

Biodiem Limited

ABN: 20 096 845 993

ASX Preliminary final report ~ June 30, 2005

Lodged with the ASX under ASX Listing Rule 4.3A

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

Contents

Announcement to the market

Other Appendix E information

Commentary on results for the period

Status of Audit

Financial report

BioDiem Limited

ABN: 20 096 845 993

Reporting period: 12 months ended June 30, 2005.

Previous period 12 months ended June 30, 2004.

Results to be announced to the market

		A\$'000
Revenue from ordinary activities		1,720
(Loss)/ from ordinary activities	up 31.89%	(4,264)
Net (loss) for the year attributable to members	up 31.89%	(4,264)

Dividends

It is not proposed to pay a dividend

Other information	June 30, 2005	June 30, 2004
Net tangible assets per ordinary share	17.43 cents	31.73 cents

This preliminary final report is based on accounts which have been audited. The audit report which was unqualified, will be made available when the company lodges its complete Directors' and Financial Report.

ASX Announcement

Date: 25 August 2005

Commentary on Results for year end June 30, 2005

BioDiem Building on Global Partnerships

Melbourne 25 August 2005. Australian pharmaceutical development company BioDiem Ltd (ASX:BDM) announced today it is continuing to build a successful product development business through strategic global partnerships.

CEO Tom Williams said “The corner stone over the last year has been the licensing agreement struck with Akzo Nobel’s Nobilon for BioDiem’s novel intranasal influenza vaccine (LAIV). The terms of this deal combine some income in the short term with considerable upside remaining down the track and that is a great basis for building the company.”

Nobilon will develop the influenza vaccine for registration in Europe and the rest of the world (except for North America) as well as manufacturing the vaccine for the world. BioDiem will receive royalties on sales, as well as milestone payments of US\$8m. A total of US\$2m has been received of which US\$1m was paid in July 2005.

BioDiem retains the marketing rights in North America which is the world’s largest market and where a lot of focus has developed this year on improving the supply of influenza vaccines for both the ordinary annual varieties of flu and the risk of an avian flu pandemic. Nobilon will manufacture the vaccine in cell culture which offers advantages in speed, scale and quality control over the traditional egg based methods.

An efficient and flexible supply of a flu vaccine like the BioDiem vaccine, which provides broader protection against different strains of the influenza virus, is becoming increasingly important in view of the emerging threat of avian flu.

The company reported a loss of \$4.2m compared to a loss of \$3.1m in 2004 reflecting a substantial increase in R&D activity. Cash on hand at the end of June 30 was \$5.7m and has since been boosted with the second milestone payment of US\$1m from Nobilon.

Good progress has also been made with BioDiem’s other products. BDM-E is being prepared for clinical trials after successful in vitro studies at Sydney University’s Save Sight Institute confirmed the peptide may have a novel way of treating retinal eye diseases like diabetic retinopathy and macular degeneration. “These leading causes of blindness have become hot topics this year as VEGF inhibitors like Macugen from Eyetech and Lucentis from Genentech have attracted attention in an area of major unmet need,” said Williams. “BDM-E has a different set of activities that looks promising and is going to be tested in a phase I/II clinical trial in about 200 patients in early 2006.” BioDiem expects to select an international partner following this trial.

The other product in the BioDiem portfolio BDM-I, is being developed for use as a medicated feed additive for the poultry industry. It has successfully passed early manufacturing and stability studies and preliminary toxicology and is moving into larger scale field studies. Earlier in the year a trial showed BDM-I significantly improved feed conversion and reduced mortality in broilers.

“Europe is banning antibiotics from animal feed from January next year and BDM-I is attracting attention from producers looking for new ways to improve performance. Our goal for 2006 is to complete a data package that can facilitate outlicensing this product” concluded Mr. Williams.

In the medium term BioDiem intends to continue to build a viable product development business based on adding value to a portfolio of scientifically excellent medicines in development with global partners.

	Year to 30 June 2005 \$'000	Year to 30 June 2004 \$'000
Revenues		
Licensing fees	1,319	-
Interest	401	383
Total revenues	<u>1,720</u>	<u>383</u>
Operating expenses		
Licence fees and royalties	(1,168)	(342)
Research and development	(3,189)	(1,836)
Administration costs	(1,626)	(1,351)
Total expenses	<u>(5,983)</u>	<u>(3,171)</u>
Operating (loss)	(4,264)	(3,146)
Income tax expense attributable to operating profit	-	(87)
Operating (loss) after income tax	<u>(4,264)</u>	<u>(3,233)</u>
Cash on hand.	<u>5,698</u>	<u>9,797</u>

Further information:

Tom Williams
CEO, BioDiem Ltd
Ph: (03) 9613 4100 or 0419 868 911

Kate McEvoy
Health Communications Australia
Ph: (02) 9818 4377

BioDiem Ltd
Statement of financial performance
For the year ended 30 June 2005

	Note	2005 \$	2004 \$
Revenue from licensing activities	2	1,319,087	-
Interest	2	401,230	383,050
Total revenues from ordinary activities		1,720,317	383,050
Expenses from ordinary activities			
Licence fees and royalties	3(a)	(1,168,970)	(341,682)
Research and development	3(b)	(3,189,193)	(1,836,673)
Administration and corporate		(1,626,537)	(1,351,090)
Loss from ordinary activities before income tax expense		(4,264,383)	(3,146,395)
Income tax expense relating to ordinary activities	5(a)	-	(86,861)
Loss attributable to members of the company	13	(4,264,383)	(3,233,256)
Total changes in equity from non-owner related transactions attributable to members of the entity		(4,264,383)	(3,233,256)
Basic earnings per share	20	(14) cents	(12) cents
Diluted earning per share	20	(14) cents	(12) cents

The statement of financial performance is to be read in conjunction with the notes to the financial statements

BioDiem Ltd
Statement of financial position
As at 30 June 2005

	Note	2005 \$	2004 \$
Current assets			
Cash assets	6	5,698,159	9,797,124
Receivables	7	42,317	59,752
Other assets	8	55,149	3,640
Total current assets		5,795,625	9,860,516
Non-current assets			
Plant and equipment	9	36,543	43,067
Total non-current assets		36,543	43,067
Total assets		5,832,168	9,903,583
Current liabilities			
Payables	10	309,576	137,769
Provisions	11	48,113	31,861
Total current liabilities		357,689	169,630
Non-current liabilities			
Provisions	11	12,787	7,878
Total non-current liabilities		12,787	7,878
Total liabilities		370,476	177,508
Net assets		5,461,692	9,726,075
Equity			
Contributed equity	12	11,395,143	11,395,143
Accumulated losses	13	(5,933,451)	(1,669,068)
Total equity	14	5,461,692	9,726,075

The statement of financial position is to be read in conjunction with the notes to the financial statements

BioDiem Ltd
Statement of cash flows
For the year ended 30 June 2005

	Note	2005 \$	2004 \$
Cash flows operating activities			
Cash receipts in the course of operations		1,319,087	-
Cash payments in the course of operations		(5,803,504)	(3,516,183)
Interest received		416,367	348,565
Income tax paid		-	-
Net cash provided by / (used in) operating activities	15(b)	(4,068,050)	(3,167,618)
Cash flows from investing activities			
Payments for property, plant and equipment		(30,915)	(20,834)
Net cash used in investing activities		(30,915)	(20,834)
Cash flows from financing activities			
Proceeds from shares issued		-	9,865,722
Transaction costs from issue of shares		-	(826,982)
Net cash provided by financing activities		-	9,010,156
Net increase in cash held		(4,098,965)	5,821,704
Cash at the beginning of the financial year		9,797,124	3,975,420
Cash at the end of the financial year	6	5,698,159	9,797,124

The statement of cash flows is to be read in conjunction with the notes to the financial statements

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

1 Statement of significant accounting policies

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or current valuations of non-current assets.

These accounting policies have been consistently applied by the company during the year.

(b) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

Licensing fees

Licensing fees derived from the grant of rights to exploit certain master donor strains are recognised when the milestone events outlined in the contract have occurred.

Interest revenue

Interest revenue is recognised as it accrues.

Sale of non-current assets

The gross proceeds from the sale of non-current assets are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

(c) Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

1 Statement of significant accounting policies (continued)

(d) Taxation

The company adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effects of capital losses are not recorded unless realisation is virtually certain.

(e) Acquisition of assets

All assets acquired including property, plant and equipment and intangibles other than goodwill, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the company if a similar borrowing were obtained from an independent financier under comparable terms and conditions.

Expenditure, including that on internally generated assets other than research and development costs, is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

(f) Revisions of accounting estimates

Revisions to accounting estimates are recognised prospectively in current and future periods only.

(g) Receivables

The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

1 Statement of significant accounting policies (continued)

(h) Plant and equipment

Acquisition

Items of plant and equipment are recorded at cost and depreciated as outlined below. Assets are depreciated from the date of acquisition.

Depreciation

Items of plant and equipment are depreciated using the straight-line method over their estimated useful lives.

The depreciation rates used for each class of asset are as follows:

	2005	2004
■ Plant and equipment	20 - 33%	20 - 33%

(i) Operating leases

Payments made under operating leases are expensed on a straight-line basis over the term of the lease.

(j) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on a cost basis, are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the net profit or loss in the reporting period in which it occurs.

In assessing recoverable amounts of non-current assets the relevant cash flows have been discounted to their present value.

(k) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the company. Trade accounts payable are normally settled within 60 days.

(l) Research and development costs

Research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is deferred and amortised on a straight-line basis over the period in which the related benefits are expected to be realised.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

1 Statement of significant accounting policies (continued)

(m) Provisions

A provision is recognised when a legal or constructive obligation exists as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

If the effect is material, 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, except where noted below.

(n) Employee entitlements

Wages, salaries and annual leave

The provisions for employee entitlements to wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the company expects to pay as at reporting date including related on costs, such as workers compensation insurance and payroll tax.

Long service leave

The provision for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided up to reporting date.

The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities.

Superannuation

The company does not provide a defined benefit plan for employees. The company meets its statutory obligation to make superannuation contributions on behalf of employees to particular funds identified by employees themselves.

(o) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

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.

1 Statement of significant accounting policies (continued)

(p) Financial period

The financial period is for the twelve months ended 30 June 2005. The previous financial year is for the twelve months ended 30 June 2004.

(q) Financial instruments issued

Convertible notes

Where the conversion rate is based on fair market value of the company's ordinary shares at the date of conversion, the proceeds received are classified as liabilities and related distributions as interest expense.

(r) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the company for the reporting period, after excluding any costs of servicing equity (other than ordinary shares), by the weighted average number of ordinary shares of the company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

	2005	2004
	\$	\$
2 Revenue From Ordinary Activities		
Licensing fees	1,319,087	-
Other revenues:		
From operating activities:		
Interest	401,230	383,050
Total revenue from ordinary activities	1,720,317	383,050
3 Loss From Ordinary Activities before income tax expense		
<i>(a) Individually significant items included in loss from ordinary activities before income tax expense</i>		
Milestone payments and licensing fees	1,168,970	341,682
<i>(b) Loss from ordinary activities before income tax expense has been arrived at after charging / (crediting) the following items:</i>		
Depreciation of plant and equipment	37,439	25,792
Operating lease/rental expense	86,672	90,474
Realised foreign exchange loss	23,035	23,713
Research and development expensed as incurred	3,189,193	1,836,673
Interest on convertible notes	-	28,584
4 Auditors' remuneration		
Audit Services: Auditors of the company - KPMG	41,000	39,000
Other Services: Auditors of the company - KPMG	-	84,570
	41,000	123,570

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

	2005	2004
	\$	\$
5 Taxation		
(a) Income tax expense		
Prima facie income tax expense / (benefit) calculated at 30% (2004: 30%) on the profit / (loss) from ordinary activities	(1,279,315)	(943,919)
<i>Increase/(decrease) in income tax expense due to:</i>		
Non-deductible expenses	7,922	4,394
Research and development allowance	(46,501)	-
Prior year under/(over) provision	-	(54,000)
Future income tax benefit not brought to account	1,317,894	1,080,386
Income tax expense attributable to profit from ordinary activities	<u>-</u>	<u>86,861</u>
Income tax expense attributable to profit / (loss) from ordinary activities		
Future income tax benefit	41,850	97,661
Prior year under/(over) provision	-	(10,800)
Provision for deferred income tax	(41,850)	-
	<u>-</u>	<u>86,861</u>
Future income tax benefit not taken to account		
(b)		
The potential future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond reasonable doubt:		
Timing differences	41,850	85,818
Tax losses carried forward	2,356,430	994,568
	<u>2,398,280</u>	<u>1,080,386</u>

The potential future income tax benefit will only be obtained if:

- (i) the company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
- (ii) the company continues to comply with the conditions for deductibility imposed by the law;
and
- (iii) no changes in tax legislation adversely affect the company in realising the benefit.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

	2005 \$	2004 \$
6 Cash assets		
Cash at bank and on hand	274,410	56,989
Short term deposits and bank accepted bills	5,423,749	9,740,135
	<u>5,698,159</u>	<u>9,797,124</u>
7 Receivables		
Interest	19,348	34,485
Other receivables	22,969	25,267
	<u>42,317</u>	<u>59,752</u>
8 Other Receivables		
Current		
Prepayments	55,149	3,640
	<u>55,149</u>	<u>3,640</u>
9 Plant and equipment		
At cost	125,059	94,144
Accumulated depreciation	(88,516)	(51,077)
	<u>36,543</u>	<u>43,067</u>
Reconciliation		
<i>Balance at start</i>	43,067	48,025
Additions	30,915	20,834
Depreciation	(37,439)	(25,792)
<i>Balance at end</i>	<u>36,543</u>	<u>43,067</u>

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

	2005	2004
	\$	\$
10 Payables		
Current		
Trade creditors	99,282	52,611
Other creditors and accruals	210,294	85,158
	<u>309,576</u>	<u>137,769</u>
11 Provisions		
Current		
Employee entitlements	48,113	31,861
	<u> </u>	<u> </u>
Non-Current		
Employee entitlements	12,787	7,878
	<u> </u>	<u> </u>

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

	2005 \$	2004 \$
12 Contributed equity		
Share capital		
31,327,106 (2004: 31,327,106) ordinary shares fully paid	<u>11,395,143</u>	<u>11,395,143</u>
(a) Ordinary Shares		
Movements during the year		
Balance at beginning of year		
31,327,106 (2004: 20,637,913)	11,395,143	1,856,403
<i>Shares issued</i>		
Nil (2004: 3,358,993) shares issued pursuant to an Offer Information Statement	-	1,343,597
Nil (2004: 12,500) shares issued pursuant to Corporate Reconstruction	-	-
Nil (2004: 6,817,700) Initial Public Offering	-	8,522,125
Nil (2004: 500,000) conversion of convertible note	-	500,000
Initial Public Offering expenses	-	(826,982)
Balance at end of year	<u><u>11,395,143</u></u>	<u><u>11,395,143</u></u>

(b) Included in the above balance are 2,493,753 restricted fully paid shares.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

	Note	2005 \$	2004 \$
13 Retained profits / (Accumulated losses)			
Retained profits/(accumulated losses) at beginning of the year		(1,669,068)	1,564,188
Loss attributable to members of the entity		(4,264,383)	(3,233,256)
Accumulated losses at end of the year		(5,933,451)	(1,669,068)

14 Total equity reconciliation

Total equity at beginning of year		9,726,075	3,420,591
Total changes in members interest in equity recognised in statement of financial performance		(4,264,383)	(3,233,256)
Transactions with owners as owners:			
Contributions of equity		-	9,538,740
Total equity at end of year		5,461,692	9,726,075

15 Notes to the statement of cashflows

(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 statement of financial position as follows:

	Note	2005 \$	2004 \$
Cash assets	6	5,698,159	9,797,124

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

15 Notes to the statement of cashflows (continued)

(b) Reconciliation of profit /(loss) from ordinary activities after income tax to net cash provided by /(used in) operating activities	2005	2004
	\$	\$
Profit / (Loss) from ordinary activities after income tax	(4,264,383)	(3,233,256)
<i>Add/(less) items classified as investing/financing activities and non-cash items:</i>		
Interest paid	-	28,584
Depreciation	37,439	25,792
Amounts set aside to provisions	-	39,838
(Increase)/decrease in future income tax benefit	-	61,128
<i>Net cash provided by/(used in) operating activities before changes in assets and liabilities</i>	<u>(4,226,944)</u>	<u>(3,077,824)</u>
<i>Change in assets and liabilities:</i>		
(Increase)/decrease in receivables	17,435	(34,485)
(Increase)/decrease in prepayments & other receivables	(51,509)	22,003
Increase/(decrease) in trade creditors	46,671	(1,978)
Increase/(decrease) in other creditors & accruals	125,136	(36,165)
Increase/(decrease) in provisions	21,161	(39,169)
Net cash provided by/(used in) operating activities	<u><u>(4,068,050)</u></u>	<u><u>(3,167,618)</u></u>

16 Employee benefits

Aggregate liability for employee entitlements, including on-costs

<i>Current</i>	48,113	31,861
<i>Non -Current</i>	12,787	7,878
	<u>60,900</u>	<u>39,739</u>

2005

2004

The present values of employee entitlements not expected to be settled within 12 months of balance date have been calculated using the following weighted averages:

Assumed rate of increase in wage/salary rates	3%	3%
Discount rate	5.00%	5.00%
Settlement term (years)	15	15
Number of employees at year end	5	4

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

16 Employee benefits (continued)

Equity based plans

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

Eligible persons may receive options based on the achievement of specific performance hurdles, which are a blend of company and personal objectives appropriate for the roles and responsibilities of each individual.

The company has the ability to issue 1,800,000 options under this scheme. These options may be issued for free at the discretion of the Board in accordance with the terms of the scheme and the Listing Rules.

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

All options expire on the earlier of the expiry date or the date of the employee termination.

On 1 March 2005 a total of 185,000 options were issued to employees under the plan. Directors and officers have been allocated 320,000 options under the same plan. The directors' options have not been issued and are subject to shareholder approval at the 2005 AGM.

These options vest on the basis of one third per year after the initial year of issue. The options expire on 1 March 2009. Each option has an exercise price of \$0.70 and vest on the basis of one third per annum after the year of issue. There are no voting rights or dividend rights attached to the options. There are no voting rights attached to the unissued ordinary shares.

On 6 November 2003 a total of 795,000 options were issued under the company's option plan. Directors' and officers' were issued with 720,000 options as disclosed in Note 21. The remaining 75,000 were issued to employees.

These options vest on the basis of one third per year after the initial year of issue. These options, which are restricted until 28 January 2006, expire on 7 November 2008. Each option has an exercise price of \$1.50 and vest on the basis of one third per annum after the year of issue. There are no voting rights or dividend rights attached to the options. There are no voting rights attached to the unissued ordinary shares.

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

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

17 Additional financial instruments disclosure

(a) Interest rate risk

Interest rate risk exposures

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

2005	Note	Weighted average interest rate	Floating interest rate \$	Non-interest bearing \$	Total \$
<i>Financial assets</i>					
Cash assets	6	5.61%	5,697,909	250	5,698,159
Receivables	7	-	-	42,317	42,317
			5,697,909	42,567	5,740,476
<i>Financial liabilities</i>					
Payables	10	-	-	309,576	309,576
Employee entitlements	16	5.00%	60,900	-	60,900
			60,900	309,576	370,476

2004	Note	Weighted average interest rate	Floating interest rate \$	Non-interest bearing \$	Total \$
<i>Financial assets</i>					
Cash assets	6	5.61%	9,796,874	250	9,797,124
Receivables	7	-	-	59,752	59,752
			9,796,874	60,002	9,856,876
<i>Financial liabilities</i>					
Payables	10	-	-	137,769	137,769
Employee entitlements	16	5.00%	39,739	-	39,739
			39,739	137,769	177,508

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

17 Additional financial instruments disclosure (continued)

(b) Foreign exchange risk

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. BioDiem Ltd does not enter into any derivative contracts to hedge transactions denominated in foreign currencies.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the profit and loss account in the financial year in which the exchange rates change.

(c) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. Credit risk is minimised, as counterparties are recognised financial intermediaries, with acceptable credit ratings determined by a recognised ratings agency.

(d) Guarantees

The company has in place term deposits amounting to \$69,938 (2004: \$14,382) in support of its undertakings under a guarantee for \$13,197 (2004: \$13,197) in accordance with its rental lease and \$55,000 (2004: Nil) on account of the company's credit cards.

Recognised financial instruments

The entity is not materially exposed to any individual overseas country or individual customer.

(e) Net fair values of financial assets and liabilities

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

18 Commitments

Operating lease commitments	2005	2004
	\$	\$
Future operating lease rentals not provided for in the financial statements and payable:		
Within one year	92,000	91,668
One year or later and no later than five years	126,000	221,531
	<u>218,000</u>	<u>313,199</u>

The entity leases property under a non-cancellable operating lease. The lease, which includes an option for a further three year term from November 15, 2004 has been extended to November 15, 2007.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

19 Contingent assets and liabilities

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

The company has acquired a licence to commercialise certain technologies from the 000 Klinika Instituta Bioregulyatsii I Gerontologii ("the Clinic"). Under this agreement the company is obliged to pay the Clinic US\$500,000 within 45 days of the commencement of a clinical trial. In addition the company is to pay the Clinic 20% of all payments received from any Licensee and a percentage of any royalties arising from net sales.

20 Earnings per share

Earnings reconciliation	2005 \$	2004 \$
Basic earnings	(4,264,383)	(3,233,256)
After tax effect on interest on convertible note	<u>-</u>	<u>20,008</u>
Diluted earnings	<u>(4,264,383)</u>	<u>(3,213,218)</u>

Weighted average number of shares used as a denominator

Number for basic earnings per share

Ordinary shares	31,327,106	27,319,185
-----------------	------------	------------

Number for diluted earnings per share

Ordinary shares	31,327,106	27,319,185
-----------------	------------	------------

Options issued under the company's employee share option plan are not considered dilutive as they are below their exercise price.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

21 Related parties

Directors

The names of each person holding the position of director of the company during the financial year were R. Unsworth, TG Williams, L Rudenko, R Borland, D Brooks, A O'Brien and MG Nicholas.

Directors and executive disclosures for disclosing entities

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages given trends in comparative companies both locally and internationally. Remuneration packages include a mix of fixed remuneration and equity based remuneration.

Total remuneration for all non-executive directors was set when the company was incorporated. This is not to exceed \$400,000. Directors' fees cover all board activities including attending to committees.

The Board maintains a Remuneration Committee comprising the three non-executive directors. The Chief Executive Officer attends the Remuneration Committee by invitation. This Committee is responsible for reviewing the compensation arrangements for the Chief Executive Officer and other senior executives.

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

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

All directors, managers and employees are expected to act with the utmost integrity and objectivity, trying at all times to enhance the reputation and performance of the company. Directors must keep the board advised on an ongoing basis of any interest that could potentially conflict with those of the company.

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 may acquire shares in the company at any time except when there is a "black-out". Company wide black-outs will occur for a period of 30 days prior to the release of the half-year and annual results. Black-outs can 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.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

21 Related parties (continued)

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 as mandated by the Insurer. Directors' income does not include insurance premiums paid by the company or related bodies corporate in respect of Directors' and Officers' liabilities and legal expenses as these premiums cannot be allocated against individual directors and officers.

Employee Options

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

Directors' holdings of shares

Directors of the company and their director-related entities held 2,496,240 (2004: 2,496,240) ordinary shares in the company at year-end.

Equity Instruments

All options refer to options over ordinary shares of BioDiem Ltd which are exercisable on a one for one basis.

Option Holdings

The Company issued 185,000 options to employees during the year. Options vest on the basis of one third per year after the initial year of issue. All options expire on the earlier of the expiry date or the date of the employee termination. The expiry date is March 1, 2009. The exercise price is \$0.70.

No shares were issued on exercise of options during the year or in the previous year.

On 6 November 2003 a total of 795,000 options were issued under the company's option plan. Directors' and officers' were issued with 720,000 options. The remaining 75,000 were issued to employees. These options vest on the basis of one third per year after the initial year of issue. All options expire on the earlier of the expiry date or the date of the employee termination.

Of the options issued during 2003, 600,000 are classified as restricted until 28 January 2006. In addition, the company issued to the Underwriters of the Initial Public Offering 100,000 options. These options, which are restricted until 28 January 2006, expire on 7 November 2008. Each option has an exercise price of \$1.50 and vest on the basis of one third per annum after the year of issue.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

21 Related parties (continued)

Option Holdings						
Directors	Held at 1 July 2004	Options granted as remuneration	Exercised	Held at 30 June 2005	Vested during the year	Vested and exercisable at 30 June 2005
Mr R Unsworth	80,000	-	-	80,000	-	-
Mr T Williams	160,000	-	-	160,000	-	-
Dr R Borland	100,000	-	-	100,000	-	-
Mr D Brooks	80,000	-	-	80,000	-	-
Dr L Rudenko	100,000	-	-	100,000	-	-
Mr M Nicholas	80,000	-	-	80,000	-	-
Specified executives						
Dr. G Hodsman	-	100,000	-	100,000	-	-
Mr D Baillieu	60,000	25,000	-	85,000	-	-
Dr J Kurek	60,000	25,000	-	85,000	-	-

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of BioDiem Limited held directly, indirectly or beneficially by each director and specified executive including their personally-related entities is as follows:

Directors	Held at 1 July 2004	Purchases	Sales	Held at 30 June 2005
Mr R Unsworth	250,000	-	-	250,000
Mr T Williams	903,750	-	-	903,750
Dr R Borland	833,585	-	-	833,585
Mr D Brooks	19,030	-	-	19,030
Dr L Rudenko	-	-	-	-
Mr M Nicholas	489,875	-	-	489,875
Specified executives				
Mr D Baillieu	1,000,000	47,000	-	1,047,000
Dr J Kurek	-	-	-	-

Dr Rudenko is Head of the Virology Department in the Institute of Experimental Medicine (“the Institute”). During the course of the year the company paid licence fees and royalties amounting to \$263,817 (2004: \$341,682) to the Institute. In addition, research and development costs amounting to \$142,025 (2004: \$119,374) were also paid to the Institute. The Company paid consulting fees of \$25,000 (2004: nil) to BioIncyte Pty Ltd. a company associated with Dr A O’Brien. The company paid \$2,970 (2004: nil) on account of Mr Tom Williams for personal travel purposes. This amount is included in sundry debtors at 30 June 2005.

22 Segment reporting

The company operates in the biopharmaceutical industry developing and/or commercialising biomedical research. The majority of operations are in Australia.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

23 Events subsequent to reporting date

Impact of adopting Australian equivalents to International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the Company must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

Transition management

The board has established a formal implementation project, monitored by a steering committee, to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005.

The project is achieving its scheduled milestones and the Company is expected to be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 financial year.

Assessment and planning phase

The assessment and planning phase aims to produce a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

This phase includes:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting AIFRS;
- assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes;
- evaluation of the implications for staff, for example training requirements; and
- preparation for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

The Company considers the assessment and planning phase completed as at 30 June 2005.

Design phase

The design phase formulated the changes required to existing accounting policies and procedures and systems and processes in order to transition to AIFRS. The design phase will incorporate:

- formulating revised accounting policies and procedures for compliance with IFRS requirements;
- identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of IFRS;
- developing revised IFRS disclosures;
- designing accounting and business processes to support IFRS reporting obligations;
- identifying and planning required changes to financial reporting and business source systems; and

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

23 Events subsequent to reporting date (continued)

Transition management (continued)

Design phase (continued)

- developing training programs for staff.

The design phase is complete as at 30 June 2005.

Implementation phase

The implementation phase includes implementation of identified changes to accounting and business procedures, processes and systems for staff and enables the Company to generate the required reconciliations and disclosures of AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*.

This implementation phase is complete as at 30 June 2005.

Impact of transition to AIFRS

The impact of transition to AIFRS, including the transitional adjustments disclosed in the reconciliations from current Australian GAAP to AIFRS, and the selection and application of AIFRS accounting policies, are based on AIFRS standards that management expect to be in place. Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of Company's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary, therefore, further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

There is a significant amount of judgement involved in the preparation of the reconciliations from current Australian GAAP to AIFRS, consequently the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliations provided in this Note.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- changes in financial reporting requirements that are relevant to the Company's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 June 2005 financial report
- additional guidance on the application of AIFRS in a particular industry or to a particular transaction
- changes to the Company's operations.

Where the application or interpretation of an accounting standard is currently being debated, the accounting policy adopted reflects management's current assessment of the likely outcome of those deliberations. The uncertainty relating to the accounting guidance is disclosed in the relevant accounting policy note and where practicable, the expected impact of the alternative interpretation is also disclosed.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

23 Events subsequent to reporting date (continued)

Impact of transition to AIFRS (continued)

The rules for first time adoption of AIFRS are set out in AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004. The Standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS. The accounting policies note includes details of the AASB 1 elections adopted.

The significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliations and the elections expected to be made under AASB 1 are set out below:

(a) Share based payments

Under current Australian GAAP no expense is recognised for options issued to employees.

Under AIFRS, the fair value of options granted must be recognised as an employee benefit expense with a corresponding increase in equity. The fair value will be measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees becomes unconditionally entitled to the options. The fair value of options granted will be measured using the black-scholes methodology, taking into account the terms and conditions attached to the options. The amount recognised as an expense will be adjusted to reflect the actual number of options that vest except where forfeiture is due to market related conditions.

No adjustment will be made for options granted before 7 November 2002 which have vested before 1 January 2004. Options granted after 7 November 2002 remaining unvested at 1 January 2004 will be recognised in the opening balance sheet through retained earnings resulting in a nil impact on transition.

For the financial year ended 30 June 2005, employee benefits expense and retained earnings are expected to be increased by \$15,416 in the Company representing the options expense for the period.

(b) Taxation

On transition to AIFRS the balance sheet method of tax effect accounting will be adopted, rather than the liability method applied currently under Australian GAAP.

Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes. Income tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it will be 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 reporting date, and any adjustments to tax payable in respect of previous years.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

23 Events subsequent to reporting date (continued)

Impact of transition to AIFRS (continued)

(b) Taxation (continued)

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences will not be provided for: goodwill for which amortisation is not tax deductible, the initial recognition of assets and liabilities that affect neither accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided will be based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset will be recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets will be reduced to the extent it is no longer probable that related tax benefits will be realised.

With respect to items charged or credited directly to equity, the corresponding tax effect shall also be charged to equity, whether or not the item was posted to equity in the same or a different period. The expected impact on the Company at 1 July 2004, for the change in basis and transition adjustments on the deferred tax balances is an increase in deferred tax assets of \$248,095 and an increase in contributed equity of \$248,095. This is to record the tax effect of the floatation cost which were charged directly against equity in the 2004 financial year as a result of the floatation costs.

However, this potential deferred tax asset and increase in contributed equity has not been recognised as a transitional AIFRS adjustment because the future generation of taxable profits and related realisation of the tax benefit has been reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(c) Impairment

Under current Australian GAAP the carrying amounts of non-current assets valued on a cost basis, other than exploration and evaluation expenditure carried forward, are reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds its recoverable amount the asset is written down to the lower amount, with the write-down recognised in the income statement in the period in which it occurs. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

Under AIFRS, the carrying amount of the Company's non-current assets, excluding deferred tax assets and indefinite life intangible assets will be reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount.

No impairment adjustments are expected upon the 1 July 2004 transition to AIFRS or at 30 June 2005.

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

23 Events subsequent to reporting date (continued)

Impact of transition to AIFRS (continued)

(d) Earnings per share

Under AIFRS basic and diluted earnings per share are calculated using the profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity.

The earnings per share for the financial year ended 30 June 2005 calculated on the AIFRS adjusted results are expected to be:

Basic EPS:	AUD \$0.14
Diluted EPS:	AUD \$0.14

Summary of transitional adjustments

Reconciliation of equity

	Note	AGAAP \$	The Company 1 July 2004 Transition impact \$	AIFRS \$	The Company 30 June 2005 Transition impact \$	AGAAP \$	AIFRS \$
Assets							
Current assets							
Cash assets		9,797,124	-	9,797,124		5,698,159	5,698,159
Receivables		59,752	-	59,752		42,317	42,317
Tax assets	(b)	-	-	-		-	-
Other assets		3,640	-	3,640		55,149	55,149
Total current assets		<u>9,860,516</u>	<u>-</u>	<u>9,860,516</u>		<u>5,795,625</u>	<u>5,795,625</u>
Non-current assets							
Property, plant and equipment		43,067	-	43,067		36,543	36,543
Total non-current assets		<u>43,067</u>	<u>-</u>	<u>43,067</u>		<u>36,543</u>	<u>36,543</u>
Total assets		<u>9,903,583</u>	<u>-</u>	<u>9,903,583</u>		<u>5,832,168</u>	<u>5,832,168</u>
Liabilities							
Current liabilities							
Payables		137,769	-	137,769		309,576	309,576
Provisions		31,861	-	31,861		48,113	48,113
Total current liabilities		<u>169,630</u>	<u>-</u>	<u>169,630</u>		<u>357,689</u>	<u>357,689</u>
Non-current liabilities							
Provisions		7,878	-	7,878		12,787	12,787
Total non-current liabilities		<u>7,878</u>	<u>-</u>	<u>7,878</u>		<u>12,787</u>	<u>12,787</u>
Total liabilities		<u>177,508</u>	<u>-</u>	<u>177,508</u>		<u>370,476</u>	<u>370,476</u>
Net assets		<u>9,726,075</u>	<u>-</u>	<u>9,726,075</u>		<u>5,461,692</u>	<u>5,461,692</u>
Equity							
Contributed equity	(b)	11,395,143	-	11,395,143		11,395,143	11,395,143
Accumulated losses	(a)	(1,669,068)	-	(1,669,068)		(6,076,551)	(6,076,551)
Total equity		<u>9,726,075</u>	<u>-</u>	<u>9,726,075</u>		<u>5,461,692</u>	<u>5,461,692</u>

BioDiem Ltd
Notes to the financial statements
For the year ended 30 June 2005

23 Events subsequent to reporting date (continued)

Impact of transition to AIFRS (continued)

Reconciliation of profit for the financial year ended 30 June 2005

		The Company For the financial year ended 30 June 2005		
	Note	AGAAP	Transition	AIFRS
		\$	impact	\$
Total revenue		1,720,317	-	1,720,317
License fees and royalties		(1,168,970)	-	(1,168,970)
Research and development		(3,189,193)	-	(3,189,193)
Administration and corporate	(a)	<u>(1,626,537)</u>	<u>(15,417)</u>	<u>(1,641,954)</u>
Loss from ordinary activities before income tax expense		(4,264,383)	(15,417)	(4,279,800)
Income tax expense		_____ -	_____ -	_____ -
Loss attributable to members of the company		<u>(4,264,383)</u>	<u>(15,417)</u>	<u>(4,279,800)</u>

Summary of impact of transition to AIFRS on Accumulated Losses

The impact of the transition to AIFRS on Accumulated Losses as at 1 July 2004 is summarised below:

	Note	\$
Accumulated Losses as at 1 July 2004 under AGAAP		<u>(1,669,068)</u>
AIFRS reconciliation:		
- Options	(a)	-
- Impact of taxation adjustment	(b)	_____ -
Accumulated Losses as at 1 July 2004 under AIFRS		<u>(1,669,068)</u>

Other than as referred to above, there has not arisen since the end of the financial year, any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the company, to affect significantly the operations of the consolidated entity, the results of those operations, or the status of affairs of the company, in future financial years.