

**Biodiem Ltd**  
ABN: 20 096 845 993

**ASX Preliminary final report ~ June 30, 2008**

**Lodged with the ASX under ASX Listing Rule 4.3A**

This report is to be read in conjunction with any public announcements made by the company during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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Financial report

## BioDiem Limited

ABN: 20 096 845 993

Reporting period: 12 months ended June 30, 2008

Previous period: 12 months ended June 30, 2007

### Results to be announced to the market

		<b>A\$'000</b>
Revenue from ordinary activities	Down 13.94%	1,119
(Loss)/ from ordinary activities	Up 16.06%	(4,471)
Net (loss) for the year attributable to members	Up 16.06%	(4,471)

### Dividends

It is not proposed to pay a dividend

<b>Other information</b>	<b>June 30, 2008</b>	<b>June 30, 2007</b>
Net tangible assets per ordinary share	<b>7.44 cents</b>	<b>5.12 cents</b>

**This preliminary final report is based on accounts which are in the course of being audited.**

The audit report will be made available when the company lodges its complete Directors' and Financial Report.

**BioDiem Ltd**  
**Income statement**  
**For the year ended 30 June 2008**

	Note	2008 \$	2007 \$
Revenue from licensing activities	6	1,119,407	1,300,678
Licence fees and royalty expenses		(223,881)	(260,136)
<b>Gross profit</b>		895,526	1,040,542
Other income / (grant income repaid)	7	-	(75,923)
Research and development expenses		(3,529,332)	(3,164,900)
Administration expense		(2,091,805)	(1,800,031)
<b>Loss from operating activities</b>		(4,725,611)	(4,000,312)
Financial income	8	333,417	215,049
Financial expenses	8	(78,312)	(66,604)
<b>Net financing income / (expenses)</b>		255,105	148,445
<b>Loss before income tax</b>		(4,470,506)	(3,851,867)
Income tax benefit / (expense)	11(a)	-	-
<b>Net loss attributable to equity holders</b>	18(a)	(4,470,506)	(3,851,867)
<b>Basic earnings per share</b>	23	(6.69) cents	(8.53) cents
<b>Diluted earning per share</b>	23	(6.69) cents	(8.53) cents

The income statement is to be read in conjunction with the notes to the financial statements set out on pages 7 to 32.

**BioDiem Ltd**  
**Statement of changes in equity**  
**For the year ended 30 June 2008**

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

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 7 to 32.

**BioDiem Ltd**  
**Balance sheet**  
**As at 30 June 2008**

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

The balance sheet is to be read in conjunction with the notes to the financial statements set out on pages 7 to 32.

**BioDiem Ltd**  
**Statement of cash flows**  
**For the year ended 30 June 2008**

	Note	2008 \$	2007 \$
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		1,119,407	1,300,678
Cash payments in the course of operations		(5,797,254)	(5,156,047)
Interest received		322,186	215,387
Income tax paid		-	-
<b>Net cash provided by / (used in) operating activities</b>	19(b)	<u>(4,355,661)</u>	<u>(3,639,982)</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		<u>(10,659)</u>	<u>(4,161)</u>
<b>Net cash used in investing activities</b>		<u>(10,659)</u>	<u>(4,161)</u>
<b>Cash flows from financing activities</b>			
Proceeds from shares issued		7,000,000	4,176,947
Transaction costs from issue of shares		-	(437,196)
<b>Net cash provided by financing activities</b>		<u>7,000,000</u>	<u>3,739,751</u>
<b>Net increase / (decrease) in cash and cash equivalents held</b>		2,633,806	95,608
<b>Cash and cash equivalents at beginning of year</b>		<u>2,959,552</u>	<u>2,863,944</u>
<b>Cash and cash equivalents at end of year</b>	12, 19(a)	<u><u>5,593,358</u></u>	<u><u>2,959,552</u></u>

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 7 to 32.

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**1 Reporting entity**

BioDiem Limited (the “Company”) is a company domiciled in Australia. The address of the Company’s registered office is Level 10, 459 Collins Street, Melbourne, Victoria 3000. The annual financial report of the Company is for the financial year ended 30 June 2008. The Company operates in the biopharmaceutical industry developing and commercialising biomedical research.

**2 Basis of preparation**

**(a) Statement of compliance**

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

The financial statements were approved by the Board of Directors on 27 August 2008.

**(b) Basis of measurement**

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

**(c) Going Concern**

Despite the loss of \$4.471 million (2007: \$3.852 million) for the financial year ended 30 June 2008, the Directors have prepared the annual financial report on the going concern basis under which assets are realised and liabilities extinguished in the ordinary course of business. The net assets of the Company are \$5.425 million (2007: \$2.683 million), which includes cash and cash equivalent assets of \$5.593 million (2007: \$2.960 million). Based on management current forecasts, the balance of cash and cash equivalents is sufficient to fund the company ongoing operations for at least 12 months from the date of approval of these financial statements.

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

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

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

- Note 11(c) – utilisation of tax losses
- Note 17(c) – measurement of share-based payments

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**3 Significant accounting policies**

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

**(a) Foreign currency transactions**

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

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

**(b) Financial instruments**

**(i) Non-derivative financial instruments**

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

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

Cash and cash equivalents comprise cash balances and call deposits.

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

*Held-to-maturity investments*

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

**(ii) Issued capital**

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



**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**3 Significant accounting policies (continued)**

**(c) Plant and equipment**

**(i) Recognition and measurement**

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

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

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

**(ii) Depreciation**

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

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

	<b>2008</b>	<b>2007</b>
• Plant and equipment	33%	33%
• Furniture and fittings	20%	20%

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

**(d) Intangible assets**

**(i) Research and development**

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

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

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.

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**3 Significant accounting policies (continued)**

**(d) Intangible assets (continued)**

(ii) Amortisation

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

**(e) Impairment**

(i) Financial assets

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

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

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

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

ii) Non-financial assets

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

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

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

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**3 Significant accounting policies (continued)**

**(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

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

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

(v) Share-based payment transactions

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

(vi) Director share-based compensation

Directors may elect to have directors fees issued in the form of shares.

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

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

**(i) Lease payments**

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

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

**(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.

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**3 Significant accounting policies (continued)**

**(j) Finance income and expenses (continued)**

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

**(k) Income tax**

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to any investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

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

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

**(l) Goods and services tax**

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

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**3 Significant accounting policies (continued)**

**(l) Goods and services tax (continued)**

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

**(n) Segment reporting**

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

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

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

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2008, but have not been applied in preparing this financial report:

- Revised AASB 3 Business Combinations changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Company's 30 June 2010 financial statements. The Company has not yet determined the potential effect of the revised standard on the Company's financial report.
- AASB 8 Operating Segments introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Company's 30 June 2010 financial statements, and is not expected to have an effect on the financial results of the Company as the standard is only concerned with disclosures.

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**3 Significant accounting policies (continued)**

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

- Revised AASB 101 Presentation of Financial Statements introduces as a financial statement (formerly “primary” statement) the “statement of comprehensive income”. The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Company’s 30 June 2010 financial statements. The Company has not yet determined the potential effect of the revised standard on the Company’s disclosures.
- Revised AASB 123 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Company’s 30 June 2010 financial statements, and is not expected to have any effect on the financial report.
- AASB 2008-1 Amendments to Australian Accounting Standard - Share-based Payment: Vesting Conditions and Cancellations changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Company’s 30 June 2010 financial statements. The Company has not yet determined the potential effect of the amending standard on the Company’s financial report.

**4 Determination of fair values**

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

**(i) Trade and other receivables**

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

**(ii) Non-derivative financial liabilities**

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

**(iii) Share-based payment transactions**

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

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**5 Financial risk management**

(i) Overview

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

- credit risk
- liquidity risk
- market risk

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

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

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

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

(ii) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and bank deposits.

Trade and other receivables

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

Investments

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

Guarantees

Company policy is to provide financial guarantees to facilitate rental obligations. Details of outstanding guarantees are provided in note 20(d).



**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**5 Financial risk management (continued)**

(iii) Liquidity risk

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

(iv) Market risk

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

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

(vii) Currency risk

The Company is exposed to currency risk on sales and purchases that are denominated in a currency other than Australian dollar (AUD). The currencies in which these transactions primarily are denominated 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 uses bank bills at a fixed rate with an expiry date not greater than 90 days.

(ix) Capital management

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

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

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

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>6 Revenue</b>		
Licensing fees	<u>1,119,407</u>	<u>1,300,678</u>
<b>7 Other income</b>		
Government grants (repayable)	<u>-</u>	<u>(75,923)</u>

**Government grants**

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

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

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

<b>11 Taxation</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>(a) Income tax benefit / (expense)</b>		
<b>Recognised in the income statement</b>		
<i>Current tax (benefit) / expense</i>		
Current year	(1,381,103)	(1,167,842)
Unrecognised deferred tax assets relating to tax losses	1,381,103	1,167,842
Adjustments for prior years	-	-
	<u>-</u>	<u>-</u>
<i>Deferred tax (benefit) / expense</i>		
Origination and reversal of temporary differences	(39,983)	(34,522)
Change in unrecognised temporary differences	39,983	34,522
	<u>-</u>	<u>-</u>
Total income tax expense in income statement	<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	<u>(4,470,506)</u>	<u>(3,851,867)</u>
Income tax (benefit) / expense calculated at domestic statutory tax rate of 30% (2007: 30%)	(1,341,152)	(1,155,560)
<i>Increase/(decrease) in income tax benefit / (expense) due to:</i>		
Non-deductible expenses	32	22,240
Prior year under / (over) provision	-	-
Change in unrecognised deferred tax assets	<u>1,341,120</u>	<u>1,133,320</u>
Total income tax (benefit) / expense	<u>-</u>	<u>-</u>

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

<b>11 Taxation (continued)</b>	<b>2008</b>	<b>2007</b>
	\$	\$
<b>(c) Unrecognised deferred tax assets</b>		
Deferred tax assets have not been recognised in respect of the following items:		
Deductible temporary differences	39,983	34,522
Tax losses carried forward	5,694,732	4,313,629
	<u>5,734,715</u>	<u>4,348,151</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 Company can utilise the benefits from.

	<b>2008</b>	<b>2007</b>
	\$	\$
<b>12 Cash and cash equivalents</b>		
Cash at bank and on hand	1,131,444	506,872
Short term deposits and bank accepted bills	4,461,914	2,452,680
Cash and cash equivalents in the statement of cash flows	<u>5,593,358</u>	<u>2,959,552</u>
The Company's sensitivity analysis on its financial assets is disclosed at note 20.		
<b>13 Trade and other receivables - current</b>		
Interest receivable	20,270	9,039
Other receivables	-	127
	<u>20,270</u>	<u>9,166</u>
The Company's exposure to credit and currency risks is disclosed at note 20.		
<b>14 Other assets - current</b>		
Prepayments	<u>48,260</u>	<u>14,856</u>
<b>15 Plant and equipment</b>		
At cost	155,423	144,764
Accumulated depreciation and impairment losses	(140,335)	(109,451)
Carrying amount	<u>15,088</u>	<u>13,877</u>

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

<b>15 Plant and equipment (continued)</b>	<b>2008</b>	<b>2007</b>
<b>Cost</b>	<b>\$</b>	<b>\$</b>
Balance at beginning of financial year	144,764	140,603
Acquisitions	10,659	4,161
Balance at end of financial year	<u>155,423</u>	<u>144,764</u>
<b>Accumulated depreciation and impairment losses</b>		
Balance at beginning of financial year	(130,887)	(109,451)
Depreciation charge for the year	(9,448)	(21,436)
Balance at end of financial year	<u>(140,335)</u>	<u>(130,887)</u>
Carrying amount at beginning of financial year	<u>13,877</u>	31,152
Carrying amount at end of financial year	<u>15,088</u>	<u>13,877</u>
 <b>16 Trade and other payables</b>		
<b>Current</b>		
Trade creditors	63,815	82,987
Other creditors and accruals	171,337	189,086
	<u>235,153</u>	<u>272,073</u>
The Company's exposure to currency and liquidity risks is disclosed at note 20.		
 <b>17 Employee benefits</b>		
<b>(a) Current</b>		
Liability for annual leave	<u>7,340</u>	<u>26,417</u>
<b>Non-Current</b>		
Liability for long service leave	<u>9,293</u>	<u>15,910</u>
 <b>(b) Equity settled share based payments</b>		

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.

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**17 Employee Benefits (continued)**

**(b) Equity settled share based payments (continued)**

The Company has two incentive option plans which entitles key management personnel and employees to purchase share in the Company. Within the first plan, the Company has the ability to issue 1,800,000 options. Under the second scheme signed in October 2006, the Company has the ability to issue options up to 5 percent of the issued capital.

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

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

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

On 20 September 2005, a total of 40,000 options were issued under the plan to a director at an exercise price of \$0.70. The options expire 9 September 2009.

On 27 July 2006, a total of 460,000 options were issued under the plan. Key management personnel were issued with 403,485 options. The remaining 56,514 were issued to employees. These options, which were restricted until 28 July 2007, expire on 27 July 2010. Each option has an exercise price of \$0.32.

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

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

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

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

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**17 Employee benefits (continued)**

**(c) Share based payments**

Grant date	Number of Instruments	Vesting Conditions	Contractual life of options
Option grant to key management personnel at 1 March 2005	195,000	One third per annum after the year of issue	4 years
Option grant to key management personnel at 20 September 2005	40,000	One third per annum after the year of issue	4 years
Option grant to key management personnel at 27 July 2006	333,319	One third per annum after the year of issue	4 years
Option grant to key management personnel at 4 July 2007	191,913	One third per annum after the year of issue	5 years
<b>Total share options</b>	760,062		

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

	Weighted average exercise price 2008	Number of options 2008	Weighted average exercise price 2007	Number of options 2007
Outstanding options at 1 July	\$1.21	1,225,293	\$1.21	900,000
Forfeited during the period	\$1.20	(1,013,288)	\$1.19	(106,193)
Exercised during the period	-	-	-	-
Granted during the period	\$0.36	476,057	\$0.32	503,486
Outstanding at 30 June	\$0.42	760,002	\$1.21	1,225,293

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

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

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:

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

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**17 Employee benefits (continued)**

**(c) Share based payments (continued)**

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.

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Share options granted in 2008 - equity settled	14,424	-
Share options granted in 2007 - equity settled	28,876	30,240
Share options granted in 2006 - equity settled	1,200	3,044
Share options granted in 2005 - equity settled	4,200	17,996
Total expense recognised as employee costs	<u>48,700</u>	<u>51,280</u>

The fair value of the options at grant date for the most recently issued share options is determined based on the Black-Scholes option pricing model. The model inputs were the share price of \$0.31 (2007: \$0.28) the exercise price of \$0.36 (2007: \$0.32), expected volatility of 79 per cent (2007: 79 per cent), expected dividends of zero per cent, a term of five years and a risk-free interest rate of 6.50 per cent (2007: 6.50 per cent).

**18 Capital and reserves**

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

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



**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**18 Capital and reserves (continued)**

**(b) Issued capital**

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

**Equity settled share based compensation reserve**

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

**19 Notes to the statement of cash flows**

**(a) Reconciliation of cash**

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

	<b>Note</b>	<b>2008</b>	<b>2007</b>
		<b>\$</b>	<b>\$</b>
Cash and cash equivalents	12	<u>5,593,358</u>	<u>2,959,552</u>

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**19 Notes to the statement of cash flows (continued)**

<b>(b) Reconciliation of profit /(loss) after income tax to net cash provided by /(used in) operating activities</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Profit / (loss) attributable to equity holders	(4,470,506)	(3,851,867)
Adjustments for:		
Depreciation	9,446	21,436
Equity-settled share based payment expenses	212,647	111,280
Operating profit /(loss) before changes in working capital and provision	(4,248,913)	(3,719,151)
(Increase)/decrease in trade and other receivables	(35,334)	212
(Increase)/decrease in prepayments	(33,404)	1,691
Increase/(decrease) in trade and other payables	(19,172)	30,609
Increase/(decrease) in accruals	23,476	58,787
Increase/(decrease) in employee benefit liabilities	(42,814)	(12,130)
Net cash used in operating activities	<u>(4,355,661)</u>	<u>(3,639,982)</u>

**20 Financial instruments**

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

**(a) Liquidity risk**

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

<b>2008</b>	<b>Note</b>	<b>Effective interest rate</b>	<b>Total</b>	<b>6 months or less</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>More than 5 years</b>
<b><i>Financial assets</i></b>								
Cash and cash equivalents	12	6.79%	5,593,358	5,593,358	-	-	-	-
Trade and other receivables	13	-	20,270	20,270	-	-	-	-
			5,613,628	5,613,628	-	-	-	-
<b><i>Financial liabilities</i></b>								
Trade and other payables	16	-	235,153	235,153	-	-	-	-

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**20 Financial instruments (continued)**

**(a) Liquidity risk (continued)**

2007	Note	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
<i>Financial assets</i>								
Cash and cash equivalents	12	6.32%	2,959,522	2,959,522	-	-	-	-
Trade and other receivables	13	-	9,166	9,166	-	-	-	-
			2,968,688	2,968,688	-	-	-	-
<i>Financial liabilities</i>								
Trade and other payables	16	-	272,073	272,073	-	-	-	-

**(b) Foreign currency risk**

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

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

**(c) Credit risk**

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

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

**(d) Guarantees**

The Company has in place term deposits amounting to \$85,000 (2007: \$76,835) in support of its undertakings under a guarantee for \$31,498 (2007: \$15,809) in accordance with its rental lease and \$53,502 (2007: \$61,026) on account of the Company's credit cards.

**(e) Net fair values of financial assets and liabilities**

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

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**21 Operating lease commitments**

Non cancellable future operating lease rentals payable but not provided for in the financial statements as a liability:	<b>2008</b>	<b>2007</b>
	\$	\$
Within one year	110,328	34,500
Later than one year and no later than five years	372,357	-
	<u>482,685</u>	<u>34,500</u>

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

**22 Contingent liabilities**

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

The Company has a licence to commercialise certain technologies from the 000 Klinika Instituta Bioregulyatsii I Gerontologii (“the Clinic”). The Company is obliged to pay the Clinic 20% of all payments received from any Licensee and a percentage of any royalties arising from net sales.

**23 Earnings per share**

<b>Earnings reconciliation</b>	<b>2008</b>	<b>2007</b>
	\$	\$
Basic earnings	<u>(4,570,506)</u>	<u>(3,851,867)</u>
Diluted earnings	<u>(4,570,506)</u>	<u>(3,851,867)</u>

**Weighted average number of shares used as a denominator**

*Number for basic earnings per share*

Ordinary shares	66,840,506	45,128,318
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*Number for diluted earnings per share*

Ordinary shares	66,840,506	45,128,318
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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.

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**24 Related party disclosures for disclosing entities**

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

**Non Executive Directors**

Mr H Morgan (Chairman)  
Mr D Brooks  
Dr L Rudenko  
Mr J Brown  
Mr A O'Brien (until 6 September 2007)  
Dr R Borland (resigned 30 November 2007)

**Executive Directors**

Dr. A O'Brien (since 6 September 2007)  
Mr TG Williams (resigned 6 September 2007)

**Executives**

Mr D Baillieu

Mr Tom 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 key management personnel's compensation was as follows:

	<b>2008</b>	<b>2007</b>
	\$	\$
Short-term employee benefits	1,194,159	1,179,940
Other long term benefits	-	100,000
Post-employment benefits	59,939	47,612
Termination benefits	291,443	-
Equity settled share based compensation	193,538	111,280
Total key management personnel compensation	<u>1,739,079</u>	<u>1,438,832</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 15 to 21.

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.

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**24 Related party disclosures for disclosing entities (continued)**

**Options over equity instruments granted as compensation**

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

Options	Held at 1 July 2007	Granted as compensation	Exercised	Other changes *	Held at 30 June 2008	Vested during the year	Vested and exercisable at 30 June 2008
<i>Directors</i>							
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
	1,119,100	454,864	-	(953,288)	692,676	203,364	367,318
<i>Executives</i>							
Mr D Baillieu	106,193	21,193	-	(60,000)	67,386	15,397	32,064
<i>Options</i>							
Options	Held at 1 July 2006	Granted as compensation	Exercised	Other changes *	Held at 30 June 2007	Vested during the year	Vested and exercisable at 30 June 2007
<i>Directors</i>							
Mr H Morgan	40,000	34,144	-	-	74,144	24,714	24,714
Mr T Williams	200,000	115,000	-	-	315,000	51,666	171,666
Dr R Borland	140,000	34,144	-	-	174,144	24,714	104,714
Mr D Brooks	110,000	34,144	-	-	144,144	21,381	84,715
Dr L Rudenko	140,000	109,524	-	-	249,524	49,841	129,841
Dr. A O' Brien	100,000	34,144	-	-	134,144	44,381	78,381
Dr. J Brown	-	100,000	-	-	100,000	-	-
	730,000	461,100	-	-	1,119,100	216,697	594,031
<i>Executives</i>							
Mr D Baillieu	85,000	21,193	-	-	106,193	15,397	90,396
Dr J Kurek	85,000	21,193	-	(106,193)	-	-	-
	170,000	42,386	-	(106,193)	106,193	15,397	90,396

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

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

**BioDiem Ltd**  
**Notes to the financial statements**  
**For the year ended 30 June 2008**

**24 Related party disclosures for disclosing entities (continued)**

**Movement in shares**

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

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

\* resigned 30 November 2007

\*\* resigned 6 September 2007

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

\* resigned 20 February 2007

**BioDiem Ltd**  
**Notes to the financial statements**  
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**24 Related party disclosures for disclosing entities (continued)**

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

**Other related party transactions with the Company**

Dr Rudenko is Head of the Virology Department in the Institute of Experimental Medicine (“the Institute”). Dr Rudenko received total fees amounting to \$158,000 for research and development services. During the course of the year the Company paid licence fees and royalties amounting to \$223,881 (2007: \$260,136) to the Institute. In addition, research and development costs amounting to \$75,874 (2007: \$59,431) were also paid to the Institute.

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

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

**25 Segment reporting**

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

**26 Subsequent events**

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