BioDiem Limited

ANNUAL REPORT

2008

BioDiem

BioDiem Ltd (ASX:BDM) is an Australian listed company with an international focus on finding, adding value to and commercialising world-class research for vaccines, infectious diseases and other therapeutic areas.

BioDiem brings a clear commercial focus to pharmaceutical development. The Company aims to develop a portfolio of viable products in collaboration with centres of excellence and commercialise them in partnership with international pharmaceutical companies.

BioDiem has two products actively in development within its pipeline. The Company will continue to seek new world-class products that meet its selection criteria at appropriate times.

BioDiem Ltd
ABN 20 096 845 993

Annual General Meeting
To be held at 3:00pm
on Wednesday 26th November 2008
at The Sebel, 394 Collins Street
Melbourne Victoria 3000

Dear Shareholder,

The last 12 months have seen a year of consolidation in the development of your Company's two leading products. Both are progressing well toward entering clinical development, with the Company and its partners clearly focused on a value enhancing international product registration pathway.

Products focused on International Registration

The Company has initiated the pre-clinical development program for BDM-E focused on an international registration pathway meeting the requirements of the US FDA and EMEA. Work is ongoing at Cambridge University on the mechanism of action of the tetrapeptide, whilst Monash University continues to lead the animal testing of BDM-E helping to identify the most effective dosing regimen and target indication. In parallel, the Company has successfully developed a peptide manufacturing protocol with Genzyme Pharmaceuticals that significantly reduces the cost of manufacture and is commercially scaleable allowing cost effective bulk manufacture. Furthermore, the Company is developing a formulation of the product that will meet the needs of both patients and clinicians upon entering clinical development. This process will help the Company develop a product a clinician can prescribe.

During the year, BioDiem also reported on the results of the Russian clinical trial of BDM-E. The trial confirmed part of the data set developed by our founding technologists. When given at a dose of 10 µg/day by subcutaneous injection for 10 days, BDM-E was safe and well tolerated with no significant adverse events for safety. However it did not meet the efficacy endpoints for clinically relevant reduction in macular oedema or significant improvement in best corrected vision at Day 17, 40 or 100 after first treatment relative to placebo. A number of factors may have led to this efficacy result. Notwithstanding these data, the current animal model data indicates a promising compound with potentially a new mechanism of action for treating ophthalmic indications.

> "the Company is developing a formulation of the product that will meet the needs of both patients and clinicians…"

BioDiem's Live Attenuated Influenza Vaccine (LAIV) continues to progress toward clinical trials. During the past 12 months, our partner for LAIV, Nobilon has been acquired by Schering Plough. As part of the post-merger integration, our partner reviewed the program again and is moving ahead with a clinical program based on EMEA regulator guidance. LAIV is expected to enter the clinic during the coming Northern Hemisphere influenza season.

Balance Sheet as at 30 June 2007	Note	2008 $	2007 $
Current Assets			
Cash and cash equivalents	*12*	5,593,358	2,959,552
Trade and other receivables	*13*	20,270	9,166
Other assets	*14*	48,260	14,856
Total Current Assets		**5,661,888**	**2,983,574**
Non-Current Assets			
Plant and equipment	*15*	15,088	13,877
Total Non-Current Assets		**15,088**	**13,877**
Total Assets		**5,676,976**	**2,997,451**
Current Liabilities			
Trade and other payables	*16*	235,153	272,073
Employee benefits	*17(a)*	7,340	26,417
Total Current Liabilities		**242,493**	**298,490**
Non-Current Liabilities			
Employee benefits	*17(a)*	9,293	15,910
Total Non-Current Liabilities		**9,293**	**15,910**
Total Liabilities		**251,786**	**314,400**
Net Assets		**5,425,190**	**2,683,051**
Equity			
Issued capital	*18(a)*	22,358,841	15,194,894
Share based compensation reserve	*18(a)*	225,001	176,301
Accumulated losses	*18(a)*	(17,158,652)	(12,688,144)
Total Equity	*18(a)*	**5,425,190**	**2,683,051**

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 34 to 55

The market for seasonal influenza vaccine continues to grow strongly. This year, the Centres for Disease Control and Prevention (CDC) in the United States recognised that children are a key factor in the spread of influenza with evidence showing that reducing influenza transmission among children has the potential to reduce influenza among their household contacts and within their community. As such, the CDC advised that the recommended ages for annual influenza vaccination be expanded to include all children from 6 months to 18 years of age in the United States thereby potentially increasing the market size in the United States by 30 million doses.

"Clinical studies... indicate that LAIV provides superior protection against influenza when compared to an inactivated flu vaccine in children"

Clinical studies conducted by the Institute of Experimental Medicine (IEM) in St. Petersburg, Russia, indicate that LAIV provides superior protection against influenza when compared to an inactivated flu vaccine in children. These studies also showed that vaccination with LAIV can provide a 'herd immunity' whereby the spread of influenza is reduced in schools where the majority of the school population has been vaccinated with LAIV. BioDiem retains the Sales and Marketing rights to North America, subject to an option Nobilon has to these rights under certain terms, if no other partner is licensed by BioDiem two years after the commencement of Phase III clinical trials. These rights remain an important asset for future value growth for BioDiem.

Development of the pandemic program continues in collaboration with the Institute of Experimental Medicine in St. Petersburg. The joint collaboration program between BioDiem, Nobilon, and the CDC continues to assess the relative benefits of LAIV against inactive influenza vaccines for pandemic preparedness. Since initiation of the agreement in August 2006, the research team has made significant progress toward the goal of characterising and evaluating LAIV candidates against influenza A (H5N1) for pandemic preparedness in pre-clinical models. The reassortants have been derived, with associated safety testing (*in vitro* and *in vivo*) being completed in the vaccine.
The research will now focus on a ferret study allowing for assessment of the immunogenicity and comparative efficacy of inactivated and live vaccines against antigenically divergent H5N1 strains. This study should be completed in 2Q 2009 with statistical analyses of the results thereafter.

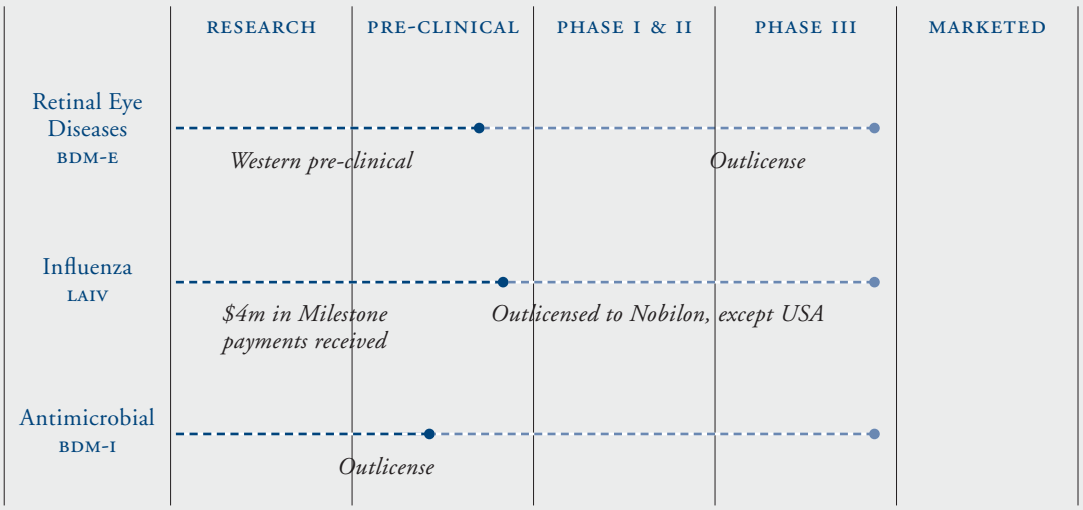
Our final product BDM-I, indicated as an animal feed enhancer, is no longer being actively developed by the Company. BioDiem continues to seek commercial development partners for this program.

Financial strength of BioDiem

In October 2007, BioDiem successfully completed an equity placement to three sophisticated investors raising $7 million at $0.30 per share. This capital raising has allowed the Company to initiate the pre-clinical development strategy for BDM-E, whilst progressing the pandemic program for LAIV.

Licensing fees from our agreement with Nobilon last year amounted to $1.1 million.
R&D expenditure was $3.5 million reflecting the ongoing pre-clinical development of BDM-E.
Cash on hand at June 30, 2008 was $5.6 million.

BioDiem Development Pipeline



Over the past year, the Company has been focused on reducing the burden of corporate overhead. Excluding one-off items, we have reduced overhead as a percentage of overall expenses reflecting the need to allocate capital assets to R&D to meet our corporate goals. We will continue to focus on corporate overhead as a percentage of total corporate expenses as an indicator of increased focus on R&D expenditure.

Drug development is a long term and costly process. As BioDiem's products continue to meet their development milestones, the Company may seek further funds to meet the funding requirements of the program.

Looking toward the Future

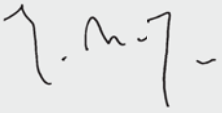
BioDiem is fortunate to have a very strong and active Board of Directors. Dr John Brown and Professor Larisa Rudenko remain key resources in ongoing product development. Dr Brown has oversight of the BDM-E development program, whilst Professor Rudenko is a founding technologist of the current LAIV program and an internationally recognised expert in the field of influenza through her role as the Head of the Virology Department at the Institute of Experimental Medicine.

> "... the Company is focused on developing a product package that meets the need of the global clinical market, whilst keeping an eye on the needs of potential pharmaceutical partners"

BDM-E will continue to progress toward opening an Investigational New Drug (IND) with the US Food & Drug Administration (FDA) when appropriate. The continued work indicates that BDM-E has major potential in several indications of retinal eye disease where there is a significant unmet medical need. As such, the Company is focused on developing a product package that meets the need of the global clinical market, whilst keeping an eye on the needs of potential pharmaceutical partners.

LAIV will continue to be advanced on both seasonal and pandemic programs without major costs to BioDiem.

We thank shareholders for their support this year, and look toward to an exciting future focused on meeting our product development goals.



Hugh Morgan *Chairman*

Andrew O'Brien *Managing Director*

BDM-E, a peptide focused on treating retinal eye diseases

BDM-E is a small synthetic peptide shown to have potential for treating diseases of the retina such as age-related macular degeneration (AMD) and retinitis pigmentosa. The product may offer an improvement in the treatment and prevention of retinal eye disease with the potential to repair damaged cells and improve eyesight. BDM-E can be easily administered and has the potential to be a first-in-class drug and to achieve orphan status for certain ophthalmic diseases, such as retinitis pigmentosa.

Age-related Macular Degeneration (AMD)

AMD remains the leading cause of blindness in the elderly in the Western world. AMD results from a partial breakdown of the Retinal Pigment Epithelium (RPE) in the macula, or central part of the retina, causing decreased vision. There are two distinct phases of AMD:

1. "Dry" phase of AMD, where there is a breakdown of the RPE causing a thinning of the retina and a degeneration of vision. There is currently no treatment on the market for this indication.
2. "Wet" phase of macular degeneration which follows the dry phase. This often leads to significant vision loss. It is caused by the release of harmful elements from the RPE, with excess production of Vascular Endothelial Growth Factor (VEGF) also promoting new choroidal blood vessel formation, leakage and oedema. Current treatments, such as Lucentis® focus on localised VEGF inhibition as treatment.

Retinitis Pigmentosa (RP)

Retinitis Pigmentosa is a group of inherited eye disorders in which abnormalities of the photoreceptors (rods and cones) or the RPE of the retina lead to progressive visual loss. Affected individuals first experience defective dark adaptation or nyctalopia (night blindness), followed by constriction of the peripheral visual field and, eventually, loss of central vision late in the course of the disease. Current global market is approximately 1 million patients, with less than 75,000 patients in the United States.

Pre-clinical development of BDM-E continues toward opening an IND for international regulators.

Animal models studies continue to be a key element in the development of BDM-E. Ongoing work at Monash University and the University of Melbourne indicate that BDM-E shows significant promise in ophthalmic indications. Currently, BDM-E is being tested for a number of measures in rodent models for AMD, RP and early onset Diabetic Retinopathy. These data will be critical in developing the dosing regimen that underpins regulatory submissions and the Target Product Profile.

Mechanism of action studies at Cambridge University and Addenbrooke's Hospital continues to provide clear insights. As the data is verified, the market will be informed of progress.

In parallel, BioDiem is focused on developing a Chemistry, Manufacturing & Control (CMC) package as required for international registration. The Company has completed a crucial first step in this process with its contract manufacturer, Genzyme Pharmaceuticals. By developing a cost effective and commercially scaleable manufacturing protocol for the Active Pharmaceutical Ingredient (API), BioDiem can step into the clinic with a formulated product that will be commercially available to the clinician and patient.

BDM-E

Estimated market size: US$2 billion

Target market: Retinal eye disease

Stage of product development:
Pre-clinical development, completing animal model studies.

Live Attenuated Influenza Vaccine (LAIV)

LAIV is a novel flu vaccine delivered by nasal spray, and based on the live attenuated vaccine developed at the Institute of Experimental Medicine in St. Petersburg. The vaccine has over ten years of safe and effective use in Russia with over 80 million doses distributed. BioDiem has exclusive rights to this vaccine outside of Russia and the CIS.

The vaccine has been validated through international partnering with European vaccine company Nobilon, a subsidiary company of Schering Plough. BioDiem has licensed the majority of the LAIV rights to Nobilon. Our partner has the responsibility for developing the flu vaccine for registration in Europe and retains global manufacturing rights. Japanese sales and marketing rights are shared between BioDiem and Nobilon.

Seasonal Influenza Vaccine

Nobilon is developing LAIV for production using the next generation of cell culture, at its cost, for registration in Europe and Asia.

Over the past twelve months, Nobilon has continued to progress the development of LAIV through to starting clinical trials in Europe in the coming Northern Hemisphere influenza season. Our partner has completed the key steps in manufacturing protocol including:

- Development of the vaccine seeds
- Defining the appropriate vehicle and delivery systems for cell culture manufacture
- Identifying the device for nasal spray delivery

The pre-clinical data package and clinical development plan meet the requirements for an EMEA registration pathway.

BioDiem, through its collaboration with the IEM, continues to complete research characterising the benefits of LAIV for the treatment of influenza. The key outcomes from these studies were:

1. LAIV significantly stimulated an increase in local antibody immune response in the upper respiratory tracts in young adults
2. Intranasal immunization of young adults with LAIV leads to virus-specific memory/effector T-cells remaining after viral clearance, and after revaccination
3. A correlation between key measures of immunogenicity and protection from influenza protection allowing pandemic vaccines to be effectively assessed without large scale human epidemiological trials

Pandemic Influenza Vaccine

Pandemic influenza remains a real threat to world health.

Through the IEM, BioDiem continues to develop new vaccine strains using classical genetic re-assortment methodologies. Vaccines for potential pandemic strains of H2, H5, H7 and H9 are in development and are being tested for immunogenicity.

The clinical assessment of pandemic variants continues at the IEM. After the completion of the successful Phase I clinical trial in CY 2007 of H5N2 reassortant, the IEM has completed a Phase II trial. These data will be presented in the coming months after completion of the statistical analysis.

The Co-operative Research and Development Agreement (CRADA) between the CDC, Nobilon and BioDiem continues to assess the relative benefits of LAIV against an inactive influenza vaccine for pandemic preparedness. The program is being extended for one year through to August 2009 allowing completion of the project deliverables. The research team has successfully generated a H5N1 reassortant using the LAIV Master Donor Strain. This reassortant has undergone extensive safety testing allowing for the commencement of a comparison study in a pre-clinical model.

The research will now focus on a ferret study allowing for assessment of the immunogenicity and comparative efficacy of inactivated and live vaccines against antigenically divergent H5N1 strains. This study should be completed in 2Q 2009 with statistical analyses of the results thereafter.

Professor Rudenko sits on the WHO Advisory Committee on Influenza Pandemic Preparedness.

LAIV

Estimated market size: US$2 billion

Target market: Influenza vaccination

Stage of product development: Licensed to Nobilon, a subsidiary company of Schering Plough

Entering Phase I clinical development under EMEA in 2008/09 Northern Hemisphere influenza season

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; a 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 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.

Dr Andrew P O'Brien

MANAGING DIRECTOR

Andrew P. O'Brien graduated with a Bachelor of Science (Honours) and a Ph.D focusing on gene regulation in the context of seasonal asthma and hayfever from University of Melbourne. From University, Andrew joined the SMS Consulting Group advising Australia's leading companies on corporate and business strategy before completing an MBA from the Melbourne Business School. Following business school, Andrew joined Morgan Stanley's Corporate Finance Healthcare team in New York and London covering clients in the pharmaceutical and emerging European biotechnology market. During this period, Andrew was instrumental in completing a number of landmark transactions including the public offerings for deCODE genetics Inc, LION biosciences Inc, MediGene AG; and Actelion Inc; as well as advising Tibotec Virco on its sale to J&J and advising SmithKline Beecham on the merger of equals with GlaxoWellcome. Andrew joined Deutsche Bank AG upon returning to Australia, advising on healthcare transactions including DCA Group's acquisition by scheme of arrangement of Medical Imaging Australia, and the associated acquisition financing package. Andrew is a Director of Grannus Securities, an Australian healthcare and biotechnology advisory firm, and an adjunct lecturer at the University of Melbourne where he teaches Technology Entrepreneurship at the School of Graduate Studies.

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 in 1999 her contribution to medical science was recognised with the award of the title of Honoured Scientist of the Russian Federation.

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.

Dr John Brown

NON-EXECUTIVE DIRECTOR

John Brown graduated in Medicine at the University of Cambridge and Middlesex Hospital in 1981. He has held clinical appointments in General Medicine, Endocrinology, Inflammatory Diseases, Urology, Nephrology, Neurology, Respiratory Disease, Cardiology and Clinical Pharmacology. In 1998 he joined SmithKline Beecham as Group Director, Clinical Pharmacology. From 2001 until 2005 he was Vice President & Global Head of Translational Medicine & Technologies at GSK and currently he is Honorary Consultant Physician, Department of Medicine, Cambridge University. He was elected Fellow of Trinity College, Cambridge in 1987, and a Fellow of Lincoln College, Oxford in 2002. In 2003 he was elected Fellow of Academy of Medical Sciences for research in clinical pharmacology, physiology and pathophysiology of vascular, neuroendocrine and central nervous systems. His principal research publications are in cardiovascular and renal physiology, pharmacology and disease, bioactive peptides and peptide receptors and medical imaging.

ANNUAL REPORT 2008

for the year ended 30 June 2008

The directors present their report together with the financial report of BioDiem Ltd ("the Company") for the financial year ended 30 June 2008 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	*Age*	*Experience, special responsibilities and other directorships*
Hugh M Morgan AC CHAIRMAN, NON-EXECUTIVE DIRECTOR NON-INDEPENDENT	67	Chairman. Chairman Audit Committee. Chairman Remuneration/ Nomination Committee. Principal of First Charnock; member of the Lafarge International Advisory Board Australia; a 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 Past President of the Business Council of Australia, Immediate Past President of the Australia Japan Business Cooperation Committee and a Past Co-Chair of the Commonwealth Business Council. He was a Director of the Board of the Reserve Bank of Australia for 14 years.
Andrew P O'Brien *PhD, MBA* MANAGING DIRECTOR, CHIEF EXECUTIVE OFFICER NON-INDEPENDENT	39	Andrew graduated with a Bachelor of Science (Honours) and a Ph.D focusing on gene regulation (seasonal asthma and hay fever) from University of Melbourne and completed an MBA from the Melbourne Business School. Following business school, Andrew joined Morgan Stanley's Corporate Finance Healthcare team in New York and London covering clients in the pharmaceutical and emerging European biotechnology market. Andrew is a Director of Grannus Securities, an Australian healthcare and biotechnology advisory firm, and an adjunct lecturer at the University of Melbourne. Andrew O'Brien was appointed CEO replacing Tom Williams on 7 September 2007.
Larisa Rudenko *MD, PhD, DSc* DIRECTOR OF RUSSIAN PROJECTS NON-EXECUTIVE DIRECTOR NON-INDEPENDENT	65	Professor Rudenko is recognised as one of the world's leading experts in live attenuated influenza vaccines and 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. She has published in excess of 225 scientific papers and 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 Head of the Virology Department in the Institute of Experimental Medicine.
Donald S Brooks *BA, JD* NON-EXECUTIVE DIRECTOR INDEPENDENT	72	Member Remuneration Committee. Member Audit Committee. Member Nomination Committee. Based in the US, Donald worked at Merck & Co ("Merck") for 27 years in a variety of roles including Counsel, Merck Research and Merck Pharmaceuticals, Senior Counsel for Licensing and Business Development and Executive Director Worldwide Employee Relations. He played a significant role in the creation of a number of joint ventures, including DuPont/Merck, Connaught/Merck and Pasteur Merieux/Merck. Don currently acts as a consultant for Xenon Genetics (a Canadian biotechnology firm) and is a Board member of EntreMed (a US biotechnology firm).

Name, qualifications and independence status	*Age*	*Experience, special responsibilities and other directorships*
John Brown *MA, MD, FRCP, FRES, F Med Sci* NON-EXECUTIVE DIRECTOR NON-INDEPENDENT	52	Member Remuneration Committee. Member Audit Committee. Member Nomination Committee. Dr Brown graduated in Medicine at the University of Cambridge and Middlesex Hospital in 1981. His roles include Group Director at SmithKlineBeecham, Vice President & Global Head of Translational Medicine & Technologies at GSK and currently, Honorary Consultant Physician, Department of Medicine, Cambridge University. He was elected Fellow of Trinity College, Cambridge in 1987. His principal research publications are in cardiovascular and renal physiology, pharmacology and disease, bioactive peptides and peptide receptors and medical imaging.
Robert Borland *D Med Sc (Hon), FRCP, MA (Cantab), PhD* NON-EXECUTIVE DIRECTOR	75	Dr Borland resigned from the Company on 30 November 2007.
Thomas G Williams *BSc*	60	Mr Williams resigned as a director on 6 September 2007.

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 to 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 committee 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 Committee*	
DIRECTORS' MEETINGS	HELD *	ATT'D	HELD	ATT'D	HELD	ATT'D
Mr H Morgan	13	12	2	1	1	1
Mr T Williams	4	4	–	–	–	–
Dr R Borland	7	1	–	–	–	–
Mr D Brooks	13	12	2	2	1	1
Dr J Brown	13	13	–	–	1	1
Dr A O'Brien	13	13	2	2	–	–
Dr L Rudenko	13	12	–	–	–	–

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

5. Corporate governance statement

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.

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

- The Company does not currently comply with Corporate Governance Principle 2.1: the majority of directors should be independent. Currently, only one director is independent. The other directors are either associated with substantial shareholders or have related party transactions. The Board believes that it is impractical at this stage to comply with this recommendation.
- The Company does not currently comply with Corporate Governance Principle 4.2: the Chairman of the Audit Committee 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.

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 best address 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 holds less than five per cent of the voting shares and is not associated directly or indirectly with a shareholder who holds more than five per cent of the voting shares; has not within the last three years been employed in an executive capacity by the Company; and has not been an employee in the last three years of a consultant or advisor to the Company; is not a material supplier or customer of the Company and has no material contract with the Company other than as a director of the Company; who is free from any interest and any business relationship which could or could reasonably be perceived to materially interfere with the director's 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 Remuneration 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 Remuneration Committee during the year were:

Mr H Morgan – Non-executive Chairman
Mr D Brooks – Non-executive
Dr J Brown – Non-executive (appointed on 6 September 2007)
Dr A O'Brien – Non-executive (resigned on 6 September 2007)
Dr R Borland – Non-executive (resigned on 30 November 2007)

The Board policy is for the Remuneration Committee to be comprised of independent non-executive directors. Currently, only one director is independent. The other directors are either associated with substantial shareholders or have related party transactions. The Chief Executive Officer, Dr Andrew O'Brien, is invited to Remuneration 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.

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. Corporate governance statement (continued)

5.5 REMUNERATION REPORT

The remuneration report is set out on pages 20 to 27 and forms part of the Directors' Report for the financial year ended 30 June 2008.

5.6 AUDIT COMMITTEE

The Audit Committee has a documented charter approved by the Board. All members must be non-executive directors with a majority being independent. Currently, only one director is independent. The other directors are either associated with substantial shareholders or have related party transactions. The Chairman should 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 members of the Audit Committee during the year were:

Mr H Morgan – Non-executive Chairman
Mr D Brooks – Non-executive
Dr A O'Brien – Non-executive
(resigned on 26 March 2008)
Dr J Brown – Non-executive
(appointed on 26 March 2008)

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, 2008 comply with accounting standards and present a true and fair view of the Company's financial condition 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.
- Monitoring procedures to ensure compliance with the *Corporations Act 2001* and the ASX Listing Rules and other regulatory requirements.

The Audit Committee meets 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 Overview 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 Organisations 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 practices 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.
- 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 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 Committee
  Under the direction of the Chief Executive Officer, the Committee 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.

5. Corporate governance statement (continued)

5.8 ETHICAL STANDARDS (CONTINUED)

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 will occur for a period of 30 days prior to the release of the half-year and annual results. Black-outs can 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.

5.9 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 pharmaceutical 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 $4.471 million compared to a loss after tax of $3.852 million in 2007. The Company received a $1.119 million milestone payment from Nobilon during the year and $0.333 million from interest. Research activity cost $3.529 million compared to $3.165 million in 2007. Administration and overheads were $2.092 million, as compared to $1.800 million in the previous year.

The Company started the financial year with cash reserves of $2.960 million. During the year it received milestone payments of $1.119 million and interest of $0.333 million. The Company paid $5.621 million on research and administration and $0.224 million in royalties. The Company was successful during the year in raising $7 million. Cash reserves at the end of the financial year totalled $5.593 million. The Company primarily holds its cash reserves in A+ or better bank accepted bills, 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

The directors announced on 9 October 2007 a private placement to raise $7.0 million as a result the Company issued a further 23,333,334 ordinary shares. Apart from this matter, there were no other significant changes in the state of affairs of the entity that occurred during the financial year under review.

9. Review of Research

The Company is looking to add value to its portfolio of research projects through the management of the development path towards licensing in conjunction with contract research organizations and research institutions. Licensing times will vary between projects, but ordinarily it is not expected to be later than phase II.

9.1 INFLUENZA VACCINE

The Company's live attenuated influenza vaccine was licensed to Nobilon International in November 2004. Under the agreement, Nobilon will pay a total of up to US$8 million in milestones in addition to royalties based on sales for exclusive rights to manufacture, market and sell BioDiem's intranasal influenza vaccine worldwide, with the exceptions of Russia, the CIS countries and North America, where BioDiem retains the rights to market and sell the vaccine. Sales and marketing rights in Japan will be shared, subject to future agreement between BioDiem and Nobilon.

Over the past 12 months, Nobilon has continued to progress the development of LAIV through to starting clinical trials in Europe in the coming Northern Hemisphere influenza season.

Our partner has completed the key steps in manufacturing protocol including:

- Development of the vaccine seeds
- Defining the appropriate vehicle and delivery systems for cell culture manufacture
- Identifying the device for nasal spray delivery

The pre-clinical data package and clinical development plan meet the requirements for an EMEA registration pathway.

BioDiem, through its collaboration with the IEM, continues to complete research characterizing the benefits of LAIV for the treatment of influenza.

9.2 BDM-E

In 2003 BioDiem obtained the rights via an option to take an exclusive license to a novel synthetic peptide BDM-E, for the treatment of retinal eye diseases.

Pre-clinical development of BDM-E continues toward opening an IND for international regulators. Animal models studies continues to be a key element in the development of BDM-E. Ongoing work at Monash University and the University of Melbourne indicate that BDM-E shows significant promise in ophthalmic indications. Currently, BDM-E is being tested for a number of measures in rodent models for AMD, RP and early onset Diabetic Retinopathy. These data will be critical in developing the dosing regimen that underpins regulatory submissions and the Target Product Profile.

Mechanism of action studies at Cambridge University and Addenbrooke's Hospital continue to provide clear insights. As the data is verified, the market will be informed of progress.

In parallel, BioDiem is focused on developing a Chemistry, Manufacturing & Control (CMC) package as required for international registration. The Company has completed a crucial first step in this process with its contract manufacturer, Genzyme Pharmaceuticals. By developing a cost effective, and commercially scaleable manufacturing protocol for the Active Pharmaceutical Ingredient (API), BioDiem can step into the clinic with a formulated product that will be commercially available to the clinician and patient.

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 2008.

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:

	2008 $	2007 $
Statutory audit		
Auditors of the Company		
– Audit and interim review	44,000	44,000
Services other than statutory audit		
Other services	–	–
	44,000	**44,000**

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:

	Ordinary shares	Options over ordinary shares
Directors		
Mr H Morgan	6,342,858	108,288
Mr D Brooks	19,030	98,288
Dr A O'Brien	–	168,288
Dr L Rudenko	–	183,668
Dr J Brown	269,928	134,144

17. Share Options

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

	No of options granted	Exercise price	Expiry date
Directors			
Mr H Morgan	34,144	$0.36	4 July 2012
Mr D Brooks	34,144	$0.36	4 July 2012
Dr A O'Brien	34,144	$0.36	4 July 2012
Dr L Rudenko	34,144	$0.36	4 July 2012
Dr J Brown	34,144	$0.36	4 July 2012
Dr R Borland	34,144	$0.36	4 July 2012
Mr T Williams	250,000	$0.36	4 July 2012
Executives			
Mr D Baillieu	21,193	$0.36	4 July 2012

Since the end of the financial year the following options have been granted:

	No of options granted	Exercise price	Expiry date
Directors			
Mr H Morgan	34,144	$0.14	30 June 2013
Mr D Brooks	34,144	$0.14	30 June 2013
Dr J Brown	34,144	$0.14	30 June 2013
Dr A O'Brien	–	$0.14	30 June 2013
Dr L Rudenko	34,144	$0.14	30 June 2013
Executives			
Mr D Baillieu	30,000	$0.14	30 June 2013

Unissued shares under option at year end:

Grant dates	Expiry date	Exercise price	Number of shares under option
1 March 2005	1 March 2009	$0.70	195,000
20 September 2005	20 September 2009	$0.70	40,000
27 July 2006	27 July 2010	$0.32	233,149
20 September 2006	20 September 2011	$0.26	100,000
4 July 2007	4 July 2012	$0.36	191,913

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.

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 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 has service agreements being consultancy agreements with three directors:

- A consultancy agreement with Grannus Securities Pty. Ltd., in which Grannus Securities agrees to procure the services of Dr Andrew O'Brien to carry out the duties of Chief Executive Officer, comprising the management of the executive activities of BioDiem, and the promotion of client, investor, commercial and research relationships, such services to be provided over a period of twelve days per calendar month. Both parties may terminate on three months written notice, and BioDiem may provide payment in lieu. If BioDiem terminates, including as a result of a change in the control of more than fifty per cent of BioDiem's issued share capital, Grannus Securities will be entitled to a payment of twelve months fees, taking into account any amounts paid in lieu of the three months notice. BioDiem may also terminate on three months written notice in the event that Dr O'Brien loses control of Grannus Securities, or summarily for specified reasons.

- A consultancy agreement with Professor Rudenko. It is terminable by either party upon breach of the agreement immediately, if the party in breach fails to remedy it within fourteen days of receipt of a related notice; otherwise it is terminable by one months 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 may be terminated by either party at any time.

18.2 NON-EXECUTIVE DIRECTORS

Total remuneration for all non-executive directors, 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 Board 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 five named Company executives who receive the highest remuneration and other key management personnel are:

		Short-term			
In AUD	Year	Salary & fees $(B)	STI cash bonus $	Non-monetary benefits $	Total $
Directors					
Non-Executive Directors					
Mr H Morgan	2008	46,664	–	–	46,664
	2007	35,000	–	–	35,000
Mr D Brooks	2008	66,162	–	–	66,162
	2007	85,417	–	–	85,417
Dr L Rudenko	2008	158,000	–	–	158,000
	2007	158,500	–	–	158,500
Dr J Brown, appointed 22 September 2006	2008	248,964	–	–	248,964
	2007	225,249	–	–	225,249
Dr R Borland, resigned 30 November 2007	2008	22,900	–	–	22,900
	2007	55,000	–	–	55,000
Mr T Williams, resigned 6 September 2007	2008	186,703	–	–	186,703
(C)	2007	252,000	–	–	252,000
Executive Directors					
Dr A O'Brien, appointed 6 September 2007	2008	325,043	–	–	325,043
(D)	2007	129,106	–	–	129,106
Total Directors	2008	1,054,436	–	–	1,054,436
	2007	940,272	–	–	940,272

(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) Two directors have elected to take shares in lieu of cash remuneration. As a consequence 101,448 shares (2007: 101,448) were issued to Mr H Morgan and 197,464 shares (2007: 72,464) have been issued to Dr J Brown. The valuation of shares was $0.345 (2007: $0.34) per share for 173,912 shares and $0.20 for 125,000 shares.

(C) Mr T Williams resigned as a Board director on 6 September 2007 and completed his executive transition and finalised his services to the Company on 8 March 2008. The remuneration represents the full period from 1 July 2007 to 8 March 2008.

(D) The remuneration for Dr A O'Brien included in the Executive Directors represents the full period from 1 July 2007 to 30 June 2008.

Post-employment	Other long term		Share-based payments				Proportion of remuneration performance-related %	Value of options as proportion of remuneration %
Super-annuation benefits $	$	Termination benefits $	Options $(A)	Shares $(B)	Total $	Grand Total $		
6,300	–	–	7,253	23,332	30,585	83,549	–	8.7
6,300	–	–	6,146	35,000	41,146	82,446	–	7.5
–	–	–	6,249	–	6,249	72,411	–	8.6
–	–	–	6,146	–	6,146	91,563	–	6.7
–	–	–	12,655	–	12,655	170,655	–	7.4
–	–	–	19,715	–	19,715	178,215	–	11.1
–	–	–	2,805	50,000	52,805	301,769	–	0.9
–	–	–	5,400	25,000	30,400	255,649	–	2.1
–	–	–	(311)	–	(311)	22,589	–	(1.4)
–	–	–	6,146	–	6,146	61,146	–	10.1
41,039	–	291,443	852	78,947	79,799	598,984	13.3	0.1
21,328	100,000	–	20,700	–	20,700	394,028	–	5.3
–	–	–	7,740	–	7,740	332,783	–	2.3
–	–	–	6,146	–	6,146	135,252	–	4.5
47,339	–	291,443	37,244	152,279	189,523	1,582,740	5.0	2.3
27,628	100,000	–	70,399	60,000	130,399	1,198,299	–	5.9

18. Remuneration Report (continued)

18.3 DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION (CONTINUED)

		Short-term			
In AUD	Year	Salary & fees $	STI cash bonus $	Non-monetary benefits $	Total $
Executives					
Mr D Baillieu, Manager – Legal and Administration	2008	139,723	–	–	139,723
	2007	134,500	–	–	134,500
Former					
Dr J Kurek, Manager – Pharmaceutical Development, resigned 20 February 2007	2008	–	–	–	–
	2007	105,168	–	–	105,168
Total Executives	2008	139,723	–	–	139,723
	2007	239,668	–	–	239,668
Total compensation	2008	1,194,159			1,194,159
Key Management Personnel	2007	1,179,940	–	–	1,179,940

(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.

Post-employment	Other long term		Share-based payments				Proportion of remuneration performance-related	Value of options as proportion of remuneration
Super-annuation benefits $	$	Termination benefits $	Options $(A)	Shares $	Total $	Grand total $	%	%
12,600	–	–	4,015	–	4,015	156,338	–	2.6
10,519	–	–	3,815	–	3,815	148,834	–	2.6
–	–	–	–	–	–	–	–	–
9,465	–	–	(22,934)	–	(22,934)	91,699	–	–
12,600	–	–	4,015	–	4,015	156,338	–	2.6
19,984	–	–	(19,119)	–	(19,119)	240,533	–	–
59,939	–	291,443	41,259	152,279	193,538	1,739,078	4.6	2.4
47,612	100,000	–	51,280	60,000	111,280	1,438,832	–	3.6

18. Remuneration Report (continued)

18.3 DIRECTORS' AND EXECUTIVES OFFICERS' REMUNERATION (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 %
4 July 2007	4 July 2012	$0.18	$0.36	$0.31	79%	6.50%

On 4 July 2007, a total of 476,057 options were issued under the BioDiem Share Option plan to the key management personnel at an exercise price of $0.36. 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 513,288 options were forfeited during the financial period. A total of 500,000 options expired during the financial period. A total of 218,761 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 each 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 2008	Grant date	Fair value per option at grant date ($)	Exercise price per option	Expiry date	Number of options vested during 2008
Directors						
Mr H Morgan	34,144	4 July 2007	$0.18	$0.36	4 July 2012	24,714
Mr D Brooks	34,144	4 July 2007	$0.18	$0.36	4 July 2012	21,381
Dr A O'Brien	34,144	4 July 2007	$0.18	$0.36	4 July 2012	44,381
Dr L Rudenko	34,144	4 July 2007	$0.18	$0.36	4 July 2012	49,841
Dr J Brown	34,144	4 July 2007	$0.18	$0.36	4 July 2012	–
Dr R Borland	34,144	4 July 2007	$0.18	$0.36	4 July 2012	11,381
Mr T Williams	250,000	4 July 2007	$0.18	$0.36	4 July 2012	51,666
Executives						
Mr D Baillieu	21,193	4 July 2007	$0.18	$0.36	4 July 2012	15,397

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 each key management personnel are detailed below.

	Number of options granted during 2008	Grant date	% vested in year	% forfeited in year	Financial year in which grant expires
Directors					
Mr H Morgan	34,144	4 July 2007	–	–	4 July 2012
Mr D Brooks	34,144	4 July 2007	–	–	4 July 2012
Dr A O'Brien	34,144	4 July 2007	–	–	4 July 2012
Dr L Rudenko	34,144	4 July 2007	–	–	4 July 2012
Dr J Brown	34,144	4 July 2007	–	–	4 July 2012
Dr R Borland	34,144	4 July 2007	–	100	4 July 2012
Mr T Williams	250,000	4 July 2007	–	100	4 July 2012
Executives					
Mr D Baillieu	21,193	4 July 2007	–	–	4 July 2012

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 2008 $(A)	Value of Options Exercised in year $(B)	Lapsed in year $(C)
Directors			
Mr H Morgan	2,102	–	–
Mr D Brooks	2,102	–	–
Dr A O'Brien	2,102	–	–
Dr L Rudenko	2,102	–	–
Dr J Brown	2,102	–	–
Dr R Borland	2,102	–	(2,102)
Mr T Williams	15,392	–	(15,392)
Executives			
Mr D Baillieu	1,305	–	–
	29,308	–	(17,494)

(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 2008, 2009 and 2010).

(B) The value of options exercised during the year is calculated at 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.

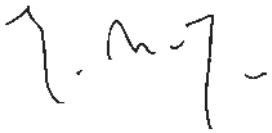
18.8 Audit of the Remuneration Report

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 29 and forms part of the Directors' Report for the year ended 30 June 2008.

This report is made with a resolution of the directors:



H Morgan
Director

29 August 2008

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 2008 there have been:

- No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- No contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Tony Romeo
Partner

Melbourne
29 August 2008

Income Statement

for the year ended 30 June 2008

	Note	2008 $	2007 $
Revenue from licensing activities	6	1,119,407	1,300,678
Licence fees and royalty expenses		(223,881)	(260,136)
GROSS PROFIT		**895,526**	**1,040,542**
Other income/(grant income repaid)	7	–	(75,923)
Research and development expenses		(3,529,332)	(3,164,900)
Administration expense		(2,091,805)	(1,800,031)
LOSS FROM OPERATING ACTIVITIES		**(4,725,611)**	**(4,000,312)**
Financial income	8	333,417	215,049
Financial expenses	8	(78,312)	(66,604)
NET FINANCING INCOME/(EXPENSES)		**255,105**	**148,445**
LOSS BEFORE INCOME TAX		**(4,470,506)**	**(3,851,867)**
Income tax benefit/(expense)	11(a)	–	–
NET LOSS ATTRIBUTABLE TO EQUITY HOLDERS	18(a)	**(4,470,506)**	**(3,851,867)**

		Cents	Cents
BASIC EARNINGS PER SHARE	23	(6.69)	(8.53)
DILUTED EARNING PER SHARE	23	(6.69)	(8.53)

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 34 to 55.

Statement of Changes in Equity

for the year ended 30 June 2008

	Note	Issued capital $	Share based compensation reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2006	*18(a)*	11,395,143	125,021	(8,836,277)	2,683,887
Loss attributable to equity holders		–	–	(3,851,867)	(3,851,867)
Equity settled share based compensation (net of tax)		60,000	51,280	–	111,280
Proceeds from issue of shares		3,739,751	–	–	3,739,751
Balance at 30 June 2007	*18(a)*	15,194,894	176,301	(12,688,144)	2,683,051
Balance at 1 July 2007	*18(a)*	15,194,894	176,301	(12,688,144)	2,683,051
Loss attributable to equity holders		–	–	(4,470,506)	(4,470,506)
Equity settled share based compensation (net of tax)		163,947	48,700	–	212,647
Proceeds from issue of shares		7,000,000	–	–	7,000,000
Balance at 30 June 2008	*18(b)*	22,358,841	225,001	(17,158,652)	5,425,190

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 34 to 55.

Balance Sheet

as at 30 June 2008

	Note	2008 $	2007 $
CURRENT ASSETS			
Cash and cash equivalents	*12*	5,593,358	2,959,552
Trade and other receivables	*13*	20,270	9,166
Other assets	*14*	48,260	14,856
Total current assets		**5,661,888**	**2,983,574**
NON-CURRENT ASSETS			
Plant and equipment	*15*	15,088	13,877
Total non-current assets		**15,088**	**13,877**
Total assets		**5,676,976**	**2,997,451**
CURRENT LIABILITIES			
Trade and other payables	*16*	235,153	272,073
Employee benefits	*17(a)*	7,340	26,417
Total current liabilities		**242,493**	**298,490**
NON-CURRENT LIABILITIES			
Employee benefits	*17(a)*	9,293	15,910
Total non-current liabilities		**9,293**	**15,910**
Total liabilities		**251,786**	**314,400**
Net assets		**5,425,190**	**2,683,051**
EQUITY			
Issued capital	*18(a)*	22,358,841	15,194,894
Share based compensation reserve	*18(a)*	225,001	176,301
Accumulated losses	*18(a)*	(17,158,652)	(12,688,144)
Total equity	*18(a)*	**5,425,190**	**2,683,051**

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 34 to 55.

Statement of Cash Flows

for the year ended 30 June 2008

	Note	2008 $	2007 $
Cash flows from operating activities			
Cash receipts in the course of operations		1,119,407	1,300,678
Cash payments in the course of operations		(5,797,128)	(5,156,047)
Interest received		322,186	215,387
Income tax paid		–	–
Net cash provided by/(used in) operating activities	*19(b)*	**(4,355,535)**	**(3,639,982)**
Cash flows from investing activities			
Payments for property, plant and equipment		(10,659)	(4,161)
Net cash used in investing activities		**(10,659)**	**(4,161)**
Cash flows from financing activities			
Proceeds from shares issued		7,000,000	4,176,947
Transaction costs from issue of shares		–	(437,196)
Net cash provided by financing activities		**7,000,000**	**3,739,751**
Net increase/(decrease) in cash and cash equivalents held		**2,633,806**	**95,608**
Cash and cash equivalents at beginning of year		**2,959,552**	**2,863,944**
Cash and cash equivalents at end of year	*12, 19(a)*	**5,593,358**	**2,959,552**

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 34 to 55.

Notes to the Financial Statements

for the year ended 30 June 2008

1. Reporting entity

BioDiem Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is Level 10, South Tower, 459 Collins Street, Melbourne, Victoria, 3000. The annual financial report of the Company is for the financial year ended 30 June 2008. 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 27 August 2008.

(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

Despite the loss of $4.471 million (2007: $3.852 million) for the financial year ended 30 June 2008, the Directors have prepared the annual financial report on the going concern basis under which assets are realised and liabilities extinguished in the ordinary course of business. The net assets of the Company are $5.425 million (2007: $2.683 million), which includes cash and cash equivalent assets of $5.593 million (2007: $2.960 million). Based on management current forecasts, the balance of cash and cash equivalents is sufficient to fund the company 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 11(c) – utilisation of tax losses
- Note 17(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 retranslated 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.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as a hedge of the net investment in a foreign operation.

3. Significant accounting policies (continued)

(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 below.

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).

Held-to-maturity investments

If the Company has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

(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. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and any costs of dismantling and removing the items and restoring the site on which they are located.

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:

	2008	2007
Plant and equipment	33%	33%
Furniture and fittings	20%	20%

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

(d) Intangible assets

(i) 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.

3. Significant accounting policies (continued)

(d) Intangible assets (continued)

(i) Research and development (continued)

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.

(ii) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

(e) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that 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.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the income statement.

(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 the income statement.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and 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.

3. Significant accounting policies (continued)

(iv) Short-term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Company as the benefits are taken by the employees.

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 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.

(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.

(ii) Grant revenue

Unconditional government grants are recognised in the income statement 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 the income statement 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 known.

3. Significant accounting policies (continued)

(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. Dividend income is recognised on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

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 the income statement using the effective interest method.

(k) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement 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 not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to any investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(l) Goods and services tax

Revenue, expenses and assets 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.

3. Significant accounting policies (continued)

(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 or 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.

(o) 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 2008, but have not been applied in preparing this financial report:

- Revised AASB 3 Business Combinations changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Company's 30 June 2010 financial statements. The Company has not yet determined the potential effect of the revised standard on the Company's financial report.
- AASB 8 Operating Segments introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Company's 30 June 2010 financial statements, and is not expected to have an effect on the financial results of the Company as the standard is only concerned with disclosures.
- Revised AASB 101 Presentation of Financial Statements introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Company's 30 June 2010 financial statements. The Company has not yet determined the potential effect of the revised standard on the Company's disclosures.
- Revised AASB 123 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Company's 30 June 2010 financial statements, and is not expected to have any effect on the financial report.
- AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payment: Vesting Conditions and Cancellations changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Company's 30 June 2010 financial statements. The Company has not yet determined the potential effect of the amending standard on the Company's financial report.

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.

(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 their use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, their 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 customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and bank deposits.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country in which customers operate influences credit risk. Approximately 95 per cent (2007: 95 per cent) of the Company's revenue is attributable to transactions with one customer, a global company that is geographically diverse.

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 20(d).

5. Financial risk management (continued)

(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 sales and purchases that are denominated in a currency other than Australian dollar (AUD). The currencies in which these transactions primarily are denominated in USD, Euro, GBP and Russian Rouble (RUB).

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

(viii) Interest rate 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.

	2008 $	2007 $
6. Revenue		
Licensing fees	**1,119,407**	**1,300,678**
7. Other income		
Government grants (repayable)	**–**	**(75,923)**

Government grants

In 2005, the Company was awarded a $2.1m Government Commercial Ready Grant. The grant was conditionally payable on the completion of successive performance milestones. As some of these milestones were not achieved due to changes to the programme, the Company reimbursed AusIndustry approximately $75,923 in the current year (obligation was recognised in the prior year).

	2008 $	2007 $
8. Net financing expenses/(income)		
Interest income	(333,417)	(215,049)
Financial income	(333,417)	(215,049)
Realised foreign exchange loss	78,312	66,604
Financial expenses	78,312	66,604
Net financing costs/(income)	**(255,105)**	**(148,445)**
9. Personnel expenses		
Wages and salaries	706,870	585,918
Other associated personnel expenses	75,958	74,308
Increase/(decrease) in liability for annual leave	(26,414)	(12,604)
Increase/(decrease) in liability for long service leave	(6,617)	473
Equity-settled share based transactions	78,947	111,280
	828,744	**759,375**
10. Auditors' remuneration		
Audit Services:		
Audit and review of financial reports – KPMG Australia	44,000	44,000
Other Services	–	–
	44,000	**44,000**

	2008 $	2007 $
11. Taxation		
(A) INCOME TAX BENEFIT/(EXPENSE)		
Recognised in the income statement		
Current tax (benefit)/expense		
Current year	(1,381,103)	(1,167,842)
Unrecognised deferred tax assets relating to tax losses	1,381,103	1,167,842
	–	–
Deferred tax (benefit)/expense		
Origination and reversal of temporary differences	(39,983)	(34,522)
Change in unrecognised temporary differences	39,983	34,522
	–	–
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	(4,470,506)	(3,851,867)
Income tax (benefit)/expense calculated at domestic statutory tax rate of 30 per cent (2007: 30 per cent)	(1,341,152)	(1,155,560)
Increase/(decrease) in income tax benefit/(expense) due to:		
Non-deductible expenses	32	22,240
Change in unrecognised deferred tax assets	1,341,120	1,133,320
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	39,983	34,522
Tax losses carried forward	5,694,732	4,313,629
	5,734,715	**4,348,151**

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 from.

	2008 $	2007 $
12. Cash and cash equivalents		
Cash at bank and on hand	1,131,444	506,872
Short term deposits and bank accepted bills	4,461,914	2,452,680
Cash and cash equivalents in the statement of cash flows	**5,593,358**	**2,959,552**
The Company's sensitivity analysis on its financial assets is disclosed at note 20.		
13. Trade and other receivables – current		
Interest receivable	20,270	9,039
Other receivables	–	127
	20,270	**9,166**
The Company's exposure to credit and currency risks is disclosed at note 20.		
14. Other assets – current		
Prepayments	**48,260**	**14,856**
15. Plant and equipment		
At cost	155,423	144,764
Accumulated depreciation and impairment losses	(140,335)	(109,451)
Carrying amount	**15,088**	**13,877**
Cost		
Balance at beginning of financial year	144,764	140,603
Acquisitions	10,659	4,161
Balance at end of financial year	**155,423**	**144,764**
Accumulated depreciation and impairment losses		
Balance at beginning of financial year	(130,887)	(109,451)
Depreciation charge for the year	(9,448)	(21,436)
Balance at end of financial year	**(140,335)**	**(130,887)**
Carrying amount at beginning of financial year	13,877	31,152
Carrying amount at end of financial year	**15,088**	**13,877**

	2008 $	2007 $
16. Trade and other payables		
Current		
Trade creditors	63,815	82,987
Other creditors and accruals	171,338	189,086
	235,153	**272,073**

The Company's exposure to currency and liquidity risks is disclosed at note 20.

17. Employee benefits

(a) Current		
Liability for annual leave	7,340	26,417
Non-Current		
Liability for long service leave	9,293	15,910

(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.

The Company has two incentive option plans which entitles key management personnel and employees to purchase shares in the Company. Within the first plan, the Company has the ability to issue 1,800,000 options. Under the second scheme signed in October 2006, the Company has the ability to issue options up to five per cent of the issued capital.

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 6 November 2003, a total of 795,000 options were issued under the plan. Key management personnel were issued with 720,000 options. The remaining 75,000 were issued to employees. These options, which were restricted until 6 November 2004, expired on 7 November 2007. Each option had an exercise price of $1.50.

On 1 March 2005, a total of 505,000 options were issued under the plan. Key management personnel were issued with 470,000 options. The remaining 35,000 options were issued to employees. The options expire on 1 March 2009. Each option has an exercise price of $0.70.

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 expire 9 September 2009.

On 27 July 2006, a total of 460,000 options were issued under the plan. Key management personnel were issued with 403,485 options. The remaining 56,514 were issued to employees. These options, which were restricted until 28 July 2007, expire on 27 July 2010. Each option has 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.

17. Employee benefits (continued)

(b) Equity settled share based payments (continued)

On 4 July 2007 the Company issued 539,635 options to Directors and staff of which 476,056 were issued to key management personnel. The remaining 63,580 were issued to employees. These options are restricted until 4 July 2008 and lapse on 4 July 2012. Each option has an exercise price of $0.36.

All these 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 at 1 March 2005	195,000	One third per annum after the year of issue	4 years
Option grant to key management personnel at 20 September 2005	40,000	One third per annum after the year of issue	4 years
Option grant to key management personnel at 27 July 2006	233,319	One third per annum after the year of issue	4 years
Option grant to key management personnel at 20 September 2006	100,000	One third per annum after the year of issue	5 years
Option grant to key management personnel at 4 July 2007	191,913	One third per annum after the year of issue	5 years
Total share options	**760,062**		

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

	Weighted average exercise price 2008	Number of options 2008	Weighted average exercise price 2007	Number of options 2007
Outstanding options at 1 July	$1.21	1,225,293	$1.21	900,000
Forfeited during the period	$1.20	(1,013,288)	$1.19	(106,193)
Exercised during the period	–	–	–	–
Granted during the period	$0.36	476,057	$0.32	503486
Outstanding at 30 June	$0.42	760,002	$1.21	1,225,293

The options outstanding at 30 June 2008 have an exercise price in the range of $0.26 to $0.70 and a weighted average contractual life of 4.25 years.

During the financial year, no options were exercised (2007: nil).

17. Employee benefits (continued)

(c) Share based payments (continued)

The fair value of services received in return for share options granted are measured by reference to the fair value of share options 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:

	2008	2007
Fair value at grant date	$0.18	$0.18
Share price	$0.31	$0.28
Exercise price	$0.36	$0.32
Expected volatility	79%	79%
Option life	5 years	4 years
Expected dividends	–	–
Risk-free interest rate (based on national government bonds)	6.50%	6.50%

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.

	2008 $	2007 $
Share options granted in 2008 – equity settled	14,424	–
Share options granted in 2007 – equity settled	28,876	30,240
Share options granted in 2006 – equity settled	1,200	3,044
Share options granted in 2005 – equity settled	4,200	17,996
Total expense recognised as employee costs	**48,700**	**51,280**

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 $0.31 (2007: $0.28) the exercise price of $0.36 (2007: $0.32), expected volatility of 79 per cent (2007: 79 per cent), expected dividends of zero per cent, a term of five years and a risk-free interest rate of 6.50 per cent (2007: 6.50 per cent).

18. 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 2006	11,395,143	125,021	(8,836,277)	2,683,887
Net loss attributable to equity holders	–	–	(3,851,867)	(3,851,867)
Equity settled share based compensation	60,000	51,280	–	111,280
Proceeds from share issue	3,739,751	–	–	3,739,751
Balance at 30 June 2007	**15,194,894**	**176,301**	**(12,688,144)**	**2,683,051**
Balance at 1 July 2007	15,194,894	176,301	(12,688,144)	2,683,051
Net loss attributable to equity holders	–	–	(4,470,506)	(4,470,506)
Equity settled share based compensation	163,947	48,700	–	212,647
Proceeds from share issue	7,000,000	–	–	7,000,000
Balance at 30 June 2008	**22,358,841**	**225,001**	**(17,158,652)**	**5,425,190**

(B) Issued capital

	2008 No.	2007 No.	2008 $	2007 $
On issue at 1 July – fully paid	52,385,755	31,327,106	15,194,894	11,395,143
Proceeds from share issue, net of share issuance costs	23,333,333	20,884,737	7,000,000	3,739,751
Equity settled share based compensation	562,070	173,912	163,947	60,000
On issue on 30 June – fully paid	**76,281,159**	**52,385,755**	**22,358,841**	**15,194,894**

Equity settled share based compensation reserve

The equity based compensation reserve represents the value of shares held by an equity compensation plan that the Company is required to include in the financial statements. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

19. 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:

	2008 $	2007 $
Cash and cash equivalents (Note 12)	**5,593,358**	**2,959,552**

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

Profit/(loss) attributable to equity holders	(4,470,506)	(3,851,867)
Adjustments for:		
Depreciation	9,446	21,436
Equity-settled share based payment expenses	212,647	111,280
Operating profit /(loss) before changes in working capital and provision	(4,248,913)	(3,719,151)
(Increase)/decrease in trade and other receivables	(35,334)	212
(Increase)/decrease in prepayments	(33,404)	1,691
Increase/(decrease) in trade and other payables	(19,172)	30,609
Increase/(decrease) in accruals	23,476	58,787
Increase/(decrease) in employee benefit liabilities	(42,814)	(12,130)
Net cash used in operating activities	**(4,355,661)**	**(3,639,982)**

20. 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:

	Note	Effective interest rate	Total	6 months or less	6–12 months	1–2 years	2–5 years	More than 5 years
2008								
Financial assets								
Cash and cash equivalents	12	6.79%	5,593,358	5,593,358	–	–	–	–
Trade and other receivables	13	–	20,270	20,270	–	–	–	–
			5,613,628	5,613,628	–	–	–	–
Financial liabilities								
Trade and other payables	16	–	235,153	235,153	–	–	–	–
2007								
Financial assets								
Cash and cash equivalents	12	6.32%	2,959,522	2,959,522	–	–	–	–
Trade and other receivables	13	–	9,166	9,166	–	–	–	–
			2,968,688	2,968,688	–	–	–	–
Financial liabilities								
Trade and other payables	16	–	272,073	272,073	–	–	–	–

(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 was no foreign currency receivables or payables at balance date (2007: $nil and $nil). As at 30 June 2008, there was a bank account held in US dollars for an amount of $932,769. A 10 per cent strengthening of the Australian dollar against the US dollar would have increased profit by $93,255. A 10 per cent weakening of the Australian dollar against the US dollar would have had the equal but opposite effect.

20. Financial instruments (continued)

(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 $85,000 (2007: $76,835) in support of its undertakings under a guarantee for $31,498 (2007: $15,809) in accordance with its rental lease and $53,502 (2007: $61,026) 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.

21. Operating lease commitments

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

	2008 $	2007 $
Within one year	110,328	34,500
Later than one year and no later than five years	372,357	–
	482,685	**34,500**

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

22. 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 per cent 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 000 Klinika Instituta Bioregulyatsii I Gerontologii ("the Clinic"). The Company is obliged to pay the Clinic 20 per cent of all payments received from any Licensee and a percentage of any royalties arising from net sales.

23. Earnings per share

	2008 $	2007 $
Earnings reconciliation		
Basic earnings	(4,570,506)	(3,851,867)
Diluted earnings	(4,570,506)	(3,851,867)

	2008 $	2007 $
23. Earnings per share (continued)		
WEIGHTED AVERAGE NUMBER OF SHARES USED AS A DENOMINATOR		
Number for basic earnings per share		
Ordinary shares	66,840,506	45,128,318
Number for diluted earnings per share		
Ordinary shares	66,840,506	45,128,318

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.

24. Related party disclosures for disclosing entities

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
Dr A O'Brien (until 6 September 2007)
Dr R Borland (resigned 30 November 2007)

Executive Directors
Dr A O'Brien (since 6 September 2007)
Mr T Williams (resigned 6 September 2007)

Executives
Mr D Baillieu

Mr T Williams resigned as a director on 6 September 2007 and completed his executive transition and finalised his services to the Company on 8 March 2008.

The key management personnel's compensation was as follows:

	2008 $	2007 $
Short-term employee benefits	1,194,159	1,179,940
Other long term benefits	–	100,000
Post-employment benefits	59,939	47,612
Termination benefits	291,443	–
Equity settled share based compensation	193,538	111,280
Total key management personnel compensation	**1,739,079**	**1,438,832**

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 20 to 27.

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 allocation 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.

24. Related party disclosures for disclosing entities (continued)

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 2007	Granted as compensation	Exercised	Other changes*	Held at 30 June 2008	Vested during the year	Vested and exercisable at 30 June 2008
Directors							
Mr H Morgan	74,144	34,144	–	–	108,288	24,714	38,048
Mr T Williams	315,000	250,000	–	(565,000)	–	51,666	–
Dr R Borland	174,144	34,144	–	(208,288)	–	11,381	–
Mr D Brooks	144,144	34,144	–	(80,000)	98,288	21,381	41,381
Dr L Rudenko	249,524	34,144	–	(100,000)	183,668	49,841	76,508
Dr A O'Brien	134,144	34,144	–	–	168,288	44,381	111,381
Dr J Brown	100,000	34,144	–	–	134,144	–	100,000
	1,191,100	454,864	–	(953,288)	692,676	203,364	367,318
Executives							
Mr D Baillieu	106,193	21,193	–	(60,000)	67,386	15,397	32,064

Options	Held at 1 July 2006	Granted as compensation	Exercised	Other changes*	Held at 30 June 2007	Vested during the year	Vested and exercisable at 30 June 2007
Directors							
Mr H Morgan	40,000	34,144	–	–	74,144	24,714	24,714
Mr T Williams	200,000	115,000	–	–	315,000	51,666	171,666
Dr R Borland	140,000	34,144	–	–	174,144	24,714	104,714
Mr D Brooks	110,000	34,144	–	–	144,144	21,381	84,715
Dr L Rudenko	140,000	109,524	–	–	249,524	49,841	129,841
Dr A O'Brien	100,000	34,144	–	–	134,144	44,381	78,381
Dr J Brown	–	100,000	–	–	100,000	–	–
	730,000	461,100	–	–	1,191,100	216,697	594,031
Executives							
Mr D Baillieu	85,000	21,193	–	–	106,193	15,397	90,396
Dr J Kurek	85,000	21,193	–	(106,193)	–	–	–
	170,000	42,386	–	(106,193)	106,193	15,397	90,396

**Other charges represent options that expired or were forfeited during the year.*

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

24. Related party disclosures for disclosing entities (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 2007	Purchases	Received on exercise of options	Received as compensation	Sales	Held at 30 June 2008
Directors						
Mr H Morgan	4,574,743	1,666,667	–	101,448	–	6,342,858
Mr T Williams**	946,250	–	–	–	(946,250)	–
Dr R Borland*	684,919	–	–	–	(684,919)	–
Mr D Brooks	19,030	–	–	–	–	19,030
Dr L Rudenko	–	–	–	–	–	–
Dr A O'Brien	–	–	–	–	–	–
Dr J Brown	72,464	–	–	197,464	–	269,928
	6,297,406	1,666,667	–	298,912	(1,631,169)	6,631,816
Executives						
Mr D Baillieu	1,300,000	–	–	–	–	1,300,000
	1,300,000	–	–	–	–	1,300,000

** Resigned 30 November 2007*

***Resigned 6 September 2007*

Shares	Held at 1 July 2006	Purchases	Received on exercise of options	Received as compensation	Sales	Held at 30 June 2007
Directors						
Mr H Morgan	4,473,295	–	–	101,448	–	4,574,743
Mr T Williams	946,250	–	–	–	–	946,250
Dr R Borland	833,585	–	–	–	(148,666)	684,919
Mr D Brooks	19,030	–	–	–	–	19,030
Dr L Rudenko	–	–	–	–	–	–
Dr A O'Brien	–	–	–	–	–	–
Dr J Brown	–	–	–	72,464	–	72,464
	6,272,160	–	–	173,912	(148,666)	6,297,406
Executives						
Mr D Baillieu	972,000	328,000	–	–	–	1,300,000
Dr J Kurek*	37,000	–	–	(37,000)	–	–
	1,009,000	328,000	–	(37,000)	–	1,300,000

**Resigned 20 February 2007*

24. Related party disclosures for disclosing entities (continued)

During the year two directors took shares in lieu of cash remuneration. As a consequence 101,448 (2007: 101,448) shares have been issued to Mr Morgan and 197,464 (2007: 72,464) shares have been issued to Dr Brown. The valuation of shares was $0.345 (2007: $0.34) per share for 173,912 shares and $0.20 per share for 125,000 shares.

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 $158,000 for research and development services. During the course of the year the Company paid licence fees and royalties amounting to $223,881 (2007: $260,136) to the Institute. In addition, research and development costs amounting to $75,874 (2007: $59,431) were also paid to the Institute.

Dr John Brown received total fees amounting to $248,964 (2007: $207,960) for the provision of research and development services during the year and in particular for the BDM-E program.

The Company paid total fees of $278,363 (2007: $59,086) to Grannus Securities Pty Ltd, a company related to Dr A O'Brien for the provision of management of executive activities at BioDiem.

25. Segment reporting

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

26. 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 disclosures that are contained in the Remuneration Report in the Directors' Report, set out on pages 20 to 27, 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 2008 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and

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

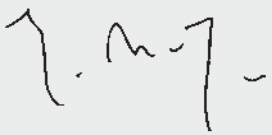
(b) the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures, the *Corporations Act 2001* and the Corporation Regulations 2001; and

(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 2008.

Dated at Melbourne this 29th day of August 2008.

Signed in accordance with a resolution of the directors:



H Morgan
Director

Independent audit report to the members of BioDiem Ltd

Independent audit 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 balance sheet as at 30 June 2008, the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 26 and the directors' declaration set out on pages 30 to 56.

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 of the Company, 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.

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 2008 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 2008. 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 2008, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Tony Romeo
Partner

Melbourne
29 August 2008

Shareholder Information

Shareholder information set below was applicable as at 31 July 2008

1. Distribution of equity securities

	Holders	Ordinary shares	%
1–1,000	66	32,850	0.04
1,001–5,000	402	1,238,565	1.63
5,001–10,000	178	1,444,876	1.90
10,001–100,000	348	11,195,744	14.70
100,000 and over	72	62,237,545	81.73
Totals	**1,066**	**76,149,580**	**100.00**

2. Twenty largest equity security holders

The names of the twenty largest holders of equity securities as at 31 July 2008.

Name	Number held	Percentage %
Brezzo Enterprises Ltd	16,666,667	21.89
HSBC Custody Nominees (Australia) Limited	13,005,000	17.08
First Charnock Nominees Pty Ltd	5,082,676	6.67
First Charnock Superannuation Pty Ltd	3,000,930	3.94
Mr Barrie Ernest Laws & Mrs Merrilyn Frances Laws	2,575,000	3.38
Bresrim Pty Ltd	1,420,791	1.87
Mr David Clive Latham Baillieu	1,300,000	1.71
Second Charnock Pty Ltd	1,116,459	1.47
ANZ Nominees Limited Cash Income a/c	943,038	1.24
Equity Trustees Limited	800,000	1.05
Mr Peter Craig Appleby	760,000	1.00
National Australia Trustees Limited PT	704,666	0.93
Tealing Nominees Pty Ltd	684,919	0.90
Mr John A & Mrs Elizabeth Calvert-Jones	673,314	0.88
Mr Christopher Hutchinson	657,443	0.86
Mr Peter Craig Appleby	645,833	0.85
P C Appleby & S W Appleby	600,000	0.79
Woodbank Ltd Pty	556,250	0.73
Mr & Mrs Wayne Martin	519,481	0.68
Peter Robert Kahn	500,000	0.66
	52,212,467	**68.58**

3. 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

BioDiem Ltd
Level 10, South Tower
459 Collins Street
Melbourne Victoria 3000
Telephone: + 61 3 9613 4100
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

News & Information Online

Visit www.biodiem.com for company and shareholder information and regular updates on our business and performance.

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