BioDiem Ltd

ABN 20 096 845 993

Financial Report
For the year ended
30 June 2012

BioDiem Ltd

Table of contents

	Page

Directors' report

The Directors present their report together with the consolidated financial report of BioDiem Ltd ("the Company and its subsidiary, Savine Therapeutics Pty Ltd, together referred to as the "Group") for the financial year ended 30 June 2012 and the auditor's report thereon.

1. Directors

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

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

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

2. Company Secretary

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

3. Officers who were previously partners of the audit firm

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

4. Directors' meetings

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

	Board Meetings		Audit Committee		Remuneration & Nomination Committee	
Directors' Meetings	**Held ***	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Mr H Morgan	9	9	2	2	1	1
Mr D Brooks	9	8	2	1	1	1
Ms J Phillips	9	9				
Dr L Rudenko	9	8			1	1
Dr A Li	9	7	2	2	1	1

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

5. Corporate governance statement

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

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

- The Group does not currently comply with Corporate Governance Principle 2.1 and Principle 8.2: the majority of directors should be independent, and Principle 2.2: the Chair should be an independent director.

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

- The Group does not currently comply with Corporate Governance Principle 3.2: the Group should establish a policy concerning gender diversity.

  Currently, the Group endeavours to employ the most qualified and effective employees irrespective of their gender. The Group currently employs a total of three people, all employees are women. The Board consists of five people, two of which are women.

- The Group does not currently comply with Corporate Governance Principle 4.2: the Chairman of the Audit Committee should also not be the Chairman of the Board.

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

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

5. Corporate governance statement (continued)

5.1 Board of Directors

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

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

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

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

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

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

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

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

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

5. Corporate governance statement (continued)

5.1 Board of Directors (continued)

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

5.2 Director education

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

5.3 Independent advice

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

5.4 Remuneration & Nomination Committee

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

The members of the Committee during the year were:

Mr H Morgan - Non-executive Chairman
Mr D Brooks - Non-executive
Dr L Rudenko - Non-executive

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

Remuneration and other terms of employment are reviewed annually by the Committee having regard to performance against goals set at the start of the year and relevant comparative information. The Group did not subscribe to any external remuneration expert advice during the course of the year. Remuneration packages include superannuation as well as base salary.

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

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

5. Corporate governance statement (continued)

5.5 Remuneration Report

The remuneration report is set out on pages 14 to 20 and forms part of the Directors' report for the financial year ended 30 June 2012.

5.6 Audit Committee

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

The members of the Audit Committee during the year were:

Mr H Morgan	Non-executive Chairman
Mr D Brooks	Non-executive
Dr A Li	Non-executive

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

The Chief Executive Officer and the Chief Financial Officer declared in writing to the Board that the financial records of the Group for the financial year have been properly maintained, the Group's financial reports for the year ended 30 June 2012 comply with accounting standards and present a true and fair view of the Group's financial position and operational results.

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

The responsibilities of the Audit Committee include:

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

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

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

5. Corporate governance statement (continued)

5.7 Risk management

5.7.1 Oversight of the risk management system

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

5.7.2 Risk profile

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

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

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

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

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

5.7.3 Financial Reporting

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

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

5. Corporate governance statement (continued)

5.7.4 Key business risks

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

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

5.8 Ethical Standards

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

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

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

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

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

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

5. Corporate governance statement (continued)

5.9 Communication with shareholders

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

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

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

6. Principal activities of the Group

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

7. Review of operations

The Statement of Comprehensive Income shows a loss after tax for the year of $1.009m compared to a loss after tax of $2.619m in 2011. The Group received licensing fee revenue from the Serum Institute of India and Changhun BCHT Biotechnology Co. Interest income was $0.028m compared to $0.080m during the corresponding period in 2011. Research activity costs were $1.085m compared to $1.252m in 2011. Administration expenses were $1.368m as compared to $1.638m in the previous year.

The Group commenced the financial year with cash reserves of $2.580m. Cash outlays were $2.583m compared to $2.868m in the prior year for research and administration. Cash inflows were $1.331m from licensing agreements (2011: $0.255m from royalties). Cash reserves at the end of the financial year totalled $1.369m. The Company holds its cash reserves mainly in Australian term deposits. In addition the Group holds funds in a USA dollar account. This helps to provide a natural hedge against future overseas research expenditures. The Group has not entered into any forward contracts.

8. Significant changes in the state of affairs

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

9. Review of Research

The focus of the Group during the year was to continue development of its assets towards commercialisation and outlicensing.

9. Review of Research (continued)

Vaccine technologies

Live attenuated influenza virus technology

On 1 August 2011 BioDiem announced the transition of the LAIV program from Nobilon with the return of rights.

In August 2011 the LAIV technology was licensed directly to the World Health Organisation (WHO) for developing countries as part of the Global Pandemic Influenza Action Plan. Commercial licences were issued to Serum Institute of India (August 2011) and Changchun BCHT (February 2012). Receipts from these licences totalled $1.4m in the 2011-2012 year.

BioDiem's partner, the Institute for Experimental Medicine (IEM), Russia, has continued preparing and supplying LAIV reassortant viruses for the WHO during the year including for avian (or bird) flu. Under the IEM's agreement with PATH, Phase I clinical studies of avian influenza strain have been undertaken with Phase II trials expected later in the year. A Phase I avian flu vaccine trial has also commenced in Thailand.

LAIV Vector technology

As the first step in the LAIV vector program, in May 2012 a collaboration commenced with VIVALIS, a French vaccine technology Group to investigate the synergy of VIVALIS' proprietary technology with the LAIV. A project has been commenced at the RMIT under Professor Peter Smooker to explore novel options for LAIV vector development as a basis for new non-influenza vaccines.

SAVINE technology

SAVINE Therapeutics Pty Ltd was acquired in December 2011 to access proprietary technologies for targeting tuberculosis, Epstein Barr virus, HIV and other diseases.

Dengue fever vaccine technology

In June 2012 BioDiem acquired a licence for a flavivirus vaccine technology from the Australian National University with the first disease target being dengue fever.

Hepatitis vaccine technology

In June 2012 BioDiem acquired a licence for a hepatitis vaccine technology from the University of Canberra which is to be developed for the treatment of hepatitis D.

Infectious disease technology

BDM-I

Confirmation of BDM-I's activity against a broad range of serious pathogens continued through the year as a result of screening experiments undertaken by local and overseas infectious diseases groups and institutes. The pathogens include BioDiem's nominated disease targets of MRSA (methicillin-resistant Staph aureus) and aspergillosis. Encouraging results in schistosomiasis were also seen. Two US patents were granted for malaria and trichomoniasis, and vulvovaginitis. A new provisional patent was lodged for activity against Scedosporium spp.

Eye disease technology

BDM-E

In November 2011 a new patent was lodged for BDM-E analogues based on the results of research studies undertaken.

In May 2012 a research project was announced with the Foundation Fighting Blindness in the US to conduct a study in their retinitis pigmentosa non-clinical model.

10. Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any other item, transaction or event of a material or unusual nature likely, in the opinion of the directors of the Group, to affect significantly the operations of the entity, the results of those operations or the state of affairs of the entity in future financial years, save and except that the Company announced on 28 September 2012 that it intends to raise $2.5m through a part underwritten renounceable rights issue. It is expected that the rights issue will close on 2 November 2012.

11. Dividends

The Company has not paid or declared any dividends during the financial year ended 30 June 2012.

12. Likely developments

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

13. Environmental regulation

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

14. Non-Audit Services

During the year KPMG, the Group's auditor, performed services other than their statutory duties.

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

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

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

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

Statutory audit	**2012 $**	**2011 $**
Auditors of the Group		
- Audit and interim review	57,000	55,000
Services other than statutory audit		
- Tax advisory	28,848	-
	85,848	55,000

15. Indemnification of officers

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

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

16. Directors' Interest

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

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

17. Share Options

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

Unissued shares under option at year end:

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

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

18. Remuneration Report

Remuneration levels for key management personnel of the Group are competitively set in order to attract and retain appropriately qualified and experienced directors and executives.

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

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

Fixed remuneration consists of base remuneration, calculated on a total cost basis, as well as employer contributions to superannuation funds. Remuneration levels are reviewed annually by the Remuneration Committee through a process that considers individual contribution. As and when required external advice is sought to ensure that the remuneration remains competitive in the market place. The Group did not seek external remuneration advice during the year.

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

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 their contribution to the Group and through their achievement of a blend of Group and personal objectives appropriate for the roles and responsibilities of each individual. Performance factors that relate to the options are represented by service conditions.

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

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

18.1 Service Agreements

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

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

- a consultancy agreement with Prof. Rudenko. It can be terminated by either party upon breach of the agreement immediately, if the party in breach fails to remedy it within 14 days of receipt of a related notice; otherwise it can be terminated by one month's notice by either party. Termination shall not relieve a party from any liability to the other in respect of obligations or rights and remedies of the other party which have accrued prior to termination.

18. Remuneration Report (continued)

18.1 Service Agreements (continued)

- a consultancy agreement with Subtech International Pty Ltd., where Subtech agrees to provide the services of Julie Phillips to BioDiem. BioDiem will pay $305,000 per annum in 12 equal monthly instalments (2011: $305,000). The agreement is for a period of one year. In August 2011 this fee was reduced to $244,000 as a result of a Board-wide fee voluntary reduction. The agreement may be terminated without cause by BioDiem giving three months written notice, and BioDiem may provide payment in lieu. BioDiem can terminate the agreement immediately at any time for specified reasons.
- in August 2011, the Group signed a twelve month consulting agreement with David Baillieu. Mr Baillieu ceased his employment with the Group but to ensure an orderly transition a consulting agreement costing $80,000 was put in place.

18.2 Non-executive directors

Total remuneration for all non-executive directors in respect of their duties as directors, was last voted upon by shareholders at the 2005 AGM is not to exceed $400,000 per annum. In August 2011 the Chairman's base fee of $75,000 was reduced to $50,000 and Directors' base fees of $50,000 per annum were reduced to $35,000 per annum. Committee fees of $8,000 per annum for services on the Audit Committee and $8,000 each for services on the Nomination and Remuneration Committees are in place. No Committee fees are paid to new directors.

These fees were set on the advice from external advisors with reference to other non-executive directors of comparable companies. The Group did not seek advice from external advisors in the current year.

18. Remuneration Report (continued)

18.3 Directors' and executive officers' remuneration

Details of the nature and amount of each major element of remuneration of each director of the Company and ther key management personnel are included in the following tables.

		Short-term				Post-employment	Other Long-term	Termination benefits $	Share-based payments					
In AUD	Year	Salary & fees $	STI cash bonus $	Non-monetary benefits $	Total $	Superannuation benefits $	$		Options $(A)	Shares $	Total $	Grand Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Directors														
Non-Executive Directors														
Mr H Morgan	2012	51,666			51,666	4,650	-	-	-	-	-	56,316	0.0%	0/0%
	2011	70,000	-	-	70,000	6,300	-	-	-	-	-	76,300	0.0%	0.0%
Mr D Brooks	2012	51,766	-	-	51,766	-	-	-	-	-	-	51,766	0.0%	0.0%
	2011	66,771	-	-	66,771	-	-	-	-	-	-	66,771	0.0%	0.0%
Dr L Rudenko	2012	155,000			155,000							155,000	0.0%	0.0%
	2011	155,000	-	-	155,000	-	-	-	-	-	-	155,000	0.0%	0.0%
Dr. A Li	2012	35,951	-	-	35,951	-	-	-	-	-	-	35,951	0.0%	0.0%
	2011	50,000	-	-	50,000	-	-	-	-	-	-	50,000	0.0%	0.0%

18. Remuneration Report (continued)

18.3 Directors' and executive officers' remuneration (continued)

			Short-term			Post-employment	Other Long-term	Termination benefits $	Share-based payments					
In AUD	Year	Salary & fees $	STI cash bonus $	Non-monetary benefits $	Total $	Superannuation benefits $	$		Options $(A)	Shares $	Total $	Grand Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Executive Directors														
Ms J Phillips	2012	249,090	-	-	249,090	-	-	-	-	-	-	249,090	-	-
	2011	305,000	25,000	-	330,000	-	-	-	-	-	-	330,000	7.6%	n/a
Total Directors	2012	543,473	-		543,473	4,650	-	-	-	-	-	548,123	-	-
	2011	646,771	25,000	-	671,771	6,300	-	-	-	-	-	678,071	7.6%	0.0%

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

18. Remuneration Report (continued)

18.3 Directors' and executive officers' remuneration (continued)

			Short-term			Post-employment	Other Long-term	Termination benefits $	Share-based payments					
In AUD	Year	Salary & fees $	STI cash bonus $	Non-monetary benefits $	Total $	Superannuation benefits $	$		Options $(A)	Shares $	Total $	Grand Total $	Proportion of remuneration performance related %	Value of options as proportion of remuneration %
Executives														
Mr D Baillieu, Manager – Legal and Administration (B)	2012	78,750	-	-	78,750	1,688	-	78,738	533	-	533	159,709	0%	0.3%
	2011	150,000	-	-	150,000	13,500	-	-	1,600	-	1,600	165,100	1.0%	1.0%
Total compensation: Key Management Personnel	2012	622,223	-	-	622,223	6,338	-	78,738	533	-	533	707,832	0%	0.1%
	2011	796,771	25,000	-	821,771	19,800	-	-	1,600	-	1,600	843,171	-	-

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

(B) D. Baillieu resigned as an executive on 15 August 2011, he remained involved in the Group on a consultancy basis. His salary and fees includes $60,000 of consultancy fees earned during the period. Under the consultancy agreement Mr Baillieu is entitled to retain his options through to 18 August 2013.

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

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

The value disclosed below is the portion of the fair value of the options allocated to this reporting period. The following factors and assumptions were used in determining the fair value of options on the grant date.

18. Remuneration Report (continued)

18.3 Directors' and executive officers' remuneration (continued)

No options were issued in the financial year ended 30 June 2012.

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

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

A total of nil options were forfeited / lapsed in the current year (2011: 204,195).

A total of 30,000 (2011: 30,000) options vested during the financial period.

18.4 Options over equity instruments granted as compensation

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

Executives	Number of options granted during 2012	Grant date	Fair value per option at grant date ($)	Exercise price per option	Expiry date	Number of options vested during 2012
Mr D Baillieu	-	-	-	-	-	30,000

Mr. Baillieu resigned as an executive on 15 August 2011, he remained involved in the Group on a consultancy basis. Under the consultancy agreement Mr Baillieu is entitled to retain his options through to 15 August 2013.

18.5 Exercise of options granted as compensation

During the reporting period, no options were exercised.

18.6 Analysis of options over equity instruments granted as compensation

Options	Options granted				
Directors	Number	Date	% vested in year	% forfeited in year	Financial years in which grant vests
Mr H Morgan	34,144	2007	-	-	Fully vested
Mr D Brooks	34,144	2007	-	-	Fully vested
Dr L Rudenko	34,144	2007	-	-	Fully vested
Ms J Phillips	-	-	-	-	-
	102,432	-	-	-	
Executives					
Mr D Baillieu	21,193	2007	-	-	Fully vested
	30,000	2008	33.3		2012
	60,000	2009	33.3		2013

18. Remuneration Report (continued)

18.7 Analysis of movement in options

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

	Granted during 2012 $ (A)	Value of Options Exercised in year $ (B)	Lapsed in year $ (A)
Directors			
Mr H Morgan	-	-	-
Mr D Brooks	-	-	-
Dr L Rudenko	-	-	-
Executives			
Mr D Baillieu (C)	-	-	-

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

(A) No options were granted or lapsed during the financial year ended 30 June 2012 (2011: nil).

(B) No options were exercised during the financial year ended 30 June 2012 (2011: nil).

(C) Mr. Baillieu resigned as an executive on 15 August 2011, he remained involved in the Group on a consultancy basis. Under the consultancy agreement Mr Baillieu is entitled to retain his options through to 15 August 2013.

18.8 Audit of the Remuneration Report

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

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

The lead auditor's independence declaration is set out on page 21 and forms part of the Directors' report for the year ended 30 June 2012.

This report is made with a resolution of the directors:

H M Morgan AC
Director

28 September 2012

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

To: the directors of BioDiem Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been:

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

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

KPMG

KPMG

Tony Romeo
Partner

Melbourne
28 September 2012

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

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

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 26 to 49.

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

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

The consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 26 to 49.

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

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

The consolidated statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 26 to 49.

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

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

The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 26 to 49.

1 Reporting entity

BioDiem Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is Level 10, South Tower, 459 Collins Street, Melbourne, Victoria 3000. This annual financial report of the Group is for the financial year ended 30 June 2012 and comprises the Company and its subsidiary Savine Therapeutics Pty Ltd (together referred to as the "Group"). The Group is a for-profit entity and operates in the biopharmaceutical industry developing and commercialising biomedical research.

2 Basis of preparation

(a) Statement of compliance

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

The consolidated financial statements were approved by the Board of Directors on 28 September 2012.

(b) Basis of measurement

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

(c) Basis of consolidation

(i) Business combinations

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

The Group measures goodwill at the acquisition date as:

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

(ii) Subsidiaries

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

2 Basis of preparation (continued)

(c) Going Concern

Despite the loss of $1.01m (2011: $2.62m) for the financial year ended 30 June 2012, the Directors have prepared the annual financial report on the going concern basis under which assets are assumed to be realised and liabilities extinguished in the ordinary course of business. The going concern basis is considered appropriate since the net assets of the Group are $1.50m (2011: $2.50m), which includes cash and cash equivalent assets of $1.37m (2011: $2.58m). Based on management's current forecasts, the balance of cash and cash equivalents is sufficient to fund the Group's ongoing operations for at least the 12 months from the date of approval of these financial statements. Directors always have the ability to curtail discretionary expenditures, which form a significant part of the Group's total expenditure. The Group has a marketing agreement with the Serum Institute of India and expects it to generate royalties during the year. In addition, the Group now has a LAIV licensing agreement with the Changchun BCHT Biotechnology Co. where the vaccine is currently under development, if successful, this license is expected to provide further royalty streams in due course.

As noted under Subsequent events (note 27) the Company announced on 28 September 2012 that it intends to raise $2.5m through a part underwritten renounceable rights issue. It is expected that the rights issue will close on 2 November 2012. For these reasons, the Directors believe the Group has future prospects and does not need to prepare these statements on a liquidation basis.

(d) Use of judgements and estimates

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

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

i) Utilisation of tax losses

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

ii) Going concern

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

3 Significant accounting policies

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

3 Significant accounting policies (continued)

(a) Foreign currency transactions

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

(b) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, and trade and other payables. Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest rate method.

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

Cash and cash equivalents comprise cash balances and call deposits.

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

(ii) Issued capital

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

(c) Plant and equipment

(i) Recognition and measurement

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

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

(ii) Depreciation

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

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

	2012	**2011**
Plant and equipment	33%	33%
Furniture and fittings	20%	20%

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

3 Significant accounting policies (continued)

(d) Research and development

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

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

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

(e) Impairment

(i) Financial assets

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

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

(ii) Non-financial assets

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

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use or its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

(f) Employee benefits

(i) Defined contribution superannuation funds

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

3 Significant accounting policies (continued)

(f) Employee benefits (continued)

(ii) Other long-term employee benefits

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

(iii) Termination benefits

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

(iv) Short-term benefits

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

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

(v) Share-based payment transactions

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

(vi) Director share-based compensation

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

(g) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(h) Revenue

(i) Licensing fees

Licensing fees derived from the grant of rights to exploit certain master donor strains are recognised by reference to the stage of completion at the transaction date. This is expected to be when the milestone events outlined in the contract have occurred.

3 Significant accounting policies (continued)

(h) Revenue (continued)

No revenue is recognised unless the outcome of a transaction can be estimated reliably, it is probable that the economic benefits associated with the transaction will flow to the entity, the stage of completion can be measured reliably, and costs incurred for the transaction and costs to complete the transaction can be measured reliably.

(ii) Royalty revenue

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

(iii) Grant revenue

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

(i) Lease payments

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

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

(j) Finance income and expenses

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

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

(k) Income tax

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

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

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

3 Significant accounting policies (continued)

(k) Income tax (continued)

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

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

(l) Goods and services tax

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

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

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(m) Earnings per share

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

(n) Segment reporting

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

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

(o) New standards and interpretations not yet adopted

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

4 Determination of fair values

Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Share-based payment transactions

The fair value of employee stock options is measured using the Black-Scholes formula. Measurement inputs include share price on grant date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

5 Financial risk management

(i) Overview

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

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

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

The Board of directors have overall responsibility for the establishment and oversight of the risk management framework.

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

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

(ii) Credit risk

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

Trade licensees and other receivables

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

5 Financial risk management (continued)

Investments

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

Guarantees

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

(iii) Liquidity risk

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

(iv) Market risk

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

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

(v) Currency risk

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

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

(vi) Interest rate risk

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

(vii) Capital management

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

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

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

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

10 Taxation

(a) Income tax benefit / (expense)

	2012 $	2011 $
Recognised in the statement of comprehensive income		
Current tax (benefit) / expense		
Current year	(312,925)	(772,665)
Unrecognised deferred tax assets relating to tax losses	312,925	772,665
	-	-
Deferred tax (benefit) / expense		
Origination and reversal of temporary differences	10,110	(13,015)
Change in unrecognised temporary differences	(10,110)	13,015
	-	-
Total income tax (benefit) / expense in statement of comprehensive income	-	-

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

(b) Reconciliation between income tax benefit / (expense) and before income tax net loss

	2012 $	2011 $
Loss before income tax	(1,009,384)	(2,618,933)
Income tax (benefit) / expense calculated at domestic statutory tax rate of 30% (2011: 30%)	(302,815)	(785,680)
Increase/(decrease) in income tax benefit / (expense) due to:		
Movement in temporary differences	(10,110)	13,015
Current year losses for which a deferred tax asset was not recognised	312,925	772,665
Total income tax (benefit) / expense	-	-

10 Taxation (continued)

(c) Unrecognised deferred tax assets

	2012 $	2011 $
Deferred tax assets have not been recognised in respect of the following items:		
Deductible temporary differences	16,436	13,015
Tax losses carried forward	8,292,664	7,979,739
	8,309,100	7,992,754

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

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

11 Cash and cash equivalents

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

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

12 Trade and other receivables - current

Other receivables	50,966	55,786
R&D incentive receivable	317,000	-
	367,966	55,786

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

13 Other assets - current

	2012 $	2011 $
Prepayments	17,188	29,397

14 Plant and equipment

	2012 $	2011 $
At cost	180,346	180,346
Accumulated depreciation and impairment losses	(174,219)	(162,718)
Carrying amount	6,127	17,628
Cost		
Balance at beginning of financial year	180,346	162,555
Additions	-	17,791
Disposals	-	-
Balance at end of financial year	180,346	180,346
Accumulated depreciation and impairment losses		
Balance at beginning of financial year	(162,718)	(151,349)
Depreciation charge for the year	(11,501)	(11,369)
Balance at end of financial year	(174,219)	(162,718)
Carrying amount at beginning of financial year	17,628	11,206
Carrying amount at end of financial year	6,127	17,628

15 Trade and other payables

	2012 $	2011 $
Current		
Trade creditors	2,841	47,401
Other creditors and accruals	202,231	54,848
	205,072	102,249

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

16 Employee benefits

	2012 $	2011 $
(a) Current		
Liability for annual leave	32,748	35,171
Liability for long service leave	13,177	41,680
	45,925	76,851
Non-Current		
Liability for long service leave	8,863	5,382

(b) Equity settled 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 2012 there were 102,095,554 shares on hand.

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

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

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

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

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

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

16 Employee benefits (continued)

(c) Share based payments

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

[1] These options lapsed on 4 July 2012

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

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

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

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

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

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

17 Capital and reserves

(a) Reconciliation of movement in capital and reserves

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

(b) Issued capital

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

All shares issued are fully paid up.

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

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

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

17 Capital and reserves (continued)

Share based compensation reserve

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

18 Notes to the statement of cash flows

(a) Reconciliation of cash

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

	Note	2012 $	2011 $
Cash and cash equivalents	11	1,369,347	2,580,399

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

	2012	2011
Loss for the year	(1,009,384)	(2,618,933)
Adjustments for:		
Depreciation	11,502	11,369
Impairment	20,000	-
Net finance expenses/(income)	(21,867)	13,721
Equity-settled share based payment expenses	1,422	4,266
Operating loss before changes in working capital and provision	(998,327)	(2,589,577)
(Increase)/decrease in trade and other receivables	(312,179)	47,041
Decrease/(increase) in prepayments	12,209	(10,948)
(Decrease)/increase in trade and other payables	(44,560)	5,975
Increase/(decrease) in accruals	147,383	(6,061)
(Decrease)/increase in employee benefit liabilities	(27,445)	20,464
Net cash used in operating activities	(1,222,919)	(2,533,106)

19 Financial instruments

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

(a) Liquidity risk

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

2012	Note	Effective interest rate	Total	6 months or less	6–12 months	1–2 years	2–5 years	More than 5 years
Financial assets								
Cash and cash equivalents	11	3.01%	1,369,347	1,369,347	-	-	-	-
Trade and other receivables	12	-	367,966	367,966	-	-	-	-
			1,737,313	1,737,313	-	-	-	-
Financial liabilities								
Trade and other payables	15	-	205,072	205,072	-	-	-	-

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

(b) Foreign currency risk

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

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

19 Financial instruments (continued)

(c) Credit risk

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

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

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

(d) Guarantees

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

(e) Net fair values of financial assets and liabilities

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

20 Operating lease commitments

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

	2012	2011
	$	$
Within one year	51,760	118,044
Later than one year and no later than five years	-	50,000
	51,760	168,044

The entity leases property under a non-cancellable operating lease.

The lease has a five year term from November 15, 2007.

21 Contingent liabilities

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

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

22 Loss per share

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

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

23 Related party disclosures

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

Non Executive Directors

Mr H Morgan (Chairman)

Mr D Brooks

Dr L Rudenko

Dr A Li

Executive Directors

Ms J Phillips. And continuing director of Savine Therapeutics Pty Ltd.

Executives

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

:

23 Related party disclosures (continued)

The key management personnel's compensation was as follows:

	2012 $	2011 $
Short-term employee benefits	622,223	821,771
Other long term benefits	-	-
Post-employment benefits	6,338	19,800
Termination benefits	78,738	-
Equity settled share based compensation	533	1,600
Total key management personnel compensation	707,832	843,171

Individual directors and executive compensation disclosures

Information regarding individual directors and executives compensation is provided in the Remuneration Report section of the Directors' report on pages 14 to 20.

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

Employee Options

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

23 Related party disclosures (continued)

Options over equity instruments granted as compensation

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

Options	Held at 1 July 2011	Granted as compensation	Exercised	Other changes *	Held at 30 June 2012	Vested during the year	Vested and exercisable at 30 June 2012
Directors							
Mr H Morgan	34,144	-	-	-	34,144	-	34,144
Mr D Brooks	34,144	-	-	-	34,144	-	34,144
Dr L Rudenko	34,144	-	-	-	34,144	-	34,144
Ms J Phillips	-	-	-	-	-	-	-
	102,432	-	-	-	102,432	-	102,432
Executives							
Mr D Baillieu[1]	111,193	-	-	-	111,193	30,000	91,193
	111,193	-	-	-	111,193	30,000	91,193

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

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

[1] Resigned 15 Aug 2011. Under the consultancy agreement these options lapse on 15 August 2013.

23 Related party disclosures (continued)

Movement in shares

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

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

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

[1] Resigned 15 August 2011

23 Related party disclosures (continued)

Other related party transactions with the Group

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

24 Segment reporting

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

25 Parent entity financial information

The figures contained in the consolidated financial statements also represent the financial information of the parent entity.

26 Acquisition of subsidiary

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

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

27 Subsequent events

There has not arisen in the interval between the end of the financial year and the date of this report any other item, transaction or event of a material or unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the entity, the results of those operations or the state of affairs of the entity in future financial years, save and except that the Company announced on 28 September 2012 that it intends to raise $2.5m through a part underwritten renounceable rights issue. It is expected that the rights issue will close on 2 November 2012.

BioDiem Ltd

Directors Declaration

1 In the opinion of the Directors of BioDiem Ltd ("the Group"):

(a) the consolidated financial statements and notes and the Remuneration report in the Directors' report, set out on pages 22 to 49 and 14 to 20, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Group as at 30 June 2012 and of its performance, for the financial year ended on that date; and

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

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

(c) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

2 The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2012.

Dated at Melbourne on 28 September 2012.

Signed in accordance with a resolution of the Directors:

H M Morgan AC
Director

Independent auditor's report to the members of BioDiem Ltd

Report on the financial report

We have audited the accompanying financial report of BioDiem Ltd (the Company), which comprises the consolidated statement of financial position as at 30 June 2012, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 27 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

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

Report on the remuneration report

We have audited the Remuneration Report included in section 18 of the directors' report for the year ended 30 June 2012. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of BioDiem Ltd for the year ended 30 June 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Tony Romeo
Partner

Melbourne
28 September 2012

Shareholder information

Set below was applicable as at 17 August 2012.

1 Distribution of equity securities

	Holders	Ordinary Shares	%
1–1,000	70	25,943	0.03
1,001–5,000	327	1,009,545	0.99
5,001–10,000	137	1,071,945	1.05
10,001–100,000	297	10,231,832	10.02
100,001+	62	89,756,289	87.91
	893	**102,095,554**	**100.00**

2 Twenty largest equity security holders

The names of the twenty largest holders of equity securities as at 17 August 2012.

Name		Number held	%
1.	HSBC Custody Nominees (Australia) Ltd	26,228,457	25.69
2.	Brezzo Enterprises Ltd	25,757,576	25.23
3.	McNeil Nominees Pty Ltd	5,555,555	5.44
4.	First Charnock Nominees Pty Ltd	5,082,676	4.98
5.	Mr Barrie Ernest Laws & Mrs Merrilyn Frances Laws	3,200,000	3.13
6.	First Charnock Superannuation Pty Ltd	3,000,930	2.94
7.	Bresrim Pty Ltd	1,420,791	1.39
8.	Mr Peter Craig Appleby	1,405,833	1.38
9.	Mr David Clive Latham Baillieu & Mr Anthony Robert Baillieu	1,400,000	1.37
10.	Second Charnock Pty Ltd	1,116,459	1.09
11.	Mr Peter Robert Kahn	1,076,045	1.05
12.	JP Morgan Nominees Australia Ltd	1,043,953	1.02
13.	Dr John Brown	935,198	0.92
14.	Mr Christopher Hutchinson	811,443	0.79
15.	National Australia Trustees Ltd	704,666	0.69
16.	Tealing Nominees Pty Ltd	684,919	0.67
17.	Mr John Calvert-Jones and Mrs Elisabeth Calvert-Jones	673,314	0.66
18.	Mr Alistair Gleeson & Mrs Caroline Gleeson	500,000	0.49
19.	Mrs Vanessa Hickey	500,000	0.49
20.	T & J Williams Pty Ltd	441,666	0.43
		81,539,481	**79.85**

3 Voting rights

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