

BioDiem Ltd
ABN 20 096 845 993

Financial Report
For the year ended
30 June 2011

BioDiem Ltd

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BioDiem Ltd
Directors' report

The Directors present their report together with the financial report of BioDiem Ltd ("the Company") for the financial year ended 30 June 2011 and the auditor's report thereon.

1. Directors

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

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

BioDiem Ltd
Directors' report

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

2. Company Secretary

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

3. Officers who were previously partners of the audit firm

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

BioDiem Ltd
Directors' report

4. Directors' meetings

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

Directors' Meetings	Board Meetings		Audit Committee		Remuneration & Nomination Committee	
	Held *	Attended	Held	Attended	Held	Attended
Mr H Morgan	8	8	2	2	1	1
Mr D Brooks	8	7	2	2	1	1
Ms J Phillips	8	8				
Dr L Rudenko	8	8			1	1
Dr A Li	8	8	2	2		

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

5. Corporate governance statement

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

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

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

Only one director is independent because other directors are either associated with substantial shareholders or have ownership interest or are involved with related party transactions. The Board believes that it is impractical at this stage to comply with these recommendations.
- The Company does not currently comply with Corporate Governance Principle 4.2: the Chairman of the Audit Committee should also not be the Chairman of the Board.

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

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

BioDiem Ltd
Directors' report

5. Corporate governance statement (continued)

5.1 Board of Directors

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

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

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

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

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

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

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

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

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

BioDiem Ltd
Directors' report

5. Corporate governance statement (continued)

5.1 Board of Directors (continued)

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

5.2 Director education

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

5.3 Independent advice

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

5.4 Remuneration & Nomination Committee

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

The members of the Committee during the year were:

Mr H Morgan - Non-executive Chairman

Mr D Brooks - Non-executive

Dr L Rudenko - Non-executive

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

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

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

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

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Directors' report

5. Corporate governance statement (continued)

5.5 Remuneration Report

The remuneration report is set out on pages 14 to 20 and forms part of the Directors' report for the financial year ended 30 June 2011.

5.6 Audit Committee

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

The members of the Audit Committee during the year were:

Mr H Morgan	Non-executive Chairman
Mr D Brooks	Non-executive
Dr A Li	Non-executive (appointed to the Committee on July 28, 2010)

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

The Chief Executive Officer and the Chief Financial Officer declared in writing to the Board that the financial records of the Company for the financial year have been properly maintained, the Company's financial reports for the year ended June 30, 2011 comply with accounting standards and present a true and fair view of the Company's financial position and operational results.

The external auditor met the Audit Committee twice during the financial year without management being present.

The responsibilities of the Audit Committee include:

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

The Audit Committee will meet with the external auditors during the year to:

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

BioDiem Ltd
Directors' report

5. Corporate governance statement (continued)

5.7 Risk management

5.7.1 Oversight of the risk management system

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

5.7.2 Risk profile

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

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

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

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

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

5.7.3 Financial Reporting

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

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

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Directors' report

5. Corporate governance statement (continued)

5.7.4 Key business risks

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

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

5.8 Ethical Standards

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

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

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

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

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

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

BioDiem Ltd
Directors' report

5. Corporate governance statement (continued)

5.9 Communication with shareholders

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

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

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

6. Principal activities of the Company

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

7. Review of operations

The Statement of Comprehensive Income shows a loss after tax for the year of \$2.619m compared to a loss after tax of \$3.392m in 2010. The Company received its first royalties from the Serum Institute of India. Interest income was \$0.080m compared to \$0.042m during the corresponding period in 2010. Research activity costs were \$1.252m compared to \$1.850m in 2010. Administration expenses were \$1.638m as compared to \$1.560m in the previous year.

The Company started the financial year with cash reserves of \$4.188m. During the year it raised an additional \$1m after the shortfall following the non-renounceable rights issue in 2010. Cash outlays were \$2.868m compared to \$3.317m in the prior year for research and administration. Cash inflows were \$255k from royalties (2010: nil). Cash reserves at the end of the financial year totalled \$2.580m. The Company holds its cash reserves mainly in Australian term deposits. In addition the Company holds funds in a USA dollar account. This helps to provide a natural hedge against future overseas research expenditures. The Company has not entered into any forward contracts.

8. Significant changes in the state of affairs

There were no significant changes in the state of affairs of the entity that occurred during the financial year under review, except that the Company issued 5,555,555 ordinary shares and 2,777,778 options as a result of placement of part of the shortfall from the non-renounceable rights issue which closed on 15 June 2010 raising \$3.51m.

9. Review of Research

The focus of the company during the year was to continue development of its assets towards outlicensing and to complete the LAIV transition discussions with Merck, Inc.

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Directors' report

9. Review of Research (continued)

LAIV Influenza Vaccine

Seasonal Influenza

BioDiem's LAIV technology was licensed to Nobilon International in 2004. Following Merck's merger with Schering-Plough (Nobilon's parent company) in 2009, the closure of the Boxmeer plant, where the majority of the work on the LAIV project was undertaken, was announced in October 2010.

Prior to the Boxmeer closure Nobilon completed a Phase II clinical trial for seasonal influenza in Europe and we anticipate that the results will be published in due course.

On 1 August 2011 BioDiem announced the transition of the LAIV program from Nobilon with the return of rights. At the same time, BioDiem announced the entry into a direct licence agreement with Serum Institute of India for sales of intranasal influenza vaccine (egg-based production method) in India, Argentina, Peru, South Africa, Mexico, Bangladesh, Bhutan, Nepal, Pakistan and Sri Lanka. Also BioDiem announced the entry into a direct licence agreement with the WHO for egg-based production of LAIV for use in public markets of developing countries.

Pandemic Influenza

In July 2010, the Serum Institute of India launched Nasovac, an intranasal influenza vaccine based on BioDiem's LAIV technology. This was the first market release of BioDiem's LAIV technology brought about through the licence to the World Health Organization (WHO) allowing the use of the LAIV in the public sector of developing countries. BioDiem has received US\$0.25 million in royalties from sales of the pandemic H1N1 swine flu vaccine product Nasovac into the private market in India.

The Government Pharmaceutical Organization in Thailand achieved registration approval for the pandemic H1N1 vaccine in July 2011 and use in Thailand is expected to commence in the next influenza season.

BioDiem's partner, the Institute for Experimental Medicine (IEM), Russia, has continued preparing and supplying LAIV reassortant viruses for the WHO during the year. Under the IEM's agreement with PATH, nonclinical studies of the pandemic H5N1 (avian) influenza strain have been completed and the vaccine candidate is scheduled to enter clinical trials during 2012.

Nonclinical data on a cell-based manufactured H5N1 (avian) vaccine arising from the Cooperative Research and Development Agreement (CRADA) between BioDiem, Nobilon and the US Center for Disease Control and Prevention (CDC) was presented at an international conference in October 2010 and has been accepted for publication in a prestigious international journal.

LAIV Vector

Following completion of the preparatory work for this program the company is ready to embark on the laboratory phase. Access to GMP virus materials (LAIV) will enhance the value of the vector project to us. The critical step will be confirming the feasibility of using the LAIV as a vector in an artificial model. Following this successful demonstration, specific cancer and infectious diseases will be targeted in animal models, i.e. nasopharyngeal carcinoma and respiratory syncytial virus, respectively.

BDM-E

In September 2010 the United States Food and Drug Administration (FDA) granted Orphan Drug designation to BDM-E for the treatment of Retinitis Pigmentosa. Retinitis Pigmentosa is a serious eye disease which causes progressive degeneration of the retina, which can lead to blindness.

Additional nonclinical studies investigating the mechanism of action of BDM-E in disease models have been completed and a review of the data is being undertaken to prepare new intellectual property protection. Subject to the results of the data review an outlicensing package will be finalised and data published.

BioDiem Ltd
Directors' report

9. Review of Research (continued)

BDM-I

In accordance with the development program designed to create an outlicensing package for BDM-I a number of new nonclinical studies have been completed. The BDM-I substance has been manufactured to GLP standards to undertake this early testing. Preparatory physicochemical studies have provided formulations that can be used for both microbiological and also *in vivo* assessment in disease models. The pharmacokinetic studies to date have improved and better characterised the profile of BDM-I.

BioDiem has entered relationships with both the National Institute of Allergy and Infectious Diseases (NIAID), an institute of the National Institutes of Health (NIH) and the United States Army Medical Research Institute of Infectious Diseases (USAMRIID). The NIAID and USAMRIID are undertaking preclinical studies to screen for BDM-I's activity *in vitro* against a range of disease causing agents including *Mycobacterium tuberculosis* (Tuberculosis), *Candida albicans* (Thrush), *Pseudomonas aeruginosa*, *Aspergillus fumigatus*, *Bacillus anthracis* (Anthrax), *Yersinia pestis* (Plague), *Staphylococcus epidermis*, *Streptococcus pyogenes*, *Clostridium difficile* and antibiotic resistant strains of *Acinetobacter baumannii*, *Klebsiella pneumonia*, *Enterococcus faecalis* and *Staphylococcus aureus*. Where appropriate the screens may also be undertaken in animal models.

In addition the Company has commenced work with Professor Don McManus of the Queensland Institute of Medical Research (QIMR) to investigate BDM-I in a proof of concept model against schistosomiasis, also known as Bilharzia.

10. Events subsequent to balance date

On 1 August 2011 BioDiem announced the transition of the LAIV program from Nobilon with the return of rights. At the same time, BioDiem announced the entry into a direct licence agreement with Serum Institute of India for sales of intranasal influenza vaccine (egg-based production method) in India, Argentina, Peru, South Africa, Mexico, Bangladesh, Bhutan, Nepal, Pakistan and Sri Lanka. Also BioDiem announced the entry into a direct licence agreement with the WHO for egg-based production of LAIV for use in public markets of developing countries.

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.

11. Dividends

The Company has not paid or declared any dividends during the financial year ended 30 June 2011.

12. Likely developments

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

13. Environmental regulation

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

BioDiem Ltd
Directors' report

14. Non- Audit Services

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

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

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

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

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

	2011	2010
	\$	\$
<i>Statutory audit</i>		
Auditors of the Company		
- Audit and interim review	55,000	50,000
<i>Services other than statutory audit</i>		
Other services	-	-
	<u>55,000</u>	<u>50,000</u>

15. Indemnification of officers

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

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

BioDiem Ltd
Directors' report

16. Directors' Interest

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

Directors	Ordinary Shares	Options over ordinary shares
Mr H Morgan	9,459,728	34,144
Mr D Brooks	29,410	34,144
Dr L Rudenko	-	34,144
Ms J Phillips	2,627	463
Dr A Li	-	-

17. Share Options

No options were issued under the Executive Share Option Plan (ESOP) during the financial year.

Unissued shares under option at year end:

Grant Dates	Expiry date	Exercise Price	Number of shares under option
4 July 2007	4 July 2012	\$0.36	158,946
1 July 2008	30 June 2013	\$0.14	80,000
23 July 2009	23 July 2014	\$0.136	160,000

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

18. Remuneration Report

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

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

The role of key management personnel is to identify new research and development opportunities, manage the development of current projects in order to optimise and protect the value of the Company's intellectual property and ultimately to commercialise that intellectual property. The performance of the key personnel is assessed on the success of that process. In the short run, the financial results are not a meaningful indicator of the performance of the Company. Shareholder wealth will ultimately be created by the development of a sustainable revenue stream arising from the Company's intellectual property base, or by sale of the Company's assets. By nature, the outcomes from Research and Development are uncertain, however over the last four years the Company has progressed towards its stated objectives.

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

BioDiem Ltd
Directors' report

18. Remuneration Report (continued)

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

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

Eligible persons may receive options based on their contribution to the Company and through their achievement of a blend of Company and personal objectives appropriate for the roles and responsibilities of each individual. Performance factors that relate to the options are represented by service conditions.

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

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

18.1 Service Agreements

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

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

- a consultancy agreement with Prof. Rudenko. It is terminable by either party upon breach of the agreement immediately, if the party in breach fails to remedy it within 14 days of receipt of a related notice; otherwise it is terminable by one month's notice by either party. Termination shall not relieve a party from any liability to the other in respect of obligations or rights and remedies of the other party which have accrued prior to termination.
- a new consultancy agreement with Subtech International Pty Ltd., was signed during the year. Subtech agrees to provide the services of Julie Phillips to BioDiem. BioDiem will pay \$305,000 per annum in 12 equal monthly instalments. The agreement is for a period of one year. The agreement may be terminated without cause by BioDiem giving three months written notice, and BioDiem may provide payment in lieu. BioDiem can terminate the agreement immediately at any time for specified reasons.

18.2 Non-executive directors

Total remuneration for all non-executive directors in respect of their duties as directors, was last voted upon by shareholders at the 2005 AGM is not to exceed \$400,000 per annum. Formerly Directors' base fees were up to \$50,000 per annum with \$10,000 per annum for services on the Audit Committee and \$5,000 each for services on the Nomination and Remuneration Committees. The Company has ceased paying Committee fees for new Directors. The Chairman's base fee is set at \$70,000.

These fees are set on advice from external advisors with reference to other non-executive directors of comparable companies.

18. Remuneration Report (continued)

18.3 Directors' and executive officers' remuneration

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

In AUD	Year	Short-term			Post-employment	Other Long-term	Termination benefits \$	Share-based payments			Grand Total \$	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
		Salary & fees \$(B)	STI cash bonus \$	Non-monetary benefits \$	Total \$	Superannuation benefits \$		Options \$(A)	Shares \$(B)	Total \$			
Directors													
Non-Executive Directors													
Mr H Morgan	2011	70,000	-	-	70,000	6,300	-	-	-	-	76,300	0.0%	0.0%
	2010	70,000	-	-	70,000	6,300	-	683	-	683	76,983	0.8%	0.8%
Mr D Brooks	2011	66,771	-	-	66,771	-	-	-	-	-	66,771	0.0%	0.0%
	2010	71,208	-	-	71,208	-	-	683	-	683	71,891	0.9%	0.9%
Dr L Rudenko	2011	155,000	-	-	155,000	-	-	-	-	-	155,000	0.0%	0.0%
	2010	155,000	-	-	155,000	-	-	683	-	683	155,683	0.4%	0.4%
Dr. A Li	2011	50,000	-	-	50,000	-	-	-	-	-	50,000	nil	n/a
	2010	7,291	-	-	7,291	-	-	-	-	-	7,291	nil	n/a
Dr. J Brown*	2011	-	-	-	-	-	-	-	-	-	-	nil	n/a
	2010	226,830	-	-	226,830	-	-	-	46,850	46,850	273,680	nil	n/a

* Dr J Brown resigned 7 May 2010

18. Remuneration Report (continued)

18.3 Directors' and executive officers' remuneration (continued)

In AUD	Year	Short-term			Post-employment	Other Long-term	Termination benefits \$	Share-based payments			Grand Total \$	Proportion of remuneration performance related %	Value of options as proportion of remuneration %	
		Salary & fees \$(B)	STI cash bonus \$	Non-monetary benefits \$				Total \$	Options \$(A)	Shares \$(B)				Total \$
Executive Directors														
Ms J Phillips	2011	305,000	25,000	-	-	-	-	-	-	-	-	330,000	7.6%	n/a
	2010	275,000	25,000(c)	-	-	-	-	-	-	-	-	300,000	8.3%	n/a
Total Directors	2011	646,771	25,000	-	6,300	-	-	-	-	-	-	678,071		
	2010	805,329	25,000	-	6,300	-	-	2,049	46,850	48,899	885,528			

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

(B) In 2011, no Directors elected to take shares in lieu of cash remuneration. In 2010, one Director elected to take shares in lieu of cash remuneration. As a consequence 331,938 shares were issued to Dr Brown on the basis of \$0.12 per share.

(C) Represents 100% of Ms Phillips eligible cash bonus entitlement.

18. Remuneration Report (continued)

18.3 Directors' and executive officers' remuneration (continued)

In AUD	Year	Short-term			Post-employment	Other Long-term	Termination benefits \$	Share-based payments			Grand Total \$	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
		Salary & fees \$(B)	STI cash bonus \$	Non-monetary benefits \$				Options \$(A)	Shares \$(B)	Total \$			
Executives													
Mr D Baillieu, Manager – Legal and Administration	2011	150,000	-	-	13,500	-	-	1,600	-	1,600	165,100	1.0%	1.0%
	2010	150,000	-	-	13,500	-	-	2,438	-	2,438	165,938	1.5%	1.5%
Total compensation: Key Management Personnel													
	2011	796,771	25,000	-	19,800	-	-	1,600	-	1,600	843,171	-	-
	2010	955,329	25,000	-	19,800	-	-	4,487	46,850	51,337	1,051,466	-	-
Highest Paid Individuals													
Mr R Wadley, CFO and Company Secretary	2011	119,660	5,000	-	-	-	-	1,600	-	1,600	126,260	5.2%	1.3%
	2010	119,660	-	-	-	-	-	2,438	-	2,438	122,098	2.0%	2.0%

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

(B) All options have service conditions attached.

BioDiem Ltd
Directors' report

18. Remuneration Report (continued)

18.3 Directors' and executive officers' remuneration (continued)

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

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

No options were issued in the financial year ended 30 June 2011.

Grant date	Expiry date	Fair value per option	Exercise price	Share price on grant date	Estimated volatility	Risk free rate %
23 July 2009	23 July 2014	\$0.08	\$0.136	\$0.12	82.95%	5.13
1 July 2008	30 June 2013	\$0.08	\$0.140	\$0.10	107.00%	7.60

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

A total of 204,195 options were forfeited/lapsed in the current year (2010: 134,144).

A total of 30,000 (2010: 69,653) options vested during the financial period.

18.4 Options over equity instruments granted as compensation

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

	Number of options granted during 2011	Grant date	Fair value per option at grant date (\$)	Exercise price per option	Expiry date	Number of options vested during 2011
Directors						
Mr H Morgan	-	-	-	-	-	-
Mr D Brooks	-	-	-	-	-	-
Dr L Rudenko	-	-	-	-	-	-
Dr A Li						
Executives						
Mr D Baillieu	-	-	-	-	-	30,000

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

18.5 Exercise of options granted as compensation

During the reporting period, no options were exercised.

BioDiem Ltd
Directors' report

18. Remuneration Report (continued)

18.6 Analysis of options over equity instruments granted as compensation

No options were granted during the year (2010: 60,000).

18.7 Analysis of movement in options

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

	Granted during 2011 \$ (A)	Value of Options Exercised in year \$ (B)	Lapsed in year \$ (C)
Directors			
Mr H Morgan	-	-	5,121
Mr D Brooks	-	-	5,900
Dr L Rudenko	-	-	16,428
Executives			
Mr D Baillieu	-	-	3,179

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

- (A) The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years 2010, 2011 and 2012).
- (B) No options were exercised during the financial year ended 30 June 2011 (2010: nil).
- (C) The value of the options that lapsed during the year represents the benefit forgone and is calculated at the date the option lapsed using a Black-Scholes option-pricing model assuming criteria had been achieved.

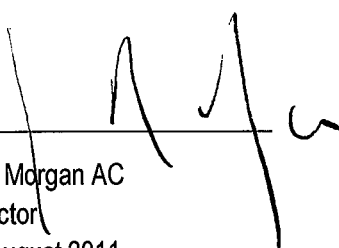
18.8 Audit of the Remuneration Report

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

19. Lead Auditors' Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 21 and forms part of the Directors' report for the year ended 30 June 2011.

This report is made with a resolution of the directors:


H M Morgan AC
Director
25 August 2011



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

To: the directors of BioDiem Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

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

KPMG

Tony Romeo
Partner

Melbourne

25 August 2011

BioDiem Ltd
Statement of comprehensive income
For the year ended 30 June 2011

	Note	2011 \$	2010 \$
Revenue from licensing activities	6	255,213	-
Licence fees and royalty expenses		(50,463)	-
Gross profit		<u>204,750</u>	<u>-</u>
Other Income		-	11,213
Research and development expenses		(1,251,770)	(1,850,161)
Administration expenses		(1,638,137)	(1,559,507)
Loss from operating activities		<u>(2,685,157)</u>	<u>(3,398,455)</u>
Finance income	7	79,945	41,773
Finance expenses	7	(13,721)	(34,948)
Net finance income	7	<u>66,224</u>	<u>6,825</u>
Loss before income tax		(2,618,933)	(3,391,630)
Income tax benefit / (expense)	10(a)	-	-
Net loss attributable to equity holders	17(a)	(2,618,933)	(3,391,630)
Other comprehensive income		-	-
Total comprehensive income attributable to equity holders		<u>(2,618,933)</u>	<u>(3,391,630)</u>
Basic loss per share	22	(2.57) cents	(4.40) cents
Diluted loss per share	22	<u>(2.57) cents</u>	<u>(4.40) cents</u>

The Statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 26 to 50.

BioDiem Ltd
Statement of changes in equity
For the year ended 30 June 2011

	Note	Issued capital	Share based compensation reserve	Accumulated losses	Total equity
		\$	\$	\$	\$
Balance at 1 July 2010	17(a)	25,962,532	257,910	(22,064,024)	4,156,418
Loss attributable to equity holders		-	-	(2,618,933)	(2,618,933)
Equity settled share based compensation (net of tax)		-	4,266	-	4,266
Proceeds from the issue of shares net of costs		956,979	-	-	956,979
Balance at 30 June 2011	17(a)	26,919,511	262,176	(24,682,957)	2,498,730
Balance at 1 July 2009	17(a)	22,408,841	250,947	(18,672,394)	3,987,394
Loss attributable to equity holders		-	-	(3,391,630)	(3,391,630)
Equity settled share based compensation (net of tax)		46,849	6,963	-	53,812
Proceeds from issue of shares		3,506,842	-	-	3,506,842
Balance at 30 June 2010	17(a)	25,962,532	257,910	(22,064,024)	4,156,418

The statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 26 to 50.

BioDiem Ltd
Statement of financial position
As at 30 June 2011

	Note	2011 \$	2010 \$
Current assets			
Cash and cash equivalents	11	2,580,399	4,188,039
Trade and other receivables	12	55,787	102,827
Other assets	13	29,397	18,449
Total current assets		<u>2,665,583</u>	<u>4,309,315</u>
Non-current assets			
Plant and equipment	14	17,628	11,206
Total non-current assets		<u>17,628</u>	<u>11,206</u>
Total assets		<u>2,683,211</u>	<u>4,320,521</u>
Current liabilities			
Trade and other payables	15	102,249	102,335
Employee benefits	16(a)	76,851	59,396
Total current liabilities		<u>179,100</u>	<u>161,731</u>
Non-current liabilities			
Employee benefits	16(a)	5,381	2,372
Total non-current liabilities		<u>5,381</u>	<u>2,372</u>
Total liabilities		<u>184,481</u>	<u>164,103</u>
Net assets		<u>2,498,730</u>	<u>4,156,418</u>
Equity			
Issued capital	17(a)	26,919,511	25,962,532
Share based compensation reserve	17(a)	262,176	257,910
Accumulated losses	17(a)	(24,682,957)	(22,064,024)
Total equity	17(a)	<u>2,498,730</u>	<u>4,156,418</u>

The Statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 26 to 50.

BioDiem Ltd
Statement of cash flows
For the year ended 30 June 2011

	Note	2011 \$	2010 \$
Cash flows from operating activities			
Cash receipts in the course of operations		255,213	2,500
Cash payments in the course of operations		(2,868,264)	(3,316,770)
Interest received		79,945	42,975
Net cash used in operating activities	18(b)	<u>(2,533,106)</u>	<u>(3,271,295)</u>
Cash flows from investing activities			
Payments for plant and equipment		(17,791)	(16,884)
Proceeds from the disposal of plant and equipment		-	12,425
Net cash used in investing activities		<u>(17,791)</u>	<u>(4,459)</u>
Cash flows from financing activities			
Proceeds from shares issued		1,000,000	3,506,842
Net cost of issue		(43,021)	-
Net cash provided by financing activities		<u>956,979</u>	<u>3,506,842</u>
Net increase / (decrease) in cash and cash equivalents held		<u>(1,593,918)</u>	<u>231,088</u>
Cash and cash equivalents at beginning of year		<u>4,188,039</u>	<u>3,991,899</u>
Effect of exchange rate fluctuation on cash held		<u>(13,722)</u>	<u>(34,948)</u>
Cash and cash equivalents at end of year	11, 18(a)	<u><u>2,580,399</u></u>	<u><u>4,188,039</u></u>

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 26 to 50.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

1 Reporting entity

BioDiem Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is Level 10, 459 Collins Street, Melbourne, Victoria 3000. This annual financial report of the Company is for the financial year ended 30 June 2011. 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 25 August 2011.

(b) Basis of measurement

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

(c) Going Concern

During the financial year ended 30 June 2011, the Company raised \$1.0 million through the placement of the shortfall from the non-renounceable rights issue which closed on June 25, 2010. Despite the loss of \$2.619 million (2010: \$3.392 million) for the financial year ended 30 June 2011, the Directors have prepared the annual financial report on the going concern basis under which assets are assumed to be realised and liabilities extinguished in the ordinary course of business. The going concern basis is considered appropriate since the net assets of the Company are \$2.499 million (2010: \$4.156 million), which includes cash and cash equivalent assets of \$2.580 million (2010: \$4.188 million). Based on management's current forecasts, the balance of cash and cash equivalents is sufficient to fund the company's ongoing operations for at least the 12 months from the date of approval of these financial statements. The Company has a marketing agreement with the Serum Institute of India and expects that this will start to generate further royalties during the year. In addition to this, the Company is involved in exploratory discussions concerning a licensing agreement with a Chinese vaccine company. Directors always have the ability to curtail discretionary expenditures, which form a significant part of the Company's total expenditure. For these reasons, the directors believe the Company 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 Company 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.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

2 Basis of preparation (continued)

(d) Use of Judgments and estimates (continued)

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 Company in this financial report are the same as those applied by the Company in its financial report as at and for the year ended 30 June 2010, unless stated otherwise.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to Australian dollars (the Company's functional currency), at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the foreign exchange rate at that date. Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the 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 Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits.

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

(ii) Issued capital

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

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

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. 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:

	2011	2010
Plant and equipment	33%	33%
Furniture and fittings	20%	20%

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

(d) Research and development

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in 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 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 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 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.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

3 Significant accounting policies (continued)

(e) Impairment (continued)

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.

(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, and the fair value of any related assets deducted.

(iii) Termination benefits

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date.

Termination benefits for voluntary redundancies are recognised if the Company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iv) Short-term benefits

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

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

(v) Share-based payment transactions

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

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

3 Significant accounting policies (continued)

(f) Employee benefits (continued)

(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 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) 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.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

3 Significant accounting policies (continued)

(j) Finance income and expenses

Finance income comprises interest income on funds invested and foreign currency gains derived through foreign currency denominated transactions that are recognised in 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.

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 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 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.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

3 Significant accounting policies (continued)

(m) Earnings per share

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

(n) Segment reporting

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

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

(o) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2011, but have not been applied in preparing this financial report.

- AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for Company's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Company's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Company has not yet determined the potential effect of the standard.

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.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

4 Determination of fair values (continued)

(ii) Non-derivative financial liabilities

Fair value 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).

5 Financial risk management

(i) Overview

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

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

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

The Board of directors 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 Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

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

(ii) Credit risk

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

Trade licensees and other receivables

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

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

5 Financial risk management (continued)

Investments

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

Guarantees

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

(iii) Liquidity risk

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

(iv) Market risk

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

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

(v) Currency risk

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

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

(vi) Interest rate risk

The Company does not currently have any interest bearing borrowings. The Company 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 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 2011

6 Revenue	2011	2010
	\$	\$
Royalty revenue	255,213	-
	<hr/>	<hr/>
7 Net finance income		
Interest income	79,945	41,773
	<hr/>	<hr/>
Total Finance income	79,945	41,773
	<hr/>	<hr/>
Foreign exchange loss	(13,721)	(34,948)
	<hr/>	<hr/>
Total Finance expenses	(13,721)	(34,948)
	<hr/>	<hr/>
Net finance (loss) / income	66,224	6,825
	<hr/>	<hr/>
8 Personnel expenses		
Wages and salaries	871,780	609,660
Other associated personnel expenses	52,086	19,350
Increase in liability for annual leave	11,903	21,872
Increase in liability for long service leave	8,561	10,700
Equity-settled share based transactions	4,266	6,963
	<hr/>	<hr/>
	948,596	668,545
	<hr/>	<hr/>
9 Auditors' remuneration		
Audit Services: Audit and review of financial reports - KPMG Australia	55,000	50,000
	<hr/>	<hr/>
	55,000	50,000
	<hr/>	<hr/>

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

10 Taxation	2011 \$	2010 \$
(a) Income tax benefit / (expense)		
Recognised in the statement of comprehensive income		
<i>Current tax (benefit) / expense</i>		
Current year	(772,665)	(1,039,771)
Unrecognised deferred tax assets relating to tax losses	772,665	1,039,771
	<u>-</u>	<u>-</u>
<i>Deferred tax (benefit) / expense</i>		
Origination and reversal of temporary differences	(13,015)	(19,668)
Change in unrecognised temporary differences	13,015	19,668
	<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) Reconciliation between income tax benefit / (expense) and before income tax net loss		
Loss before income tax	(2,618,933)	(3,391,630)
Income tax (benefit) / expense calculated at domestic statutory tax rate of 30% (2010: 30%)	(785,680)	(1,017,489)
<i>Increase/(decrease) in income tax benefit / (expense) due to:</i>		
Movement in temporary differences	13,015	(22,282)
Current year losses for which a deferred tax asset was not recognised	772,665	1,039,771
Total income tax (benefit) / expense	<u>-</u>	<u>-</u>

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

10 Taxation (continued)	2011	2010
	\$	\$

(c) Unrecognised deferred tax assets

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

Deductible temporary differences	13,015	19,668
Tax losses carried forward	7,979,739	7,207,074
	<u>7,992,754</u>	<u>7,226,742</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.

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

11 Cash and cash equivalents	2011	2010
	\$	\$
Cash at bank and on hand	2,485,157	4,094,787
Short term deposits	95,242	93,252
Cash and cash equivalents in the statement of cash flows	<u>2,580,399</u>	<u>4,188,039</u>

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

12 Trade and other receivables - current

Other receivables	55,786	102,827
	<u>55,786</u>	<u>102,827</u>

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

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

13 Other assets - current	2011	2010
	\$	\$
Prepayments	29,397	18,449
	<hr/>	<hr/>
14 Plant and equipment		
At cost	180,346	162,555
Accumulated depreciation and impairment losses	(162,718)	(151,349)
Carrying amount	17,628	11,206
	<hr/>	<hr/>
Cost		
Balance at beginning of financial year	162,555	155,423
Additions	17,791	16,884
Disposals	-	(9,752)
Balance at end of financial year	180,346	162,555
	<hr/>	<hr/>
Accumulated depreciation and impairment losses		
Balance at beginning of financial year	(151,349)	(147,214)
Depreciation charge for the year	(11,369)	(4,135)
Balance at end of financial year	(162,718)	(151,349)
	<hr/>	<hr/>
Carrying amount at beginning of financial year	11,206	8,209
	<hr/>	<hr/>
Carrying amount at end of financial year	17,628	11,206
	<hr/>	<hr/>
15 Trade and other payables		
Current		
Trade creditors	47,401	41,426
Other creditors and accruals	54,848	60,909
	102,249	102,335
	<hr/>	<hr/>

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

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

16 Employee benefits	2011 \$	2010 \$
(a) Current		
Liability for annual leave	35,171	23,268
Liability for long service leave	41,680	36,128
	<u>76,851</u>	<u>59,396</u>
Non-Current		
Liability for long service leave	<u>5,381</u>	<u>2,372</u>

(b) Equity settled share based payments

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

Under the scheme signed in October 2006, the Company has the ability to issue options up to 5 percent of the issued capital. As at 30 June 2011 there were 101,984,443 shares on hand.

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

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

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

On 27 July 2009 the company 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.

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 2011

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	158,946	One third per annum after the year of issue	5 years
Option grant to key management personnel and other staff at 1 July 2008	80,000	One third per annum after the year of issue	5 years
Option grant to key management personnel and other staff at 27 July 2009	160,000	One third per annum after the year of issue	5 years
Total share options	398,946		

The summary of options outstanding at June 30, 2011 excludes options that have been forfeited.

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

	Weighted average exercise price 2011	Number of options 2011	Weighted average exercise price 2010	Number of options 2010
Outstanding options at 1 July	\$0.355	633,272	\$0.34	576,774
Forfeited during the period	\$0.32	(234,326)	\$0.33	(103,502)
Exercised during the period	-	-	-	-
Granted during the period	-	-	\$0.136	160,000
Outstanding at 30 June	\$0.226	398,946	\$0.355	633,272

The options outstanding at 30 June 2011 have an exercise price in the range of \$0.136 to \$0.36 and a weighted average remaining contractual life of 2.00 years.

During the financial year, no options were exercised (2010: nil).

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

16 Employee benefits (continued)

(c) Share based payments (continued)

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

	2011	2010
Share price	-	\$0.12
Exercise price	-	\$0.136
Expected volatility	-	82.95%
Option life	-	5 years
Expected dividends	-	-
Risk-free interest rate (based on national government bonds)	-	5.13%
Fair value at grant date	-	\$0.08

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

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

	2011 \$	2010 \$
Share options granted in 2011 - equity settled	-	-
Share options granted in 2010 - equity settled	-	6,963
Total expense recognised as employee costs	-	<u>6,963</u>

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

17 Capital and reserves

(a) Reconciliation of movement in capital and reserves

	Issued capital \$	Share based compensation reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 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
Balance at 1 July 2009	22,408,841	250,947	(18,672,394)	3,987,394
Net loss attributable to equity holders	-	-	(3,391,630)	(3,391,630)
Equity settled share based compensation	46,849	6,963	-	53,812
Rights issue	3,506,842	-	-	3,506,842
Balance at 30 June 2010	25,962,532	257,910	(22,064,024)	4,156,418

(b) Issued capital

	2011 No.	2010 No.	2011 \$	2010 \$
On issue at 1 July – fully paid	96,428,888	76,614,491	25,962,532	22,408,841
Share issue (proceeds net of share issuance costs)	5,555,555	19,482,459	956,979	3,506,842
Equity settled share based compensation	-	331,938	-	46,849
On issue on 30 June – fully paid	101,984,443	96,428,888	26,919,511	25,962,532

All shares issued are fully paid up.

Ordinary shares rank equally and in the event participate in the winding up of the Company 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 Company does not have authorised capital or par value in respect of its issued shares. The Company has 101,984,443 (2010: 96,428,888) Ordinary shares on issue.

Rights issue

On March 26, 2010 the company announced a Non-Renounceable Pro-Rata Rights issue to offer shareholders six shares for every eleven shares held on April 7, 2010, and one free option attaching to every two new shares issued. The Rights issue closed on June 25, 2010. As a result the company issued 19,482,459 ordinary shares and 9,741,230 options. During the shortfall period which expired on September 21, 2010 a shareholder applied for 5,555,555 ordinary shares and 2,777,778 options.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

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:

	Note	2011 \$	2010 \$
Cash and cash equivalents	11	2,580,399	4,188,039

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

Loss attributable to equity holders	(2,618,933)	(3,391,630)
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Adjustments for:

Depreciation	11,369	4,135
Net finance expenses	13,721	34,948
Equity-settled share based payment expenses	4,266	51,139
Operating loss before changes in working capital and provision	(2,589,577)	(3,301,408)
Increase in trade and other receivables	47,041	(56,567)
Increase in prepayments	(10,948)	(2,988)
Increase in trade and other payables	5,975	15,781
Increase/(decrease) in accruals	(6,061)	41,315
Increase in employee benefit liabilities	20,464	32,572
Net cash used in operating activities	(2,533,106)	(3,271,295)

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

19 Financial instruments

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

(a) Liquidity risk

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

2011	Note	Effective interest rate	Total	6 months or less	6–12 months	1–2 years	2–5 years	More than 5 years
Financial assets								
Cash and cash equivalents	11	2.65%	2,580,399	2,580,399	-	-	-	-
Trade and other receivables	12	-	55,786	55,786	-	-	-	-
			2,636,185	2,636,185	-	-	-	-
Financial liabilities								
Trade and other payables	15	-	102,249	102,249	-	-	-	-

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

(b) Foreign currency risk

Foreign currency transactions are translated to Australian dollars at the 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 (2010: \$nil and \$nil). As at 30 June 2011, there was a bank account held in US dollars for an amount of AUD\$428,885 (2010:\$608,119). A 10 percent movement of the Australian dollar against the US dollar as at 30 June 2011 would have impacted profit by \$44,482.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

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 Company's receivables are past their due date.

(d) Guarantees

The Company has in place term deposits amounting to \$95,242 (2010: \$93,252) in support of its undertakings under a guarantee for \$31,156 (2010: \$34,527) in accordance with its rental lease and \$58,724 (2010: \$58,724) on account of the Company's credit cards.

(e) Net fair values of financial assets and liabilities

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

20 Operating lease commitments

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

	2011	2010
	\$	\$
Within one year	118,044	118,044
Later than one year and no later than five years	50,000	180,974
	<u>168,044</u>	<u>299,018</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 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 twenty percent of all payments received from any Licensee and twenty percent of any royalties arising from net sales.

The Company has a licence to commercialise certain technologies from the ООО Клиника Института Биорегуляции и Геронтологии ("the Clinic"). The licence is in relation to retinal eye disease. The Company 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
Notes to the financial statements
For the year ended 30 June 2011

22 Loss per share

Loss reconciliation	2011 \$	2010 \$
Basic loss	(2,618,933)	(3,391,630)
Diluted loss	(2,618,933)	(3,391,630)

Weighted average number of shares used as a denominator

Number for basic loss per share

Ordinary shares	101,984,443	77,110,216
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Number for diluted loss per share

Ordinary shares	101,984,443	77,110,216
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Potential ordinary shares issued under the Company's employee share option plan are antidilutive.

23 Related party disclosures

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

Non Executive Directors

Mr H Morgan (Chairman)

Mr D Brooks

Dr L Rudenko

Dr A Li

Executive Directors

Ms J Phillips

Executives

Mr D Baillieu

:

BioDiem Ltd
Notes to the financial statements
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23 Related party disclosures (continued)

The key management personnel's compensation was as follows:

	2011	2010
	\$	\$
Short-term employee benefits	821,771	980,329
Post-employment benefits	19,800	19,800
Equity settled share based compensation	-	51,337
Total key management personnel compensation	<u>841,571</u>	<u>1,051,466</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 Company since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Employee Options

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

BioDiem Ltd
Notes to the financial statements
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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 2010	Granted as compensation	Exercised	Other changes *	Held at 30 June 2011	Vested during the year	Vested and exercisable at 30 June 2011
Directors							
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

Executives

Mr D Baillieu	132,386	-	-	(21,193)	111,193	30,000	51,193
	132,386	-	-	(21,193)	111,193	30,000	51,193

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

Executives

Mr D Baillieu	72,386	60,000	-	-	132,386	24,129	55,321
	72,386	60,000	-	-	132,386	24,129	55,321

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

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

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 2010	Purchases	Received on exercise of options	Received as compensation	Sales	Held at 30 June 2011
Directors						
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

Executives

Mr D Baillieu	1,400,000	-	-	-	-	1,400,000
	1,400,000	-	-	-	-	1,400,000

Shares	Held at 1 July 2009	Purchases	Received on exercise of options	Received as compensation	Sales	Held at 30 June 2010
Directors						
Mr H Morgan	9,459,728	-	-	-	-	9,459,728
Mr D Brooks	19,030	10,380	-	-	-	29,410
Dr L Rudenko	-	-	-	-	-	-
Ms J Phillips	1,700 ¹	927	-	-	-	2,627
Dr A Li	-	-	-	-	-	-
Dr J Brown*	603,260	-	-	331,938	(935,198)	-
	10,083,718	11,307	-	331,938	(935,198)	9,491,765
Executives						
Mr D Baillieu	1,300,000	100,000	-	-	-	1,400,000
	1,300,000	100,000	-	-	-	1,400,000

¹ Holding as of date appointed CEO

* resigned 7 May 2010

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2011

23 Related party disclosures (continued)

Other related party transactions with the Company

Dr Rudenko is Head of the Virology Department in the Institute of Experimental Medicine ("the Institute"). Dr Rudenko received total fees amounting to \$155,000 for research and development activities and her services as a Director. During the course of the year the Company paid licence fees and royalties amounting to \$50,463 (2010: nil) to the Institute. In addition, research and development costs amounting to \$124,169 (2010: \$87,452) were also paid to the Institute.

Ms Phillips' daughter Kirsten Nutting (trading as Transpixel Graphic Design) has the contract to carry out design work on the Company's reports and website. In 2011, total fees accrued to Transpixel Graphic Design amounted to \$5,469. In 2010 the Company paid fees of \$1,919 to Kirsten Nutting for design work.

Related party transactions are made on an arm's length basis.

24 Segment reporting

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

25 Subsequent events

On 1 August 2011 BioDiem announced the transition of the LAIV program from Nobilon with the return of rights. At the same time, BioDiem announced the entry into a direct licence agreement with Serum Institute of India for sales of intranasal influenza vaccine (egg-based production method) in India, Argentina, Peru, South Africa, Mexico, Bangladesh, Bhutan, Nepal, Pakistan and Sri Lanka. Also BioDiem announced the entry into a direct licence agreement with the WHO for egg-based production of LAIV for use in public markets of developing countries.

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.

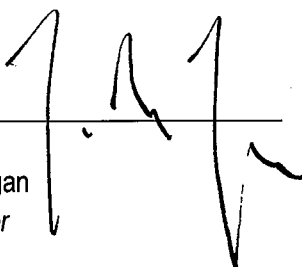
BioDiem Ltd

Directors Declaration

- 1 In the opinion of the Directors of BioDiem Ltd ("the Company"):
 - (a) the financial statements and notes and the Remuneration report in the Directors' report, set out on pages 14 to 20 and 22 to 50, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company as at 30 June 2011 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a); and
 - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2011.

Dated at Melbourne this 25th day of August 2011.

Signed in accordance with a resolution of the Directors:



H Morgan
Director



Independent auditor's report to the members of BioDiem Ltd

Report on the financial report

We have audited the accompanying financial report of BioDiem Ltd (the Company), which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 25 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of BioDiem Ltd is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a)

Material uncertainty regarding continuation as a going concern

Without modifying the opinion expressed above, we draw your attention to the following matter:

As set out in note 2(c) to the financial report, there is material uncertainty as to whether the Company 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.

Report on the Remuneration Report


We have audited the Remuneration Report included in section 18 of the directors' report for the year ended 30 June 2011. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the Remuneration Report of BioDiem Ltd for the year ended 30 June 2011 complies with Section 300A of the *Corporations Act 2001*.



KPMG



Tony Romeo
Partner

Melbourne

25 August 2011

Shareholder information

Set below was applicable as at 10 August 2011

1 Distribution of equity securities

	Holders	Ordinary Shares	%
1–1,000	69	25,941	0.03
1,001–5,000	339	1,052,004	1.03
5,001–10,000	147	1,156,486	1.13
10,001–100,000	296	10,363,857	10.16
100,001+	61	89,386,155	87.65
		101,984,443	100.00

2 Twenty largest equity security holders

The names of the twenty largest holders of equity securities as at 10 August 2011.

Name	Number held	%
1. HSBC Custody Nominees (Australia) Ltd	26,228,457	25.72
2. Brezzo Enterprises Ltd	25,757,576	25.26
3. McNeil Nominees Pty Ltd	5,555,555	5.45
4. First Charnock Nominees Pty Ltd	5,082,676	4.98
5. Mr Barrie Ernest Laws & Mrs Merrilyn Frances Laws	3,200,000	3.14
6. First Charnock Superannuation Pty Ltd	3,000,930	2.94
7. Bresrim Pty Ltd	1,420,791	1.39
8. Mr Peter Craig Appleby	1,405,833	1.38
9. Mr David Clive Latham Baillieu & Mr Robert Latham Baillieu	1,300,000	1.27
10. JP Morgan Nominees Australia Ltd	1,207,471	1.18
11. Second Charnock Pty Ltd	1,116,459	1.09
12. Mr Peter Robert Kahn	1,051,000	1.03
13. Dr John Brown	935,198	0.92
14. Mr Christopher Hutchinson	811,443	0.80
15. National Australia Trustees Ltd	704,666	0.69
16. Tealing Nominees Pty Ltd	684,919	0.67
17. Mr John Calvert-Jones and Mrs Elisabeth Calvert-Jones	673,314	0.66
18. Mr Alistair Gleeson & Mrs Caroline Gleeson	500,000	0.49
19. T & J Williams Pty Ltd	441,666	0.43
20. Telic Alcatel (Australia) Pty Ltd	441,666	0.43
	81,519,620	79.92

3 Twenty largest option holders

The names of the twenty largest holders of options as at 10 August 2011.

Name	Number held	%
1. Brezzo Enterprises Ltd	4,545,454	36.31
2. HSBC Custody Nominees (Australia) Ltd	4,500,000	35.95
3. McNeil Nominees Pty Ltd	2,777,778	22.19
4. JP Morgan Nominees Australia Ltd	171,216	1.37
5. Boston Asset Management Pty Ltd	70,909	0.57
6. Mr Christopher Hutchinson	70,000	0.56
7. Mr David Clive Latham Baillieu & Mr Robert Latham Baillieu	50,000	0.40
8. Stoberg Pty Ltd	29,728	0.24
9. Mr Robert Fleming & Mrs Christine Fleming	27,272	0.22
10. Steldean Holdings Pty Ltd	16,851	0.13
11. Mr Damian Braniff & Mrs Nicole Braniff	15,000	0.12
12. Maddy Investment Co Pty Ltd	13,986	0.11
13. Mr Ping-Lam Chan	13,636	0.11
14. Queenstown Unlimited Ltd	13,636	0.11
15. Mr Ian Ralph Maher	13,500	0.11
16. Mr Kevin Patrick Armstrong	13,000	0.10
17. Mandan Pty Ltd	12,272	0.10
18. Mrs Sarah Margaret Steinschaden-Silver	11,363	0.09
19. Mr Geoffrey Ronald Bray & Mrs Helen Loraine Bray	11,045	0.09
20. Mr Andrew John Lehmann	10,000	0.08
	12,386,646	98.96

4 Voting rights

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