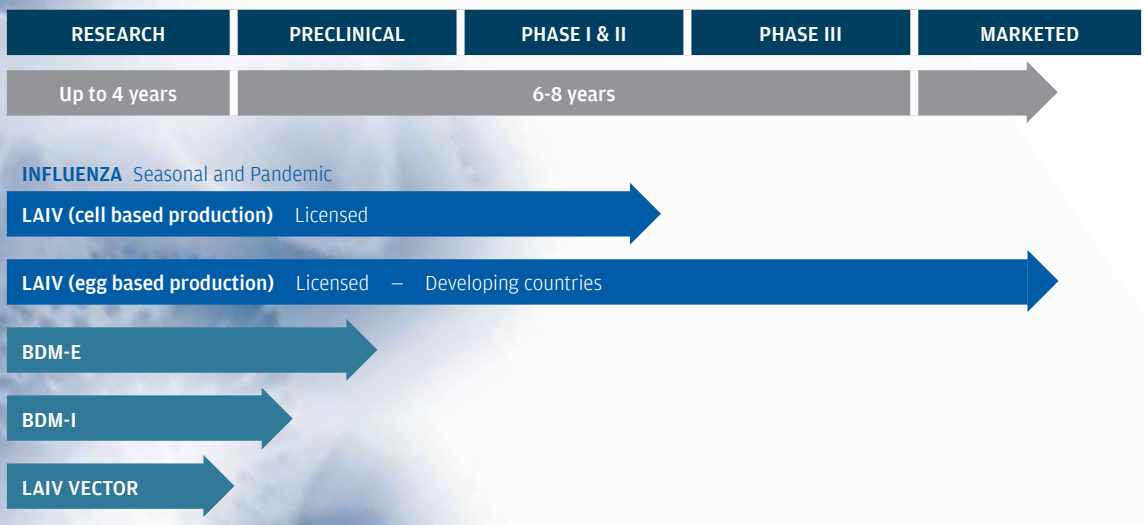
During the past fiscal year BioDiem has continued to progress the development of its key technologies with partners and academic centres of excellence. During the year BioDiem completed a portfolio review which led to the identification of a further commercialisation opportunity arising from the LAIV technology.

There have been significant developments with the Company's lead technology, the Live Attenuated Influenza Vaccine (LAIV).

- In December 2009 BioDiem regained the manufacturing and marketing rights for the LAIV technology in Japan. Obtaining the full Japanese rights to the technology, including manufacturing, enables BioDiem to out-license the complete Japanese rights package. The Japanese license package will allow the licensee the opportunity for development of both egg and cell-based manufacturing options. Japan represents a lucrative potential market for BioDiem's technology, being the second largest pharmaceutical market in the world. The Company is currently in discussions with potential partners for the Japanese rights.
- The first product launch of BioDiem's LAIV technology outside Russia and the CIS took place in July 2010 with an H1N1 (swine flu) vaccine being marketed in India.
- Under the Co-operative Research and Development Agreement (CRADA) with the National Center for Infectious Disease, Centers for Disease Control and Prevention (CDC), Atlanta, Georgia, a better understanding of the basis for the potential benefit of the LAIV was discovered. These results will be published later in 2010.

In March 2010 the Company offered its investors an opportunity to increase their holdings in BioDiem through a Rights Issue that closed in June 2010 raising $3.5m.

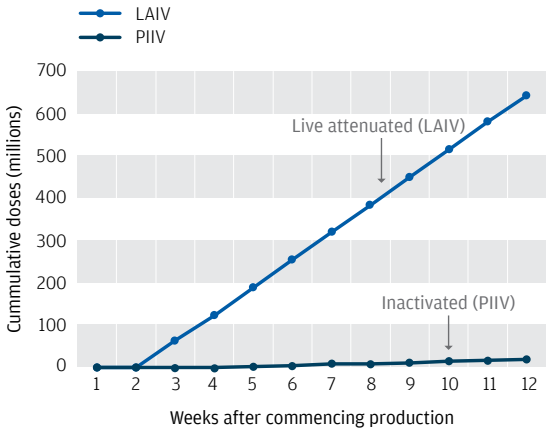
Project pipeline



Project review

BioDiem's leading project is the Live Attenuated Influenza Vaccine (LAIV) technology from the Institute of Experimental Medicine in St. Petersburg, Russia. The LAIV technology serves as a basis for production of novel intranasal vaccines to prevent infection from seasonal and pandemic influenza. The LAIV vaccines can be produced by traditional egg-based production methods or by advanced cell-based production methods. The number of vaccine doses achievable with the LAIV technology greatly exceeds that of inactivated vaccines* (see below).

Modelling the potential production yield of two influenza vaccines in a fixed size production facility



* *Adapted from Dr Palkonyay presentation, 12 June 2007, Geneva. WHO Initiative for Vaccine Research.*

LAIV

Seasonal application

For the world-wide territories outside of Russia, the CIS and Japan, the LAIV technology is licensed to Nobilon (now part of Merck). Of Nobilon's territories, BioDiem holds the sales and marketing rights for the NAFTA countries otherwise all rights reside with Nobilon for these territories. Nobilon has pursued a cell-based production method for the LAIV. Over the past twelve months the clinical program has progressed well with successful Phase I clinical trials in seasonal influenza taking place in Europe. This triggered the commencement of a Phase II clinical trial. The Phase II clinical trial is a double-blind, randomized, placebo-controlled study and results are anticipated later in 2010.

Pandemic applications

For the public market in developing countries, it has been a joint strategy of BioDiem and Nobilon to collaborate with the World Health Organization and other international groups for the development of seasonal and pandemic influenza vaccines. This strategy has enhanced the portfolio of products available for commercialisation by Nobilon benefiting from faster access to the private markets in developing countries. This is particularly applicable in terms of new pandemic vaccines in anticipation of outbreaks such as avian influenza (H5N1) and swine flu (H1N1). This arrangement gives BioDiem the opportunity to realize an earlier flow of income from royalties on sales in the private market in developing countries. The first example of the benefit of this collaboration will be seen from royalties flowing to BioDiem from the sale of the H1N1 vaccine in the private market in India.

World Health Organization (WHO) Program

In May 2009 BioDiem and Nobilon authorised the Institute of Experimental Medicine (IEM) to share the LAIV technology with the WHO to support its "Global Pandemic Influenza Action Plan to Increase Vaccine Supply" for developing countries. The vaccines developed through the WHO program are manufactured using eggs. In September 2009, the WHO issued sublicences to the LAIV technology to two companies: the Serum Institute of India, Pune, India and the Government Pharmaceutical Office, Bangkok, Thailand. A third sublicence was issued to the Zhejiang Tianyuan Pharmaceuticals of China in October 2009.

Pandemic influenza vaccines can be registered for use once Phase II clinical trials are completed. In July 2010 BioDiem was delighted to announce that the Serum Institute of India had launched its H1N1 (swine flu) pandemic vaccine, called NasoVac, in India. This vaccine is a result of the WHO collaboration using BioDiem's technology. BioDiem is eligible to receive royalty payments on sales of this product in the private market.

It is anticipated that the Government Pharmaceutical Office of Thailand will launch its pandemic vaccine into the Thai market in early 2011.

Facilitated by a grant from the WHO, work has commenced on a new laboratory fit-out at the IEM to allow the Institute to handle highly pathogenic influenza strains e.g. H5N1 (avian or bird flu). Any material generated will be also be available for use in developing countries under the World Health Organization's Global Pandemic Influenza Action Plan to Increase Vaccine Supply.

Program for Appropriate Technology in Health (PATH) Program

In August 2009 the Institute of Experimental Medicine (IEM), the originator of BioDiem's Live Attenuated Influenza Vaccine (LAIV) technology, entered into a development and collaboration agreement with the PATH, an international non-profit organization to develop a prototype pandemic LAIV for use in developing countries. The aim of this collaboration is to speed the development of live attenuated influenza vaccines that can be a safe, low-cost, and highly effective method for enabling real-time response against an influenza pandemic which is likely to hit developing countries hardest.

The first stage of this agreement will use BioDiem's cold-adapted master virus bearing avian or human influenza virus genes from viruses with pandemic potential. Preclinical studies of the vaccine candidates are scheduled to be performed in late 2010. PATH will provide financial and technical support to IEM and third party contractors to a maximum of US$3.6 million.

Co-operative Research and Development Agreement (CRADA)

The CRADA between BioDiem, the Centers for Disease Control and Prevention, and Nobilon was extended for a further six months in 2009. The purpose of this research is to develop a candidate vaccine against the H5N1 avian influenza based on BioDiem's technology and to test the breadth of protection of this vaccine compared with a standard inactivated influenza vaccine in a ferret challenge model. The research team has successfully generated an H5N1 vaccine using the LAIV master donor virus strain. The ferret challenge study to assess the infectivity, immunogenicity and protective efficacy of the H5N1 LAIV versus the standard inactivated influenza vaccine has been completed. Results from this study are being prepared for publication and presentation later in 2010.

Vaccine Vector

The portfolio review highlighted a further commercial opportunity for the LAIV technology. The Company is now exploring the use of the LAIV technology as a viral vector. This would involve use of the virus itself as a facilitator in vaccine design. 'Viral vectors' are viruses which are used as a delivery tool for proteins (antigens or epitopes) in vaccines. They deliver the specific proteins to elicit an immune response in the person vaccinated. The resulting vaccines can target a wide range of diseases depending on the choice of antigen or epitope which is presented. This project is in late stage research. Initial target applications are nasopharyngeal carcinoma (NPC) and human respiratory syncytial virus (RSV) infection.

Nasopharyngeal carcinoma (NPC) is a cancer originating in the nasopharynx, the uppermost region of the throat, where the nasal passages and auditory tubes join the remainder of the upper respiratory tract. NPC differs significantly from other cancers of the head and neck in its occurrence, causes and treatment. It is vastly more common in certain regions of East Asia and Africa than elsewhere.

Human RSV infection is the single most important cause of severe respiratory illness in infants and young children and the major cause of infantile bronchiolitis (inflammation of the small airways in the lung). It is the most frequent cause of hospitalization of infants and young children in industrialized countries. In the USA alone, from 85,000 to 144,000 infants with RSV infection are hospitalized annually, resulting in 20%-25% of pneumonia cases and up to 70% of bronchiolitis cases in the hospital. The global burden of RSV is estimated at 64 million cases and 160,000 deaths every year. There is currently no vaccine available for RSV.

BDM-E – Ophthalmic (Eye) Disease

BDM-E was discovered in Russia, and has been successfully used in some Russian clinics for the compassionate treatment of ophthalmic disorders.

Studies at Monash University and the University of Melbourne have shown that BDM-E is effective in retinopathy of prematurity, a laboratory model of eye disease. These studies are currently being extended to other laboratory eye disease models: diabetic retinopathy, retinitis pigmentosa and age-related macular degeneration.

At Cambridge University the mechanism of action of BDM-E has been studied. Some important biomarkers of inflammation have been investigated and it appears that the effects of BDM-E are mediated by changes in the levels of these biomarkers. Studies have shown that BDM-E influences apoptosis (programmed cell death) and there is some evidence that BDM-E may have a key role in the maintenance of the cell growth cycle. Current studies are investigating the importance of this effect in the overall action of BDM-E.

Shandong University has investigated certain analogues of BDM-E in concert with the mechanism of action work. This has served as the basis for definition of new analogues for screening and new intellectual property generation. We expect the screening results for the analogues will expand the target indications available for commercialisation beyond eye disease and provide ongoing protection of a proprietary position with this technology.

Subject to funding, the Company intends to undertake an early stage clinical trial, before opening an IND, to establish proof-of-concept in an orphan disease such as retinitis pigmentosa. By the use of BDM-E in Russia and through the results of an earlier BioDiem clinical trial a database showing a good safety profile has been established.

Retinitis Pigmentosa (RP) causes the progressive degeneration of rod and cone photoreceptor cells in the retina, which, over time, diminishes night and peripheral vision and eventually leads to blindness.

BDM-I – Infectious Disease

BDM-I was previously investigated by the Company for use to enhance the growth of animals in the agricultural sector. However, research work completed at the RMIT University in Melbourne, supplementing earlier Russian studies, demonstrated the potential value of BDM-I as an antimicrobial, effective against many serious human disease-causing microbes including, gram positive and gram negative bacteria and fungi. BDM-I is active against a wide spectrum of microorganisms including the following:

Bacteria	Associated diseases
Gram negative	
Neisseria gonorrhoeae	Gonorrhea
Proteus vulgaris & mirabilis	Pyelonephritis (kidney infection), UTIs (urinary tract infections)
Gram positive	
Streptococcus pyogenes	Impetigo, pharyngitis (strep throat), necrotising fasciitis
Staphylococcus aureus	"Golden Staph", MRSA infections, dermatitis, Toxic Shock Syndrome
Fungi	
Aspergillus fumigatus	Invasive aspergillosis in immune-compromised patients
Candida albicans	Invasive Candidiasis and thrush

The anti-infectives market has grown significantly in recent years (2006-7: US$70 billion, CAGR 13%[1]) with the entry of new products worldwide. Resistance to treatment is a growing problem for many antimicrobials. Because of the potential for development of BDM-I for treatment of a variety of serious infections such as aspergillosis and others the Company intends to continue product development for human use. Analogue synthesis work has been completed and supports the value of the ongoing development plan for BDM-I as an antimicrobial.

The next steps will require a small number of confirmatory activity studies and testing in animal models of infectious diseases. On the results of these studies we intend to approach potential licencees to complete the development work and clinical trials. These licences can be issued for BDM-I development in different disease areas and provide BioDiem with an earlier revenue stream while we may also continue exploration in-house of the use of BDM-I in specific areas for example, invasive and superficial fungal diseases where high unmet medical need exists.

[1] *The Anti-Infectives Market Outlook to 2013, Business Insights, 2008*

Review of operations *continued*

Intellectual property

BioDiem's intellectual property is its greatest asset, and one which the Company aims to protect and optimise to support successful commercialisation. Over the past twelve months we have continued to maintain our extensive intellectual property portfolio. During the year a further patent was granted for BDM-I in China. More information about BioDiem's intellectual property portfolio can be found on in our Intellectual Property Summary on page 9.

Financials

In March 2010 BioDiem announced a non-renounceable pro rata Rights Issue ("Rights Issue") offer intended to raise approximately $7.5m before expenses. Eligible shareholders received an entitlement to apply for six (6) new shares at $0.18 (eighteen cents) per share for every eleven (11) shares held. Each two new shares had an attaching option, exercisable at $0.23 (twenty three cents) with a term of two years from the date of issue. The Company was delighted that its two largest shareholders, Brezzo Enterprises Ltd. and Sir David Li, took up their entitlements under the Rights Issue in full. The Rights Issue closed on 21 June raising $3.5m. BioDiem intends to place the shortfall of $4m prior to the Annual General Meeting.

Revenue from licensing fees during the year fell to zero, down from AU$2.99m in the previous year. This coincided with the LAIV rights to the Japanese market returning to BioDiem.

Research and Development expenses were down to AU$1.83m (2009: $2.39m). Administration and corporate costs were reduced to $1.56m (2009:$1.62m). These reductions coincided with the strategic review of programs and formation of a new budget with commercial focus.

The cash position at the end of the year was $4.16m (2009:$3.99m). Overall the Company recorded a net loss of AU$3.394m (2009: AU$1.51m) which was increased due to the absence of licensing fees in this financial year. In 2009 BioDiem was the first recipient of a Biotechnology International Partnering Program (BIPP) grant from the State Government of Victoria of $2500 to attend the World Vaccine Congress in Lyons, France.

Personnel

In May 2010 the BioDiem Board underwent a number of changes. Ms Julie Phillips, the Company's Chief Executive Officer, was appointed as a director. In addition, Professor Arthur Li was appointed as a non-executive director. Professor Arthur Li is a well-credentialed and respected educator and surgeon who is currently Deputy Chairman of The Bank of East Asia and is Emeritus Professor of Surgery at the Chinese University of Hong Kong. Dr John Brown resigned as director in May 2010.

Outlook

BioDiem is confident about its prospects over the next twelve months. The LAIV technology is progressing well in both seasonal and pandemic indications and the Company looks forward to being able to report on further product launches, upcoming trials and further licences in the coming year. The development plans of the Company's other technologies have been refocussed to target commercial outcomes and work has commenced to expedite this. During the year Merck and Schering- Plough completed their merger. In July Merck notified the market that there would be a phase out of operations at a number of its R&D sites and that one of these sites is the Nobilon facility at Boxmeer in the Netherlands, which is one of the areas where work on BioDiem's LAIV has been taking place. At this time BioDiem has not been notified of the potential impact of this closure on the LAIV program. BioDiem will keep investors informed of developments as they arise.

Intellectual property summary

BioDiem's intellectual property is its greatest asset. Over the past twelve months we have continued to maintain our extensive intellectual property portfolio. During the year a further patent was granted for BDM-I in China. BioDiem owns four patent families that protect its product portfolio. A brief summary of these is given below. In addition to the patents, the Company has specific "know-how" related to each product that would be considered "trade secrets" which also support the intellectual property protection conferred by the patents.

Product	Patent summary	Granted	Pending	Expiry date
LAIV	Reassortant influenza virus which has at least its haemmagglutinin gene derived from a non-pathogenic or low pathogenic influenza virus, and its other genes derived from a donor strain. This patent protects the application of the LAIV technology in both seasonal and pandemic uses. The patent covers an alternative way of preparing a pandemic vaccine, which does not require the use of reverse-genetics technology, and where the reassortant influenza virus is derived from a non-pathogenic avian influenza virus. The proprietary reverse genetics techniques are used for working with highly pathogenic (pandemic) influenza viruses and are not needed for making seasonal vaccines where use of reassortants suffices.		• Australia • Canada • Egypt • Europe • Hong Kong • Japan • Mexico • New Zealand • S. Korea • S. Africa • USA • Vietnam	18 April 2026
BDM-E	Tetrapeptide revealing Geroprotective Effect, Pharmacological Substance on its Basis and the Method of its Application This patent protects the application of BDM-E for use as an agent that slows down the cell ageing process and prolongs cell life.	• Australia • Canada • Europe • Israel • Japan • USA		20 January 2020
BDM-I	Antimicrobial and Radioprotective Compounds This patent protects the use of BDM-I as a treatment and/or prophylaxis of a microbial infection and in some territories as a protection from radioactive damage due to cancer therapy as well.	• Russia • Australia • Singapore S. Africa • China	• Brazil • Canada • Europe • Hong Kong • Japan • Philippines • USA • Malaysia	14 June 2022
BDM-I	Growth Promotion Method This patent protects the use of BDM-I as a growth promoting treatment for animals and/or humans.	• Australia • China • Singapore • S.Africa	• Brazil • Canada • Europe • Hong Kong • Japan • Philippines • Russia • Malaysia	27 February 2024

Board of Directors

HUGH M MORGAN AC
Chairman

Hugh Morgan is Principal of First Charnock. He is a member of the Lafarge International Advisory Board; an Emeritus Trustee of The Asia Society New York; Chairman Emeritus of the Asia Society AustralAsia Centre; President of the National Gallery of Victoria Foundation and Chairman of the Order of Australia Association Foundation. He is a Non-Executive Director of Hexima Limited. He was a Director of the Board of the Reserve Bank of Australia for 14 years. From 2003-2005 he was President of the Business Council of Australia. He is also immediate Past President of the Australia Japan Business Co-operation Committee and a Past Co-Chair of the Commonwealth Business Council and continuing Director. He is a graduate in Law and Commerce from the University of Melbourne and was Chief Executive Officer of WMC Limited from 1986 to 2003. He was a Director of Alcoa of Australia from 1977 to 1998 and a Director of Alcoa Inc from 1998 to 2001.

JULIE PHILLIPS
Chief Executive Officer

Ms Phillips was appointed to the position of Chief Executive Office on July 14, 2009 and was appointed a director on May 7, 2010. She has a strong background in the biotech and pharmaceutical industry, having worked as the CEO and director of start-up Australian biotechnology companies operating in the life sciences sector. Her technical background in clinical trials, regulatory affairs and pharmacoeconomic assessment/pricing of therapeutics was gained in multinational pharmaceutical companies with responsibility for market entry of new products in Australia and New Zealand. Ms Phillips is also on the Board of the CRC for Asthma and Airways Ltd.

PROFESSOR LARISA RUDENKO
Non-Executive Director

Professor Rudenko is Head of the Virology Department in the Institute of Experimental Medicine, St. Petersburg, Russia. Professor Rudenko worked with Academician Smorodintsev and has been responsible for the development and clinical trials of the live attenuated influenza vaccines in Russia. She is recognised as one of the world's leading experts in live attenuated influenza vaccines and as such has worked closely over the past 20 years with scientists at the Centers for Disease Control and Prevention, Atlanta, USA in developing effective influenza prophylaxis programs for use in children and in the elderly. She has published in excess of 225 scientific papers and 42 patents. Under her supervision, 11 PhD and 2 DSc theses have been prepared. In 1999 her contribution to medical science was recognised with the award of the title of Honoured Scientist of the Russian Federation. Professor Rudenko is currently leading the WHO and PATH programs, developing a new pandemic LAIV for developing countries.

DON BROOKS
Non-Executive Director

Don Brooks, a graduate of Columbia University School of Law, is a US-based lawyer, who for many years was Senior Counsel-Licensing at Merck & Co., Inc. and was formerly its Counsel for U.S. pharmaceutical operations and Counsel for its research operations. Don retired from Merck in 1993 and since that time has served as Counsel to a U.S. law firm representing clients in the biotechnology industry, as well as serving as an advisor to firms in the biotechnology and the pharmaceutical industry in general. He has been general counsel of a Maryland-based biotech company, EntreMed Inc. and currently serves on the Board of that company, as well as having served on the Board of a Canadian biotech company for which he currently continues to act as a consultant.

PROFESSOR ARTHUR LI
Non-Executive Director

Professor Arthur Li was awarded the degree of Doctor of Medicine by University of Cambridge, UK. He is a well-credentialed and respected educator and surgeon who is currently Deputy Chairman of The Bank of East Asia and is Emeritus Professor of Surgery of The Chinese University of Hong Kong. He is also a director of AFFIN Holdings Berhad.

Among his many previous appointments and associations, he has been a Council Fellow of the University of Melbourne, Dean of the Faculty of Medicine and Vice-Chancellor of The Chinese University of Hong Kong. Professor Li was the Secretary for Education and Manpower and a Member of the Executive Council of the Government of HKSAR. He was also a member of the board of Glaxo Wellcome plc. He is a member of the National Committee of the Chinese People's Political Consultative Conference.

Financial report

Contents

Directors' report

The Directors present their report together with the financial report of BioDiem Ltd ("the Company") for the financial year ended 30 June 2010 and the auditor's report thereon.

1. Directors

The Directors of the Company at any time during or since the end of the financial year are:

Name, qualifications and independence status	Experience, special responsibilities and other directorships
Hugh M Morgan AC *LLB, BCom* Chairman Non-Executive Director Non-independent	- Chairman, Audit Committee. - Chairman, Remuneration and Nomination Committee. Hugh Morgan is Principal of First Charnock. He is a member of the Lafarge International Advisory Board; an Emeritus Trustee of The Asia Society New York; Chairman Emeritus of the Asia Society AustralAsia Centre; President of the National Gallery of Victoria Foundation and Chairman of the Order of Australia Association Foundation. He is a Non-Executive Director of Hexima Limited. He was a director of the Board of the Reserve Bank of Australia for 14 years. From 2003-2005 he was President of the Business Council of Australia. He is also immediate Past President of the Australia Japan Business Co-operation Committee and a Past Co-Chair of the Commonwealth Business Council and continuing Director. He is a graduate in Law and Commerce from the University of Melbourne and was Chief Executive Officer of WMC Limited from 1986 to 2003. He was a Director of Alcoa of Australia from 1977 to 1998 and a Director of Alcoa Inc from 1998 to 2001.
Julie Phillips *BPharm, DHP, MSc, MBA* Chief Executive Officer	Ms Phillips was appointed to the position of Chief Executive Officer on July 14, 2009 and was appointed a Director on May 7, 2010. She has a strong background in the biotech and pharmaceutical industry, having worked as the CEO and director of start-up Australian biotechnology companies operating in the life sciences sector. Her technical background in clinical trials, regulatory affairs and pharmacoeconomic assessment/pricing of therapeutics was gained in multinational pharmaceutical companies with responsibility for market entry of new products in Australia and New Zealand. Ms Phillips is also on the Board of the CRC for Asthma and Airways Ltd.
Larisa Rudenko *MD, PhD, DSc* Director of Russian Projects Non-Executive Director Non-independent	- Member, Remuneration and Nomination Committee. Professor Rudenko is Head of the Virology Department in the Institute of Experimental Medicine, St. Petersburg, Russia. Professor Rudenko worked with Academician Smorodintsev and has been responsible for the development and clinical trials of the live attenuated influenza vaccines in Russia. She is recognised as one of the world's leading experts in live attenuated influenza vaccines and as such has worked closely over the past 20 years with scientists at the Centers for Disease Control and Prevention, Atlanta, USA in developing effective influenza prophylaxis programs for use in children and in the elderly. She has published in excess of 225 scientific papers and 42 patents. Under her supervision, 11 PhD and 2 DSc theses have been prepared. In 1999 her contribution to medical science was recognised with the award of the title of Honoured Scientist of the Russian Federation. Professor Rudenko is currently leading the WHO and PATH programs, developing a new pandemic LAIV for developing countries.

Name, qualifications and independence status	Experience, special responsibilities and other directorships
Donald S Brooks *BA, JD* Non-Executive Director Independent	- Member, Remuneration and Nomination Committee. - Member, Audit Committee. Don Brooks, a graduate of Columbia University School of Law, is a US-based lawyer, who for many years was Senior Counsel-Licensing at Merck & Co., Inc. and was formerly its Counsel for U.S. pharmaceutical operations and Counsel for its research operations. Don retired from Merck in 1993 and since that time has served as Counsel to a U.S. law firm representing clients in the biotechnology industry, as well as serving as an advisor to firms in the biotechnology and the pharmaceutical industry in general. He has been general counsel of Maryland-based biotech company, EntreMed Inc. and currently serves on the Board of that company, as well as having served on the Board of a Canadian biotech company for which he currently continues to act as a consultant.
Arthur Kwok Cheung Li GBS JP *BA, MA, MB BChir, MD, HonDSc (Hull), HonDLitt (HKUST), HonDoc (Soka), HonLLD (CUHK), HonDSc(Med) (UCL), HonLLD (UWE), FRCS, FRCSEd, FRACS, FCSHK, FHKAM (Surgery), HonFPCS, HonFRCSGlas, HonFRSM, HonFRCS(I), HonFACS, HnFRCP(Lon), HonFCSHK, HonFASA, Emeritus Professor of Surgery (CUHK)* Non-Executive Director Non-independent	Professor Li was appointed a Director on May 7, 2010. Professor Arthur Li was awarded the degree of Doctor of Medicine by the University of Cambridge, UK. He is a well-credentialed and respected educator and surgeon who is currently Deputy Chairman of The Bank of East Asia and is Emeritus Professor of Surgery of The Chinese University of Hong Kong. He is also a director of AFFIN Holdings Berhad. Among his many previous appointments and associations, he has been a Council Fellow of the University of Melbourne, Dean of the Faculty of Medicine and Vice-Chancellor of The Chinese University of Hong Kong. Professor Li was the Secretary for Education and Manpower and a Member of the Executive Council of the Government of HKSAR. He was also a member of the Board of Glaxo Wellcome plc. He is a member of the National Committee of the Chinese People's Political Consultative Conference.
John Brown *MA, MD, FRCP, FRES, F Med Sci* Non-Executive Director Non-independent	Dr Brown resigned on May 7, 2010.

2. Company Secretary

Richard Wadley, FCCA, was appointed to the position of Company Secretary and Chief Financial Officer in July 2002. Mr Wadley has previously held positions of Company Secretary and Chief Financial Officer at a number of listed public companies.

3. Officers who were previously partners of the audit firm

There are no officers of the Company who were previously partners of the current audit firm, KPMG.

4. Directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) held in the period in which each director held office during the financial year and the number of meetings attended by each director are:

	Board meetings		Audit Committee		Remuneration & Nomination Committee	
Directors' meetings	**Held ***	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Mr H Morgan	11	11	2	2	1	1
Mr D Brooks	11	11	2	2	1	1
Dr J Brown	10	10	1	1	1	1
Ms J Phillips [1]	1	1				
Dr L Rudenko	11	10			1	1
Dr A Li	1	-				

[*] *Number of meetings held during the time the director held office during the year.*

[1] *Ms Phillips attended 10 meetings as the CEO before she was appointed as a Director on May 7, 2010.*

5. Corporate governance statement

This statement outlines the main corporate governance practices in place throughout the financial year which comply with the ASX Corporate Governance Council recommendations, unless otherwise noted.

A review of the Company's Corporate Governance Framework is performed on a periodic basis to ensure that it is relevant and effective in light of the changing legal and regulatory requirements. The Board of Directors continues to adopt a set of Corporate Governance Practices and a Code of Conduct appropriate for the size, complexity and operations of the Company. Unless otherwise stated, all Policies and Charters meet the ASX Corporate Governance Best Practice Recommendations. All Charters and Policies are available from the Company's website: www.biodiem.com

- The Company does not currently comply with Corporate Governance Principle 2.1: the majority of Directors should be independent, and Principle 2.2: the Chair should be an independent director.

  Only one director is independent because other Directors are either associated with substantial shareholders or are involved with related party transactions. The Board believes that it is impractical at this stage to comply with these recommendations.

- The Company does not currently comply with Corporate Governance Principle 4.2: the Chairman of the Audit Committee should also not be the Chairman of the Board.

  Currently, the Audit Committee is chaired by the Chairman of the Board, as the Board believes that it is impractical at this stage to comply with this recommendation.

  The Board believes the Chairman of the Board is the best person to fulfil this role.

5.1 Board of Directors

The Directors' objective is to increase long-term shareholder value within an appropriate framework, which protects the Company and enhances the interests of shareholders and ensures the Company is properly managed.

The function of the Board of Directors is clearly defined and includes responsibility for:

- approval of corporate strategies, the annual budget and financial plan;
- monitoring financial performance including approval of the annual report and liaison with the Company's auditors;
- appointment of, and assessment of the performance of, the Chief Executive Officer;
- monitoring managerial performance;
- ensuring the significant risks facing the Company have been identified and appropriate and adequate control, monitoring and reporting mechanisms are in place; and
- reporting to shareholders.

A description of the Company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year.

The Directors are committed to the principles underpinning best practice in corporate governance, applied in a manner which is best suited to the Company and to address best the Directors' accountability to shareholders and other stakeholders.

The structure of the Board is fundamental to achieving these objectives. It is the role of management to propose strategies and to carry out agreed plans. The Board, which ultimately has the responsibility for the direction and performance of the Company, is composed of Directors able to consider the issues with independence and objectivity. It currently comprises four non-executive Directors and one executive director. A majority of Directors have extensive knowledge of the Company's industry both locally and overseas.

By definition, independent Directors are those Directors who are not a member of management; who hold less than five percent of the voting shares and are not associated directly or indirectly with a shareholder who holds more than five percent of the voting shares; have not within the last three years been employed in an executive capacity by the Company; and have not been an employee in the last three years of a consultant or advisor to the Company; are not a material supplier or customer of the Company and have no material contract with the Company other than as a director of the Company; who are free from any interest and any business relationship which could or could reasonably be perceived to materially interfere with the Directors' ability to act in the best interest of the Company.

The full Board is responsible for establishing criteria for Board membership, reviewing Board membership and identifying and nominating Directors. New appointments to the Board must have well-established scientific and business credentials in order to be able to demonstrate the required range of skills, knowledge and experience. Details of the Directors are set out in the Directors' report under the heading "Directors."

Performance is monitored by monthly analysis of financial statements and critical evaluation of research progress against key benchmarks. In addition, on a regular basis the Board reviews Company progress against the long-term goals set out in the strategic plan.

Where Directors are associated with organisations with which the Company might have ongoing commercial relationships, the director involved will withdraw from all deliberations where a potential conflict of interest may arise.

5.2 Director education

The Company has a process to educate new Directors about the nature of the business, current issues, the corporate strategy and the expectations of the Company concerning performance of Directors. Directors also have the opportunity to visit Company facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

5.3 Independent advice

Each director has the right of access to all relevant Company information and to the Company's executives and subject to prior consultation with the Chairman may seek independent professional advice at the Company's expense. A copy of the advice received by the director will be made available to all members of the Board.

5.4 Remuneration & Nomination Committee

The Committee reviews and makes recommendations to the Board on the remuneration packages and policies applicable to the executive officers and Directors of the Company. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

The members of the Committee during the year were:

- **Mr H Morgan** *Non-Executive Chairman*
- **Mr D Brooks** *Non-Executive*
- **Dr L Rudenko** *Non-Executive*
- **Dr J Brown** *Non-Executive (resigned on May 7, 2010)*

The Board policy is for the Committee to be comprised of independent non-executive Directors. Currently, only one director is independent because other Directors are either associated with substantial shareholders or have related party transactions. The Chief Executive Officer is invited to Committee meetings, as required.

Remuneration and other terms of employment are reviewed annually by the Committee having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. Remuneration packages include superannuation as well as base salary.

5. Corporate governance statement *continued*

Remuneration of non-executive Directors is determined by the Board within the maximum amount approved by the shareholders from time to time. Non-executive Directors also receive superannuation payments in accordance with statutory levels.

The Committee meets twice a year and as required. However, this year the Committee met once. The members' attendance is disclosed in the table of Directors' meetings.

5.5 Remuneration report

The remuneration report is set out on pages 22 to 29 and forms part of the Directors' report for the financial year ended 30 June 2010.

5.6 Audit Committee

The Audit Committee has a documented charter approved by the Board. All members should be non-executive Directors with a majority being independent. Currently, only one director is independent because other Directors are either associated with substantial shareholders or have related party transactions. It is recommended that the Chairman should not also be the Chairman of the Board. Currently, the Audit Committee is chaired by the Chairman of the Board, as the Board believes that it is impractical at this stage to comply with this recommendation.

The members of the Audit Committee during the year were:

- **Mr H Morgan** *Non-Executive Chairman*
- **Mr D Brooks** *Non-Executive*
- **Dr A Li** *Non-Executive (appointed to the Committee on July 28, 2010)*
- **Dr J Brown** *Non-Executive (resigned on May 7, 2010)*

The external auditor, the Chief Executive Officer and the Chief Financial Officer, are invited to attend Audit Committee meetings at the discretion of the Committee. The Committee met twice during the year. The members' attendance is disclosed in the table of Directors' meetings.

The Chief Executive Officer and the Chief Financial Officer declared in writing to the Board that the financial records of the Company for the financial year have been properly maintained, the Company's financial reports for the year ended June 30, 2010 comply with accounting standards and present a true and fair view of the Company's financial position and operational results.

The external auditor met the Audit Committee twice during the financial year with management being present.

The responsibilities of the Audit Committee include:

- reviewing the annual, half year and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with accounting standards and principles and assessing whether the financial information is adequate for shareholders needs;
- assist the Board in reviewing the effectiveness of the organisation's controls;
- oversee effective operation of the risk management framework;
- assessing the performance and independence of the external auditor; and
- monitoring procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and other regulatory requirements.

The Audit Committee will meet with the external auditors during the year to discuss the external audit and address any issues arising, such as but not limited to changes in operations, structure, controls or accounting policies, and to review the proposed fee for the audit work.

5.7 Risk management

5.7.1 Oversight of the risk management system

The Board oversees the establishment, implementation and annual review of the Company's Risk Management Systems. Management has established and implemented the risk management system for assessing monitoring and managing operational financial reporting and compliance risks for the entity. The Chief Executive Officer and the Chief Financial Officer have declared in writing to the Board that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report.

5.7.2 Risk profile

Protection of intellectual property is at the core of the Company's activities and the Company engages one of Australia's leading patent attorneys for such advice. The attorneys carry out due diligence and report in writing on any intellectual property to be acquired. Future patenting strategy is discussed and agreed in the light of any proposed development plan. Upon acquisition, BioDiem takes over control of the patent applications together with the attorneys. New inventions reported to BioDiem by its Contract Research Organizations are passed to its attorneys

for advice on patentability. Management then decides whether or not to proceed with new patent application(s).

The patent attorneys write to the Company each time there is a significant activity in the patenting process. Meetings and teleconferences with the firm take place when required to discuss patenting issues and any changes in strategy.

The Company's business strategies and activities involve a degree of risk. Development of new therapies historically has been shown to have high risk because of the complexity of proving safety and efficacy of new compounds. Risk is minimised to the extent it does not inhibit the Company from pursuing business opportunities with a considered and balanced view of risk.

Risk management is a managerial responsibility of the senior management and is monitored by the Board. Comprehensive practises have been established to ensure:

- capital expenditure and revenue commitments above a certain size obtain prior approval from the Board;
- business transactions are properly authorised and executed; and
- financial reporting accuracy and compliance with financial reporting regulatory framework.

5.7.3 Financial reporting

The Chief Executive Officer and the Chief Financial Officer have declared in writing to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Monthly results are reported against budgets approved by the Directors and revised forecasts are prepared regularly.

5.7.4 Key business risks

Below are some of the key business risks identified and managed by the Company.

- **Product liability**
  Currently, no product liability risks are identified other than compounds used in clinical trials. The Company enters into insurance appropriate for its clinical trials.
- **Occupational health and safety**
  Under the direction of the Chief Executive Officer, management monitors employee exposure to health and safety issues in the workplace and reports to the Board on the results of any incidents.
- **Contractual**
  The organisation believes that it is taking all the required steps to protect its intellectual property through the establishment of Australian and international patents and through third party agreements.
- **Funds management**
  Funds held for future research and development are managed by the Company. Investments are made in Term Deposits and Bank Accepted Bills.
- **Continuous disclosure**
  The Company has policies and procedures on information disclosure that requires focus on the continuous disclosure of any information concerning the Company that a reasonable person would expect to have a material effect on the price of the Company's securities.

5.8 Ethical standards

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, trying at all times to enhance the reputation and performance of the Company.

Directors must keep the Board advised on an ongoing basis of any interest that could potentially conflict with those of the Company. The Board has procedures in place to assist Directors in disclosing any potential conflict of interest.

Where the Board believes that a significant conflict exists for a director on a Board matter, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst that item is considered.

A policy regarding the trading in general Company securities by Directors and employees is in place.

The policy details the insider trading provisions of the Corporations Act and provides for Directors, management and employees to be able to acquire shares in the Company at any time except when there is a "black-out". Company wide black-outs occur from July 1st until the day of the release of the annual results and from January 1st until the release of the half-year results. Black-outs might occur at any other time for the Company or for certain individuals prior to any major announcement or when they are in the possession of price sensitive information.

The Company's guidelines for dealing in securities also prohibit any employee who holds shares in the Company acquired pursuant to the terms of the Company's employee share plans from entering into a transaction to limit the economic risk of such shares, whether through a derivative, hedge or other similar arrangement, without the prior written approval of the Chief Executive Officer or the Board.

5. Corporate governance statement *continued*

5.9 Communication with shareholders

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes the identification of matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, the media and posting them to the Company's website.

The Chief Executive Officer and the Company Secretary are responsible for interpreting the Company's policy and informing the Board. The Company Secretary is responsible for all communications with the ASX. Such matters are advised to the ASX as they occur. A continuous disclosure review process, which involves monitoring all areas of the entity's internal and external environment, is in place.

Announcements made to the market and related information, including information provided to analysts or the media are placed on the Company's website after release to the ASX.

6. Principal activities of the Company

The principal activity of the Company during the financial year was development and commercialisation of pharmaceutical and medical research. The Company's objectives are to secure licenses for its range of biopharmaceutical products currently under development. There were no changes in the nature of the activities of the entity during the year.

7. Review of operations

The Income Statement shows a loss after tax for the year of $3.392m compared to a loss after tax of $1.514m in 2009. The Company regained the Japanese marketing rights for the LAIV during the year and consequently in exchange, did not receive a USD$1m milestone payment. In 2009 the Company received a $2.993m milestone payment from Nobilon. Interest income was $0.042m compared to $0.164m during the corresponding period in 2009. Research activity costs were $1.850m compared to $2.388m in 2009. Administration and overheads were $1.560m, as compared to $1.623m in the previous year.

The Company started the financial year with cash reserves of $3.992m. During the year it carried out a non-renounceable rights issue to raise $7.6m of which $3.50m was received. The Board is authorised to place the shortfall prior to 21 September 2010. Cash outlays were $3.317m compared to $4.694m in the prior year for research and administration and Nil for royalties (2009:$0.576m). Cash reserves at the end of the financial year totalled $4.188m. The Company holds its cash reserves primarily in Australian term deposits and in addition the Company holds funds in a USA dollar account. This helps to provide a natural hedge against future overseas research expenditures. The Company has not entered into any forward contracts.

8. Significant changes in the state of affairs

There were no significant changes in the state of affairs of the entity that occurred during the financial year under review, save and except that the Company issued 19,482,459 ordinary shares and 9,741,215 options as a consequence of a non-renounceable rights issue which closed on June 15, 2010 raising $3.51m.

9. Review of research

The Company is looking to add value to its research projects through the management of the development paths towards licensing. Licensing times will vary between projects, but ordinarily it is not expected to be later than Phase II.

LAIV Influenza Vaccine

BioDiem's LAIV technology was licensed to Nobilon International in 2004. Under the agreement Nobilon paid US$7m in milestone payments and will pay royalties based on sales for exclusive rights to manufacture, market and sell BioDiem's intranasal vaccine worldwide, with the exceptions of Russia, the CIS countries and Japan. BioDiem currently retains the rights to market and sell the vaccine in the NAFTA countries and retains all rights in Japan.

Over the past year Nobilon has continued to progress the development of LAIV through to undertaking a Phase II clinical trial in Europe. The results of this are expected later in the year. In 2009 BioDiem and Nobilon agreed to allow the IEM in St Petersburg to provide reassortants through the offices of the WHO to India, Thailand and China to enable supply to the public market in those countries. In the circumstances where these vaccines are provided to the private market, BioDiem will be entitled to royalty payments. Sales to the public and private markets have already commenced in India. In July 2010, the Serum Institute of India launched NasoVac, an intranasal influenza vaccine. This is the first market release of BioDiem's LAIV technology in its territories.

Since the end of the year, in July 2010, as a consequence of the merger of Merck and Schering-Plough, Merck

announced the phase-out of operations at a number of R&D sites around the world. One of these sites is the Nobilon facility at Boxmeer in the Netherlands, which is one of the areas where work on BioDiem's LAIV has been taking place. The Company continues to co-operate with Merck under their licence with us and are in discussions with them about the ongoing development of the LAIV program under that agreement.

BDM-E

During the year research conducted at the University of Cambridge and Shandong University produced data which supports the mechanism of action and potential new intellectual property based on BDM-E. Animal disease model studies continue at Monash University.

BDM-I

BDM-I was previously investigated by the Company as an animal growth promotant. A revision of the development strategy for BDM-I has found that a higher commercial value can be achieved through the development of BDM-I as an antimicrobial for use in humans. The research has been reconfigured based on this strategy.

LAIV-Vector

A review of the Company's assets also found that the LAIV technology could be used potentially as a platform for vaccine design. A research plan has been designed to test the feasibility of this approach.

10. Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the entity, the results of those operations or the state of affairs of the entity in future financial years.

11. Dividends

The Company has not paid or declared any dividends during the financial year ended 30 June 2010.

12. Likely developments

In the opinion of the Directors, disclosure of information regarding likely developments in the operations of the entity and the expected results of those operations would prejudice the interests of the Company.

13. Environmental regulation

The Company's operations are not subject to any significant environmental regulation under either Commonwealth or State legislation. However, the Board believes that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Company.

14. Non-audit services

During the year KPMG, the Company's auditor, performed no services other than their statutory duties.

The Board considers non-audit services provided by the auditor in accordance with written advice provided by resolution of the Audit Committee, to satisfy themselves that the provision of those non-audit services is compatible with, and does not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services are subject to the corporate governance procedures adopted by the Company and review of the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- all non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act is included in the Directors' report.

Details of the amounts paid to KPMG for audit and non-audit services provided during the year are set out below:

	2010	2009
Statutory audit	**$**	**$**
Auditors of the Company		
- Audit and interim review	50,000	46,000
Services other than statutory audit		
Other services	-	-
	50,000	46,000

15. Indemnification of officers

During the financial year, the Company did not indemnify, or make a relevant agreement for indemnifying, against a liability of any present or former officer or auditor of the Company or any of its related bodies corporate as contemplated by subsections 309A(1) and (2) of the Corporations Act 2001. In October 2002, the Company provided a general indemnity to all its Directors (subject to limitations) against any loss incurred or claim giving rise to a liability, where such loss or liability arose in relation to the Directors' duties as an officer or employee of the Company.

Details of the nature of the liabilities covered or the amount of premium paid in respect of the Directors' and officers' liability and legal expenses' insurance contracts is not disclosed, as such disclosure is prohibited under the terms of the contract. Directors' income does not include insurance premiums paid by the Company or related bodies corporate in respect of the Directors' and officers' liabilities and legal expenses as these premiums cannot be allocated against individual Directors and officers.

16. Directors' interest

The relevant interest of each director in the shares and options issued by the Company as notified by the Directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at year end is as follows:

Directors	Ordinary shares	Options over ordinary shares
Mr H Morgan	9,459,728	68,288
Mr D Brooks	29,410	73,478
Dr L Rudenko	-	143,668
Ms J Phillips	2,700	-
Dr A Li	-	-

17. Share options

During the financial year, under the ESOP, the Company granted options for no consideration over unissued ordinary shares in BioDiem Ltd to the following most highly remunerated officers of the Company as part of their remuneration:

Directors	No of options granted	Exercise price	Expiry date
Executives			
Mr D Baillieu	60,000	$0.136	23 July 2014
Mr R Wadley	60,000	$0.136	23 July 2014

Unissued shares under option at year end:

Grant dates	Expiry date	Exercise price	Number of shares under option
27 July 2006	27 July 2010	$0.32	234,326
4 July 2007	4 July 2012	$0.36	158,946
1 July 2008	30 June 2013	$0.14	80,000
23 July 2009	23 July 2014	$0.136	160,000

All options expire on the earlier of the expiry date or the date of the employee termination. No options have been exercised either during or after the end of the financial year.

18. Remuneration report

Remuneration levels for key management personnel of the Company are competitively set in order to attract and retain appropriately qualified and experienced Directors and executives. The Remuneration Committee obtains independent advice on remuneration packages and trends in comparative companies.

Remuneration structures take into account the capability and experience of the key management personnel. The packages include a mix of fixed and variable remuneration as well as short and long term incentives.

The role of key personnel is to identify new research and development opportunities, manage the development of current projects in order to optimise and protect the value of the Company's intellectual property and ultimately to commercialise that intellectual property. The performance of the key personnel is assessed on the success of that process. In the short run, the financial results are not a meaningful indicator of the performance of the Company. Shareholder wealth will ultimately be created by the development of a sustainable revenue stream arising from the Company's intellectual property base, or by sale of the Company's assets.

By nature, the outcomes from Research and Development are uncertain, however over the last four years the Company has progressed towards its stated objectives.

Fixed remuneration consists of base remuneration, calculated on a total cost basis, as well as employer contributions to superannuation funds. Remuneration levels are reviewed annually by the Remuneration Committee through a process that considers individual contribution. External advice is sought to ensure that that remuneration remains competitive in the market place.

Performance linked remuneration includes both short and long term incentives. The short term incentive is an 'at risk' bonus provided in the form of cash, whilst the long term incentive is provided as options over the Company's ordinary shares under the rules of the executive share option plan.

The Company has an Employees' and Officers' Incentive Option Scheme pursuant to which options may be issued to eligible persons, being Directors', employees and consultants or their approved nominees.

Eligible persons may receive options based on the achievement of specific performance hurdles, which are a blend of Company and personal objectives appropriate for the roles and responsibilities of each individual.

The ability to exercise options is dependent upon the achievement of the vesting period and the market price of the Company's shares from the vesting date.

The Company's guidelines for dealing in securities also prohibit those that are granted share-based payments pursuant to the terms of the Company's employee share option plan from entering into a transaction to limit the economic risk of such share-based payments, whether through a derivative, hedge or other similar arrangement, without the prior written approval of the Chief Executive Officer or the Board.

18.1 Service agreements

Remuneration levels are reviewed each year to take into account market rates of pay and cost-of-living changes, any change in the scope of the role performed by the senior executives, and the financial health of the Company and the state of the biotechnology industry generally.

The Company had during the period service agreements being consultancy agreements with three Directors:

- a consultancy agreement with Prof. Rudenko. It is terminable by either party upon breach of the agreement immediately, if the party in breach fails to remedy it within 14 days of receipt of a related notice; otherwise it is terminable by one month's notice by either party. Termination shall not relieve a party from any liability to the other in respect of obligations or rights and remedies of the other party which have accrued prior to termination;
- a consultancy agreement with Dr John Brown, in which he agrees to carry out consultancy services as required by BioDiem comprising but not limited to research and development advice on BDM-E, and other compounds as may be agreed to from time to time; assistance with capital raising; and such other services that may be agreed. The agreement was terminated on May 7 2010; and
- a consultancy agreement with Subtech International Pty Ltd., was signed on July 14, 2009. Subtech agrees to provide the services of Julie Phillips to BioDiem. BioDiem will pay $275,000 per annum in 12 equal monthly instalments and subject to achieving agreed key performance indicators or other agreed milestones, pay up to a further $25,000 as a bonus. The agreement is for a period of one year. The agreement may be terminated without cause by giving three months written notice, and BioDiem may provide payment in lieu. BioDiem can terminate the agreement immediately at any time for specified reasons. A new agreement is currently being prepared.

18.2 Non-executive Directors

Total remuneration for all non-executive Directors in respect of their duties as Directors, was last voted upon by shareholders at the 2005 AGM is not to exceed $400,000 per annum. Directors' base fees are up to $50,000 per annum with $10,000 per annum for services on the Audit Committee and $5,000 each for services on the Nomination
and Remuneration Committees. These fees are set on advice from external advisors with reference to other non-executive Directors of comparable companies. The Chairman's base fee is set at $70,000.

18. Remuneration report *continued*

18.3 Directors' and executive officers' remuneration

Details of the nature and amount of each major element of remuneration of each director of the Company and each of the named Company executives who receive the highest remuneration and other key management personnel are included in the following tables. Key management personnel include Directors and the most highly remunerated executives. The Company Secretary is not considered as key management personnel and as such is not included in the management personnel disclosures in the financial report.

		Short-term				Post-employment
In AUD	Year	Salary and fees $[B]	STI cash bonus $	Non-monetary benefits $	Total $	Super-annuation benefits $
Directors						
Non-Executive Directors						
Mr H Morgan	2010	70,000	-	-	70,000	6,300
	2009	70,000	-	-	70,000	6,300
Mr D Brooks	2010	71,208	-	-	71,208	-
	2009	76,139	-	-	76,139	-
Dr L Rudenko	2010	155,000	-	-	155,000	-
	2009	155,500	-	-	155,500	-
Dr A Li, appointed on 7 May 2010	2010	7,291	-	-	7,291	-
Dr J Brown, resigned 7 May 2010	2010	226,830	-	-	226,830	-
	2009	456,865	-	-	456,865	-
Executive Directors						
Ms J Phillips, appointed a Director 7 May 2010, appointed CEO 14 July 2009	2010	275,000	25,000 [C]	-	300,000	-
Total Directors	2010	805,329	25,000	-	830,329	6,300
	2009	758,504	-	-	758,504	6,300

[A] *The fair value of the options is calculated at the date of grant using a Black-Scholes methodology and allocated to each reporting period evenly over the period from grant date to vesting date.*

[B] *In 2010, one director elected to take shares in lieu of cash remuneration. As a consequence 331,938 shares (2009: 333,332) were issued to Dr Brown. On the basis of $0.12 per share. (2009: $0.20 per share for 125,000 and $0.12 per share for 208,332).*

[C] *Represents 100% of Ms Phillips possible cash bonus entitlement.*

Other Long-term $	Termination benefits $	Share-based payments				Proportion of remuneration performance related %	Value of options as proportion of remuneration %
		Options $[A]	Shares $[B]	Total $	Grand total $		
-	-	683	-	683	76,983	0.8	0.8
-	-	4,397	-	4,397	80,697	5.4	5.4
-	-	683	-	683	71,891	0.9	0.9
-	-	4,097	-	4,097	80,236	5.1	5.1
-	-	683	-	683	155,683	0.4	0.4
-	-	8,620	-	8,620	164,120	5.3	5.3
-	-	-	-	-	7,291	nil	n/a
-	-	-	46,850	46,850	273,680	nil	n/a
-	-	2,049	50,000	52,049	508,914	0.4	0.4
-	-	-	-	-	300,000	8.3	n/a
-	-	2,049	46,850	48,899	885,528		
-	-	19,163	50,000	69,163	833,967		

18. Remuneration report *continued*

In AUD		Short-term				Post-employment
		Salary & fees $	STI cash bonus $	Non-monetary benefits $	Total $	Super-annuation benefits $
Executives						
Mr D Baillieu, Manager - Legal and Administration	2010	150,000	-	-	150,000	13,500
	2009	140,000	-	-	140,000	12,600
Mr R Wadley, CFO and Company Secretary	2010	119,660	-	-	119,660	-
	2009	110,348	-	-	110,348	-
Total executives	2010	269,660	-	-	269,660	13,500
	2009	250,348	-	-	250,348	12,600
Total compensation: Key Management Personnel	2010	1,074,989	25,000		1,099,989	19,800
	2009	1,008,852	-	-	1,008,852	18,900

[A] *The fair value of the options is calculated at the date of grant using a Black-Scholes methodology and allocated to each reporting period evenly over the period from grant date to vesting date.*

Other long-term $	Termination benefits $	Share-based payments				Proportion of remuneration performance related %	Value of options as proportion of remuneration %
		Options $[A]	Shares $	Total $	Grand total $		
-	-	2,438	-	2,438	165,938	1.5	1.5
-	-	2,543	-	2,543	155,143	1.6	1.6
-	-	2,438	-	2,438	122,098	2.0	2.0
-	-	2,543	-	2,543	112,891	2.6	2.6
-	-	4,876	-	4,876	288,036		
-	-	5,086	-	5,086	255,434		
-	-	6.925	46,850	53,775	1,173,564		
-	-	24,249	50,000	74,249	1,102,001		

18. Remuneration report *continued*

Notes in relation to the table of Directors' and executive officers' remuneration

The fair value of the options is calculated at the date of grant using a Black-Scholes methodology and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the options allocated to this reporting period. The following factors and assumptions were used in determining the fair value of options on the grant date.

Grant date	Expiry date	Fair value per option	Exercise price	Share price on grant date	Estimated volatility	Risk free rate %
23 July 2009	23 July 2014	$0.08	$0.136	$0.12	82.95	5.13

On July 23, 2009, a total of 160,000 options were issued under the BioDiem Share Option plan at an exercise price of $0.136. These options vest on the basis of one third per year after the initial year of issue. All options expire on the earlier of the expiry date or the date of termination.

A total of 134,144 (Dr Brown 2006 and 2007) options were forfeited during the financial period. A total of 79,650 options vested during the financial period.

18.4 Options over equity instruments granted as compensation

Details on options over ordinary shares in the Company that were granted as compensation to key management personnel during the reporting period and details on options that vested during the reporting period are as follows:

	Number of options granted during 2010	Grant date	Fair value per option at grant date	Exercise price per option	Expiry date	Number of options vested during 2010
Directors						
Mr H Morgan	-	-	-	-	-	11,381
Mr D Brooks	-	-	-	-	-	11,381
Dr L Rudenko	-	-	-	-	-	11,381
Dr A Li	-	-	-	-	-	-
Executives						
Mr D Baillieu	60,000	23 July 2009	$0.08	$0.136	23 July 2014	24,129

All options expire on the earlier of the expiry date or termination of the individual's employment. The options are fully exercisable three years from the grant date.

18.5 Exercise of options granted as compensation

During the reporting period, no options were exercised.

18.6 Analysis of options over equity instruments granted as compensation

Details of vesting profiles of the options granted as remuneration to key management personnel are detailed below.

	Number of options granted during 2010	Grant date	% vested in year	% forfeited in year	Financial year in which grant expires
Executives					
Mr D Baillieu	60,000	23 July 2009	-	-	23 July 2014

18.7 Analysis of movement in options

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management personnel is detailed below.

	Granted during 2010 $ (A)	Value of options exercised in year $ (B)	Lapsed in year $ (C)
Directors			
Dr J Brown	-	-	683
Executives			
Mr D Baillieu	4,800	-	-

There were no other movements in respect to other Key Management Personnel.

(A) The value of options granted in the year is the fair value of the options calculated at grant date using a Black-Scholes option-pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years 2010, 2011 and 2012).

(B) The value of options exercised during the year is calculated as the fair value of the options calculated at grant date using a Black-Scholes option-pricing model.

(C) The value of the options that lapsed during the year represents the benefit forgone and is calculated at the date the option lapsed using a Black-Scholes option-pricing model assuming criteria had been achieved.

18.8 Audit of the remuneration report

The above remuneration report has been audited in conjunction with the audit of the financial statements forming part of the Annual Report.

19. Lead auditors' independence declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 30 and forms part of the Directors' report for the year ended 30 June 2010.

This report is made with a resolution of the Directors:

H Morgan
Director
18 August 2010

Lead auditor's independence declaration

Under Section 307C of the Corporations Act 2001

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of BioDiem Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2010 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Tony Romeo
Partner

Melbourne

18 August 2010

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Statement of comprehensive income

For the year ended 30 June 2010

	Note	2010 $	2009 $
Revenue from licensing activities	6	-	2,992,850
Licence fees and royalty expenses		-	(575,744)
Gross profit		-	2,417,106
Other Income		11,213	-
Research and development expenses		(1,850,161)	(2,388,462)
Administration expenses		(1,559,507)	(1,622,656)
Loss from operating activities		(3,398,455)	(1,594,012)
Finance income	7	41,773	164,096
Finance expenses	7	(34,948)	(83,826)
Net finance income		6,825	80,270
Loss before income tax		(3,391,630)	(1,513,742)
Income tax benefit / (expense)	10(a)	-	-
Net loss attributable to equity holders	17(a)	(3,391,630)	(1,513,742)
Other comprehensive income		-	-
Total comprehensive income attributable to equity holders		(3,391,630)	(1,513,742)
Basic earnings per share	22	(4.40) cents	(1.98) cents
Diluted earnings per share	22	(4.40) cents	(1.98) cents

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 35 to 55.

Statement of changes in equity

For the year ended 30 June 2010

	Note	Issued capital $	Share based compensation reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2009	17(a)	22,408,841	250,947	(18,672,394)	3,987,394
Loss attributable to equity holders		-	-	(3,391,630)	(3,391,630)
Equity settled share based compensation (net of tax)		46,849	6,963	-	53,812
Proceeds from issue of shares		3,506,842	-	-	3,506,842
Balance at 30 June 2010	17(a)	25,962,532	257,910	(22,064,024)	4,156,418
Balance at 1 July 2008	17(a)	22,358,841	225,001	(17,158,652)	5,425,190
Loss attributable to equity holders		-	-	(1,513,742)	(1,513,742)
Equity settled share based compensation (net of tax)		50,000	25,946	-	75,946
Balance at 30 June 2009	17(a)	22,408,841	250,947	(18,672,394)	3,987,394

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 35 to 55.

Statement of financial position

As at 30 June 2010

	Note	2010 $	2009 $
Current assets			
Cash and cash equivalents	11	4,188,039	3,991,899
Trade and other receivables	12	102,827	46,260
Other assets	13	18,449	15,461
Total current assets		4,309,315	4,053,620
Non-current assets			
Plant and equipment	14	11,206	8,209
Total non-current assets		11,206	8,209
Total assets		4,320,521	4,061,829
Current liabilities			
Trade and other payables	15	102,335	45,239
Employee benefits	16(a)	59,396	22,724
Total current liabilities		161,731	67,963
Non-current liabilities			
Employee benefits	16(a)	2,372	6,472
Total non-current liabilities		2,372	6,472
Total liabilities		164,103	74,435
Net assets		4,156,418	3,987,394
Equity			
Issued capital	17(a)	25,962,532	22,408,841
Share based compensation reserve	17(a)	257,910	250,947
Accumulated losses	17(a)	(22,064,024)	(18,672,394)
Total equity	17(a)	4,156,418	3,987,394

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 35 to 55.

Statement of cash flows

For the year ended 30 June 2010

	Note	2010 $	2009 $
Cash flows from operating activities			
Cash receipts in the course of operations		2,500	2,992,850
Cash payments in the course of operations		(3,316,770)	(4,693,647)
Interest received		42,975	183,164
Net cash provided by / (used in) operating activities	18(b)	(3,271,295)	(1,517,633)
Cash flows from investing activities			
Payments for plant and equipment		(16,884)	-
Proceeds from the disposal of plant and equipment		12,425	-
Net cash used in investing activities		(4,459)	-
Cash flows from financing activities			
Proceeds from shares issued		3,506,842	-
Net cash provided by financing activities		3,506,842	-
Net increase / (decrease) in cash and cash equivalents held		231,088	(1,517,633)
Cash and cash equivalents at beginning of year		3,991,899	5,593,358
Effect of exchange rate fluctuation on cash held		(34,948)	(83,826)
Cash and cash equivalents at end of year	11, 18(a)	4,188,039	3,991,899

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 35 to 55.

Notes to the financial statements

For the year ended 30 June 2010

1. Reporting entity

BioDiem Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is Level 10, 459 Collins Street, Melbourne, Victoria 3000. This annual financial report of the Company is for the financial year ended 30 June 2010. The Company operates in the biopharmaceutical industry developing and commercialising biomedical research.

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial report of the Company also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors on 9 August 2010.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for share-based payment transactions measured at fair value. The method used to measure fair values is discussed further in note 4.

(c) Going concern

During the financial year ended 30 June 2010, the Company successfully raised $3.5 million through a non-renounceable rights issue which closed on June 25, 2010. Despite the loss of $3.392 million (2009: $1.514 million) for the financial year ended 30 June 2010, the Directors have prepared the annual financial report on the going concern basis under which assets are assumed to be realised and liabilities extinguished in the ordinary course of business. The going concern basis is considered appropriate since the net assets of the Company are $4.156 million (2009: $3.992 million), which includes cash and cash equivalent assets of $4.188 million (2009: $3.991 million). Based on management's current forecasts, the balance of cash and cash equivalents is sufficient to fund the Company's ongoing operations for at least 12 months from the date of approval of these financial statements.

(d) Use of estimates and judgments

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

- Note 10(c) – utilisation of tax losses;
- Note 16(c) – measurement of share-based payments.

3. Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to Australian dollars (the Company's functional currency), at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the foreign exchange rate at that date. Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the income statement in the financial year in which the exchange rates change.

(b) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, and trade and other payables. Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described.

3. Significant accounting policies *continued*

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits.

Accounting for finance income and expense is discussed in note 3(j).

(ii) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related tax effects.

(c) Plant and equipment

(i) Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

(ii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment.

The estimated useful lives for the current and comparative periods are as follows:

	2010	2009
Plant and equipment	33%	33%
Furniture and fittings	20%	20%

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(d) Research and development

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on any development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product is technically feasible and the Company has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use.

Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(e) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use or its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

(f) Employee benefits

(i) Defined contribution superannuation funds

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution superannuation funds are recognised as a personnel expense in the income statement when they are due.

(ii) Other long-term employee benefits

The Company's net obligation in respect of long service employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on costs; that benefit is discounted to determine its present value.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iv) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(v) Share-based payment transactions

The grant date fair value of options granted to employees (equity settled share based payments) is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

(vi) Director share-based compensation

Directors may elect to have Directors fees issued in the form of shares. In the event a director selects this option, the entitlement is accounted for on a basis consistent with other equity settled share based payments. The value of the shares awarded is based on the value attributed to the services provided (i.e. the amount of cash forsaken to receive shares).

(g) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(h) Revenue

(i) Licensing fees

Licensing fees derived from the grant of rights to exploit certain master donor strains are recognised by reference to the stage of completion at the transaction date. This is expected to be when the milestone events outlined in the contract have occurred.

No revenue is recognised unless the outcome of a transaction can be estimated reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the stage of completion can be measured reliably, and costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

3. Significant accounting policies *continued*

(ii) Grant revenue

Unconditional government grants are recognised in profit or loss as other income when the grant becomes receivable. Any other government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and the entity will comply with the conditions attaching to it. Grants that compensate the entity for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(i) Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(j) Finance income and expenses

Finance income comprises interest income on funds invested and foreign currency gains derived through foreign currency denominated transactions that are recognised in the income statement. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise any interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses derived through foreign currency denominated transactions, and impairment losses recognised on financial assets that are recognised in the income statement. All borrowing costs are recognised in profit or loss using the effective interest method.

(k) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, 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 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.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

(l) Goods and services tax

Revenue, expenses and assets (except for trade receivables) are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(m) Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit of loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

(n) Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Company solely operates in the biopharmaceutical industry developing and/or commercialising biomedical research. The operations are predominantly in Australia.

The accounting policies applied by the Company in this financial report are the same as those applied by the Company in its financial report as at and for the year ended 30 June 2009, unless stated otherwise.

(o) Changes in accounting policies

Starting as of 1 July 2009, the Company has changed its accounting policies in the following areas:

- **AASB 101: Presentation of financial statements has been adopted**
  The Company applies revised AASB 101 Presentation of Financial Statements (2007), which became effective as of 1 January 2009.

  As a result, the Company presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has be re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.
- **AASB 8: Operating segments has been adopted**
  The adoption of AASB 8 Operating Segments has had no impact on the financial statements of the Company as the Company was already determining and presenting operating segments based on the information that is internally provided to the CEO, the Company's chief operating decision maker.

(p) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

- *AASB 124 Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for the Company's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- *AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition, and measurement purposes. The amendments, which become mandatory for the Company's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- *AASB 2009-10 Amendments to Australian Accounting Standards-Classification of Rights Issue* [AASB 132] (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the Company's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value is determined for disclosure purposes.

(ii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(iii) Share-based payment transactions

The fair value of employee stock options is measured using the Black-Scholes formula. Measurement inputs include share price on grant date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

5. Financial risk management

(i) Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- currency risk
- interest note risk.

This note presents information about the Company's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

(ii) Credit risk

Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations.

Trade licensees and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each licensee. The demographics of the licensee's customer base, including the default risk of the industry and country in which licensees operate influences credit risk.

Investments

The Company limits its exposure to credit risk by investing deposits in reputable Australian banks and A1 or better bank accepted bank bills.

Guarantees

Company policy is to provide financial guarantees to facilitate rental obligations. Details of outstanding guarantees are provided in note 19(d).

(iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The Company does not enter into derivatives in order to manage market risks.

(vii) Currency risk

The Company is exposed to currency risk on revenue and purchases that are denominated in a currency other than Australian dollar (AUD). The currencies in which these transactions primarily are denominated are USD, Euro, GBP and Russian Rouble (RUB).

The Company does not enter into hedge contracts on foreign currency exposures.

(viii) Interest note risk

The Company does not currently have any interest bearing borrowings. The Company uses bank bills at a fixed rate with an expiry date not greater than 90 days.

(ix) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company is not subject to any externally imposed capital requirements.

There were no changes in the approach to capital management during the year.

6. Revenue

	2010 $	2009 $
Licensing fees from Nobilon NBV	-	2,992,850

7. Net finance (expenses) / income

Interest income	41,773	164,096
Total finance income	41,773	164,096
Foreign exchange loss	(34,948)	(83,826)
Total finance expenses	(34,948)	(83,826)
Net finance costs / (loss)	6,825	80,270

8. Personnel expenses

Wages and salaries	609,660	326,304
Other associated personnel expenses	19,350	21,189
Increase/(decrease) in liability for annual leave	21,872	(5,944)
Increase/(decrease) in liability for long service leave	10,700	18,507
Equity-settled share based transactions	6,963	4,239
	668,545	364,295

9. Auditor's remuneration

Audit services:

Audit and review of financial reports - KPMG Australia	50,000	46,000
Other services	-	-
	50,000	46,000

10. Taxation

(a) Income tax benefit / (expense)

	2010 $	2009 $
Recognised in the income statement		
Current tax (benefit) / expense		
Current year	(1,039,771)	(472,571)
Unrecognised deferred tax assets relating to tax losses	1,039,771	472,571
	-	-
Deferred tax (benefit) / expense		
Origination and reversal of temporary differences	(19,668)	(169)
Change in unrecognised temporary differences	19,668	169
	-	-
Total income tax expense in income statement	-	-

No items of deferred tax expense have been recognised in equity.

(b) Reconciliation between income tax benefit / (expense) and before income tax net loss

Loss before income tax	(3,391,630)	(1,513,742)
Income tax (benefit) / expense calculated at domestic statutory tax rate of 30% (2008: 30%)	(1,017,489)	(454,123)
Increase/(decrease) in income tax benefit / (expense) due to:		
Tax incentives and movement in temporary differences	(22,282)	(26,232)
Non-deductible expenses	-	7,784
Current year losses for which a deferred tax asset was not recognised	1,039,771	472,571
Change in deferred tax assets	-	(169)
Change in unrecognised deferred tax assets	-	169
Total income tax (benefit) / expense	-	-

(c) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:		
Deductible temporary differences	19,668	10,259
Tax losses carried forward	7,207,074	6,167,303
	7,226,742	6,177,562

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits.

Tax losses may be available to reduce the assessable income of BioDiem Ltd in future periods subject to the loss integrity rules being satisfied.

11. Cash and cash equivalents

	2010 $	2009 $
Cash at bank and on hand	4,094,787	2,080,070
Short term deposits and bank accepted bills	93,252	1,911,829
Cash and cash equivalents in the statement of cash flows	4,188,039	3,991,899

The Company's sensitivity analysis on its financial assets is disclosed at note 19.

12. Trade and other receivables - current

Interest receivable	-	1,202
Other receivables	102,827	45,058
	102,827	46,260

The Company's exposure to credit and currency risks is disclosed at note 19.

13. Other assets - current

Prepayments	18,449	15,461

14. Plant and equipment

At cost	162,555	155,423
Accumulated depreciation and impairment losses	(151,349)	(147,214)
Carrying amount	11,206	8,209
Cost		
Balance at beginning of financial year	155,423	155,423
Additions	16,884	-
Disposals	(9,752)	
Balance at end of financial year	162,555	155,423
Accumulated depreciation and impairment losses		
Balance at beginning of financial year	(147,214)	(140,335)
Depreciation charge for the year	(4,135)	(6,879)
Balance at end of financial year	(151,349)	(147,214)
Carrying amount at beginning of financial year	8,209	15,088
Carrying amount at end of financial year	11,206	8,209

15. Trade and other payables

	2010 $	2009 $
Current		
Trade creditors	41,426	25,645
Other creditors and accruals	60,909	19,594
	102,335	45,239

The Company's exposure to currency and liquidity risks is disclosed at note 19.

16. Employee benefits

(a) Current

Liability for annual leave	23,268	1,396
Liability for long service leave	36,128	21,328
	59,396	22,724
Non-Current		
Liability for long service leave	2,372	6,472

(b) Equity settled share based payments

The Company has an Employees' and Officers' Incentive Option Scheme pursuant to which options may be issued to eligible persons, being Directors', employees and consultants or their approved nominees. Eligible persons may receive options based on the achievement of specific performance hurdles, which are a blend of Company and personal objectives appropriate for the roles and responsibilities of each individual.

Under the scheme signed in October 2006, the Company has the ability to issue options up to 5 percent of the issued capital. As at June 30, 2010 there were 96,428,888 shares on hand.

When issued, the options will have an exercise price of not less than the average closing trading price of the Company's ordinary listed shares on the five days prior to issuing invitations to accept options under the scheme, will have an expiry date not later than five years after the date of issue, and will vest at such times as the Board with the advice from the Remuneration Committee may specify in the applicable invitation to accept the options.

On 20 September 2005, a total of 40,000 options were issued under the plan to a director at an exercise price of $0.70. The options expired on 20 September 2009.

On 27 July 2006, a total of 460,000 options were issued under the plan. Key management personnel were issued with 424,679 options. The remaining 35,321 were issued to employees. These options, which were restricted until 28 July 2007, expired on 27 July 2010. Each option had an exercise price of $0.32.

On 20 September 2006, 100,000 options were issued to a director under the plan. These options can be exercised at any time, have an exercise price of $0.26 cents and expire on 29 September 2010.

On 4 July 2007 the Company issued 539,635 options to Directors and staff of which 497,250 were issued to key management personnel. The remaining 42,385 were issued to employees. These options were restricted until 4 July 2008 and lapse on 4 July 2012. Each option has an exercise price of $0.36.

16. Employee benefits *continued*

On 1 July 2008 the Company issued 80,000 options to employees. These options were restricted until 1 July 2009 and lapse on 30 June 2013. Each option has an exercise price of $0.14.

On July 27, 2009 the Company issued 160,000 options under the ESOP. These options were restricted until July 27, 2010 and lapse after July 27, 2014. The exercise price was set at $0.136.

All options vest on the basis of one third per annum after the year of issue. There are no voting rights or dividend rights attached to these options. All these options expire on the earlier of the expiry date or the date of the employee termination.

No other options have been issued during the year, or in the previous year and there were no shares issued on exercise of options during the year or in the previous year.

(c) Share based payments

Grant date	Number of instruments	Vesting conditions	Contractual life of options
Option grant to key management personnel and other staff at 27 July 2006	234,326	One third per annum after the year of issue	4 years
Option grant to key management personnel and other staff at 4 July 2007	158,946	One third per annum after the year of issue	5 years
Option grant to key management personnel and other staff at 1 July 2008	80,000	One third per annum after the year of issue	5 years
Option grant to key management personnel and other staff at 27 July 2009	160,000	One third per annum after the year of issue	5 years
Total share options	633,272		

The summary of options outstanding at June 30, 2010 excludes options that have been forfeited

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2010	Number of options 2010	Weighted average exercise price 2009	Number of options 2009
Outstanding options at 1 July	$0.34	576,774	$0.42	838,395
Forfeited during the period	$0.33	(103,502)	$0.59	(341,621)
Exercised during the period	-	-	-	-
Granted during the period	$0.136	160,000	$0.14	80,000
Outstanding at 30 June	$0.355	633,272	$0.34	576,774

The options outstanding at 30 June 2010 have an exercise price in the range of $0.136 to $0.36 and a weighted average contractual life of 4.25 years.

During the financial year, no options were exercised (2009: nil).

The fair value of services received in return for share options granted is measured by reference to the fair value of share options on the date granted. The estimate of the fair value of the services received is measured based on the Black-Scholes option-pricing model with the following inputs:

	2010	2009
Share price	$0.12	$0.10
Exercise price	$0.136	$0.14
Expected volatility	82.95%	107%
Option life	5 years	5 years
Expected dividends	-	-
Risk-free interest rate (based on national government bonds)	5.13%	7.60%
Fair value at grant date	$0.08	$0.08

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

Share options are granted under a service condition and, for grants to key management personnel, market and non-market performance conditions. Non-market performance conditions are not taken into account in the grant date fair value measurement of the services rendered.

	2010 $	2009 $
Share options granted in 2010 - equity settled	6,963	-
Share options granted in 2009 - equity settled	-	-
Share options granted in 2008 - equity settled	-	11,585
Share options granted in 2007 - equity settled	-	14,361
Share options granted in 2006 - equity settled	-	-
Share options granted in 2005 - equity settled	-	-
Total expense recognised as employee costs	6,963	25,946

The fair value of the options at grant date for the most recently issued share options is determined based on the Black-Scholes option pricing model. The model inputs were the share price of $0.12 (2009: $0.10) the exercise price of $0.136 (2009: $0.14), expected volatility of 82.95 per cent (2009: 107 per cent), expected dividends of zero per cent, a term of five years and a risk-free interest rate of 5.13 per cent (2009: 7.60 per cent).

17. Capital and reserves

(a) Reconciliation of movement in capital and reserves

	Issued capital $	Share based compensation reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2009	22,408,841	250,947	(18,672,394)	3,987,394
Net loss attributable to equity holders	-	-	(3,391,630)	(3,391,630)
Equity settled share based compensation	46,849	6,963	-	53,812
Rights issue	3,506,842	-	-	3,506,842
Balance at 30 June 2010	25,962,532	257,910	(22,064,024)	4,156,418
Balance at 1 July 2008	22,358,841	225,001	(17,158,652)	5,425,190
Net loss attributable to equity holders	-	-	(1,513,742)	(1,513,742)
Equity settled share based compensation	50,000	25,946	-	75,946
Balance at 30 June 2009	22,408,841	250,947	(18,672,394)	3,987,394

(b) Issued capital

	2010 No.	2009 No.	2010 $	2009 $
On issue at 1 July - fully paid	76,614,491	76,281,159	22,408,841	22,358,841
Share issue (proceeds net of share issuance costs)	19,482,459	-	3,506,842	-
Equity settled share based compensation	331,938	333,332	46,849	50,000
On issue on 30 June - fully paid	96,428,888	76,614,491	25,962,532	22,408,841

Rights issue

On March 26, 2010 the Company announced a non-renounceable pro-rata rights issue to offer shareholders six shares for every eleven shares held on April 7, 2010, and one free option attaching to every two new shares issued. The rights issue closed on June 25, 2010. As a result the Company issued 19,482,459 ordinary shares and 9,741, 230 options. The shortfall period expires on September 21, 2010.

Share based compensation reserve

The share based compensation reserve represents the cumulative value (based on grant date fair value) of outstanding and lapsed awards. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

18. Notes to the statement of cash flows

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and at bank, short term deposits at call and bank accepted bills with a maturity of less than 90 days. Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

	Note	2010 $	2009 $
Cash and cash equivalents	11	4,188,039	3,991,899

(b) Reconciliation of profit /(loss) after income tax to net cash provided by /(used in) operating activities

Profit / (loss) attributable to equity holders	(3,391,630)	(1,513,742)
Adjustments for:		
Depreciation	4,135	6,879
Net finance expenses	34,948	83,826
Equity-settled share based payment expenses	51,139	75,945
Operating profit /(loss) before changes in working capital and provision	(3,301,408)	(1,347,092)
(Increase)/decrease in trade and other receivables	(56,567)	29,099
(Increase)/decrease in prepayments	(2,988)	32,799
Increase/(decrease) in trade and other payables	15,781	(38,170)
Increase/(decrease) in accruals	41,315	(206,832)
Increase/(decrease) in employee benefit liabilities	32,572	12,563
Net cash used in operating activities	(3,271,295)	(1,517,633)

19. Financial instruments

Exposure to liquidity, credit and currency risks arises in the normal course of the Company's business.

(a) Liquidity risk

The Company's exposure to liquidity risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

2009	Note	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Financial assets								
Cash and cash equivalents	11	3.41%	3,991,899	3,991,899	-	-	-	-
Trade and other receivables	12	-	46,260	46,260	-	-	-	-
			4,038,159	4,038,159	-	-	-	-
Financial liabilities								
Trade and other payables	15	-	45,239	45,239	-	-	-	-

19. Financial instruments *continued*

2010	Note	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Financial assets								
Cash and cash equivalents	11	2.19%	4,188,039	4,188,039	-	-	-	-
Trade and other receivables	12	-	102,827	102,827	-	-	-	-
			4,290,866	4,290,866	-	-	-	-
Financial liabilities								
Trade and other payables	15	-	102,335	102,335	-	-	-	-

(b) Foreign currency risk

Foreign currency transactions are translated to Australian dollars at the rates of exchange ruling at the dates of the transactions. BioDiem Ltd does not enter into any derivative contracts to hedge transactions denominated in foreign currencies. Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the income statement in the financial year in which the exchange rates change.

There were no foreign currency receivables or payables at balance date (2009: $nil and $nil). As at 30 June 2010, there was a bank account held in US dollars for an amount of AUD$608,119 (2009:$1,377,789). A 10 percent movement of the Australian dollar against the US dollar as at 30 June 2010 would have impacted profit by $60,812.

(c) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit risk is minimised, as counterparties are recognised financial intermediaries, with acceptable credit ratings determined by a recognised ratings agency.

At balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(d) Guarantees

The Company has in place term deposits amounting to $93,251 (2009: $89,572) in support of its undertakings under a guarantee for $34,527 (2009: $33,207) in accordance with its rental lease and $58,724 (2009: $56,365) on account of the Company's credit cards.

(e) Net fair values of financial assets and liabilities

The carrying amounts of all financial assets and liabilities approximate net fair value.

20. Operating lease commitments

Non cancellable future operating lease rentals payable but not provided for in the financial statements as a liability:

	2010 $	2009 $
Within one year	118,044	118,044
Later than one year and no later than five years	180,974	299,018
	299,018	417,062

The entity leases property under a non-cancellable operating lease. The lease has a five year term from November 15, 2007.

21. Contingent liabilities

The Company has acquired a licence to commercialise influenza vaccine technologies from the Institute of Experimental Medicine. Under this agreement the Company is obliged to pay the Institute of Experimental Medicine 20 percent of all payments received from any Licensee and a percentage of any royalties arising from net sales.

The Company has a licence to commercialise certain technologies from the OOO Klinika Instituta Bioregulyatsii I Gerontologii ("the Clinic"). The licence is in relation to retinal eye disease. The Company is obliged to pay the Clinic 20 percent of all payments received from any Licensee and a percentage of any royalties arising from net sales.

22. Earnings per share

Earnings reconciliation		
Basic earnings	(3,391,630)	(1,513,742)
Diluted earnings	(3,391,630)	(1,513,742)
Weighted average number of shares used as a denominator		
Number for basic earnings per share		
Ordinary shares	77,110,216	76,413,103
Number for diluted earnings per share		
Ordinary shares	77,110,216	76,413,103

Potential ordinary shares issued under the Company's employee share option plan are not considered dilutive because the conversion of potential ordinary shares into ordinary shares would decrease the loss per share.

23. Related party disclosures

The following were key management personnel of the Company at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-Executive Directors

- Mr H Morgan (Chairman)
- Mr D Brooks
- Dr L Rudenko
- Dr J Brown (resigned May 7, 2010)
- Dr A Li (appointed on May 7, 2010)

Executive Directors

- Ms J Phillips (appointed CEO on July 14, 2010, appointed Director on May 7, 2010)

Executives

- Mr D Baillieu

The key management personnel's compensation was as follows:

	2010 $	2009 $
Short-term employee benefits	980,329	1,138,504
Other long term benefits	-	-
Post-employment benefits	19,800	18,900
Termination benefits	-	180,000
Equity settled share based compensation	51,337	71,706
Total key management personnel compensation	1,051,466	1,409,110

Individual Directors and executive compensation disclosures

Information regarding individual Directors and executives compensation is provided in the remuneration report section of the Directors' report on pages 22 to 29.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year-end.

Employee options

The fair value of the options is calculated at the date of grant using a Black-Scholes methodology and is allocated to each reporting period over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting date.

Options over equity instruments granted as compensation

The movement during the reporting period in the number of options over ordinary shares in BioDiem Ltd held directly, indirectly or beneficially, by each key management personnel, including their related parties, is as follows:

Options	Held at 1 July 2009	Granted as compensation	Exercised	Other changes*	Held at 30 June 2010	Vested during the year	Vested and exercisable at 30 June 2010
Directors							
Mr H Morgan	108,288	-	-	(40,000)	68,288	11,381	56,907
Mr D Brooks	68,288	-	-	5,190	73,478	11,381	56,907
Dr L Rudenko	143,668	-	-	-	143,668	11,381	155,048
Ms J Phillips	-	-	-	-	-	-	-
Dr J Brown	134,144	-	-	(134,144)	-	11,381	-
	454,388	-	-	(168,954)	285,434	45,524	268,862
Executives							
Mr D Baillieu	72,386	60,000	-	-	132,386	24,129	55,321

Options	Held at 1 July 2008	Granted as compensation	Exercised	Other changes*	Held at 30 June 2009	Vested during the year	Vested and exercisable at 30 June 2009
Directors							
Mr H Morgan	108,288	-	-	-	108,288	36,095	74,143
Mr D Brooks	98,288	-	-	(30,000)	68,288	22,762	34,143
Dr L Rudenko	183,668	-	-	(40,000)	143,668	47,889	84,397
Dr A O'Brien	168,288	-	-	(168,288)	-	22,762	-
Dr J Brown	134,144	-	-	-	134,144	11,381	111,381
	692,676	-	-	(238,288)	454,388	140,889	304,064
Executives							
Mr D Baillieu	67,386	30,000	-	(25,000)	72,386	24,128	31,192

* *Other changes represent options that were acquired, expired or were forfeited during the year.*

No options held by key management personnel are vested but not exercisable.

23. Related party disclosures *continued*

Movement in shares

The movement during the reporting period in the number of ordinary shares in BioDiem Ltd held, directly or indirectly or beneficially, by each key management person, including their related parties, is as follows:

Shares	Held at 1 July 2009	Purchases	Received on exercise of options	Received as compensation	Sales	Held at 30 June 2010
Directors						
Mr H Morgan	9,459,728	-	-	-	-	9,459,728
Mr D Brooks	19,030	10,380	-	-	-	29,410
Dr L Rudenko	-	-	-	-	-	-
Ms J Phillips	2,700[1]	-	-	-	-	2,700
Dr A Li	-	-	-	-	-	-
Dr J Brown*	603,260	-	-	331,938	(935,198)	-
	10,084,718	10,380	-	331,938	(935,198)	9,491,838
Executives						
Mr D Baillieu	1,300,000	100,000	-	-	-	1,400,000
	1,300,000	100,000	-	-	-	1,400,000

[1] *Holding as of date appointed CEO.*

* *Resigned 7 May 2010.*

Shares	Held at 1 July 2008	Purchases	Received on exercise of options	Received as compensation	Sales	Held at 30 June 2009
Directors						
Mr H Morgan	9,872,728	-	-	-	(413,000)	9,459,728
Mr D Brooks	19,030	-	-	-	-	19,030
Dr L Rudenko	-	-	-	-	-	-
Dr A O'Brien *	-	-	-	-	-	-
Dr J Brown	269,928	-	-	333,332	-	603,260
	10,161,686	-	-	333,332	(413,000)	10,082,018
Executives						
Mr D Baillieu	1,300,000	-	-	-	-	1,300,000
	1,300,000	-	-	-	-	1,300,000

* *Resigned 24 February 2009.*

During the year one Director participated in the Salary sacrifice plan. As a consequence 331,938 (2009: 333,332) shares were issued to Dr Brown. The valuation of shares issued was $0.12 (2009: $0.20 for 125,000 and $0.120 for 208,332) per share. Dr Brown resigned on May 7, 2010.

Other related party transactions with the Company

Dr Rudenko is Head of the Virology Department in the Institute of Experimental Medicine ("the Institute"). Dr Rudenko received total fees amounting to $155,000 for research and development activities and her services as a Director. During the course of the year the Company paid licence fees and royalties amounting to nil (2009: $575,744) to the Institute. In addition, research and development costs amounting to $87,452 (2009: $90,755) were also paid to the Institute.

Dr John Brown received total fees amounting to $273,680 (2009: $506,865 including Director's fees of $50,000). $159,773 was for the provision of research and development services during the year in particular to the BDM-E program. $67,057 for additional corporate services and $46,850 of Director's fees.

24. Segment reporting

The Company operates in the biopharmaceutical industry developing and/or commercialising biomedical research. The operations are predominantly in Australia.

25. Subsequent events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the entity, the results of those operations or the state of affairs of the entity in future financial years.

Directors declaration

1. In the opinion of the Directors of BioDiem Ltd ("the Company"):

(a) the financial statements and notes and the remuneration report in the Directors' report, set out on pages 22 to 29 and 31 to 55, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company as at 30 June 2010 and of its performance, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a); and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2010.

Dated at Melbourne this 18th day of August 2010.

Signed in accordance with a resolution of the Directors:

H Morgan
Director

Independent audit report

To the members of BioDiem Ltd

KPMG

Independent auditor's report to the members of BioDiem Ltd

Report on the financial report

We have audited the accompanying financial report of BioDiem Ltd (the Company), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 25 and the directors' declaration.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's financial position and of its performance.

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

Independent audit report *continued*

To the members of BioDiem Ltd

Independence

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

Auditor's opinion
In our opinion:

(a) the financial report of BioDiem Ltd is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included in section 18 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of BioDiem Ltd for the year ended 30 June 2010, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Tony Romeo
Partner

Melbourne
19 August 2010

Shareholder information

Set below was applicable as at 13 August 2010

1. Distribution of equity securities

	Holders	Ordinary shares	%
1 - 1,000	66	26,320	0.03
1,001 - 5,000	357	1,113,389	1.15
5,001 - 10,000	159	1,254,853	1.30
10,001 - 100,000	315	10,827,254	11.23
100,001 +	64	83,207,072	86.29
Totals	961	96,428,888	100.00

2. Twenty largest equity security holders

The names of the twenty largest holders of equity securities as at 13 August 2010.

Name		Number held	%
1.	Brezzo Enterprises Ltd	25,757,576	26.71
2.	HSBC Custody Nominees (Australia) Limited	24,005,000	24.89
3.	First Charnock Nominees Pty Ltd	5,082,676	5.27
4.	Mr Barrie Ernest Laws & Mrs Merrilyn Frances Laws	3,200,000	3.32
5.	First Charnock Superannuation Pty Ltd	3,000,930	3.11
6.	Bresrim Pty Ltd	1,420,791	1.47
7.	Mr Peter Craig Appleby	1,405,833	1.46
8.	Mr Peter Robert Kahn	1,388,610	1.44
9.	Mr David Clive Latham Baillieu & Mr Robert Latham Baillieu	1,300,000	1.35
10.	ANZ Nominees Limited	1,282,471	1.33
11.	Second Charnock Pty Ltd	1,116,459	1.16
12.	Mr Thomas Graham Williams	944,408	0.98
13.	Dr John Brown	935,198	0.97
14.	Mr Christopher Hutchinson	802,943	0.83
15.	National Australia Trustees Limited	704,666	0.73
16.	Tealing Nominees Pty Ltd	684,919	0.71
17.	Mr John & Mrs Elisabeth Calvert-Jones	673,314	0.70
18.	T & J Williams Pty Ltd	441,666	0.46
19.	Telic Alcatel (Australia) Pty Ltd	441,666	0.46
20.	Dinadan Nominees Pty Ltd	439,994	0.46
		75,029,120	77.81

Shareholder information *continued*

Set below was applicable as at 13 August 2010

3. Twenty largest option holders

The names of the twenty largest holders of options as at 13 August 2010.

Name		Number held	%
1.	Brezzo Enterprises Ltd	4,545,454	46.66
2.	HSBC Custody Nominees (Australia) Limited	4,500,000	46.20
3.	ANZ Nominees Limited	171,216	1.76
4.	Mr Stephen Walter Jacks & Mrs Lesley Catherine Jacks	70,909	0.73
5.	Mr Christopher Hutchinson	70,000	0.72
6.	Mr David Clive Latham Baillieu & Mr Robert Latham Baillieu	50,000	0.51
7.	Stoberg Pty Ltd	29,728	0.31
8.	Mr Robert Fleming & Mrs Christine Fleming	27,272	0.28
9.	Steldean Holdings Pty Ltd	16,851	0.17
10.	Mr Damian Braniff & Mrs Nicole Braniff	15,000	0.15
11.	Maddy Investment Co Pty Ltd	13,986	0.14
12.	Mr Ping-Lam Chan	13,636	0.14
13.	Queenstown Unlimited limited	13,636	0.14
14.	Mr Ian Ralph Maher	13,500	0.14
15.	Mr Kevin Patrick Armstrong	13,000	0.13
16.	Mandan Pty Ltd	12,272	0.13
17.	Mr Lancelot Edwin Silver & Mr Steven Walter Jacks	11,363	0.12
18.	Mr Geoffrey Ronald Bray & Mrs Helen Loraine Bray	11,045	0.11
19.	Mr Andrew John Lehmann	10,000	0.10
20.	Brohok Investment Co Pty Ltd	9,090	0.09
		9,617,958	98.73

4. Voting rights

On a show of hands each person as a member, proxy, attorney or representative has one vote, and on poll each member present or by proxy, attorney or representative has one vote for each share held.

Corporate directory

BioDiem Ltd

ABN 20 096 845 993
www.biodiem.com

Company Secretary

Richard Wadley

Registered Office

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459 Collins Street
Melbourne Victoria 3000

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Facsimile: + 61 3 9613 4111
E-mail: info@biodiem.com

BioDiem Ltd is a company limited by shares, incorporated and domiciled in Australia.

Stock Exchange Listings

Australian Stock Exchange - under the code BDM

Share Registry

Computershare Investor Services Pty Ltd.
Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067

Telephone: + 61 3 9415 4000
Investor Queries (within Australia): 1300 850 505
Facsimile: + 61 3 9473 2500
Website: www.computershare.com.au

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