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ABN 58 008 130 336

12 September 2006

*By email:*

**PRELIMINARY FINAL RESULTS AND ANNUAL REPORT**

Please find attached the Appendix 4E and the Annual Report for BioProspect Ltd for the year ended 30 June 2006.

Yours sincerely



Colin Johnston  
Company Secretary

**Enquiries**

Mr Colin Johnston  
Company Secretary  
(07) 3229-5755

# Appendix 4E

## Preliminary final report Period ending on 30 June 2006

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 2006
Previous year ended	30 June 2005

Results for announcement to the market

\$'000

<b>Revenue from ordinary activities</b>	Down	37.0%	T	99
<b>(Loss) from ordinary activities after tax attributable to members</b>	Down	30.7%	T	(778)
<b>Net (loss) for the period attributable to members</b>	Down	30.7%	T	(778)
<b>Basic loss per share (cents per share)</b>	Down	57.1%	T	(0.3)
<b>Diluted loss per share (cents per share)</b>	Down	57.1%	T	(0.3)
			o	
			o	
			o	
			o	
			o	
			o	
<b>Dividends</b>	Amount per security	Franked amount per security		
<u>Financial year ended 30 June 2006</u>				
Final dividend	-	-		
Interim dividend	-	-		
<u>Financial year ended 30 June 2005</u>				
Final dividend	-	-		
Interim dividend	-	-		

### Dividend payments

Date the final 2006 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)

	Current year	Previous year
Ordinary securities	-	-

### Total dividends paid on all securities

	Current year \$'000	Previous year \$'000
Ordinary securities	-	-
<b>Total</b>	-	-

### Net Tangible Assets

	Current year	Previous year
Net tangible assets per ordinary security	0.8 cents	0.6 cents

### Annual meeting

The annual meeting will be held as follows:

Place

The Celtic Club, 48 Ord Street, West Perth, WA

Date

14 November 2006

Time

1.30 pm

Approximate date the annual report will be available

30 September 2006

This report is based on accounts that have been audited.

Sign here:



Date: 11 September 2006

Print name:

IAN MACLIVER  
CHAIRMAN

**BIOPROSPECT LIMITED**  
**ANNUAL REPORT 2006**

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# Corporate Information

## ABN 58 008 130 336

This annual report covers both BioProspect Limited as an individual entity and the consolidated entity comprising BioProspect Limited and its subsidiaries. The Group's functional and presentation currency is AUD(\$).

A description of the Group's operations and its principal activities is included in the review of operations and activities in the directors' report on pages 3 to 15. The directors' report is not part of the financial report.

### Directors

I.A. MacIver (Chairman)  
Dr M.F. Quinlan  
J.G. Hondris

### Company Secretary

C.H. Johnston

### Registered Office

Suite 17, Level 9  
320 Adelaide Street  
Brisbane, Queensland, 4000  
Telephone: (07) 3229 5755  
Facsimile: (07) 3229 4655

### Solicitors

McCullough Robertson  
Blakiston & Crabb

### Bankers

Westpac Banking Corporation

### Auditors

Ernst & Young  
Level 5, 1 Eagle Street  
Brisbane QLD 4000

### Home Exchange

Australian Stock Exchange Limited  
Exchange Plaza  
2 The Esplanade  
Perth WA 6000

### Internet Address

[www.biopropect.com](http://www.biopropect.com)

### Share Registry

Computershare Investor Services Pty Limited  
Level 2, 45 St Georges Terrace  
Perth WA 6000  
Telephone: (08) 9323 2000  
Facsimile: (08) 9323 2033

# Directors' Report

Your directors submit their report for the year ended 30 June 2006.

## DIRECTORS

The names and details of the company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

### Names, qualifications, experience and special responsibilities

#### **Ian Alexander Macliver**, *B.Com, CA* (Non-executive Chairman)

Joined the Board on 28 February 2000 as an independent director. Ian is Managing Director of Grange Consulting Group Pty Ltd, which provides specialist corporate advisory services to both listed and unlisted companies. He has many years experience as a senior executive and director of resource and industrial companies with particular responsibility for capital raisings and other corporate initiatives. During the past three years Ian has been or is currently serving as a director of the following other listed companies:

Port Bouvard Limited	14/12/1994 to current
Mount Gibson Iron Limited	19/02/2001 to current
Ottoman Energy Ltd	07/01/2004 to current
Stratatel Limited	01/07/2000 to current
Commoditel Limited	16/10/2003 to 24/12/2003

Ian was appointed Chairman on 1 February 2006 and resides in Perth.

#### **Dr Michael Francis Quinlan**, *MBBS, MD, FRACP*

Joined the Board on 28 May 2003. An independent director, Dr Quinlan is a Consultant Physician and is a Clinical Professor of Medicine of the University of Western Australia. He is also Professor of Medicine and the Foundation Dean of the College of Health of the University of Notre Dame. Dr Quinlan holds the position of Chairman of the St John of God Foundation and is a trustee for the St John of God Australia Ltd. He is also a director of Raine Medical Research Foundation (University of WA), the Feilman Foundation and the Child Health Research Foundation of WA. Dr Quinlan resides in Perth.

#### **Justin George Hondris**, *B.Bus*,

Justin joined the Board on 26 September 2005. He is a partner of the London operation of Titan Bioventures management. Titan is the investment manager of BioTech Capital Ltd (one of the largest life-science focused private equity funds in Australia) and has investments in drug discovery, regenerative medicine, medical devices and several other technology platform areas. Justin is responsible for capital raising, investment analysis, sourcing deal flow and strategic partnerships, interfacing with the finance community and managed exits. Justin resides in London.

Justin is also Chairman of the Audit Committee.

## COMPANY SECRETARY

#### **Colin Henry Johnston**, *Dip. Bus Accounting, CPA*

Colin was appointed Company Secretary and Chief Financial Officer on 1 March 2004. Prior to holding this position he held the role of Chief Financial Officer and Company Secretary for Griffin Corporation Australia Pty Ltd for 4 years and previous to that was Finance Manager for Crop Care Australasia Pty Ltd. He has been a CPA for 29 years and has many years of experience mainly within the Orica Group of Companies (formerly ICI Australia Pty Ltd). Colin resides in Brisbane.

# Directors' Report (continued)

## Interests in the shares and options of the company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of BioProspect Limited were:

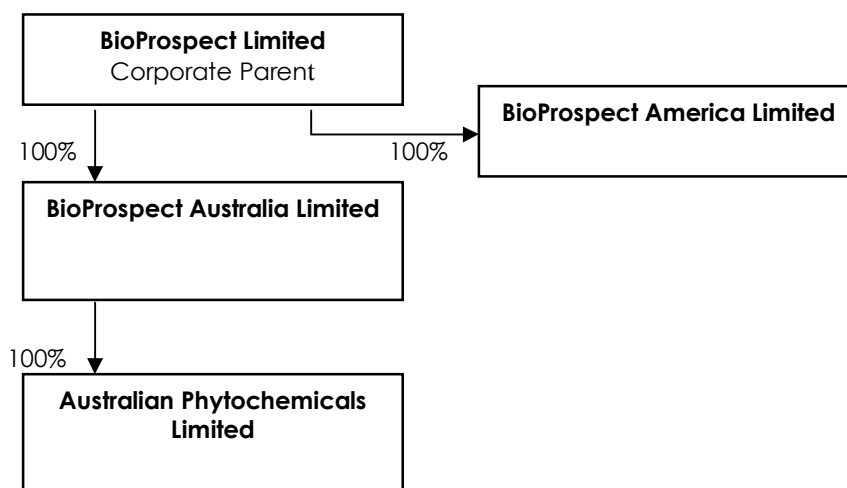
	Ordinary Shares	Options over Ordinary Shares
I.A. Macliver	691,217	222,804
M.F. Quinlan	474,112	79,639
J.G. Hondris	-	-

## DIVIDENDS

	Cents	\$'000
Final dividends recommended -on ordinary shares	0.0	0
Dividends paid in the year <i>Interim for the year</i> -on ordinary shares	0.0	0
<i>Final for 2006 shown as recommended in the 2006 report</i> -on ordinary shares	0.0	0

## CORPORATE STRUCTURE

BioProspect Limited is a company limited by shares that is incorporated and domiciled in Australia. BioProspect Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year, which are outlined in the following illustration of the group's corporate structure:



# Directors' Report (continued)

## PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the consolidated entity were:

- Development and implementation of a national regulatory strategy and pathway for AP778, the company's natural termiticide;
- This has involved meetings with Commonwealth Government parties, tertiary institutions and private consultants to ensure the company's research and development program is specific, cost beneficial and relevant for future data generation and product registrations in Australia and overseas;
- Preparation of a draft document for a Commercial Ready Grant with the Department of Trade and Industry to assist with the research and development expenditure program for AP778;
- Ongoing management of the company's 33.3% investment in Astrum Therapeutics Pty Ltd, a drug discovery company developing non-toxic compounds to treat Type 2 Diabetes Mellitus;
- Step-up screening by Apath USA on potential drug candidates using BioProspect's natural plant and extract library for Hepatitis C and other RNA viruses and
- Continuing development of PCT patents for Qcide and AP 778.

## OPERATING AND FINANCIAL REVIEW

### Group Overview

#### AP778

The directors and senior management of the company are very positive about the potential of this unique, natural termiticide as laboratory and field trial results over the last two years have been encouraging. There are further environmental tests to be completed before the product can be registered with the Australian Pesticides and Veterinary Medicines Authority (APVMA) but the company remains optimistic on this product's qualities and characteristics.

Results generated over the past two years will permit the company to press forward on a higher level. The company has developed a data generation plan that will take the compound through an intensive testing system. The compound is now the major focus and further trials are expected to be implemented before the end of 2006.

The company will take a definitive regulatory route with the APVMA and AP778 will begin a 'Biological Compound' application assessment in late 2007. It is expected that the remainder of 2006 and all of 2007 will be dedicated to generate the data to comply with both Australian and international regulatory requirements.

The work to be carried out over the duration of the project is identified as follows:

#### **Product efficacy and formulation development.**

- Immediate start on developing potential commercial formulations that will be assessed throughout the course of the project.
- Testing a range of formulations under 'bioassay' protocols in late 2006 to determine rates, label content and baseline data for commercial product field testing.
- Establishment of field trials will begin in early 2007 with contact spray and timber impregnation products and will follow with barrier treatment formulations in mid 2007.

#### **Ecological and mammalian toxicity testing**

- Submit the trial formulations for ecological and mammalian toxicity tests that satisfy international OECD and USA EPA standards. Tests conducted in 2005 have shown low mammalian toxicity and the company will now start further tests to satisfy APVMA requirements under the 'biological' compound' data generation strategy.
- Toxicity work will commence following results of 'bioassays' in early 2007 and is expected to take 6 months to generate, analyze and prepare data.
- Results from each individual test will be announced as and when they are available.

# Directors' Report (continued)

## AP778 (continued)

### Chemistry data generation

- Throughout the course of formulation design and testing, the company is required to generate specific chemistry data on the active constituent and the formulations that the active constituent is used in.
- Chemical analysis for AP 778 will be generated according to international standards.

### Manufacturing assessment and planning.

- This final step of data generation is expected to take place in mid 2007.
- Information pertaining to mechanical harvest, timber processing, oil extraction systems, formulation manufacturing and quality control procedures will be generated.

The company has spent some time evaluating a number of companies and institutions capable of conducting the testing and this is expected to be finished during October 2006.

On 7 September 2006, the two year trial site in Western N.S.W was exhumed. The results are now being analysed by an external party for accuracy and will be announced as soon as they are available. The results will be used as part of the data package for environmental and efficacy testing and will guide the company on the best formulations to be used for timber impregnation work later in the year.

The global termite market (products that are used to actually control termites) is estimated to be at least US\$3 billion. The company is confident that AP 778 will have a good chance of entering this growing market as a biological and natural compound now that international regulatory pressure is mounting on some of the existing older synthetic chemicals currently used today.

BioProspect is confident that the inherent unique properties of the compound will attract significant interest throughout the process of registration and early stage commercialisation.

BioProspect's strategy is to take the compound as far as possible through the development cycle and gather value for the product and company on the way.

In April 2006 Mr. Warwick Dowse was appointed as General Manager and has been given the specific responsibility of directing the development of AP 778 from its current R&D base through to a commercially available range of end use products. Achievement of regulatory approval in Australia is the first step of the process which is currently underway.

The market fit for AP 778 in the first phase of this process has been identified as:

1. Contact spray for nests and incursions
2. Timber impregnated formulations
3. Barrier compound formulations.

Secondary phase investigation will assess concrete, paints/stains and specific building and construction materials.

## Astrum Therapeutics Pty Ltd

In April 2005, BioProspect acquired 33% of Astrum Therapeutics Pty Ltd (Astrum). Astrum is a drug discovery company researching and developing non-toxic compounds to treat Type 2 Diabetes Mellitus (T2DM).

T2DM also known as Type 2 Diabetes or Non-Insulin Dependent Diabetes is the most common form of diabetes. The disease affects the beta-cells of the pancreas and is associated with insulin resistance whereby the body's cells fail to respond normally to insulin. This leads to an increase in blood glucose levels in clinical diabetes.

The disease affects approximately 177 million worldwide and the number of people who will develop Type 2 Diabetes is estimated to be 370 million by 2030. The problem is largely attributed to increasing affluence, increasing obesity or poor diet, sedentary life styles and aging populations. In many people with T2DM, the beta-cells progressively die off due to the accumulation of a beta-cell protein called Islet called Amyloid Polypeptide (IAPP). Insulin production eventually falls often resulting in the need for insulin administration or replacement.

# Directors' Report (continued)

## Astrum Therapeutics Pty Ltd (continued)

Astrum's research is based around the identification of crucial fragments of IAPP that can be targeted with suitable drugs. Suitable compounds will be synthesised and developed into drugs that are designed to prevent the accumulation of IAPP in the pancreas.

Astrum's science is considered to be unique and novel in its approach to the treatment of T2DM as opposed to the current methods of treatment. Significant events that have occurred during the last twelve months include the following:-

- In January 2006, Astrum engaged the world-wide Clinical Research Organization, Kendle, through its Australian subsidiary Kendle Pty Ltd, to assist Astrum's planning for initiation of a phase IIa clinical trial;
- In April 2006 Astrum submitted non-provisional patents covering both the traditional and clinical drug development programs. Astrum also filed an additional provisional patent application covering a novel clinical approach to T2DM;
- Astrum has begun discussions with Ricera Biosciences LLC to progress the third Astrum patent application prior to filing of a non-provisional patent in April 2007.
- Four other molecular targets and two additional clinical targets are being evaluated for potential drug development approaches and will be reviewed by the Astrum advisory board.
- The Scientific Advisory Board continues to provide world-class advice concerning pre-clinical and clinical drug development approaches.
- Astrum's novel drug syntheses are now being performed by Dr. Baell of The Walter and Eliza Hall Institute of Medical Research (Melbourne). Delivery of AST2-01 and AST2-02 were completed on time and within budget in June 2006. These two trials have now entered the *in vitro* screening process, along with AST1-01 in July 2006.

## Hepatitis C

Apath LLC continued its pre-clinical screening research on Hepatitis C Virus (HCV) using selected fractions and compounds derived from plant samples within BioProspect's Natural Plant Library. The research identifies potential drug candidates from plant samples that have attributes suitable for the treatment of HCV and other RNA viruses.

Apath has identified a primary candidate for HCV drug development and has focused its research on additional fractions that have shown promise in the screening process. The additional fractions are being assessed and compared to determine the most suitable candidate for development.

## Qcide

Qcide is BioProspect's natural insecticide derived from the leaves of a Eucalyptus species which has activity against a range of insect species and is particularly effective against flies, ants, mosquitoes and mites. Toxicology studies have shown that Qcide is non-toxic and collaborator evaluation studies have identified that applications are in the hygiene, industrial and horticultural markets.

The company continues to pursue potential opportunities with confidential collaborators.

## Natural Plant Library

BioProspect's licensing agreements remained with the Department of Conservation and Land Management in Western Australia (CALM) and the Queensland State Government. These licenses allow BioProspect to collect biota and undertake and identify commercial opportunities for its Natural Plant Library.

## Operating Results For The Year

The company reduced operating expenditure during the financial year by 21% over the previous financial period.

# Directors' Report (continued)

## Operating Results For The Year (continued)

The company's R&D expenditure for the year ended 30 June 2006 was some \$95,474 lower than the previous year as the company focused on firm planning its R&D expenditure pertaining to AP778 needed over the next 2 years.

Additional equity capital of \$1,954,180 (before costs) was raised during the financial period.

The company's cash reserves at the end of the financial year amounted to \$1,810,928.

## Review of Financial Condition

### Capital Structure

On 14 December 2005, a placement of 27,000,000 ordinary shares was completed at an issue price of \$0.02 raising \$540,000. These shares were issued with a 1:1 free attaching new class of option exercisable at 5 cents each on or before 30 June 2007.

On 15 December 2005, the company lodged a Prospectus in relation to an underwritten renounceable rights issue of 1 Rights Share for every 3 Shares held at an issue price of \$0.02 per Rights Share, with 1 free option exercisable at 5 cents on or before 30 June 2007. The rights issue was completed in February 2006 with 70,708,994 ordinary shares being issued raising \$1,414,180 (before costs). The purpose of this Rights issue was to provide funding for the ongoing development of AP778, investment in the Company's intellectual property portfolio and working capital purposes.

### Cash from Operations

Net cash flows from operating activities for the year were an outflow of \$818,203 (2005: \$1,041,991), some \$223,788 lower than 2005. Further information is contained in the Statement of Cash Flows on page 24.

### Liquidity and Funding

The company's current cash position will enable it to continue to focus on the research and development program for AP778. The company does not have an overdraft facility and therefore must regularly revise its cash flow forecast to ensure sufficient cash reserves are maintained. At the date of this annual report the company will be close to submitting an application with AusIndustry for a Commercial Ready Grant which is a dollar for dollar funding arrangement.

## The Future

BioProspect will remain focused on the following activities in the coming financial year:

- Continuing the research and development program of AP778 in order to obtain registration as a termiticide;
- Submit a successful application with AusIndustry for a Commercial Ready grant for AP778;
- Continue discussions with suitable partners for the commercialisation of AP778 with a view to establishing an appropriate commercial relationship;
- Accelerate development of the Astrum Type 2 diabetes opportunity. The phase 11a clinical trial will be commencing during the financial year ending 30 June 2007 and the directors of both companies look forward to positive trial results.
- Achieving a commercial outcome for Qcide;
- Continuing to seek commercial opportunities for other products in the BioProspect IP portfolio; and
- Continue to actively review additional business opportunities to enhance the current portfolio and/or add value to shareholders.

## Risk Management

The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the group's objectives and activities are aligned with the risks and opportunities identified by the Board. The group believes that it is crucial for all Board members to be a part of this process, and as such the Board has not established a separate risk management committee.

# Directors' Report (continued)

## Risk Management (continued)

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- (1) Board approval of a strategic plan, which encompasses the group's vision statement, designed to meet stakeholders' needs and manage business risk.
- (2) Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of KPI's of a financial and non-financial nature.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Please refer to the capital structure section in this report for details of shares issued during the year.

## SIGNIFICANT EVENTS AFTER BALANCE DATE

No matter or circumstances have arisen since the end of the financial year and up to the date of this report which significantly effect the results of the operations of the consolidated entity for the next succeeding financial year.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Likely future developments in the activities of the consolidated entity are referred to in the Review of Operations. Other than as referred to in that report, further information as to likely developments in operations of the consolidated entity and likely results of those operations would, in the opinion of the Directors, be speculative and not in the best interests of the company.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity operates under a licence issued by the Department of Conservation and Land Management of Western Australia and a licence issued by the State of Queensland. The licences stipulate restrictions on the collection of endangered species of flora and fauna.

There have been no significant known breaches of the consolidated entity's licence conditions.

## SHARE OPTIONS

### Unissued shares

As at the date of this report, there were 98,158,994 unissued ordinary shares under option. Refer to page 42 of the financial statements for further details of the options outstanding.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate or in the issue of any other registered scheme.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The company has been unable to arrange directors' and officers' Insurance to indemnify all current officers of the company against all liabilities to another person (other than the company or a related body corporate) that may arise from their position with the company and its controlled entities.

# Directors' Report (continued)

## REMUNERATION REPORT

This report outlines the remuneration arrangements in place for the directors and executives of BioProspect Limited (the company).

### Details of Key Management Personnel

(i) *Directors*

I.A. Macliver	Chairman (non-executive)
J.G. Hondris	Director (non-executive)
M.F. Quinlan	Director (non-executive)

(ii) *Executives*

W.D. Dowse	General Manager
C.H. Johnston	Chief Financial Officer/Company Secretary

### Remuneration Philosophy

The performance of the company depends upon the quality of its directors and executives. To perform to satisfactory levels, the company must attract, motivate and retain highly skilled directors and executives.

The Board of Directors is responsible for determining and reviewing compensation arrangements for the directors, and the executive team. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

To assist in achieving the objectives, the Board considers the nature and amount of executive directors' and officers' emoluments in the context of the company's financial and operational performance.

### Remuneration structure

The structure of non-executive director and senior manager remuneration is separate and distinct.

### Non-executive director remuneration

#### Objective

The Board seeks to set remuneration at a level which provides the company with the ability to attract and retain directors of the appropriate calibre, whilst incurring a cost which is acceptable to shareholders given the size and financial standing of the company.

#### Structure

The constitution of the company specifies that non-executive directors are entitled to be paid, out of the funds of the company, an amount of remuneration which:

(a) does not:

- (i) in any year exceed in aggregate the amount last fixed by ordinary resolution; or
- (ii) consist of a commission on or percentage of profits or operating revenue; and

(b) is allocated among them:

- (i) on an equal basis having regard to the proportion of the relevant year for which each director held office; or
- (ii) as otherwise decided by the Board.

Each director receives a fee for being a director of the company. According to the constitution of the company, if a director, at the request of the Board performs extra services or makes special exertions (including going or living away from the director's usual residential address), the company may pay that director a fixed sum set by the Board for doing so. Remuneration under this rule may be either in addition to or in substitution for any remuneration to which that director is entitled.

# Directors' Report (continued)

## REMUNERATION REPORT (continued)

The remuneration of non-executive directors for the period ending 30 June 2006 is detailed in Table 1 on page 12 of this report.

### Senior manager and executive director remuneration

#### Objective

The company aims to reward executives with a level of remuneration commensurate with their position and responsibilities within the company and taking into account of the size and financial standing of the company and so as to ensure total remuneration is competitive by market standards.

#### Structure

In determining the level and make-up of executive remuneration, the Board considers market levels of remuneration for comparable executive's roles for similar sized organisations, and preferably within the biotech industry.

Remuneration consists of fixed remuneration for all executives with the exception of the General Manager who has a variable element for the achievement of both short term and long term objectives.

### Fixed Remuneration

#### Objective

The level of fixed remuneration is set so as to provide a base level of remuneration, which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the Board and the process consists of a review of companywide performance and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices.

#### Structure

Senior managers are paid a fixed cash component consisting of an annual salary plus the statutory superannuation and annual leave and long service leave obligations.

The fixed remuneration component of the only 3 senior managers in the group is detailed in Table 2 on page 12.

### Variable Remuneration

#### Objective

The objective of the variable component is to link the achievement of the Group's operational targets with the compensation received by the General Manager.

#### Structure

The General Manager has been set some key milestones by the Board specifically associated with the development of AP778. The first milestone (considered short term) is the successful application for the Commercial Ready Grant with AusIndustry, needed for continued research and development of AP778. The Board considers this milestone important as a successful application will delay the need to raise further capital from shareholders.

Other milestones (considered longer term) include the successful registration of AP778 with the APVMA and the introduction of a third party to assist with the commercialization of AP778. Both milestones will bring significant revenue and value to the company's shareholders.

On successful achievement of these milestones, the General Manager will receive a cash payment. There are no share options in the reward structure.

### Relationship of rewards on achievement of milestones to performance of the company

The Board has developed the General Manager's milestones in accordance with the objectives of the company which predominately is the commercialization of AP778. The Board will make an objective assessment regarding the attainment of the milestones on a periodic basis.

# Directors' Report (continued)

## REMUNERATION REPORT (continued)

### Employment contracts

As of the date of this report, the company did not have any fixed term employment contracts with any executives or directors.

**Table 1: Director remuneration for the year ended 30 June 2006**

	YEAR	PRIMARY BENEFITS		POST EMPLOYMENT	EQUITY	OTHER	TOTAL
		SALARY & FEES	NON MONETARY	SUPERANNUATION	OPTIONS		
		\$	\$	\$	\$	\$	\$
I.A. Macliver	2006	41,250	-	3,713	-	-	44,963
	2005	35,000	-	3,150	-	-	38,150
M.F. Quinlan	2006	35,000	-	3,150	-	-	38,150
	2005	35,000	-	3,150	-	-	38,150
J Hondris *	2006	26,736	-	2,406	-	-	29,142
	2005	-	-	-	-	-	-
S.J. Snell **	2006	26,989	3,655	1,313	-	-	31,957
(a) (b)	2005	145,833	7,536	13,125	24,750	-	191,244
J.D. Shervington	2006	12,500	-	1,125	-	-	13,625
***	2005	50,000	-	4,500	-	-	54,500

\* Appointed 26 September 2005

\*\* Resigned 31 July 2005

\*\*\* Resigned 26 September 2005

(a) Options were granted prior to 7 November 2002. Therefore, there is no requirement to expense the amount in the financial statements. However, all appropriate disclosure requirements in accordance with AASB2 Share Based Payments and the Corporations Act 2001 have been applied.

(b) Options were forfeited due to the resignation of S.J. Snell prior to vesting. Therefore, no expense has been recognised in the current period.

**Table 2: Remuneration of the only 3 named executives who received remuneration for the year ended 30 June 2006**

	YEAR	PRIMARY BENEFITS		POST EMPLOYMENT	EQUITY	OTHER	TOTAL
		SALARY & FEES	NON MONETARY	SUPERANNUATION	OPTIONS	BONUSES	
		\$	\$	\$	\$	\$	\$
C. H. Johnston	2006	100,000	-	9,000	-	-	109,000
	2005	91,654	5,236	2,824	-	-	99,714
W D Dowse *	2006	27,500	4,125	2,475	-	-	34,100
	2005	-	-	-	-	-	-
M Kealley **	2006	80,574	5,828	6,175	-	-	92,577
	2005	71,042	1,745	6,394	-	-	79,181

\* Appointed 10 April 2006

\*\* Resigned 28 March 2006

# Directors' Report (continued)

## DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

	Directors' Meetings	Audit Committee
<b>Number of meetings held</b>	<b>9</b>	<b>2</b>
<b>Number of meetings attended:</b>		
I.A. Macliver	9	2
J.G. Hondris	6	1
M.F. Quinlan	9	n/a

Justin Hondris who was appointed on 26 September 2005, was only eligible to attend 6 Directors' meetings and 1 Audit Committee meeting.

## Committee membership

As at the date of this report, the company had an Audit committee.

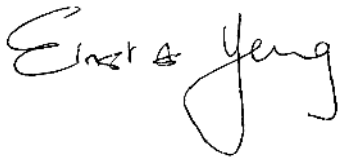
Members acting on the audit committee during the year consisted of J.G. Hondris (Chairman), I.A. Macliver and C.H. Johnston (Company Secretary). Representatives from Ernst & Young (auditors) are invited observers but are not participants.

## AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors received the following declaration from the auditors of BioProspect Limited.

## **Auditor's Independence Declaration to the Directors of BioProspect Limited**

In relation to our audit of the financial report of BioProspect Limited for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Mike Meintjes  
Partner  
6 September 2006

# Directors' Report (continued)

## NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance and advisory services	\$47,974 (2005: \$78,353)
Special audits required by regulators	\$nil (2005: \$1,500)

Signed in accordance with a resolution of the directors



**IAN MACLIVER**

**Chairman**

11 September 2006  
Perth, Western Australia

# Corporate Governance Statement

**BIOPROSPECT'S CORPORATE GOVERNANCE IS THE SYSTEM BY WHICH THE COMPANY IS DIRECTED AND MANAGED. IT IS THE FRAMEWORK WITHIN WHICH:**

- a) the company's goals to grow are set, promoted and achieved.
- b) the BioProspect Board of Directors is accountable to shareholders for the performance of the company.
- c) the risks of business are identified and managed.

This statement is presented under headings based on the Australian Stock Exchange Corporate Governance Council's (ASXCGC) 10 Essential Principles of Good Corporate Governance and Best Practice Recommendations, dated 31 March 2003.

Charters and policies referred to are available on BioProspect's internet site.

## **BIOPROSPECT'S GOVERNANCE STRUCTURE IS DESIGNED TO PROMOTE GROWTH**

A major part of BioProspect's directors' responsibility is to ensure the operation of an effective corporate governance structure.

### **The board prescribes the respective roles and responsibilities of the board and management (ASXCGC principle 1)**

The Board strives to create shareholder value and ensure that shareholders' funds are prudently safeguarded. Its functions as summarised in the Board Charter, are:

- (a) To set the goals and objectives for the Corporation and to ensure a strategic planning process is in place to progress towards achievement to these.
- (b) To monitor progress against a more detailed budget, which reflects the strategic plan, and to ensure that corrective action is taken when necessary.
- (c) To ensure compliance with all statutory requirements, and with self-imposed standards such as those in the environmental and safety areas.
- (d) To ensure that the Board itself operates effectively to enhance the performance of the Corporation.
- (e) To ensure that the Managing Director and senior executive team of the Corporation are of high calibre, appropriately rewarded and have a clear understanding of their responsibilities and delegated authority.

## **THE BOARD IS ACCOUNTABLE TO SHAREHOLDERS FOR THE PERFORMANCE OF BIOPROSPECT**

BioProspect's shareholders appoint the company's directors and hold them accountable for the performance of the company.

### **BioProspect has a board of effective composition, size and commitment to discharge its duties and responsibilities (ASXCGC Principle 2)**

The BioProspect Board Charter was endorsed on 16 December 2004 and describes the structure of the Board and its committees and some responsibilities of directors.

#### **Structure of the Board**

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report are included in the Directors' Report on page 6. Directors of BioProspect Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of director independence, "materiality" is considered from both the company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is evidence to the contrary) if it is equal or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point at the actual ability in question to shape the direction of the company's loyalty.

## Corporate Governance Statement (continued)

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of BioProspect Limited are considered to be independent:

Name	Position	Name	Position
I.A. Macliver	Chairperson	M.F. Quinlan	Non-executive Director
J.G. Hondris	Non-executive Director		

There are procedures in place, agreed by the Board, to enable directors, in furtherance of their duties, to seek independent professional advice at the company's expense.

The term in office held by each director at the date of this report is as follows:

Name	Term in Office	Name	Term in Office
I.A. Macliver	6 years	M.F. Quinlan	3 years
J.G. Hondris	1 year		

For additional details regarding Board appointments, please refer to our website.

### Board Committees

To increase its effectiveness, the Board has established an Audit Committee, which has a charter, approved by the Board. Further explanation on its role is explained further on under ASXCGC Principle 4.

### Election of Directors

Non-executive directors are subject to re-election by rotation at least every three years. One-third of the company's non-executive directors (except the Managing Director) are required to retire by rotation at each AGM, with each director being eligible for re-election.

## BIOPROSPECT'S ESTABLISHED VALUES UNDERPIN ITS ACTIVITIES

BioProspect's corporate governance culture is critically important to BioProspect's commercial success.

### BioProspect actively promotes ethical and responsible decision making (ASXCGC principle 3)

Ethical behaviour is required of directors, executives and all other employees.

### Code of Conduct

The Board endorsed a Code of Conduct on the 16 December 2004 that formalises the obligations of all BioProspect people including directors to behave ethically, act within the law, avoid conflicts of interest and act honestly in all business activities.

### Trading in BioProspect Shares

The Board endorsed an Insider Trading Policy on the 16 December 2004, which clearly outlines the conditions where insider trading may apply. At no time can directors or employees engage in short term speculative trading in BioProspect's financial products. This rule is designed to encourage support for the company's long term objectives and discourage short term actions, which could affect the share price or lead to market speculation. All BioProspect share dealings by directors are promptly notified to the ASX.

## THE CORPORATE GOVERNANCE STRUCTURE SETS THE WAY RISKS ARE IDENTIFIED AND MANAGED

BioProspect's governance structure is designed to ensure that risks of conducting business are properly managed.

### BioProspect has a structure to independently verify and safeguard the integrity of the company's financial reporting (ASXCGC Principle 4)

### Audit Committee

The Audit Committee is chaired by Justin Hondris, the other members being Ian Macliver and Colin Johnston. The external audit firm partner and the audit manager in charge of the BioProspect audit attend Audit Committee meetings by invitation. However, they are not active participants rather passive observers.

## Corporate Governance Statement (continued)

The Board endorsed an Audit Committee Charter on 16 December 2004. The audit committee advises the Board on all aspects of external and internal audit, the adequacy of accounting and risk management procedures, controls, systems and financial reporting. Specific responsibilities include the yearly audit plan, the yearly and half yearly financial reports and advising the Board on the appointment of external auditors.

The committee seeks to ensure the independence of the external auditor. It pre-approves any non-audit services to be performed by the audit firm. Such approval will not be given if the services might impair the auditor's independence or judgement. The Charter requires that individuals playing a significant role in the BioProspect audit be rotated every five years. The auditor annually confirms its independence within the meaning of applicable legislation and professional standards.

### Financial Report Accountability

BioProspect's General Manager and Chief Financial Officer, who are present at Board meetings for discussion of financial matters, are required to state to the Board, in writing, that the company's financial condition and operational results are in accordance with relevant accounting standards and the Corporations Act 2001.

**BioProspect promotes timely and balanced disclosure of all material matters concerning the company (ASXCGC Principle 5)**

### Continuous Disclosure

The Board endorsed a Continuous Disclosure Policy on 30 September 2004. This policy stipulates that the company must comply with all laws pertaining to continuous disclosure. The company secretary is responsible for overseeing and administering all continuous disclosure procedures pertaining to BioProspect. The Company Secretary is also responsible for communications with the ASX.

### Commentary on Financial Results

BioProspect provides a review of operations and a financial review in this annual report. Quarterly result announcements to the ASX and analyst presentations are made available on the company's Internet site.

**BioProspect respects the rights of shareholders and facilitates the effective exercise of those rights (ASXCGC Principle 6)**

The Board endorsed an Investor Relations Policy on 16 December 2004. The objectives of this policy are to promote effective communications with shareholders, promote ready access to balanced and clearly understandable information about BioProspect and easy participation in general meetings.

Where practical, the company uses the latest widely available electronic technology to communicate openly with shareholders and the stock market in general. Announcements to the ASX, significant briefings and notices of meetings are promptly posted on the company's Internet site. Shareholders can request to receive e-mail advices of announcements and copies of the annual report.

### Auditor Attends the Annual General Meeting

The external audit firm partner in charge of the BioProspect audit is available to answer shareholder questions at the annual general meeting.

**BioProspect has a sound system of risk oversight and management and internal control (ASXCGC Principle 7)**

BioProspect identifies the risks facing its business, assesses the balance of risks and rewards, and optimises the returns from its business to deliver shareholder value.

### Business Risks

The Board insists its executives identify and quantify business risks and to adopt cost effective strategies to manage BioProspect's exposure. Risk management is a key element of BioProspect's strategic planning, decision making and execution of strategies.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- (a) Board approval of a strategic plan, which encompasses the group's vision statement, designed to meet stakeholder's needs and manage business risk.
- (b) Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of KPI's of a financial and non-financial nature.

# Corporate Governance Statement (continued)

## Financial Integrity Risks

Management has put into practice procedures and controls to ensure the integrity of its accounting and financial reporting to stakeholders. As part of the process of approving the financial statements, The General Manager and the Chief Financial Officer provide statements in writing to the Board on the quality and effectiveness of the company's risk management and internal compliance and control systems.

## Legal Compliance Risks

The Board maintains policies and procedures to ensure compliance with all major legal requirements in the conduct of BioProspect's business. The Board oversees and reviews the effectiveness of the risk management systems implemented by management. The Board has assigned responsibility to:

- (a) Audit Committee – reviews and reports to the Board in relation to the company's financial reporting, internal control structure, risk management systems and the external audit function. An independent external audit is performed on the annual financial report of BioProspect.
- (b) Management – manages and reports to the Board on business and financial risks and compliance with other legal obligations.

## BioProspect actively encourages enhanced board and management effectiveness (ASXCGC Principle 8)

The Board strives to ensure that directors and senior executives have the knowledge and information to operate effectively.

## Access to Information

Directors receive a comprehensive monthly performance report from the Chief Financial Officer and have unrestricted access to company records and information. The Chairman briefs new directors on their roles and responsibilities. Time is allocated at Board, committee and special meetings for continuing education on significant issues facing the company and changes to the regulatory environment.

All directors have access to the Company Secretary who is accountable to the General Manager and, through the Chairman, the Board on all corporate governance matters.

## Performance

The Board endorsed a Board Performance Review Policy on 16 December 2004. In May 2005, the Board conducted a review of its own performance in line with this policy. The performance criteria against which director and executives are assessed is aligned with the financial and non-financial objectives of BioProspect Limited. Directors whose performance is consistently unsatisfactory may be asked to retire.

## BioProspect ensures that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined (ASXCGC Principle 9)

The Board endorsed a Remuneration Policy on 16 December 2004, which is designed to reward executives with a combination of fixed remuneration and short term incentives structured to drive improvements in shareholder value. Non-executive directors are not entitled to incentive payments or a retirement benefit. Employees cannot approve their own remuneration, nor that of their direct subordinates, without their manager's approval.

The ASXCGC Principle 9 recommends the establishment of a remuneration committee. The Board of BioProspect does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate remuneration committee. The duties and responsibilities typically delegated to such a committee are expressly included in the Board's responsibilities and it would be inefficient for BioProspect to create such a committee.

BioProspect's discussion on Board policy for determining the nature and amount of emoluments of Board members and senior executives of the company and the relationship between such policy and the company's performance is provided in the Remuneration Report section of the Directors' Report on page 10.

## BioProspect recognises its legal and other obligations to all legitimate stakeholders (ASXCGC Principle 10)

BioProspect's Code of Conduct reinforces the company's commitment to giving proper regard to the interests of people and organizations dealing with the company. Every BioProspect employee is required to abide by and respect the company's obligations to fellow employees, customers, shareholders, suppliers and communities in which we operate.

# Corporate Governance Statement (continued)

## Disclosure of non-Compliance with ASX Recommendations

### **Nomination Committee**

ASXCGC principle 2.4 requires listed entities to establish a nomination committee. During the year ended 30 June 2006, BioProspect did not have a separately established nomination committee. However, the duties and responsibilities typically delegated to such a committee are expressly included in the Board's responsibilities. The Board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate nomination committee.

### **Risk Management.**

ASXCGC Principle 7.1 requires that the company has a formal risk management policy and internal compliance and control system. During the year ended 30 June 2006, BioProspect Limited did not have a formal risk management policy as such. However, the company carries out regular risk assessments in a timely manner and covers the entire operational aspects of the company.

ASXCGC Principle 7.1 also requires that the formal risk policy should be posted on the company's website in a clearly marked corporate governance section. During the period ended 30 June 2006, BioProspect Limited had developed a corporate governance section on its website.

### **Remuneration**

ASXCGC Principle 9.2 requires the establishment of a remuneration committee. During the year ended 30 June 2006, BioProspect did not have a separately established remuneration committee. However, the duties and responsibilities typically delegated to such a committee are expressly included in the main Board's responsibilities. The Board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate remuneration committee.

# Income Statement

## FOR THE YEAR ENDED 30 JUNE 2006

	Note	CONSOLIDATED		PARENT	
		2006 \$	2005 \$	2006 \$	2005 \$
Sale of goods		17,159	22,144	17,159	-
Revenue from licence fees		-	90,909	-	90,909
Dividends		-	4,032	-	4,032
Finance Revenue		82,328	40,949	61,090	40,896
<b>REVENUE</b>	4	<b>99,487</b>	<b>158,034</b>	<b>78,249</b>	<b>135,837</b>
Other income	4	19,071	37,859	19,071	-
Finance costs	4	(11,010)	(12,770)	(9,787)	(11,582)
Operating costs	4	(549,729)	(854,649)	(426,977)	(753,212)
Sales & marketing expenses		(13,188)	(52,763)	(13,188)	(52,763)
Research & development expenses		(99,599)	(195,073)	-	(5,150)
Provision for diminution in receivables from controlled entities	8	-	-	(26,289)	(204,963)
General & administration expenses		(375,083)	(357,764)	(343,720)	(382,864)
Share of net profit (losses) of associate	10	(52,426)	(24,941)	(52,426)	(24,941)
<b>Loss before income tax</b>		<b>(982,477)</b>	<b>(1,302,067)</b>	<b>(775,067)</b>	<b>(1,299,638)</b>
Income tax benefit	5	204,600	178,927	20,508	178,927
<b>Loss attributable to members of the parent</b>	16	<b>(777,877)</b>	<b>(1,123,140)</b>	<b>(754,559)</b>	<b>(1,120,711)</b>
Basic earnings per share (cents per share)	6	(0.3)	(0.7)		
Diluted earnings per share (cents per share)	6	(0.3)	(0.7)		

# Balance Sheet

## AS AT 30 JUNE 2006

	Note	CONSOLIDATED		PARENT	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	7	1,810,928	725,352	1,810,550	725,129
Trade and other receivables	8	23,375	47,094	19,953	44,335
Inventories	9	-	-	-	-
Prepayments		841	495	-	495
<b>Total Current Assets</b>		<b>1,835,144</b>	<b>772,941</b>	<b>1,830,503</b>	<b>769,959</b>
<b>Non-current Assets</b>					
Investment in associate	10	596,762	649,188	596,762	649,188
Other financial assets	11	-	2	2	4
Property, plant and equipment	12	10,476	16,806	441	3,634
<b>Total Non-current Assets</b>		<b>607,238</b>	<b>665,996</b>	<b>597,205</b>	<b>652,826</b>
<b>TOTAL ASSETS</b>		<b>2,442,382</b>	<b>1,438,937</b>	<b>2,427,708</b>	<b>1,422,785</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Trade and other payables	13	178,484	141,472	58,137	125,351
Provisions	14	5,498	23,116	3,708	13,940
<b>Total Current Liabilities</b>		<b>183,982</b>	<b>164,588</b>	<b>61,845</b>	<b>139,291</b>
<b>Non-current Liabilities</b>					
Other payables	15	-	75,000	-	-
<b>Total Non-current Liabilities</b>		<b>-</b>	<b>75,000</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>183,982</b>	<b>239,588</b>	<b>61,845</b>	<b>139,291</b>
<b>NET ASSETS</b>		<b>2,258,400</b>	<b>1,199,349</b>	<b>2,365,863</b>	<b>1,283,494</b>
<b>EQUITY</b>					
<b>Equity attributable to equity holders of the parent</b>					
Contributed equity	16	19,215,006	17,378,078	19,215,006	17,378,078
Accumulated losses	16	(16,956,606)	(16,178,729)	(16,849,143)	(16,094,584)
Parent's interest		2,258,400	1,199,349	2,365,863	1,283,494
<b>TOTAL EQUITY</b>		<b>2,258,400</b>	<b>1,199,349</b>	<b>2,365,863</b>	<b>1,283,494</b>

## Statement of Changes in Equity

### FOR THE YEAR ENDED 30 JUNE 2006

	Note	Issued Capital \$	Accumulated Losses \$	Total Equity \$
<b>At 1 July 2004</b>		15,970,835	(15,055,589)	915,246
Issue of share capital		1,300,000	-	1,300,000
Shares issued for payment of services		136,243	-	136,243
Share issue costs		(29,000)	-	(29,000)
Loss for the period		-	(1,123,140)	(1,123,140)
<b>At 30 June 2005</b>		17,378,078	(16,178,729)	1,199,349
Issue of share capital		1,954,180	-	1,954,180
Share issue costs	16(b)	(117,252)	-	(117,252)
Loss for the period		-	(777,877)	(777,877)
<b>At 30 June 2006</b>		19,215,006	(16,956,606)	2,258,400

# Cash Flow Statement

## FOR THE YEAR ENDED 30 JUNE 2006

	Note	CONSOLIDATED		PARENT	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>Cash flows from operating activities</b>					
Receipts from customers		17,159	113,053	17,159	90,909
Interest paid		(11,010)	(12,770)	(9,787)	(11,582)
Payment to suppliers and employees		(1,004,162)	(1,190,730)	(821,354)	(1,066,769)
Research & development expenditure		(43,861)	(152,117)	-	(5,150)
Receipt of government grants		19,071	21,646	19,071	-
Income tax R&D offset received		204,600	178,927	20,508	178,927
<b>Net cash flows used in operating activities</b>	7	(818,203)	(1,041,991)	(774,403)	(813,665)
<b>Cash flows from investing activities</b>					
Interest received		70,417	40,949	49,178	40,896
Dividends received		-	4,032	-	4,032
Purchase of plant and equipment		(3,568)	-	-	-
Proceeds from sale of property, plant and equipment		-	27,724	-	-
Proceeds from sale of investment		2	-	2	-
Repayments from (loans to) controlled entities		-	-	(26,284)	(204,963)
Purchase of shares in Associate		-	(674,129)	-	(674,129)
<b>Net cash flows from (used) in investing activities</b>		66,851	(601,424)	22,896	(834,164)
<b>Cash flows from financing activities</b>					
Proceeds from issues of shares		1,954,180	1,300,000	1,954,180	1,300,000
Transaction costs of issue of shares		(117,252)	(29,000)	(117,252)	(29,000)
Payment of finance lease liabilities		-	(22,908)	-	-
<b>Net cash flows from financing activities</b>		1,836,928	1,248,092	1,836,928	1,271,000
Net increase (decrease) in cash and cash equivalents		1,085,576	(395,323)	1,085,421	(376,829)
Cash and cash equivalents at beginning of period		725,352	1,120,675	725,129	1,101,958
<b>Cash and cash equivalents at end of period</b>	7	1,810,928	725,352	1,810,550	725,129

# Notes to the Financial Statements

## FOR THE YEAR ENDED 30 JUNE 2006

### 1. CORPORATE INFORMATION

The financial report of BioProspect Limited (the Company) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 11 September 2006.

BioProspect Limited 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 Director's Report on page 5.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Foreign currency exchange

Both the functional and presentation currency of BioProspect Limited and its Australian subsidiaries is Australian dollars (A\$).

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 balance sheet date.

#### (b) Basis of Preparation

The financial report is a general-purpose financial report which has been prepared in accordance with the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars and all values rounded to the nearest dollar.

#### (c) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 24.

Australian Accounting Standards recently issued or amended but are not yet effective that have not been adopted for the annual reporting period ending 30 June 2006 consist of :-

AASB Amendment	Affected Standard (s)	Nature of change to accounting policy	Application date of std	Application date for Group
2005-6	AASB 3: <i>Business Combinations</i>	No change to accounting policy required. Therefore no impact.	01/01/2006	01/07/2006
2005-10	AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> ; AASB 101: <i>Presentation of Financial Statements</i> ; AASB 114: <i>Segment Reporting</i> ; AASB 117: <i>Leases</i> ;	No change to accounting policy required. Therefore no impact.	01/01/2007	01/07/2007

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (c) Statement of compliance (continued)

AASB Amendment	Affected Standard (s)	Nature of change to accounting policy	Application date of std	Application date for Group
2005-10	AASB 133: <i>Earnings per Share</i> ; AASB 139: <i>Financial Instruments: Recognition and Measurement</i> ; AASB 1: <i>First-time adoption of AFRIS</i> ; AASB 4: <i>Insurance Contracts</i> ; AASB 1023: <i>General Insurance Contracts</i> ; AASB 1038: <i>Life Insurance Contracts</i> .			
AASB 7	<i>Financial Instruments: Disclosures</i>	No change to accounting policy required. Therefore no impact.	01/01/2007	01/07/2007
UIG 4	<i>Determining whether an arrangement contains a lease</i>	No change to accounting policy required. Therefore no impact.	01/01/2006	01/07/2006

The following amendments are not applicable to the Group and therefore have no impact.

AASB Amendment	Affected Standard(s)
2005-1	AASB 139: <i>Financial Instruments: Recognition and Measurement</i>
2005-4	AASB 139: <i>Financial Instruments: Recognition and Measurement</i> AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> AASB 1: <i>First-time adoption of AIFRS</i> AASB 1023: <i>General Insurance Contracts</i> AASB 1038: <i>Life Insurance Contracts</i>
2005-5	AASB 1: <i>First-time adoption of AIFRS</i> AASB 139: <i>Financial Instruments: Recognition and Measurement</i>
2005-9	AASB 4: <i>Insurance Contracts</i> AASB 1023: <i>General Insurance Contracts</i> AASB 139: <i>Financial Instruments: Recognition and Measurement</i> AASB 132: <i>Financial Instruments: Disclosure and Presentation</i>
AASB 119	<i>Employee Benefits</i>
UIG 5	<i>Rights to interests in Decommissioning, Restoration and Environmental Rehabilitation Funds</i>
UIG 6	<i>Liabilities Arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment</i>
UIG 7	<i>Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies</i>
UIG 8	<i>Scope of AASB 2</i>
UIG 9	<i>Reassessment of Embedded Derivatives</i>

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (d) Principles of consolidation

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

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.

#### (e) Significant accounting judgements, estimates and assumptions

(i) *Significant accounting estimates and assumptions*

##### **CALM License**

The company holds a licence with the WA department of Conservation and Land Management (CALM) which gives the company the right to harvest natural plant extracts. The company has established a data library containing the analysis of the properties of extracts collected. The term of the licence (established in 2001) is 15 years, expiring in 2016.

The directors determined that at 30 June 2005, it was difficult to reliably determine the fair value of the licence agreement. As a consequence the company wrote off the remaining value of the licence at that time.

The CALM licence is exclusive and as such, there is always the potential that the licence could be of some value to the company at some point in the future. Therefore, an impairment test is completed annually to assess if economic and business circumstances have changed, which could result in an impairment reversal.

##### **Contingent Liabilities and Contingent Assets**

The group assesses contingent liabilities and contingent assets at each reporting date and will account for them only if:-

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

##### **Impairment of assets and investments**

The group determines whether non-current assets should be assessed for impairment based on identified impairment triggers. At each reporting date 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.

#### (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.

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (f) Revenue recognition (continued)

##### *(ii) Interest income*

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for interest income applicable for the years ending 30 June 2006 and 30 June 2005.

##### **Accounting policies applicable for the year ending 30 June 2006**

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.

##### **Accounting policies applicable for the year ending 30 June 2005**

Revenue is recognised when the Group's right to receive payment is established.

##### *(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 been completed.

#### (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.

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 are recognised as an expense when 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.

##### *(i) Group as a lessee*

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.

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (i) Leases (continued)

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 in the income statement as an integral part of the total lease expense.

#### (j) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### (k) Trade and other receivables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other receivables applicable for the years ending 30 June 2006 and 30 June 2005.

##### **Accounting policies applicable for the year ending 30 June 2006**

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

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written-off when identified.

##### **Accounting policies applicable for the year ending 30 June 2005**

Trade receivables were recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts was made when collection of the full amount was no longer probable. Bad debts were written off as incurred.

#### (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.

#### (m) 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 balance sheet 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 consolidated 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 changes in equity.

The reporting dates of the associate and the Group are identical.

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (n) Income tax

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 balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date 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 can 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:

- 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 each balance sheet date 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 each balance sheet date 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 balance sheet date.

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.

#### (o) 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

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (o) Other taxes (continued)

- 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 balance sheet.

Cash flows are included in the Cash Flow Statement 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.

#### (p) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight line basis over the estimated useful life of the assets as follows:

Category of plant & equipment	Depreciation Rate	Depreciation Rate
	2006	2005
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
Laboratory Equipment	5 yrs	5 yrs

The asset's residual values, useful lives and amortization methods are reviewed, and adjusted, at each financial year end.

##### (i) Impairment

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

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

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement.

##### (ii) Derecognition and disposal

An item of property, plant and equipment is derecognized upon disposal or when no further future economic benefits are expected from its use or disposal.

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (p) Property, plant and equipment (continued)

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.

#### (q) 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 amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalised and expenditure is charged against profits in the year in which expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, which is a change in accounting estimate. The amortization expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

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 each reporting period to determine whether 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.

##### *Patents and licenses*

The Company had capitalised costs associated with securing its collection licence from the Western Australian Department of Conservation and Land Management (CALM). In June 2005, the Directors determined that they were unable to reliably determine the fair value of the licence and subsequently wrote off the remaining value at that date.

##### *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 amortization and accumulated impairment losses. Any finite life expenditure so capitalized 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.

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 derecognized.

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (r) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### (s) Trade and other payables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other payables applicable for the years ending 30 June 2006 and 30 June 2005.

##### **Accounting policies applicable for the year ending 30 June 2006**

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of the goods and services.

##### **Accounting policies applicable for the year ending 30 June 2005**

Trade payables and other payables are carried at costs which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

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.

#### (t) Interest-bearing loans and borrowings

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for interest bearing loans and borrowings applicable for the years ending 30 June 2006 and 30 June 2005.

##### **Accounting policies applicable for the year ending 30 June 2006**

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

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (f) Interest-bearing loans and borrowings (continued)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognized.

#### Accounting policies applicable for the year ending 30 June 2005

All loans were measured at the principal amount. Interest was recognised as an expense as it accrued.

#### (u) 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.

If the time value of money is material, provisions are discounted using a pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passing of time is recognised as a borrowing cost.

#### (v) Employee leave benefits

*Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employee's services up to the reporting date. 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.

*Long service leave*

As of the 30 June 2006, the Group did not have any employees with significant service to necessitate a provision for long service leave.

#### (w) 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.

#### (x) 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 2006

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (x) Earnings per share (continued)

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

## 3. SEGMENT REPORTING

The Group operates within one business segment, the biotechnology industry focusing on natural plant extracts for use within the insecticide, termiticide and human health markets.

	CONSOLIDATED		PARENT	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>4. REVENUES AND EXPENSES</b>				
<i>Revenue and expenses</i>				
<b>(a) Revenue</b>				
Sale of goods	17,159	22,144	17,159	-
Revenue from license fees	-	90,909	-	90,909
Dividends from associates	-	4,032	-	4,032
Finance revenue	82,328	40,949	61,090	40,896
	<u>99,487</u>	<u>158,034</u>	<u>78,249</u>	<u>135,837</u>
<i>Breakdown of finance revenue:</i>				
Bank interest receivable	60,870	40,949	60,781	40,896
Interest received on tax return	21,458	-	309	-
	<u>82,328</u>	<u>40,949</u>	<u>61,090</u>	<u>40,896</u>
<b>(b) Other income</b>				
Government grants	19,071	21,646	19,071	-
Net gains on disposal of property, plant and equipment	-	16,213	-	-
	<u>19,071</u>	<u>37,859</u>	<u>19,071</u>	<u>-</u>
<b>(c) Finance costs</b>				
Finance charges payable under finance leases and hire purchase contracts	(8,766)	(10,221)	(8,766)	(10,221)
Bank loans	(2,244)	(2,549)	(1,021)	(1,361)
	<u>(11,010)</u>	<u>(12,770)</u>	<u>(9,787)</u>	<u>(11,582)</u>
<b>(d) Operating costs</b>				
<b>(i) Depreciation</b>	(9,898)	(20,681)	(3,193)	(3,193)
<b>(ii) Other expenses</b>				
Consulting and advisory expenses	(127,218)	(372,746)	(127,218)	(372,746)
Legal fees	(36,070)	(39,221)	(36,070)	(39,221)
	<u>(163,288)</u>	<u>(411,967)</u>	<u>(163,288)</u>	<u>(411,967)</u>
<b>(iii) Employee benefits expense</b>				
Wages and salaries	(344,263)	(385,859)	(236,866)	(308,304)
Superannuation	(29,755)	(34,589)	(21,105)	(28,195)
Workers compensation costs	(2,525)	(1,553)	(2,525)	(1,553)
	<u>(376,543)</u>	<u>(422,001)</u>	<u>(260,496)</u>	<u>(338,052)</u>
<b>Total operating costs</b>	<u>(549,729)</u>	<u>(854,649)</u>	<u>(426,977)</u>	<u>(753,212)</u>

## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 30 JUNE 2006

	CONSOLIDATED		PARENT	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>5. INCOME TAX</b>				
The prima facie tax, on operating loss items differs from the income tax provided in the financial statements as follows:				
Prima facie tax on loss from ordinary activities at Group's statutory tax rate of 30%.	(294,743)	(390,620)	(232,520)	(389,891)
Tax effect of permanent differences:				
Non deductible expenses	13,436	83,095	7,007	(343)
Astrum loss not deductible	15,728	7,482	15,728	7,482
	(265,579)	(300,043)	(209,785)	(382,752)
Tax effect of temporary differences and current year loss not brought to account	265,579	300,043	209,785	382,752
Income tax benefit for R&D offset claim	204,600	178,927	20,508	178,927
Income tax attributable to ordinary activities	204,600	178,927	20,508	178,927
Future income tax benefits arising from tax losses not brought to account at reporting date as realisation is not regarded as probable	3,204,881	2,629,013	3,204,881	1,677,019

The potential future income tax benefit 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 realizing the benefit.

The Group has tax losses arising in Australia of \$3,204,881 (2005: \$2,629,013) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

At 30 June 2006, there is no recognised or unrecognized deferred tax liability (2005: \$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.

#### 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 accounting losses of over \$16.9m, 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 effect 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

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

### 5. INCOME TAX (continued)

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 available 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. Because under UIG 1052 Tax Consolidation Accounting the allocation of current taxes to tax consolidated group members on the basis of accounting profits is not an acceptable method of allocation given the group's circumstances, the difference between the current tax amount that is allocated under the tax funding agreement and the amount that is allocated under an acceptable method is recognised as a contribution/distribution of the subsidiaries' equity accounts. 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.

### 6. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit (or loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit (or loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

#### EARNINGS PER SHARE

	CONSOLIDATED	
	2006 \$	2005 \$
Net loss attributable to equity holders of the company from continuing operations	(777,877)	(1,123,140)
	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share:	229,344,255	157,207,981

Options do not have a dilutive effect.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of the accounts.

	CONSOLIDATED		PARENT	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>7. CASH AND CASH EQUIVALENTS</b>				
Cash at bank and in hand	61,940	12,619	61,562	12,396
Short-term deposits	1,748,988	712,733	1,748,988	712,733
	<u>1,810,928</u>	<u>725,352</u>	<u>1,810,550</u>	<u>725,129</u>

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

### 7. CASH AND CASH EQUIVALENTS (CONTINUED)

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 three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

	CONSOLIDATED		PARENT	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>Reconciliation of loss after tax to net cash flows from operations:</b>				
<b>Net loss</b>	(777,877)	(1,123,140)	(754,559)	(1,120,711)
<i>Adjustments for:</i>				
Depreciation	9,898	20,681	3,193	3,193
Shares issued by the Company in payment for operating expenses	-	136,243	-	136,243
Diminution in receivables from controlled entities	-	-	26,289	204,963
Net (profit)/loss on disposal of plant and equipment	-	(16,213)	-	-
Share of associate's net (profits)/ losses	52,426	24,941	52,426	24,941
Interest received	(70,417)	(40,949)	(49,178)	(40,896)
Dividends received	-	(4,032)	-	(4,032)
<i>Changes in assets and liabilities</i>				
(Increase)/ decrease in trade and other receivables	23,719	(24,567)	24,382	(31,874)
(Increase)/ decrease in prepayments	(346)	(495)	495	(495)
(Decrease) / increase in trade and other creditors	(37,988)	(8,437)	(67,219)	21,343
(Decrease) / increase in employee entitlements	(17,618)	(6,023)	(10,232)	(6,340)
<b>Net cash used in operating activities</b>	<b>(818,203)</b>	<b>(1,041,991)</b>	<b>(774,403)</b>	<b>(813,665)</b>
<b>Non cash financing activities</b>				

During the year the consolidated entity had not acquired any services in exchange for shares to the same value (2005: \$136,243).

### 8. TRADE AND OTHER RECEIVABLES

Trade debtors	(i)	-	-	-	-
Other debtors	(ii)	23,375	47,094	19,953	44,335
		<b>23,375</b>	<b>47,094</b>	<b>19,953</b>	<b>44,335</b>
Related party receivables	(iii)	-	-	6,289,936	6,263,647
Provision for diminution		-	-	(6,289,936)	(6,263,647)
		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### (a) 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.

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

### 8. TRADE AND OTHER RECEIVABLES (continued)

- (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) For terms and conditions relating to related party receivables refer to note 19.

	Note	CONSOLIDATED		PARENT	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>9. INVENTORIES</b>					
<b>Finished Goods</b>					
Plant extracts at cost		927,110	927,110	-	-
Write down of inventory		(927,110)	(927,110)	-	-
Total inventories at the lower of cost and net realisable value		-	-	-	-
<b>10. INVESTMENT IN AN ASSOCIATE</b>					
Investment in Astrum	(a)	596,762	649,188	596,762	649,188

	Ownership interest	
	2006	2005
(a) Astrum Therapeutics Pty Ltd – Ordinary shares	33.3%	33.3%

- (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 summarized financial information relating to the Group's investment in Astrum Therapeutics Pty Ltd.

	CONSOLIDATED	
	2006 \$	2005 \$
(ii) Share of associate's profits (losses).		
Revenue	-	-
Profit / (loss) before income tax	(52,426)	(24,941)
Income tax expense	-	-
Profit / (loss) after income tax expense	(52,426)	(24,941)
(iii) Carrying amount of investment in associate		
Balance at the beginning of the financial year	649,188	-
- acquired 1 April 2005	-	674,129
- share of associates net profit (losses) for the financial year	(52,426)	(24,941)
Carrying amount of investment in associate at the end of the year	596,762	649,188
(iv) Retained profits of the consolidated entity attributable to associate		
Balance at the beginning of the financial year	(24,941)	-
Share of associates net profit (losses)	(52,426)	(24,941)
Balance at the end of the financial year	(77,367)	(24,941)
(v) Share of associate's balance sheet		
Current assets	185,968	253,383
Non-current assets	671	744
Intangibles	3,457	414
	190,106	254,541
Current Liabilities	-	(12,964)
Net assets	190,106	241,577

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

### 10. INVESTMENT IN AN ASSOCIATE (CONTINUED)

The company's investment in Astrum as at 30 June 2006 is valued at \$596,762 which is some \$406,656 higher than its 33.3% share of Astrum's net assets, the difference effectively representing goodwill. The directors have conducted an impairment test to ensure the investment is valued at its estimated recoverable amount (the higher of its fair value less costs to sell and its value in use) and are satisfied that the investment is valued accordingly. Astrum's clinical trials have commenced and patents have been lodged in key specific markets.

	Note	CONSOLIDATED		PARENT	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>11. OTHER FINANCIAL ASSETS (NON-CURRENT)</b>					
<b>Investments at cost comprise:</b>					
Shares					
Unlisted	(i)	-	2	-	2
		-	2	-	2
Controlled entities					
Unlisted	19	-	-	4,024,344	4,024,344
Provision for diminution		-	-	(4,024,342)	(4,024,342)
		-	-	2	2
		-	2	2	4

Included in unlisted shares at cost are the following investments:

#### (i) Tradewyns Pty Ltd

Tradewyns Pty Ltd was a consulting company that was established to access the international agricultural market for opportunities to supply farm merchandise inputs.

On the 10 May 2006 BioProspect Limited sold its 20% ownership interest in Tradewyns for its carrying value which was \$2. The carrying amount of this investment at 30 June 2005 was \$2. This investment was not equity accounted for under the previous accounting standard AASB 1016 as the impact of doing this would not have been material.

	Note	CONSOLIDATED		PARENT	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>12. PROPERTY, PLANT &amp; EQUIPMENT</b>					
<i>Plant and equipment</i>					
At cost		76,635	73,067	8,379	8,379
Accumulated depreciation		(66,159)	(56,261)	(7,938)	(4,745)
Impairment		-	-	-	-
Net carrying amount		10,476	16,806	441	3,634
<b>(a) Reconciliations</b>					
<i>Plant and equipment</i>					
Carrying amount at beginning		16,806	32,892	3,634	6,827
Additions		3,568	-	-	-
Disposals		-	(1,238)	-	-
Depreciation expense		(9,898)	(14,848)	(3,193)	(3,193)
Impairment		-	-	-	-
Net carrying amount		10,476	16,806	441	3,634

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

### 12. PROPERTY, PLANT & EQUIPMENT (continued)

	Note	CONSOLIDATED		PARENT	
		2006	2005	2006	2005
		\$	\$	\$	\$
<i>Plant and equipment under lease</i>					
Carrying amount at beginning		-	16,107	-	-
Disposals		-	(10,274)	-	-
Amortisation expense		-	(5,833)	-	-
Net carrying amount		-	-	-	-

### 13. TRADE AND OTHER PAYABLES (CURRENT)

Trade payables	(i)	37,820	105,507	18,285	90,951
Other creditors and accruals	(ii)	136,264	31,565	35,452	30,000
		174,084	137,072	53,737	120,951
Related party payables					
Other related parties	(iii)	4,400	4,400	4,400	4,400
		178,484	141,472	58,137	125,351

#### 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.
- (iii) Details of the terms and conditions of related party payables are set out in note 19.

### 14. PROVISIONS

#### Annual Leave

At 1 July 2005  
Arising during the year  
Utilised

#### Current 2006

	CONSOLIDATED	PARENT
	\$	\$
	23,116	13,940
	6,753	2,174
	(24,371)	(12,406)
	5,498	3,708

	Note	CONSOLIDATED		PARENT	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>15 PAYABLES (NON-CURRENT)</b>					
Other creditors and accruals	(i)	-	75,000	-	-
		-	75,000	-	-

- (i) 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 \$75,000 reflects a pro-rata accrual of the \$100,000 minimum royalty payable on 9 November 2006. As the Agreement is now closer to maturity, the liability has now been classified as a current payable. (note 13)

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

	CONSOLIDATED		PARENT	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>16. CONTRIBUTED EQUITY AND RESERVES</b>				
<b>a) Issued and paid up capital</b>				
Ordinary shares issued and fully paid	19,215,006	17,378,078	19,215,006	17,378,078
<b>b) Movements in shares on issue</b>				
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
Beginning of the financial year	185,126,982	17,378,078	149,797,017	15,970,835
Issued during the year:				
- share placements (i), (ii)	27,000,000	540,000	32,500,009	1,300,000
- rights issue (iii)	70,708,994	1,414,180	-	-
- payment for services (iv)	-	-	2,829,956	136,243
Less share issue costs	-	(117,252)	-	(29,000)
End of the financial year	282,835,976	19,215,006	185,126,982	17,378,078

### Notes:

- (i) On 14 December 2005, a placement was completed for 27,000,000 ordinary shares at an issue price of 2 cents, along with a free 1:1 attaching new class of options exercisable at 5 cents per share on or before 30 June 2007. The issue of shares and options was passed at a special general meeting held on 25 January 2006.
- (ii) On 1 April 2005, \$1,300,000 was raised through the issue of 32,500,009 ordinary shares in two tranches. The second tranche of 10,685,443 ordinary shares at an issue price of 4 cents was subject to shareholder approval which was ratified at a general meeting on 7 June 2005.
- (iii) On 21 November 2005, the company announced a Rights issue on a 1:3 basis, along with a 1:1 new class of option exercisable at 5 cents per share on or before 30 June 2007. The issue was completed during February 2006 with 70,708,994 ordinary shares being issued at an issue price of 2 cents per share.
- (iv) During the year ended 30 June 2005, 2,829,956 ordinary shares were issued in lieu of fees as follows:  
 On 16 December 2004, 204,246 ordinary shares were issued to Starlink Media in lieu of a corporate fee.  
 On 27 January 2005, 425,710 ordinary shares were issued to Madison Keatts LLC in lieu of a corporate fee.  
 On 8 June 2005, 2,200,000 ordinary shares were issued to Rosepoint Capital for services pertaining to the 33.3% acquisition of Astrum Therapeutics Pty Ltd. As a condition of this acquisition, BioProspect has a priority right where it can acquire an additional 9% of Astrum Therapeutics Pty Ltd in any subsequent capital raising. If BioProspect proceeds with its second investment, a further 2,800,000 ordinary shares and 2,800,000 options will be issued to the promoters of Astrum Therapeutics Pty Ltd.

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

The shares issued to Starlink Media, Madison Keatts LLC and Rosepoint Capital are in the nature of equity settled share based payments towards services received in 2005. The weighted average fair value of the shares issued equate to the fair value of services received on the transaction date. The service rendered is measured at fair value.

### c) Share Options

Options over ordinary shares:	No of Options
Exercisable on or before 28 February 2008 at 20 cents each	
Outstanding at beginning of year	450,000
Outstanding at end of year	450,000
Exercisable on or before 25 January 2006 at 20 cents each	
Outstanding at beginning of year	136,481,407
Issued during the year	-
Lapsed during the year	(136,481,407)
Outstanding at end of year	-

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

### 16. CONTRIBUTED EQUITY AND RESERVES (continued)

#### c) Share Options (continued)

Options over ordinary shares:	No of Options
Exercisable on or before 30 June 2007 at 5 cents per share	
Outstanding at beginning of year	-
Issued during the year	97,708,994
Outstanding at end of year	<u>97,708,994</u>
Total options over unissued ordinary shares	<u><u>98,158,994</u></u>

#### d) 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.

	CONSOLIDATED		PARENT	
	2006 \$	2005 \$	2006 \$	2005 \$
<b>e) Accumulated losses</b>				
Movements in accumulated losses were as follows:				
Balance at beginning of year	(16,178,729)	(15,055,589)	(16,094,584)	(14,973,873)
Net loss attributable to members of BioProspect Limited	(777,877)	(1,123,140)	(754,559)	(1,120,711)
Balance at the end of year	<u>(16,956,606)</u>	<u>(16,178,729)</u>	<u>(16,849,143)</u>	<u>(16,094,584)</u>

### 17. AUDITORS' REMUNERATION

The auditor of BioProspect Limited is Ernst & Young

Amounts received or due and receivable by Ernst & Young for:

- an audit or review of the financial report of the entity and any other entity in the consolidated entity
- other services in relation to the entity and any other entity in the consolidated entity
- tax compliance
- assurance related
- special audits required by regulators

66,317	48,187	58,817	48,187
47,974	78,353	47,974	78,353
-	-	-	-
-	1,500	-	-
<u>47,974</u>	<u>79,853</u>	<u>47,974</u>	<u>78,353</u>
<u>114,291</u>	<u>128,040</u>	<u>106,791</u>	<u>126,540</u>

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

### 18. DIRECTOR AND EXECUTIVE DISCLOSURES

#### (a) Details of Key Management Personnel

##### (i) Directors

I.A. Macliver	Chairman (non-executive)
J.G. Hondris	Director (non-executive)
M.F. Quinlan	Director (non-executive)

##### (ii) Executives

W.D.Dowse	General Manager
C.H.Johnston	Chief Financial Officer/Company Secretary

#### (b) Remuneration Policy

Please refer to the Remuneration Report detailed in the Directors' Report on page 10.

#### (c) Remuneration options: Granted and vested during the year

During the financial year no options were granted as equity compensation benefits to certain specified directors and specified executives.

#### (d) Option holdings of Key Management Personnel and Directors

	BALANCE AT BEGINNING OF PERIOD	GRANTED AS REMUNERATION	OPTIONS EXPIRED	NET CHANGE OTHER	BALANCE AT END OF PERIOD
<b>30 JUNE 2006</b>	01-JUL-05				30-JUN-06
<b>DIRECTORS</b>					
M. Quinlan	488,917	-	(488,917)	79,639	79,639
I. Macliver	1,050,000	-	(1,000,000)	172,804	222,804
Total	1,538,917	-	(1,488,917)	252,443	302,443

	BALANCE AT BEGINNING OF PERIOD	GRANTED AS REMUNERATION	OPTIONS EXERCISED	NET CHANGE OTHER	BALANCE AT END OF PERIOD
<b>30 JUNE 2005</b>	01-JUL-04				30-JUN-05
<b>DIRECTORS</b>					
S Snell	3,000,000	-	-	-	3,000,000
J Shervington	1,050,000	-	-	-	1,050,000
M. Quinlan	488,917	-	-	-	488,917
I. Macliver	1,050,000	-	-	-	1,050,000
Total	5,588,917	-	-	-	5,588,917

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

### 18. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

#### (e) Shareholdings of Key Management Personnel and Directors

Shares held in BioProspect Limited (number)

	BALANCE 01-JUL-05 Ord	GRANTED AS REMUNERATION Ord	NET CHANGE OTHER Ord	BALANCE 30-JUN-06 Ord
<b>30 JUNE 2006</b>				
<b>DIRECTORS</b>				
I Macliver	518,413	-	172,804	691,217
M. Quinlan	394,473	-	79,639	474,112
Total	912,886	-	252,443	1,165,329

Shares held in BioProspect Limited (number)

	BALANCE 01-JUL-04 Ord	GRANTED AS REMUNERATION Ord	NET CHANGE OTHER Ord	BALANCE 30-JUN-05 Ord
<b>30 JUNE 2005</b>				
<b>DIRECTORS</b>				
S. Snell	100,000	-	-	100,000
J. Shervington	975,556	-	-	975,556
M. Quinlan	394,473	-	-	394,473
I. Macliver	518,413	-	-	518,413
Total	1,988,442	-	-	1,988,442

All equity transactions with key management personnel, other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than the Group would have adopted if dealing at arm's length.

### 19. RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of BioProspect Limited and the subsidiaries listed in the following table.

Name	Country of Incorporation	Class of Shares	% Equity Interest		Investment *	
			2006	2005	2006 \$	2005
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

\* - Cost before provisioning. Refer to note 10 and 11 for further investment disclosures.

The following summary provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances at year-end, refer to note 8 and note 13):

#### PARENT

##### Subsidiaries

BioProspect Limited loaned \$26,077 to BioProspect Australia Ltd during the financial year to cover operating costs such as salaries, consulting fees and administration costs. Balance of this loan as at 30 June 2006 was \$6,289,447 (2005: \$6,263,370).

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

### 19. RELATED PARTY DISCLOSURES (continued)

BioProspect has a guarantee to pay any deficiency in the event of winding up of either controlled entity or if they do not meet their obligations under the terms of liabilities subject to the guarantee. The guarantee covers all liabilities owed by the subsidiary at the time of winding up.

BioProspect Limited loaned \$212 to BioProspect America Pty Ltd during the financial year to cover minor company registration costs (2005: \$277). Balance of this loan as at 30 June 2006 was \$489 (2005: \$277).

BioProspect Australia Ltd loaned \$1,000 to Australian Phytochemicals Limited during the financial year to cover company registration costs (2005: \$5,543). Balance of this loan as at 30 June 2006 was \$64,105 (2005: \$63,105).

#### Associate

The parent has a 33.3% interest in Astrum Therapeutics Pty Ltd (2005: 33.3%). There were no transactions between the parent company, subsidiaries and Astrum Therapeutics Pty Ltd during the financial year (2005:nil).

#### Key Management Personnel & Director Related

Mr I. A. Macliver (non-executive chairman) is a Director of Grange Consulting Group Pty Ltd which has provided corporate advisory services to the consolidated entity amounting to \$101,618 (2005: \$100,287). The amount outstanding to Grange Consulting at 30 June 2006 is disclosed in Note 13 (2005: \$4,400).

Mr I. A. Macliver is also a Director of Max Capital which provided capital raising advisory services to the consolidated entity amounting to \$117,251 (2005: \$38,000).

Mr J. Shervington who was non-executive chairman until he resigned from the company on 26 September 2005, was a partner of Fearis Slater Power Shervington, which provided legal services to the consolidated entity amounting to \$285 (2005: nil)

#### Terms and conditions of transactions with related parties

Purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.

Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash.

For the year ended 30 June 2006, the Group has made an allowance for doubtful debts relating to amounts owing from subsidiary companies to the amount of \$26,289 (2005: \$204,963). This provision has been created due to the expectation that BioProspect Australia Limited and Australian Phytochemicals Limited will not generate their own positive cash flows within the immediate future.

	Note	CONSOLIDATED		PARENT	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>20. EXPENDITURE COMMITMENTS</b>					
<b>Collection License Commitments</b>	(a)				
Later than one year but not later than five years		6,667	25,000	-	-

#### (a) Terms and conditions

These commitments reflect the royalties payable by the consolidated entity under the Benefit Sharing Agreement entered into with the State of Queensland on 9 November 2001.

## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 30 JUNE 2006

#### 21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise only cash and short-term deposits.

The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

##### *Credit Risk*

The consolidated entity's maximum exposures to credit risk at reporting date in relation to each class of recognized financial assets is the carrying amount of those assets as indicated in the Balance Sheet.

The company minimizes concentrations of credit risk in relation to trade receivables by having payment terms of 30 days and receivable balances are monitored on an ongoing basis with the result that the Group has currently never had an exposure to bad debts.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Therefore, there are no significant concentrations of credit risk within the Group.

#### 22. FINANCIAL INSTRUMENTS

##### (a) Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

All floating and non-interest bearing financial instruments have maturity of less than a year.

Financial Instruments	Fixed interest rate maturing in:								Total Carrying amount		Weighted average effective interest rate	
	Floating Interest Rate		1 Year or less		Over 1 to 5 Years		Non-interest bearing					
	2006	2005	\$ 06	\$ 05	\$ 06	\$ 05	\$ 2006	2005	\$ 2006	2005	\$ 2006	2005
<b>Financial Assets</b>												
Cash at bank	61,940	12,619	-	-	-	-	-	-	61,940	12,619	1.5%	2.4%
Trade and other receivables	-	-	-	-	-	-	23,375	47,094	23,375	47,094	N/A	N/A
Short term deposits	1,748,988	712,733	-	-	-	-	-	-	1,748,988	712,733	5.5%	5.3%
<b>Total financial assets.</b>	<b>1,810,928</b>	<b>725,352</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,375</b>	<b>47,094</b>	<b>1,834,303</b>	<b>772,223</b>		
<b>Financial Liabilities</b>												
Trade creditors	-	-	-	-	-	-	42,220	109,906	42,220	109,906	N/A	N/A
Other creditors	-	-	-	-	-	-	136,264	106,566	136,264	106,566	N/A	N/A
Finance lease liability	-	-	-	-	-	-	-	-	-	-	N/A	N/A
<b>Total Financial Liabilities.</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>178,484</b>	<b>216,472</b>	<b>178,484</b>	<b>216,472</b>		

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

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### 22. FINANCIAL INSTRUMENTS (continued)

#### (b) Fair values

All financial assets and liabilities have been recognised at the balance date at their net fair values.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:-

- *Cash, cash equivalents and short-term investments*: The carrying amount approximates fair value due to short-term to maturity.
- *Trade receivables, trade creditors, other creditor and finance lease liabilities*: The carrying amount approximates fair value.

### 23. COMMITMENTS AND CONTINGENCIES

#### Guarantees

Cross guarantees given by BioProspect Limited, BioProspect Australia Limited and Australian Phytochemicals Ltd are described in note 19.

### 24. EVENTS AFTER THE BALANCE SHEET DATE

No matter or circumstances have arisen since the end of the financial year and up to the date of this report which significantly affect the results of the operations of the consolidated entity for the next succeeding financial year.

### 25. TRANSITION TO AIFRS

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 July 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 *First-time adoption of AIFRS*.

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

#### *Exemption applied*

The Group has made its election in relation to the transitional exemptions allowed by AASB1 *'First-time Adoption of Australian Equivalents to International Financial Reporting Standards'* as follows:

- AASB3 *'Business Combinations'* was not applied retrospectively to post combinations (ie business combinations that occurred before the date of transition to AIFRS).
- Comparative information for financial instruments is prepared in accordance with AGAAP and the company and group have adopted AASB132: *'Financial Instruments: Disclosure and Presentation'* and AASB139 *'Financial Instruments: Recognition and Measurement'* from 1 July 2005.

#### *Explanation of material adjustments to the cash flow statement.*

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

## 25. TRANSITION TO AIFRS (continued)

Balance Sheet reflecting reconciliation of adjustments to AIFRS as at 1 July 2004.

	Note	CONSOLIDATED			AGAAP \$	PARENT AIFRS IMPACT \$	AIFRS
		AGAAP \$	AIFRS Impact \$	AIFRS \$			
<b>ASSETS</b>							
<b>Current Assets</b>							
Cash and cash equivalents		1,120,675	-	1,120,675	1,101,958	-	1,101,958
Trade and other receivables		22,526	-	22,526	12,460	-	12,460
Prepayments		-	-	-	-	-	-
<b>Total Current assets</b>		<b>1,143,201</b>	<b>-</b>	<b>1,143,201</b>	<b>1,114,418</b>	<b>-</b>	<b>1,114,418</b>
<b>Non-current Assets</b>							
Receivables	(c)	-	-	-	3,859,853	(3,859,853)	-
Other financial assets	2	2	-	2	4	-	4
Property, plant and equipment		48,999	-	48,999	6,827	-	6,827
Intangible assets	(a, b)	3,942,459	(3,942,459)	-	-	-	-
Other		-	-	-	-	-	-
<b>Total non-current Assets</b>		<b>3,991,460</b>	<b>(3,942,459)</b>	<b>49,001</b>	<b>3,866,684</b>	<b>(3,859,853)</b>	<b>6,831</b>
<b>TOTAL ASSETS</b>		<b>5,134,661</b>	<b>(3,942,459)</b>	<b>1,192,202</b>	<b>4,981,102</b>	<b>(3,859,853)</b>	<b>1,121,249</b>
<b>LIABILITIES</b>							
<b>Current Liabilities</b>							
Trade and other payables		169,909	-	169,909	104,008	-	104,008
Interest-bearing liabilities		22,908	-	22,908	-	-	-
Provisions		29,139	-	29,139	20,280	-	20,280
<b>Total Current Liabilities</b>		<b>221,956</b>	<b>-</b>	<b>221,956</b>	<b>124,288</b>	<b>-</b>	<b>124,288</b>
<b>Non-current Liabilities</b>							
Payables		55,000	-	55,000	-	-	-
Interest-bearing liabilities		-	-	-	-	-	-
<b>Total Non-current Liabilities</b>		<b>55,000</b>	<b>-</b>	<b>55,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>276,956</b>	<b>-</b>	<b>276,956</b>	<b>124,288</b>	<b>-</b>	<b>124,288</b>
<b>NET ASSETS</b>		<b>4,857,705</b>	<b>(3,942,459)</b>	<b>915,246</b>	<b>4,856,814</b>	<b>(3,859,853)</b>	<b>996,961</b>
<b>EQUITY</b>							
<b>Equity attributable to equity holders of the parent</b>							
Contributed equity		15,970,835	-	15,970,835	15,970,835	-	15,970,835
Accumulated losses		(11,113,130)	(3,942,459)	(15,055,589)	(11,114,021)	(3,859,853)	(14,973,874)
<i>Breakdown of AIFRS impact</i>							
Impairment of assets-goodwill	(a)		(3,544,763)				
Impairment of assets-CALM license	(b)		(397,696)				
Provision for diminution in receivables from controlled entities	(c)					(3,859,853)	
<b>TOTAL EQUITY</b>		<b>4,857,705</b>	<b>(3,942,459)</b>	<b>915,246</b>	<b>4,856,814</b>	<b>(3,859,853)</b>	<b>996,961</b>

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

### 25. TRANSITION TO AIFRS (continued)

Balance Sheet reflecting reconciliation of adjustments to AIFRS as at 30 June 2005.

	Note	CONSOLIDATED			AGAAP \$	PARENT AIFRS IMPACT \$	AIFRS
		AGAAP \$	AIFRS Impact \$	AIFRS \$			
<b>ASSETS</b>							
<b>Current Assets</b>							
Cash and cash equivalents		725,352	-	725,352	725,129	-	725,129
Trade and other receivables		47,094	-	47,094	44,335	-	44,335
Prepayments		495	-	495	495	-	495
<b>Total Current assets</b>		<b>772,941</b>	<b>-</b>	<b>772,941</b>	<b>769,959</b>	<b>-</b>	<b>769,959</b>
<b>Non-current Assets</b>							
Receivables	(c)	-	-	-	3,151,816	(3,151,816)	-
Investment in associate		649,188	-	649,188	649,188	-	649,188
Other financial assets		2	-	2	4	-	4
Property, plant and equipment		16,806	-	16,806	3,634	-	3,634
Intangible assets	(a, b)	3,237,146	(3,237,146)	-	-	-	-
Other		-	-	-	-	-	-
<b>Total non-current Assets</b>		<b>3,903,142</b>	<b>(3,237,146)</b>	<b>665,996</b>	<b>3,804,642</b>	<b>(3,151,816)</b>	<b>652,826</b>
<b>TOTAL ASSETS</b>		<b>4,676,083</b>	<b>(3,237,146)</b>	<b>1,438,937</b>	<b>4,574,601</b>	<b>(3,151,816)</b>	<b>1,422,785</b>
<b>LIABILITIES</b>							
<b>Current Liabilities</b>							
Trade and other payables		141,472	-	141,472	125,351	-	125,351
Interest-bearing liabilities		-	-	-	-	-	-
Provisions		23,116	-	23,116	13,940	-	13,940
<b>Total Current Liabilities</b>		<b>164,588</b>	<b>-</b>	<b>164,588</b>	<b>139,291</b>	<b>-</b>	<b>139,291</b>
<b>Non-current Liabilities</b>							
Payables		75,000	-	75,000	-	-	-
Interest-bearing liabilities		-	-	-	-	-	-
<b>Total Non-current Liabilities</b>		<b>75,000</b>	<b>-</b>	<b>75,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>239,588</b>	<b>-</b>	<b>239,588</b>	<b>139,291</b>	<b>-</b>	<b>139,291</b>
<b>NET ASSETS</b>		<b>4,436,495</b>	<b>(3,237,146)</b>	<b>1,199,349</b>	<b>4,435,310</b>	<b>(3,151,816)</b>	<b>1,283,494</b>
<b>EQUITY</b>							
<b>Equity attributable to equity holders of the parent</b>							
Contributed equity		17,378,078	-	17,378,078	17,378,078	-	17,378,078
Accumulated losses		(12,941,583)	(3,237,146)	(16,178,729)	(12,942,768)	(3,151,816)	(16,094,584)
<i>Breakdown of AIFRS impact</i>							
Impairment of assets-goodwill	(a)		(3,544,763)				
Impairment of assets-goodwill	(b)		307,617				
Provision for diminution in receivables from controlled entities	(c)					(3,151,816)	
<b>TOTAL EQUITY</b>		<b>4,436,495</b>	<b>(3,237,146)</b>	<b>1,199,349</b>	<b>4,435,310</b>	<b>(3,151,816)</b>	<b>1,283,494</b>

# Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

## 25. TRANSITION TO AIFRS (continued)

### Income Statement FOR THE YEAR ENDED 30 JUNE 2005

	Note	CONSOLIDATED			PARENT		
		AGAAP \$	AIFRS Impact \$	AIFRS \$	AGAAP \$	AIFRS IMPACT \$	AIFRS \$
<b>Continuing operations</b>							
Sale of goods		22,144	-	22,144	-	-	-
Revenue from license fees		90,909	-	90,909	90,909	-	90,909
Dividends		4,032	-	4,032	4,032	-	4,032
Finance Revenue		40,949	-	40,949	40,896	-	40896
<b>REVENUE</b>		<b>158,034</b>	<b>-</b>	<b>158,034</b>	<b>135,837</b>	<b>-</b>	<b>135,837</b>
Other income		37,859	-	37,859	-	-	-
Depreciation expense		(20,681)	-	(20,681)	(3,193)	-	(3,193)
Amortisation expense- goodwill	(a)	(307,617)	307,617	-	-	-	-
Amortisation expense-Calm license	(b)	(34,582)	34,582	-	-	-	-
Finance costs		(12,770)	-	(12,770)	(11,582)	-	(11,582)
Employee benefits expense		(422,001)	-	(422,001)	(338,052)	-	(338,052)
Consultancy and advisory fees expenses		(372,746)	-	(372,746)	(372,746)	-	(372,746)
Legal fees expenses		(39,221)	-	(39,221)	(39,221)	-	(39,221)
Sales & marketing expenses		(52,763)	-	(52,763)	(52,763)	-	(52,763)
Research & development expenses		(195,073)	-	(195,073)	(5,150)	-	(5,150)
Write off of CALM license	(b)	(363,114)	363,114	-	-	-	-
Provision for diminution in receivables from controlled entities	(c)	-	-	-	(913,000)	708,037	(204,963)
General & administration expenses		(357,764)	-	(357,764)	(382,864)	-	(382,864)
Share of net profit (losses) of associate		(24,941)	-	(24,941)	(24,941)	-	(24,941)
<b>Loss before income tax</b>		<b>(2,007,380)</b>	<b>705,313</b>	<b>(1,302,067)</b>	<b>(2,007,675)</b>	<b>708,037</b>	<b>(1,299,638)</b>
Income tax benefit		178,927	-	178,927	178,927	-	178,927
<b>Loss attributable to members of the parent</b>		<b>(1,828,453)</b>	<b>705,313</b>	<b>(1,123,140)</b>	<b>(1,828,748)</b>	<b>708,037</b>	<b>(1,120,711)</b>
Share issue costs		(29,000)	-	(29,000)	(29,000)	-	(29,000)
<b>Total revenues, expenses and valuation adjustments attributable to members of the parent and recognised directly in equity</b>		<b>(29,000)</b>	<b>-</b>	<b>(29,000)</b>	<b>(29,000)</b>	<b>-</b>	<b>(29,000)</b>
<b>Total changes in equity other than those resulting from transactions with owners as owners attributable to the members of the parent</b>		<b>(1,857,453)</b>	<b>705,313</b>	<b>(1,152,140)</b>	<b>(1,857,748)</b>	<b>708,037</b>	<b>(1,149,711)</b>

# Notes to the Financial Statements (continued)

## FOR THE YEAR ENDED 30 JUNE 2006

### 25. TRANSITION TO AIFRS (continued)

#### Impact of adopting AIFRS

Outlined below are the main areas impacted upon adoption of AIFRS, including the financial impact on equity and profit

Note	Item	AGAAP	AIFRS	Impact	
(a)	Business combinations and goodwill	Goodwill was amortised over its useful life (not exceeding 15 years).	Under AASB 3 goodwill is subject to annual impairment testing and amortization of goodwill is strictly prohibited. The directors have formed a view that the carrying value of goodwill on consolidation should be written off effective 1 July 2004 after assessing whether the 'value in use' or the 'fair value less costs to sell' can be reliably measured under the requirements of AASB 136 "Impairment of Assets"	<p>CONSOLIDATED</p> <p>Equity at 30 June 2005: Decrease to goodwill and increase to accumulated losses of \$3,544,763</p> <p>Loss for 30 June 2005: Reduction by \$307,617</p>	<p>PARENT</p> <p>Equity at 30 June 2005: No effect</p> <p>Loss for 30 June 2005: No effect</p>
(b)	Intangible assets	The recoverable amount of a non-current asset was the net amount expected to be recovered through the discounted net cash flows arising from continued use	Under AASB 136 "Impairment of Assets" assets are subject to an annual impairment test to ensure that they are carried at amounts that are not in excess of their recoverable amount. The Directors have determined that it was difficult to reliably determine the fair value of the CALM license agreement. As a consequence the company decided that the value of the CALM license agreement should be written off effective 1 July 2004.	<p>CONSOLIDATED</p> <p>Equity at 30 June 2005: No effect</p> <p>Loss for 30 June 2005: Reduction in loss by \$363,114</p>	<p>PARENT</p> <p>Equity at 30 June 2005 : No effect.</p> <p>Loss for 30 June 2005: No effect</p>
(c)	Provision for diminution in receivables from controlled entities	The value of intercompany debtors should be appraised annually on the basis of the ability of the controlled entity to pay off the debt	No change	<p>CONSOLIDATED</p> <p>Equity at 30 June 2005: No effect</p> <p>Loss for 30 June 2005: No effect</p>	<p>PARENT</p> <p>Equity at 30 June 2005: Reduction in non-current receivables and increase in retained losses by \$3,151,816</p> <p>Loss for 30 June 2005: Increase in loss by \$708,037</p>

## DIRECTORS' DECLARATION

In accordance with a resolution of directors of BioProspect Limited, I state that:

(1) In the opinion of the directors:

(a) the financial statements, notes and additional disclosures included in the directors' report designated as audited, of the company are in accordance with the Corporations Act 2001 including:

(i) giving a true and fair view of the of the company's and the consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards and Corporations Regulations 2001, and

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

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2006.

On behalf of the Board



**IAN MACLIVER**  
Chairman

11 September 2006  
Perth, Western Australia

## Independent audit report to members of BioProspect Limited

### Scope

#### *The financial report, remuneration disclosures and directors' responsibility*

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for BioProspect Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages 10 to 12 of the directors' report, as permitted by Corporations Regulation 2M.6.04.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

#### *Audit approach*

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the remuneration disclosures; and

- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

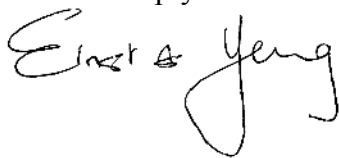
### **Independence**

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included in the Directors' Report. The Auditors' Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this audit report was signed. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

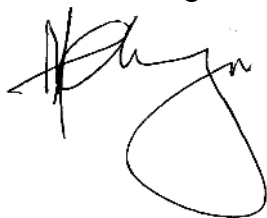
### **Audit opinion**

In our opinion:

1. the financial report of BioProspect Limited is in accordance with:
  - (a) the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the financial position of BioProspect Limited and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and
    - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
  - (b) other mandatory financial reporting requirements in Australia.
2. the remuneration disclosures that are contained on pages 10 to 12 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures*.



Ernst & Young



Mike Meintjes  
Partner  
Brisbane  
12 September 2006

## ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 31 August 2006.

### (a) Distribution of equity securities

The numbers of shareholders, by size of holding, in each class of share are:

	Ordinary shares		Options	
	No. of Holders	No. of Shares	No. of Holders	No. of Options
1 – 1,000	268	236,550	32	17,277
1,001 – 5,000	217	749,189	165	505,155
5,001 – 10,000	529	4,900,891	115	900,749
10,001 – 100,000	1,177	51,116,432	316	10,757,046
100,001 and over	513	225,832,914	97	85,528,767
	<u>2,704</u>	<u>282,835,976</u>	<u>725</u>	<u>97,708,994</u>

The number of shareholders holding less than a marketable parcel of shares are:

1,492

### (b) Twenty largest shareholders – ordinary shares quoted on ASX

The names of the twenty largest holders of quoted shares are:

Listed ordinary shares			
	Number of Shares Held	% Held	
1	Graceford Holdings Ltd	13,227,775	4.68
2.	Mr Mohamad Abas	7,500,000	2.65
3.	CS Fourth Nominees Pty Ltd	5,099,097	1.80
4.	Mrs Lucinda Salau	4,000,000	1.41
5.	Mr Neal John Worthington	3,675,000	1.30
6.	J Moody Nominees Pty Ltd	2,600,000	0.92
7.	Mr Robert Teasdale	2,483,333	0.88
8.	Netshare Nominees Pty Ltd	2,418,750	0.86
9.	Ms Joanne Keng Yee Loh	2,160,930	0.76
10.	Alt Enterprises Pty Ltd	2,000,000	0.71
11.	Mrs Amal Marie-Rose Cain	2,000,000	0.71
12.	Comp-World Limited	2,000,000	0.71
13.	Mdm Swee Lan Loh	2,000,000	0.71
14.	Ms Madonna Therese Walls	2,000,000	0.71
15.	Ms Joanne Keng yee Loh	1,865,556	0.66
16.	Mr Alan Robert Miller	1,765,720	0.62
17.	Mr Bin Mohamad Abas	1,625,226	0.57
18.	Molloy Island Super Fund	1,500,000	0.53
19.	Crawford Falls Pty Ltd	1,500,000	0.53
20.	Kamiyacho Super Fund	1,500,000	0.53
	<u>62,912,387</u>	<u>22.25</u>	

## ASX ADDITIONAL INFORMATION

### (c) Optionholders – options quoted on ASX

The names of the twenty largest holders of options quoted on ASX are:

		Listed Options	
		Number of Options Held	% Held
1.	ANZ Nominees Limited	15,020,000	15.37
2.	Mrs Jennifer Bandy	12,482,026	12.77
3.	Mr Neal John Worthington	6,000,000	6.14
4.	CS Fourth Nominees Pty Ltd	5,595,475	5.73
5.	Bell potter Nominees Pty Ltd	4,992,290	5.11
6.	Rosepoint Capital Pty Ltd	3,104,512	3.18
7.	Mr Richard Karolewicz & Mrs Gaye Lorraine Karolewicz	2,500,000	2.56
8.	Vogue Overseas SA	2,500,000	2.56
9.	Bellmar Holdings Pty Ltd	1,500,000	1.54
10.	Mr Simon David Steininger	1,500,000	1.54
11.	Ms Theresa Szabo	1,500,000	1.54
12.	Mr Brenton Roy Ward	1,250,000	1.28
13.	Mr Vi Khanh Bang	1,100,000	1.13
14.	City Corp Pty Ltd	1,070,000	1.10
15.	Mr George Batskos	1,000,000	1.02
16.	Ms Angela Margaret Day	1,000,000	1.02
17.	George Batskos Pty Ltd	1,000,000	1.02
18.	Mr Brian Denis Page & Mrs Helen Moira Page	1,000,000	1.02
19.	Mr Jin Ming Shi	1,000,000	1.02
20.	Twinsong Pty Ltd	1,000,000	1.02
		66,114,303	67.67

### (d) Unquoted Securities

The numbers of unquoted securities and the number of holders of unquoted securities are:

Number of options	Number of holders
450,000	6

The following option holders hold 20% or more of the unquoted options:

Bayonet Investments Pty Ltd	125,000
Mr Ludger Kohmascher	125,000

### (e) Voting Rights

All ordinary shares carry one vote per share without restriction.

Option holders have no voting rights.

### (f) Restricted Securities

As at 1 September 2006, the Company had no restricted securities.

### (g) Statement in accordance with ASX Listing Rule 4.10.19

The Company believes that for the year ended 30 June 2006 that, it used its cash and assets in a form readily convertible to cash that it held at the time of admission in a way consistent with its business objectives.