BioDiem

BioDiem Ltd | ABN 20 096 845 993

Annual Report 30 June 2017

Developing commercial outcomes

BioDiem

Who We Are

BioDiem is an Australian biopharmaceutical company that is focussed on developing and commercialising vaccines and infectious disease therapies. BioDiem's business model is to generate income from partnerships including with other vaccine and infectious disease treatment companies through existing and new licences to its LAIV vaccine and other technologies. Income comes from licence fees and royalties on sales.

BioDiem's lead technology is the LAIV (Live Attenuated Influenza Virus) vaccine technology used for production of seasonal and pandemic influenza vaccines and is given intranasally. This technology is licensed currently to two commercial partners, in India and China, and is licenced to the World Health Organisation as part of the Global Pandemic Influenza Action Plan to Increase Vaccine Supply. Serum Institute of India's Nasovac-S™ is based on BioDiem's technology and is already marketed in India.

BioDiem's antimicrobial technology, BDM-I, is being developed through its subsidiary, Opal Biosciences Ltd. Opal is progressing the development of its anti-infective for injectable (Opal-I); topical use (Opal-T) and lung delivery (Opal-L).

Forging a position as an innovative player in infectious disease vaccines and therapies

BioDiem uses a licensing model

- We take early stage technologies, mostly from universities and research institutes, and then work them up through to preparation for clinical trial
- To accelerate full development, we then licence them out to larger companies for clinical trials and marketing

Cover image:
Bacteria Neisseria gonorrhoeae

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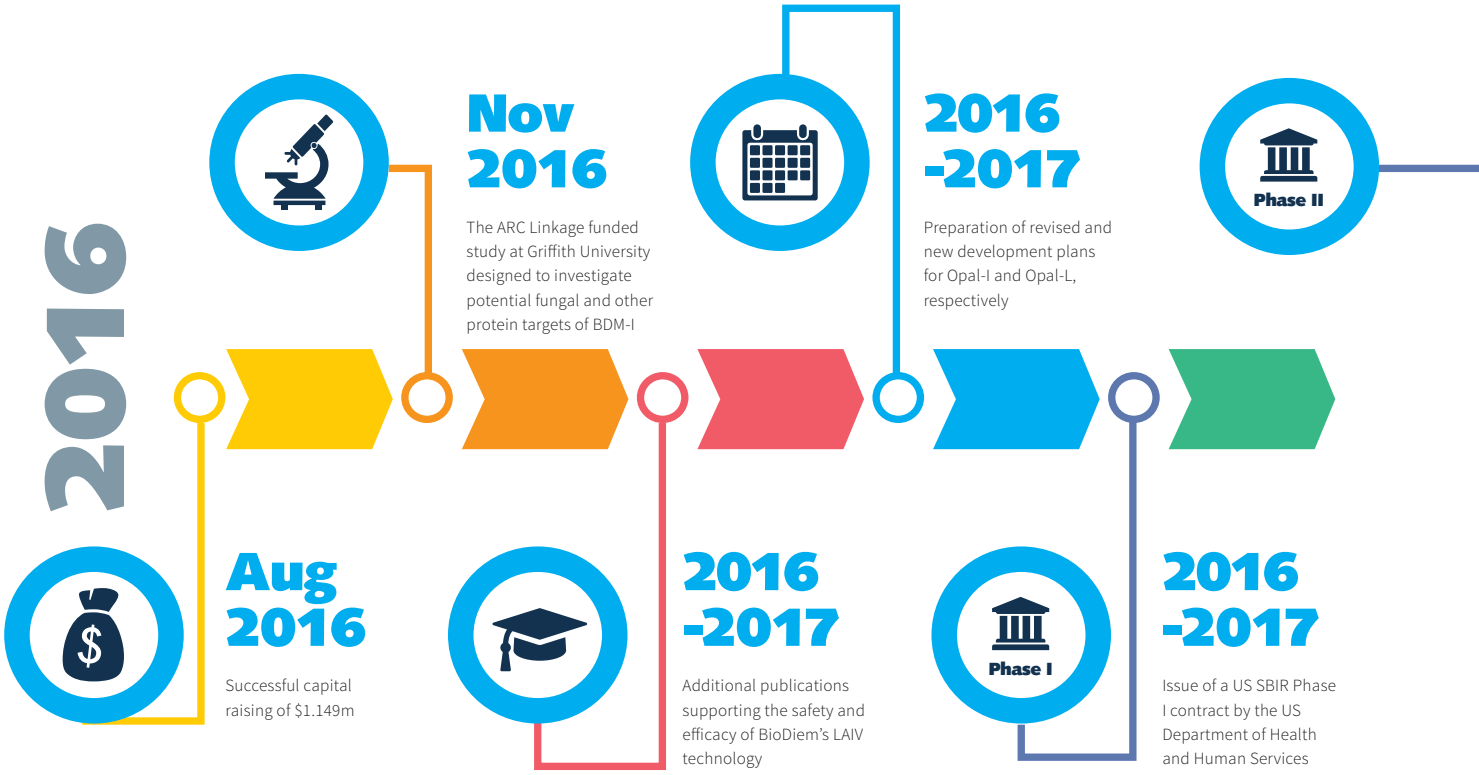
Highlights of 2016-2017



Corporate

- Successful capital raising of $1.149m through a nonrenounceable entitlement offer of convertible preference shares.

Influenza Vaccine Technology (LAIV)

- Royalty income from sales of Nasovac-S in India, and income from milestone payments totalling $132,165.
- BCHT, BioDiem's licencee in China, completed Phase III clinical trials. Laboratory analysis of the clinical samples is underway. The results of these clinical trials will be used in support of an application for marketing by BCHT of their influenza vaccine in China. BioDiem will gain income from royalties on sales of BCHT's LAIV vaccine in the private sector in China.
- Issue of a US SBIR Phase I contract by the US Department of Health and Human Services entitled "Thermostable Respiratory" to Universal Stabilization Technologies Inc (UST) to progress its thermostable powder delivery studies of the LAIV technology and subsequent issue of a US SBIR Phase II contract entitled "Thermostable Live Attenuated Influenza Vaccine for Nasal Delivery". UST has proprietary foam technology called "Preservation by Vaporization" (PBV) and micronisation expertise to optimize intranasal drug delivery. A thermostable LAIV vaccine product would remove the need for cold chain supply of the LAIV vaccine.
- Additional publications supporting the safety and efficacy of BioDiem's LAIV technology.

From April 2017 introduction of Opal revenue generating product concept

Antimicrobial BDM-I: Opal Biosciences

- *In vitro* activity of Opal-T shown against bacterial strains of an antibiotic-resistant ***Staphylococcus aureus,*** and ***Neisseria gonorrhoeae***; bacteria responsible for causing serious infections and the sexually transmitted infection, gonorrhoea.
- Identification of new product opportunities for effective antimicrobial products as alternatives for antibiotics. Doctors are being encouraged to reduce antibiotic prescription but alternatives are few. A capital raising into Opal Biosciences is planned to support this new business.
- PhD candidate Michael Radzieta presented a poster at the ASM/ESCMID Conference on "Drug Development to Meet the Challenge of Antimicrobial Resistance" in Boston, MA, USA on the 6-8 September 2017. Under the supervision of Associate Professor Slade Jensen, Western Sydney University. PhD candidate Michael Radzieta continued studies to understand how BDM-I kills bacteria.
- *Based* on the discoveries made in the Western Sydney University research a new patent was filed in August 2017 entitled ***"BDM-I Therapy"***.
- The ARC Linkage funded study at Griffith University under the supervision of Professor Yaoqi Zhou and Dr Joe Tiralongo is designed to investigate potential fungal and other protein targets of BDM-I. This work has commenced and early screening work has already identified targets to be explored further.
- Preparation of revised and new development plans for Opal-I and Opal-L, respectively.

BioDiem

Chairman's letter

Fellow Shareholders,

The 2017 financial year has been a very mixed one for us. Firstly I will outline the significant events in our LAIV program during the past year.

We commenced the year with a successful capital raising securing $1.15m from the issue of convertible preference shares (CPS) through a nonrenounceable entitlement issue. Each CPS holder is entitled to receive a priority amount equal to eight times the issue price of that share, before the holders of ordinary shares receive any amount by way of dividend, return of capital or otherwise. Once the CPS holders have received the priority amount, the CPS will convert automatically into ordinary shares, ranking equally with all other ordinary shares of the company.

The primary purpose of this capital raising was to exploit our technologies including the LAIV technology which had received commercial interest from external parties for potential new licences. In the absence of a strong enough revenue stream from royalties from existing licences to our LAIV flu vaccine technology, and because of the potential value to the company of new LAIV licences, the board decided on a preference share entitlement issue. This was capped at an amount to support the company through the potential licensing discussions, and also to seek new interested parties, while also progressing the development of the Opal antimicrobial technology.

In my AGM address to you last year I described the events that followed the capital-raising close including the September 2016 meeting convened by the World Health Organisation to discuss LAIV vaccines' performance data from around the world. The meeting was convened because of reports of patches of low effectiveness in different countries compared to inactivated flu vaccines. This predominantly related to Medimmune's US product FluMist. Because of the contradictory and apparently inexplicable results of LAIV performance between countries, it led to uncertainty around all LAIV vaccine technologies. In the US, as for last year, FluMist is still not recommended to be used for the current flu season, although Medimmune's similar product in the UK has performed well and is promoted by public health agencies there.

The impact has been not only on commercial interest in new LAIV licences from us, but also on sales' royalties from India where the Indian vaccination guidelines take the US recommendations into consideration.

Following the WHO meetings on the LAIV efficacy issue, various studies have been designed to shed light on the reason for discrepancies in effectiveness data. This is an enormous undertaking, and expensive. We had hoped the results of these studies would have been available by now but they are more likely to be completed by early 2018. These studies are outside our control but shareholders will be kept informed of news in this area.

Meanwhile I am very pleased to report that our Chinese licencee Changchun BCHT Biotechnology company (BCHT) has completed Phase III clinical trials and is now undertaking the analysis to complete reports for a dossier for marketing approval in China. Regulatory approval timing is uncertain however and in China could take one to two years or more.

In contrast to some of the difficulties encountered with the LAIV program, our BDM-I anti-infective program being conducted in our subsidiary, Opal Biosciences, has made pleasing progress. Based on the research undertaken at Western Sydney University we have just lodged a new patent and the research was presented in September this year in Boston at the American Society of Microbiology meeting whose theme was antimicrobial resistance.

The most exciting work during the year involved a topical formulation of BDM-I (Opal-T) which could be used to treat infections of the skin or mucous membranes. BDM-I is a difficult molecule to work with. We know that the molecule itself can kill many different bacteria and fungi, but we knew we would have to show that this activity would be maintained when BDM-I was mixed in with other ingredients in a product. Formulytica Pty Ltd, an expert formulation company in Melbourne, in its first round of work, was able to present us with three prototype gels and ointments that could be tested.

In May this year the three prototypes and matching placebos were tested in the lab to see if they were active against two different bacteria: Golden Staph, and the one responsible for causing gonorrhoea. Both of these bacteria are a source of growing concern worldwide because of resistance to antibiotics. Our good news was that antimicrobial activity was shown for all prototype formulations. As the next step and to keep costs down we chose only one of the prototype gel formulations to test in an animal model of Staph, using a very resistant and aggressive strain. While the gel worked, it did not work well enough in this model.

> We will also develop a new portfolio of revenue-generating anti-infective products to exploit the need for alternatives to antibiotics which is poorly served.

To pursue this work in Staph and gonorrhoea as well as continue the injection and lung delivery forms of BDM-I Opal will undertake a capital raising. The Information Memorandum is under preparation for release shortly and will seek to raise $1.5m from sophisticated and professional investors. Opal will also seek to develop a new portfolio of revenue-generating anti-infective products to exploit the need for alternatives to antibiotics which is poorly served. This prospect is very exciting for us, and at the AGM you will be asked to approved the receipt of Opal shares into BioDiem in lieu of cash for the completion of the transaction for the BDM-I technology moving into Opal Biosciences. Through this and our existing major shareholding in Opal, BioDiem shareholders will be in a position to benefit from success in Opal. BioDiem shareholders can also take up shares themselves directly if eligible.

I am very aware of the delays and disappointment suffered by shareholders, and of course I am also a shareholder. The Board does not intend to raise further capital into BioDiem and we have begun the process of seeking partners for the LAIV program or monetizing it so that ongoing costs to maintain the program will be eliminated or reduced further. Opal Biosciences will be become independent of BioDiem following its successful capital raising and our intention is that our shareholders will achieve the best return we can in the present circumstances.

Thank you for your ongoing support and we will keep you informed of our progress.

Yours faithfully,

Hugh Morgan
Chairman

BioDiem

CEO's letter

Fellow Shareholders,

While we have seen some setbacks and delays in the last financial year we have also made solid progress in some areas, primarily in Opal Biosciences and our antimicrobial program.

Advancements in Opal Biosciences have been substantial. Firstly on the basis of research on the mechanism of action of BDM-I conducted under the supervision of Associate Professor Slade Jensen at Western Sydney University, a new patent has been filed. Following this, PhD candidate Michael Radzieta presented his BDM-I research at the combined American Society of Microbiology and European Society of Clinical Microbiology and Infectious Diseases meeting in Boston this year. This prestigious conference was themed "Drug Development to Meet the Challenge of Antimicrobial Resistance". The mechanism of action work continues at Western Sydney University and another project has commenced at Griffith University under an ARC Linkage grant.

To make best use of our funds during the year we focused on the development of the topical product program, Opal-T, with the assistance of formulation company, Formulytica Pty Ltd. We were able to put three prototype formulations into *in vitro* testing to check that BDM-I would retain its antimicrobial effect when in these vehicle formulations. We were very pleased that all three of these first prototypes showed antimicrobial activity against an antibiotic-resistant *Staph. aureus* strain and also a *Neisseria gonorrhea* strain. The next stage of testing in an animal model is more expensive and so we chose only one prototype formulation to take into a *Staph aureus in vivo* infection model. While the prototype showed activity it was not sufficiently active for us to claim success with this formulation in this infection model. We will repeat the testing in a less aggressive model, with different infectious targets and using different prototype formulations. Following this we can progress to the additional testing needed to conduct human trials.

The news about antimicrobial resistance and new superbugs continues in the media. The market for antimicrobials is growing and there are too few new treatments coming through. Among other international agency and government responses to the growing threat of superbugs, doctors are being urged to reduce their prescribing of antibiotics where possible or choose alternatives.

Alternatives to antibiotics are few, with poor information about quality of products, their effectiveness and best use. We have a plan to develop an antimicrobial product line which will address this need, and exploit this opportunity given our expertise in the area.

Opal Biosciences will undertake a capital raising of $1.5m to manufacture this new product line which is expected to be revenue-generating in the Australian market with the first 2-3 years. The products will be under an Opal umbrella label and will complement the development of novel treatments, Opal-I, Opal-T and Opal-L, for injection, topical and lung delivery, respectively.

BioDiem holds a majority stake in Opal Biosciences and so BioDiem shareholders will be able to benefit from the successful development of all the Opal technologies.

Our LAIV vaccine program continues to be affected while we wait for the resolution of the efficacy issues impacting all LAIV technologies worldwide. Our royalty stream from the LAIV sales in India had originally been expected to rise this year but sales were impacted again by the negative recommendation in the US for the LAIV vaccine use in the last and current flu seasons.

We await the finalization of studies to clarify the cause of poor effectiveness data seen in some settings. This uncertainty is expected to be resolved by early 2018 although these studies and their timing are outside our control.

The completion of the Phase III clinical trials in China is great news and following the analysis of samples collected during the trials and completion of the final report, a dossier for marketing approval can be lodged with the Chinese FDA.

In the US, the thermostable powder delivery studies of the LAIV vaccine have continued, under contracts from the US government. This technology could be very valuable for LAIV vaccine manufacturers to reduce the problem of cold chain transport and storage.

During the year we have continued to reduce staff and office costs and direct expenditure to our programmes.

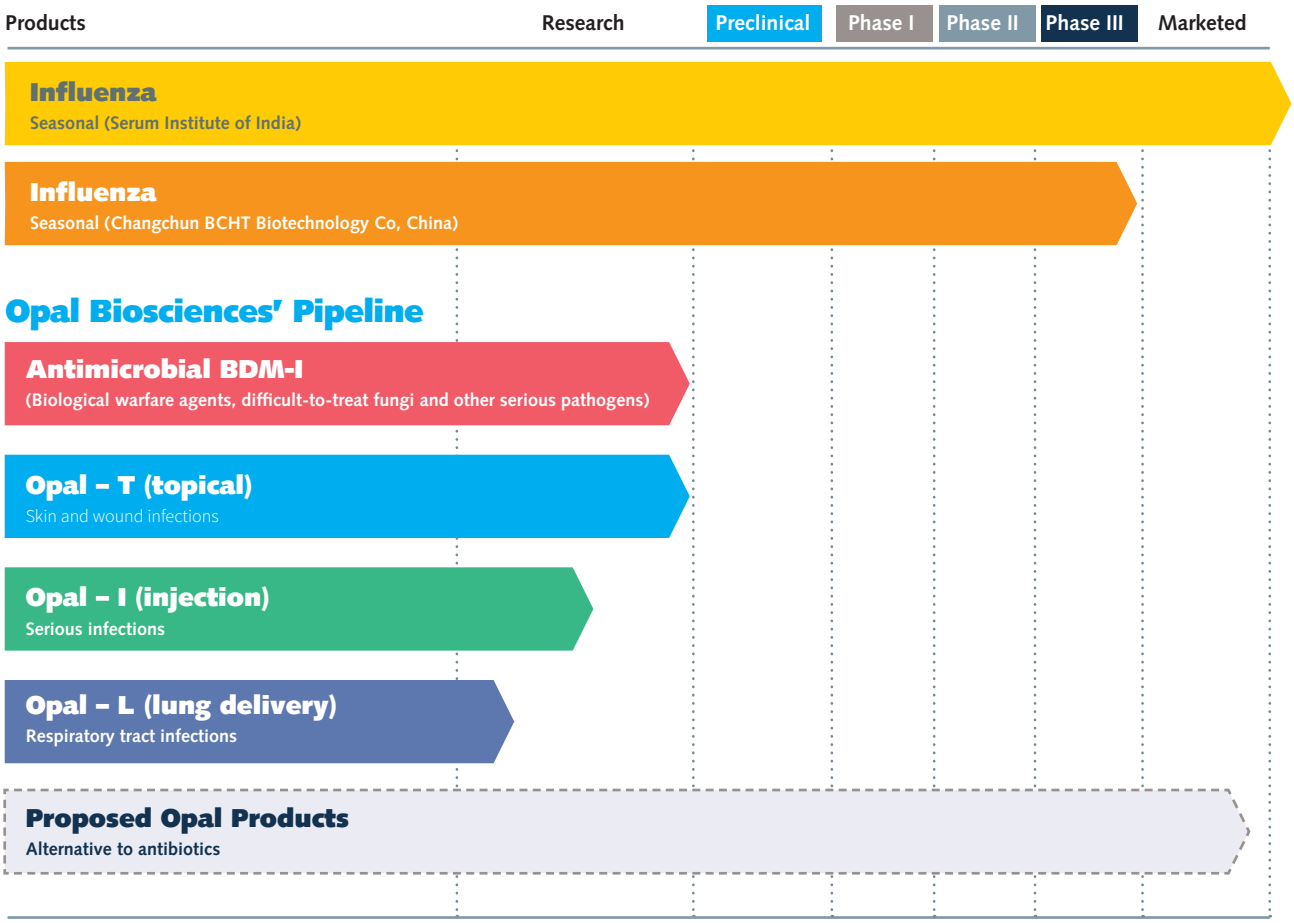
I would like to thank fellow shareholders and the board for their support throughout the year, and in particular, previous staff for their important contribution to both BioDiem and Opal Biosciences.

Please do not hesitate to contact me should you have any questions about your company; and please follow us by joining our email list, via our websites (www.biodiem.com and www.opalbiosciences.com) and twitter (@biodiem and @opalbiosciences).

Yours sincerely,

Julie Phillips
CEO

BioDiem Pipeline



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LAIV vaccine technology

Manufactured in SPF eggs or cell-based

*Royalties from sales flow to BioDiem (private market)
**Royalties from sales will flow to BioDiem (private market)

Review of operations

BioDiem's main development programs are:

- **Influenza vaccine program:** licensing business based on proprietary live attenuated influenza virus (LAIV) technology; and
- **BDM-I antimicrobial:** development and commercialisation of BioDiem's BDM-I for the treatment of important infectious diseases through our subsidiary Opal Biosciences Ltd.

Influenza Vaccine

BioDiem's LAIV Vaccine business involves licensing our platform technology to vaccine manufacturers for the production of intranasal vaccines for the prevention of seasonal and pandemic influenza. BioDiem receives payment from licence fees and royalties on sales.

BioDiem currently has two commercial partners:

- Serum Institute of India (Pune, India), and
- Changchun BCHT Biotechnology Co. (Jilin, China).

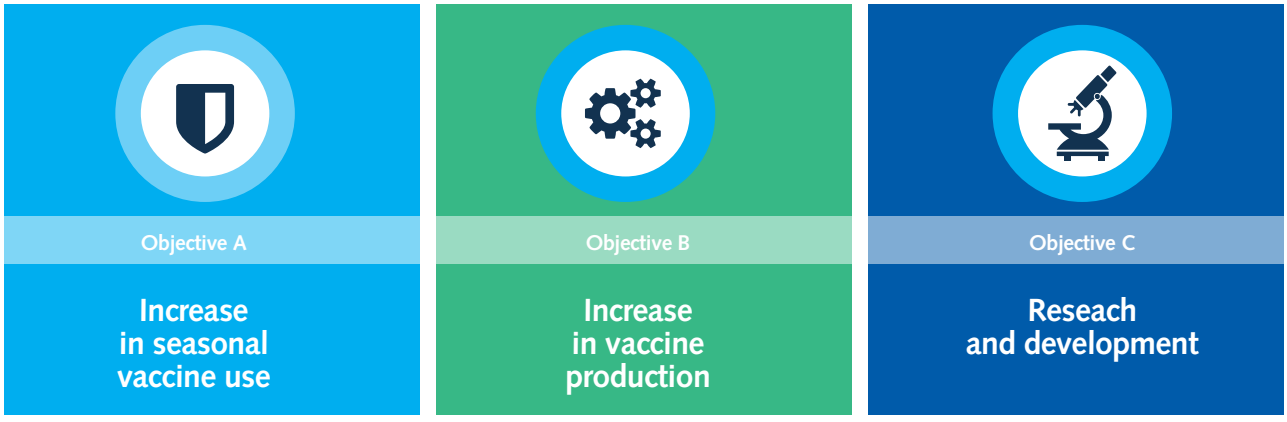
Our LAIV vaccine technology is also licensed to the World Health Organization (WHO) as part of the Global Pandemic Influenza Action Plan to Increase Vaccine Supply.

Significant developments during the past year include:

- Royalty and milestone income from sales of Nasovac-S in India, and income from milestone payments totaling $132,165. Nasovac-S is a seasonal influenza vaccine based on BioDiem's LAIV (live attenuated influenza virus) vaccine technology. BioDiem receives royalties from sales of this product into the private market in India.
- Royalty receipts from sales of the LAIV influenza vaccine in India have been affected by technical issues affecting LAIV technology, primarily with Medimmune's FluMist in the US, as previously advised to shareholders. These technical issues are currently being addressed. Additional studies have been published showing effectiveness of Medimmune's LAIV used in UK, Europe and Canada e.g. from Public Health England: *Influenza vaccine effectiveness (VE) in adults and children in primary care in the United Kingdom (UK): provisional end-of-season results 2016-17*[1] showing that the flu vaccine nasal spray reduced the risk of vaccinated children getting flu by 65.8% in the 2016 to 2017 season in England, Wales, Scotland and Northern Ireland; and others showing less effectiveness against A/H1N1pdm09 strain than inactivated flu vaccines e.g. Medimmune's publication: *Live Attenuated Influenza Vaccine Effectiveness in Children From 2009 to 2015–2016: A Systematic Review and Meta-Analysis*[2].
- Closure of the WHO's Global Action Plan on Influenza (GAP): The WHO launched this 10 year plan for influenza vaccines in 2006. BioDiem has contributed to this plan through its non-exclusive licence of egg-based LAIV technology to the WHO for developing countries. The plan's main objectives were to increase evidence-based seasonal vaccine use; increase vaccine production capacity and regulatory capacity; and promote R&D for better vaccines. Significant progress in achieving its objectives has been made in the 10 year period, and the final report by the GAP Advisory Committee recommends continuation of global co-ordination of activities by the WHO.

WHO's Global Action Plan on Influenza (GAP)

The WHO launched this 10 year plan for influenza vaccines in 2006. BioDiem has contributed to this plan through its non-exclusive licence of egg-based LAIV technology to the WHO for developing countries.



GAP World Health Organization

Review of operations

- Completion of Phase III clinical trials by BioDiem's licencee in China, Changchun BCHT Biotechnology Co. (BCHT). Laboratory analysis of the clinical samples is underway and is expected to be completed in early 2018. The results of these clinical trials will be used in support of an application for marketing by BCHT of their influenza vaccine. BioDiem will gain income from royalties on sales of BCHT's LAIV vaccine in the private sector in China.
- BioDiem has an on-going pandemic and avian 'flu vaccine development program through its partnership with the IEM. This program is designed to prepare possible influenza vaccines that could be needed in a serious influenza outbreak (pandemic).
- Issue of a US SBIR Phase I award by the US Dept of Health and Human Service entitled "Thermostable Respiratory" to Universal Stabilization Technologies Inc (UST) to progress its thermostable powder delivery of LAIV. UST has proprietary foam technology "Preservation by Vaporization" (PBV) and micronisation expertise to optimize intranasal drug delivery. A thermostable vaccine product would remove the need for cold chain supply of the LAIV vaccine.
- Additional publications to support the use of the LAIV vaccine shown in Table 1 (below).

Table 1. New studies

Brooks et al. (2017)

Efficacy of a Russian-backbone live attenuated influenza vaccine among young children in Bangladesh: a randomised, double-blind, placebo-controlled trial, Lancet Glob Health 2016; 4: e946–54

Published Online October 13, 2016 http://dx.doi.org/10.1016/ S2214-109X(16)30200-5.

Victor et al. (2017)

Efficacy of a Russian-backbone live attenuated influenza vaccine among children in Senegal: a randomised, double-blind, placebo-controlled trial. Lancet Glob Health 2016; 4: e955–65

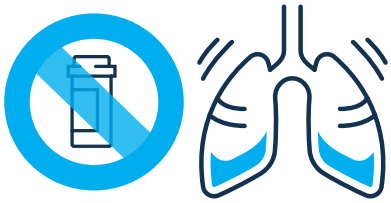
Published Online October 13, 2016 http://dx.doi.org/10.1016/ S2214-109X(16)30201-7

Understanding inappropriate antibiotic use

Reference: https://www.cdc.gov/getsmart/community/images/materials/inappropriate-ar-use-600x600.jpg

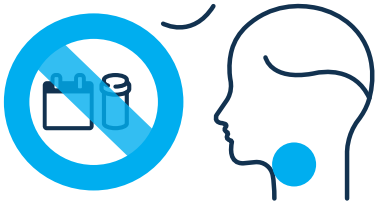
Inappropriate antibiotic use can refer to two types of antibiotic misuse: when an antibiotic is prescribed, but not needed or when the wrong antibiotic, dose or duration is chosen.

Unnecessary Use/ Overuse



Example: A 40-year-old woman is diagnosed with bronchitis and prescribed an antibiotic, even though the national guidelines recommend against prescribing antibiotics for bronchitis.

Misuse / Incorrect Prescription



Example: An 8-year-old boy is diagnosed with strep throat and needs antibiotics to treat is, but the antibiotic prescribed is the wrong one, or the dose is too low, or the durations is too long.

[1] https://www.gov.uk/government/publications/influenza-vaccine-effectiveness-2016-to-2017-estimates

[2] Open Forum Infectious Diseases, Volume 4, Issue 3, 1 July 2017, ofx111, https://doi.org/10.1093/ofid/ofx111

BioDiem

Review of operations

Antimicrobial BDM-I: Opal Biosciences Ltd ("Opal")

- Opal's preclinical-stage antimicrobial compound BDM-I is being developed and commercialised to target the treatment of infections, and antibiotic-resistant serious human infections including 'superbugs'. The formation of Opal Biosciences Ltd in May 2015 as a subsidiary of BioDiem Ltd, was undertaken to permit external investment in the commercialisation of BDM-I while allowing BioDiem shareholders to retain benefit from successful commercialisation.

Significant developments during the past year include:

Opal-T development: Demonstration of BDM-I activity in vitro in a topical formulation

- Many studies of BDM-I over years in different laboratories have shown that the active ingredient BDM-I, is active against many microorganisms which can cause serious human infections including strains of ***Staphylococcus aureus*** (wound infections and others) and ***Neisseria gonorrhoeae*** (gonorrhea). However it could not be assumed that BDM-I mixed into an ointment, gel or cream would retain its antimicrobial activity, so a testing program was started.

In vitro activity shown against ***Staphylococcus aureus*** and ***Neisseria gonorrhoeae***.

- Commencement of a topical formulation program for BDM-I (Opal-T) in partnership with Formulytica Pty Ltd, a specialist topical formulation company based in Melbourne
    - Three prototype formulations passed 3 months stability testing
    - These three prototypes were tested in laboratory experiments (***in vitro***) under placebo-controlled conditions in a validated study against a strain of methicillin-resistant ***Staph aureus***, a multidrug resistant (MDR) bacteria which is responsible for community-associated Golden Staph infections e.g. skin infections, and which is also resistant to many other commonly used antibiotics including mupirocin, quinolones, macrolides and all classes of beta-lactam antibiotics. It has emerged as an epidemic strain which causes rapidly progressive and fatal diseases.
    - A strain of ***Neisseria gonorrhoeae*** which is responsible for causing the sexually transmitted infection, gonorrhea.
    - **The results of this testing showed**
    - All three prototype formulations were more active against the ***Staph aureus*** strain than their matching placebos
    - The anhydrous gel prototype formulation was most active of all protoypes tested against the strain of ***Neisseria gonorrhoeae***.

***In vivo* testing – proof of concept**

The next step is to conduct testing in animal models of infectious disease.

- The anhydrous gel prototype formulation was tested in a pilot study against the same virulent resistant strain of ***Staph aureus*** in an ***in vivo*** model. While the gel did show antimicrobial activity it was deemed not sufficient to proceed with this prototype formulation against this virulent strain of Staph aureus. Opal Biosciences will raise further capital to progress this work including against other microorganisms, and with other prototype formulations.

Other significant developments

Mechanism of action against bacteria – Ingham Institute for Applied Medical Research, Western Sydney University:

- Under the supervision of Associate Professor Slade Jensen, PhD candidate Michael Radzieta continued studies to understand how BDM-I kills bacteria.
- Mr Radzieta's research arises from the collaboration between BioDiem and Western Sydney University's Antibiotic Resistance and Mobile Elements Group (ARMEG) led by Associate Professor Slade Jensen and located at the Ingham Institute for Applied Medical Research and Western Sydney University. This research focuses on BDM-I's activity against hospital pathogens such as MRSA (methicillin-resistant ***Staphylococcus aureus*** or "Golden Staph") and other superbugs. Results to date indicate that BDM-I's cellular target is novel and therefore BDM-I represents a next-generation anti-infective.

Review of operations

Close-up image of *Staph bacteria*

The results of *in vitro* testing showed

All three prototype formulations were more active against the ***Staph aureus*** strain than their matching placebos

The anhydrous gel prototype formulation was most active of all protoypes tested against the strain of ***Neisseria gonorrhoeae***.

Bacteria methicillin-resistant *Staphylococcus aureus* MRSA, multidrug resistant bacteria, on mucous membrane

Annual Burden of Antibiotic Resistance in the United States

Reference: https://www.cdc.gov/getsmart/community/images/materials/ar-deaths.jpg

Estimated minimum number of illnesses and deaths caused annually by antibiotic resistance*.

2,049,442

23,000

*bacteria and fungus included in this report

- PhD candidate Michael Radzieta presented a poster at the prestigious ASM/ESCMID Conference on "*Drug Development to Meet the Challenge of Antimicrobial Resistance*" in Boston, MA, USA on the 6-8 September 2017.
- Based on the discoveries made in this research a new patent was filed in August 2017 entitled *"BDM-I Therapy"*.

Mechanism of action investigation – Griffith University

- The ARC Linkage grant-funded study at Griffith University under the supervision of Professor Yaoqi Zhou and Dr Joe Tiralongo is designed to investigate potential fungal and other protein targets of BDM-I. This work has commenced and early screening work has already identified targets to be explored further.

Opal-I (injectable) formulation

Following the formulation development work conducted by an overseas specialist company to develop a suitable intravenous injection, the development plan for Opal-I has been reviewed. The next stage of work will involve optimization of the formulation to achieve the highest concentration in solution, and then tolerability testing, prior to efficacy testing.

Opal-L (lung delivery) formulation

Following the early stage research studies for lung delivery of BDM-I and input from infectious disease and lung delivery experts, a development plan for Opal-L has been prepared.

Opal's Development and Commercialisation Plan

Opal was formed to develop and commercialise the BDM-I technology which targets the treatment of infections, primarily serious human infections. Antibiotic resistance is creating many problems. The need is for both new anti-infectives; and effective alternatives to current antibiotics.

Opal Revenue-generating Product Line

Opal's BDM-I business addresses the pressing need for new anti-infectives and its new business will exploit the opportunity to develop a revenue-generating line of new products as alternatives to antibiotics. This new plan will be the subject of a fund-raising into Opal Biosciences.

Following the successful completion of a fund-raising

- Opal will pursue its commercial objective to commence sales of new products in Australia in approximately 2019 with international territories being accessed through distributors to achieve a revenue and royalty stream into the co mpany.
- Opal will continue the development of its novel BDM-I technology (Opal-I, Opal-T and Opal-L) which is in a high growth commercially attractive market segment of new anti-infectives. The development path of the BDM-I-based products assumes progress towards regulatory approval and product launch. This will allow marketing by Opal or through distributors or licencees. Opal would also consider sale or outlicence of the technology to a larger partner.

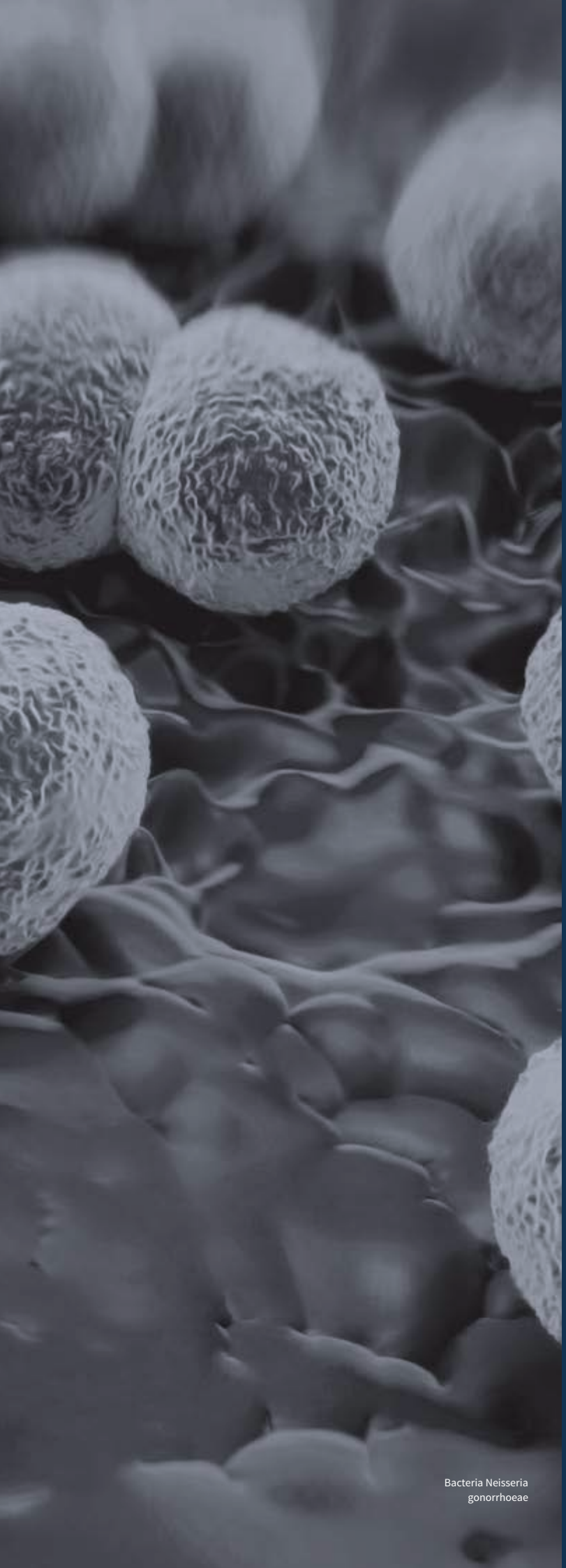
The revenue-generating business will support growth of the company to expand the portfolio of anti-infective products and the development of Opal-I, Opal-T, Opal-L and other novel products to create a specialist company offering effective alternatives to antibiotics.

With this spectrum of activity and portfolio of products, Opal is well positioned in the anti-infective market segment.

Opal's proposed new product portfolio (concept design only)

Opal's BDM-I business addresses the pressing need for new anti-infectives and its new business will exploit the opportunity to develop a revenue-generating line of new products as alternatives to antibiotics.

Financial Report



Bacteria Neisseria gonorrhoeae

BioDiem

Directors' report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of BioDiem Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2017.

Directors

The following persons were directors of BioDiem Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

- Mr Hugh M Morgan AC
- Ms Julie Phillips
- Prof Larisa Rudenko
- Prof Arthur Kwok Cheung Li

Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of:

- The development and commercialisation of pharmaceutical and biomedical research.
- Securing licences for its range of biopharmaceutical products currently under development.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The loss for the consolidated entity after providing for income tax and non-controlling interest amounted to $487,395 (30 June 2016: $1,161,711).

Royalty and milestone revenues in 2017 were $132,165 compared to $136,604 in 2016, while interest income was $111,291 compared to $3,199 during the corresponding period in 2016. Research activity costs were $354,731 compared to $661,499 in 2016.

Administration expenses were $542,280 as compared to $810,633 in the previous year. The Group commenced the financial year with cash reserves of $259,540. Cash inflows from share issues totalled $948,940 compared to $692,793 in 2016 before costs. Cash outlays were $732,609 compared to $1,080,346 in the prior year for research and administration. Cash inflows were $132,165 from licensing agreements (2016: $136,604 from licensing agreements). Cash receipts from the R&D Tax Incentive was $207,493 compared to $215,707 in the previous year. Cash reserves at the end of the financial year totalled $475,871.

Significant changes in the state of affairs

In August 2016, the Company announced that it had completed the issue and allotment of 14,392,433 convertible preference shares at $0.08 (8 cents), raising a total of $1,148,940.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

The Company will continue to implement its existing strategy by focusing on the development of its various technologies in an economically efficient manner.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Directors' report

Name, title, qualifications	Experience and expertise
Hugh M Morgan AC *LLB, BCom.* **Chairman** **Non-Executive Director**	Hugh Morgan is Principal of First Charnock Pty Ltd. Hugh was appointed Chief Executive Officer of Western Mining Corporation (1990-2003) and prior to that served as an Executive Officer (1976-1986) and then Managing Director (from June 1986). Hugh has served as a Director of Alcoa of Australia Limited (1977-1998 and 2002-2003); Director of Alcoa Inc. (1998-2001); Member of the Board of the Reserve Bank of Australia (1981-1984 and 1996-2007); President of the Australian Japan Business Co-Operation Committee (1999-2006); Joint Chair of the Commonwealth Business Council (2003-2005) and now Emeritus Director; President of the Business Council of Australia (2003-2005) and now an Honorary Member; Member of the Anglo American plc Australian Advisory Board (2006-2014). Hugh is a Member of the Lafarge International Advisory Board; Chairman of the Order of Australia Association Foundation Limited; Trustee Emeritus of The Asia Society New York; Chairman Emeritus of the Asia Society AustralAsia Centre; Member of the Asia Society Australia Advisory Council; President of the National Gallery of Victoria Foundation. Hugh is a graduate in Law and Commerce from the University of Melbourne. Special responsibilities Chairman of Audit Committee, Chairman of Remuneration and Nomination Committee
Julie Phillips *BPharm, DHP, MSc, MBA.* **Chief Executive Officer**	Ms Julie 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. She is Chairman of AusBiotech Ltd, the peak biotechnology industry association in Australia, and a Director of the Medtech and Pharma Growth Centre, MTP Connect. Julie has also been appointed to the University of Newcastle Council. Special responsibilities None
Larisa Rudenko *MD, PhD, DSc.* **Director of Russian Projects,** **Non-Executive Director**	Professor Larisa 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. Special responsibilities Member of Audit Committee, Member of Remuneration and Nomination Committee

BioDiem

Directors' report

Name, title, qualifications	Experience and expertise

Arthur Kwok Cheung Li

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, HonFRCGlas, HonFRSM, HonFRCS(I), HonFACS, HnFRCP(Lon), HonFCSHK, HonFAS

Non-Executive Director

Professor Arthur Li was appointed a Director of the Company for the first time on 27 May 2010. He then resigned as a Director on 13 December 2014, and was recently re-appointed as a Director on 20 January 2016. Professor Li was awarded the degree of Doctor of Medicine by 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; an Independent Non-Executive Director of Shangri-La Asia Ltd. He is Emeritus Professor of Surgery of The Chinese University of Hong Kong and Council Chairman of The University of Hong Kong. He is a member of the Executive Council of the Hong Kong Special Administrative Region and also Chairman of the Council for Sustainable Development of the Government of the Hong Kong special Administrative Region. He was 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 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. He was appointed as Council Member of the Executive Council of HKSAR on 1 July 2017, and was awarded the Grand Bauhinia Medal by the Chief Executive of HKSAR Government on 30 June 2017.

Special responsibilities

Member of Audit Committee, Member of Remuneration and Nomination Committee

Company Secretary

Melanie Leydin is the company secretary and has 24 years' experience in the accounting profession and is a director and company secretary for a number of oil and gas, junior mining and exploration entities listed on the Australian Securities Exchange. She is a Chartered Accountant and is a Registered Company Auditor. She Graduated from Swinburne University in 1997, became a Chartered Accountant in 1999 and since February 2000 has been the principal of chartered accounting firm, Leydin Freyer, and Director of Leydin Freyer Corp Pty Ltd, specialising in outsourced company secretarial and financial duties for resources and biotechnology sectors.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2017, and the number of meetings attended by each director were:

	Full Board		Audit and Risk Committee	
	Attended	Held	Attended	Held
Hugh M Morgan	10	10	2	2
Julie Phillips	10	10	-	-
Larisa Rudenko	10	10	2	2
Arthur Kwok Cheung Li	5	10	1	2

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Directors' report

Shares under option

Unissued ordinary shares of BioDiem Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
8 October 2013	30 September 2023	$0.080	666,667
8 October 2013	30 September 2023	$0.120	666,667
8 October 2013	30 September 2023	$0.200	666,666
			2,000,000

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

Shares issued on the exercise of options

There were no ordinary shares of BioDiem Limited issued on the exercise of options during the year ended 30 June 2017 and up to the date of this report.

Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

Grant Thornton Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

H M Morgan AC
Director

12 October 2017
Melbourne

BioDiem

Auditor's independence declaration

Grant Thornton

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E info.vic@au.gt.com
W www.grantthornton.com.au

Auditor's Independence Declaration to the Directors of Biodiem Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Biodiem Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M A Cunningham
Partner - Audit & Assurance

Melbourne, 12 October 2017

Statement of profit or loss and other comprehensive income

For the year ended 30 June 2017

	Note	Consolidated 2017	Consolidated 2016
		$	$
Revenue	3	143,456	139,815
Other income	4	292,236	205,667
Expenses			
Licence fees and royalty expenses		(26,085)	(36,265)
Research and development expenses		(354,731)	(661,499)
Administration expenses		(542,280)	(810,633)
Loss before income tax expense		(487,404)	(1,162,915)
Income tax expense	6	-	-
Loss after income tax expense for the year		(487,404)	(1,162,915)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		(487,404)	(1,162,915)
Loss for the year is attributable to:			
Non-controlling interest		(9)	(1,204)
Owners of BioDiem Limited		(487,395)	(1,161,711)
		(487,404)	(1,162,915)
Total comprehensive income for the year is attributable to:			
Non-controlling interest		(9)	(1,204)
Owners of BioDiem Limited		(487,395)	(1,161,711)
		(487,404)	(1,162,915)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

BioDiem

Statement of financial position

As at 30 June 2017

	Note	Consolidated 2017	Consolidated 2016
		$	$
Assets			
Current assets			
Cash and cash equivalents	7	475,871	259,540
Trade and other receivables	8	23,975	14,374
Other	9	380,542	278,128
Total current assets		880,388	552,042
Total assets		880,388	552,042
Liabilities			
Current liabilities			
Trade and other payables	10	50,928	112,927
Borrowings	11	-	228,378
Employee benefits	12	43,277	94,560
Total current liabilities		94,205	435,865
Non-current liabilities			
Employee benefits	13	27,945	19,475
Total non-current liabilities		27,945	19,475
Total liabilities		122,150	455,340
Net assets		758,238	96,702
Equity			
Issued capital	14	32,168,532	31,019,592
Reserves	15	46,757	46,757
Accumulated losses		(31,558,838)	(31,071,443)
Equity/(deficiency) attributable to the owners of BioDiem Limited		656,451	(5,094)
Non-controlling interest		101,787	101,796
Total equity		758,238	96,702

The above statement of financial position should be read in conjunction with the accompanying notes

Statement of changes in equity

For the year ended 30 June 2017

Consolidated	Issued Capital $	Reserves $	Accumulated Losses $	Non–controlling interest $	Total equity $
Balance at 1 July 2015	30,429,799	308,317	(30,173,331)	-	564,785
Loss after income tax expense for the year	-	-	(1,161,711)	(1,204)	(1,162,915)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	(1,161,711)	(1,204)	(1,162,915)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	589,793	-	-	103,000	692,793
Share-based payments	-	2,039	-	-	2,039
Transfer to retained earnings	-	(263,599)	263,599	-	-
Balance at 30 June 2016	31,019,592	46,757	(31,071,443)	101,796	96,702

Consolidated	Issued Capital $	Reserves $	Accumulated Losses $	Non–controlling interest $	Total equity $
Balance at 1 July 2016	31,019,592	46,757	(31,071,443)	101,796	96,702
Loss after income tax expense for the year	-	-	(487,395)	(9)	(487,404)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	(487,395)	(9)	(487,404)
Transactions with owners in their capacity as owners:					
Issue of convertible preference shares	1,148,940	-	-	-	1,148,940
Balance at 30 June 2017	32,168,532	46,757	(31,558,838)	101,787	758,238

The above statement of changes in equity should be read in conjunction with the accompanying notes

BioDiem

Statement of cash flows

For the year ended 30 June 2017

	Note	Consolidated 2017	2016
		$	$
Cash flows from operating activities			
Cash receipts in course of operations		132,165	136,604
Cash payments in course of operations		(1,079,566)	(1,433,370)
		(947,401)	(1,296,766)
Interest received		7,299	713
R&D Tax Offset received		207,493	215,707
Net cash used in operating activities	25	(732,609)	(1,080,346)
Cash flows from investing activities			
Net cash from investing activities		-	-
Cash flows from financing activities			
Proceeds from issue of shares		948,940	589,793
Proceeds from issue of shares in Opal Biosciences Limited		-	103,000
Proceeds from borrowings		-	200,000
Net cash from financing activities		948,940	892,793
Net increase/(decrease) in cash and cash equivalents		216,331	(187,553)
Cash and cash equivalents at the beginning of the financial year		259,540	446,349
Effects of exchange rate changes on cash and cash equivalents		-	744
Cash and cash equivalents at the end of the financial year	7	475,871	259,540

The above statement of cash flows should be read in conjunction with the accompanying notes

Notes to the financial statements

30 June 2017

Note 1. General information

The financial statements cover BioDiem Limited as a consolidated entity consisting of BioDiem Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is BioDiem Limited's functional and presentation currency. BioDiem Limited as a consolidated entity is "for-profit".

BioDiem Limited is an unlisted public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 4, 100 Albert Road
South Melbourne, VIC 3205

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 12 October 2017. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Going concern

The financial report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group reported a net loss after tax of $487,404 (2016: $1,162,915 net loss after tax) for the financial year ended 30 June 2017. The net loss after tax is directly attributable to the expenditures incurred in ongoing research and development activities, as well as administration expenditure. Despite the net loss after tax incurred for the period, the Directors have prepared the financial statements on the going concern basis. The going concern basis is considered appropriate based on a combination of the existing net assets of the Group, which amount to $758,235 (30 June 2016: $96,702), including cash and cash equivalent assets of $475,871 (30 June 2016: $259,540), and the expectation of Group's ongoing ability to successfully secure additional sources of financing. In this regard, the Directors note the following:

- The Group has a licensing agreement with the Serum Institute of India ("Serum"), which entitles the Group to royalty income upon sales of LAIV influenza vaccine.
- The Group has a LAIV licensing agreement with the Changchun BCHT Biotechnology Co., where the vaccine subject to the LAIV licensing agreement is currently under development. If the development and commercialisation of the vaccine is successful, the LAIV licensing agreement is expected to provide further royalty income streams over the next two years. Clinical trials in China have continued in the reporting period.
- The Group completed a Non-Renounceable pro-rata Entitlement Offer in August 2016, via the issuance of Convertible Preference Shares in the Group raising approximately $948,940 before costs.
- The Group includes a subsidiary company, Opal Biosciences which was formed in May 2015 to commercialise the asset. BDM-I technology. Opal completed a capital raising of $103,000 under its Information Memorandum which closed during the prior financial year. The Group is considering other alternative sources of cash inflows from financing initiatives, such as capital raisings.
- Directors have the ability to curtail discretionary expenditures, which form a significant part of the Group's total expenditure, enabling the Group to fund its operating expenditures within its available cash reserves. During the reporting period significant cost reductions were implemented.

Notes to the financial statements

For these reasons, the Directors believe the Group has positive future prospects and are satisfied the going concern basis of preparation of these annual financial statements is appropriate.

Whilst the directors are confident in the Group's ability to continue as a going concern, in the event the commercial opportunities and potential sources of financing described above do not eventuate as planned, there is uncertainty as to whether the Group will be able to generate sufficient net operating cash inflows or execute alternative funding arrangements to enable it to continue as a going concern.

Consequently, material uncertainty exists as to whether the Group will continue as a going concern and it may therefore be required to realise assets, extinguish liabilities at amounts different to those recorded in the statement of financial position and settle liabilities other than in the ordinary course of business.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 22.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of BioDiem Limited ('company' or 'parent entity') as at 30 June 2017 and the results of all subsidiaries for the year then ended. BioDiem Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Notes to the financial statements

30 June 2017

Foreign currency translation

The financial statements are presented in Australian dollars, which is BioDiem Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

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 costs to complete the transaction can be measured reliably.

Royalty and milestone revenue

Royalty and milestone revenues are recognised in the period in which the right to receive the royalty has been established.

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.

Interest

Interest revenue is recognised as interest accrues using the effective interest method.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

BioDiem

Notes to the financial statements

30 June 2017

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Other receivables are recognised at amortised cost, less any provision for impairment.

Research and development

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

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

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

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Notes to the financial statements

30 June 2017

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Notes to the financial statements

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2017. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

Notes to the financial statements

30 June 2017

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard and the amendments from 1 January 2018 however are not expected to impact the results currently required for future years.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 January 2018 but the consolidated entity does not expect that it will have a material impact on implementation.

BioDiem

Notes to the financial statements

30 June 2017

Note 3. Revenue

	Consolidated	
	2017	2016
	$	$
Royalty and milestone revenue	132,165	136,604
Other revenue		
Interest	11,291	3,199
Other revenue	-	12
	11,291	3,211
Revenue	143,456	139,815

Note 4. Other income

	Consolidated	
	2017	2016
	$	$
Net foreign exchange gain	(8,938)	744
Research & Development Tax Concession	301,174	204,923
Other income	292,236	205,667

Note 5. Expenses

	Consolidated	
	2017	2016
	$	$
Loss before income tax includes the following specific expenses:		
Rental expense relating to operating leases		
Rental	12,000	26,000
Employee Benefits Expense		
Wages and salaries	403,280	606,057
Superannuation - defined contribution	27,323	39,501
Other associated personnel expenses	3,030	3,119
(Decrease)/Increase in annual leave provision	(19,648)	10,234
(Decrease)/Increase in long service leave provision	(23,165)	8,752
Share based payment (see note 26)	-	2,039
Total	390,820	669,702

Notes to the financial statements

30 June 2017

Note 6. Income tax expense

	Consolidated 2017	Consolidated 2016
	$	$
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense	(487,404)	(1,162,915)
Tax at the statutory tax rate of 27.5% (2016: 30%)	(134,036)	(348,875)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	-	611
Research & Development tax incentive - not assessable	(82,823)	(61,477)
	(216,859)	(409,741)
Current year tax losses not recognised	133,694	343,727
Current year temporary differences not recognised	83,165	66,014
Income tax expense	-	-

	Consolidated 2017	Consolidated 2016
	$	$
Tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised	30,259,076	29,988,214
Potential tax benefit @ 30%	9,077,723	8,996,464

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

Note 7. Current assets – cash and cash equivalents

	Consolidated 2017	Consolidated 2016
	$	$
Cash at bank	275,871	259,540
Cash on deposit	200,000	-
	475,871	259,540

Note 8. Current assets – trade and other receivables

	Consolidated 2017	Consolidated 2016
	$	$
Trade receivables	8,201	1,868
Other receivables	2,339	-
Interest receivable	1,173	532
GST receivable	12,262	11,974
	23,975	14,374

BioDiem

Notes to the financial statements

30 June 2017

Note 9. Current assets – other

	Consolidated	
	2017	2016
	$	$
Accrued revenue	212,312	118,630
Prepayments	46,889	41,508
Short term deposits supporting bank guarantees	121,341	117,990
	380,542	278,128

The company holds two short term deposits, one ($44,916) is a three month term deposit maturing on 30 August 2017. The other ($76,425) is a six month term deposit, maturing on 25 September 2017. The term deposits are both earning 2.10% per annum.

Note 10. Current liabilities – trade and other payables

	Consolidated	
	2017	2016
	$	$
Trade payables	12,284	54,455
Other payables	38,644	58,472
	50,928	112,927

Note 11. Current liabilities – borrowings

	Consolidated	
	2017	2016
	$	$
Unsecured Loan	-	200,000
Insurance funding	-	28,378
	-	228,378

Refer to note 17 for further information on financial instruments.

In the prior financial year two of BioDiem's major shareholders contributed $200,000 through an unsecured loan prior to the opening of the Entitlement Offer Prospectus which closed subsequent to 30 June 2016. Under the terms of the Prospectus, following conclusion of a successful capital raising under the Prospectus (i.e. subscription funds of $800,000 or more) the loan would be converted to Convertible Preference Shares at the same price and with the same terms and conditions as those offered under the Prospectus.

Note 12. Current liabilities – employee benefits

	Consolidated	
	2017	2016
	$	$
Annual leave	43,277	94,560

Note 13. Non–current liabilities – employee benefits

	Consolidated	
	2017	2016
	$	$
Long service leave	27,945	19,475

Notes to the financial statements

30 June 2017

Note 14. Equity – issued capital

	Consolidated			
	2017	2016	2017	2016
	Shares	Shares	$	$
Ordinary shares - fully paid	174,734,060	174,734,060	31,019,592	31,019,592
Convertible Preference shares - fully paid	14,392,433	-	1,148,940	-
	189,126,493	174,734,060	32,168,532	31,019,592

Movements in ordinary share capital

Details	Date	Shares	Issue price	$
Balance	1 July 2015	167,361,644		30,429,799
Placement	1 October 2015	3,735,250	$0.080	298,820
Non-renounceable pro-rata entitlement offer	21 December 2015	471,844	$0.080	37,748
Shortfall share issue	19 January 2016	3,165,322	$0.080	253,225
Balance	30 June 2016	174,734,060		31,019,592
Balance	30 June 2017	174,734,060		31,019,592

Movements in Convertible preference share capital

Details	Date	Shares	Issue price	$
Balance	30 June 2016	-		-
Convertible preference shares	8 August 2016	14,392,433	$0.080	1,151,395
Capital raising costs		-	$0.000	(2,455)
Balance	30 June 2017	14,392,433		1,148,940

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Convertible Preference shares

Preference shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held, with priority over ordinary shareholders.

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital risk management policy remains unchanged from the 2016 Annual Report.

BioDiem

Notes to the financial statements

30 June 2017

Note 15. Equity – reserves

	Consolidated	
	2017	2016
	$	$
Share-based payments reserve	46,757	46,757

Share–based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Share based payments $	Total $
Balance at 1 July 2015	308,317	308,317
Share based payment	2,039	2,039
Transfer to retained earnings	(263,599)	(263,599)
Balance at 30 June 2016	46,757	46,757
Balance at 30 June 2017	46,757	46,757

Note 16. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Note 17. Financial instruments

Financial risk management objectives

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

Market risk

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

Price risk

The consolidated entity is not exposed to any significant price risk.

Interest rate risk

The company is not exposed to significant interest rate risk.

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 recognised credit agencies. The maximum exposure to credit risk is represented by the carrying amounts of the financial assets in the Statement of Financial Position. None of the company's receivables are past their due date.

Liquidity risk

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Notes to the financial statements

30 June 2017

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated - 2017	%	$	$	$	$	$
Non-derivatives						
Non-interest bearing						
Trade payables	-	48,589	-	-	-	48,589
Total non-derivatives		48,589	-	-	-	48,589

	Weighted average interest rate	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Remaining contractual maturities
Consolidated - 2016	%	$	$	$	$	$
Non-derivatives						
Non-interest bearing						
Trade payables	-	112,927	-	-	-	112,927
Total non-derivatives		112,927	-	-	-	112,927

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Guarantees

The Group has in place two term deposits for periods of six months and three months amounting to $76,425 and $44,916 respectively totalling $121,341 (2016: $117,990) in support of its undertakings under a guarantee for $60,000 on account of the Group's credit cards.

Note 18. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton Audit Pty Ltd, the auditor of the company:

	Consolidated	
	2017	2016
	$	$
Audit services - Grant Thornton Audit Pty Ltd		
Audit or review of the financial statements	41,000	42,073

Notes to the financial statements

30 June 2017

Note 19. Contingent liabilities

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

The consolidated entity holds a licence to commercialise the BDM-I antimicrobial technology from the Institute of Experimental Medicine. Under this agreement the consolidated entity is obliged to pay the Institute of Experimental Medicine 10% of all payments received from any Licensee and 10% of any royalties arising from net sales (or 5% in each case, where the commercialisation is done by the consolidated entity). Once raising at least $1.5m into Opal Biosciences a one-off payment will be made by Opal Biosciences to the IEM in consideration of the assignment of the BDM-I technology into Opal Biosciences.

Note 20. Commitments

The company entered into a non-cancellable operating lease on 7 January 2013 in respect of its previous office. The twelve month lease expired on 6 January 2014 with an option to extend for a further twelve month period. The company chose not to extend the lease. The company currently occupies office premises with an rental agreement in place that enables cancellation with two months' notice.

Note 21. Related party transactions

Parent entity

BioDiem Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 23.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2017	2016
	$	$
Other transactions:		
Short-term employee benefits	253,836	385,197
Post-employee benefits	16,831	20,345
Share-based payment	-	2,039

Prof Rudenko is the Head of the Virology Department at the Institute of Experimental Medicine ("the Institute"). During the course of the year the Group paid licence fees and royalties amounting to $26,085 (2016: $36,265) to the Institute. In addition, research and development costs amounting to $15,000 (2016: $45,000) were also paid to the Institute.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

In the prior financial year the Company received a $100,000 unsecured loan from Hugh Morgan (who is a related party by virtue of being a director of the Company) during the financial year, which formed part of the $200,000 unsecured loan received prior to the commencement of the Entitlement Offer Prospectus. Under the terms of the Prospectus, the loan would convert into Convertible Preference Shares upon the minimum of $800,000 being reached under the Offer, which occurred subsequent to year end.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Notes to the financial statements

30 June 2017

Note 22. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2017	2016
	$	$
Loss after income tax	(487,214)	(1,138,324)
Total comprehensive income	(487,214)	(1,138,324)

Statement of financial position

	Parent	
	2017	2016
	$	$
Total current assets	802,340	473,803
Total assets	802,340	473,803
Total current liabilities	94,205	435,865
Total liabilities	122,150	455,340
Equity		
Issued capital	32,168,532	31,019,592
Share-based payments reserve	46,757	46,757
Accumulated losses	(31,535,099)	(31,047,886)
Total equity	680,190	18,463

Notes to the financial statements

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2017 and 30 June 2016.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2017 and 30 June 2016, other than as mentioned below.

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

The consolidated entity holds a licence to commercialise the BDM-I antimicrobial technology from the Institute of Experimental Medicine. Under this agreement the consolidated entity is obliged to pay the Institute of Experimental Medicine 10% of all payments received from any Licensee and 10% of any royalties arising from net sales (or 5% in each case, where the commercialisation is done by the consolidated entity). Once raising at least $1.5m into Opal Biosciences a one-off payment will be made by Opal Biosciences to the IEM in consideration of the assignment of the BDM-I technology into Opal Biosciences.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2017 and 30 June 2016.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

Note 23. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

		Ownership interest	
	Principal place of business / Country of incorporation	2017	2016
Name		%	%
Savine Therapeutics Pty Ltd	Australia	100.00%	100.00%
Opal Biosciences Limited*	Australia	95.10%	95.10%

* On 6 July 2015 the Company received approval from its shareholders at a General Meeting to assign the BDM-I technology into Opal Biosciences Limited. Consideration payable by Opal for this assignment comprised the following:

(i) the issue by Opal to BioDiem of 10 million fully paid ordinary shares;
(ii) the issue by Opal to BioDiem of 5 million options; and
(iii) $500,000 cash consideration

The reason BioDiem proposed to assign the BDM-I technology to Opal was to raise capital to develop the BDM-I technology without diluting existing shareholders' interest in the Company while ensuring that shareholders keep access to the value of the BDM-I technology and potential future upside. As at 30 June 2017 the assignment of the BDM-I technology has not taken place, as Opal Biosciences has not yet completed all of the conditions precedent for the assignment of the BDM-I technology, which includes payment to BioDiem of $500,000 cash consideration.

During the prior financial year Opal Biosciences raised a total of $103,000 via the issue of 515,000 ordinary shares and the grant of 248,125 options in accordance with the information memorandum dated 15 May 2015. The Opal Biosciences capital raising closed on 15 May 2016. BioDiem retains the majority shareholding of Opal Biosciences due to its equity holding and continues to support the development of Opal Biosciences' asset, BDM-I.

Notes to the financial statements

30 June 2017

Note 24. Events after the reporting period

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 25. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2017	2016
	$	$
Loss after income tax expense for the year	(487,404)	(1,162,915)
Adjustments for:		
Share-based payments	-	2,039
Foreign exchange differences	-	15,810
Change in operating assets and liabilities:		
Increase in trade and other receivables	(7,264)	(396)
Increase in prepayments	(5,381)	(3)
Increase in other current assets	(97,032)	(8,274)
Increase/(decrease) in trade and other payables	(92,715)	26,029
Increase/(decrease) in employee benefits	(42,813)	18,986
Increase in other provisions	-	28,378
Net cash used in operating activities	(732,609)	(1,080,346)

Note 26. Share-based payments

The Group has an Employees' and Officers' Incentive Option Scheme pursuant to which options may be issued to eligible persons, being directors', employees and consultants or their approved nominees. Eligible persons may receive options based on the achievement of specific performance hurdles, which are a blend of Group and personal objectives appropriate for the roles and responsibilities of each individual. Under the scheme signed in October 2006, the Group has the ability to issue options up to 5 percent of the issued capital. As at 30 June 2017 there were 174,734,060 shares on hand.

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

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

At the Annual General Meeting, held on 8 October 2013, 2 million options were granted to the CEO under the scheme. The options vested in accordance with the Scheme rules and lapse after 30 September 2023.

All options vest on the basis of one third per annum after the year of issue. There are no voting rights or dividend rights attached to these options. All these options expire on the earlier of the expiry date or the date of the employee termination, unless otherwise agreed. No shares issued on exercise of options granted under the scheme during the year or in the previous year.

BioDiem

Notes to the financial statements

Set out below are summaries of options granted under the plan:

2017							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
08/10/2013	30/09/2023	$0.080	666,667	-	-	-	666,667
08/10/2013	30/09/2023	$0.120	666,667	-	-	-	666,667
08/10/2013	30/09/2023	$0.200	666,666	-	-	-	666,666
			2,000,000	-	-	-	2,000,000
Weighted average exercise price			$0.133	$0.000	$0.000	$0.000	$0.133

2016							
Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
08/10/2013	30/09/2023	$0.080	666,667	-	-	-	666,667
08/10/2013	30/09/2023	$0.120	666,667	-	-	-	666,667
08/10/2013	30/09/2023	$0.200	666,666	-	-	-	666,666
			2,000,000	-	-	-	2,000,000
Weighted average exercise price			$0.133	$0.000	$0.000	$0.000	$0.133

Set out below are the options exercisable at the end of the financial year:

		2017	2016
Grant date	Expiry date	Number	Number
08/10/2013	30/09/2023	2,000,000	2,000,000
		2,000,000	2,000,000

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
08/10/2013	30/09/2023	$0.030	$0.080	100.00%	-	3.97%	$0.024
08/10/2013	30/09/2023	$0.030	$0.120	100.00%	-	3.97%	$0.024
08/10/2013	30/09/2023	$0.030	$0.200	100.00%	-	3.97%	$0.022

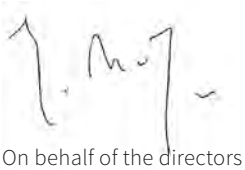
Directors' declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



On behalf of the directors

H M Morgan AC
Director

12 October 2017
Melbourne

BioDiem

Independent auditor's report to the members of BioDiem Limited

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Independent Auditor's Report to the Members of Biodiem Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Biodiem Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and

b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the financial report, which indicates the Group incurred a net loss of $487,404 during the year ended 30 June 2017. This condition, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion has not been modified in respect of this matter.

Independent auditor's report to the members of BioDiem Limited

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Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Directors' 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M A Cunningham
Partner - Audit & Assurance

Melbourne, 12 October 2017

Corporate directory

Directors
Mr Hugh M Morgan AC (Chairman, Non-Executive Director)
Ms Julie Phillips (Chief Executive Officer)
Prof Larisa Rudenko (Non-Executive Director)
Prof Arthur Kwok Cheung Li (Non-Executive Director)

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