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The Manager
Company Announcements
Australian Stock Exchange
Level 4, 20 Bridge Street
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BIOPROSPECT FARM IN WITH SOLAGRAN LIMITED.

BioProspect Ltd (ASX: BPO) is pleased to announce that it has reached agreement to enter into a Heads of Agreement with Solagran Limited (ASX: SLA) whereby BioProspect will be granted an exclusive licence to develop a range of Solagran's Bioeffectives^R in the animal health, nutrition and agricultural markets on an international scale.

Significant Commercial Opportunity behind the need for Bioeffectives^R

- Bioeffectives^R are complex plant extracts (currently derived from northern hemisphere conifer species) with *unique anti-bacterial, anti-viral and antioxidant (flavonoid) characteristics*. The extraction of plant extracts from trees is something that BioProspect has particular expertise in through its complementary TERMILONETM project.
- Consumers of animal and plant derived products are demanding 'cleaner and greener' foods. The use of Bioeffectives^R in agriculture, animal health and nutrition has the potential, given their key attributes of **improving stock feed conversion efficiency, disease and infection control and stress reduction**, to offer a unique opportunity to target this growing market in lucrative food production markets.
- The combination of targeted multi million dollar markets, proven results to date and an all **natural, non toxic yet effective product range** puts BioProspect in a strong position to develop and commercialise Bioeffectives^R in a relatively short period of time.

Under the agreement BioProspect will have access to 5 Bioeffectives^R (Bioeffective A, K, S, I and X) that have potential to be sold in 3 specific market segments identified as (collectively the “**Solagran Rights**”):

1. **Animal Nutrition** (Feed supplements, growth promotants, disease control, feed conversion efficiency, nutrients and vitamins).
2. **Animal Health** (Application of internal and external remedies).
3. **Agricultural** (Crop protection pesticides and nutritional compounds).

With increasing pressure to restrict the use of synthetic growth hormones, antibiotics and environmentally damaging pesticides in the agricultural industry, BioProspect has identified an immediate target market to concentrate on. The first scientific work was carried out in the late 1930's in Russia for animal feed supplements. Positive trials have already been conducted in Australia with results indicating reduced stress levels on animals when applied as an adaptogen.

About Solagran

Solagran is a Melbourne based biotechnology company that is developing naturally sourced and low toxicity based compounds called ‘Bioeffectives^R for the treatment of diseases and ailments in humans. The company has received TGA (Therapeutic Goods Administration) complimentary medicine approval for Bioeffective^R A which has data from over 50 clinical trials in Russia. The compound has efficacy as an antioxidant and anti-microbial properties in gastrointestinal applications. Recent trials from the Pasteur Institute focused on the treatment of the *Helicobacter pylori* pathogen and these will be published later this month.

The company's lead compound Ropen^R is based on Bioeffective^R R and is expected to be registered with the Russian authorities as a chronic liver disease treatment soon. The same product has been trialed in Melbourne at Swinbourne University as a candidate for neurological applications.

BioProspect's Development of Bioeffectives

Under the agreement, BioProspect will be granted an exclusive licence, subject to certain milestones, to develop a range of Solagran's Bioeffectives^R in the animal health, nutrition and agricultural markets on an international scale.

In a similar fashion to the current work being carried out on its termite control and repellancy product TERMILONETM BioProspect will assess the regulatory, development, manufacturing and distribution requirements for the Bioeffectives^R in countries like Australia, New Zealand, Northern America and Europe.

The Directors believe that there exists significant potential synergies for BioProspect with respect to natural plant compound extraction, development, formulation and manufacturing. Solagran will continue to focus on the human health markets and BioProspect will focus on the animal husbandry and agricultural applications. Toxicity and therapeutic efficacy information can in certain circumstances be shared in the human and animal regulatory fields. The Solagran transaction complements BioProspect's existing portfolio, is consistent with its strategy to focus on known compounds with good

commercial potential and offers the opportunity to expand into other potentially lucrative market sectors where the company has a good knowledge base.

Significant synergies and commercial potential for BioProspect.

The impact of using products at the base of the food chain that have potentially detrimental health effects on consumers at the end of the food chain is being recognised by the producers, regulators, manufacturers and distributors of the food resulting in a significantly increased demand for natural, cost effective, equivalent products.

The use of Bioeffectives^R in agriculture, animal health and nutrition has the potential to offer a unique opportunity to target this growing demand in lucrative food production markets.

Suitable replacement products must satisfy regulatory requirements in the respective target countries and markets; however the key drivers for success will be based on cost, bio-equivalence and environmental impact.

The Bioeffectives^R identified in the agreement have the following unique characteristics when applied in the animal health, nutrition and agricultural segments:

1. Stress Reduction

As a result of improving an animal's disease fighting ability which is required in weaned animals and stock housed in intensive feeding and production systems (cattle, pigs and poultry), producers will receive the benefit of reduced mortality of the replacement stock and reduced reliance on the current products (antibiotics and growth hormones) that have an impact on consumers further down the food chain.

2. Feed Conversion Efficiency

Intensive livestock production requires significant volumes of feed. In 2003 the total feed expenditure in the USA on animals was US\$26.6 billion at the farm gate or 354 million tons of processed feed (US Agricultural Statistics report 2005, US Dept Ag). The cost of feed has risen significantly in recent years and the reliance on the use of feed supplements to improve the conversion of feed in the animals has also increased proportionately. Bioeffectives^R have shown that when used as supplements in or with the feed, equivalent conversion results are achieved.

A farmer that can use potentially lower cost additives to improve feed conversion that have no detrimental effects and the animals and the consumers of those products will receive immediate benefits.

A small % change in conversion efficiency is therefore beneficial to the farmer and producers.

3. Infection and Disease Control

Based on the data generated from human health trials, the use of Bioeffectives^R in animals presents an excellent opportunity. A naturally sourced compound with lower costs that poses no risk to the animals or food chain yet exhibits equivalent efficacy is very attractive to the industry.

Figures released by the APVMA (Gazette 31, 2/01/2007) for the 2005 sales of animal health and nutritional products at the manufacturer level in Australia was AUD\$179 m. This will be an important sector target for Bioeffectives^R provided they show equivalence in efficacy and use patterns.

Given the known attributes of Bioeffectives^R, this is an attractive market to investigate but BioProspect will equally focus on the major markets of Europe and Northern America which have market sizes far greater than Australia.

4. Natural Substances - No Environmental Impact

The information available indicates that Bioeffectives^R possesses little or no significant mammalian or ecological toxicity attributes. There is no evidence of 'bioaccumulation' which is particularly important in food production systems.

5. Cost and Availability

All of Solagran's Bioeffectives^R are obtained from a patented extraction process – the feedstock source for which is the green foliage from plantation timber felled in the course of commercial forestry production. This provides a virtually unlimited supply of low cost materials.

Immediate and long-term benefits to BioProspect.

- Provision of a **viable range** of products that can be developed, commercialised, manufactured and distributed on an international scale providing **significant commercial and strategic benefits**.
- Bioeffective^R technology is **complimentary** to BioProspect's strategy in terms of developing and commercialising naturally sourced compounds with **good cost positions and low environmental impact** to satisfy a genuine demand from consumers and industry.
- BioProspect's search for a 'like' company to partner with is satisfied providing further security for the company's shareholders, employees and collaborators. A **defined and focused** approach in this regard will benefit the company immediately and in the long-term.

Key Terms of Heads of Agreement

- (a) Heads of Agreement subject to due diligence and all relevant regulatory approvals including BioProspect shareholder approval;
- (b) BioProspect to spend \$3,000,000 over 2.5 years from the Completion Date (not including any grants that BioProspect may apply for) to earn a 70% interest in the Solagran Rights;
- (c) The residual Solagran 30% interest is free carried until BioProspect completes its \$3,000,000 funding obligation to earn the 70% of the Solagran Rights. After the \$3,000,000 spend the interest is not free carried, but the proportion of costs to be met (30%) by Solagran is paid by BioProspect with repayment (including a commercial interest rate) only netted off against revenue / profits payable to Solagran (unless otherwise agreed);
- (d) On the Completion Date Solagran to receive 22,500,000 BioProspect Shares and 22,500,000 BioProspect Options. The BioProspect Shares and BioProspect Options will be subject to a 12 month escrow period.
- (e) Revenue Target of annualised revenue of \$5,000,000 by December 2010 applies with regard to BioProspect being able to retain exclusivity to the Solagran Rights. The purpose of the Revenue Target is to ensure that BioProspect is committed to developing and commercialising the Solagran Rights in a serious and constructive manner.
- (f) BioProspect will acquire 2,500,000 Solagran Options from Nova Vita Pty Ltd in return for the issue of 32,000,000 BioProspect Shares and 32,000,000 BioProspect Options (\$0.05, March 2010). BioProspect will exercise the 2,500,000 Solagran Options (\$500,000) on or before 1 August 2007 with the Solagran Shares subject to the same 12 month escrow period in paragraph (d) above;
- (g) BioProspect will acquire from Nova Vita Pty Ltd the China interest it has in respect of the Solagran Rights. The transaction involves a one off payment of \$300,000 cash on Completion and an attaching 1.5% Operating Royalty for five (5) years on commercialisation revenue generated in China.
- (h) Upon BioProspect completing its \$3,000,000 spend, as described in clause 5.1(b) above, and proceeding with commercialisation of the Solagran Rights, Solagran will receive a further 22,500,000 BioProspect Shares and 22,500,000 BioProspect Options. If BioProspect does not proceed with commercialisation, all rights and intellectual property revert back to Solagran;
- (i) Solagran and BioProspect will enter into a commercial, transparent, "at cost" arrangement with regard to the sourcing of any Bioeffectives^R necessary for the development and commercialisation of the Solagran Rights;
- (j) Upon BioProspect achieving \$7,500,000 in annualised revenue, based on a 3 month rolling period from the Solagran Rights, Solagran will receive \$2,500,000 worth of BioProspect Shares with a (1) for (1) free attaching BioProspect Options based on a price equivalent to the volume weighted average price of BioProspect Shares trading on ASX during the three month period prior to 31 December 2007.;and
- (k) The parties agree that Lacka Consulting Pty Ltd will receive a facilitation fee of 10,000,000 BioProspect Shares the subject of a separate agreement.

BOARD CHANGES

BioProspect Ltd also announces the resignation of Mr. Ian Macliver as a director of the company. The Board thanks Mr. Macliver for his contribution to the company since his appointment on the 28th February 2000.

The company is also pleased to announce the appointment of Mr. Warwick Dowse (currently General Manager) to the Board as Managing Director. Both these announcements are effective immediately.

Yours sincerely

A handwritten signature in black ink, appearing to read "Colin Johnston". The signature is written in a cursive style with a large initial 'C'.

Colin Johnston
Company Secretary