

## ASX Announcement

### COMMENTARY – FULL YEAR RESULTS

**Melbourne, 31 August 2012:** Australian infectious disease therapy and vaccine development company BioDiem (ASX: BDM) today announced the release of its financial results for the year ended 30 June 2012.

BioDiem CEO Julie Phillips said: “The FY2012 financial results reflect strong revenue growth from vaccine licensing activities in India and China. BioDiem has a diverse development product pipeline including multiple new vaccines and antimicrobial therapies. We are targeting diseases with large markets and potential for accelerated regulatory approval. There are a number of opportunities for expanding and extending current licenses into new markets.”

#### Key Highlights of the year included:

- Receiving license fees from vaccine licensing activities in India and China of \$1.33m.
- Successful results from two programs of work by French partner VIVALIS, confirming ability to grow BioDiem's LAIV virus in VIVALIS' proprietary EB66® cell line. This is a key milestone in the development of BioDiem's 'vector' platform technology for the creation of customised vaccines. The results are significant as both the virus and the cell line have been used to produce vaccines that have been used in Phase II clinical trials.
- Positive results from preclinical studies of BioDiem's orphan eye disease drug BDM-E for the treatment of the inherited degenerative eye disease retinitis pigmentosa; announced at the International Society for Eye Research meeting in Berlin in July 2012.
- Commencing Phase I clinical trials in Russia and Thailand for the avian (bird) flu vaccine.
- Signing a new LAIV vaccine licence in China with Changchun BCHT Biotechnology Co.
- Strengthening BDM-I's patent portfolio, and expanding the Company's vaccine technology portfolio, targeting development of customised vaccines and treatments for multiple serious bacterial, fungal and parasitic infections including dengue fever, hepatitis, “golden staph”, malaria, trichomoniasis, and schistosomiasis.

#### Results for announcement to the market

Name of Entity and ABN: BioDiem Limited ABN 20 096 845 993  
 Reporting Period: 30 June 2012  
 Previous Corresponding Period: 30 June 2011

#### FY12 Highlights

000's	2012	2011	\$ Change	% Change
Revenue from ordinary activities	\$1,331	\$255	Up \$1,076	Up 421.7%
R&D Expenditure	\$(1,084)	\$(1,251)	Down \$167	Down 13.36%
Operating loss from ordinary activities	\$(1,059)	\$(2,618)	Down \$1,559	Down 59.54%
Net operating loss attributable to members	\$(1,009)	\$(2,618)	Down \$1,609	Down 61.46%
	<b>30 June 2012</b>	<b>30 June 2011</b>		
Net tangible assets per ordinary share	\$0.0147	\$0.0245		

No dividends have been declared.

The financial information included in this preliminary financial report for the year ended 30 June 2012 is in the process of being audited and has been derived from the draft financial report of the BioDiem Group for the year ended 30 June 2012. The audit report is likely to contain an emphasis of matter paragraph that brings to the attention of the reader the Going Concern note (refer note 2c) which highlights the financial position of the Group and also outlines management's plans.

### Financial Position

BioDiem ended the financial year with \$1.37m cash (2011: \$2.58m). Revenues increased to \$1.33m (2011: \$0.26m) due to the out-licensing of BioDiem's LAIV influenza vaccine technologies to the Serum Institute of India and new Chinese commercial partner, Changchun BCHT Biotechnology Co. BioDiem's expenditure on R&D for 2011–2012 was \$1.08m (2011: \$1.25m). Overall the company reported a net loss of \$1.01m (2011:\$2.62m).

### Project Update

BioDiem's operational structure is now divided into three major programs:

- **Influenza vaccine licensing business:**

BioDiem generated an increase in revenue to \$1.33 million in the year from influenza vaccine technology licenses to the Serum Institute of India as well as a Chinese commercial partner, BCHT Changchun Biotechnology Co.

BioDiem is seeking to grow and expand out-licensing arrangements for both its cell-based influenza vaccine technology and the egg-based technology in multiple markets.

- **Development of the antimicrobial BDM-I:**

BDM-I has demonstrated activity against a wide variety of disease-causing bacteria, fungi, protozoa and parasites in a significant amount of screening studies. BDM-I's activity against the parasite that causes the chronic infection, schistosomiasis, is encouraging.

Patents for BDM-I have been granted in the US and Europe for the common female health complaint, vulvovaginitis, and now also in the US against malaria and the sexually transmitted disease, trichomoniasis.

BDM-I is currently being researched as an innovative treatment against 'superbugs' or antibiotic-resistant bacteria such as MRSA, and the serious fungal infection, aspergillosis.

- **New vaccine 'vector' platform:**

In a formal collaboration with France-based biotechnology firm VIVALIS, BioDiem has achieved the successful growth of its proprietary virus in VIVALIS' proprietary cell line. The results are significant as both the BioDiem virus and the VIVALIS cell line have been used to produce vaccines used in Phase II clinical trials. The resulting human safety data will facilitate a shorter and lower cost path to commercialisation. These results bring the collaboration a step forward in the development of customisable vaccines using BioDiem's technology.

BioDiem has expanded its vaccine technology portfolio through the acquisition of Savine Therapeutics and in-licensed technologies from the ANU and University of Canberra for complementary platform technologies targeting dengue fever and hepatitis.

BioDiem has also signed a research collaboration agreement with RMIT University to explore the development of a vaccine 'vector' that can be customized to prevent and/or treat specific diseases.

### Outlook

BioDiem has achieved a series of significant milestones in a period of intense activity following a refocus of the company's strategy on infectious disease therapy and vaccine development in early 2012. BioDiem is pursuing multiple opportunities for outlicensing within its diverse portfolio, building on the existing revenue-generating vaccine licensing business in India and China.

BioDiem also intends to further leverage its partnerships to venture into a number of markets with new commercial opportunities. This includes pursuing the licensing of alternative LAIV vaccine production technologies (e.g. cell-based production) which allow for higher yield production volume and do not rely on egg supply.

Development risk is spread across a number of projects at various stages of development, and the Company has clear priorities for those programs which have the best chance of delivering near-term revenue streams.

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## About BioDiem Ltd

BioDiem is an ASX-listed company based in Melbourne with an international focus on discovering, developing and commercialising world-class research and technology targeting cancers and infectious diseases. BioDiem's core technologies include the Live Attenuated Influenza Virus (LAIV), the SAVINE platform and the BDM-I antimicrobial compound. BioDiem has also in-licensed vaccine technologies from Australian National University and the University of Canberra with initial target indications of dengue fever and hepatitis respectively.

The LAIV influenza vaccine is an intranasal vaccine to prevent infection from seasonal and pandemic influenza. The LAIV influenza vaccine can be produced using both egg-based and cell-based manufacturing methods. The cell-based LAIV vaccine has completed a Phase II clinical trial in Europe. The egg-based LAIV vaccine technology is licensed to the World Health Organization as part of the Global Pandemic Influenza Action Plan to Increase Vaccine Supply.

The LAIV influenza vaccine is marketed as Nasovac™ in India by the Serum Institute of India, and has been licensed to China-based Changchun BCHO Biotechnology Co. The LAIV vaccine was in-licensed from the Institute of Experimental Medicine in St Petersburg, Russia where it has been used for over a decade in many millions of people - children, adults and the elderly. The LAIV is administered by nasal spray and induces a rapid immune response in the mucosal lining of the nose and pharynx.

The LAIV is also being developed as a viral vector for making novel non-influenza vaccines for different diseases including cancers. Viruses have the ability to generate proteins prolifically and can be programmed to produce disease-specific proteins. As part of a vaccine, disease-specific proteins can help generate a beneficial immune response. BioDiem is advancing its two new vaccine and vaccine vector programs in partnership with France-based developer VIVALIS and the Royal Melbourne Institute of Technology (RMIT).

SAVINE (patented Scrambled Antigen Vaccine) is a platform technology for the design of antigens for incorporation into vaccines targeting an immune response to a range of different diseases. SAVINE antigens are encoded as synthetic genes which, together with a delivery technology such as BioDiem's LAIV-based vaccine vector technology, can be used to develop novel vaccines.

BDM-I is a synthetic compound targeted at the treatment of serious human infections. BDM-I is in the preclinical stage with outlicensing as the intended outcome. BDM-I is active against a range of pathogenic micro-organisms including gram-positive and gram-negative bacteria, fungi and protozoa. Key patents have been granted in both Europe and the US around BDM-I's antimicrobial activity, including activity against *Plasmodium falciparum*, responsible for causing the most commonly severe form of malaria, and *Trichomonas vaginalis*, the protozoan responsible for causing a common sexually transmitted disease named trichomoniasis.

BioDiem is also developing BDM-E, a tetra peptide synthetic compound, as a treatment for ophthalmic disorders. The US Food & Drug Administration (USFDA) has granted Orphan Drug designation to BDM-E for the treatment of retinitis pigmentosa, a serious degenerative disease of the retina.

BioDiem's research is ongoing in partnership with internationally recognised research groups.

For additional information, please visit [www.biodiem.com](http://www.biodiem.com)

### Contact

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**BioDiem Ltd**  
**Consolidated statement of comprehensive income**  
**For the year ended 30 June 2012**

	Note	2012 \$	2011 \$
Revenue from licensing activities	6	1,331,430	255,213
Licence fees and royalty expenses		(255,151)	(50,463)
<b>Gross profit</b>		<u>1,076,279</u>	<u>204,750</u>
Other Income		317,000	-
Research and development expenses		(1,084,543)	(1,251,770)
Administration expenses		(1,368,456)	(1,638,137)
<b>Loss from operating activities</b>		<u>(1,059,720)</u>	<u>(2,685,157)</u>
Finance income	7	50,336	79,945
Finance expenses	7	-	(13,721)
<b>Net finance income</b>	7	<u>50,336</u>	<u>66,224</u>
<b>Loss before income tax</b>		(1,009,384)	(2,618,933)
Income tax benefit / (expense)	10(a)	-	-
<b>Net loss attributable to equity holders</b>	17(a)	<u>(1,009,384)</u>	<u>(2,618,933)</u>
Other comprehensive income		-	-
<b>Total comprehensive income attributable to equity holders</b>		<u>(1,009,384)</u>	<u>(2,618,933)</u>
<b>Basic loss per share</b>	22	<u>(0.99) cents</u>	<u>(2.57) cents</u>
<b>Diluted loss per share</b>	22	<u>(0.99) cents</u>	<u>(2.57) cents</u>

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 8 to 31.

**BioDiem Ltd**  
**Consolidated statement of changes in equity**  
**For the year ended 30 June 2012**

	Note	Issued capital \$	Share based compensation reserve \$	Accumulated losses \$	Total equity \$
Balance at 30 June 2011	17(a)	26,919,511	262,176	(24,682,957)	2,498,730
Loss		-	-	(1,009,384)	(1,009,384)
Total other comprehensive income		-	-	-	-
<b>Total comprehensive loss for the year</b>		-	-	(1,009,384)	(1,009,384)
<b>Transactions with owners, recorded directly in equity</b>					
Equity settled share based compensation		-	1,422	-	1,422
Issue of shares		10,000	-	-	10,000
Balance at 30 June 2012	17(a)	26,929,511	263,598	(25,692,341)	1,500,768
Balance at 1 July 2010	17(a)	25,962,532	257,910	(22,064,024)	4,156,418
Loss		-	-	(2,618,933)	(2,618,933)
Total other comprehensive income		-	-	-	-
<b>Total comprehensive loss for the year</b>		-	-	(2,618,933)	(2,618,933)
<b>Transactions with owners, recorded directly in equity</b>					
Equity settled share based compensation		-	4,266	-	4,266
Proceeds from the issue of shares net of costs		956,979	-	-	956,979
Balance at 30 June 2011		26,919,511	262,176	(24,682,957)	2,498,730

The consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 8 to 31.

**BioDiem Ltd**  
**Consolidated statement of financial position**  
**As at 30 June 2012**

	Note	2012 \$	2011 \$
<b>Current assets</b>			
Cash and cash equivalents	11	1,369,347	2,580,399
Trade and other receivables	12	367,966	55,787
Other assets	13	17,188	29,397
<b>Total current assets</b>		<u>1,754,501</u>	<u>2,665,583</u>
<b>Non-current assets</b>			
Plant and equipment	14	6,127	17,628
<b>Total non-current assets</b>		<u>6,127</u>	<u>17,628</u>
<b>Total assets</b>		<u>1,760,628</u>	<u>2,683,211</u>
<b>Current liabilities</b>			
Trade and other payables	15	205,072	102,249
Employee benefits	16(a)	45,925	76,851
<b>Total current liabilities</b>		<u>250,977</u>	<u>179,100</u>
<b>Non-current liabilities</b>			
Employee benefits	16(a)	8,863	5,381
<b>Total non-current liabilities</b>		<u>8,863</u>	<u>5,381</u>
<b>Total liabilities</b>		<u>259,860</u>	<u>184,481</u>
<b>Net assets</b>		<u>1,500,768</u>	<u>2,498,730</u>
<b>Equity</b>			
Issued capital	17(a)	26,929,511	26,919,511
Share based compensation reserve	17(a)	263,598	262,176
Accumulated losses	17(a)	(25,692,341)	(24,682,957)
<b>Total equity</b>	17(a)	<u>1,500,768</u>	<u>2,498,730</u>

The consolidated statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 8 to 31.

**BioDiem Ltd**  
**Consolidated statement of cash flows**  
**For the year ended 30 June 2012**

	Note	2012 \$	2011 \$
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		1,331,430	255,213
Cash payments in the course of operations		(2,582,818)	(2,868,263)
Interest received		28,469	79,945
<b>Net cash used in operating activities</b>	18(b)	<u>(1,222,919)</u>	<u>(2,533,105)</u>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary, net of cash acquired		(10,000)	-
Payments for plant and equipment		-	(17,791)
<b>Net cash used in investing activities</b>		<u>(10,000)</u>	<u>(17,791)</u>
<b>Cash flows from financing activities</b>			
Proceeds from shares issued		-	1,000,000
Net cost of issue		-	(43,021)
<b>Net cash provided by financing activities</b>		<u>-</u>	<u>956,979</u>
<b>Net increase / (decrease) in cash and cash equivalents held</b>		<u>(1,232,919)</u>	<u>(1,593,918)</u>
<b>Cash and cash equivalents at beginning of year</b>		<u>2,580,399</u>	<u>4,188,039</u>
<b>Effect of exchange rate fluctuation on cash held</b>		<u>21,867</u>	<u>(13,722)</u>
<b>Cash and cash equivalents at end of year</b>	11, 18(a)	<u>1,369,347</u>	<u>2,580,399</u>

The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 8 to 31.

**BioDiem Ltd**  
**Notes to the consolidated financial statements**  
**For the year ended 30 June 2012**

**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 Group is for the financial year ended 30 June 2012 and comprises the Company and its subsidiary Savine Therapeutics Pty Ltd (together referred to as the "Group"). The Group is a for-profit entity and operates in the biopharmaceutical industry developing and commercialising biomedical research.

**2 Basis of preparation**

**(a) Statement of compliance**

The consolidated financial statements are 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 consolidated financial statements of the Group also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board.

**(b) Basis of measurement**

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

**(c) Basis of consolidation**

**(i) Business combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.
- The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.
- Transaction costs other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

**(ii) Subsidiaries**

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

**BioDiem Ltd**  
**Notes to the consolidated financial statements**  
**For the year ended 30 June 2012**

**2 Basis of preparation (continued)**

**(c) Going Concern**

Despite the loss of \$1.01 million (2011: \$2.62 million) for the financial year ended 30 June 2012, 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 Group are \$1.50 million (2011: \$2.50 million), which includes cash and cash equivalent assets of \$1.37 million (2011: \$2.58 million). Based on management's current forecasts, the balance of cash and cash equivalents is sufficient to fund the Group's ongoing operations for at least the 12 months from the date of approval of these financial statements. Directors always have the ability to curtail discretionary expenditures, which form a significant part of the Group's total expenditure. The Group has a marketing agreement with the Serum Institute of India and expects it to generate royalties during the year. In addition, the Group now has a LAIV licensing agreement with the Changchun BCHO Biotechnology Co. where the vaccine is currently under development, if successful, this license is expected to provide further royalty streams in due course. For these reasons, the Directors believe the Group has future prospects and does not need to prepare these statements on a liquidation basis. Should the above expectations and plans not come to fruition, a material uncertainty exists as to whether the Group will be able to continue as a going concern and therefore, whether it will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report

**(d) Use of judgements and estimates**

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:

i) Utilisation of tax losses

Deferred tax assets are recognised for all unabsorbed tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. These assumptions are discussed in note 10(c).

ii) Going concern

A material uncertainty exists as to the basis of preparation. Refer to note 2(c) for further details.

**3 Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements. The accounting policies applied by the Group in this financial report are the same as those applied by the Group in its financial report as at and for the year ended 30 June 2011, unless stated otherwise.

**BioDiem Ltd**  
**Notes to the consolidated financial statements**  
**For the year ended 30 June 2012**

**3 Significant accounting policies (continued)**

**(a) Foreign currency transactions**

Transactions in foreign currencies are translated to Australian dollars (the Group's functional currency), at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the foreign exchange rate at that date. Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the profit or loss 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 at amortised cost using the effective interest rate method.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group 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 Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits.

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

**(ii) Issued capital**

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

**(c) Plant and equipment**

**(i) Recognition and measurement**

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

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

**(ii) Depreciation**

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

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

	<b>2012</b>	<b>2011</b>
Plant and equipment	33%	33%
Furniture and fittings	20%	20%

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

**BioDiem Ltd**  
**Notes to the consolidated financial statements**  
**For the year ended 30 June 2012**

**3 Significant accounting policies (continued)**

**(d) Research and development**

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

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

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

**(e) Impairment**

**(i) Financial assets**

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

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

**(ii) Non-financial assets**

The carrying amounts of the Group'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 profit or loss when they are due.

**BioDiem Ltd**  
**Notes to the consolidated financial statements**  
**For the year ended 30 June 2012**

**3 Significant accounting policies (continued)**

**(f) Employee benefits (continued)**

(ii) Other long-term employee benefits

The Group'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, and the fair value of any related assets deducted.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Group 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 Group 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 Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(v) Share-based payment transactions

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

(vi) Director share-based compensation

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

**(g) Provisions**

A provision is recognised if, as a result of a past event, the Group 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.

**BioDiem Ltd**  
**Notes to the consolidated financial statements**  
**For the year ended 30 June 2012**

**3 Significant accounting policies (continued)**

**(h) Revenue (continued)**

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) Royalty revenue**

Royalties are recognised in the period in which the right to receive the royalty has been established.

**(iii) 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 received and when there is reasonable assurance that 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 profit or loss 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 profit and loss. Interest income is recognised as it accrues, using the effective interest method.

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

**(k) Income tax**

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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**BioDiem Ltd**  
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**3 Significant accounting policies (continued)**

**(k) Income tax (continued)**

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 Group 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 utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(l) Goods and services tax**

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

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

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 or loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

**(n) Segment reporting**

A segment is a distinguishable component of the Group 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 Group solely operates in the biopharmaceutical industry developing and/or commercialising biomedical research. The operations are predominantly in Australia.

**(o) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group.

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**4 Determination of fair values**

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) 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).

**5 Financial risk management**

(i) Overview

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

- credit risk
- liquidity risk
- market risk
- currency risk
- interest rate risk

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

The Board of directors have 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 Group, 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 Group's activities.

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

(ii) Credit risk

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

Trade licensees and other receivables

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

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**5 Financial risk management (continued)**

Investments

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

Guarantees

Group 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 Group will not be able to meet its financial obligations as they fall due. The Group'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 Group's reputation.

(iv) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group'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 Group does not enter into derivatives in order to manage market risks.

(v) Currency risk

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

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

(vi) Interest rate risk

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

(vii) 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 Group is not subject to any externally imposed capital requirements.

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

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<b>6 Revenue</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Royalty and milestone revenue	1,331,430	255,213
	<hr/>	<hr/>
<b>7 Net finance income</b>		
Foreign exchange gain	21,867	-
Interest income	28,469	79,945
Total Finance income	<hr/> 50,336	<hr/> 79,945
Foreign exchange (loss)	-	(13,721)
Total Finance gain / (expense)	<hr/> -	<hr/> (13,721)
Net finance (loss) / income	<hr/> 50,336	<hr/> 66,224
<b>8 Personnel expenses</b>		
Wages and salaries	787,759	871,780
Other associated personnel expenses	43,016	52,086
(Decrease)/Increase in liability for annual leave	(2,423)	11,903
(Decrease)/Increase in liability for long service leave	(25,022)	8,562
Equity-settled share based transactions	1,422	4,266
	<hr/> 804,752	<hr/> 948,597
<b>9 Auditors' remuneration</b>		
Audit Services: Audit and review of financial reports		
KPMG Australia	57,000	55,000
Non-audit services: Tax advisory services		
KPMG Australia	28,848	-
	<hr/> 85,848	<hr/> 55,000

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**BioDiem Ltd**  
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10 Taxation	2012	2011
	\$	\$
<b>(a) Income tax benefit / (expense)</b>		
<b>Recognised in the statement of comprehensive income</b>		
<i>Current tax (benefit) / expense</i>		
Current year	(312,925)	(772,665)
Unrecognised deferred tax assets relating to tax losses	312,925	772,665
	<u>-</u>	<u>-</u>
<i>Deferred tax (benefit) / expense</i>		
Origination and reversal of temporary differences	10,110	(13,015)
Change in unrecognised temporary differences	(10,110)	13,015
	<u>-</u>	<u>-</u>
Total income tax (benefit) / expense in statement of comprehensive income	<u>-</u>	<u>-</u>
No items of deferred tax expense have been recognised in equity.		
<b>(b) Reconciliation between income tax benefit / (expense) and before income tax net loss</b>		
Loss before income tax	(1,009,384)	(2,618,933)
Income tax (benefit) / expense calculated at domestic statutory tax rate of 30% (2011: 30%)	(302,815)	(785,680)
<i>Increase/(decrease) in income tax benefit / (expense) due to:</i>		
Movement in temporary differences	(10,110)	13,015
Current year losses for which a deferred tax asset was not recognised	312,925	772,665
Total income tax (benefit) / expense	<u>-</u>	<u>-</u>

**BioDiem Ltd**  
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**For the year ended 30 June 2012**

<b>10 Taxation (continued)</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>(c) Unrecognised deferred tax assets</b>		
Deferred tax assets have not been recognised in respect of the following items:		
Deductible temporary differences	16,436	13,015
Tax losses carried forward	8,292,664	7,979,739
	<u>8,309,100</u>	<u>7,992,754</u>

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 Group can utilise the benefits.

Tax losses subject to same business tests, may be available to reduce the assessable income of BioDiem Ltd in future periods.

<b>11 Cash and cash equivalents</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Cash at bank and on hand	1,267,211	2,485,157
Short term deposits	102,136	95,242
Cash and cash equivalents in the statement of cash flows	<u>1,369,347</u>	<u>2,580,399</u>

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

<b>12 Trade and other receivables - current</b>		
Other receivables	50,966	55,786
R&D incentive receivable	317,000	-
	<u>367,966</u>	<u>55,786</u>

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

**BioDiem Ltd**  
**Notes to the consolidated financial statements**  
**For the year ended 30 June 2012**

<b>13 Other assets - current</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Prepayments	17,188	29,397
	<hr/>	<hr/>
<b>14 Plant and equipment</b>		
At cost	180,346	180,346
Accumulated depreciation and impairment losses	(174,219)	(162,718)
Carrying amount	<hr/> 6,127 <hr/>	<hr/> 17,628 <hr/>
<b>Cost</b>		
Balance at beginning of financial year	180,346	162,555
Additions	-	17,791
Disposals	-	-
Balance at end of financial year	<hr/> 180,346 <hr/>	<hr/> 180,346 <hr/>
<b>Accumulated depreciation and impairment losses</b>		
Balance at beginning of financial year	(162,718)	(151,349)
Depreciation charge for the year	(11,501)	(11,369)
Balance at end of financial year	<hr/> (174,219) <hr/>	<hr/> (162,718) <hr/>
Carrying amount at beginning of financial year	<hr/> 17,628 <hr/>	<hr/> 11,206 <hr/>
Carrying amount at end of financial year	<hr/> 6,127 <hr/>	<hr/> 17,628 <hr/>
<b>15 Trade and other payables</b>		
<b>Current</b>		
Trade creditors	2,841	47,401
Other creditors and accruals	202,231	54,848
	<hr/> 205,072 <hr/>	<hr/> 102,249 <hr/>

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

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16 Employee benefits	2012 \$	2011 \$
<b>(a) Current</b>		
Liability for annual leave	32,748	35,171
Liability for long service leave	13,177	41,680
	45,925	76,851
<b>Non-Current</b>		
Liability for long service leave	8,863	5,382
	8,863	5,382
<b>(b) Equity settled share based payments</b>		

The Group 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 Group and personal objectives appropriate for the roles and responsibilities of each individual.

Under the scheme signed in October 2006, the Group has the ability to issue options up to 5 percent of the issued capital. As at 30 June 2012 there were 102,095,554 shares on hand.

When issued, the options will have an exercise price of not less than the average closing trading price of the Group'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 4 July 2007 the Group 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 lapsed on 4 July 2012. Each option had an exercise price of \$0.36.

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

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

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

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.

**BioDiem Ltd**  
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**16 Employee benefits (continued)**

**(c) Share based payments**

Grant date	Number of Instruments	Vesting Conditions	Contractual life of options
Option grant to key management personnel and other staff at 4 July 2007 <sup>1</sup>	158,946	One third per annum after the year of issue	5 years
Option grant to key management personnel and other staff at 1 July 2008	80,000	One third per annum after the year of issue	5 years
Option grant to key management personnel and other staff at 27 July 2009	160,000	One third per annum after the year of issue	5 years
<b>Total share options</b>	<u>398,946</u>		

<sup>1</sup> These options lapsed on 4 July 2012

The summary of options outstanding at 30 June 2012 excludes options that have been forfeited.

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

	Weighted average exercise price 2012	Number of options 2012	Weighted average exercise price 2011	Number of options 2011
Outstanding options at 1 July	\$0.226	398,946	\$0.355	633,272
Forfeited during the period	-	-	\$0.32	(234,326)
Exercised during the period	-	-	-	-
Granted during the period	-	-	-	-
Outstanding at 30 June	\$0.226	398,946	\$0.226	398,946

The options outstanding at 30 June 2012 have an exercise price in the range of \$0.136 to \$0.36 and a weighted average remaining contractual life of 1.00 year (2011: 2 years).

During the financial year, no options were exercised (2011: nil).

No options were granted in the year ended 30 June 2012 (2011: nil).

**BioDiem Ltd**  
**Notes to the consolidated financial statements**  
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**17 Capital and reserves**

**(a) Reconciliation of movement in capital and reserves**

	Issued capital \$	Share based compensation reserve \$	Accumulated losses \$	Total equity \$
Balance at 30 June 2011	26,919,511	262,176	(24,682,957)	2,498,730
Net loss attributable to equity holders	-	-	(1,009,384)	(1,009,384)
Equity settled share based compensation	-	1,422	-	1,422
Shares issued	10,000	-	-	10,000
Balance at 30 June 2012	26,929,511	263,598	(25,692,341)	1,500,768
Balance at 1 July 2010	25,962,532	257,910	(22,064,024)	4,156,418
Net loss attributable to equity holders	-	-	(2,618,933)	(2,618,933)
Equity settled share based compensation	-	4,266	-	4,266
Rights issue	956,979	-	-	956,979
Balance at 30 June 2011	26,919,511	262,176	(24,682,957)	2,498,730

<b>(b) Issued capital</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>No.</b>	<b>No.</b>	<b>\$</b>	<b>\$</b>
On issue at 1 July – fully paid	101,984,443	96,428,888	26,919,511	25,962,532
Share issue (proceeds net of share issuance costs)	111,111	5,555,555	10,000	956,979
Equity settled share based compensation	-	-	-	-
On issue on 30 June – fully paid	102,095,554	101,984,443	26,929,511	26,919,511

All shares issued are fully paid up.

Ordinary shares rank equally and in the event participate in the winding up of the Group in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

The Group does not have authorised capital or par value in respect of its issued shares. The Company has 102,095,554 (2011:101,984,443) ordinary shares on issue.

In December 2011, the Company acquired Savine Therapeutics Pty Ltd, part of the consideration in the transaction was the issue of 111,111 ordinary shares fully paid to the shareholders of Savine Therapeutics Pty Ltd.

**BioDiem Ltd**  
**Notes to the consolidated financial statements**  
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**17 Capital and reserves (continued)**

**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 profit or loss 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:

	<b>Note</b>	<b>2012</b> \$	<b>2011</b> \$
Cash and cash equivalents	11	1,369,347	2,580,399

**(b) Reconciliation of loss after income tax to net cash used in operating activities**

<b>Loss for the year</b>		(1,009,384)	(2,618,933)
Adjustments for:			
Depreciation		11,502	11,369
Impairment		20,000	-
Net finance expenses/(income)		(21,867)	13,721
Equity-settled share based payment expenses		1,422	4,266
		(998,327)	(2,589,577)
Operating loss before changes in working capital and provision		(998,327)	(2,589,577)
(Increase)/decrease in trade and other receivables		(312,179)	47,041
Decrease/(increase) in prepayments		12,209	(10,948)
(Decrease)/increase in trade and other payables		(44,560)	5,975
Increase/(decrease) in accruals		147,383	(6,061)
(Decrease)/increase in employee benefit liabilities		(27,445)	20,464
Net cash used in operating activities		(1,222,919)	(2,533,106)

**BioDiem Ltd**  
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**19 Financial instruments**

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

**(a) Liquidity risk**

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

2012	Note	Effective interest rate	Total	6 months or less	6–12 months	1–2 years	2–5 years	More than 5 years
<b>Financial assets</b>								
Cash and cash equivalents	11	3.01%	1,369,347	1,369,347	-	-	-	-
Trade and other receivables	12	-	367,966	367,966	-	-	-	-
			1,737,313	1,737,313	-	-	-	-
<b>Financial liabilities</b>								
Trade and other payables	15	-	205,072	205,072	-	-	-	-
<hr/>								
2011	Note	Effective interest rate	Total	6 months or less	6–12 months	1–2 years	2–5 years	More than 5 years
<b>Financial assets</b>								
Cash and cash equivalents	11	2.65%	2,580,399	2,580,399	-	-	-	-
Trade and other receivables	12	-	55,786	55,786	-	-	-	-
			2,636,185	2,636,185	-	-	-	-
<b>Financial liabilities</b>								
Trade and other payables	15	-	102,249	102,249	-	-	-	-

**(b) Foreign currency risk**

Foreign currency transactions are translated to Australian dollars at the rate of exchange ruling at the date 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 profit or loss in the financial year in which the exchange rates change.

There were no foreign currency receivables or payables at balance date (2011: \$nil and \$nil). As at 30 June 2012, there was a bank account held in US dollars for an amount of AUD\$877,162 (2011: \$428,885). A 10 percent movement of the Australian dollar against the US dollar as at 30 June 2012 would have impacted results by \$38,587.

**BioDiem Ltd**  
**Notes to the consolidated financial statements**  
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**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.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

None of the Group's receivables are past their due date.

**(d) Guarantees**

The Group has in place term deposits amounting to \$102,136 (2011: \$95,242) in support of its undertakings under a guarantee for \$31,156 (2011: \$31,156) in accordance with its rental lease and \$64,557 (2011: \$58,724) on account of the Group'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:

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Within one year	51,760	118,044
Later than one year and no later than five years	-	50,000
	<u>51,760</u>	<u>168,044</u>

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

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

**BioDiem Ltd**  
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**22 Loss per share**

	2012	2011
<b>Loss reconciliation</b>	<b>\$</b>	<b>\$</b>
Basic loss	(1,009,384)	(2,618,933)
Diluted loss	(1,009,384)	(2,618,933)
<b>Weighted average number of shares used as a denominator</b>		
<i>Number for basic loss per share</i>		
Ordinary shares	102,095,554	101,984,443
<i>Number for diluted loss per share</i>		
Ordinary shares	102,095,554	101,984,443

Potential ordinary shares issued under the Group's employee share option plan are antidilutive.

**23 Related party disclosures**

The following were key management personnel of the Group 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 A Li

**Executive Directors**

Ms J Phillips

**Executives**

Mr D Baillieu – resigned 15 August 2011, now works on a consultancy basis

## 23 Related party disclosures (continued)

The key management personnel's compensation was as follows:

	2012	2011
	\$	\$
Short-term employee benefits	622,223	821,771
Other long term benefits	-	-
Post-employment benefits	6,338	19,800
Termination benefits	78,738	-
Equity settled share based compensation	-	-
Total key management personnel compensation	<u>707,299</u>	<u>841,571</u>

### 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 14 to 20.

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

### Employee Options

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

## 23 Related party disclosures (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 2011	Granted as compensation	Exercised	Other changes *	Held at 30 June 2012	Vested during the year	Vested and exercisable at 30 June 2012
<b>Directors</b>							
Mr H Morgan	34,144	-	-	-	34,144	-	34,144
Mr D Brooks	34,144	-	-	-	34,144	-	34,144
Dr L Rudenko	34,144	-	-	-	34,144	-	34,144
Ms J Phillips	-	-	-	-	-	-	-
	102,432	-	-	-	102,432	-	102,432
<b>Executives</b>							
Mr D Baillieu <sup>1</sup>	111,193	-	-	-	111,193	30,000	91,193
	111,193	-	-	-	111,193	30,000	91,193
Options	Held at 1 July 2010	Granted as compensation	Exercised	Other changes *	Held at 30 June 2011	Vested during the year	Vested and exercisable at 30 June 2011
<b>Directors</b>							
Mr H Morgan	68,288	-	-	(34,144)	34,144	-	34,144
Mr D Brooks	73,478	-	-	(39,334)	34,144	-	34,144
Dr L Rudenko	143,668	-	-	(109,524)	34,144	-	34,144
Ms J Phillips	-	-	-	-	-	-	-
	285,434	-	-	(183,002)	102,432	-	102,432
<b>Executives</b>							
Mr D Baillieu	132,386	-	-	(21,193)	111,193	30,000	61,193
	132,386	-	-	(21,193)	111,193	30,000	61,193

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

<sup>1</sup> Resigned 15 Aug 2011. Under the consultancy agreement these options lapse on 15 August 2013.

## 23 Related party disclosures (continued)

### Movement in shares

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

Shares	Held at 1 July 2011	Purchases	Received on exercise of options	Received as compensation	Other changes	Sales	Held at 30 June 2012
<b>Directors</b>							
Mr H Morgan	9,459,728	-	-	-	-	-	9,459,728
Mr D Brooks	29,410	-	-	-	-	-	29,410
Dr L Rudenko	-	-	-	-	-	-	-
Ms J Phillips	2,627	-	-	-	-	-	2,627
Dr A Li	-	-	-	-	-	-	-
	9,491,765	-	-	-	-	-	9,491,765
<b>Executives</b>							
Mr D Baillieu <sup>1</sup>	1,400,000	-	-	-	-	-	1,400,000
	1,400,000	-	-	-	-	-	1,400,000
Shares	Held at 1 July 2010	Purchases	Received on exercise of options	Received as compensation	Other changes	Sales	Held at 30 June 2011
<b>Directors</b>							
Mr H Morgan	9,459,728	-	-	-	-	-	9,459,728
Mr D Brooks	29,410	-	-	-	-	-	29,410
Dr L Rudenko	-	-	-	-	-	-	-
Ms J Phillips	2,627	-	-	-	-	-	2,627
Dr A Li	-	-	-	-	-	-	-
	9,491,765	-	-	-	-	-	9,491,765
<b>Executives</b>							
Mr D Baillieu	1,400,000	-	-	-	-	-	1,400,000

<sup>1</sup> Resigned 15 August 2011

## **23 Related party disclosures (continued)**

### **Other related party transactions with the Group**

Dr Rudenko is Head of the Virology Department in the Institute of Experimental Medicine (“the Institute”). Dr Rudenko received total fees amounting to \$155,000 for research and development activities and her services as a Director. During the course of the year the Group paid licence fees and royalties amounting to \$255,151 (2011: 50,463) to the Institute. In addition, research and development costs amounting to \$38,396 (2011: \$124,169) were also paid to the Institute.

On 14 December 2011, the Company acquired Savine Therapeutics Pty Ltd. Julie Phillips was a director of Savine Therapeutics Pty Ltd at the time and continues to be a director of Savine Therapeutics Pty Ltd. The Board is satisfied with the corporate governance process put in place to manage this process and that the transaction occurred on an arm’s length basis.

## **24 Segment reporting**

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

## **25 Parent entity financial information**

The figures contained in the consolidated financial statements also represent the financial information of the parent entity. The company acquired in the current year, Savine Therapeutics Pty Ltd (refer note 26) was dormant after acquisition.

## **26 Acquisition of subsidiary**

On 14 December, 2011 the Company acquired control of Savine Therapeutics Pty Ltd a company that has developed a proprietary method for designing synthetic vaccines that are expected to stimulate and enhance the body’s immune system. The Company acquired all Savine’s issued shares and Savine’s directors resigned on that date with the exception of Julie Phillips (refer note 23- Related parties). The acquisition of Savine’s antigen technology is considered to be highly complementary to BioDiem’s vaccine programme. The Savine technology is also expected to add value to the LAIV vector programme as it will enable BioDiem to expand its range of targetable diseases.

The purchase consideration comprised the issue of 111,111 ordinary shares (market value \$10,000) and \$10,000 in cash. The existing carrying value of the net assets of Savine at acquisition amounted to \$nil. The \$20,000 purchase consideration has been expensed in line with the Group’s accounting policy for research and development, since, in substance, this investment was considered to be another research and development project.

## **27 Subsequent events**

There has not arisen in the interval between the end of the financial year and the date of this report any other item, transaction or event of a material or 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.