



## **AGM Presentation Commentary**

8<sup>th</sup> November 2007

Dear Shareholders,

The company delivered its AGM in Melbourne on Monday 5<sup>th</sup> November. I had planned to have some media representation present to compile a commentary of my report and this unfortunately did not eventuate. Over the past couple of days I have received a number of calls from shareholders and interested parties asking questions about the presentation that I delivered; so in order to help explain what I actually said in the meeting I have prepared a written commentary for you to use along-side the presentation.

I am always happy to receive your calls to discuss the companies projects so if you require further information please do not hesitate to contact me.

### **BIOPROSPECT AGM November 5<sup>th</sup> 2007. written commentary for the Managing Director's presentation.**

"Thank you for the opportunity to provide an insight into what the company has done since our last AGM in Perth last year. As a brief summary from that meeting, the company's commitment was to conduct the following during 2007...

- We had to increase the current product and project value and this has been done by keeping the TERMILONE<sup>R</sup> project on track for commercialisation in early 2010.
- We needed to partner with a similar company that had a range of products that required development in market sectors that we are experienced and participating in. This was done in August with the agreement between BioProspect and Solagran Ltd.
- We need to attract institutional investment and commercial partners. This has been done to some extent and an analysis of the top 10 company shareholders reflects that we have started that process.

The Share Price has remained positive in the right direction and we have a good cash reserve to fund the projects for the next couple of years.

I am thrilled to have a Brisbane-based Chairman with Steve Morrow and he is a welcome visitor to our office on a regular basis. He brings a lot of ideas and contacts to the company and is an excellent sounding-board for my ideas and plans to move the company forward.

I have initiated a company media program that is due to start in early 2008. This will focus on getting information to the shareholders, interested parties, investment managers and potential collaborators. The program is based around a new web site (now up and running), video presentations, news letters, local and international media outlets and podcast-type information.

I do realise that some shareholders have a reluctance to use electronic communications or access to the internet is difficult consequently I am always happy to discuss what we are doing over the phone or in person. You must always feel comfortable that we like to hear from you one way or another.

### **Product Achievements 2006-2007 and work for 2008 for TERMILONE<sup>®</sup>**

The development agreements with The University of Western Sydney (UWS) and Ensis/CSIRO are in place. These take us all the way through the development of the EUP's (End Use Products) and data generation for the TERMILONE<sup>®</sup> oil Active Constituent (AC) registration.

We have conducted formulation work on the CS (Contact Spray) and TT (Timber Treatment) formulations and after taking a little longer than expected, we now have a number of formulations to test under bioassays. This is happening now and we should be receiving results later this year and early next year.

I was very pleased with the results of our genotoxicity and mutagenicity toxicity study. Now that we know that the results were negative, there is no need to proceed to the expensive Tier II genotoxicity trials that are normally required for the likes of most synthetic chemicals. Based on this information it is safe to say that the compounds found in the natural oil will not lead to any genotypic abnormality in humans or animals.

### **This is what we need when promoting the product as safe and environmentally attractive!**

I have commissioned the toxicologist to conduct screening studies for specific dermal toxicity. We will know the results soon.

I have also commissioned the start of the environmental toxicity testing. This is where we assess how TERMILONE<sup>®</sup> reacts and behaves in the ground and water. In this case based on advice from the APVMA and our regulatory consultant (De Groot Technical Services), we only have to test the raw oil which will be the active constituent in any formulation that we or a commercial partner might use.

The testing looks at the compounds behaviour on soil microbes, salt and fresh-water fish, micro-crustaceans and possibly earthworms. We will also analyse what happens to the oil when it gets into the environment in terms of 'what' it breaks down into (metabolites) and assess if there is any eco-toxicity there. We will know some preliminary results soon.

The team from The School of Environmental Science & Management, Southern Cross University led by Dr. Amanda Reichelt-Brushett is doing the work.

The analytical chemistry has been completed. This means that we can identify and trace the main chemical compounds found in the oil in any situation. In our case we like to look at how much of the oil is found in timber samples, sprays and soil profiles. The data in this regard is used for registration purposes.

In the winter of this year I authorised the start of a small-scale 'geographic survey' with the assistance of the Queensland Herbarium and EPA. We collected *Eremophila mitchellii* logs from 10 completely different locations in Queensland. The logs are now being analysed by Associate Professor David Leach and his team from the Centre of Phytochemistry & Pharmacology at Southern Cross University.

The objective of this survey is to see if there are any chemical and physical differences in the oil extracted from the logs based on location and climate. We will conduct a 'summer' survey from exactly the same locations in February or March 2008. The data will be used for registration and manufacturing purposes in the future.

Working with the Herbarium and EPA is very rewarding. They have excellent vegetation records for Queensland and from this we can identify the areas where the best 'stands' of *Eremophila mitchellii* are for future harvesting programs.

I will be doing the same in NSW when the survey is completed in Queensland.

Based on the results of the geographic survey, we will need to conduct a large-scale manufacturing study in early 2008. The objective is to assess the true cost of the oil taking into account variables like harvesting, transport, processing, oil extraction and separation and blending.

We are in discussions with a number of possible collaborators in this regard.

I made a comment about 'expediting' the registration of the whole oil (Eremophilone oil) to enable a faster entry into the USA. This is a change to our current registration strategy from a resource allocation and timing perspective.

It is important that I explain this carefully as the registration process in any country is difficult and in some cases very complicated so I need to get everybody up-to-speed so to speak.

In most countries the pesticide regulators require data to be produced for the Active Constituent (AC) and the End Use Products (EUP's) that contain the AC in some form of formulation.

Based on this and the type compound that TERMILONE is, the company decided to follow a 'parallel' registration strategy for a biological compound. By 'parallel', the company generates data for both the AC (in this case the raw oil derived from *Eremophila mitchellii* that we call Eremophilone) and the EUP's (in this case the CS, TT and BT formulations).

By doing the registration and data generation program in parallel, we obtain information that enables us the confidence to progress forward and it is shared in 'parallel'. By generating data for the AC and the EUP's at the same time, it enables us to submit the data at the same time. All things being equal, the registrations for the AC and EUP's arrive at the same time.

In the board meeting that followed the AGM, I proposed to the board that we expedite the registration of the AC (Eremophilone oil) based on new information and trends from potential overseas markets.

If we focused our efforts in getting the AC (Eremophilone oil) registered first, then our chances of getting the compound registered in the USA would be faster.

I would like to share with you the reasons why I am promoting this change in strategy and why the board approved my plans.

I have recently returned from the USA where I attended the PestWorld conference in Orlando, Florida. This is the largest conference of its type in the world with over 3400 delegates representing the industries professional pest controllers, chemical manufacturers, distributors and regulators.

I included two photos in my presentation. These are simply **examples** of what companies are now doing in terms of promoting 'patented botanical products' and natural pest control systems. These are only examples of what is a growing trend in the USA. One would have never seen this type of promotion a year ago as all participants concentrated on synthetically produced chemicals.

**The 'Green Revolution' is taking hold in the USA and this is why we should move faster.**

I did get the opportunity to have meetings with leading pest control companies, manufacturing and distribution companies and perhaps most importantly, the regulators that govern the entry of new compounds and place restrictions of existing products on the market.

The subject matter and feedback to me was common from all...."**why don't you get your termite compound over here faster so we can get it looked at and registered?"**

Based on the information that I collected and advice from regulation consultants, BioProspect will bring forward its work on the AC (Eremophilone oil) in order to get a submission to the APVMA earlier, then onto the USA earlier.

I have still yet to get an accurate assessment on timing in terms of obtaining an AC Registration for Eremophilone Oil and when that happens I will let you know. I can confidently say that it will be faster than what we have said in the past.

The work that we will conduct to do this essentially reflects what we had planned to do over the next 18 months, but it will be pushed forwards and not in parallel with the EUP's. This means that we will complete all of the mammalian and eco-tox work earlier, get manufacturing and chemistry data earlier and prepare the submission earlier. The AC submission will go in before the EUP submissions.

I will be spending more time with our regulatory consultant, our project collaborators and the APVMA to make sure we get the data produced and submitted as fast as possible.

The EUP work will continue under the current time-lines and pace.

If you have any questions in this regard, please call me.

It is also important to point out that we are actively looking for partners for product development and commercialisation. 2008 will be an important year to focus our efforts on in this regard. We are on the radar from a number of companies and it is important that we work with the ones that can provide BioProspect value, sustainability and returns as quickly as possible.

Field studies for the EUP's (CS, TT and BT) will start in 2008.

### **Bioeffectives**

As discussed briefly before, we have entered into an agreement with a Melbourne-based company called Solagran (ASX: SLA). The agreement permits BioProspect to develop a range of Bioeffectives in the animal health, nutrition and general agricultural market sectors on an international scale.

Solagran is doing the same, but in the human health sectors.

Our primary development objective is to generate the data that will permit us to have very specific product labels with definitive claims in order to gain entry into the lucrative animal health markets around the world.

The process is similar to what we are doing with TERMILONE<sup>®</sup> so we are well aware of the requirements and regulatory path-ways. It is important that we have specific product labels as this will have a bearing on the type of market sector we can participate in and the value of the IP.

Bioeffectives are biologically active galenical substances. In other words they are a medicinal preparations made up chiefly of herbal or vegetable matter. They come from the green needles of the conifer species.

They are derived using a patented extraction process and technology. Their activity is based on a range of compounds found within each of the extracts and their function is primarily to offer a natural way of improving disease resistance in animals and to improve the feed conversion efficiency of some of the industrially available animals feeds used today.

It is a synergistic activity of the compounds contained in the respective Bioeffectives and not just a single molecule or ingredient that are responsible for their unique activity.

This in its own right this is a significant challenge for most regulatory authorities around the world. Their thinking and systems are based on single molecule products that deliver a specific benefit to an animal or human (Panadol has paracetamol as the active ingredient and not much else for example).

Our challenge is to generate data that satisfies the majority of the regulators requirements and present well founded and based arguments when the data does not. At the end of the day, Bioeffectives will enter a market as they are safe, naturally produced and have no significant environmental or mammalian toxicity issues.

We also need to show that they can stand-up top some of the products that are on the market today.

What are the key drivers that reveal a requirement for alternative and environmentally safe animal nutrition products? Who are the major players in the value chain that help determine what can be used and what will be used in the near future?

I have identified that the key driver to Bioeffective product acceptance is the fact that consumers (you and I) want safer and cleaner animal products (meat, milk etc). On the perimeter of the key driver for safer and cleaner products are the farmers, animal feed manufacturers, environmentalists and our food manufacturers and distributors.

### Farming Systems

The number of farms internationally is getting smaller and they are being replaced by larger and more 'intensive' animal production units. Land is being made available for urban expansion and the economics of small-scale farming in most developed countries is not in the favour of the farmer.

The net effect is the increase in the number of large corporate-driven agricultural firms and intensive feeding facilities. The net effect of this is an increase in animal disease, infections and negative animal welfare publicity.

Cost of production is high (look at the price of grain in Australia at the moment compared to last year) and every farming operation is looking for avenues to cut costs while maintaining productivity.

As a result of an increase in the size of the production facilities, the requirement for medicated and non-medicated animal health products increases. Unfortunately some of them have poor environmental records and of major importance to humans, their activity is actually diminishing. This is commonly seen with antibiotics. Their intended effect is slowly failing.

Most of the production systems and products that are used in those systems (feed additives and medicated products) are highly regulated and monitored. There are advantages and disadvantages to this. The cost to develop a completely new animal health product based on combinatorial chemistry is now almost prohibitive. There are not too many companies out there developing new antibiotics for example.

Product quality and cost is a major driver at the farmer end of the value chain.

What are farmers now demanding?

- Safer products for their animals that have no food chain effect on humans.
- Safer products that have similar equivalence to current synthetic compounds.
- Safer products that can help extend the life of products like antibiotics.
- Safer products that are at least equivalent in cost and possibly cheaper to what is used today.

### Animal Feed Manufacturing

The players in this driver category are generally made up from a small number of large multi-national companies with backward and forward integration strategies in farming and product distribution.

Their industry is highly regulated and the barriers of entry for new players are quite high.

They require only registered products to use in their feed mixes and products and they are very reluctant to try feed additives that have no science or backing behind them. A failure at the feed end can be dramatic for a feed manufacturer, particularly if an entire feed-lot of cattle is affected or if there is a contamination issue of the produce that can be traced back to the feed or feed additive.

What are feed manufacturers demanding?

- Searching for alternative animal nutrition and health products that can be delivered in standard feed mixes and blends with no animal toxicity, environmental effect of food chain issues.
- Food Chain issues are hot...they want to be seen as responsible, professional and most importantly their image for better animal welfare needs to be improved.

### Environmental

The environmental driver includes regulators and the green lobby.

Activity at this stage is paramount as it can affect productivity up and down the value chain in sustainable animal production.

The 'green lobby' is very powerful, particularly in the USA. They are well funded and have a very strong representation at the highest of political levels.

Any new product introduction must 'pass through' this driver and get approval before it enters the market literally.

### Food and product distribution

This driver includes the big supermarket chains and companies that own those chains.

They have tremendous market power and marketing strategies that dictate a consumers buying decision.

In some cases there is an integration or association with farming and feed manufacturing companies, consequently there is an increased market power on what gets made and sold.

They will seek an edge over their competition and that is generally centered on cost and differentiated products that have clean and green images.

### So what is the market fit for Bioeffectives based on an assessment of the market drivers?

Given that our trial work over the next 2.5 years reveals that the selected Bioeffectives have:

- Similar equivalence to current market products
- Have a competitive cost profile
- Have identified non-toxicological (mammalian and environmental) properties
- Are accepted in most market driver categories

**We will have a very attractive product range on an international scale.**

### **Why am I confident that we can achieve these important points?**

- There is some very good evidence that the safety aspects are unique
- The products have been trialed and used in Russia for many years with good results.
- One Bioeffective in particular has an Australian TGA approval
- Human health studies provide an angle for development in animal nutrition and health
- BioProspect has very good contacts in animal product development, feed manufacturing and distribution on an international scale.
- The market is demanding safer products with no 'food chain' contamination issues.
- Bioeffectives fit very nicely in our desire to develop and commercialise products that are safe for the environment and humans that consume/use them.

### **Target market**

To the best of our ability our estimates of the target market for Bioeffectives is close to \$US18.6 billion.

This is categorized into companion animals, ruminants, pigs and poultry.

The growth market is the companion animal market (cats, dogs on horses). It amazes me how much people spend on their animals for little in return!

The big market is in Europe and the USA with 40% of all sales happening in Northern America.

BioProspect will spend \$3 million over 2.5 years to get to a commercially viable product range with trial work in Australia, the USA and Europe. All the work will be conducted by internationally recognised researchers/institutions and in accordance with OECD and US EPA standards. We will not cut corners.

### **Final Message**

There is new technology out there that will help us discover and develop existing and new products that are based on natural compounds.

There is a paradigm shift at the consumer, manufacturer, researcher and most importantly, the regulator level of the value chain for all pesticides and animal health products.

I will make sure that BioProspect is a part of this shift in thinking by taking positive action.

The company is now well positioned and structured to make this happen, particularly with a board and executive that are articulate and experienced in product development, finance, partnering and distribution".