BioDiem

BioDiem Ltd – Annual Report

2013

Who We Are

BioDiem Ltd is a biotechnology company (ASX:BDM) based in Melbourne, Australia, that is focused on developing and commercialising vaccines and infectious disease therapies. BioDiem has an established influenza vaccine licensing business in partnership with the World Health Organisation, as well as a diverse range of partnered development programs in the area of vaccines and therapies for infectious diseases and related cancers. BioDiem continues to seek new partners to develop and commercialise its growing technology portfolio.

BioDiem has three main development programs

1. Expansion of the revenue-generating LAIV-based influenza vaccine licensing business
2. Development of the antimicrobial BDM-I for the treatment of serious infectious diseases
3. Development of liver disease-targeting vaccine platform and new vaccines and viral 'vector' (or carrier) systems

Global partnering and commercialisation network

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World-class medical
research and development
of vaccines

Highlights of FY2013

CORPORATE

Closure of successful $2m rights issue fund raising. (Dec 2012).

BioDiem corporate presentations in Singapore (Mar 2013), New York (Apr 2013) and Hong Kong (Jun 2013).

INFLUENZA VACCINE TECHNOLOGY (LAIV)

- **Regulatory submission by BioDiem's Indian partner, Serum Institute of India, as a step in the process towards international export of LAIV-based flu vaccines (Dec 2012).**

- **Commencement of building of vaccine manufacturing facility by Chinese partner, BCHT Changchun Biotechnology (Jan 2013)** and clinical trial preparation**.**

ANTIMICROBIAL (BDM-I)

- **Extension of co-operative agreement with US Army Medical Research Institute of Infectious Diseases (Feb 2013).** BDM-I progresses to animal-studies as a potential biological weapons counter-measure.

- **Progression in US National Institutes of Health research program towards a treatment for tuberculosis and also fungal infections (May 2013).**

- **Griffith University partnership to create new variants of BDM-I** with enhanced solubility and preserved antimicrobial ability increasing its range of commercial applications **(November 2012).**

- **European, Chinese and Japanese patents for BDM-I antimicrobial (Aug/Nov 2012).** Patents for BDM-I now secured in all major markets (US already obtained).

- **Progression in QIMR program as a treatment for schistosomiasis (Jan 2013).** BDM-I progresses to proof-of-concept investigation as a treatment for schistosomiasis, a parasite that is a major cause of disease and death across the developing world.

LAIV VECTOR

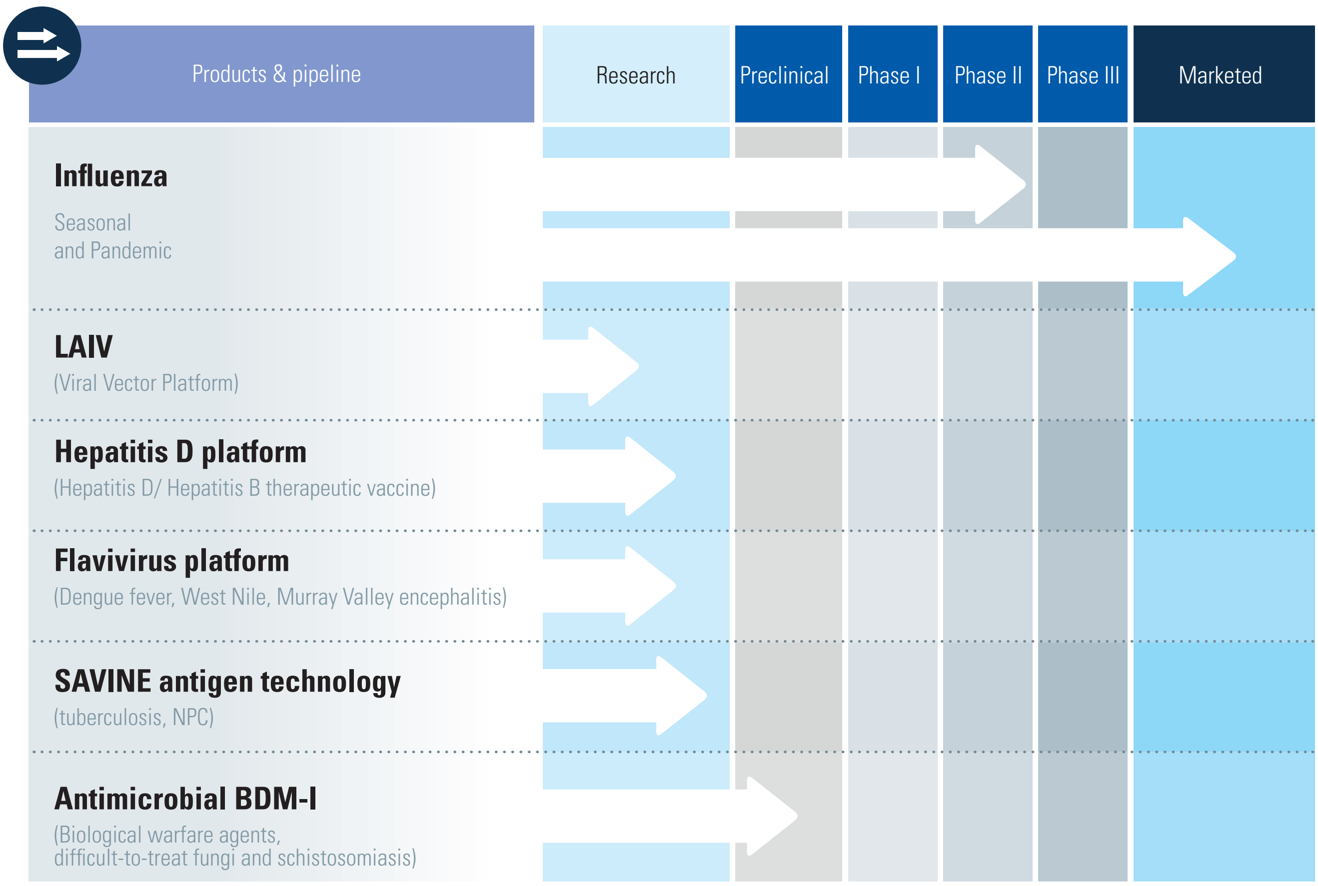
- **Agreement with RMIT to create new non-influenza vaccines (July 2012),** developing the potential of the LAIV technology to design new vaccines for different diseases.

- **Successful results for innovative vaccine development work with French vaccine developer Vivalis (now Valneva) (August 2012),** confirming ability of LAIV to grow in a VIVALIS proprietary EB66 cell line.

Company focus

BioDiem is focused on reduced-risk co-development of promising assets with internationally recognised partners. Each program is focused on targets with near-term potential for revenue generation. As a small adaptable company with a diverse portfolio, BioDiem stands to rapidly gain value from a successful licensing deal or acquisition of an asset, complementing the existing revenues from LAIV influenza vaccine licensing.

Products & pipeline



Chairman's report

Dear Shareholders,

On behalf of the Board and Management of BioDiem, I am pleased to present the 2012-13 annual report for your review.

The 2013 financial year has been a time of exciting transition for BioDiem, and important progress was seen across key elements of the Company's product portfolio. During the year, the Company set out to tighten its focus on opportunities within infectious disease and related cancers, in accord with the findings of the early 2012 Strategic Review. This has positioned the Company to capitalise on its long-standing expertise, and existing networks, in an enormous and growing market segment. Our R&D energies are now focused on high-potential and near-term prospects for out-licensing, partnering or co-development in those target areas.

The benefits of this adjustment are beginning to emerge. During the year there was progress in the LAIV (Live Attenuated Influenza Virus) vaccine business, with escalation of activity by our Indian and Chinese licensees, and also in the breadth of research assessing the bioactivity of the Company's lead antimicrobial BDM-I.

Towards the end of 2012, we announced the submission of the marketing application by SII to the Indian regulatory authorities. Approval will permit sale of seasonal influenza vaccine product in India. Our licensees in China, BCHT Changchun Biotech Co, has progressed the influenza vaccine development through to an application for clinical trials, and they have also made significant progress on the construction of a vaccine manufacturing facility that will be used in part for the LAIV production. These activities signal our progression towards income receipt from the sales of influenza vaccines in these markets. In the case of India we will be moving from the initial income from the initial swine flu vaccine, to the new annual seasonal flu product.

Important proof-of-principle findings were also achieved in BioDiem's therapeutic hepatitis vaccine program. This shows potential for a new means of targeted treatment for hepatitis, which is the leading cause of liver cancer and the most common reason for liver transplantation. Liver cancer in men is the fifth most frequently diagnosed cancer worldwide, and is the second leading cause of cancer-related death in the world. We are extremely pleased with this program which we only licensed into our Company one year ago from the University of Canberra. While still an early stage project, commercial interest has meant that outreach has commenced.

BioDiem's broad and diverse product portfolio represents multiple co-development opportunities for vaccines and novel therapies targeting the world's major diseases. The Board and management group are confident, with our tight focus, that BioDiem has the balance right to drive our portfolio towards further commercialization.

Despite our significant achievements and clear potential, we believe the Company's share price on the ASX still does not represent the value of BioDiem's combined assets. Low turnover, a tightly held share register and disappointing recognition of the Company's value lowers the ability to negotiate to better advantage the range of its products in commercial transactions.

As a consequence the Board has resolved to place before shareholders a resolution at the forthcoming 2013 Annual General Meeting to delist the Company from the ASX. If the delisting is approved, it will take effect approximately one month after the AGM. After delisting the Company will conduct its affairs as an unlisted public company. This is a decision that has also been taken by a small number of biotech companies each of which have been faced with similar issues as our Company. A mechanism to insure shareholders continue to be informed of the state of affairs of the Company will be put in place. Detailed information will be included in the Notice of the 2013 AGM.

The Company remains capital constrained as a result of the shortfall in the late 2012 rights issue. The Board and management team is alert to this situation and are considering the best ways to address it. We are very conscious of our cash position at this time and of the dual needs to minimise costs while chasing revenue growth and developing the portfolio of our projects.

BioDiem has a bright future, and is now well positioned to unlock this shareholder value. On behalf of the Board, I would like to thank our shareholders for their continued support, our staff for their dedication, and look forward to detailing BioDiem's progress to you in the months to come.

Yours sincerely,

Hugh Morgan AC
Chairman

CEO letter

Dear Shareholders

The 2012-13 financial year was a pivotal time for BioDiem as we re-positioned the Company for revenue growth by continuing to support our licensees, bedding down and progressing our acquisitions, filing new patent applications, packaging documentation on our projects and opening new commercial discussions. We also completed a successful $2 million capital raising and continued to reduce costs while building the value of the portfolio.

While it has been a busy year of transition, we have also directed considerable efforts towards increasing the profile of the Company by raising awareness of our technologies in international forums. The reception to our story has been very encouraging, even in the continuing difficult international market conditions. Over the past few years we have been flying under the radar, however, as we reach for and meet new milestones with our technologies, we are being noticed on the commercial landscape.

Our significant progress and the opportunities they afford to us are recognized. There is still work to be done to translate these opportunities into shareholder value. Because of our deliberate and strategic repositioning, we are now poised at an exciting juncture. With many valuable technologies under our belt, the probability of success is enhanced.

Our flagship technology, based on the live attenuated influenza virus (LAIV), is an example of our business model. Through partners and licensees, our technology is taken to market. BioDiem receives revenue from royalties and development milestones. The LAIV portfolio is already on this path due to our licence to the World Health Organisation for its use in developing countries and with revenue already received from commercial licences to partners, the Serum Institute of India and BCHT Changchun Biotech Co, in India and China, respectively. As these companies progress their commercial plans, so the revenue stream from our LAIV technology will grow. We will take the same approach for our other technologies. Our progress with the hepatitis vaccine work and BDM-I is allowing us to gain interest from new commercial parties. This progress is explained later in this report.

It is important to note this has always been BioDiem's business model. For a company of our size, co-development or outlicensing of our novel technologies with the support of a larger partner is our aim.

Our existing partnering network with highly credentialed research institutions and commercial entities continues to deliver important research findings to accelerate the ongoing development of our projects. These results build our data packages for use with potential technology acquirers and licensees.

One activity stemming from our 2012 Strategic Review was an evaluation of the Company's intellectual property (IP) portfolio. Considerable effort was made during the year to position the IP portfolio with a view to commercial attractiveness and relevance. New IP that is complementary to existing patents and research approaches was also added.

As we look to the coming year, we see our focus on infectious diseases and vaccines is well-timed. Bird flu and antibiotic resistance feature consistently as rising global heath concerns. The progress of our technologies in this report to you will show our advantageous positioning. Legislation in the US has increased the attractiveness of our portfolio for potential licensees and acquirers. In 2012 the US government signed into law the Generating Antibiotic Incentives Now Act, which authorizes the US FDA to allow an additional five years of marketing exclusivity for antibiotics that treat infections that have the potential to pose a serious threat to public health, including antibiotic-resistant infections such as MRSA. Again, these are areas where BioDiem is significantly advanced.

In this report I will review our core programs in more detail and look ahead to what BioDiem will deliver in FY2014.

Shareholders will see that the Company has been very active. My thanks go to the BioDiem staff and Board for their energy, dedication and support, and also importantly to our research partners, commercial partners, advisors and consultants who are essential to keep us agile.

Thank you for your continued support and I look forward to sharing BioDiem's progress with you in the year ahead.

Yours sincerely,

Julie Phillips

CEO

Review of operations

INFLUENZA VACCINE

BioDiem's LAIV Vaccine Licensing business involves out-licensing of the company's platform technology for the production of intranasal vaccines for the prevention of seasonal and pandemic influenza.

BioDiem currently has two commercial partners, in China and India, and the technology is also licensed to the World Health Organization (WHO) as part of the Global Pandemic Influenza Action Plan to Increase Vaccine Supply.

Significant developments involving these license holders during the 2012-13 financial year include:

- BioDiem received the first of its annual LAIV licensing payments (US$100,000) from Chinese commercial partner Changchun BCHT Biotechnology Co. This ongoing payment follows BCHT's initial sign-on payment received in the 2011-12 financial year.
- The progression of the plans of BioDiem's commercial partner, Serum Institute of India (SII), to allow international export of flu vaccines using BioDiem's technology. Their documentation was filed this year with both the World Health Organization (WHO) and the Drugs Controller General of India (DCGI) and once approved will permit the export of seasonal flu vaccines produced using BioDiem technology to member developing countries of the United Nations. BioDiem receives royalties on sales of LAIV vaccines to developing countries by SII. India's private market demand for influenza vaccines is growing rapidly, with sales value rising from an estimated US$1.5m in 2006 to US$250m in 2012. SII has experience bringing an LAIV-based vaccine to market having earlier developed and launched Nasovac™, an LAIV-based monovalent influenza vaccine targeting swine flu.
- The Phase II efficacy trial for a seasonal LAIV flu vaccine was completed during the year and results are being compiled. Under PATH funding, the trial was conducted in Bangladesh, where influenza is a major problem. It involved approximately 300 children. A Phase III efficacy trial is now underway in 1800 children 2-5 years. The results of these studies will be used to support the use of the intranasal vaccine in younger children in developing countries.
- Work has also commenced on an LAIV-based H7N9 avian influenza vaccine candidate to be part of our pandemic vaccine franchise. This vaccine is being developed by BioDiem Non-Executive Director Professor Larisa Rudenko at the Institute of Experimental Medicine in St. Petersburg, Russia. Prof Rudenko works with the WHO to develop seasonal and pandemic vaccines for developing countries. The H7N9 work supplements the other avian flu vaccines in the franchise. H7N3 and H5N2 clinical trials have been completed and a publication is in progress.

BioDiem is working to expand revenues from the LAIV program by increasing the number of partners for LAIV technology licenses and finding partners for alternative vaccine production technologies (i.e. cell-based production). BioDiem is progressing both of these aspects of the growth strategy, with priority targets for cell-based production licensing being existing vaccine producers.

ANTIMICROBIAL BDM-I

BioDiem's antimicrobial compound BDM-I has demonstrated broad-spectrum activity against a wide range of disease-causing microbes such as bacteria, fungi, and parasites. It is currently being researched as a treatment against 'superbugs' or antibiotic-resistant bacteria and fungi. These organisms are of major concern to international healthcare agencies as the number of available treatments for these infections shrinks.

The diseases currently covered by BDM-I's collective patents are:

A variety of bacterial and fungal infections: BDM-I's broad spectrum activity suggests the capacity for wide usage against infection of wounds, mucosal membranes, enteric (intestinal) infections and sepsis (blood infection).

Common sexually transmitted infections: common infections such as gonorrhoea, trichomoniasis and candidiasis which may develop from bacterial or fungal infections leading to common female complaints such as vaginal inflammation or the increased likelihood of HIV infections and reproductive issues.

Malaria: a parasitic disease carried by mosquitoes which affects hundreds of millions of people worldwide each year. Malaria caused approximately 655,000 deaths in 2010. Current treatments are meeting increasing resistance and often have undesirable side effects.

MRSA: a high-profile strain of antibiotic-resistant "Golden Staph" of major concern to global healthcare systems, contributing a significant burden of illness made more costly by resistant infections and the disease's increased spread.

Tuberculosis: A bacterial infection that predominantly attacks the lungs. TB is second only to HIV/AIDS as the greatest cause of deaths worldwide attributable to a single infectious agent.

BDM-I has delivered a range of exciting results to date. The broad-spectrum activity it has displayed suggests considerable value, as multiple potential therapeutic indications can be out-licensed, providing multiple revenue streams to BioDiem.

Key developments during the past year include:

- The Queensland Institute of Medical Research (QIMR) announced it was progressing from *in vitro* to mouse-based research for its proof-of-concept testing of BDM-I against the parasite that causes schistosomiasis. This major disease of the developing world is caused by Schistoma japonicum, a parasitic worm which causes progressive organ damage leading to liver, bladder and kidney disease.
- Extension of BioDiem's Non-Clinical Evaluation Agreement with NIAID, part of the U.S. National Institutes of Health (NIH), under which research has progressed on the antimicrobial BDM-I as a fungal disease treatment. This follows completion of an *in vitro* screen of BDM-I activity against 70 different strains of opportunistic or hospital-acquired fungi with significant medical need. Ongoing research would include *in vivo* infectious disease models assessing BDM-I activity against tuberculosis and *Pneumocystis spp*. infections.
- Extension of BioDiem's co-operative agreement with the US Army Medical Research Institute of Infectious Diseases (USAMRIID) for *in vivo* testing as a potential biological weapons counter measure. The USAMRIID have already undertaken in vitro studies assessing BDM-I's activity against these agents with positive results and are now moving on to animal-based studies.

These developments are significant and show the progression, based on positive data, of BDM-I from initial to extended screening and then on to testing in animal models of disease. The next steps following a successful result in these studies is to pursue clinical trials in humans, supported by the appropriate toxicology and pharmacokinetic studies, etc. To support the protocol design for the animal studies, precursor work on pharmacokinetics, formulation and route of administration and dose ranging is being undertaken. We expect to have key animal model data by the end of 2013.

During 2012-13, BioDiem also completed its year long program to develop new variants of BDM-I in partnership with Queensland's Griffith University. This has the potential to expand the commercial therapeutic applications through different formulations suited to various routes of administration such as injections, creams/ointments/gels, topical sprays, eye drops or inhalation.

The Company continues to build the evidence supporting BDM-I's potential as a treatment of serious infections. The intellectual property position has continued to be strengthened, and data packaging has commenced to prepare for commercial discussions.

Review of operations

BDM-L: LIVER-TARGETING VACCINE PROGRAM (HEPATITIS AND LIVER CANCER)

In June 2012 BioDiem announced the acquisition of a licence to a novel hepatitis vaccine technology from the University of Canberra, and the commencement of a collaborative research program. In July 2013, BioDiem announced that this hepatitis vaccine program had successfully achieved an important milestone towards developing treatments for liver diseases.

The researchers at the University of Canberra have developed a system designed to target the liver specifically to deliver therapies directly there. This would be relevant for hepatitis and liver cancer, for example. Due to this targeting, smaller dosages of currently used therapies could be given to liver disease patients. This could result in higher cure rates and/or fewer dose-related side effects.

This groundbreaking work has shown that the hepatitis D virus, which has been used as the basis for the technology, can be engineered into a stable and replication-competent virus (called a vector).

Viral hepatitis is the leading cause of liver cancer and the most common reason for liver transplantation. Liver cancer in men is the fifth most frequently diagnosed cancer worldwide, and is the second leading cause of cancer-related death in the world.

OUTLOOK

This is a most exciting time for us. Our plans for 2014 include outreach to a number of larger companies across Asia, Europe and the US for further collaboration and commercialization of our projects. Beyond the significant progress already with the LAIV technology, with our remaining programs and their encouraging results we have begun to engage in discussions with commercial partners.

With our US-based development programs underway in tuberculosis, fungal and bacterial disease we see huge potential in the BDM-I program in a market where treatment-resistant and other hard-to-treat infections are growing as a concern.

The liver-targeting vaccine development program, BDM-L, is another which is full of potential. We will continue its development while seeking partners for accelerated development. Our goal is for all our programs to become revenue generating, as well as to expand the opportunities to target wider disease areas which are commercially attractive.

INTELLECTUAL PROPERTY SUMMARY

Technology	Title	Granted	Pending
LAIV	Proprietary strains of live attenuated influenza viruses	n/a	n/a
BDM-I	Antimicrobial and radioprotective compounds	Australia Canada China Europe HK Japan Singapore South Africa US	Brazil Malaysia
BDM-I	Method of treating Scedosporium spp. infection		Under examination
BDM-L	Improved recombinant viruses (licensed from ANU)		Under examination
BDM-L	Recombinant Viral Vectors and Uses Therefor (licenced from UoC)		Under examination
BDM-E	Tetrapeptide revealing geroprotective effect	Australia Europe Canada USA Israel Japan	
BDM-E	Therapeutic Compounds and Uses Thereof		Under examination

Financial 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 2013 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. Mr 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 Julie Phillips was appointed to the position of Chief Executive Officer on July 14, 2009 and was appointed a Director on May 7, 2010. She has a strong background in the biotech and pharmaceutical industry, having worked as the CEO and Director of start-up Australian biotechnology companies operating in the life sciences sector. Her technical background in clinical trials, regulatory affairs and pharmacoeconomic assessment/pricing of therapeutics was gained in multinational pharmaceutical companies with responsibility for market entry of new products in Australia and New Zealand.
LARISA RUDENKO *MD, PhD, DSc.* **Director of Russian Projects** **Non-Executive Director** Non-independent	Member, Remuneration and Nomination Committee. Professor Larisa Rudenko is Head of the Virology Department in the Institute of Experimental Medicine, St. Petersburg, Russia. Professor Rudenko worked with Academician Smorodintsev and has been responsible for the development 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.

Directors' report

Name, qualifications and independence status	Experience, special responsibilities and other directorships
DONALD S BROOKS *BA, JD.* **Non-Executive Director** Independent	Member, Remuneration and Nomination Committee. Member, Audit Committee. Mr 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. He 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	Professor Arthur Li was appointed a Director on May 7, 2010. Professor Li was awarded the degree of Doctor of Medicine by University of Cambridge, UK. He is a well-credentialed and respected educator and surgeon who is currently Deputy Chairman of The Bank of East Asia 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

Melanie Leydin CA was appointed to the position of Company Secretary in November 2012. Ms Leydin is a Chartered Accountant and Registered Company Auditor and is the principal of chartered accounting firm Leydin Freyer, which audits and provides outsourced company secretarial and accounting services to public companies. She is a Director and Company Secretary of a number of listed public companies.

Richard Wadley FCCA held the position of Company Secretary and Chief Financial Officer from July 2002 to November 2012.

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	11	11	2	2	–	–
Mr D Brooks	11	10	2	2	–	–
Ms J Phillips	11	11	–	–	–	–
Prof. L Rudenko	11	9	–	–	–	–
Prof. A Li	11	8	2	2	–	–

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

5. CORPORATE GOVERNANCE STATEMENT

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

A review of the 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 direct 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.

Directors' report

5. CORPORATE GOVERNANCE STATEMENT (CONTINUED)

5.1 BOARD OF DIRECTORS

The directors' objective is to increase long-term shareholder value within an appropriate framework, which protects the 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.

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. CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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

Prof. 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 an 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, during the 2012/13 financial year the Committee did not hold a formal meeting as the Committee members determined that there would be no changes for the year. A meeting was held in August 2013.

Directors' report

5. CORPORATE GOVERNANCE STATEMENT (CONTINUED)

5.5 REMUNERATION REPORT

The remuneration report is set out on pages 30 to 38 and forms part of the Directors' report for the financial year ended 30 June 2011.

5.6 AUDIT COMMITTEE

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

The members of the Audit Committee during the year were:

Mr H Morgan – Non-executive Chairman

Mr D Brooks – Non-executive

Prof. 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 2013 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. Licensees 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.

Continuous disclosure

- The Company has policies and procedures on information disclosure that require 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 1 July until the day of the release of the annual results and from 1 January 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 COMPANY

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 RESEARCH

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

VACCINE TECHNOLOGIES

Live attenuated influenza virus technology

BioDiem's licensee, the Serum Institute of India announced their intention in December 2012 to commence proceedings to seek Indian regulatory approval and then export approval from the World Health Organisation for the LAIV seasonal influenza vaccine. Changchun BCHT Biotechnology Co paid the annual milestone payment due under their licence from BioDiem in February 2012. BioDiem continues to seek new licences for this technology to gain income from milestone and royalty payments.

BioDiem's partner, the Institute for Experimental Medicine (IEM), Russia, has continued to prepare and supply 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 were completed and Phase II trials commenced. A Phase I avian flu vaccine trial has also been completed in Thailand.

LAIV Vector technology

On 21 August 2012 BioDiem announced the successful results of the collaboration with Vivalis (now Valneva) in the LAIV vector initial development program.

The project at the RMIT under Professor Peter Smooker continued to explore novel options for LAIV vector development as a basis for new non-influenza vaccines. BioDiem is in discussions with collaborators and will seek funding to continue the development of the LAIV vector program.

Directors' report

7. REVIEW OF RESEARCH (CONTINUED)

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. Initial commercial discussions were undertaken during the year. Initial commercial discussions have been undertaken with a view to development of the technology with external funding for outlicence.

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. New patents were filed for the technology.

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. Research work progressed at the University of Canberra and new patents were filed for the technology. Initial commercial discussions have been undertaken with a view to develop technology further with external funding for outlicence.

INFECTIOUS DISEASE TECHNOLOGY

BDM-I

Continued development of BDM-I as a treatment against a broad range of serious pathogens occurred through the year in partnership with the US NIH, USAMRIID and QIMR.

- The NIH extended the testing programs to include the fungal program for Pneumocystis species and against the organisms responsible for tuberculosis. This new work will include animal disease model testing.
- The extension of the USAMRIID testing of BDM-I in the potential treatment of a biological warfare agent was also announced.
- The commencement of a program to extend testing of BDM-I against schistosomiasis was also announced and this is to be conducted at QIMR. This work includes extended laboratory testing and then will proceed to in vivo animal model testing.
- A new collaboration with Griffith University was announced to explore the development of more soluble variants of BDM-I to extend the range of products which can be developed for therapeutic use. New patents were granted in Europe and Japan for the treatment of vulvovaginitis and also in Japan for the protozoal infections, Trichomonas vaginalis (trichomoniasis) and Plasmodium falciparum (malaria). A new patent was granted in China for a set of claims against a wide range of infectious diseases.

Initial commercial discussions have been undertaken with a view to develop the technology further with external funding for outlicence. BioDiem aims to outlicence this technology to gain income from milestone and royalty payments.

EYE DISEASE TECHNOLOGY

BDM-E

In July 2012, a presentation of the results of the BDM-E development program was given by Prof Jenny Wilkinson-Berka at the ISER meeting in Berlin. BioDiem aims to outlicence this technology to gain income from milestone and royalty payments.

8. REVIEW OF OPERATIONS

The Statement of Comprehensive Income shows a loss after tax for the 2013 year of $2.316m compared to a loss after tax of $1.009m in 2012. Revenues in 2013 were $0.075m compared to $1.331m in 2012, whilst interest income was $0.021m compared to $0.028m in 2012. Research activity costs were $1.170m compared to $1.085m in 2012. Administration expenses were $1.231m as compared to $1.368m in the previous year.

The Group commenced the financial year with cash reserves of $1.267m. Cash outlays were $2.405m compared to $2.583m in the prior year for research and administration. Cash inflows were $0.083m from royalties and licensing agreements (2012: $1.331m). Cash reserves at the end of the financial year totalled $1.171m.

9. 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.

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.

11. DIVIDENDS

The Company has not paid or declared any dividends during the financial year ended 30 June 2013.

12. LIKELY DEVELOPMENTS

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

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.

Directors' report

14. NON-AUDIT SERVICES

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

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

all non-audit services are subject to the corporate governance procedures adopted by the 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	**2013 $**	**2012 $**
Auditors of the Group		
– Audit and interim review	60,000	57,000
Services other than statutory audit		
– Tax advisory	–	28,848
	60,000	85,848

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' INTERESTS

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	14,189,593	2,364,933
Mr D Brooks	29,410	–
Prof L Rudenko	–	–
Ms J Phillips	3,941	657
Prof A Li	–	–

Directors' report

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
1 July 2008	4 July 2013	$0.14	80,000
23 July 2009	23 July 2014	$0.136	160,000

Under the terms of the ESOP options, all options expire on the earlier of the expiry date or the date of the employee termination. However the Directors have determined that the 2009 options held by two departing employees would not expire until the expiry date. Mr D Baillieu, a former executive, held 91,193 options which expired on 18 August 2013. 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. Where appropriate, 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 regularly 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. At this time, the remuneration of key management personnel is not linked to performance criteria. However ongoing performance reviews of executives and management are conducted by the Chairman on behalf of the Remuneration and Nomination Committee.

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.

18. REMUNERATION REPORT (CONTINUED)

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. BioDiem will pay $155,000 per annum in 12 equal monthly instalments (2012: $155,000). 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.
- a consultancy agreement with Subtech International Pty Ltd., where Subtech agrees to provide the services of Julie Phillips to BioDiem. BioDiem will pay $244,000 per annum in 12 equal monthly instalments (2012: $249,000). The agreement is for a period of one year. The agreement may be terminated without cause by either Ms Phillips or BioDiem giving three months' written notice. BioDiem may, at its option, provide payment in lieu of notice. Both Ms Phillips and BioDiem can terminate the agreement immediately at any time for specified reasons.

18.2 NON-EXECUTIVE DIRECTORS

Total remuneration for all non-executive directors in respect of their duties as directors, was last voted upon by shareholders at the 2005 AGM is not to exceed $400,000 per annum. 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 payable at this time. Mr D Brooks is paid total fees of US$51,600 per annum, which includes his Directors' base fee plus additional consulting services.

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.

Directors' report

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 the key management personnel are included in the following tables.

					Short-term
In AUD	**Year**	**Salary & fees**	**STI cash bonus $**	**Non-monetary benefits $**	**Total $**
Directors					
Non-Executive Directors					
Mr H Morgan	2013	50,000	–	–	50,000
	2012	51,666	–	–	51,666
Mr D Brooks	2013	51,003	–	–	51,003
	2012	51,766	–	–	51,766
Prof. L Rudenko	2013	155,000	–	–	155,000
	2012	155,000	–	–	155,000
Prof. A Li	2013	35,000	–	–	35,000
	2012	35,951	–	–	35,951
Executive Directors					
Ms J Phillips	2013	244,000	–	–	244,000
	2012	249,090	–	–	249,090
Total Directors	2013	535,003	–	–	535,003
	2012	543,473	–	–	543,473

Post-employment	Other Long-term	Termination benefits	Share-based payments					
Superannuation benefits $	**$**	**$**	**Options $**	**Shares $**	**Total $**	**Grand Total $**	**Proportion of remuneration performance related %**	**Value of options as proportion of remuneration %**
4,500	–	–	–	–	–	54,500	–	–
4,650	–	–	–	–	–	56,316	–	–
–	–	–	–	–	–	51,003	–	–
–	–	–	–	–	–	51,766	–	–
–	–	–	–	–	–	155,000	–	–
–	–	–	–	–	–	155,000	–	–
–	–	–	–	–	–	35,000	–	–
–	–	–	–	–	–	35,951	–	–
–	–	–	–	–	–	244,000	–	–
–	–	–	–	–	–	249,090	–	–
4,500	–	–	–	–	–	539,503	–	–
4,650	–	–	–	–	–	548,123	–	–

18 REMUNERATION REPORT (CONTINUED)

18.3 DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION (CONTINUED)

		Short-term			
In AUD	Year	Salary & fees $	STI cash bonus $	Non-monetary benefits $	Total $
Executives					
Mr D Baillieu, Manager – Legal and Administration (B)	2013	–	–	–	–
	2012	78,750	–	–	78,750
Ms M Leydin (C) – Company Secretary	2013	52,500			52,500
	2012	–	–	–	–
Mr J Rawling (C) – Chief Financial Officer	2013	–	–	–	–
	2012	–	–	–	–
Total compensation: Key Management Personnel	2013	587,503	–	–	587,503
	2012	622,223	–	–	622,223

(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 was entitled to retain his options through to 18 August 2013.*

(C) *M. Leydin was appointed as Company Secretary and J Rawling as Chief Financial Officer in November 2012. Fees were paid to Leydin Freyer Corporate Pty Ltd. This cost cannot be apportioned between the services provided by Leydin Freyer Corporate Pty Ltd on a reasonable basis.*

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

No options were issued in the financial year ended 30 June 2013 (2012: nil).

A total of 102,432 options expired in the current year (2012: nil).

Post-employment	Other Long- term	Termination benefits	Share-based payments					
Superannuation benefits $	**$**	**$**	**Options $(A)**	**Shares $**	**Total $**	**Grand Total $**	**Proportion of remuneration performance related %**	**Value of options as proportion of remuneration %**
–	–	–	–	–	–	–	–	–
1,688	–	78,738	533	–	533	159,709	0%	0.3%
–	–	–	–	–	–	52,500	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
4,500	–	–	–	–	–	592,003	–	–
6,388	–	78,738	533	–	533	707,832	0%	0.1%

18 REMUNERATION REPORT (CONTINUED)

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 2013	Number of options granted during 2012	Number of options vested during 2013	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 18 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

During the reporting period, no options were granted as compensation.

18.7 ANALYSIS OF MOVEMENT IN OPTIONS

No options were granted during the financial year ended 30 June 2013 (2012: nil).

No options were exercised during the financial year ended 30 June 2013 (2012: nil).

No options lapsed during the financial year ended 30 June 2013 (2012: nil).

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 34 and forms part of the Directors' report for the year ended 30 June 2013.

This report is made with a resolution of the directors:

H M Morgan AC

Director

23 August 2013

Lead auditor's independence declaration

Under Section 307C of the Corporations Act 2001

KPMG

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 2013 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

James Dent
Partner

Melbourne

23 August 2013

Consolidated statement of comprehensive income

For the year ended 30 June 2013

	Note	2013 $	2012 $
Revenue from licensing activities	6	75,251	1,331,430
Other income		5,000	317,000
Finance income	7	37,702	50,336
		117,953	**1,698,766**
Licence fees and royalty expenses		(33,768)	(255,151)
Research and development expenses		(1,169,662)	(1,084,543)
Administration expenses		(1,230,683)	(1,368,456)
Loss from operating activities		**(2,316,160)**	**(1,009,384)**
Loss before income tax		(2,316,160)	(1,009,384)
Income tax benefit / (expense)	10(a)	–	–
Net loss attributable to equity holders		**(2,316,160)**	**(1,009,384)**
Other comprehensive income		–	–
Total comprehensive income attributable to equity holders		**(2,316,160)**	**(1,009,384)**
Basic loss per share	**22**	**(1.86) cents**	**(0.99) cents**
Diluted loss per share	**22**	**(1.86) cents**	**(0.99) cents**

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 39 to 60.

Consolidated statement of changes in equity

For the year ended 30 June 2013

	Issued capita $l	Share based compensation reserve $	Accumulated losses $	Total equity $
Balance at 30 June 2012	26,929,511	263,598	(25,692,341)	1,500,768
Loss	–	–	(2,316,160)	(2,316,160)
Total other comprehensive income	–	–	–	–
Total comprehensive loss for the year	–	–	(2,316,160)	(2,316,160)
Transactions with owners, recorded directly in equity				
Equity settled share based compensation	–	–	–	–
Proceeds from the issue of shares net of costs	1,882,838	–	–	1,882,838
Balance at 30 June 2013	**28,812,349**	**263,598**	**(28,008,501)**	**1,067,446**
Balance at 1 July 2011	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
Proceeds from the issue of shares net of costs	10,000	–	–	10,000
Balance at 30 June 2012	**26,929,511**	**263,598**	**(25,692,341)**	**1,500,768**

The consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 39 to 60.

Consolidated statement of financial position

As at 30 June 2013

	Note	2013 $	2012 $
Current assets			
Cash and cash equivalents	11	1,171,738	1,267,211
Trade and other receivables	12	48,118	367,966
Other assets	13	128,701	119,324
Total current assets		1,348,557	1,754,501
Non-current assets			
Plant and equipment	14	6,994	6,127
Total non-current assets		6,994	6,127
Total assets		1,355,551	1,760,628
Current liabilities			
Trade and other payables	15	269,764	205,072
Employee benefits	16(a)	11,328	45,925
Total current liabilities		281,092	250,977
Non-current liabilities			
Employee benefits	16(a)	7,013	8,863
Total non-current liabilities		7,013	8,863
Total liabilities		288,105	259,860
Net assets		1,067,446	1,500,768
Equity			
Issued capital	17(a)	28,812,349	26,929,511
Share based compensation reserve	17(c)	263,598	263,598
Accumulated losses		(28,008,501)	(25,692,341)
Total equity		1,067,446	1,500,768

The consolidated statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 39 to 60.

Consolidated statement of cash flows

For the year ended 30 June 2013

	Note	2013 $	2012 $
Cash flows from operating activities			
Cash receipts in the course of operations		82,515	1,331,430
Cash payments in the course of operations		(2,404,678)	(2,582,818)
Interest received		20,525	28,469
R&D Tax Offset received		317,000	–
Net cash used in operating activities	18(b)	(1,984,638)	(1,222,919)
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		–	(10,000)
Payments for plant and equipment		(5,243)	–
Deposits supporting guarantees		(6,081)	(102,136)
Net cash used in investing activities		(11,324)	(112,136)
Cash flows from financing activities			
Proceeds from shares issued		2,000,000	–
Net cost of issue		(119,054)	–
Net cash provided by financing activities		1,880,946	–
Net increase / (decrease) in cash and cash equivalents held		**(115,016)**	**(1,335,055)**
Cash and cash equivalents at beginning of year		1,267,211	2,580,399
Effect of exchange rate fluctuation on cash held		19,543	21,867
Cash and cash equivalents at end of year	18(a)	1,171,738	1,267,211

The consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 39 to 60.

1 REPORTING ENTITY

BioDiem Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is C/- Quinert Rodda, Level 19, 500 Collins Street, Melbourne, Victoria 3000. This annual financial report of the Group is for the financial year ended 30 June 2013 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 23 August 2013.

(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)

(d) Going Concern

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

The Group reported a net loss after tax of $2.32m (2012: $1.01m net loss after tax) for the financial year ended 30 June 2013. The net loss after tax is directly attributable to the expenditures incurred in ongoing research and development activities, as well as administration expenditure. Despite the net loss after tax incurred for the 2013 financial year, the Directors have prepared the annual financial statements on the going concern basis. The going concern basis is considered appropriate based on a combination of the existing net assets of the Group, which amount to $1.07m (2012: $1.50m), including cash and cash equivalent assets of $1.17m (2012: $1.27m), and the expectation of Group's ongoing ability to successfully secure additional sources of financing. In this regard, the Directors note the following:

- The Group has a marketing agreement with the Serum Institute of India ("Serum"), which will entitle the Group to royalties income upon the commencement of exports of LAIV seasonal influenza vaccine. The Group anticipates royalty income will be generated from this marketing agreement within the next 12 months.
- The Group has a LAIV licensing agreement with the Changchun BCHT Biotechnology Co., where the vaccine subject to the LAIV licensing agreement is currently under development. If the development and commercialisation of the vaccine successful, the LAIV licensing agreement is expected to provide further royalty income streams over the next two years.
- The Group is considering other alternative sources of cash inflows from financing initiatives, such as capital raisings.
- Directors have the ability to curtail discretionary expenditures, which form a significant part of the Group's total expenditure, enabling the Group to fund its operating expenditures within its available cash reserves.

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

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

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

(e) 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:

2 BASIS OF PREPARATION (CONTINUED)

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 2012, unless stated otherwise.

(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.

Notes to the consolidated financial statements

For the year ended 30 June 2013

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Plant and equipment

(i) Recognition and measurement

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

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

(ii) Depreciation

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

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

	2013	2012
Plant and equipment	33%	33%
Furniture and fittings	20%	20%

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

(d) Research and development

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

Expenditure on any development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product is technically feasible and the 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

(f) Employee benefits

(i) Defined contribution superannuation funds

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

(ii) Other long-term employee benefits

The 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.

Notes to the consolidated financial statements

For the year ended 30 June 2013

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(vi) Director share-based compensation

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

(g) Provisions

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

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 rate method.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(k) Income tax

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

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

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

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. The 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.

Notes to the consolidated financial statements

For the year ended 30 June 2013

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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

The consolidated entity has adopted all of the new, revised or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and IFRS that are mandatory for the current reporting period. These new standards did not have a material impact on these financial statements.

Any new, revised or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. None of these is expected to have a significant effect on the consolidated financial statements of the consolidated entity.

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

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.

(ii) Credit risk

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

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

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.

Investments

The Group limits its exposure to credit risk by investing deposits in reputable Australian banks.

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 (Note 19).

(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) 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.

Notes to the consolidated financial statements

For the year ended 30 June 2013

	2013 $	2012 $
6 REVENUE		
Royalty and milestone revenue	75,251	1,331,430
7 FINANCE INCOME		
Foreign exchange gain	16,338	21,867
Interest income	21,364	28,469
Finance income	37,702	50,336
8 PERSONNEL EXPENSES		
Wages and salaries	777,928	764,536
Superannuation – defined contribution	24,423	23,223
Other associated personnel expenses	20,545	43,016
(Decrease)/Increase in liability for annual leave	(21,420)	(2,423)
(Decrease)/Increase in liability for long service leave	(15,027)	(25,022)
Equity-settled share based transactions	–	1,422
	786,449	804,752
9 AUDITORS' REMUNERATION		
Audit Services: Audit and review of financial reports KPMG Australia	60,000	57,000
Non-audit services: Tax advisory services KPMG Australia	–	28,848
	60,000	85,848

	2013 $	2012 $
10 TAXATION		
(a) Income tax (benefit)/expense		
Recognised in the statement of comprehensive income		
Current tax (benefit)/expense		
Current year	(688,651)	(312,925)
Unrecognised deferred tax assets relating to tax losses	688,651	312,925
	–	–
Deferred tax (benefit)/expense		
Origination and reversal of temporary differences	(6,197)	10,110
Change in unrecognised temporary differences	6,197	(10,110)
	–	–
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		
Loss before income tax	(2,316,160)	(1,009,384)
Income tax (benefit)/expense calculated at domestic statutory tax rate of 30% (2012: 30%)	(694,848)	(302,815)
Increase/(decrease) in income tax (benefit)/expense due to:		
Movement in temporary differences	6,197	(10,110)
Current year losses for which a deferred tax asset was not recognised	688,651	312,925
Total income tax (benefit)/expense	–	–

Notes to the consolidated financial statements

For the year ended 30 June 2013

	2013 $	2012 $
10 TAXATION (CONTINUED)		
(c) Unrecognised deferred tax assets		
Deferred tax assets have not been recognised in respect of the following items:		
Deductible temporary differences	10,239	16,436
Tax losses carried forward	8,981,315	8,292,664
	8,991,554	8,309,100

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 the Company satisfying same business tests, may be available to reduce the assessable income of BioDiem Ltd in future periods.

11 CASH AND CASH EQUIVALENTS

Cash at bank and on hand	1,171,738	1,267,211

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

12 TRADE AND OTHER RECEIVABLES – CURRENT

Other receivables	48,118	50,966
R&D incentive receivable	–	317,000
	48,118	367,966

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

13 OTHER ASSETS – CURRENT

Prepayments	20,484	17,188
Short term deposits supporting bank guarantees	108,217	102,136
	128,701	119,324

Short term deposits are invested for a period of six months.

	2013 $	2012 $
14 PLANT AND EQUIPMENT		
At cost	185,589	180,346
Accumulated depreciation and impairment losses	(178,595)	(174,219)
Carrying amount	6,994	6,127
Cost		
Balance at beginning of financial year	180,346	180,346
Additions	5,243	–
Disposals	–	–
Balance at end of financial year	185,589	180,346
Accumulated depreciation and impairment losses		
Balance at beginning of financial year	(174,219)	(162,718)
Depreciation charge for the year	(4,376)	(11,501)
Balance at end of financial year	(178,595)	(174,219)
Carrying amount at beginning of financial year	6,127	17,628
Carrying amount at end of financial year	6,994	6,127
15 TRADE AND OTHER PAYABLES		
Current		
Trade creditors	207,561	2,191
Other creditors and accruals	62,203	202,884
	269,764	205,072

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

16 EMPLOYEE BENEFITS

(a) Current		
Provision for annual leave	11,328	32,748
Provision for long service leave	–	13,177
	11,328	45,925
Non–Current		
Provision for long service leave	7,013	8,863

16 EMPLOYEE BENEFITS (CONTINUED)

(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 2013 there were 142,105,934 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 lapsed on 4 July 2013. Each option had 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.

(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 1 July 2008[1]	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	240,000		

[1] These options lapsed on 4 July 2013

The summary of options outstanding at 30 June 2013 excludes options that have been forfeited.

16 EMPLOYEE BENEFITS (CONTINUED)

(c) Share based payments (continued)

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

	Weighted average exercise price 2013	Number of options 2013	Weighted average exercise price 2012	Number of options 2012
Outstanding options at 1 July	$0.226	398,946	$0.226	398,946
Expired during the period	$0.36	(158,946)	–	–
Exercised during the period	–	–	–	–
Granted during the period	–	–	–	–
Outstanding at 30 June	$0.137	240,000	$0.226	398,946

In respect of the options outstanding at 30 June 2013, 160,000 options have an exercise price of $0.136 and a weighted average remaining contractual life of 1.00 year (2012: 1 year). The balance of 80,000 options with an exercise price of $0.14 expired on 4 July 2013.

During the financial year, no options were exercised (2012: nil).

No options were granted in the year ended 30 June 2013 (2012: nil).

17 CAPITAL AND RESERVES

(a) Issued capital	2013	2012	2013	2012
	No.	No.	$	$
On issue at 1 July – fully paid	102,095,554	101,984,443	26,929,511	26,919,511
Equity settled share based compensation	–	–	–	–
On issue on 30 June – fully paid	142,105,934	102,095,554	28,812,349	26,929,511

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 142,105,934 (2012:102,095,554) fully paid ordinary shares on issue.

(b) Share options on issue	2013	2012
	No.	No.
Listed share options –		
BDMO exercise price $0.08 expiry date 31–Dec–14 – issued on 5 December 2012 as part of Rights Issue	24,638,574	–
Unlisted share options –		
ESOP options exercise price $0.36 expiry date 04–Jul–12	–	158,946
ESOP options exercise price $0.14 expiry date 04–Jul–13	80,000	80,000
ESOP options exercise price $0.136 expiry date 23–Jul–14	160,000	160,000
	24,958,574	398,946

Notes to the consolidated financial statements

For the year ended 30 June 2013

17 CAPITAL AND RESERVES (CONTINUED)

(c) Share based compensation reserve	2013 $	2012 $
	$	$
Balance as at 1 July	263,598	262,176
Equity settled share based compensation	–	1,422
Balance at 30 June	**263,598**	**263,598**

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	2013 $	2012 $
Cash and cash equivalents	11	1,171,738	1,267,211
		1,171,738	1,267,211
(b) Reconciliation of loss after income tax to net cash used in operating activities			
Loss for the year		(2,316,160)	(1,009,384)
Adjustments for:			
Depreciation		4,376	11,502
Impairment		–	20,000
Foreign exchange (gain/loss)		(16,338)	(21,867)
Equity–settled share based payment expenses		–	1,422
Operating loss before changes in working capital and provision		(2,328,122)	(998,327)
(Increase)/decrease in trade and other receivables		319,848	(312,179)
Decrease/(increase) in prepayments		(3,296)	12,209
(Decrease)/increase in trade and other payables		205,370	(44,560)
Increase/(decrease) in accruals		(141,992)	147,383
(Decrease)/increase in employee benefit liabilities		(36,446)	(27,445)
Net cash used in operating activities		(1,984,638)	(1,222,919)

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:

2013	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	2.75%	1,171,738	1,171,738	–	–	–	–
Trade and other receivables	12	–	48,118	48,118	–	–	–	–
Other assets – current	13		108,217	108,217	–	–	–	–
			1,328,073	**1,328,073**	**–**	**–**	**–**	**–**
Financial liabilities								
Trade and other payables	15	–	269,764	269,764	–	–	–	–

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%	1,267,211	1,267,211	–	–	–	–
Trade and other receivables	12	–	367,966	367,966	–	–	–	–
Other assets – current	13		102,136	102,136				
			1,737,313	**1,737,313**	**–**	**–**	**–**	**–**
Financial liabilities								
Trade and other payables	15	–	205,072	205,072	–	–	–	–

(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 (2012: $nil and $nil). As at 30 June 2013, there was a bank account held in US dollars for an amount of AUD$368,150 (2011: $877,162). A five percent (5%) decrease of the Australian dollar against the US dollar as at 30 June 2013 would have reduced the loss before tax by $16,232 (2012: $38,587).

(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.

Notes to the financial statements

For the year ended 30 June 2013

19 FINANCIAL INSTRUMENTS (CONTINUED)

(d) Guarantees

The Group has in place two term deposits for periods of six months amounting to $108,217 (2012: $102,136) in support of its undertakings under a guarantee for $13,750 (2012: $31,156) in accordance with the rental lease and $60,000 (2012: $64,557) 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:

	2013 $	2012 $
Within one year	25,000	51,760
Later than one year and no later than five years	–	–
	25,000	51,760

The entity leases property under a non-cancellable operating lease.
The lease has a one year term from 4 January 2013.

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	2013 $	2012 $
Basic loss	(2,316,160)	(1,009,384)
Diluted loss	(2,316,160)	(1,009,384)
Weighted average number of shares used as a denominator		
Number for basic loss per share		
Ordinary shares	124,788,704	102,095,554
Number for diluted loss per share		
Ordinary shares	124,788,704	102,095,554

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
Prof. L Rudenko (Head of the Virology Department in the Institute of Experimental Medicine)
Prof. A Li

Executive Director

Ms J Phillips (director of Subtech International Pty Ltd)

Executives

Mr D Baillieu – was an executive until August 2011 and a consultant until August 2012
Ms M Leydin – Company Secretary (Leydin Freyer Corporate Pty Ltd) from November 2012
Mr J Rawling – Chief Financial Officer (Leydin Freyer Corporate Pty Ltd) from November 2012

The key management personnel's compensation was as follows:

	2013 $	2012 $
Short–term employee benefits	587,503	622,223
Other long term benefits	–	–
Post–employment benefits	4,500	6,338
Termination benefits	–	78,738
Equity settled share based compensation	–	533
Total key management personnel compensation	592,003	707,832

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 26 to 32.

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.

Notes to the consolidated financial statements

For the year ended 30 June 2013

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 2012	Granted as compensation	Exercised	Other changes *	Held at 30 June 2013	Vested during the year	Vested and exercisable at 30 June 2013
Directors							
Mr H Morgan	34,144	–	–	2,330,789	2,364,933	–	2,364,933
Mr D Brooks	34,144	–	–	(34,144)	–	–	–
Prof L Rudenko	34,144	–	–	(34,144)	–	–	–
Ms J Phillips	–	–	–	657	657	–	657
	102,432	–	–	2,263,158	2,365,590	–	2,365,590

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
Prof L Rudenko	34,144	–	–	–	34,144	–	34,144
Ms J Phillips	–	–	–	–	–	–	–
	102,432	–	–	–	102,432	–	102,432

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

Mr D Baillieu, who was an executive until August 2011, held 61,193 options which expired on 18 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 2012	Purchases	Received on exercise of options	Received as compensation	Other changes	Held at 30 June 2013
Directors						
Mr H Morgan	9,459,728	–	–	–	4,729,865	14,189,593
Mr D Brooks	29,410	–	–	–	–	29,410
Prof L Rudenko	–	–	–	–	–	–
Ms J Phillips	2,627	–	–	–	1,314	3,941
Prof A Li	–	–	–	–	–	–
	9,491,765	–	–	–	4,731,179	14,222,944

Shares	Held at 1 July 2011	Purchases	Received on exercise of options	Received as compensation	Other changes	Held at 30 June 2012
Directors						
Mr H Morgan	9,459,728	–	–	–	–	9,459,728
Mr D Brooks	29,410	–	–	–	–	29,410
Prof L Rudenko	–	–	–	–	–	–
Ms J Phillips	2,627	–	–	–	–	2,627
Prof A Li	–	–	–	–	–	–
	9,491,765	–	–	–	–	9,491,765

Mr D Baillieu, who was an executive until August 2011, held 1,400,000 shares at the time his consultancy agreement ended in August 2012.

Notes to the consolidated financial statements

For the year ended 30 June 2013

23 RELATED PARTY DISCLOSURES (CONTINUED)

Other related party transactions with the Group

Prof Rudenko is Head of the Virology Department in the Institute of Experimental Medicine ("the Institute"). Prof 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 $16,875 (2012: $255,151) to the Institute. In addition, research and development costs amounting to $45,000 (2012: $38,396) were also paid to the Institute. The Company also made a donation to the Institute of US$50,000 during the year to assist in the construction of the WHO laboratory facility in St Petersburg, Russia.

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.

BioDiem Ltd

Directors Declaration

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

(a) the consolidated financial statements and notes and the Remuneration report in the Directors' report, set out on pages 35 to 60 and 26 to 32, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company as at 30 June 2013 and of its performance, for the financial year ended on that date; and

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

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

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

2 The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2013.

Dated at Melbourne on 23 August 2013.

Signed in accordance with a resolution of the Directors:

H M Morgan AC

Director

Independent auditor's report

To the members of Biodiem Ltd

KPMG

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 2013, 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 entity it controlled at the year's end.

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.

KPMG

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 2013 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).

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2(d) in the financial report, which indicates that the Group incurred a net loss of $2.32m during the year ended 30 June 2013. This condition, along with other matters as set forth in Note 2(d), indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

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 2013. 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 2013, complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG

James Dent
Partner

Melbourne
23 August 2013

Shareholder information

SHAREHOLDER INFORMATION

Set below was applicable as at 31 July 2013.

1 DISTRIBUTION OF EQUITY SECURITIES

	Holders	Ordinary Shares	%
1–1,000	67	23,929	0.02
1,001–5,000	300	923,776	0.65
5,001–10,000	137	1,080,175	0.76
10,001–100,000	318	11,515,750	8.10
100,001+	88	128,562,304	90.47
	910	**142,105,934**	**100.00**

There are 396 holders with an unmarketable parcel.

2 TWENTY LARGEST FULLY PAID ORDINARY SHARE HOLDERS

The names of the twenty largest holders of fully paid ordinary shares as at 31 July 2013 are:

Name		Number held	%
1.	HSBC Custody Nominees (Australia) Limited	39,342,686	27.69
2.	Brezzo Enterprises Ltd	38,636,364	27.19
3.	First Charnock Superannuation Pty Ltd	7,730,795	5.44
4.	Citicorp Nominees Pty Limited	5,562,555	3.91
5.	First Charnock Nominees Pty Ltd	5,082,676	3.58
6.	Mr Barrie Ernest Laws & Mrs Merrilyn Frances Laws	4,500,000	3.17
7.	Bresrim Nominees Pty Ltd	2,131,187	1.50
8.	Mr Peter Craig Appleby	1,405,833	0.99
9.	Mr David Clive Latham Baillieu & Mr Anthony Robert Baillieu	1,400,000	0.99
10.	Second Charnock Pty Ltd	1,116,459	0.79
11.	JP Morgan Nominees Australia Limited	1,067,953	0.75
12.	Yovich & Co Limited	968,792	0.68
13.	Dr John Brown	935,198	0.66
14.	Mr Christopher Hutchinson	811,443	0.57
15.	Mr Alistair Gleeson & Mrs Caroline Gleeson	700,000	0.49
16.	Mr John Calvert-Jones & Mrs Elisabeth Calvert-Jones	673,314	0.47
17.	Mr Barry Laws	630,000	0.44
18.	Mr Peter Robert Kahn	613,840	0.43
19.	Como Land Pty Ltd	607,449	0.43
20.	E L Laws Orchards Pty Ltd	600,000	0.42
		114,416,544	**80.58**

3 TWENTY LARGEST LISTED OPTION HOLDERS

The names of the twenty largest holders of listed options as at 31 July 2013 are:

Name		Number held	%
1.	HSBC Custody Nominees (Australia) Limited	6,557,115	26.61
2.	Brezzo Enterprises Ltd	6,439,394	26.14
3.	First Charnock Superannuation Pty Ltd	2,364,933	9.6
4.	Yovich & Co Limited	1,484,396	6.02
5.	Mr Terrence Peter Williamson & Ms Jonine Maree Jancey	750,000	3.04
6.	Mr Barry Ernest Laws & Mrs Merrilyn Frances Laws	650,000	2.64
7.	Mr Peter Barta	625,000	2.54
8.	Assurance Capital Pty Ltd	593,759	2.41
9.	Chalkstick Pty Ltd	556,649	2.26
10.	Mr Craig William Manners	500,000	2.03
11.	Kirzy Pty Ltd	445,319	1.81
12.	Goffacan Pty Ltd	372,348	1.51
13.	Mr Wolfe Sharp & Mrs Helen Sharp	371,099	1.51
14.	Bresrim Nominees Pty Ltd	355,198	1.44
15.	Eric David Lydford	300,000	1.22
16.	Mr James Andrew Watt	165,000	0.67
17.	Mr Christopher Lindsay Bollam	148,440	0.60
18.	Mr William Robert Naughtin & Mrs Denise Ann Naughtin	148,440	0.60
19.	BG Holdings Pty Ltd	105,000	0.43
20.	Mr Barry Ernest Laws	105,000	0.43
		23,037,090	93.50

4 VOTING RIGHTS

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

Corporate directory

BioDiem Ltd

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Melanie Leydin

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BioDiem Ltd is a company limited by shares, incorporated and domiciled in Australia.

Stock Exchange Listings

Australian Stock Exchange – under the code BDM

Share Registry

Computershare Investor Services Pty Ltd.
Yarra Falls, 452 Johnston Street
Abbotsford Victoria 3067

Telephone: + 61 3 9415 5000
Investor Queries (within Australia): 1300 850 505
Facsimile: + 61 3 9473 2500
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