

Appendix 4E

Preliminary final report Period ending on 30 June 2011

Name of entity

BIOPROSPECT LIMITED

ABN or equivalent company
reference

58 008 130 336

The information contained in this report relates to the following years:

| | |
|---------------------|--------------|
| Current year ended | 30 June 2011 |
| Previous year ended | 30 June 2010 |

Results for announcement to the market

\$'000

| | | | | |
|--|---------------------|-----------------------------|----|---------|
| Revenue from ordinary activities | Up | 1,161.8% | To | 499 |
| (Loss) from ordinary activities after tax attributable to members | Down | 2.5% | To | (3,220) |
| Net (loss) for the period attributable to members | Down | 2.5% | To | (3,220) |
| Basic loss per share (cents per share) | Down | 43.1% | To | (0.37) |
| Diluted loss per share (cents per share) | Down | 43.1% | To | (0.37) |
| Dividends | Amount per security | Franked amount per security | | |
| <u>Financial year ended 30 June 2011</u> | | | | |
| Final dividend | - | - | | |
| Interim dividend | - | - | | |
| <u>Financial year ended 30 June 2010</u> | | | | |
| Final dividend | - | - | | |
| Interim dividend | - | - | | |

Dividend payments

Date the final 2011 dividend is payable

N/A

Record date to determine entitlements to the dividend

N/A

Date final dividend was declared

N/A

Total dividend per security (interim plus final)

Ordinary securities

| | |
|--------------|---------------|
| Current year | Previous year |
| - | - |

Total dividends paid on all securities

| | Current year \$'000 | Previous year \$'000 |
|---------------------|------------------------|-------------------------|
| Ordinary securities | - | - |
| Total | - | - |

Net Tangible Assets

| | Current year | Previous year |
|---|--------------|---------------|
| Net tangible assets per ordinary security | 0.08 cents | 0.18 cents |

Annual meeting

The annual meeting will be held as follows:

Place

Melbourne

Date

23 November 2011

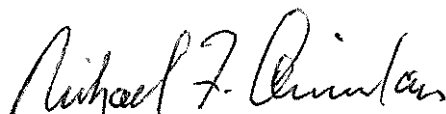
Time

1.30 pm

Approximate date the annual report will be available

TBA

This report is based on accounts that are in the process of being audited.



Date: 30 August 2011

Print name: Dr Michael Quinlan
Chairman

REVIEW AND RESULTS OF OPERATIONS

Operating Results for the Year

The Group generated a trading loss after tax of \$3,220,121 some \$81,333 lower than 2010. Sales of REGEN products for the year were \$294,042, significantly higher than the 2010 result of \$1,456 reflecting the exclusive distribution arrangement signed with Doward International in February 2011. However, there were other significant impacts as follows:-

Other Income

- Re Gen Wellness Products received \$42,346 from the Australian government's Export Market Development Grant for costs associated with establishing markets in Asia.
- BioProspect realised \$104,666 profit on disposal of its shares held in Solagran Limited (ASX:SLA)

Cash Fixed Costs

Total cash fixed costs for 2011 at \$3,868,072 was some \$1,037,049 higher than 2010 for the following key reasons:-

- An increase in legal expenses (\$1,050,573) due to the finalisation of the development agreement dispute with Solagran limited, due diligence costs associated with the Frontier Gasfields investment, notice of extraordinary meeting costs and other development and marketing agreements;
- Sales and marketing expenses increased by \$84,367 due to activities associated with the Re Gen Wellness Product's portfolio (advertising, product samples, trademark searches), promoting the AGRIPRO™ and G-Guard™ brands (trademarks) and corporate advertising;
- Employee benefits expenses were some \$124,740 lower than 2010 primarily due to a reversal of share based payments for director options that expired in September 2010 of \$74,521.

Non Cash Expenses

- Amortisation costs were significantly below the 2010 figure of \$311,963 as the Solagran Development Licence was fully amortised during 2010;
- Impairment provisions were some \$585,000 below the 2010 write down that occurred for the Solagran Development licence.

Review of Financial Condition

Capital Structure

On 20 October 2010, a placement was completed for 74,000,000 ordinary shares at an issue price of 0.5 cents, along with a free 1:1 attaching new class of options exercisable at 3 cents per share on or before 31 December 2013.

On 6 December 2010, the company completed a rights issue that was offered to all shareholders resulting in an issue of 330,556,782 shares at an issue price of 0.5 cents, along with 318,556,782 attaching loyalty options exercisable at 3 cents per share on or before 31 December 2013, and 318,556,782 1:1 attaching new class of options issued at 0.1 cent.

On 19 January 2011, 25,000,000 shares were issued to Nova Vita Pty Ltd at a value of \$250,000 in consideration for the licence associated with the L'AZURE™ range of plant extract-based natural cosmetic products.

On 16 February 2011, a placement was completed for 123,900,000 ordinary shares at an issue price of 1 cent, along with a free 1:1 attaching new class of options exercisable at 3 cents per share on or before 31 December 2013. These options were issued during July 2011 after shareholder approval on the 8 July 2011.

Cash on hand

The company's cash reserves at the end of the financial year amounted to \$1,718,019.

Consolidated Income Statement

FOR THE YEAR ENDED 30 JUNE 2011

| | Note | CONSOLIDATED | |
|--|------|--------------------|--------------------|
| | | 2011 | 2010 |
| | | \$ | \$ |
| Sale of goods | | 294,042 | 1,456 |
| Other income | 5 | 205,202 | 41,517 |
| Revenue | | 499,244 | 42,973 |
| Cost of sales | | (237,903) | (834) |
| Gross Profit | | 261,341 | 42,139 |
| Finance costs | 5 | (2,360) | (6,490) |
| Amortisation and depreciation | 5 | (14,384) | (322,849) |
| Employee costs | 5 | (705,547) | (830,287) |
| Impairment of licence | 13 | - | (585,000) |
| Research and development expenses | | (720,537) | (717,946) |
| Other expenses | 5 | (2,439,628) | (1,276,300) |
| Loss before income tax | | (3,621,115) | (3,696,733) |
| Income tax benefit | 6 | 400,994 | 395,279 |
| Loss attributable to members of BioProspect Limited | | (3,220,121) | (3,301,454) |
| Basic earnings per share (cents per share) | 7 | (0.37) | (0.65) |
| Diluted earnings per share (cents per share) | 7 | (0.37) | (0.65) |

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2011

| | Consolidated | |
|--|--------------|-------------|
| | 2011 | 2010 |
| | \$ | \$ |
| Loss for the period | (3,220,121) | (3,301,454) |
| Other comprehensive income | | |
| Net gain (loss) on revaluation of available for sale financial assets | (69,842) | 93,750 |
| Total other comprehensive income for the period net of tax | (69,842) | 93,750 |
| Total comprehensive income attributable to members of BioProspect | (3,289,963) | (3,207,704) |

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

AS AT 30 JUNE 2011

| | Note | CONSOLIDATED | |
|--------------------------------------|--------|------------------|------------------|
| | | 2011 | 2010 |
| | | \$ | \$ |
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 8 | 1,718,019 | 738,672 |
| Trade and other receivables | 9 | 133,405 | 69,363 |
| Inventories | 10 | 638,945 | 160,843 |
| Prepayments | | 9,790 | 13,635 |
| Total Current Assets | | 2,500,159 | 982,513 |
| Non-current Assets | | | |
| Other financial asset | 12 | 375,000 | - |
| Intangibles | 13 | 300,000 | 50,000 |
| Available for sale investments | 14 | 78,981 | 343,750 |
| Property, plant and equipment | 15 | 22,673 | 32,306 |
| Total Non-current Assets | | 776,654 | 426,056 |
| TOTAL ASSETS | | 3,276,813 | 1,408,569 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Trade and other payables | 16 | 560,131 | 209,803 |
| Share application funds received | 17 | 1,494,547 | - |
| Provisions | 18 | 32,665 | 18,127 |
| Total Current Liabilities | | 2,087,343 | 227,930 |
| Non-current Liabilities | | | |
| Other payables | 19 | - | 83,087 |
| Provisions | 20 | 11,933 | - |
| Total Non-current Liabilities | | 11,933 | 83,087 |
| TOTAL LIABILITIES | | 2,099,276 | 311,017 |
| NET ASSETS | | 1,177,537 | 1,097,552 |
| EQUITY | | | |
| Issued capital | 21 (a) | 31,210,774 | 28,084,860 |
| Reserves | | 2,567,419 | 2,393,227 |
| Accumulated losses | | (32,600,656) | (29,380,535) |
| TOTAL EQUITY | | 1,177,537 | 1,097,552 |

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

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2011

| | Issued Capital | Accumulated Losses | Available for Sale Financial Assets Revaluation Reserve | Share Based Payments Reserve | Total Equity |
|---------------------------------------|-------------------|-----------------------|---|------------------------------------|--------------------|
| | \$ | \$ | \$ | \$ | \$ |
| At 1 July 2009 | 26,240,904 | (26,079,081) | - | 2,299,477 | 2,461,300 |
| Comprehensive income | | | | | |
| Loss for the period | - | (3,301,454) | - | - | (3,301,454) |
| Other comprehensive income | | | | | |
| Available for sale financial assets | - | - | 93,750 | - | 93,750 |
| Total comprehensive income | - | (3,301,454) | 93,750 | - | (3,207,704) |
| Transactions with owners | | | | | |
| Shares issued | 1,933,580 | - | - | - | 1,933,580 |
| Share issue costs | (89,624) | - | - | - | (89,624) |
| Total transactions with owners | 1,843,956 | - | - | - | 1,843,956 |
| At 30 June 2010 | 28,084,860 | (29,380,535) | 93,750 | 2,299,477 | 1,097,552 |
| At 1 July 2010 | 28,084,860 | (29,380,535) | 93,750 | 2,299,477 | 1,097,552 |
| Comprehensive income | | | | | |
| Loss for the period | - | (3,220,121) | - | - | (3,220,121) |
| Other comprehensive income | | | | | |
| Available for sale financial assets | - | - | (69,842) | - | (69,842) |
| Total comprehensive income | - | (3,220,121) | (69,842) | - | (3,289,963) |
| Transactions with owners | | | | | |
| Shares issued | 3,511,784 | - | - | - | 3,511,784 |
| Share issue costs | (385,870) | - | - | - | (385,870) |
| Option Funds Received | - | - | - | 318,555 | 318,555 |
| Expiry of KMP options | - | - | - | (74,521) | (74,521) |
| Total transactions with owners | 3,125,914 | - | - | 244,034 | 3,369,948 |
| At 30 June 2011 | 31,210,774 | (32,600,656) | 23,908 | 2,543,511 | 1,177,537 |

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

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2011

| | Note | CONSOLIDATED | |
|--|-------|--------------------|--------------------|
| | | 2011 | 2010 |
| | | \$ | \$ |
| Cash flows from operating activities | | | |
| Receipts from customers | | 294,474 | 256 |
| Grants Received | | 42,346 | - |
| Payment to suppliers and employees | | (3,578,748) | (2,312,359) |
| Research and development expenditure | | (827,294) | (696,918) |
| Income tax R&D offset received | | 400,994 | 395,279 |
| Net cash flows used in operating activities | 8 (a) | (3,668,228) | (2,613,742) |
| Cash flows from investing activities | | | |
| Interest received | | 38,874 | 41,516 |
| Purchase of plant and equipment | | (4,751) | (31,316) |
| Proceeds from sale of available for sale investments | | 299,435 | - |
| Payments for acquisition of subsidiary | | - | (50,000) |
| Payment for other financial asset | | (375,000) | - |
| Purchase of available for sale investments | | - | (25,000) |
| Net cash flows used in investing activities | | (41,442) | (64,800) |
| Cash flows from financing activities | | | |
| Proceeds from issues of shares and options | | 3,580,340 | 1,328,580 |
| Unissued equity funds received | | 1,494,547 | - |
| Transaction costs of issue of shares | | (385,870) | (54,384) |
| Net cash flows from financing activities | | 4,689,017 | 1,274,196 |
| Net increase (decrease) in cash and cash equivalents | | 979,347 | (1,404,346) |
| Cash and cash equivalents at beginning of the year | | 738,672 | 2,143,018 |
| Cash and cash equivalents at end of the year | 8 | 1,718,019 | 738,672 |

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2011

1. CORPORATE INFORMATION

BioProspect Limited (the parent) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements are general-purpose financial statements which have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial statements have also been prepared on a historical cost basis, except for investment properties, land and buildings, derivative financial instruments and available-for-sale investments, which have been measured at fair value.

The financial statements have been prepared on a going concern basis. As disclosed in note 21 the consolidated entity's ability to continue as a going concern is dependent upon its ability to generate sufficient cash from future operations and to raise additional capital.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

The financial statements are presented in Australian dollars and all values are rounded to the nearest dollar unless otherwise stated.

(b) New accounting standards and interpretations

New Accounting Standards for Application in Future Periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

- AASB 9: *Financial Instruments*, AASB 2009-11: *Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applicable for annual reporting periods commencing on or after 1 January 2013)*

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards for Application in Future Periods (continued)

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The changes also incorporate the classification and measurement requirements for financial liabilities, and the recognition and derecognition requirements for financial instruments. The Group has not yet determined any potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- financial assets will need to be reclassified where there is a change in an entity's business model as they are initially classified based on (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows.

- *AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011)*

This standard removes the requirement for government related entities to disclose details of all transaction with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. This Standard is not expected to impact the Group.

- *AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013).*

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

The following entities are required to apply Tier 1 reporting requirements (i.e. full IFRS):

- for-profit private sector entities that have public accountability; and
- the Australian Government and State, Territory and Local Governments.

Subject to AASB 1049, General Government Sectors of the Australian Government and State and Territory Governments would also apply Tier 1 reporting requirements.

The following entities can elect to apply Tier 2 of the framework when preparing general purpose financial statements:

- for-profit private sector entities that do not have public accountability;
- not-for-profit private sector entities; and
- public sector entities, whether for-profit or not-for-profit, other than the Australian Government and State, Territory and Local Governments.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards for Application in Future Periods (continued)

AASB 2010-2 makes amendments to Australian Accounting Standards and Interpretations to give effect to the reduced disclosure requirements for Tier 2 entities. It achieves this by specifying the disclosure paragraphs that a Tier 2 entity need not comply with as well as adding specific 'RDR' disclosures.

This Standard is not expected to impact the Group.

- *AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011)*

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The standard also amends AASB 8 to require entities to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. This Standard is not expected to impact the Group.

- *AASB 2009-14: Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011)*

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan. This Standard is not expected to impact the Group.

- *AASB 2010-4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011)*

This standard details numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. This Standard is not expected to impact the Group.

- *AASB 2010-5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods commencing on or after 1 January 2011)*

The Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board. This Standard is not expected to impact the Group.

- *AASB 2010-6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] (applicable for annual reporting periods commencing on or after 1 July 2011)*

This Standard adds and amends disclosure requirements about transfers of financial assets, including in respect of the nature of the financial assets involved and the risks associated with them. This Standard is not expected to impact the Group.

- *AASB 2010-8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applicable for annual reporting periods commencing on or after 1 January 2012)*

This standard provides a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in AASB 140 Investment Property. This Standard is not expected to impact the Group.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards for Application in Future Periods (continued)

- *AASB 2010-9: Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2011)*

This standard makes amendments to provide relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards. The standard also provides guidance for entities emerging from severe hyperinflation either to resume presenting Australian-Accounting-Standards financial statements or to present Australian-Accounting-Standards financial statements for the first time. This Standard is not expected to impact the Group.

- *AASB 2010-10: Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009-11 & AASB 2010-7] (applicable for annual reporting period commencing on or after 1 January 2013)*

This standard provides relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards. This Standard is not expected to impact the Group.

- *AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132 & AASB 134 and Interpretations 2, 112 & 113] (applicable for annual reporting periods commencing on or after 1 July 2011)*

AASB 2011-1 makes amendments to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to IFRSs and harmonisation between Australian and New Zealand Standards. The Standard deletes various Australian-specific guidance and disclosures from other Standards (Australian-specific disclosures retained are now contained in AASB 1054), and aligns the wording used to that adopted in IFRSs. This Standard is not expected to impact the Group.

- *AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements [AASB 101 & AASB 1054] (applicable for annual reporting periods commencing on or after 1 July 2013)*

AASB 2011-2 establishes reduced disclosure requirements for entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements in relation to the Australian additional disclosures arising from the Trans-Tasman Convergence Project. The company has not yet assessed the impact of this standard.

- *AASB 2011-3 Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments [AASB 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).*

This Standard makes amendments to AASB 1049 Whole of Government and General Government Sector Financial Reporting to amend the definition of the ABS GFS Manual, provide relief from adopting the latest version of the ABS GFS Manual, and require related disclosures where the latest version of the ABS GFS Manual has not been applied. The standard is not expected to impact the Group.

- *AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124] (applicable for annual reporting periods commencing on or after 1 July 2013).*

This standard removes all the individual key management personnel disclosures contained in Aus paragraphs 29.1 to 29.9.3 of AASB 124. The changes apply to each disclosing entity, or group of which a disclosing entity is the parent that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act 2001 for their first annual reporting period beginning on or after 1 July 2013. This standard is not available for early adoption.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards for Application in Future Periods (continued)

- *AASB 2011-5 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation [AASB 127, AASB 128 & AASB 131] (applicable for annual reporting periods commencing on or after 1 July 2011)*

This Standard extends the relief from consolidation, the equity method and proportionate consolidation by removing the requirement for the consolidated financial statements prepared by the ultimate or any intermediate parent entity to be IFRS compliant, provided that the parent entity, investor or venturer and the ultimate or intermediate parent entity are not-for-profit entities that comply with Australian Accounting Standards. The standard is not expected to impact the Group.

- *AASB 2011-6 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements [AASB 127, AASB 128 & AASB 131] (applicable for annual reporting periods commencing on or after 1 July 2013)*

This Standard extends the relief from consolidation, the equity method and proportionate consolidation by removing the requirement for the consolidated financial statements prepared by the ultimate or any intermediate parent entity to be IFRS compliant, provided that the parent entity, investor or venturer and the ultimate or intermediate parent entity comply with Australian Accounting Standards or Australian Accounting Standards – Reduced Disclosure Requirements, as stated above. The standard is not expected to impact the Group.

The Group does not anticipate early adoption of any of the above Australian Accounting Standards or Interpretations.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of BioProspect Limited and its controlled entities as at 30 June each year (the Group).

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

(d) Foreign currency translation

- (i) Functional and presentation currency

Both the functional and presentation currency of BioProspect Limited and its subsidiaries is Australian dollars (A\$). Each entity in the Group determines its own functional currency using the currency of the primary economic environment in which the entity operates and items included in the financial statements of each entity are measured using that functional currency.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

(ii) Transactions & balances

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the end of the reporting period. All exchange differences are taken to profit and loss when incurred.

(e) Segment reporting

From 1 January 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the group's chief operating decision maker which, for the Group, is the board of directors. In this regard, such information is provided using different measures to those used in preparing the Income Statement and Statement of Financial Position. Reconciliations of such management information to the statutory information contained in the annual financial statements have been included.

As a result of the adoption of the revised AASB 8, certain cash generating units have been redefined having regard to the requirements in AASB 136: Impairment of Assets.

In relation to geographic segments, the company is currently operating within the Australian region but is targeting several Asian countries along with the Middle East for expansion.

(f) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

(ii) Interest income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(iii) Rendering of services

Revenue is recognised immediately when performance of the service has been completed.

(iv) Licence fee

Revenue is recognised when control of the goods has passed to the buyer or performance of the service has occurred.

All revenue is stated net of the amount of GST.

(g) Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Government grants (continued)

When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction and production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended user sale.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(i) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised as a liability and amortised on a straight line basis in the income statement as an integral part of the total lease expense over the life of the lease term.

(j) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(k) Trade and other receivables

Trade receivables, which generally have 30 day terms are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts.

(l) Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through the profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Recognition and Derecognition

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the income statement and the related assets are classified as current assets in the statement of financial position.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables

Loans and receivables including loan notes and loans to KMP are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current.

(iv) Available-for-sale securities

Available-for-sale investments are those non-derivative financial assets, principally equity securities that are designated as available-for-sale or are not suitable to be classified as any of the three preceding categories. After initial recognition available-for-sale securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the income statement.

The fair value of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business at the end of the reporting period. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Investments and other financial assets (continued)

(v) Impairment

At each reporting date, the company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the income statement.

(n) Investment in associate

The Group's investment in its associate is accounted for using the equity method of accounting in the consolidated financial statements. The associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The income statement reflects the Group's share of the results of operations of the associate.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes directly in equity and discloses this in the statement of comprehensive income.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(o) Income tax

The income tax expense (income) for the year comprises current income tax expense and deferred tax expense (income).

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Deferred income tax is provided on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences except:

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

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax (continued)

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period. Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Research and development tax offset claims are recognised as a tax benefit when it is probable that the economic benefits will flow into the entity and the amount can be reliably measured.

BioProspect Limited and the controlled entities in the tax consolidated Group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated Group.

(p) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

(q) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Property, plant and equipment (continued)

are recognised in profit or loss as incurred. Depreciation is calculated on a straight line basis over the estimated useful life of the assets as follows:

| Category of plant & equipment | Useful life | Useful life |
|-------------------------------|-------------|-------------|
| | 2011 | 2010 |
| Office Equipment | 4-5 yrs | 4-5 yrs |
| Computer Hardware | 2.5 yrs | 2.5 yrs |
| Furniture & Fittings | 2.5-5 yrs | 2.5-5 yrs |

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted, at the end of each reporting period.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(r) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which expenditure is incurred.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed at the end of each reporting period to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Research and development costs

Research and development costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any finite life expenditure so capitalised is amortised over the period of expected benefits from the related project. The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Intangible assets (continued)

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit and loss when the asset is derecognised.

(s) Impairment of non financial assets other than goodwill

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(t) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the reporting period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of the goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

(u) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(v) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, expected to be settled within 12 months of the end of the reporting period are recognised in other payables in respect of employee's services up to the end of reporting period. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Liabilities for annual leave and long service leave are recognised in current and non-current provisions and are recognised when the leave is taken and are measured at the rates paid or payable..

Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting period on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

As of the 30 June 2011, the Group had only one employee with significant service to necessitate a provision for long service leave.

(x) Share-based payment transactions

Equity settled transactions

The Group provides benefits to its employees and directors in the form of share-based payments, whereby employees and directors render service in exchange for shares or rights over shares (equity-settled transactions).

During the year ended 30 June 2010, Mr Peter May (Chief Operating Officer) and Mr Colin Johnston (Chief Financial Officer) both received \$10,000 worth of ordinary shares as part of their remuneration review.

There were no issues of shares to executives or directors during the year ended 30 June 2011.

(y) Contributed equity

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

(z) Earnings per share

Basic earnings per share (EPS) is calculated as net profit attributable to members of the parent, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Earnings per share (continued)

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(aa) Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for

(aa) Business combinations (continued)

from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exceptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting date to fair value, recognising each change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the Income Statement.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying the Group's accounting policies management continually evaluates judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions. Significant judgments, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

(i) Significant accounting judgment

Impairment of assets and investments

The group determines whether non-current assets should be assessed for impairment based on identified impairment triggers. At the end of each reporting period management assesses the impairment triggers based on their knowledge and judgement. Where an impairment trigger is identified, an estimate of future cash flows or fair value is required.

(ii) Significant accounting estimates and assumptions

Contingent Liabilities and Contingent Assets

The group assesses contingent liabilities and contingent assets at the end of each reporting period and will account for them only if:-

- (a) they can be reliably measured;
- (b) the probability that an asset or liability will eventually be recognised is greater than remote; and
- (c) the items are considered material.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

4. SEGMENT REPORTING

Segment Information

Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings since the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- The products sold and/or services provided by the segment;
- The manufacturing process;
- The type or class of customer for the products or service;
- The distribution method; and
- External regulatory requirements.

Types of products and services by segment

(i) Agriculture/Animal Health

This market segment includes the income and expenditures pertaining to Qcide, the Company's natural insecticide and the range of plant extracts derived from coniferous trees (known as Coniferous Green Needle Extract or CGNC) that are marketed under the AGRIPRO™ and GI-Guard™ brands (trademarks).

(ii) Human Health/Skin Care

This market segment includes the income and expenditures pertaining to the emu oil product range distributed through Re Gen Wellness Products Pty Ltd and marketed as REGEN. The segment also includes the DEMURE™ skin care product range which will be targeted in the near future.

(iii) Mining and Gas Exploration

This market segment includes the income and expenditures pertaining to the investment opportunity through Frontier Gasfields Pty Ltd.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions

For the reporting period there have not been any inter-segment sales.

Salaries for research and development employees have been allocated to market segments on the basis of time sheets that support claims for the research and development tax offset credit. Corporate employee costs such as

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

4. SEGMENT REPORTING (continued)

directors' fees, salaries and superannuation are allocated to market segments on the basis of direct expenses and research and development salaries as a percentage of total expenses for the Group.

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs.

Segment assets

In the majority of instances, segment assets are clearly identifiable on the basis of their nature (i.e. prepayments, inventories, sundry debtors). Corporate fixed assets such as computer equipment and furniture and fittings have not been allocated to market segments.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the liability incurred and the operations of the segment. Segment liabilities include trade and other payables.

Unallocated Items

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Cash and term deposits;
- Interest received;
- Income tax expense or credit; and
- Fixed assets;

(i) Segment performance

| | Human Health/Skin Care | Agriculture/ Animal Health | Mining and Gas | Total |
|-------------------------------------|------------------------------|-------------------------------|-------------------|----------------|
| Twelve months ended 30 June 2011 | \$ | \$ | \$ | \$ |
| Revenue | | | | |
| External sales | 294,042 | - | - | 294,042 |
| Profit on sale of investments | - | 104,666 | - | 104,666 |
| Export Market Grant received | 42,346 | - | - | 42,346 |
| Total segment revenue | 336,388 | 104,666 | - | 441,054 |
| Inter-segment elimination | - | - | - | - |
| Unallocated revenue | | | | 58,190 |
| Total consolidated revenue | | | | 499,244 |

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

4. SEGMENT REPORTING (continued)

(i) Segment performance (continued)

| | Human Health/Skin Care | Agriculture/ Animal Health | Mining and Gas | Total |
|--|------------------------------|-------------------------------|-------------------|--------------------|
| Twelve months ended 30 June 2011 | \$ | \$ | \$ | \$ |
| Segment net loss before tax | (667,343) | (1,274,646) | - | (1,941,989) |
| <i>Reconciliation of segment result to group net loss before tax</i> | | | | |
| Amounts not included in segment result but reviewed by the Board: | | | | |
| • Depreciation | | | | (14,384) |
| Unallocated items: | | | | |
| • Interest received | | | | 58,190 |
| • Other corporate costs | | | | (1,722,932) |
| Net loss before tax | | | | (3,621,115) |

Twelve months ended 30 June 2010

Revenue

| | | | | |
|-----------------------------------|--------------|----------|----------|---------------|
| External sales | 1,456 | - | - | 1,456 |
| Inter-segment sales | - | - | - | - |
| Interest Revenue | - | - | - | - |
| Total segment revenue | 1,456 | - | - | 1,456 |
| Inter-segment elimination | - | - | - | - |
| Unallocated revenue | | | | 41,517 |
| Total consolidated revenue | | | | 42,973 |

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

4. SEGMENT REPORTING (continued)

o Segment performance (continued)

| | Human Health/Skin Care | Agriculture/ Animal Health | Mining and Gas | Total |
|--|------------------------------|-------------------------------|-------------------|--------------------|
| Twelve months ended 30 June 2010 | \$ | \$ | \$ | \$ |
| Segment net loss before tax | (1,038,832) | (2,106,715) | - | (3,145,547) |
| <i>Reconciliation of segment result to group net loss before tax</i> | | | | |
| Amounts not included in segment result but reviewed by the Board: | | | | |
| • Depreciation | | | | (10,886) |
| Unallocated items: | | | | |
| • Interest received | | | | 41,517 |
| • Other corporate costs | | | | (581,817) |
| Net loss before tax | | | | (3,696,733) |

o Segment assets

30 June 2011

| | | | | |
|---------------------|---------|---------|---------|------------------|
| Segment assets | 893,385 | 215,788 | 375,000 | 1,484,173 |
| Unallocated assets | | | | |
| • Cash | | | | 1,718,019 |
| • Other | | | | 74,621 |
| Total assets | | | | 3,276,813 |

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

4. SEGMENT REPORTING (continued)

| | Human Health/Skin Care | Agriculture/ Animal Health | Mining and Gas | Total |
|--|---------------------------|-------------------------------|-------------------|------------------|
| (ii) Segment assets (continued) | | | | |
| 30 June 2010 | \$ | \$ | \$ | \$ |
| Segment assets | 204,193 | 400,569 | - | 604,762 |
| Unallocated assets | | | | |
| • Cash | | | | 738,672 |
| • Other | | | | 65,135 |
| Total assets | | | | 1,408,569 |

(iii) Segment Liabilities

| | | | | |
|--------------------------|-----------|-----------|-----------|------------------|
| 30 June 2011 | \$ | \$ | \$ | \$ |
| Segment liabilities | 369,923 | 153,426 | - | 523,349 |
| Unallocated liabilities | | | | 1,575,927 |
| Total liabilities | | | | 2,099,276 |

| | | | | |
|--------------------------|-----------|-----------|-----------|----------------|
| 30 June 2010 | \$ | \$ | \$ | \$ |
| Segment liabilities | 35,376 | 149,407 | - | 184,783 |
| Unallocated liabilities | | | | 126,234 |
| Total liabilities | | | | 311,017 |

(iv) Revenue by geographical region

Revenue for the 2011 year consisted of \$294,042 of Re Gen Wellness product sales, an export market development grant of \$42,346, bank interest of \$58,190 and a gain on disposal of listed investments of \$104,666. For the 2010 financial year, revenue consisted of \$1,456 of Re Gen Wellness product sales and bank interest of \$41,157. All revenues over the two financial years are from one geographical segment being Australia.

(v) Assets by geographical region

Currently all assets reside in one geographical region being Australia.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

| | CONSOLIDATED | |
|---|--------------|-------------|
| | 2011 | 2010 |
| | \$ | \$ |
| 5. REVENUES AND EXPENSES | | |
| (a) Other Income | | |
| Bank interest received and receivable | 58,190 | 41,517 |
| EMDG Grant received | 42,346 | - |
| Profit on sale of investments | 104,666 | - |
| | 205,202 | 41,517 |
| (b) Finance costs | | |
| Finance charges payable under operating lease | (2,360) | (6,490) |
| | (2,360) | (6,490) |
| (c) Amortisation and depreciation | | |
| Amortisation of licence | - | (311,963) |
| Depreciation | (14,384) | (10,886) |
| | (14,384) | (322,849) |
| (d) Employee benefits expense | | |
| Wages and salaries | (590,797) | (552,480) |
| Directors fees | (117,120) | (171,698) |
| Superannuation | (45,680) | (55,619) |
| Allowances/leave | (26,471) | (30,490) |
| Share based payments | 74,521 | (20,000) |
| | (705,547) | (830,287) |
| (e) Other expenses | | |
| Consulting and advisory expenses | (505,184) | (493,291) |
| Legal fees | (1,130,498) | (79,925) |
| Listing fees | (52,826) | (37,986) |
| Share registry charges | (31,379) | (27,470) |
| Sales and marketing | (256,216) | (171,849) |
| Other administration expenses | (463,525) | (465,779) |
| | (2,439,628) | (1,276,300) |

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

| | CONSOLIDATED | |
|---|--------------|-------------|
| | 2011 | 2010 |
| | \$ | \$ |
| 6. INCOME TAX | | |
| Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate | | |
| A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows: | | |
| Accounting loss before tax | (3,621,115) | (3,696,733) |
| At the statutory tax rate of 30% | (1,086,334) | (1,109,020) |
| Research and development deduction | (32,746) | (58,025) |
| Entertainment | 1,848 | 3,976 |
| Share based payments | (22,356) | 6,000 |
| Other | 383,779 | 508,490 |
| | (755,809) | (648,579) |
| Tax effect of temporary differences and current year loss not brought to account | 755,809 | 648,579 |
| Add back R&D tax offset received (see note 2 (o)) | 400,994 | 395,279 |
| Aggregate income tax benefit | 400,994 | 395,279 |
| Deferred tax asset arising from tax losses not brought to account at the end of the reporting period as realisation is not regarded as probable | - | - |

The potential deferred tax asset will only be obtained if:

- (i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- (ii) the conditions for deductibility imposed by tax legislation continue to be complied with; and
- (iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

The Group has tax losses arising in Australia of \$14,801,107 (2010: \$18,524,436) with a further \$140,225 capital losses as at 30 June 2011. The continued availability of these losses depends on the ability of the parent to satisfy the requirements of the continuity of ownership test (COT) or alternatively the same business test (SBT).

At 30 June 2011, there is no recognised or unrecognised deferred tax liability (2010: nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associate, as the Group has no liability for additional taxation should such amounts be remitted.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

6. INCOME TAX (continued)

Tax consolidation

Effective 1 July 2003, for the purposes of income taxation, BioProspect Limited and its 100% owned subsidiaries have formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. However, as the Group has accumulated tax losses of \$14,801,107 with the majority of this in the hands of the head entity, it will be some time before the Group will actually incur a tax liability.

Tax accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding arrangement. The tax funding arrangement provides for the allocation of current taxes to members of the tax consolidated group in accordance with the available fractions belonging to each subsidiary, which is directly linked to prior year losses that have been accumulated. In the event of the company generating future taxable profits, the tax losses will be absorbed according to the available fractions within the group.

The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the subsidiaries' intercompany accounts with the tax consolidated group head company, BioProspect Limited. The group has applied the stand alone approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group.

7. EARNINGS PER SHARE

| | CONSOLIDATED | |
|--|---------------------|---------------------|
| | 2011 \$ | 2010 \$ |
| Net loss attributable to equity holders of the company from continuing operations | (3,220,121) | (3,301,454) |
| | Number of Shares | Number of Shares |
| Weighted average number of ordinary shares used in calculating basic earnings per share: | 859,402,201 | 505,999,794 |

Due to the group incurring an operating loss, options do not have a dilutive effect.

| | CONSOLIDATED | |
|-------------------------------------|------------------|----------------|
| | 2011 \$ | 2010 \$ |
| 8. CASH AND CASH EQUIVALENTS | | |
| Cash at bank and in hand | 224,019 | 738,672 |
| Short-term deposits | 1,494,000 | - |
| | <u>1,718,019</u> | <u>738,672</u> |

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one month and six months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

8. CASH AND CASH EQUIVALENTS (continued)

| | CONSOLIDATED | |
|--|--------------------|--------------------|
| | 2011 | 2010 |
| | \$ | \$ |
| (a) Reconciliation of loss after tax to net cash flows from operations: | | |
| Net loss | (3,220,121) | (3,301,454) |
| Adjustments for: | | |
| Depreciation | 14,384 | 10,886 |
| Amortisation | - | 311,963 |
| Impairment of non-current assets | - | 585,000 |
| Share transactions costs not paid | - | (35,240) |
| Interest received | (38,874) | (41,516) |
| Share based payments | (74,521) | 20,000 |
| Profit on sale of available for sale investments | (104,666) | - |
| Changes in assets and liabilities | | |
| (Increase)/ decrease in trade and other receivables | (63,885) | (44,615) |
| (Increase)/ decrease in inventories | (478,102) | (160,843) |
| (Increase)/ decrease in prepayments | 3,845 | (6,705) |
| (Decrease) / increase in trade and other payables | 350,328 | 42,785 |
| (Decrease) / increase in other payables | (83,087) | 1 |
| (Decrease) / increase in employee entitlements | 26,471 | 5,996 |
| Net cash used in operating activities | (3,668,228) | (2,613,742) |

(b) Non cash financing and investing activities

| | CONSOLIDATED | |
|--|--------------|---------|
| | 2011 | 2010 |
| | \$ | \$ |
| Issue of 22,500,000 shares to Solagran for payment of licence | - | 585,000 |
| Issue of 22,500,000 options to Solagran for payment of licence | - | - |
| Issue of 869,566 shares to KMP | - | 20,000 |
| Issue of 25,000,000 shares to Nova Vita Pty Ltd for payment of licence | 250,000 | - |

| | | CONSOLIDATED | |
|---------------------------------------|------|----------------|---------------|
| | Note | 2011 | 2010 |
| | | \$ | \$ |
| 9. TRADE AND OTHER RECEIVABLES | | | |
| Trade debtors | (i) | 768 | 1,200 |
| Other debtors | (ii) | 132,637 | 68,163 |
| | | 133,405 | 69,363 |

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

9. TRADE AND OTHER RECEIVABLES (continued)

Terms and conditions

- (i) Trade debtors are non-interest bearing and generally on 30 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired.
- (ii) Sundry debtors and other receivables are non-interest bearing and have repayment terms of 30 days. An allowance for doubtful debts is made when there is objective evidence that a sundry debtor or other receivable is impaired.
- (iii) None of the trade and other receivables are contractually overdue.

CONSOLIDATED
2011 **2010**
\$ **\$**

10. INVENTORIES

Finished goods

| | | |
|-----------------------------|----------------|----------------|
| Re Gen finished goods | 314,878 | 77,010 |
| AGRIPRO finished goods | - | 31,425 |
| Plant extracts at cost | 927,110 | 927,110 |
| Write down of inventory | (927,110) | (927,110) |
| Total finished goods | 314,878 | 108,435 |

Raw materials

| | | |
|---|----------------|---------------|
| Re Gen raw materials and work in progress | 223,422 | 52,408 |
| CGNC and other raw materials | 100,645 | - |
| Total raw materials | 324,067 | 52,408 |

Total inventories

638,945 **160,843**

11. INVESTMENT IN ASSOCIATE HELD FOR SALE

Investment in Astrum (a)

- -

Ownership interest
2011 **2010**

(a) Astrum Therapeutics Pty Ltd – Ordinary shares

28.76% 28.76%

(i) Astrum Therapeutics Pty Ltd is an unlisted Australian drug discovery company focused on Type 2 Diabetes Mellitus ("T2DM"). BioProspect acquired 33.3% of this company on 1 April 2005.

The following table illustrates summarised financial information relating to the Group's investment in Astrum Therapeutics Pty Ltd.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

11. INVESTMENT IN ASSOCIATE HELD FOR SALE (continued)

| | CONSOLIDATED | |
|--|--------------|---------|
| | 2011 | 2010 |
| | \$ | \$ |
| (i) <i>Share of associate's profits (losses).</i> | | |
| Revenue | - | - |
| Profit / (loss) before income tax | - | - |
| Income tax expense | - | - |
| Profit / (loss) after income tax expense | - | - |
| (ii) <i>Carrying amount of investment in associate</i> | | |
| Balance at the beginning of the financial year | - | - |
| - share of associates net profit (losses) for the financial year | - | - |
| - impairment write down | - | - |
| Carrying amount of investment in associate at the end of the year (1) | - | - |
| (iii) <i>Accumulated losses of the consolidated entity attributable to associate</i> | | |
| Balance at the beginning of the financial year | 596,762 | 596,762 |
| Share of associates net profit (losses) | - | - |
| Balance at the end of the financial year | 596,762 | 596,762 |
| (iv) <i>Share of associate's statement of financial position</i> | | |
| Current assets | - | - |
| Non-current assets | - | - |
| Current Liabilities | - | - |
| Net assets | - | - |

(1) As the carrying value of the investment is recorded as nil, no further share of loss was taken up in 2011 or 2010.

(b) Current Asset classification

The directors of BioProspect have not changed their position since June 2007 and still seek a potential investor to acquire their current 28.76% shareholding in Astrum Therapeutics.

12. OTHER FINANCIAL ASSET - FRONTIER ADVANCE

On the 12 May 2011, BioProspect paid \$375,000 to Frontier Gasfields Pty Ltd (Frontier) for the extension of an exclusivity period under a Supplemental Agreement to 7 days after an extraordinary general meeting (EGM) of BioProspect shareholders that was held on 8 July 2011. Under the terms of the supplemental agreement, the \$375,000 was to be deducted from the initial \$1,000,000 payment required to exercise the first option of subscribing for 1,000,000 new shares in the capital of Frontier. If BioProspect shareholders did not approve the investment into Frontier, the \$375,000 deposit would not be returned to BioProspect.

However, at the EGM, BioProspect shareholders did approve the investment opportunity into Frontier and subsequently on 19 July 2011 the Company paid Frontier the remaining \$625,000 to secure the 1,000,000 shares.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

13. INTANGIBLES

| | CONSOLIDATED | |
|--|--------------|-------------|
| | 2011 \$ | 2010 \$ |
| Licence | | |
| Solagran licence | | |
| At cost | - | 1,754,858 |
| Accumulated amortization | - | (1,169,858) |
| Impairment | - | (585,000) |
| Net carrying amount | - | - |
| Nova Vita licence | | |
| At cost | 250,000 | - |
| Accumulated amortization | - | - |
| Impairment | - | - |
| Net carrying amount | 250,000 | - |
| Goodwill | | |
| Re Gen Wellness Products Pty Ltd | | |
| At cost | 50,000 | - |
| Additions | - | 50,000 |
| Impairment | - | - |
| Net carrying amount | 50,000 | 50,000 |
| Reconciliation of carrying amount | | |
| Net carrying amount at beginning of year | 50,000 | 311,963 |
| Additions | 250,000 | 635,000 |
| Amortisation | - | (311,963) |
| Impairment | - | (585,000) |
| Net carrying amount | 300,000 | 50,000 |

Nova Vita Licence

As announced on 19 January 2011, the Company issued 25,000,000 ordinary shares to Nova Vita Pty Ltd in consideration of their assignment of their rights to manufacture and supply the L'AZURE™ range of cosmetics based on natural plant extracts.

Under the terms of the agreement, BioProspect has been assigned ownership of all intellectual property related to the L'AZURE™ products. This includes formulas, brands and trademarks, and exclusive rights to the supply of Bioeffectives® from Solagran Limited for use in cosmetics for the specific areas of China, Malaysia and Singapore, with non-exclusive rights to the supply of Bioeffectives® for use in cosmetics globally.

The L'AZURE™ range of plant extract-based natural products complements the current DEMURE® range of cosmetic products where the Company already has 12 core products targeted at local and overseas markets.

Directors have conducted an impairment test to ensure the licence was valued at its recoverable amount as at 30 June 2011. The directors have formed the view that the licence is appropriately valued and there is no need to provide for any impairment charge.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

13. INTANGIBLES (continued)

Goodwill

As announced on 10 August 2009, the company acquired 100% of Re Gen Wellness Products Pty Ltd, facilitating the company's expansion into natural healthcare and skin care products, which was a new market segment for the business.

Under the Share Sale Agreement, an upfront payment of \$50,000 was made, with additional payments contingent on sales performance and contribution to cash flow over a six year period ending 30 June 2015.

The Directors have conducted an impairment test to ensure that the goodwill is valued at its recoverable amount as at 30 June 2011. The directors have formed the view that with the signing of an exclusive distribution agreement with Doward International in February this year and a subsequent increase in product sales, not to write down the goodwill that arose on the acquisition.

14. NON-CURRENT ASSETS- AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | CONSOLIDATED | |
|--|---------------|----------------|
| | 2011 | 2010 |
| | \$ | \$ |
| Australian listed shares at fair value | 78,981 | 343,750 |
| | <u>78,981</u> | <u>343,750</u> |

In accordance with the previous Solagran Limited (SLA) development agreement signed on 22 August 2007, BioProspect acquired 2,500,000 shares in SLA on 11 December 2007. In late November 2008, BioProspect acquired a further 250,000 contributing shares with \$0.10 payable on application and a final \$0.10 by the end of November 2009. BioProspect exercised its option on 27 November 2009 and paid a remaining \$25,000.

During the year ended 30 June 2011, BioProspect has been gradually disposing of its shareholding in SLA due to the completion of the Development agreement and the legal dispute which was finalised in October 2010 whereby BioProspect and SLA agreed to commercialise Conifer Green Needle Complex on their own terms. As at 30 June 2011, the value of 607,544 SLA shares, based on the closing market price was \$78,981.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

| | Note | CONSOLIDATED | |
|--|------|--------------|----------|
| | | 2011 | 2010 |
| | | \$ | \$ |
| 15. PROPERTY, PLANT & EQUIPMENT | | | |
| <i>Plant and equipment</i> | | | |
| At cost | | 67,302 | 69,001 |
| Accumulated depreciation | | (44,629) | (36,695) |
| Net carrying amount | | 22,673 | 32,306 |
| (a) Reconciliations | | | |
| <i>Plant and equipment</i> | | | |
| Carrying amount at beginning | | 32,306 | 11,876 |
| Additions | | 4,751 | 31,316 |
| Depreciation expense | | (14,384) | (10,886) |
| Net carrying amount | | 22,673 | 32,306 |
| 16. TRADE AND OTHER PAYABLES- CURRENT | | | |
| Trade payables | (i) | 389,353 | 111,915 |
| Other creditors and accruals | (ii) | 143,030 | 79,563 |
| | | 532,383 | 191,478 |
| Related party payables | | 27,748 | 18,325 |
| | | 560,131 | 209,803 |

Terms and conditions relating to the above financial instruments

- (i) Trade creditors are non-interest bearing and normally settled on 30 day terms.
- (ii) Other creditors are non-interest bearing and have repayment terms between 30 and 90 days.

Due to the short term nature of these payables their carrying value is assumed to approximate their fair value.

17. SHARE APPLICATION MONIES RECEIVED

The Company announced on 16 February 2011 the completion of a \$3m (before costs) private placement managed by Novus Capital Limited. The placement was well supported and \$1.3m of shares were issued immediately under the Company's existing 15% capacity at that time. There was \$1,494,547 of placement funds received by the Company that could not be issued with shares until approval at an EGM that was held on 8 July 2011 (after balance date).

| | | CONSOLIDATED | |
|--------------------------------|--|--------------|----------|
| | | 2011 | 2010 |
| | | \$ | \$ |
| 18. PROVISIONS- CURRENT | | | |
| Annual Leave | | | |
| At 1 July | | | |
| | | 18,127 | 12,131 |
| Charged to income statement | | 38,854 | 40,764 |
| Utilised | | (24,316) | (34,768) |
| Closing balance | | 32,665 | 18,127 |

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

| | Consolidated 2011 \$ | 2010 \$ |
|---|----------------------------|------------|
| 19. OTHER PAYABLES (NON-CURRENT) | | |
| Other creditors and accruals | - | 83,087 |

This amount reflects the payable by the consolidated entity under the Benefit Sharing Agreement entered into with the State of Queensland on 9 November 2001. The \$83,087 reflects the 2010 fair value of the \$100,000 minimum royalty payable on 9 November 2011.

20. PROVISIONS (NON-CURRENT)

| | | |
|-----------------------------|---------------|----------|
| Long Service Leave | | |
| At 1 July | - | - |
| Charged to income statement | 11,933 | - |
| Utilised | - | - |
| Closing Balance | 11,933 | - |

21. ISSUED CAPITAL

| | | |
|---------------------------------------|------------|------------|
| (a) Issued and paid up capital | | |
| Ordinary shares issued and fully paid | 31,210,774 | 28,084,860 |

| | Number of shares | | \$ | \$ |
|---|----------------------|--------------------|-------------------|-------------------|
| | 2011 | 2010 | 2011 | 2010 |
| (b) Movements in shares on issue | | | | |
| Beginning of the financial year | 563,113,565 | 487,040,944 | 28,084,860 | 26,240,904 |
| Issued during the year: | | | | |
| - share placements (i) | 197,900,000 | 29,248,571 | 1,609,000 | 906,400 |
| - payment for licence (ii) | 25,000,000 | 22,500,000 | 250,000 | 585,000 |
| - Rights Issue (iii) | 330,556,782 | - | 1,652,784 | - |
| - Share purchase plan (iv) | - | 23,454,484 | - | 422,180 |
| - Share issues to KMP (v) | - | 869,566 | - | 20,000 |
| Less share issue costs | - | - | (385,870) | (89,624) |
| End of the financial year | 1,116,570,347 | 563,113,565 | 31,210,774 | 28,084,860 |

Notes:

(i) On 20 October 2010, a placement was completed for 74,000,000 ordinary shares at an issue price of 0.5 cents, along with a free 1:1 attaching new class of options exercisable at 3 cents per share on or before 31 December 2013.

On 16 February 2011, a placement was completed for 123,900,000 ordinary shares at an issue price of 1 cent, along with a free 1:1 attaching new class of options exercisable at 3 cents per share on or before 31 December 2013. These options were issued during July 2011 after shareholder approval on the 8 July 2011.

On 28 January 2010, a placement was completed for 21,428,571 ordinary shares at an issue price of 3.5 cents, (along with 21,428,571 options expiring 31 March 2010 at an exercise price of 5 cents per share, plus a free 1 for 1 attaching new class of options exercisable at 5 cents per share on or before 31 December 2013). The issue of shares and options was passed at a special general meeting held on 3 June 2011.

On 30 April 2010, a placement was completed for 7,820,000 ordinary shares at an issue price of 2 cents, along with a free 1 for 1 attaching new class of options exercisable at 5 cents per share on or before 31 December 2013.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

21. ISSUED CAPITAL (continued)

- (ii) On 19 January 2011, 25,000,000 shares were issued to Nova Vita Pty Ltd at a value of \$250,000 in consideration for the licence associated with the L'AZURE™ range of plant extract-based natural cosmetic products.

On 5 March 2010, 22,500,000 shares (along with 22,500,000 options expiring 31 March 2010 at an exercise price of 5 cents per share) were issued to Solagran Limited at a value of \$585,000 in consideration for the licence associated with the Bioeffectives Development Agreement.

- (iii) On 6 December 2010, the company completed a rights issue that was offered to all shareholders resulting in an issue of 330,556,782 shares at an issue price of 0.5 cents, along with 318,556,782 attaching loyalty options exercisable at 3 cents per share on or before 31 December 2013, and 318,556,782 1:1 attaching new class of options issued at 0.1 cent.
- (iv) On 18 June 2010, the company completed a share purchase plan that was offered to all shareholders resulting in an issue of 23,454,484 ordinary shares at an issue price of 1.8 cents per share.
- (v) On 15 September 2009, 434,783 ordinary shares were issued each to Mr Peter May, Chief Operating Officer and to Mr Colin Johnston, Chief Financial officer as part of their remuneration review for the year ended 30 June 2009.

All shares issued above rank equally in all respects with the shares on issue at the beginning of the year.

(c) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The company's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Going concern statement

As at 30 June 2011 the company was in a net asset position of \$1,177,537 (2010: \$1,097,552) and had incurred losses for the year ended of \$3,220,121 (2010: \$3,301,454). The Company's 15% issuing capacity for future capital placements was restored to full entitlement at the Company's EGM held on 8 July 2011. At the same EGM, shareholders also approved a placement of 200,000,000 shares to be completed before 8 October 2011. It is on this basis that the directors believe the Company will be able to raise sufficient capital to fund its operating activities.

The consolidated entity's ability to continue as a going concern is therefore dependent upon its ability to generate sufficient cash from future operations and to raise additional capital.

(d) Share Options

Options over ordinary shares:

| | <u>No of Options</u> |
|---|--------------------------|
| Exercisable on or before 31 December 2013 at 5 cents per share | |
| Outstanding at beginning of year | 29,248,571 |
| Issued during the year | - |
| Outstanding at end of year | <u>29,248,571</u> |
| Exercisable on or before 31 December 2013 at 3 cents per share | |
| Outstanding at beginning of year | - |
| Issued during the year | 711,113,564 |
| Outstanding at end of year | <u>711,113,564</u> |

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

21. ISSUED CAPITAL (continued)

(d) Share Options (continued)

Exercisable on or before 30 September 2010 at 10 cents per share

| | |
|----------------------------------|-------------|
| Outstanding at beginning of year | 5,000,000 |
| Expired during the year | (5,000,000) |
| Outstanding at end of year | - |

Total options over unissued ordinary shares

740,362,135

(e) Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held, after all other creditors have been paid.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

Ordinary shares have no par value.

22. RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of BioProspect Limited (the ultimate parent company) and the subsidiaries listed in the following table.

| Name | Country of Incorporation | Class of Shares | % Equity Interest | | Investment \$ * | |
|-----------------------------------|--------------------------|-----------------|-------------------|------|-----------------|-----------|
| | | | 2011 | 2010 | 2011 | 2010 |
| BioProspect Australia Limited | Australia | Ord | 100% | 100% | 4,024,341 | 4,024,341 |
| Australian Phytochemicals Limited | Australia | Ord | 100% | 100% | 1,323,464 | 1,323,464 |
| BioProspect America Pty Ltd | Australia | Ord | 100% | 100% | 2 | 2 |
| Re Gen Wellness Products Pty Ltd | Australia | Ord | 100% | 100% | 50,000 | 50,000 |

* - Cost before provisioning. Refer to Note 11 and 14 for further investment disclosures.

23. SHARE-BASED PAYMENT PLANS

(1) Recognised share-based payment expenses

(a) The expense recognised for employee services received during the year is shown below.

| | CONSOLIDATED | |
|---|--------------|--------|
| | 2011 | 2010 |
| | \$ | \$ |
| Expense (reversal) arising from equity-settled share-based payment transactions | (74,521) | 20,000 |

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

23. SHARE-BASED PAYMENT PLANS (continued)

(1) Recognised share-based payment expenses (continued)

Director and KMP options

At the company's AGM held on 4 November 2007, shareholders approved a new class of unlisted options specifically for directors and key management personnel. These options were exercisable on or before 30 September 2010 at an exercise price of \$0.10 per share. As the option strike price was much higher than the current share price, these options all expired resulting in a reversal for \$74,521 during the year ended 30 June 2011.

(b) The cost recognised for acquisition of various licences is shown in the table.

| | CONSOLIDATED | |
|--|-----------------------|-----------------------|
| | 2011 | 2010 |
| | \$ | \$ |
| 22.5m shares issued to Solagran Limited | | 585,000 |
| 22.5m options issued to Solagran Limited | - | - |
| 25.0m shares issued to Nova Vita Pty Ltd | 250,000 | - |
| | <u>250,000</u> | <u>585,000</u> |
| TOTAL SHARE-BASED PAYMENTS | <u><u>175,479</u></u> | <u><u>605,000</u></u> |

(2) Weighted average remaining contractual life

As all of the director options expired 30 September 2010, there is no remaining contractual life.

(3) Option pricing model

The fair value of the equity-settled share options granted is estimated as at the date of grant using a Black-Scholes model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used for the year ended 30 June 2010:

| | Black-Scholes |
|--|----------------------|
| Dividend yield (%) | 0.000 |
| Expected volatility (%) | 24.540 |
| Risk-free interest rate (%) | 6.150 |
| Expected life of options (years) | 2.800 |
| Option exercise price (\$) | 0.100 |
| Weighted average share price at measurement date | 0.041 |