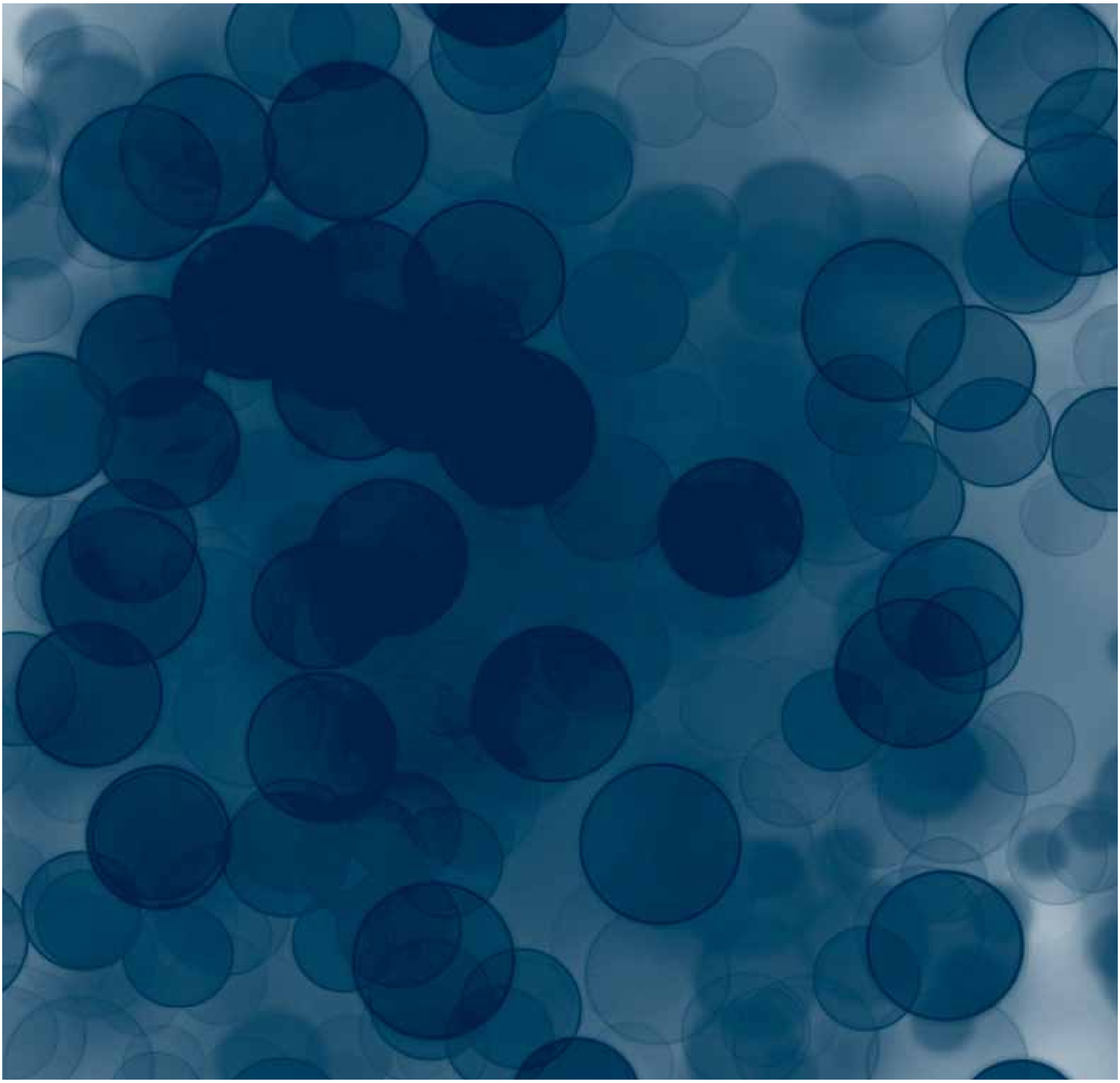
BioDiem

BIODIEM ANNUAL REPORT 2009



BioDiem Ltd (ASX:BDM) is an Australian listed company with an international focus on commercialising world-class research.

BioDiem aims to develop a portfolio of products and commercialise them in partnership with international pharmaceutical companies.

BioDiem currently has two products in development and will continue to seek new products that meet its selection criteria at appropriate times.

BioDiem Ltd
ABN 20 096 845 993

Annual General Meeting to be held:

3:00pm on Thursday 24th September 2009
at InterContinental Melbourne The Rialto
495 Collins Street, Melbourne, Victoria, 3000

Dear Shareholder,

It has been an exciting and busy year for BioDiem. Looking back on Fiscal Year 2008-09, we would like to highlight the progress we have made as a company and the status of our operations today. On behalf of my fellow Directors, we are delighted with the achievements made over the year and the opportunity to share them with you in this annual report.

In the last 12 months medical authorities around the world have become very concerned about the impact of a new influenza strain from Mexico. It has been widely reported that despite the best efforts this strain is spreading widely and very rapidly. With the advent of low cost international travel it is easy to see how this disease can spread as quickly as it has. Fortunately up until now, the infection has seemed to be relatively benign. We can only hope that this remains the case.

A key global concern regarding potential influenza pandemics is about the capability of manufacturers to be able to produce sufficient vaccine quickly enough in the face of a pandemic. This led to BioDiem being approached by the World Health Organization who requested access to our LAIV technology for use in developing countries.

Two clinical trials of LAIV have been underway this year, one at the Institute of Experimental Medicine in Russia, a Phase II study for pandemic influenza, and a Phase I clinical trial for seasonal influenza in Europe through our partnership with Nobilon International (part of Schering-Plough). The Phase II trial was completed and was successful both in terms of safety and efficacy. The Phase I trial results should be available later this year.

This year's activities validate the strength of our LAIV technology.

Our ongoing research on BDM-E continues to look promising and we look forward to strategic developments with this project over the coming year.

It has been a tough year for listed biotech companies in the face of a number of worldwide events rocking the sector, resulting in a lack of market confidence. BioDiem has diligently continued to work towards its goals and has fared well in this challenging time due to its solid fundamentals.

Our licensing revenue was up 167% compared to 2008 due to receiving two milestone payments from Nobilon and a weaker Australian dollar. BioDiem has been very judicious in the way we have invested your money to accomplish our considerable achievements this year. We have completed the year with over $3.99 million cash on hand.

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.

We look forward to the coming year and remain confident that BioDiem will maintain and build on the track record of this year. 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*

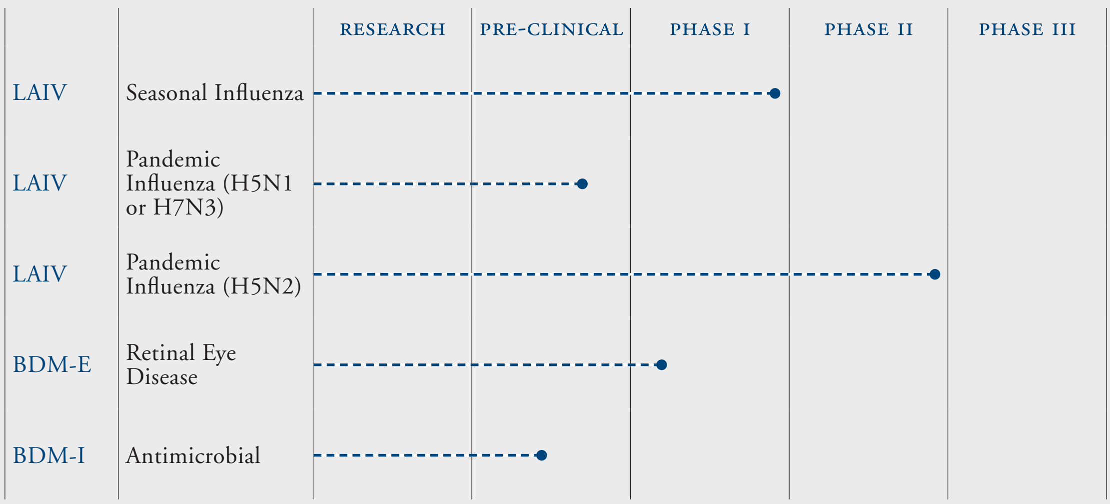
Review of Operations

Over the last twelve months BioDiem has continued to progress the development of its key technologies with partners and academic centres of excellence.

Our leading product is the Live Attenuated Influenza Vaccine (LAIV) technology from the Institute of Experimental Medicine in St. Petersburg. LAIV is a novel intranasal vaccine being developed to prevent infection from endemic and pandemic influenza. The LAIV technology is in development for both seasonal and pandemic strains of influenza.

Our second product is BDM-E, a small synthetic peptide being developed for the treatment of retinal eye diseases. BioDiem's rights to BDM-E come from the St Petersburg Institute of Bioregulation and Gerontology. Early human studies in St Petersburg have shown it may be useful in halting the deterioration and, in some cases, actually improving vision for people with these conditions, which are major problems in ageing populations.

BioDiem also owns intellectual property relating to an antimicrobial product, BDM-I, which is currently under review.



Product Development

Live Attenuated Influenza Vaccine (LAIV) Technology

The past twelve months have seen considerable progress with our lead product in both pandemic and seasonal influenza applications.

In November 2008, BioDiem received a further milestone payment of US$1 million from Nobilon. To date seven out of eight milestone payments have been made. The 8th payment is subject to Nobilon retaining its rights to co-market the LAIV with BioDiem in Japan. The agreement also provides for royalties to be paid to BioDiem when the product reaches the market.

Nobilon received European GMP (Good Manufacturing Practice) registration for its new facilities in the Netherlands to commence manufacturing influenza vaccines in cell culture for clinical trials. The LAIV can be grown in either cell or egg based cultures. Cell culture production offers a number of advantages in terms of speed and quantity. The ability to produce large quantities of vaccines quickly is a key concern worldwide in the event of a pandemic. In addition to the manufacturing advantages, LAIV can be delivered intranasally which is easier to administer than conventional injections. A major advantage of intranasal administration is that it delivers the vaccine directly to the site where the immune system can make best use of it.

In February 2009 Nobilon International (part of Schering-Plough) commenced a Phase I clinical trial for seasonal influenza in Europe. The study is designed to examine safety, tolerability, and immunogenicity (ability to provoke an immune response). We expect the results of this study to be available later this year.

BioDiem's LAIV has the potential to provide an effective defence in the event of an influenza pandemic. The aim of the World Health Organisation's Global Pandemic Influenza Action Plan is to reduce the current global shortage of both epidemic and pandemic influenza vaccines, establish vaccination strategies that economize on the use of antigens and develop and licence antigen-sparing formulations. A key objective is to stimulate the building of new influenza vaccine production plants in both developing and industrialized countries.

The World Health Organization (WHO) has been concerned about the capability of manufacturers to be able to produce sufficient vaccine quickly enough in the face of a pandemic. Consequently BioDiem was approached by the WHO. BioDiem has authorized the Institute of Experimental Medicine in St. Petersburg to supply the WHO with vaccine strains for LAIV production in developing countries. Nobilon has also licensed the WHO to develop, use and sell influenza vaccines in the public sector of developing countries. This is part of the WHO's Global Pandemic Influenza Action Plan aimed at increasing influenza vaccine supply in those developing countries. In both cases, the vaccine derived is to be manufactured in eggs, in contrast to Nobilon's vaccine which is produced in its state-of-the-art cell culture plant. The WHO can sublicense these rights to entities in developing countries which already produce and distribute at least one vaccine for use in humans and where the manufacturing site is Current Good Manufacturing Practice (cGMP) compliant.

As part of the agreement with the World Health Organisation, The Institute of Experimental Medicine in Russia will receive a grant of approximately US$2m from the WHO to facilitate the production of LAIV materials. This grant will also benefit BioDiem as the Institute is our key collaborator.

Vaccines for potential pandemic strains of influenza continue development at the Institute of Experimental Medicine in St. Petersburg.

In December 2008 the Institute successfully completed a Phase II trial using H5N2 vaccine. The trial demonstrated that the vaccine was safe, effective and lowly reactogenic, with no adverse reactions. The A(H5N2) vaccine was registered in Russia in May 2009 as a potential candidate for use in the event of a pandemic caused by a H5 virus. Pre-clinical work to develop a prototype pandemic live attenuated influenza vaccine for use in developing countries has already commenced using the cold-adapted master virus strain and it is hoped that a Phase I clinical trial will commence in late 2009.

Under the Co-operative Research and Development Agreement (CRADA) between BioDiem, the Centers for Disease Control and Prevention and Nobilon, research is being undertaken to develop a candidate vaccine in cell culture against H5N1 avian influenza. The research team has successfully generated H5N1 vaccine using the LAIV master donor strain. A pre-clinical study is currently underway to assess the infectivity, immunogenicity and protective efficacy of H5N1 LAIV. The benefits of using a LAIV compared to an inactive influenza vaccine in an influenza pandemic continue to be assessed.

BDM-E for Retinal Disease

BDM-E is a synthetic product based on an original compound derived from pineal glands which has been used clinically in Russia for years for retinal diseases. Through BDM-E's previous use in Russia a good safety profile has been built which gives some support for the development program including future clinical trials.

Pre-clinical data has demonstrated that there is biological activity and the mechanism of action studies show that BDM-E may have activity in a number of retinal diseases. Our international research program is conducting studies that will allow BioDiem to determine the most efficient manner in which to proceed with the product.

This might be running a further clinical trial, developing an IND (Investigational New Drug) application with the US Food and Drug Administration or developing an outlicensing package and seeking partners for further development.

At Monash and Melbourne Universities, the compound is being tested in an animal model of retinal eye disease. Results from these investigations have been sufficiently promising to justify a series of new studies in animal models of diabetic retinopathy, retinitis pigmentosa and age-related macular degeneration.

At Cambridge University, work continues to ascertain the mechanism of action and the influence the compound may have on apoptosis and the maintenance of the cell growth cycle. Shandong University has begun a high throughput program to investigate analogues of BDM-E.

BDM-I – an anti-infective

BDM-I is an antimicrobial technology licensed from the Institute of Experimental Medicine in Russia. Pre-clinical work has demonstrated that BDM-I has activity against a range of micro-organisms including Mycobacterium, Plasmodium, fungi, yeasts, and gram positive and gram negative bacteria. Importantly BDM-I has shown activity against Methicillin Resistant Staphylococcus Aureus (MRSA) and Vancomycin Resistant Enterococcus (VRE). These infections are extremely difficult to treat and are becoming more widespread as resistance to first line antibiotics spreads.

BioDiem is now reviewing this product with a view to investigating whether BDM-I is suitable for human use in certain indications. It was previously developed for animal use.

Financial Position

Revenue from licensing fees during the year was AU$2.99m up from AU$1.12m in the previous year. The revenue comprised two payments from Nobilon International for the seventh annual milestone of US$1m and the commencement of a Phase I clinical trial of US$1m. Revenue was enhanced by a weaker Australian dollar during the year. Royalties to the Institute of Experimental Medicine were 20% of revenue received i.e. AU$0.576m (2008:$0.224m).

Research and Development expenses were down to AU$2.39m (2008: $3.33m). The reduction in Research and Development costs was partly because of timing of research activities during the year. Administration and corporate costs of $1.62m (2008:$2.08m) were lower in part due to a reduction in the number of personnel compared to the previous year.

The cash position at the end of the year was $3.99m (2008:$5.59m). Overall the Company recorded a net loss of AU$1.51m (2008: AU$4.47m).

Outlook

BioDiem is confident about its prospects over the next twelve months. With the arrival of our new Chief Executive Officer, Julie Phillips, we are undertaking a comprehensive review of our development portfolio and anticipate giving a market update on this in the coming months.

Our LAIV technology is progressing well in both seasonal and pandemic indications and we look forward to being able to report on upcoming trials and pre-clinical work over the coming year. In early August 2009 Merck and Schering-Plough's respective shareholders agreed to merge the companies. At this time BioDiem has not been notified of any impact that this merger might have on our activities with Nobilon.

In addition to the current development programs being undertaken with the LAIV technology, we are exploring other options to leverage this technology in order to gain faster returns on this asset.

BioDiem will continue its review of the best commercial options for BDM-E. We expect to be able to announce the future direction of this project later this year. The current data are promising and we will keep a strong focus on the needs of the global clinical market and the needs of potential pharmaceutical partners.

Board of Directors

Hugh M Morgan AC
CHAIRMAN

Hugh Morgan is Principal of First Charnock. He is a member of the Lafarge International Advisory Board; an Emeritus Trustee of The Asia Society New York; Chairman Emeritus of the Asia Society AustralAsia Centre; President of the National Gallery of Victoria Foundation and Chairman of the Order of Australia Association Foundation. He 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.

Professor Larisa Rudenko
NON-EXECUTIVE DIRECTOR *M.D., PhD, DSc.*

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

Dr. 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.

Senior Management

Julie Phillips
CHIEF EXECUTIVE OFFICER

Ms Phillips was appointed to the position of Chief Executive Office on July 1, 2009. She has a strong background in the biotech and pharmaceutical industry, having worked as the CEO and director of start-up Australian biotechnology companies operating in the life sciences sector. At CEO level she has been responsible for a range of corporate activities including strategic planning, technology in-licensing and product development, fund raising, and R&D agreements. Her technical background in clinical trials, regulatory affairs and pharmacoeconomic assessment/pricing of therapeutics was gained in multinational pharmaceutical companies with responsibility for market entry of new products in Australia and New Zealand. Ms Phillips is also on the Board of the CRC for Asthma and Airways Ltd.

Financial Report 2009

BioDiem Ltd

ABN 20 096 845 993

THE DIRECTORS PRESENT THEIR REPORT TOGETHER WITH THE FINANCIAL REPORT OF BIODIEM LTD ("THE COMPANY") FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009 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 *LLB, BCom.* CHAIRMAN NON-EXECUTIVE DIRECTOR, ACTING CEO FROM 24 FEBRUARY 2009 TO 30 JUNE 2009 NON-INDEPENDENT	68	Chairman. Chairman Audit Committee. Chairman Remuneration and Nomination Committee. Principal of First Charnock; member of the Lafarge International Advisory Board Australia; an Emeritus Trustee of The Asia Society New York; Chairman Emeritus of the Asia Society AustralAsia Centre; President of the National Gallery of Victoria Foundation and Chairman of the Order of Australia Association Foundation. He is 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.
Larisa Rudenko *MD, PhD, DSc.* DIRECTOR OF RUSSIAN PROJECTS NON-EXECUTIVE DIRECTOR NON-INDEPENDENT	66	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 Center 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	73	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).
John Brown *MA, MD, FRCP, FRES, F Med Sci.* NON-EXECUTIVE DIRECTOR NON-INDEPENDENT	53	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.

Name, qualifications and independence status	*Age*	*Experience, special responsibilities and other directorships*
Andrew O'Brien	40	Dr O'Brien resigned with effect from 24 February 2009

1.1 Chief Executive Officer

Julie Phillips, B.Pharm, DHP, MSc, MBA

Ms Phillips was appointed to the position of Chief Executive Office on 1 July 2009. She has a strong background in the biotech and pharmaceutical industry, having worked as the CEO and director of start-up Australian biotechnology companies operating in the life sciences sector. At CEO level she has been responsible for a range of corporate activities including strategic planning, technology in-licensing and product development, fund raising, and R&D agreements. Her technical background in clinical trials, regulatory affairs and pharmacoeconomic assessment/pricing of therapeutics was gained in multinational pharmaceutical companies with responsibility for market entry of new products in Australia and New Zealand. Ms Phillips is also on the Board of the CRC for Asthma and Airways Ltd.

2. Company Secretary

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

3. Officers who were previously partners of the audit firm

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

4. Directors' meetings

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

	Board Meetings		*Audit Committee*		*Remuneration and Nomination Committees*	
Directors' Meetings	Held *	Att'd	Held	Att'd	Held	Att'd
Mr H Morgan	9	9	2	2	1	1
Mr D Brooks	9	9	2	2	1	1
Dr J Brown	9	9	2	1	1	1
Dr A O'Brien	5	5	–	–	–	–
Dr L Rudenko	9	7	–	–	–	–

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

  Furthermore, the Board believes the Chairman of the Board is the most appropriate person to chair the Audit Committee.

5.1 Board of Directors

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

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

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

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

The directors are committed to the principles underpinning best practice in corporate governance, applied in a manner which is best suited to the Company and to address 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. During the year, it comprised four non-executive directors and for part of the year, one executive director. A majority of directors have extensive knowledge of the Company's industry both locally and overseas.

By definition, independent directors are those directors who are not a member of management; who hold less than five per cent of the voting shares and are not associated directly or indirectly with a shareholder who holds more than five per cent of the voting shares; have not within the last three years been employed in an executive capacity by the Company; and have not been an employee in the last three years of a consultant or advisor to the Company; are not a material supplier or customer of the Company and have no material contract with the Company other than as a director of the

Company; who are free from any interest and any business relationship which could or could reasonably be perceived to materially interfere with the directors' ability to act in the best interest of the Company.

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

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

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

5.2 Director education

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

5.3 Independent advice

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

5.4 Remuneration & Nomination Committees

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 Committees during the year were:

Mr H Morgan	– Non-executive Chairman
Mr D Brooks	– Non-executive
Dr J Brown	– Non-executive

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

The responsibilities of the Nomination Committee are:

- Assessment of the desirable competencies of the Board members.
- Review of Board succession plans.
- Evaluation of Board performance.
- Quarterly review of time required of non-executive directors.

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.

5.5 Remuneration Report

The Remuneration Report is set out on pages 18 to 25 and forms part of the Directors' Report for the financial year ended 30 June 2009.

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 because 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 J Brown	– Non-executive

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 Financial Officer, and in the absence of a Chief Executive Officer, the Chairman, 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, 2009 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 will meet with the external auditors during the year to:

- Discuss the external audit and address any issues arising, such as but not limited to changes in operations, structure, controls or accounting policies, and to review the proposed fee for the audit work.

5.7 Risk management

5.7.1 Oversight of the Risk Management System

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

5.7.2 Risk profile

Protection of intellectual property is at the core of the Company's activities and the Company engages one of Australia's leading patent attorneys for such advice. The attorneys carry out due diligence and report in writing on any intellectual property to be acquired. Future patenting strategy is discussed and agreed in the light of any proposed development plan. Upon acquisition, BioDiem takes over control of the patent applications together with the attorneys. New inventions reported to BioDiem by its Contract Research Organizations are passed to its attorneys for advice on patentability. Management then decides whether or not to proceed with new patent application(s).

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

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

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

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

5.7.3 Financial Reporting

The Chief Financial Officer, and in the absence of a Chief Executive Officer, the Chairman, 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 businesses 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 occur from July 1st until the day of the release of the annual results and from January 1st until the release of the half-year results. Black-outs might occur at any other time for the Company or for certain individuals prior to any major announcement or when they are in the possession of price sensitive information.

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

5.9 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 $1.514m compared to a loss after tax of $4.471m in 2008. The Company received a $2.993m milestone payment from Nobilon during the year and $0.164m in interest. Research activity cost $2.388m compared to $3.529m in 2008. Administration and overheads were $1.623m, as compared to $2.092m in the previous year.

The Company started the financial year with cash reserves of $5.593m. Cash reserves at the end of the financial year totalled $3.992m. The Company primarily holds its cash reserves in Australian term deposits and in addition the Company holds funds in a USA dollar account. This helps to provide a natural hedge against future overseas research expenditures. The Company has not entered into any forward contracts.

8. Significant changes in the state of affairs

There were no significant changes in the state of affairs of the entity that occurred during the financial year under review.

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$8m 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 and the CIS countries. BioDiem currently retains the rights to market and sell the vaccine in the NAFTA countries. Thus far seven out of the eight milestone payments have been paid. The eighth payment is subject to Nobilon retaining its rights to co-market with BioDiem in Japan.

Over the past twelve months, Nobilon has continued to progress the development of LAIV through to conducting a Phase I clinical trial in Europe.

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

9.2 BDM-E

Studies at Monash University and the University of Melbourne have shown that BDM-E is effective in retinopathy of prematurity, a laboratory model of eye disease. These studies are currently being extended to other models of diabetic retinopathy, retinitis pigmentosa and age-related macular degeneration. Results have been encouraging and further work is now being directed towards a better understanding of how this effect of BDM-E is mediated and to carefully select clinical doses, based on the activity seen in these models.

At Cambridge University and Addenbrooke's Hospital, the molecular mechanism of action of BDM-E is being studied. Some important biomarkers of inflammation have been investigated and it appears that the effects of BDM-E are mediated by changes in the levels of these biomarkers. The effect appears to be concentration dependent and thus further emphasises is needed for appropriate clinical doses. Cambridge University studies have also shown that BDM-E influences apoptosis (programmed cell death) and there is some evidence that BDM-E may have a key role in the maintenance of the cell growth cycle. Current studies are investigating the importance of this effect in the overall action of BDM-E.

As an extension to the Cambridge University program, a high throughput program has commenced at Shandong University Medical School in China to investigate the activity of a number of analogues of BDM-E. This will provide important information on the relationship between the structure of BDM-E and its activity.

The immediate clinical direction of BDM-E will be determined by data obtained from BioDiem's international program. The safety record of BDM-E, demonstrated in a previous clinical study in patients with diabetic macular oedema, will provide a solid basis for further clinical studies.

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 2009.

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:

	2009 $	2008 $
Statutory audit		
Auditors of the Company		
– Audit and interim review	46,000	44,000
Services other than statutory audit		
Other services	–	–
	46,000	**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	9,459,728	108,288
Mr D Brooks	19,030	68,288
Dr A O'Brien*	–	–
Dr L Rudenko	–	143,668
Dr J Brown	603,260	134,144

**Dr O'Brien resigned 24 February 2009*

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
Executives			
Mr D Baillieu	30,000	$0.14	June 30, 2013

Unissued shares under option at year end:

Grant Dates	Expiry date	Exercise Price	Number of shares under option
20 September 2005	20 September 2009	$0.70	40,000
27 July 2006	27 July 2010	$0.32	199,605
20 September 2006	20 September 2011	$0.26	100,000
4 July 2007	4 July 2012	$0.36	157,769
1 July 2008	30 June 2013	$0.14	30,000

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

18. Remuneration Report

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

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

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

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

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

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

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

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

18.1 Service Agreements

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

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

- A consultancy agreement with Prof. Larisa Rudenko. It is terminable by either party upon breach of the agreement immediately, if the party in breach fails to remedy it within 14 days of receipt of a related notice; otherwise it is terminable by one month's notice by either party. Termination shall not relieve a party from any liability to the other in respect of obligations or rights and remedies of the other party which have accrued prior to termination.
- A consultancy agreement with Dr John Brown, in which he agrees to carry out consultancy services as required by BioDiem comprising but not limited to research and development advice on BDM-E, and other compounds as may be agreed to from time to time; assistance with capital raising; and such other services that may be agreed. The agreement may be terminated by either party at any time. For a substantial period during the year, the Company has relied on the services of Dr John Brown to provide additional supervision over the progress of the BDM-E program. This has resulted in a significant increase in his remuneration.

- During the year the consultancy agreement with Grannus Securities Pty. Ltd. was terminated. Grannus procured the services of Dr Andrew O'Brien to carry out the duties of the Chief Executive Officer.
- A consultancy agreement with Subtech International Pty. Ltd., in which Subtech agrees to provide the services of Julie Phillips to the Company consistent with the position of Chief Executive Officer. The Company will pay $275,000 per annum in twelve equal monthly instalments and subject to achieving agreed key performance indicators or other milestones, pay up to a further $25,000 as a bonus. The agreement is for a period of one year. The agreement may be terminated without cause by giving three months written notice, the Company may provide payment in lieu. The Company may terminate the agreement immediately at any time for specified reasons.

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 Nomination and Remuneration Committee. These fees are set on advice from external advisors with reference to other non-executive directors of comparable companies. The Chairman's base fee is set at $70,000.

18. Remuneration Report (continued)

18.3 Directors' and executive officers' remuneration

Details of the nature and amount of each major element of remuneration of each director of the Company and each of the named Company executives who receive the highest remuneration and other key management personnel are:

		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
	2009	70,000	–	–	70,000
Mr D Brooks	2008	66,162	–	–	66,162
	2009	76,139	–	–	76,139
Dr L Rudenko	2008	158,000	–	–	158,000
	2009	155,500	–	–	155,500
Dr J Brown	2008	248,964	–	–	248,964
	2009	456,865	–	–	456,865
Dr R Borland, resigned 30 November 2007	2008	22,900	–	–	22,900
Mr T Williams, resigned 6 September 2007[C]	2008	186,703	–	–	186,703
Executive Directors					
Dr A O'Brien, appointed 6 September 2007	2008	325,043	–	–	325,043
Resigned 24 February 2009[D]	2009	240,000	–	–	240,000
Total Directors	2008	1,054,436	–	–	1,054,436
	2009	998,504	–	–	998,504

(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 in accordance with the vesting profile over the period from grant date to vesting date.

(B) In 2009, one director elected to take shares in lieu of cash remuneration. As a consequence 333,332 shares (2008: 197,464) were issued to Dr Brown. The valuation of shares was $0.20 for 125,000 and $0.12 for 208,332 (2008: $0.345 per share for 173,912 and $0.20 per share for 125,000).

(C) Mr 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 O'Brien included in the Executive Directors represents the period from 1 July 2008 to his departure from the Company on 24 February 2009.

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	–	–	4,397	–	4,397	80,697	–	5.4%
–	–	–	6,249	–	6,249	72,411	–	8.6%
–	–	–	4,097	–	4,097	80,236	–	5.1%
–	–	–	12,655	–	12,655	170,655	–	7.4%
–	–	–	8,620	–	8,620	164,120	–	5.3%
–	–	–	2,805	50,000	52,805	301,769	–	0.9%
–	–	–	2,049	50,000	52,049	508,914	–	0.4%
–	–	–	(311)	–	(311)	22,589	–	(1.4%)
41,039	–	291,443	852	78,947	79,799	598,984	13.3%	0.1%
–	–	–	7,740	–	7,740	332,783	–	2.3%
–	–	180,000	–	–	–	420,000	–	–
47,339	–	291,443	37,243	152,279	189,522	1,582,740	5.0%	2.3%
6,300	–	180,000	19,163	50,000	69,163	1,253,967		1.5%

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
	2009	140,000	–	–	140,000
Total Executives	2008	139,723	–	–	139,723
	2009	140,000	–	–	140,000
Total compensation	2008	1,194,159			1,194,159
Key Management Personnel	2009	1,138,504	–	–	1,138,504

(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 in accordance with the vesting profile 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%
12,600	–	–	2,543	–	2,543	155,143	–	1.6%
12,600	–	–	4,015	–	4,015	156,338	–	2.6%
12,600	–	–	2,543	–	2,543	155,143	–	1.6%
59,939	–	291,443	41,259	152,279	193,538	1,739,078	4.6%	2.4%
18,900	–	180,000	21,706	50,000	71,706	1,409,110	3.7%	1.5%

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 in accordance with their vesting profile 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 %
1 July 2008	30 June 2013	$0.08	$0.14	$0.10	107%	7.60%

On July 1, 2008, a total of 30,000 options were issued under the BioDiem Share Option plan to key management personnel at an exercise price of $0.14. 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 of the individuals employment with the Company.

A total of 106,621 options were forfeited during the financial period. A total of 235,000 (Tranche 2005) options expired during the financial period and a total of 165,017 options vested during the financial period.

18.4 Options over equity instruments granted as compensation

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

	Number of options granted during 2009	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	–	–	–	–	–	36,095
Mr D Brooks	–	–	–	–	–	22,762
Dr A O'Brien *	–	–	–	–	–	22,762
Dr L Rudenko	–	–	–	–	–	47,889
Dr J Brown	–	–	–	–	–	11,381
Executives						
Mr D Baillieu	30,000	1 July 2008	$0.08	$0.14	30 June 2013	24,128

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

18.5 Exercise of options granted as compensation

During the reporting period, no options were exercised.

18.6 Analysis of options over equity instruments granted as compensation

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

	Number of options granted during 2009	Grant date	% vested in year	% forfeited in year	Financial year in which grant expires
Executives					
Mr D Baillieu	30,000	1 July 2008	33%	–	30 June 2013

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 2009 \$(A)	Value of Options Exercised in year \$(B)	Lapsed in year \$(C)
Executives			
Mr D Baillieu	2,322	–	–

There were no other movements in respect to other KMPs

(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 2009, 2010 and 2011).

(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. Refer note 23 of the financial statements.

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 27 and forms part of the Directors' Report for the year ended 30 June 2009.

This report is made with a resolution of the directors:

H Morgan
Director

12 August 2009

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 2009 there have been:

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

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

KPMG

KPMG

Tony Romeo
Partner

Melbourne
18 August 2009

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

Income Statement

for the year ended 30 June 2009

	Note	2009 $	2008 $
Revenue from licensing activities	*6*	2,992,850	1,119,407
Licence fees and royalty expenses		(575,744)	(223,881)
Gross profit		2,417,106	895,526
Research and development expenses		(2,388,462)	(3,529,332)
Administration expense		(1,622,656)	(2,091,805)
Loss from operating activities		(1,594,012)	(4,725,611)
Finance income	*7*	164,096	333,417
Finance expenses	*7*	(83,826)	(78,312)
Net finance income / (expenses)		80,270	255,105
Loss before income tax		(1,513,742)	(4,470,506)
Income tax benefit / (expense)	*10(a)*	–	–
Net loss attributable to equity holders	*17(a)*	**(1,513,742)**	**(4,470,506)**
		Cents	Cents
Basic earnings per share	*22*	(1.98)	(6.69)
Diluted earning per share	*22*	(1.98)	(6.69)

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 32 to 53.

Statement of Changes in Equity

for the year ended 30 June 2009

	Note	Issued capital $	Share based compensation reserve $	Accumulated losses $	Total equity $
BALANCE AT 1 JULY 2007	*17(a)*	15,194,894	176,301	(12,688,146)	2,683,049
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		22,358,841	225,001	(17,158,652)	5,425,190
BALANCE AT 1 JULY 2008	*17(a)*	22,358,841	225,001	(17,158,652)	5,425,190
Loss attributable to equity holders		–	–	(1,513,742)	(1,513,742)
Equity settled share based compensation (net of tax)		50,000	25,946	–	75,946
Balance at 30 June 2009	*17(a)*	22,408,841	250,947	(18,672,394)	3,987,394

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 32 to 53.

Balance Sheet

as at 30 June 2009

	Note	2009 $	2008 $
Current assets			*Restated
Cash and cash equivalents	11	3,991,899	5,593,358
Trade and other receivables	12	46,260	75,358
Other assets	13	15,461	48,260
Total current assets		**4,053,620**	**5,716,976**
Non-current assets			
Plant and equipment	14	8,209	15,088
Total non-current assets		**8,209**	**15,088**
Total assets		**4,061,829**	**5,732,064**
Current liabilities			
Trade and other payables	15	45,239	290,241
Employee benefits	16(a)	22,724	7,340
Total current liabilities		**67,963**	**297,581**
Non-current liabilities			
Employee benefits	16(a)	6,472	9,293
Total non-current liabilities		**6,472**	**9,293**
Total liabilities		**74,435**	**306,874**
Net assets		**3,987,394**	**5,425,190**
Equity			
Issued capital	17(a)	22,408,841	22,358,841
Share based compensation reserve	17(a)	250,947	225,001
Accumulated losses	17(a)	(18,672,394)	(17,158,652)
Total equity	17(a)	**3,987,394**	**5,425,190**

*Comparative restated to reflect consistent presentation of current year figures.

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 32 to 53.

Statement of Cash Flows

for the year ended 30 June 2009

	Note	2009 $	2008 $
Cash flows from operating activities			*Restated
Cash receipts in the course of operations		2,992,850	1,119,407
Cash payments in the course of operations		(4,693,647)	(5,718,826)
Interest received		183,164	322,186
Income tax paid		–	–
Net cash provided by / (used in) operating activities	*18(b)*	**(1,517,633)**	**(4,277,233)**
Cash flows from investing activities			
Payments for plant and equipment		–	(10,659)
Net cash used in investing activities		**–**	**(10,659)**
Cash flows from financing activities			
Proceeds from shares issued		–	7,000,000
Net cash provided by financing activities		**–**	**7,000,000**
Net increase / (decrease) in cash and cash equivalents held		**(1,517,633)**	**2,712,118**
Cash and cash equivalents at beginning of year		**5,593,358**	**2,959,552**
Effect of exchange rate fluctuation on cash held		**(83,826)**	**(78,312)**
Cash and cash equivalents at end of year	*11, 18(a)*	**3,991,899**	**5,593,358**

*Comparative restated to reflect consistent presentation of current year figures.

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 32 to 53.

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. This annual financial report of the Company is for the financial year ended 30 June 2009. 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 18 August 2009.

(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 and where noted in these financial statements. The method used to measure fair values is discussed further in note 4.

(C) Going Concern

Despite the loss of $1.514 million (2008: $4.471 million) for the financial year ended 30 June 2009, the Directors have prepared the annual financial report on the going concern basis under which assets are assumed to be realised and liabilities extinguished in the ordinary course of business. The going concern basis is considered appropriate since the net assets of the Company are $3.987 million (2008: $5.425 million), which includes cash and cash equivalent assets of $3.992 million (2008: $5.593 million). Based on management's current forecasts and taking into account discretionary expenditures, the balance of cash and cash equivalents is sufficient to fund the Company's ongoing operations for at least twelve months from the date of approval of these financial statements.

(D) Use of estimates and judgements

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

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

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

3. Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to Australian dollars (the Company's functional currency), at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are 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.

(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.

3. Significant accounting policies (continued)

(B) Financial instruments (continued)

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

Cash and cash equivalents comprise cash balances and call deposits.

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

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. 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:

	2009	2008
Plant and equipment	33%	33%
Furniture and fittings	20%	20%

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

(D) Research and development

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

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

(E) Impairment

(i) Financial assets

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

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

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 profit or loss.

3. Significant accounting policies (continued)

(E) Impairment (continued)

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 profit or loss.

(ii) Non-financial assets

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

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

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

(F) Employee benefits

(i) Defined contribution superannuation funds

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

(ii) Other long-term employee benefits

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

(iii) Termination benefits

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

(iv) Short-term benefits

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

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

(v) Share-based payment transactions

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

(vi) Director share-based compensation

Directors may elect to have directors fees issued in the form of shares. In the event a director selects this option, the entitlement is accounted for on a basis consistent with other equity settled share based payments.

3. Significant accounting policies (continued)

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

(i) Lease payments

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

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

(j) Finance income and expenses

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

3. Significant accounting policies (continued)

(k) Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is 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.

(m) Earnings per share

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

(n) Segment reporting

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

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

3. Significant accounting policies (continued)

(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 2009, 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

The Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities in certain circumstances which are noted in the financial statements. 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.

4. Determination of fair values (continued)

(iii) Share-based payment transactions

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

5. Financial risk management

(i) Overview

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

- credit risk
- liquidity risk
- market risk

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 (2008: 77 per cent) of the Company's earnings are 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.

Guarantees

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

(iii) Liquidity risk

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

5. Financial risk management (continued)

(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 licensing revenue and certain research and development and royalty costs that are denominated in a currency other than Australian dollar (AUD). The currencies in which these transactions primarily are denominated are USD, Euro, GBP and Russian Rouble (RUB).

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

(viii) Interest rate risk

The Company does not currently have any interest bearing borrowings. The Company invests surplus cash in bank bills and term deposits 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.

	2009 $	2008 $
6. Revenue		
Licensing fees from Nobilon NBV	**2,992,850**	**1,119,407**
7. Net financing expenses/(income)		
Interest income	(164,096)	(333,417)
Finance income	(164,096)	(333,417)
Realised foreign exchange loss	83,826	78,312
Finance expenses	83,826	78,312
Net finance costs / (income)	**(80,270)**	**(255,105)**

	2009 $	2008 $

8. Personnel expenses

	2009 $	2008 $
Wages and salaries	215,956	706,870
Other associated personnel expenses	21,189	75,958
Increase/(decrease) in liability for annual leave	(5,944)	(26,414)
Increase/(decrease) in liability for long service leave	18,507	(6,617)
Equity-settled share based transactions	4,239	84,776
	253,947	**834,573**

The amounts included in this note do not include amounts attributable to non-executive Directors. Directors' remuneration is included in the Directors' Remuneration Report, which forms part of the Directors' Report.

9. Auditors' remuneration

	2009 $	2008 $
Audit Services:		
Audit and review of financial reports – KPMG Australia	46,000	44,000
Other Services	–	–
	46,000	**44,000**

10. Taxation

(a) Income tax benefit/(expense)

	2009 $	*Restated 2008 $
Recognised in the income statement		
Current tax (benefit)/expense		
Current year	(472,571)	(1,352,774)
Unrecognised deferred tax assets relating to tax losses	472,571	1,352,774
Adjustments for prior years	–	–
	–	–
Deferred tax (benefit)/expense		
Origination and reversal of temporary differences	(169)	13,619
Change in unrecognised temporary differences	169	(13,619)
	–	–
Total income tax expense in income statement	**–**	**–**

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

	2009 $	2008 $
10. Taxation (continued)		*Restated
(b) Reconciliation between income tax benefit/(expense) and before income tax net loss		
Loss before income tax	(1,513,742)	(4,470,506)
Income tax (benefit) / expense calculated at domestic statutory tax rate of 30% (2008: 30%)	(454,123)	(1,341,152)
Increase/(decrease) in income tax benefit/(expense) due to:		
Tax incentives	(26,232)	(26,232)
Non-deductible expenses	7,784	14,610
Prior year under / (over) provision	–	–
Current year losses for which no deferred tax asset was recognised	472,571	1,352,774
Change in deferred tax assets	(169)	13,619
Change in unrecognised deferred tax assets	169	(13,619)
Total income tax (benefit) / expense	**–**	**–**

**Certain figures have been restated to be presented on a basis consistent with the current year.*

(c) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2009 $	2008 $
Deductible temporary differences	10,259	10,090
Tax losses carried forward	6,167,303	5,694,732
	6,177,562	**5,704,822**

**Certain figures have been restated to be presented on a basis consistent with the current year.*
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.

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

	2009 $	2008 $

11. Cash and cash equivalents

Cash at bank and on hand	2,080,070	1,131,444
Short term deposits and bank accepted bills	1,911,829	4,461,914
Cash and cash equivalents in the statement of cash flows	**3,991,899**	**5,593,358**

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

12. Trade and other receivables – current

Interest receivable	1,202	20,270
Other receivables	45,058	55,088
	46,260	**75,358**

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

13. Other assets – current

Prepayments	**15,461**	**48,260**

14. Plant and equipment

At cost	155,423	155,423
Accumulated depreciation and impairment losses	(147,214)	(140,335)
Carrying amount	**8,209**	**15,088**
COST		
Balance at beginning of financial year	155,423	144,764
Acquisitions	–	10,659
Balance at end of financial year	**155,423**	**155,423**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES		
Balance at beginning of financial year	(140,335)	(130,887)
Depreciation charge for the year	(6,879)	(9,448)
Balance at end of financial year	**(147,214)**	**(140,335)**
Carrying amount at beginning of financial year	15,088	13,877
Carrying amount at end of financial year	**8,209**	**15,088**

	2009 $	2008 $

15. Trade and other payables

Current

	2009 $	2008 $
Trade creditors	25,645	63,815
Other creditors and accruals	19,594	226,426
	45,239	290,241

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

16. Employee benefits

(a) Current

	2009 $	2008 $
Liability for annual leave	1,396	7,340
Liability for long service leave	21,328	–
	22,724	**7,340**

Non-Current

	2009 $	2008 $
Liability for long service leave	6,472	9,293

(b) Equity settled share based payments

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

Under the scheme signed in October 2006, the Company has the ability to issue options up to 5 per cent of the issued capital. (As at 30 June 2009 there were 76,614,491 shares on hand).

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

On 1 March 2005, a total of 505,000 options were issued under an earlier plan. Key management personnel were issued with 470,000 options. The remaining 35,000 options were issued to employees. The options expired on 1 March 2009. Each option had 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 on 20 September 2009.

On 27 July 2006, a total of 460,000 options were issued under the plan. Key management personnel were issued with 424,679 options. The remaining 35,321 were issued to employees. These options, which were restricted until 28 July 2007, 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.

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

16. Employee benefits (continued)

(b) Equity settled share based payments (continued)

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

All options vest on the basis of one third per annum after the year of issue. There are no voting rights or dividend rights attached to these options. All these options expire on the earlier of the expiry date or the date that the individual ceases employment with the Company.

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.

Grant date	Number of Instruments	Vesting Conditions	Contractual life of options
Options grant to key management personnel at 20 September 2005	40,000	One third per annum after the year of issue	4 years
Options grant to key management personnel at 27 July 2006	199,005	One third per annum after the year of issue	4 years
Options grant to key management personnel at 20 September 2006	100,000	One third per annum after the year of issue	5 years
Options grant to key management personnel at 4 July 2007	157,769	One third per annum after the year of issue	5 years
Options grant to key management personnel at 1 July 2008	30,000	One third per annum after the year of issue	5 years
Total share options	**526,774***		

**The summary of options outstanding at 30 June 2009 excludes options that have been forfeited.*

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

	Weighted average exercise price 2009	Number of options 2009	Weighted average exercise price 2008	Number of options 2008
Outstanding options at 1 July	$0.42	838,395	$1.21	1,225,293
Forfeited during the period	$0.59	(341,621)	$1.20	(862,955)
Exercised during the period	–	–	–	–
Granted during the period	$0.14	30,000	$0.36	476,057
Outstanding at 30 June	$0.34	526,774	$0.42	838,395

The options outstanding at 30 June 2009 have an exercise price in the range of $0.14 to $0.70 and a weighted average contractual life of 4.25 years.

During the financial year, no options were exercised (2008: nil).

16. Employee benefits (continued)

(B) Equity settled 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:

	2009	2008
Share price	$0.10	$0.31
Exercise price	$0.14	$0.36
Expected volatility	107%	79%
Option life	5 years	5 years
Expected dividends	–	–
Risk-free interest rate (based on national government bonds)	7.60%	6.50%
Fair value at grant date	$0.08	$0.18

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.

	2009 $	2008 $
Share options granted in 2009 – equity settled	–	–
Share options granted in 2008 – equity settled	11,585	14,424
Share options granted in 2007 – equity settled	14,361	28,876
Share options granted in 2006 – equity settled	–	1,200
Share options granted in 2005 – equity settled	–	4,200
Total expense recognised as employee costs	**25,946**	**48,700**

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 $0.10 (2008: $0.31) the exercise price of $0.14 (2008: $0.36), expected volatility of 107 per cent (2008: 79 per cent), expected dividends of zero per cent, a term of five years and a risk-free interest rate of 7.60 per cent (2008: 6.50 per cent).

17. Capital and reserves

(a) Reconciliation of movement in capital and reserves

	Issued capital $	Share based compensation reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2007	15,194,894	176,301	(12,688,146)	2,683,049
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
Balance at 1 July 2008	22,358,841	225,001	(17,158,652)	5,425,190
Net loss attributable to equity holders	–	–	(1,513,742)	(1,513,742)
Equity settled share based compensation	50,000	25,946	–	75,946
Balance at 30 June 2009	22,408,841	250,947	(18,672,394)	3,987,394

(b) Issued capital

	2009 No.	2008 No.	2009 $	2008 $
On issue at 1 July – fully paid	76,281,159	52,385,756	22,358,841	15,194,894
Share issue (proceeds net of share issuance costs)	–	23,333,333	–	7,000,000
Equity settled share based compensation	333,332	562,070	50,000	163,947
On issue at 30 June – fully paid	76,614,491	76,281,159	22,408,841	22,358,841

Share based compensation reserve

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

18. Notes to the statement of cash flows

(a) Reconciliation of cash

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

		2009 $	2008 $
Cash and cash equivalents	*11*	**3,991,899**	**5,593,358**

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

	2009	2008
Profit / (loss) attributable to equity holders	(1,513,742)	(4,470,506)
Adjustments for:		
Depreciation	6,879	9,448
Net finance expenses	83,826	78,312
Equity-settled share based payment expenses	75,945	212,647
Operating profit /(loss) before changes in working capital and provision	(1,347,092)	(4,170,099)
(Increase)/decrease in trade and other receivables	29,099	(35,334)
(Increase)/decrease in prepayments	32,799	(33,404)
Increase/(decrease) in trade and creditors	(38,170)	(19,172)
Increase/(decrease) in other creditors and accruals	(206,832)	23,590
Increase/(decrease) in employee benefit liabilities	12,563	(42,814)
Net cash used in operating activities	**(1,517,633)**	**(4,277,233)**

19. Financial instruments

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

(a) Liquidity risk

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

	Note	Effective interest rate	Total	6 months or less	6–12 months	1–2 years	2–5 years	More than 5 years
2009								
Financial assets								
Cash and cash equivalents	11	3.41%	3,991,899	3,991,899	–	–	–	–
Trade and other receivables	12	–	46,260	46,260	–	–	–	–
			4,038,159	4,038,159	–	–	–	–
Financial liabilities								
Trade and other payables	15	–	45,239	45,239	–	–	–	–
2008								
Financial assets								
Cash and cash equivalents	11	6.79%	5,593,358	5,593,358	–	–	–	–
Trade and other receivables	12	–	75,358	75,358	–	–	–	–
			5,668,716	5,668,716	–	–	–	–
Financial liabilities								
Trade and other payables	15	–	290,241	290,241	–	–	–	–

(b) Foreign currency risk

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

There were no foreign currency receivables or payables at balance date (2008: $nil and $nil). As at 30 June 2009, there was a bank account held in US dollars for an amount of US$1,377,789. A 10 per cent strengthening of the Australian dollar against the US dollar would have decreased profit by $155,629. A 10 per cent weakening of the Australian dollar against the US dollar would have increased profit by $190,213.

19. 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 $1,911,829 (2008: $85,000). $1,822,257 is invested in short dated term deposits to assist in funding the activities of the Company, the balance is in support of its undertakings under a guarantee for $33,207 (2008: $31,498) in accordance with its rental lease and $56,365 (2008: $53,502) on account of the Company's credit cards.

(e) Net fair values of financial assets and liabilities

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

20. Operating lease commitments

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

	2009 $	2008 $
Within one year	118,044	110,328
Later than one year and no later than five years	299,018	372,357
	417,062	**482,685**

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

21. Contingent liabilities

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

The Company has a licence to commercialise certain technologies from the OOO Klinika Instituta Bioregulyatsii I Gerontologii ("the Clinic"). The Company is obliged to pay the Clinic 20 per cent of all payments received from any Licensee and a per centage of any royalties arising from net sales.

22. Earnings per share

	2009 $	2008 $
Earnings reconciliation		
Basic earnings	(1,513,742)	(4,570,506)
Diluted earnings	(1,513,742)	(4,570,506)

	2009 $	2008 $

22. Earnings per share (continued)

Weighted average number of shares used as a denominator

	2009 $	2008 $
Number for basic earnings per share		
Ordinary shares	76,413,103	66,840,506
Number for diluted earnings per share		
Ordinary shares	76,413,103	66,840,506

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

23. Related party disclosures 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

Executive Directors
Dr A O'Brien (resigned 24 February 2009)

Executives
Mr D Baillieu

The key management personnel's compensation was as follows:

	2009 $	2008 $
Short-term employee benefits	1,138,504	1,194,159
Other long term benefits	–	–
Post-employment benefits	18,900	59,939
Termination benefits	180,000	291,443
Equity settled share based compensation	71,706	193,538
Total key management personnel compensation	**1,409,110**	**1,739,079**

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 18 to 25.

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.

23. 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 2008	Granted as compensation	Exercised	Other changes*	Held at 30 June 2009	Vested during the year	Vested and exercisable at 30 June 2009
Directors							
Mr H Morgan	108,288	–	–	–	108,288	36,095	74,143
Mr D Brooks	98,288	–	–	(30,000)	68,288	22,762	34,143
Dr L Rudenko	183,668	–	–	(40,000)	143,668	47,889	84,397
Dr A O'Brien	168,288	–	–	(168,288)	–	22,762	–
Dr J Brown	134,144	–	–	–	134,144	11,381	111,381
	692,676	–	–	(238,288)	454,388	140,889	304,064
Executives							
Mr D Baillieu	67,386	30,000	–	(25,000)	72,386	24,128	31,192

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

**Other changes represent options that expired or were forfeited during the year. The value of these options calculated at the date of expiry or forfeiture using a Black-Scholes option-pricing model was $nil.*

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

23. 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 2008	Purchases	Received on exercise of options	Received as compensation	Sales	Held at 30 June 2009
Directors						
Mr H Morgan	9,872,728	–	–	–	(413,000)	9,459,728
Mr D Brooks	19,030	–	–	–	–	19,030
Dr L Rudenko	–	–	–	–	–	–
Dr A O'Brien*	–	–	–	–	–	–
Dr J Brown	269,928	–	–	333,332	–	603,260
	10,161,686	–	–	333,332	(413,000)	10,082,018
Executives						
Mr D Baillieu	1,300,000	–	–	–	–	1,300,000
	1,300,000	–	–	–	–	1,300,000

**Resigned 24 February 2009*

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	8,104,613	1,666,667	–	101,448	–	9,872,728
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
	9,827,276	1,666,667	–	298,912	(1,631,169)	10,161,686
Executives						
Mr D Baillieu	1,300,000	–	–	–	–	1,300,000
	1,300,000	–	–	–	–	1,300,000

**Resigned 30 November 2007*
***Resigned 6 September 2007*

23. Related party disclosures for disclosing entities (continued)

During the year one director participated in the salary sacrifice plan. As a consequence 333,332 (2008: 298,912) shares have been issued to Dr Brown. The valuation of shares issued was $0.12 per share for 208,332 shares and $0.20 per share for 125,000 shares (2008: $0.345 for 173,912 and $0.20 for 125,000).

Other related party transactions with the Company

Dr Rudenko is Head of the Virology Department in the Institute of Experimental Medicine ("the Institute"). Dr Rudenko received total fees amounting to $155,500 for research and development services (2008: 158,000). During the course of the year the Company paid licence fees and royalties amounting to $575,744 (2008: $223,881) to the Institute. In addition, research and development costs amounting to $90,755 (2008: $75,874) were also paid to the Institute.

Dr John Brown received total fees amounting to $506,865 (2008: $298,964 including director's fees of $50,000 paid in the form of shares in the Company). $362,040 was for the provision of research and development services during the year in particular to the BDM-E program. $94,825 for additional corporate services and $50,000 of director's fees paid in the form of shares in the Company.

The Company paid total fees of $420,000 (2008: $278,363) to Grannus Securities Pty Ltd, a company related to Dr A O'Brien for the management of the executive activities of BioDiem. The agreement with Grannus was terminated in February 2009.

24. Segment reporting

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

25. Subsequent events

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

Directors' Declaration

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

(a) the financial statements and notes and the Remuneration Report in the Directors' Report, set out on pages 18 to 53, are 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 2009 and of its performance, for the financial year ended on that date; and

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

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

(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 Financial Officer, and the Chairman (who was the acting CEO for the period from 24 February 2009 to 30 June 2009), for the financial year ended 30 June 2009.

Dated at Melbourne this 12th day of August 2009.

Signed in accordance with a resolution of the directors:

H Morgan
Director

Independent audit report to the members of BioDiem Ltd

Independent auditor's report to the members of BioDiem Ltd

Report on the financial report

We have audited the accompanying financial report of BioDiem Ltd (the Company), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 25 and the directors' declaration.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's financial position and of its performance.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

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

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 2009 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 2009. 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 2009, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Tony Romeo
Partner

Melbourne

18 August 2009

Shareholder Information

Shareholder information set below was applicable as at 31 July 2009

1. Distribution of equity securities

	Holders	Ordinary shares	%
1-1,000	65	31,576	0.04
1,001-5,000	397	1,233,085	1.61
5,001-10,000	176	1,423,136	1.86
10,001- 100,000	337	11,070,858	14.45
100,000 - and over	68	62,855,836	82.04
Totals	1,043	76,614,491	100.00

2. Twenty largest equity security holders

The names of the twenty largest holders of equity securities as at 31 July 2009.

Name	Number held	Per centage %
Brezzo Enterprises Ltd	16,666,667	21.75%
HSBC Custody Nominees (Australia) Limited	14,829,500	19.36%
First Charnock Nominees Pty Ltd	5,082,676	6.63%
First Charnock Superannuation Pty Ltd	3,000,930	3.92%
Mr Barrie Ernest Laws & Mrs Merrilyn Frances Laws	2,750,000	3.95%
Bresrim Pty Ltd	1,420,791	1.85%
Mr Peter Craig Appleby	1,405,833	1.83%
Mr David Clive Latham Baillieu & Mr Robert Latham Baillieu (David CL Baillieu S/F a/c)	1,350,124	1.77%
Second Charnock Pty Ltd	1,116,459	1.46%
ANZ Nominees Limited Cash Income a/c	943,038	1.23%
Thomas Graham Williams	819,408	1.07%
National Australia Trustees Limited	704,666	0.92%
Tealing Nominees Pty Ltd	684,919	0.89%
Mr John A & Mrs Elizabeth Calvert-Jones	673,314	0.88%
Mr Christopher Hutchinson	657,443	0.86%
Dr John Brown	603,260	0.79%
Mr Peter Robert Kahn	501,098	0.65%
T & J Williams Pty Ltd	441,666	0.58%
Telic Alcatel (Australia) Pty Ltd	441,666	0.58%
Dindan Nominees Pty Ltd	439,994	0.57%
	54,533,452	71.11%

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

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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

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