

18 October 2009

Dear Shareholder

## **ANNUAL REPORT AND NOTICE OF MEETING**

It is with great pleasure that we are sending you a new revised Annual Report (printed on recycled paper) which this year has been produced in two parts:

- >> Part A is a brief colour document that highlights the year's performance for our key natural products and includes the Chairman's and Chief Executive Officer's reports for the year ended 30 June 2009; and
- >> Part B which contains all the financial statements for the year ended 30 June 2009.

We are well aware that most of our shareholders have requested not to receive a hard copy of the annual report but the board and our executive management are so excited about the new direction of BioProspect with the recent acquisition of Re Gen Wellness Products Pty Ltd that we have decided to send the Part A document to all shareholders.

If you have advised our share registry provider Computershare that you require a hard copy of the annual report then you will have received Parts A and B with this letter.

As you will read in the attached Part A annual report the decision to proceed with the acquisition of Re Gen Wellness Products. This will provide BioProspect with the opportunity of generating significant revenues, profits and cash to the business and will better enable BioProspect to continue the development programs with TERMILONE® and Bioeffectives®

Under *The Corporations Act 2001* legislation, we are required to send a Notice of Annual General Meeting to the last registered address we have for each shareholder, so we have included this Notice in the enclosed envelope. Please read the instructions on page 4 as we will appreciate receiving your proxy vote.

The Board is excited about the new direction of the Company and we thank you for your continued support.

Yours sincerely

A handwritten signature in black ink, appearing to read "Michael F. Quinlan".

**DR MICHAEL QUINLAN**  
CHAIRMAN

A handwritten signature in black ink, appearing to read "Peter May".

**PETER MAY**  
CHIEF EXECUTIVE OFFICER



natural  
selection



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# corporate Information

## ABN 58 008 130 336

The directors' report is not part of the financial report.

## DIRECTORS

Dr M F Quinlan	Chairman
C Pellegrino	Non-Executive Director
A Langdon	Non-Executive Director
K Shamsi	Non-Executive Director
E L Khouri	Non-Executive Director

## COMPANY SECRETARY

CH Johnston

## REGISTERED OFFICE

Suite 7A, Level 3  
320 Adelaide Street  
Brisbane QLD 4000  
Telephone: (07) 3229 5755  
Facsimile: (07) 3229 4655

## SOLICITORS

McCullough Robertson

## BANKERS

Westpac Banking Corporation

## AUDITORS

Cranstoun & Hussein  
Level 2, 102 Adelaide Street  
Brisbane QLD 4001

## HOME EXCHANGE

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

## INTERNET ADDRESS

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

## SHARE REGISTRY

Computershare Investor Services Pty Limited  
Level 19, 307 Queen Street  
Brisbane QLD 4000  
Telephone: (07) 3237 2100  
Facsimile: (07) 3237 2152

“2008/09 will be remembered as a landmark year for BioProspect  
..... the year when our firm evolved from research and development,  
to gaining access to more immediate commercial opportunities.”

**Peter D May** CEO



**As I reflect on what has occurred during 2009 for the company, there has been a mixture of ongoing positive trial results on our natural termiticide product TERMILONE® coupled with the impacts of an Australian share market that has seen a severe decline in the ASX 200 during the 12 months ended 30 June 2009.**



## message from the chairman

The Australian share market has not been immune to the global financial crisis and BioProspect has been able to 'weather the storm' due to its high level of cash reserves. Certainly if the company had to raise funds in the past twelve months, it would not have been easy.

However, there are signs that the global financial crisis has bottomed, evidenced by climbing share markets not just in Australia but also around the world. BioProspect's management cannot control its share price and has no intention to; management must focus on its research and development projects and ensure we get products to market as efficiently and timely as possible.

To that extent I am personally excited about the new business opportunity that the company has entered into. On the 10 August 2009, the company announced that it had completed the acquisition of Re Gen Wellness Products Pty Ltd, facilitating the company's expansion into natural healthcare skin care products with an initial focus on the fast-growing Chinese market. BioProspect has looked at several business opportunities over the last few years to expand its product portfolio but this is the first proposal that could produce significant revenues and cash flows to the business within a very short period of time. When this proposal was presented to our board, the directors were excited about the possibility of acquiring a business that fits within our natural product portfolio, would generate enough cash to finance itself and thus take pressure off the company to raise additional funds via a capital raising. Our Chief Executive Officer,

Mr Peter May will explain more about this new venture in his report that follows.

Our natural termiticide product TERMILONE® is now getting closer to commercialisation. In October 2008 a submission was made to the APVMA (Australian Pesticides & Veterinary Medicines Authority) for the registration of Eremophilone oil as an active constituent that we expect to have approved by late 2009. This approval will assist with faster development of end-use products (EUP's) that contain the Eremophilone oil. On the 9 January 2009, the company signed a development agreement with Ensysyex Corporation to conduct evaluation Trials on TERMILONE® for the purposes of research, development and commercialisation in the field of barrier treatment and soil/substrate applied termiticides on an exclusive basis. This agreement requires Ensysyex to fund the trials with Eremophilone oil supplied by BioProspect. Assuming favourable results are obtained in the evaluation trials both companies have agreed to enter into a commercial arrangement in good faith with respect to supply and distribution of TERMILONE® to the pest control market in selected countries and segments.

As announced on 22 August 2007, the company signed a licensing agreement with Solagran Limited (Solagran) for the exclusive development and commercialisation of a range of Bioeffectives® into the animal health, nutrition and agricultural markets on an international scale. Subsequent to this date, the company has completed two initial trials; namely a broiler chicken study managed by the University of New England and a screening trial testing Bioeffectives® on Arabian horses to reduce the effects of EGUS (equine gastric ulcer syndrome).



The trial results were announced in late August 2008 showing encouraging results. The company has also just commenced a significant safety study on the use of Bioeffectives® A in horses in Australia. The cost of the safety study is \$200,000 and represents a major investment by BioProspect in commercialising the Bioeffectives® range of natural products in animal health.

There are three main objectives that I see for the company in the next 12 months:

- >> Successfully launching the Re-Gen emu oil based products into the Chinese market;
- >> Completing the manufacturing study for TERMILONE® and preparing data for the end-use product registration package; and
- >> Continuing to develop the Bioeffectives® range of products in order to achieve commercialisation receipts in a cost effective time-frame;

BioProspect is managed by a small executive team but the commitment and drive of the individuals is unquestionable. The Directors and I congratulate management on their achievements during the last financial year.

On behalf of the Directors, I thank shareholders for their continued support. Your ongoing commitment to the company has provided it with the foundation to achieve further significant milestones in the coming years.

It is with great pleasure that I present to you the company's Annual Report for 2008-2009.

**DR MICHAEL QUINLAN**  
CHAIRMAN

18 October 2009



**Dear Shareholders,**

**2009 has been a year of consolidation and careful financial management for BioProspect Limited. With the background of the global financial downturn and finite cash reserves the company realigned research and development priorities and undertook critical risk assessment to minimise the impact of the external financial environment.**



# chief executive officer's report

Projects were critically reviewed and cash flow managed tightly to ensure that resources were directed at high priority areas and core activities. At the same time, management remained alert to opportunities to broaden our product range, diversify risk and also offer BioProspect with more immediate opportunities to benefit from commercial opportunities both locally and overseas, whilst still reflecting the company's vision as a developer and marketer of natural biotech products.

The result of this strategy has been a more focused approach to development projects, with emphasis on:

- (i) assessing and quantifying potential for BioProspect's product in target markets;
- (ii) clearly defining regulatory pathways;
- (iii) critically analysing product and treatment costs and assumptions to confirm market competitiveness of treatments; and
- (iv) formulating and implementing commercialisation strategies that target accessible and high value markets with market ready products and that will maximise the return to BioProspect.

In order to further diversify the portfolio of projects, as well as gain access to more immediate business opportunities, BioProspect actively searched and investigated additional product areas. This culminated in the acquisition of Re Gen Wellness Products Pty Ltd in August 2009. Re-Gen is a specialist provider of skin care and human health products based on natural Australian ingredients, including emu oil, with an existing product range already approved for sale in Australia as well as in China.

## **HIGHLIGHTS AND MILESTONES REACHED IN 2009 INCLUDED THE FOLLOWING:**

### **RE-GEN**

- >> Completion of due diligence that has since led to the successful acquisition of Re Gen Wellness Products Pty Ltd, a company with an established product range based on emu oil with applications in therapeutic health and skincare.

### **BIOEFFECTIVES**

- >> Confirmation of a clear regulatory pathway for Conifer Green Needle Complex (CGNC or Bioeffective® A) for approval and use in companion animals in Australia via a new category for natural veterinary health products;
- >> Completion of an independent market research report that confirmed the market opportunity for CGNC in Australia for use as a treatment in equine gastric ulcer syndrome and as a topical treatment for cuts & abrasions in horses;
- >> Initiation of a major safety study in horses for both oral and topical use of specially formulated products, undertaken to international protocols, that will support registration in Australia which in turn will assist registration in other countries;



## TERMILONE®

- >> Submission of the TERMILONE® active constituent registration application to the APVMA (Australian Pesticides & Veterinary Medicines Authority) under a low toxicity category that should facilitate more rapid regulatory approval;
- >> Establishment by the CSIRO of a field study in Darwin involving timber treated with TERMILONE® TT (60% Eremophilone Oil) aimed at establishing effectiveness against two major pest termite species in Australia: *Coptotermes acinaciformis* and *Mastotermes darwiniensis*;
- >> Development of a high content 80% TERMILONE® formulation that has now been successfully tested in laboratory studies and is ready to enter field trials; and
- >> Signing of an Evaluation Agreement with Ensystem Corporation, a US-based specialist marketer and distributor of urban pest control products to the Australian, US and other international termite control markets.

## THE YEAR AHEAD

2010 presents as a year of opportunity for BioProspect Limited with the following key objectives and activities:

- >> Launch an initial range of Re-Gen™ products in China, re-launch in Australia and evaluate other opportunities in the region for both therapeutic and skin care products;
- >> Establish distribution channels to access all key target markets for Re-Gen™ products in the region;
- >> In collaboration with Solagran, implement a commercialisation plan with Bioeffectives® in animal health supported by appropriate supply and distribution arrangements;
- >> Submit registration applications for CGNC based products in Australia as natural veterinary health products for use in companion animals, initially horses, aimed at commercialisation later in 2010;
- >> Evaluate additional market opportunities for CGNC-based products and other Bioeffective® products in Australia and the region including the USA, UAE, SE Asia and New Zealand.
- >> Obtain Australian registration of eremophilone whole oil as an active constituent and expand testing of TERMILONE® end use products with the involvement of Ensystem Corporation.

I thank the staff of BioProspect for their commitment and dedication to the success of the company's projects and acknowledge the support of the BioProspect Board through a year that has seen significant change. I also thank the shareholders for their loyalty and support to the vision and aspirations of BioProspect, to become a major supplier and marketer of sustainable natural products with applications in human health care, animal health and nutrition and in urban pest control. I look forward to an exciting 2010 and invite shareholders to share this excitement as we move BioProspect from a development focus to a more commercial operation.

**PETER D MAY**  
CEO

30 September 2009



## HIGHLIGHTS 2009

- >> Completed Due Diligence for the purchase of Re Gen Wellness Products Pty Ltd.
- >> Confirmed market potential for Re-Gen™ products in the health care and beauty product markets with a focus on China.
- >> Confirmed regulatory pathways for Re-Gen™ products in China to enable broadening of the existing range of products.
- >> Identified distribution channels to both health care and beauty product markets with a focus on China.

Re Gen Wellness Products Pty Ltd is a marketer of therapeutic and skin care products based on emu oil which is well known for its anti-inflammatory and skin penetration and regeneration properties.

Re-Gen™'s therapeutic products include emu oil capsules, a muscular rub, a massage oil, and pain relief sprays. The skin care range comprises face and body products for everyday and preventative treatments and spa products all utilising the unique properties of emu oil.

China's cosmetics and healthcare markets are witnessing increased demand due to improving lifestyles and rising disposable income of the Chinese population. Annual sales of products to these segments are forecast to reach in excess of A\$25 billion by 2015. This significant growth, and the increasing demand for natural products, will greatly assist Re-Gen's entry into China and other markets in the region.

Re-Gen has already registered a number of skin care products that form the basis for a branded skin care range. Additional products are being registered with the Ministry of Health in China.

Re-Gen had already established distribution channels in China and Australia. With existing product approvals in place, Re-Gen has the opportunity to secure sales as soon as marketing packages are prepared and commercial arrangements are in place.

## THE WAY FORWARD 2010

- >> Secure key personnel, based in Australia and China, essential to the Re-Gen operation
- >> Pursue sales opportunities based on the current product range.
- >> Enter into agreements with distribution companies.
- >> Develop and implement a comprehensive branding strategy for Re-Gen™ products.
- >> Manage intellectual property associated with formulations and trademarks.

The Share Sale Agreement signed with Re-Gen has been structured to ensure maximum benefit for BioProspect shareholders. Re-Gen is to continue operations as a wholly owned subsidiary, with all intellectual property acquired by BioProspect.

The Re-Gen business comprises a network of key personnel including formulation & manufacturing expertise, customer support staff, regulatory, logistics and other services. These valuable human resources and key contacts have been secured to ensure the continued effective operation of the Re-Gen business.

Immediate sales opportunities exist in Australia and the region, and in particular in China with Re-Gen™ products already approved for use as cosmetics. The initial focus is to realise these sales and contribute cash to the business.

Existing relationships in place in Australia and China for the distribution of Re-Gen™ products will need to be formalised in supply and distribution agreements. There are also opportunities for internet sales that will need to be realised.

Re-Gen™ will continue as a brand in healthcare and as a corporate brand. However, in the skin care and cosmetic market both in-house expertise as well as collaborators operating in the industry will be utilised to develop a comprehensive marketing and branding packaging.

Immediate steps have been taken both as part of the acquisition of Re-Gen as well as in support of the ongoing branding strategy, to ensure protection of intellectual property, as it relates to product formulations, as well as trademark protection in key target markets.

## HIGHLIGHTS 2009

- >> Consolidated & evaluated data for Bioeffectives® as animal health and nutrition products as the basis for a commercialisation strategy.
- >> Completed a review of technical data and identified data requirements for registration of conifer green needle complex (CGNC or Bioeffective® A) as a veterinary medicine in horses, poultry and pigs.
- >> Confirmed a regulatory route with the Australian Pesticides and Veterinary Medicines Authority (APVMA) for CGNC products.
- >> Completed market investigation to confirm the market opportunity for CGNC for treatment of EGUS (equine gastric ulcer syndrome) and for topical wound treatment in horses in Australia.
- >> Confirmed international protocols for safety and efficacy studies to support registration of CGNC as an EGUS treatment in horses.

In 2007 BioProspect entered into an exclusive licence agreement with Solagran Limited (ASX: SLA) to evaluate and commercialise a range of Bioeffectives® products in the animal health and nutrition market. Bioeffectives® are plant extracts derived from certain coniferous tree species.

Solagran is currently developing markets for a number of Bioeffectives® products including Bioeffective® A (CGNC) which has been approved for human use by the Australian Therapeutic Drug Administration (TGA). Bioeffective® A has an immediate application potential in companion animals such as horses and for use in animal feeds as a natural product alternative for antibiotics, growth promotants and synthetic nutritional supplements.



The data requirements to support registration of veterinary medicines are significant, particularly for products intended for use in food production animals.

An extensive body of data is available on Bioeffectives®, including CGNC, much of which was used to support TGA listing as a complementary medicine. An independent toxicologist with regulatory experience undertook a review of these data to establish their suitability to support APVMA registration.

The APVMA has recently issued guidelines for the registration of natural veterinary health products (nVHP) for use in companion animals.

These guidelines allow for the registration of low toxicity TGA approved products without the need for a toxicological review. Product chemistry, safety data and efficacy data can be sufficient to support label claims for an nVHP with review periods of <12 months.

BioProspect engaged an independent market research agency to evaluate the market for ulcer treatments as well as topical wound treatments in horses in Australia. This confirmed that out of the A\$100m equine health care market in Australia, a significant opportunity existed for CGNC.

Specialist veterinary consultants were engaged to determine safety and efficacy data requirements, including international protocols that would satisfy APVMA registration requirements for natural veterinary health products. This has resulted in the initiation of a major safety study in horses that should generate valuable information in support of both Australian and overseas registrations.

## THE WAY FORWARD 2010

- >> Enter into a supply & distribution agreement to support commercialisation programs with CGNC.
- >> Develop a unique brand for CGNC and related products for use in animal health and nutrition to differentiate from human health applications with Bioeffectives®
- >> Initiate and complete a large safety study trial with CGNC end use products in horses in Australia;
- >> Submit applications for registration of a paste product containing CGNC as an EGUS treatment in horses and a CGNC gel for topical use to treat cuts and abrasions.
- >> Confirm market opportunity for CGNC products in New Zealand, UAE, USA and SE Asia with initial focus on the equine market.
- >> Investigate regulatory pathways for CGNC products in the above target markets for both companion animals as well as food production animals such as dairy, pigs and poultry.



# bioeffectives

# termilone®

## HIGHLIGHTS 2009

- >> Submission of application for eremophilone oil to be registered as an active constituent with the Australian Pesticides and Veterinary Medicines Authority (APVMA)
- >> Commencement of a timber treatment field trial by the CSIRO near Darwin in April 2009;
- >> Successful development of a high concentration formulation (TERMILONE® 80EC);
- >> Eremophilone oil extraction efficiency improved with the development of a unique oil from water (hydrosol) separator and evaluation at commercial manufacturing facilities.
- >> Evaluation agreement signed in December 2008 with Ensystem Corporation to undertake an extensive testing program in Australia and overseas.

BioProspect has continued through 2009 with an active program to develop TERMILONE® as a natural termiticide for use as both a timber treatment and as a barrier treatment in soil. A significant achievement was the submission to the APVMA in October 2008 of an application for active constituent registration that has been accepted as a Category 16 – low toxicity product application.

Following on from earlier work with TERMILONE® TT (60% eremophilone oil) formulation for timber treatment, the CSIRO Forest Biosciences group in Melbourne has treated *Pinus radiata* timber billets and established a long term above ground (H2) test in Darwin NT. Initial results are due in Q4 2009.

There are benefits in maximising the eremophilone content in TERMILONE® that mainly relate to cost of the product: reduction in raw material costs of non-active components in the formulation, and reduced volume and transportation costs. BioProspect has now successfully formulated a stable emulsifiable concentrate of 800g/L eremophilone oil.

Initial efficacy testing with the new formulation has been done at the University of Western Sydney (UWS) and confirmed efficacy through a series of repellency and toxicity assays. Laboratory work will continue aimed at establishing minimum effective concentrations against key target termite species and to evaluate residual activity as a barrier that will support field testing programs.

A manufacturing project in collaboration with Southern Cross University has continued during 2009. This has involved a field collection of *Eremophila mitchellii* to assess the most economic way to harvest and transport the timber to the oil extraction facility, and extraction testing to determine optimum operating conditions. In December, 2008 BioProspect signed an evaluation agreement with Ensystem Corporation. Under this agreement Ensystem will carry out an extensive testing program with TERMILONE® over the next two years in a number of countries including Australia, USA and Japan. The program will commence in Australia in 2009. This is an important milestone bringing on board a commercial partner to collaborate in the development of TERMILONE®.

## THE WAY FORWARD 2010

- >> Achieve registration of Eremophilone oil with the APVMA in early 2010;
- >> Continue efficacy testing of end use products with research collaborators and Ensystem Corporation to develop a data package for submission to the APVMA;
- >> Complete manufacturing study on extracting Eremophilone oil from timber on a commercial scale and prepare data for end-use product registration; and
- >> Progress patent approvals in Japan and USA.



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# 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.

Effective corporate governance structures encourage companies, such as BioProspect to create value, through entrepreneurialism, innovation, development and provide accountability and control systems commensurate with the risks involved.

This statement is presented under revised headings based on the Australian Stock Exchange Corporate Governance Council's (ASXCGC) 8 Essential Principles of Good Corporate Governance and Best Practice Recommendations, issued August 2007.

The ASX on 6 August 2009 released findings of their first review of Corporate Governance Reporting under the revised Principles mentioned above. For each Principle, the ASX have suggested clear statements be made by each company in their annual report as to whether or not they comply with their recommendations. For each recommendation BioProspect has decided to include a table with references to the company's compliance and where further information can be found.

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

**LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT (ASXCGC PRINCIPLE 1)**

ASX RECOMMENDATION 1.1	BIOPROSPECT'S RESPONSE	CORPORATE POLICY
>> A statement that the entity has established the functions reserved to the board;	See commentary below	Board Charter
>> A statement that the entity has established the functions delegated to senior executives;	See commentary below	Board Charter
>> A clear description or disclosure of the functions reserved to the board; and	See commentary below	Board Charter
>> A clear description or disclosure of the functions delegated to senior executives.	See commentary below	Board Charter

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 of 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 Chief Executive Officer 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.

ASX RECOMMENDATION 1.2	BIOPROSPECT'S RESPONSE	CORPORATE POLICY
>> A clear description of the process for evaluating the performance of senior executives.	See Remuneration Report, 'Remuneration Philosophy' and 'Variable Remuneration' pages 27 to 28.	Remuneration Policy

ASX RECOMMENDATION 1.3	BIOPROSPECT'S RESPONSE	CORPORATE POLICY
>> An explanation of whether an evaluation of senior executives took place in the financial year;	Evaluation of senior executives took place in August 2009 for the 2009 financial year.	Remuneration Policy
>> If a performance evaluation of senior executives took place a statement as to whether it was in accordance with the process disclosed;	The evaluation was in accordance with the disclosed process.	
>> A statement as to where a copy of matters reserved for the board is publicly available;	Yes. BioProspect website	Board Charter
>> A statement as to where a copy of matters delegated to senior executives is publicly available; and	Yes. BioProspect website	Board Charter
>> A statement as to where a copy of the board charter is publicly available.	Yes. BioProspect website	Board Charter

# corporate governance statement

CONTINUED

## STRUCTURE THE BOARD TO ADD VALUE (ASXCGC PRINCIPLE 2)

ASX RECOMMENDATION 2.1	BIOPROSPECT'S RESPONSE	CORPORATE POLICY
>> A statement as to whether the board has a majority of directors who are independent; and	See commentary below	Board Charter
>> A statement as to which directors are independent and which are not	See commentary below	Board Charter
ASX RECOMMENDATION 2.2		
>> A statement as to who is the chair of the board and if the chair is independent.	See commentary below	Board Charter
ASX RECOMMENDATION 2.3		
>> A statement as to who is the CEO and, if the same person is the chair, a statement as to the reasons why.	Mr Peter May is the CEO.	Board Charter for Managing Director's responsibilities.
ASX RECOMMENDATION 2.4		
>> A statement as to whether the board has established a nomination committee.	See Disclosure of non-compliance with ASX recommendations on page 23.	Not applicable
ASX RECOMMENDATION 2.5		
>> A clear description of the process for evaluating the performance of the board, its committees and individual directors.	Available on company's website.	Board Performance Review
ASX RECOMMENDATION 2.6		
>> A clear description of the skills and experience of each director and their period of office;	See Directors' Report page 24.	
>> Details of the names of the directors considered to be independent and the reasons why they are independent;	See Structure of the Board below page 17.	
>> If any of the relationships set out in Box 2.1 apply and the director is still regarded as independent a statement explaining why a director is still considered to be independent;	Not applicable.	
>> A statement whether or not there is a procedure in place for directors to take independent professional advice at the expense of the entity;	Yes. See Structure of the Board below page 17.	
>> Details of the names of members of the nomination committee and attendance at meetings;	BioProspect does not have a Nomination Committee. See Disclosure of non-compliance with ASX recommendations on page 23.	
>> If the board has not established a nomination committee a statement as to how the functions of the nomination are performed;		
>> An explanation of whether an evaluation of the board, its committees and directors took place in the reporting period;	See Disclosure of non-compliance with ASX recommendations on page 23.	
>> If a performance evaluation of the board, its committees and the directors took place a statement as to whether it was in accordance with the process disclosed;	Not applicable	
>> A description of the procedure for the selection and appointment of new directors and re election of incumbents;	See Election of Directors on page 17 and Corporate Policy.	Board Performance Review
>> A statement as to where a copy of the nomination committee charter or a summary is publicly available; and	Not applicable. See Disclosure of non-compliance with ASX recommendations on page 23.	
>> A description of the board's policy for the nomination and appointment of directors and details of where this information is publicly available.	See Corporate Policy on BioProspect's website.	Board Performance Review

# corporate governance statement

CONTINUED

**Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.**

The BioProspect Board Charter was endorsed on 16 December 2004 and describes the structure of the Board and its committees and some of the major 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 24. 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.

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
Dr M. F. Quinlan	Chairperson
E. L. Khouri	Non-executive Director
A. Langdon	Non-executive Director

Mr C Pellegrino and Mr K Shamsi are not considered independent because of their relationship with BioProspect's strategic partner, Solagran Limited. Mr C Pellegrino and Mr K Shamsi are both employees of Solagran who currently have a shareholding of 32,339,041 ordinary shares or 6.6% of the total issued capital of BioProspect.

Under the development agreement signed with Solagran in August 2007, Solagran appointed Mr C Pellegrino and Mr P Stedwell (deceased 30 March 2009) to the board on 1 September 2008. On 27 August 2009, Mr K Shamsi was appointed to the board. Mr E Khouri was recently appointed to the board on 24 September 2009.

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
Dr M. F. Quinlan	6.3 years
C. Pellegrino	0.9 years
K. Shamsi	0.1 years
A. Langdon	0.9 years
E. L. Khouri	0.1 years

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.

# corporate governance statement

CONTINUED

## PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING (ASXCGC PRINCIPLE 3)

ASX RECOMMENDATION 3.1	BIOPROSPECT'S RESPONSE	CORPORATE POLICY
<p>&gt;&gt; A statement that the entity has established a code of conduct as to the :</p> <p>(a) Practices necessary to maintain confidence in the company's integrity;</p> <p>(b) Practices necessary to take into account their legal obligations and the expectations of their stakeholders; and</p> <p>(c) Responsibilities and accountability of individuals for reporting and investigating reports of unethical practices; and</p> <p>&gt;&gt; Disclosure of the terms of the code of conduct or a summary of the code of conduct in the annual report or a clear statement as to where the code of conduct is disclosed.</p>	<p>See commentary below. Code of Conduct endorsed 16 December 2004.</p> <p>Available on BioProspect's website.</p>	<p>Code of Conduct</p>
ASX RECOMMENDATION 3.2		
<p>&gt;&gt; A statement that the entity has established a policy concerning trading in the entity's securities by all directors, senior executives and employees; and</p> <p>&gt;&gt; Disclosure of the terms of the trading policy or a summary of the trading policy in the annual report or a clear statement as to where the trading policy is located.</p>	<p>See commentary below. Insider Trading Policy endorsed 16 December 2004.</p> <p>Available on BioProspect's website.</p>	<p>Insider Trading Policy</p>
ASX RECOMMENDATION 3.3		
<p>&gt;&gt; A statement as to where the code of conduct or a summary is publicly available; and.</p> <p>&gt;&gt; A statement as to where the trading policy or a summary is publicly available.</p>	<p>Available on BioProspect's website.</p> <p>Available on BioProspect's website.</p>	<p>Code of Conduct</p> <p>Insider Trading Policy</p>

### COMPANIES SHOULD ACTIVELY PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING.

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

#### CODE OF CONDUCT

The Board endorsed a Code of Conduct on 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 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.

# corporate governance statement

CONTINUED

## SAFEGUARD INTEGRITY IN FINANCIAL REPORTING (ASXCGC PRINCIPLE 4)

ASX RECOMMENDATION 4.1	BIOPROSPECT'S RESPONSE	CORPORATE POLICY
>> A statement that the entity has established an audit committee.	See commentary below- Audit Committee.	
ASX RECOMMENDATION 4.2		
>> A detailed description of the composition of the audit committee including the names of the directors and whether they are independent or not.	See commentary below. For comments on independence, refer to Structure of the Board page 17.	
ASX RECOMMENDATION 4.3		
>> A statement that the entity has adopted an audit committee charter.	See commentary below. Charter endorsed 16 December 2004.	Audit Committee Charter
ASX RECOMMENDATION 4.4		
>> Details of the names and qualifications of those appointed to the audit committee;	See commentary below.	
>> If the board has not established an audit committee a statement as to how the functions of the audit committee are performed;	Not applicable.	
>> Details of the number of meetings of the audit committee;	See Directors' Meetings page 31.	
>> A statement as to where a copy of the audit committee charter is publicly available; and	Available on BioProspect's website.	Audit Committee Charter
>> A statement as to the procedures for the selection, appointment and rotation of external audit engagement partners.	See commentary below and Charter on BioProspect's website.	Audit Committee Charter

### Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

#### AUDIT COMMITTEE

The Audit Committee is chaired by Mr C Pellegrino, the other members being Dr Michael Quinlan and Colin Johnston. The external audit firm partner and the audit manager in charge of the BioProspect audit attend Audit Committee meetings by invitation to report on their activities.

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 Chief Executive Officer and the 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.

# corporate governance statement

CONTINUED

## MAKE TIMELY AND BALANCED DISCLOSURE (ASXCGC PRINCIPLE 5)

ASX RECOMMENDATION 5.1	BIOPROSPECT'S RESPONSE	CORPORATE POLICY
>> A statement that the entity has established written policies designed to ensure;  (a) Compliance with ASX Listing Rule disclosure; and  (b) Accountability at a senior executive level for that compliance; and	See commentary below-Continuous Disclosure.	
>> Disclosure of the terms of the continuous disclosure policy or a summary of the policy in the annual report or a clear statement as to where the policy is publicly available.	See commentary below and Corporate Policy available on BioProspect's website.	Continuous Disclosure.
ASX RECOMMENDATION 5.2		
>> A statement as to where the continuous disclosure policy or a summary is publicly available.	Available on BioProspect's website.	Continuous Disclosure

**Companies should promote timely and balanced disclosure of all material matters concerning the company.**

disclosure procedures pertaining to BioProspect. The Company Secretary is also responsible for communications with the ASX.

### 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

### 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.

## RESPECT THE RIGHTS OF SHAREHOLDERS (ASXCGC PRINCIPLE 6)

ASX RECOMMENDATION 6.1	BIOPROSPECT'S RESPONSE	CORPORATE POLICY
>> A statement that the entity has designed a communications policy:  (a) For promoting effective communication with shareholders; and  (b) Encouraging shareholder participation at AGM's; and	See commentary below.	Investor Relations
ASX RECOMMENDATION 6.1		
>> Disclosure of the terms of the communications policy or a summary of the policy in the annual report or a clear statement as to where the policy is disclosed.	See commentary below	Investor Relations
ASX RECOMMENDATION 6.2		
>> A statement as to where the communications policy or a summary is publicly available.	Available on BioProspect's website	Investor Relations

# corporate governance statement

CONTINUED

## Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

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.

## RECOGNISE AND MANAGE RISK (ASXCGC PRINCIPLE 7)

ASX RECOMMENDATION 7.1	BIOPROSPECT'S RESPONSE	CORPORATE POLICY
>> A statement that the entity has established policies for the oversight of material business risks;	See commentary below. BioProspect does not have a separate policy pertaining to risk management.	
>> A statement that the entity has established policies for the management of material business risks;		
>> Disclosure of the terms of the risk management policies or a summary of the policies in the annual report or a clear statement as to where the policies are disclosed; and		
>> The categories of risk reported on or referred to in the annual report.	See commentary below- business, financial and legal compliance risks.	
ASX RECOMMENDATION 7.2		
>> A statement that the board has required management to design and implement a risk management and internal control system to manage the entity's material business risks;	See commentary below.	
>> A statement that the board has required management to report to it on whether those risks are being managed effectively; and	See commentary below- Business Risks.	
>> A statement that management has reported to the board as to effectiveness of the entity's management of its material business risks.	Letter provided annually by CEO and CFO to board. See commentary below.	
ASX RECOMMENDATION 7.3		
>> A statement that the board has received assurance from the CEO and CFO that the s. 295A declaration is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial risks.	See commentary below. Letter provided annually by CEO and CFO to board. See commentary below.	
ASX RECOMMENDATION 7.4		
>> A statement that the board has received the report from management under Recommendation 7.2;	Letter received for year ended 30 June 2009.	
>> A statement that the board has received assurance from the CEO and CFO under Recommendation 7.3; and	Assurance letter received for year ended 30 June 2009.	
>> A statement as to where the entity's policies on risk oversight and management of material business risks are publicly available.	Not available.	

# corporate governance statement

CONTINUED

## RECOGNISE AND MANAGE RISK (ASXCGC PRINCIPLE 7) CONTINUED

Companies should establish a sound system of risk oversight and management and internal control.

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; and
- (c) Conducting specific risk management workshops with the Board and senior executive staff.
- (d) The Board requires management to report to it on whether the company's material business risks are being managed properly.

### 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 Chief Executive Officer 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 as well as a review of the half-yearly accounts.
- (b) Management – manages and reports to the Board on business and financial risks and compliance with other legal obligations.

## REMUNERATE FAIRLY AND RESPONSIBLY (ASXCGC PRINCIPLE 8)

ASX RECOMMENDATION 8.1	BIOPROSPECT'S RESPONSE	CORPORATE POLICY
>> A statement that the entity has established a remuneration committee	No separate committee established. See Disclosures of Non-Compliance on page 23.	
ASX RECOMMENDATION 8.2		
>> A description of the structure of non-executive directors' remuneration and executive directors' and senior executives' remuneration in sufficient detail that the distinction is clear.	See Remuneration Report pages 27-31.	
ASX RECOMMENDATION 8.3		
>> Details of the names of the members of the remuneration committee and their attendance at meetings;	Not applicable.	
>> If the board has not established a remuneration committee a statement as to how the functions of the remuneration committee are carried out;	See Disclosures of Non-Compliance on page 23.	
>> Details of the existence and terms of any schemes for retirement benefits other than superannuation, for non executive directors;	No retirement schemes exist.	
>> A statement as to where a copy of the remuneration committee charter is publicly available; and	Charter does not exist	
>> A statement as to where a summary of the entity's policy on prohibiting transactions in associated products which limit risk of participating in unvested entitlements under any equity based remuneration schemes is publicly available.	Currently not available. Will be included in revised 'Insider Trading and Executive Equity Based Payments' Policy to be released during year ended 30 June 2010.	

# corporate governance statement

CONTINUED

**Companies should ensure that the level and composition of remuneration and that its relationship to performance is clear.**

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 share holder 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.

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 28.

**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 2009, 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.

**BOARD PERFORMANCE EVALUATION**

ASXCGC Principle 2 requires that a statement be made in the annual report as to whether a performance evaluation for the Board has taken place in the reporting period. During the year ended 30 June 2009, BioProspect had not conducted such an evaluation due to the significant director changes that occurred in the past year but does intend to conduct one in the new financial year.

**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 2009, 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.

**REMUNERATION**

ASXCGC Principle 8.1 requires the establishment of a remuneration committee. During the year ended 30 June 2009, 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.

# directors' report

YOUR DIRECTORS SUBMIT THEIR REPORT FOR THE YEAR ENDED 30 JUNE 2009.

## 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

#### **Dr Michael Francis Quinlan (Non-Executive Chairman) MBBS, MD, FRACP**

Joined the Board on 28 May 2003. An independent director, Dr Quinlan is a Consultant Physician and a Clinical Professor of Medicine of the University of Western Australia. He was also Professor Foundation Dean of the College of Health and Professor of Medicine of the University of Notre Dame and since 2008 has also been Chancellor of the University. 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 was also a director of the Raine Medical Research Foundation (University of WA) for 21 years and is a Director of the Feilman Foundation, the Ear Science Institute of Australia and the Child Health Research Foundation of WA.

Dr Quinlan resides in Perth. During the past three years, Dr Quinlan has not been a director of any other ASX listed companies.

#### **Anthony Langdon (Non-Executive Director)**

Mr Langdon was appointed to the Board on 1 September 2008. Mr Langdon brings to the company significant experience in project and risk management within both the Government and private sectors. In the Government sector he has been responsible for the planning, co-ordination and completion of a number of multi-million dollar projects. Most recently, Mr Langdon completed strategic business assessments for various private sector interests in Africa and Australia. He has also been responsible for developing business continuity plans for a number of ASX listed and unlisted companies.

Mr Langdon resides in Melbourne. During the past three years, Mr Langdon has not been a director of any other ASX listed companies.

#### **Charles Pellegrino (Non-Executive Director) B.A., B. Bus (Acc)**

Mr Pellegrino was appointed to the board on 1 September 2008. He is currently employed by another ASX listed company, Solagran Limited and is responsible for international marketing and management of their production facilities. Prior to joining Solagran, Mr Pellegrino operated in public practice for approximately fifteen years as an accountant and financial advisor. He is also the founder and Director of the Stanford Group of Companies.

Mr Pellegrino resides in Melbourne.

During the past three years Mr Pellegrino has also served as a director of Solagran Limited from 10/07/2007 to 01/12/2008.

#### **Kamran Shamsi (Non-Executive Director)**

Mr Shamsi was appointed to the Board on 28 August 2009. Mr Shamsi is a senior management executive with over 20 years experience with responsibility in strategic planning, marketing and general management, business development and operations experience with Fortune 500 companies in international markets.

Mr Shamsi is currently employed by Solagran Limited as Manager Human & Veterinary Pharmaceuticals and has been known to Solagran for 10 years.

Mr Shamsi resides in Melbourne and during the past three years, he has not been a director of any other ASX listed companies.

Under the current development agreement with Solagran Limited, Solagran have the right to appoint 2 nominees to the BioProspect board; Mr Shamsi, along with Mr Pellegrino are those two appointees.

#### **Elias Leo Khouri (Non-Executive Director)**

Mr Khouri was appointed to the Board on 24 September 2009. Mr Khouri has been involved in the international finance and equity markets since 1987 through his involvement in various listed companies listed on the ASX, AIM, TSX, Dow Jones, NASDAQ and the German exchange. This has enabled him to gain vast experience in the areas of corporate finance, advisory,

mergers and acquisitions, capital raisings, joint venture and farm in negotiations for both listed and unlisted companies in the resource, bio-tech, media and entertainment and telecommunications industries.

Mr Khouri has or still does provide extensive advice to Solagran Limited, Continental Goldfields Limited, Fox Resources Limited, International Goldfields Limited, Nkwe Limited and Boss Energy Limited.

Mr Khouri resides in Lebanon and during the past three years, he has not been a director of any other ASX listed companies.

#### **Stephen John Morrow, (Non-executive Chairman) Bachelor of Agricultural Economics (UNE)**

Joined the Board on 15 June 2007.

Mr. Morrow's background has specialised in the Australian agribusiness sector ranging from growers, manufacturers, retailers and financiers. Steve is currently a non-executive Director of the Gardner Smith Group of companies and is also non-executive Chairman of Brooklyn Park Olives. Most recently he was CEO of Golden Circle Limited until 2006 and prior to this was General Manager Agribusiness with Suncorp Metway Bank and Managing Director of Primac Holdings Limited.

During the past three years, he has not been a director of any other ASX listed companies.

Mr Morrow resigned as Chairman on 24 November 2008.

#### **Warwick David Dowse (Managing Director)**

Mr Dowse was appointed Managing Director on 12 April 2007 after previously assuming the role of General Manager from April 2006. Mr Dowse had previously held roles as General Manager of Griffin Corporation Australia Pty Ltd, Business Manager with Crop Care Australasia Pty Ltd, a subsidiary of Orica Ltd (formerly ICI Australia Ltd) and Managing Director of Tradewyns Pty Ltd. With respect to Griffin Corporation and Crop Care, Mr Dowse was successful in managing the life cycle of agricultural products from the research and development stage into actual market commercialisation and distribution. He has an excellent understanding of the Australian and International agrochemical regulatory requirements.

During the past three years, Mr Dowse has not been a director of any other ASX listed companies.

Mr Dowse resigned from the company on 23 September 2008.

### Peter Neil Landau

Mr Landau joined the Board on 29 May 2007. He is a corporate lawyer and corporate advisor having previously worked with Grange Consulting Group, Clayton Utz and as general counsel at Co-operative Bulk Handling. Mr Landau has project managed a significant number of mining exploration and development transactions including capital raisings, mergers and acquisitions, joint ventures and financings. Mr Landau resides in Perth.

During the past three years Mr Landau has also served as a director of the following other listed companies:

- >> View Resources Limited  
13/06/2003 to 03/09/2007
- >> Cape Lambert Iron Ore Limited  
15/05/2007 to 17/06/2009
- >> NKWE Platinum Limited  
14/09/2006 to current
- >> Range Resources Ltd  
08/11/2005 to current

Mr Landau resigned as director on 24 November 2008.

### Peter Adrian Stedwell

Mr Stedwell was appointed to the Board on 1 September 2008. He was appointed to the position of Director and Company Secretary

of Solagran Limited on 7 November 1997. Mr Stedwell had over thirty five year's extensive corporate experience in Finance Director and Company secretary roles. As Company Secretary of Solagran Limited he was responsible for the preparation of financial statements and reports as well as lodgement of all statements with the ASX.

During the past three years Mr Stedwell had also served as a director of the following other listed companies:

- >> Solagran Limited  
07/11/1997 to 31/03/2009
- >> Echo Resources Limited  
25/03/2004 to 31/03/2009

Unfortunately, Mr Stedwell passed away on 30 March 2009.

### EXECUTIVE MANAGEMENT

#### Peter Donald May (Chief Executive Officer) MBA, B.App.Sc (Hons), GMAICD, AFAIM

Mr May was appointed to the role of CEO of BioProspect on 23 September 2008 and has managed the role well, particularly with the additional responsibilities of completing full due diligence on the acquisition of Re-Gen Wellness Products Pty Ltd.

Mr May's career has included stints with CFL, Incitec and Crop Care Australasia, where he achieved overseas product registration and market development of a range of pest control products, including the suSCon controlled release formulation technology range of products. In 2001, he founded his

own consulting company Xavca Pty Ltd, where he assisted businesses to evaluate new markets and commercialisation products.

As an active member of the Australian Environmental Pest Managers Association (AEPMA) Mr May has established excellent contacts within the pest control industry in addition to the general agribusiness and animal health sectors.

Mr May resides in Brisbane.

### COMPANY SECRETARY

#### COLIN HENRY JOHNSTON DIP. BUS ACCOUNTING, CPA, MAICD

Mr Johnston was appointed Company Secretary and Chief Financial Officer on 1 March 2004. Mr Johnston is responsible for complying with all the governance requirements of a listed company and preparation of all financial and management reports for the BioProspect group of companies.

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 over 32 years and has many years of experience mainly within the Orica Group of Companies (formerly ICI Australia Pty Ltd). Mr Johnston resides in Brisbane.

### 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
Dr M. F. Quinlan	553,751	3,000,000
C. Pellegrino	-	-
A. Langdon	-	-
K. Shamsi	-	-
L. Khouri	70,000,000	32,000,000

### DIVIDENDS

No dividends have been paid or provided during the year ended 30 June 2009.

## PRINCIPAL ACTIVITIES

The company has been primarily involved in conducting research and early stage commercialisation activities in the pesticide and agricultural sectors. However, with the recent purchase of Re-Gen Wellness Products Pty Ltd, the company is also now entering the human health and skin care market segment with initial focus into China.

## REVIEW AND RESULTS OF OPERATIONS

### OPERATING RESULTS FOR THE YEAR

The company generated a trading loss after tax of \$3,035,460 some \$1,621,711 lower than 2008. However, to give a clearer picture, fixed costs need to be separated from impairment impacts as follows:-

#### Fixed Costs

Total fixed costs for 2009 at \$1,826,000 were some \$1,030,000 lower than 2008 for the following key reasons:

- >> A reduction in research and development expenditure on the company's natural termiticide product, TERMILONE® of \$479,000 as the focus moved from toxicity studies to further field trials and pilot plant expenditure on oil extraction;
- >> An increase in salaries and director's fees (\$85,000) due to the appointment of 2 additional directors and the appointment of a Technical Manager from February 2009;
- >> A reversal in share based payments due to the forfeiture of Director Options of \$179,000 ; and
- >> A reduction in consulting and advisory fees of \$199,000;

#### Impairment and amortisation

- >> A further impairment write down of the company's investment in Solagran due to the decline in their share price (explained in further detail in note 13 to the financial statements) of \$925,000 which was significantly lower than the \$1,812,500 impairment charge in 2008; and
- >> Amortisation of the Solagran licence increased to \$468,000 compared to \$390,000 in 2008.

The company's cash reserves at the end of the financial year amounted to \$2,143,018.

## REVIEW OF FINANCIAL CONDITION

### Capital Structure

There were no changes to the capital structure during the year ended 30 June 2009.

### THE FUTURE

BioProspect will focus on the following activities in the coming financial year:

- >> Progressing the launch of the Re-Gen Wellness product range into initially the Chinese health care and skin care markets, followed by the Australian market;
- >> Complete the manufacturing study for *Termilone*® and prepare data for the end-use product registration package;
- >> Achieve APVMA registration of Eremophilone oil by late 2009;
- >> Successful patent approval for *Termilone*® in Australia, USA and Japan;
- >> Undertake environmental fate testing for *Termilone*® to develop a data package as part of the end-use product registration package;
- >> Commence and complete a major safety study on the use of *Bioeffective*® A in horses as a natural health treatment in Australia;
- >> Commence dairy trials for *Bioeffective*® A in New Zealand;
- >> Assist Bio-Genie with collaborative contacts in order to fine tune development for Qcide; and
- >> Continue to evaluate new business opportunities.

### SIGNIFICANT EVENTS AFTER BALANCE DATE

As announced on 10 August 2009, the Company concluded the acquisition of Re-Gen Wellness Products Pty Ltd, facilitating the Company's expansion into natural healthcare and skin care products with an initial focus on the fast-growing Chinese market. Re-Gen is a specialist provider of skin care and human health products based on natural Australian ingredients, including emu oil.

Under the Share Sale Agreement signed with Re-Gen, a nominal upfront payment was made on 11 August to the owner, Mr Howard Fox, with additional payments contingent on sales performance and contribution to cash flow over a six year period.

On the 28 August 2009, Mr Kamran Shamsi was appointed non-executive Director. Further disclosures are included in the Directors' Report on pages 14 and 15.

On the 24 September 2009, Mr Leo Khouri was appointed non-executive Director. Further disclosures are included in the Directors' Report on pages 24 and 25.

### 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 Environment and Conservation 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 balance date, there were 137,069,664 unissued ordinary shares under option. The shares will be issued by BioProspect Limited when the options are exercised. Refer to Note 19 of the financial statements for further details of the options outstanding.

### INDEMNIFYING OFFICERS OR AUDITOR

During the year ended 30 June 2009, the company had secured 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.

Total premiums paid during the year ended 30 June 2009 was \$19,105.

## REMUNERATION REPORT (AUDITED)

This report outlines the director and executive remuneration arrangements of the company and the group in accordance with the requirements of the *Corporations Act 2001* and its regulations. For the purposes of this report, key management personnel (KMP) of the group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the company and the group, directly and indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the parent and group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the chief executive officer, chief financial

officer/ company secretary and technical manager of the parent and group.

### DETAILS OF KEY MANAGEMENT PERSONNEL (INCLUDING THE FIVE HIGHEST EXECUTIVES OF THE COMPANY AND THE GROUP)

#### (i) Directors

- >> Dr M. F. Quinlan  
Chairman (non-executive)
- >> C. Pellegrino  
Director (non-executive)  
– appointed 1 September 2008
- >> A. Langdon  
Director (non-executive)  
– appointed 1 September 2008
- >> P. A. Stedwell  
Director (non-executive)  
– appointed 1 September 2008;  
deceased 30 March 2009

- >> W. D. Dowse  
Managing Director  
– resigned 23 September 2008
- >> P. N. Landau  
Director (non-executive)  
– resigned 24 November 2008
- >> S. J. Morrow  
Chairman (non-executive)  
– resigned 24 November 2008

#### (ii) Executives

- >> P. D. May  
Chief Executive Officer
- >> C. H. Johnston  
Chief Financial Officer/  
Company Secretary
- >> A. K. Acland  
Technical Manager

On the 28 August 2009 Mr K. Shamsi was appointed Non –Executive director

## COMPENSATION BY CATEGORY (KMP AND DIRECTORS)

	PARENT		CONSOLIDATED	
	2009 \$	2008 \$	2009 \$	2008 \$
Short-term employee benefits	574,122	493,689	331,118	288,785
Post-employment benefits	42,627	37,950	21,638	21,750
Share-based payments	(178,851)	253,372	(178,851)	253,372
<b>Total compensation</b>	<b>437,898</b>	<b>785,011</b>	<b>173,905</b>	<b>563,907</b>

## 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

In accordance with best practice corporate governance, 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.

### SENIOR MANAGER AND EXECUTIVE DIRECTOR REMUNERATION

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.

The remuneration of non-executive directors for the period ending 30 June 2009 is detailed in Table 1 on page 29 of this report.

## REMUNERATION REPORT (AUDITED) CONTINUED

### 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 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 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, 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 senior management in the group is detailed in Table 1 on page 2.

### 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 Chief Executive Officer and the Chief Financial Officer.

#### Structure

The Board agrees with the Chief Executive Officer, key performance indicators (KPI's) for each financial year to which his performance is assessed. Targets are set for a range of activities covering corporate governance, development project management, new business opportunities, taxation and shareholder management. For the year ended 30 June 2009, TERMILONE® development milestones (considered short term) consisted of CSIRO field trials, manufacturing studies, formulation development and the submission of the APVMA application for oil registration. In relation to the Bioeffectives® range of products, milestones consisted of implementing further EGUS trials for horses within Australia and confirming the regulatory pathway for registration in

Australia. A performance review had been completed for Mr May at the company's board meeting held on 27 August 2009 to which Mr May was granted a cash component and a share issue. These will be reported during the forthcoming year.

The Board also agrees with the Chief Financial Officer KPI's for each financial year to which his performance is assessed. Targets are also set for a similar range of activities with more focus on corporate governance, financial and taxation management. At the company's board meeting held on 27 August 2009 Mr Johnston's performance was assessed and was granted a cash component and a share issue which will be reported during the forthcoming year.

### CONSEQUENCE OF COMPANY'S PERFORMANCE ON SHAREHOLDERS' WEALTH

The company is committed to completing the development activities associated with TERMILONE® and the Bioeffectives® range of products from Solagran Limited. As critical stages of the development program are passed and produce positive results, significant value should be generated to shareholders through an increase in the share price. As the company is several years away from generating taxable profits, shareholder growth will not come through the payment of dividends but by an expected increase in the average share price.

### SHAREHOLDER RETURNS

	30/06/09	30/06/08	30/06/07	30/06/06	30/06/05
Share price -cents	1.7	1.8	4.6	2.1	4.0
Shares on issue	487,040,944	487,040,944	326,950,030	282,835,976	185,126,982
Capitalisation	\$8.3m	\$8.8 m	\$15.0 m	\$5.9 m	\$7.4 m
Loss per share -cents	(0.6)	(1.0)	(0.5)	(0.3)	(0.7)

## EMPLOYMENT CONTRACTS

The company does have employment contracts with the Chief Executive Officer, the Chief Financial Officer and the Technical Manager. Terms are as follows:

	CHIEF EXECUTIVE OFFICER	CHIEF FINANCIAL OFFICER	TECHNICAL MANAGER
<b>Standard conditions</b>	Salary subject to annual review Statutory superannuation	Salary subject to annual review Statutory superannuation	Salary subject to annual review Statutory superannuation
<b>Term</b>	No fixed term	No fixed term	No fixed term
<b>Notice</b>	3 months	3 months	1 month
<b>Termination by company</b>			
-reorganisation	12 months	6 months	3 months
-general	6 months	3 months	1 month
-cause	Employment may be terminated without notice and without payment of any salary or compensation in lieu of notice.	Employment may be terminated without notice and without payment of any salary or compensation in lieu of notice.	Employment may be terminated without notice and without payment of any salary or compensation in lieu of notice.

## Remuneration of key management personnel and the five highest paid executives of the company and Group

TABLE 1: REMUNERATION FOR THE YEAR ENDED 30 JUNE 2009

	SHORT-TERM				POST EMPLOYMENT		TOTAL \$
	SALARY & FEES \$	CASH BONUS \$	TERMINATION PAYMENT \$	NON MON-ETARY BENEFITS \$	SUPER \$	SHARE-BASED PAYMENT OPTIONS \$	
<b>NON-EXECUTIVE DIRECTORS</b>							
Dr M. F. Quinlan - Chairman	47,917	-	-	-	4,313	-	52,230
C. Pellegrino <sup>(a)</sup>	36,333	-	-	-	-	-	36,333
P. A. Stedwell <sup>(b)</sup>	25,433	-	-	-	-	-	25,433
A. Langdon <sup>(c)</sup>	33,333	-	-	-	3,000	-	36,333
P. N. Landau <sup>(d)</sup>	20,437	-	-	-	-	(44,713)	(24,276)
S. J. Morrow <sup>(e)</sup>	29,167	-	-	-	2,625	(59,617)	(27,825)
<b>Sub-total non-executive directors</b>	<b>192,620</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,938</b>	<b>(104,330)</b>	<b>98,228</b>
<b>EXECUTIVE DIRECTORS</b>							
W. D. Dowse <sup>(f)</sup>	41,500	-	45,000	8,650	7,785	(74,521)	28,414
<b>OTHER KEY MANAGEMENT PERSONNEL (KMP)</b>							
P. D. May <sup>(g)</sup>	114,985	-	-	8,000	10,349	-	133,334
C. H. Johnston	130,000	7,500	-	-	11,700	-	149,200
A. K. Acland <sup>(h)</sup>	31,717	-	-	4,714	2,855	-	39,286
<b>Sub-total executive KMP</b>	<b>276,702</b>	<b>7,500</b>	<b>-</b>	<b>12,714</b>	<b>24,904</b>	<b>-</b>	<b>321,820</b>
<b>Totals</b>	<b>510,822</b>	<b>7,500</b>	<b>45,000</b>	<b>21,364</b>	<b>42,627</b>	<b>(178,851)</b>	<b>448,462</b>

(a) Appointed 1 September 2008

(b) Appointed 1 September 2008 and deceased 30 March 2009

(c) Appointed 1 September 2008

(d) Resigned 24 November 2008

(e) Resigned 24 November 2008

(f) Resigned 23 September 2008

(g) Appointed 3 November 2008

(h) Appointed 9 February 2009

# directors' report

CONTINUED

## REMUNERATION REPORT (AUDITED) CONTINUED

**TABLE 2: REMUNERATION FOR THE YEAR ENDED 30 JUNE 2008**

	SHORT-TERM		POST EMPLOYMENT		
	SALARY & FEES \$	NON MON-ETARY BENEFITS \$	SUPER \$	SHARE-BASED PAYMENT OPTIONS \$	TOTAL \$
<b>NON-EXECUTIVE DIRECTORS</b>					
S. J. Morrow - Chairman	70,000	-	6,300	59,617	135,917
P. N. Landau	49,050	-	-	44,713	93,763
Dr M.F. Quinlan	45,000	-	4,050	44,713	93,763
<b>Sub-total non-executive directors</b>	<b>164,050</b>	<b>-</b>	<b>10,350</b>	<b>149,043</b>	<b>323,443</b>
<b>EXECUTIVE DIRECTORS</b>					
W. D. Dowse	180,000	18,000	16,200	74,521	288,721
<b>OTHER KEY MANAGEMENT PERSONNEL (KMP)</b>					
C. H. Johnston	126,667	-	11,400	29,808	167,875
<b>Totals</b>	<b>470,717</b>	<b>18,000</b>	<b>37,950</b>	<b>253,372</b>	<b>780,039</b>

**TABLE 3: COMPENSATION OPTIONS: GRANTED AND VESTED DURING THE YEAR (CONSOLIDATED)**

There were no options granted and vested during the year ended 30 June 2009

During the year ended 30 June 2008 the following options were granted:

30 JUNE 2008	GRANTED NO	GRANT DATE	FAIR VALUE PER OPTION AT GRANT DATE \$	EXPIRY DATE	EXERCISE PRICE \$	FIRST EXERCISE DATE	VESTED
<b>DIRECTORS</b>							
S. J. Morrow	4,000,000	5/11/2007	0.0149	30/09/2010	0.10	5/11/07	5/11/07
W. D. Dowse	5,000,000	5/11/2007	0.0149	30/09/2010	0.10	5/11/07	5/11/07
P. N. Landau	3,000,000	5/11/2007	0.0149	30/09/2010	0.10	5/11/07	5/11/07
Dr M. Quinlan	3,000,000	5/11/2007	0.0149	30/09/2010	0.10	5/11/07	5/11/07
<b>EXECUTIVES</b>							
C. H. Johnston	2,000,000	5/11/2007	0.0149	30/09/2010	0.10	5/11/07	5/11/07
<b>Total</b>	<b>17,000,000</b>						

**TABLE 4: OPTIONS GRANTED AS PART OF REMUNERATION**

	VALUE OF OPTIONS GRANTED DURING THE YEAR \$	VALUE OF OPTIONS EXERCISED DURING THE YEAR \$	VALUE OF OPTIONS LAPSED DURING THE YEAR \$
S. J. Morrow	-	n/a	59,617
W. D. Dowse	-	n/a	74,521
P. N. Landau	-	n/a	44,713
Dr M. Quinlan	-	n/a	n/a
C. H. Johnston	-	n/a	n/a

# directors' report

CONTINUED

There were no alterations to the terms and conditions of options granted as remuneration since their grant date. For details on the valuation of the options, including models and assumptions used, please refer to Note 27.

Under the terms of the Director options that were issued in November 2007, if a Director did not exercise his option within 90 days of leaving the Company, the options would

subsequently be terminated. Mr Morrow, Mr Landau and Mr Dowse who resigned during the year, did not exercise their option to acquire and as a result, a reversal of the original accrual for each director was completed as at 30 June 2009, for a total value of \$178,851.

## 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	ELIGIBLE TO ATTEND	AUDIT COMMITTEE	ELIGIBLE TO ATTEND
Number of meetings held	8		2	
<b>Number of meetings attended</b>				
Dr M Quinlan	8	8	2	2
C Pellegrino	5	5	n/a	n/a
A Langdon	5	5	n/a	n/a
P Stedwell	2	2	1	1
S Morrow	3	3	1	1
P Landau	3	3	n/a	n/a
W Dowse	1	3	n/a	n/a

## COMMITTEE MEMBERSHIP

As at the date of this report, the company had an Audit committee, consisting of C Pellegrino (Chairman) and Dr M Quinlan.

Members acting on the audit committee during the year consisted of P Stedwell (Chairman), Dr Michael Quinlan (former Chairman) and S Morrow.

## AUDITOR NON-AUDIT SERVICES

The following non-audit services were provided by the entity's former 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 2001. The nature and scope of each type of non-audit service provided means that auditor

independence was not compromised.

There were no non-audit services provided by the current auditors Cranstoun & Hussein during 2009.

Ernst & Young received the following amounts for the provision of non-audit services:

>> Tax compliance services	\$22,745
>> Attendance at AGM	\$5,213

## AUDITOR INDEPENDENCE

The auditor's independence declaration has been received and can be found on page 32.

Signed in accordance with a resolution of the directors



Dr Michael Quinlan  
Chairman

28 September 2009  
Perth, Western Australia

# auditor independence declaration



**Principals**  
Andrew J Cranstoun  
John Feddema  
Masood Ayoob  
Junaide A Latif  
Paul A Copeland  
Julie D Smith

**Consultants**  
David J Cranstoun  
Yusuf Hussein

**Level 2**  
102 Adelaide Street  
Brisbane

GPO Box 563  
Brisbane  
Queensland 4001

**Telephone (07) 3229 5100**  
International +617 3229 5100  
Facsimile (07) 3221 6027


Email info@cah.com.au  
Website www.cranstounandhussein.com.au  
ABN 11 603 627 400

Our Ref

Your Ref

Date

**Cranstoun & Hussein**  
Chartered Accountants & Business Advisers

 A member of KS International  
An Association of Independent  
Accountants throughout the World

The Directors  
BioProspect Limited  
Suite 7A, Level 3  
320 Adelaide Street  
BRISBANE QLD 4000

## Auditors' Independence Declaration

As lead auditor for the audit of BioProspect Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of BioProspect Limited and the entities it controlled during the period.

  
CRANSTOUN & HUSSEIN  
Chartered Accountants

J A Latif  
A Member of the Firm

Brisbane, 28 September 2009

# income statements

FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	CONSOLIDATED		PARENT	
		2009 \$	2008 \$	2009 \$	2008 \$
Licence fees		-	90,909	-	90,909
Finance revenue	5	189,124	315,784	189,122	304,261
<b>REVENUE</b>		189,124	406,693	189,122	395,170
Finance costs	5	(7,080)	(9,478)	(7,080)	(9,478)
Amortisation and depreciation	5	(473,816)	(395,643)	(469,936)	(391,112)
Employee costs	5	(437,898)	(785,011)	(173,905)	(563,907)
Impairment of available for sale investment	13	(925,000)	(1,812,500)	(925,000)	(1,812,500)
Research & development expenses		(711,979)	(1,170,130)	-	137,656
Provision for diminution in receivables from controlled entities	9	-	-	(996,912)	(1,580,218)
Other expenses	5	(668,811)	(887,666)	(651,749)	(868,192)
<b>Loss before income tax</b>		<b>(3,035,460)</b>	<b>(4,657,171)</b>	<b>(3,035,460)</b>	<b>(4,692,581)</b>
Income tax expense	6	-	-	-	-
<b>Loss attributable to members of the parent</b>		<b>(3,035,460)</b>	<b>(4,657,171)</b>	<b>(3,035,460)</b>	<b>(4,692,581)</b>
Basic earnings per share (cents per share)	7	(0.6)	(1.0)		
Diluted earnings per share (cents per share)	7	(0.6)	(1.0)		

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

# balancesheets

AS AT 30 JUNE 2009

	NOTE	CONSOLIDATED		PARENT	
		2009 \$	2008 \$	2009 \$	2008 \$
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	8	2,143,018	3,902,105	2,142,475	3,898,191
Trade and other receivables	9	24,748	307,253	21,721	256,621
Prepayments		6,930	47,915	-	-
<b>Total Current Assets</b>		<b>2,174,696</b>	<b>4,257,273</b>	<b>2,164,196</b>	<b>4,154,812</b>
<b>Non-current Assets</b>					
Intangibles	12	311,963	779,906	311,963	779,906
Available for sale investments	13	225,000	1,125,000	225,000	1,125,000
Other financial assets	14	-	-	-	2
Property, plant and equipment	15	11,876	10,499	6,584	1,842
<b>Total Non-current Assets</b>		<b>548,839</b>	<b>1,915,405</b>	<b>543,547</b>	<b>1,906,750</b>
<b>TOTAL ASSETS</b>		<b>2,723,535</b>	<b>6,172,678</b>	<b>2,707,743</b>	<b>6,061,562</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Trade and other payables	16	167,018	390,789	240,625	381,132
Employee entitlements	17	12,131	22,695	5,818	4,820
<b>Total Current Liabilities</b>		<b>179,149</b>	<b>413,484</b>	<b>246,443</b>	<b>385,952</b>
<b>Non-current Liabilities</b>					
Other payables	18	83,086	83,584	-	-
<b>Total Non-current Liabilities</b>		<b>83,086</b>	<b>83,584</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>262,235</b>	<b>497,068</b>	<b>246,443</b>	<b>385,952</b>
<b>NET ASSETS</b>		<b>2,461,300</b>	<b>5,675,610</b>	<b>2,461,300</b>	<b>5,675,610</b>
<b>EQUITY</b>					
Issued capital	19 (a)	26,240,904	26,240,904	26,240,904	26,240,904
Reserves		2,299,477	2,478,327	2,299,477	2,478,327
Accumulated losses		(26,079,081)	(23,043,621)	(26,079,081)	(23,043,621)
<b>TOTAL EQUITY</b>		<b>2,461,300</b>	<b>5,675,610</b>	<b>2,461,300</b>	<b>5,675,610</b>

The above balance sheets should be read in conjunction with the accompanying notes.

# statements of changes in equity

FOR THE YEAR ENDED 30 JUNE 2009

CONSOLIDATED	NOTE	SHARE CAPITAL ORDINARY \$	ACCUMU- LATED LOSSES \$	SHARE BASED PAYMENTS RESERVE \$	TOTAL EQUITY \$
<b>At 1 July 2007</b>		20,268,228	(18,386,450)	-	1,881,778
Loss for period		-	(4,657,171)	-	(4,657,171)
<b>Equity transactions</b>					
Shares issued	19(b)	7,230,546	-	-	7,230,546
Share issue costs	19(b)	(1,257,870)	-	-	(1,257,870)
Share based payments	27	-	-	2,478,327	2,478,327
<b>Total equity transactions</b>		5,972,676	-	2,478,327	8,451,003
<b>At 30 June 2008</b>		26,240,904	(23,043,621)	2,478,327	5,675,610
Loss for period		-	(3,035,460)	-	(3,035,460)
<b>Equity transactions</b>					
Share based payments	27	-	-	(178,850)	(178,850)
<b>Total equity transactions</b>		-	-	(178,850)	(178,850)
<b>At 30 June 2009</b>		26,240,904	(26,079,081)	2,299,477	2,461,300

PARENT	NOTE	SHARE			TOTAL EQUITY \$
		CAPITAL ORDINARY \$	ACCUMU- LATED LOSSES \$	SHARE BASED PAYMENTS RESERVE \$	
<b>At 1 July 2007</b>		20,268,228	(18,351,040)	-	1,917,188
Loss for period		-	(4,692,581)	-	(4,692,581)
<b>Equity transactions</b>					
Shares issued	19(b)	7,230,546	-	-	7,230,546
Share issue costs	19(b)	(1,257,870)	-	-	(1,257,870)
Share based payments	27	-	-	2,478,327	2,478,327
<b>Total equity transactions</b>		5,972,676	-	2,478,327	8,451,003
<b>At 30 June 2008</b>		26,240,904	(23,043,621)	2,478,327	5,675,610
Loss for period		-	(3,035,460)	-	(3,035,460)
<b>Equity transactions</b>					
Share based payments	27	-	-	(178,850)	(178,850)
<b>Total equity transactions</b>		-	-	(178,850)	(178,850)
<b>At 30 June 2009</b>		26,240,904	(26,079,081)	2,299,477	2,461,300

The above statements should be read in conjunction with the accompanying notes.

# cashflow statements

FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	CONSOLIDATED		PARENT	
		2009 \$	2008 \$	2009 \$	2008 \$
<b>Cash flows from operating activities</b>					
Receipts from customers		100,000	-	100,000	-
Interest paid		-	(9,478)	-	(9,478)
Payment to suppliers and employees		(1,260,373)	(1,082,217)	(995,666)	(786,886)
Research & development expenditure		(892,789)	(974,750)	-	-
Income tax R&D offset received		-	137,656	-	137,656
<b>Net cash flows used in operating activities</b>	8 (a)	(2,053,162)	(1,928,789)	(895,666)	(658,708)
<b>Cash flows from investing activities</b>					
Interest received		326,325	174,527	326,323	163,003
Purchase of plant and equipment		(7,524)	(8,450)	(6,926)	(2,787)
Proceeds from sale of property, plant and equipment		274	-	191	-
Payments for intangibles		-	(800,000)	-	(800,000)
Purchase of shares		(25,000)	-	(25,000)	-
Loans to controlled entities		-	-	(1,154,638)	(1,268,035)
<b>Net cash flows from (used in) investing activities</b>		294,075	(633,923)	(860,050)	(1,907,819)
<b>Cash flows from financing activities</b>					
Proceeds from issues of shares		-	4,779,546	-	4,779,546
Transaction costs of issue of shares		-	(269,272)	-	(269,272)
<b>Net cash flows from financing activities</b>		-	4,510,274	-	4,510,274
Net (decrease) increase in cash and cash equivalents		(1,759,087)	1,947,562	(1,755,716)	1,943,747
Cash and cash equivalents at beginning of year		3,902,105	1,954,543	3,898,191	1,954,444
<b>Cash and cash equivalents at end of the year</b>	8	2,143,018	3,902,105	2,142,475	3,898,191

The above cash flow statements should be read in conjunction with the accompanying notes.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

## 1. CORPORATE INFORMATION

The financial report of BioProspect Limited (the Company) for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the directors on 28 September 2009.

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

The financial report includes the consolidated financial statements and notes of BioProspect Limited and controlled entities ('consolidated group' or 'group'), and the separate financial statements and notes of BioProspect Limited as an individual parent entity ('Parent Entity').

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (A) BASIS OF PREPARATION

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

The financial statements have been prepared on a going concern basis. As disclosed in note 19 the consolidated entity's ability to continue as a going concern is dependent upon its ability to raise additional capital and generate sufficient cash from future operations.

The financial report complies with Australian Accounting Standards, as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Material accounting policies adopted in the preparation of this financial report are prescribed below and have been consistently applied unless otherwise stated.

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

### (B) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

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

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE FOR GROUP
AASB 123 (Revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	1 January 2009	These amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. The Group has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the Group's financial report.	1 July 2009
AASB 101 (Revised) and AASB 2007-8 and AASB 2007-10	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income.  Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Group has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied	1 January 2009	The Group has share-based payment arrangements that may be affected by these amendments. However, the Group has not yet determined the extent of the impact, if any.	1 July 2009

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

CONTINUED

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (B) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS CONTINUED

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE FOR GROUP
AASB 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into – to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	The Group has not yet assessed the impact of early adoption, including which accounting policy to adopt.	1 July 2009
AASB 127 (Revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	1 July 2009	If the Group changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give rise to a gain or a loss in the Group's income statement.	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	1 July 2009	Refer to AASB 3 (Revised) and AASB 127 (Revised) above.	1 July 2009
AASB 2008-5 and	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part I deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	1 January 2009	The Group has not yet assessed the impact of early adoption,	1 July 2009
AASB 2008-6	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project		1 July 2009		

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

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REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE FOR GROUP
AASB 2008-7	Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	<p>The main amendments of relevance to Australian entities are those made to AASB 127 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment.</p> <p>AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.</p>	1 January 2009	The Group has not yet assessed the impact of early adoption.	1 July 2009
AASB 2008-8	Amendments to Australian Accounting Standards- Eligible Hedged Items	The amendment to AASB 139 clarifies how the principles underlying hedge accounting should be applied when (i) a one-sided risk in a hedged item is being hedged and (ii) inflation in a financial hedged item existed or was likely to exist	1 July 2009	The Group does not currently undertake hedging activities and as such the amendments are not expected to have any impact on the Group's financial report.	1 July 2009
AASB 2009-2	Amendments to Australian Accounting Standards -Improving Disclosures about Financial Instruments (AASB4, AASB 7, AASB 1023 & AASB 1038)	<p>The main amendments to AASB 7 requires fair value measurements to be disclosed by the source of the inputs, using the following three-level hierarchy:</p> <ol style="list-style-type: none"> <li>(1) Quoted prices (unadjusted in active markets for identical assets or liabilities (level 1);</li> <li>(2) Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and</li> <li>(3) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).</li> </ol> <p>The amendments to AASB 4, AASB 1023 and AASB 1038 comprise editorial changes resulting from the amendments to AASB 7.</p>	1 January 2009	The Group has not yet assessed the impact of early adoption.	1 July 2009

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

CONTINUED

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (B) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS CONTINUED

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE FOR GROUP
AASB 2009-4	Amendments to Australian Standards arising from the Annual Improvements Project. (AASB 2 and AASB 138 and AASB Interpretations 9 & 16)	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no minimal effect on accounting.	1 July 2009	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009
AASB 2009-5	Further Amendments to Australian Standards arising from the Annual Improvements Project. (AASB 5, 8, 101, 107, 117, 118, 136 & 139)	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no minimal effect on accounting.	1 January 2010	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2010
AASB 2009-Y	Amendments to Australian Accounting Standards (AASB 5, 7, 112, 136 & 139 and Interpretation 17)	These comprise editorial amendments and are expected to have no major impact on the requirements of the amended pronouncements.	1 July 2009	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009

### (C) BASIS OF CONSOLIDATION

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

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

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

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

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

### (D) FOREIGN CURRENCY TRANSLATION

#### (i) Functional and presentation currency

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

#### (ii) Transactions & balances

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

### (E) SEGMENT REPORTING

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. 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.

In relation to geographic segments, the company is operating within the Australian region only. The company does however, have patents for *Termilone*<sup>®</sup> lodged in Japan, USA and Australia for future commercialisation revenues.

### (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

FOR THE YEAR ENDED 30 JUNE 2009

CONTINUED

## (ii) Interest income

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

## (iii) Rendering of services

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

## (iv) Licence fee

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

All revenue is stated net of the amount of GST.

## (G) GOVERNMENT GRANTS

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

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

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.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned

between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

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

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

## (J) CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the 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

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

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

## (L) INVENTORIES

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

## (M) INVESTMENTS AND OTHER FINANCIAL ASSETS

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through the profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial

assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

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

## Recognition and Derecognition

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

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

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

## (ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost.

This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

CONTINUED

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (M) INVESTMENTS AND OTHER FINANCIAL ASSETS CONTINUED

#### (iii) Loans and receivables

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

#### (iv) Available-for-sale securities

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

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

### (N) INVESTMENT IN ASSOCIATE

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

Under the equity method, the investment in the associate is carried in the consolidated 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 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.

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

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

### (O) INCOME TAX

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the 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 cannot be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

>> 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.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

CONTINUED

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

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

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

## (P) OTHER TAXES

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

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

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

## (Q) PROPERTY, PLANT AND EQUIPMENT

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred. Depreciation is calculated on a straight line basis over the estimated useful life of the assets as follows:

CATEGORY OF PLANT & EQUIPMENT	USEFUL LIFE 2009	USEFUL LIFE 2008
Office Equipment	4-5 yrs	4-5 yrs
Computer Hardware	2.5 yrs	2.5 yrs
Furniture & Fittings	2.5-5 yrs	2.5-5 yrs

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

## Derecognition and disposal

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

## (R) INTANGIBLE ASSETS

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised

development costs, are not capitalised and expenditure is charged against profits in the year in which expenditure is incurred.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed 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.

## Research and development costs

Research and development costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to

use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

CONTINUED

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (S) IMPAIRMENT OF NON FINANCIAL ASSETS OTHER THAN GOODWILL

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

### (T) TRADE AND OTHER PAYABLES

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the 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. The amounts are unsecured and are usually paid within 30 days of recognition.

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

### (U) INTEREST-BEARING LOANS AND BORROWINGS

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

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

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

### (V) PROVISIONS

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

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

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

### (W) 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

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national

government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

As of the 30 June 2009, the Group did not have any employees with significant service to necessitate a provision for long service leave.

### (X) SHARE-BASED PAYMENT TRANSACTIONS

#### Equity settled transactions

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

The only equity-settled transactions in place pertain to unlisted options expiring 30 September 2010 at an exercise price of 10 cents per share. The cost of these equity-settled transactions is measured by reference to the fair value of the equity instruments at the date at which they were granted. The fair value is determined by using a Black-Scholes model, further details of which are given in Note 26.

### (Y) CONTRIBUTED EQUITY

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

### (Z) EARNINGS PER SHARE

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

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

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

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

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

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### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

#### (I) SIGNIFICANT ACCOUNTING JUDGEMENT

##### 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.

#### (II) SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

#### 4. SEGMENT REPORTING

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

In relation to the geographic segments, the Company is operating within the Australian region only.

### 5. REVENUES AND EXPENSES

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>(A) FINANCE REVENUE</b>				
Bank interest received and receivable	189,124	314,439	189,122	302,916
Interest received from the ATO	-	1,345	-	1,345
	189,124	315,784	189,122	304,261
<b>(B) FINANCE COSTS</b>				
Finance charges payable under operating lease	(7,080)	(7,670)	(7,080)	(7,670)
Interest payable on insurance policies	-	(1,808)	-	(1,808)
	(7,080)	(9,478)	(7,080)	(9,478)
<b>(C) AMORTISATION AND DEPRECIATION</b>				
Amortisation of licence	(467,943)	(389,952)	(467,943)	(389,952)
Depreciation	(5,873)	(5,691)	(1,993)	(1,160)
	(473,816)	(395,643)	(469,936)	(391,112)
<b>(D) EMPLOYEE BENEFITS EXPENSE</b>				
Wages and salaries	(370,702)	(306,667)	(137,500)	(126,666)
Directors fees	(192,621)	(164,050)	(192,621)	(164,050)
Superannuation	(42,627)	(37,950)	(21,638)	(21,750)
Allowances/leave	(10,799)	(22,972)	(997)	1,931
Share based payments	178,851	(253,372)	178,851	(253,372)
	(437,898)	(785,011)	(173,905)	(563,907)
<b>(E) OTHER EXPENSES</b>				
Consulting and advisory expenses	(290,169)	(488,826)	(290,169)	(488,826)
Legal fees	(14,294)	(26,859)	(14,294)	(26,859)
Listing fees	(14,977)	(43,638)	(14,977)	(43,638)
Share registry charges	(19,494)	(36,379)	(19,494)	(36,379)
Sales and marketing	(22,213)	(55,147)	(22,213)	(55,147)
Other administration expenses	(307,664)	(236,817)	(290,602)	(217,343)
	(668,811)	(887,666)	(651,749)	(868,192)

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

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## 6. INCOME TAX

### NUMERICAL RECONCILIATION BETWEEN AGGREGATE TAX EXPENSE RECOGNISED IN THE INCOME STATEMENT AND TAX EXPENSE CALCULATED PER THE STATUTORY INCOME TAX RATE

A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
Accounting loss before tax	(3,035,460)	(4,657,171)	(3,035,460)	(4,692,581)
Add back R&D tax offset received (see note 2)	-	(137,656)	-	(137,656)
Total loss before tax	(3,035,460)	(4,794,827)	(3,035,460)	(4,830,237)
At the Parent Entity's statutory tax rate of 30% (2008: 30%)	(910,638)	(1,438,448)	(910,638)	(1,449,071)
Research and development deduction	(60,603)	(240,191)	-	-
Entertainment	297	1,060	79	56
Share based payments	(53,655)	76,011	(53,655)	76,011
Other	266,987	346,425	206,602	355,129
	(757,612)	(1,255,143)	(757,612)	(1,017,875)
Tax effect of temporary differences and current year loss not brought to account	757,612	1,255,143	757,612	1,017,875
Aggregate income tax expense	-	-	-	-
Deferred tax asset arising from tax losses not brought to account at reporting date as realisation is not regarded as probable	5,393,072	4,635,460	5,393,072	4,635,460

The potential deferred tax asset will only be obtained if:

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

The Group has tax losses arising in Australia of \$17,836,682 (2008: \$15,311,310) with a further \$140,225 capital losses as at 30 June 2009. The continued availability of these losses depends on the ability of the parent to satisfy the requirements of the continuity of ownership test (COT) or alternatively the same business test (SBT).

At 30 June 2009, there is no recognised or unrecognized deferred tax liability

(2008: \$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 tax losses of \$17,836,682 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 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. 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.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

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## 7. EARNINGS PER SHARE

	CONSOLIDATED	
	2009 \$	2008 \$
Net loss attributable to equity holders of the company from continuing operations	(3,035,460)	(4,657,171)

	NUMBER OF SHARES	NUMBER OF SHARES
	2009	2008
Weighted average number of ordinary shares used in calculating basic earnings per share:	487,040,944	452,555,102

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

## 8. CASH AND CASH EQUIVALENTS

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
Cash at bank and in hand	1,732,277	718,125	1,731,734	714,211
Short-term deposits	410,741	3,183,980	410,741	3,183,980
	2,143,018	3,902,105	2,142,475	3,898,191

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

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

### (A) RECONCILIATION OF LOSS AFTER TAX TO NET CASH FLOWS FROM OPERATIONS

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>NET LOSS</b>	(3,035,460)	(4,657,171)	(3,035,460)	(4,692,581)
<b>Adjustments for:</b>				
Depreciation	5,873	5,691	1,993	1,160
Amortisation	467,943	389,952	467,943	389,952
Shares issued by the company in payment for operating expenses	-	380,000	-	380,000
Impairment of non-current assets	925,000	1,812,500	925,000	1,812,500
Diminution in receivables from controlled entities	-	-	996,912	1,580,218
Interest received	(326,325)	(174,527)	(326,323)	(163,003)
Share options expensed (forfeited)	(178,851)	253,372	(178,851)	253,372
<b>Changes in assets and liabilities</b>				
(Increase)/ decrease in trade and other receivables	282,506	(265,995)	234,901	(218,663)
(Increase)/ decrease in prepayments	40,985	10,140	-	-
(Decrease) / increase in trade and other payables	(223,771)	291,655	17,221	268
(Decrease) / increase in non-current liabilities	(498)	20,621	-	-
(Decrease) / increase in employee entitlements	(10,564)	4,973	998	(1,931)
Net cash used in operating activities	(2,053,162)	(1,928,789)	(895,666)	(658,708)

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

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## 8. CASH AND CASH EQUIVALENTS CONTINUED

### (B) NON CASH FINANCING AND INVESTING ACTIVITIES

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
Issue of 10,000,000 shares for consulting fees related to Solagran Licence Agreement	-	380,000	-	380,000
Share-based payments to KMP and directors	-	253,372	-	253,372
Issue of 22,500,000 shares to Solagran for payment of licence	-	855,000	-	855,000
Issue of 22,500,000 options to Solagran for payment of licence	-	510,243	-	510,243
Issue of 32,000,000 shares to Nova Vita for payment of licence	-	1,216,000	-	1,216,000
Issue of 32,000,000 options to Nova Vita for payment of licence	-	725,935	-	725,935
	-	-	-	-

## 9. TRADE AND OTHER RECEIVABLES

	NOTE	CONSOLIDATED		PARENT	
		2009 \$	2008 \$	2009 \$	2008 \$
Trade debtors	(i)	-	100,000	-	100,000
Other debtors	(ii)	24,748	207,253	21,721	156,621
		24,748	307,253	21,721	256,621
Related party receivables	(iii)	-	-	9,253,852	8,024,866
Provision for diminution		-	-	(9,253,852)	(8,024,866)
		-	-	-	-

Movement in provision for diminution in related party receivables is due to funding provided by the parent entity during the year of \$1,228,986.

### TERMS AND CONDITIONS

- (i) Trade debtors are non-interest bearing and generally on 30 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired.
- (ii) Sundry debtors and other receivables are non-interest bearing and have repayment terms of 30 days. An allowance for doubtful debts is made when there is objective evidence that a sundry debtor or other receivable is impaired.
- (iii) For terms and conditions relating to related party receivables refer to Note 22.
- (iv) None of the trade and other receivables are contractually overdue.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

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## 10. INVENTORIES

	NOTE	CONSOLIDATED		PARENT	
		2009 \$	2008 \$	2009 \$	2008 \$
<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		-	-	-	-

## 11. INVESTMENT IN ASSOCIATE HELD FOR SALE

Investment in Astrum	(a)	-	-	-	-
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	OWNERSHIP INTEREST	
	2009	2008
<b>(a) Astrum Therapeutics Pty Ltd</b>		
– Ordinary shares	28.76%	28.76%

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

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

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## 11. INVESTMENT IN ASSOCIATE HELD FOR SALE CONTINUED

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

	CONSOLIDATED	
	2009 \$	2008 \$
<b>(i) Share of associate's profits (losses).</b>		
Revenue		
Profit / (loss) before income tax	-	-
Income tax expense	-	-
Profit / (loss) after income tax expense	-	-
<b>(ii) Carrying amount of investment in associate</b>		
Balance at the beginning of the financial year	-	-
- share of associates net profit (losses) for the financial year	-	-
- impairment write down	-	-
Carrying amount of investment in associate at the end of the year <sup>(1)</sup>	-	-
<b>(iii) Accumulated losses of the consolidated entity attributable to associate</b>		
Balance at the beginning of the financial year	596,762	596,762
Share of associates net profit (losses)	-	-
Balance at the end of the financial year	596,762	596,762
<b>(iv) Share of associate's balance sheet</b>		
Current assets	10,307	95,441
Non-current assets	375	329
Intangibles	-	-
	10,682	95,770
Current Liabilities	(4,669)	-
Net assets	6,013	95,770

(1) As the carrying value of the investment is recorded as nil, no further share of loss was taken up in 2009 or 2008.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

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## (B) CURRENT ASSET CLASSIFICATION

As at the 30 June 2007, the investment in Astrum had been reclassified from a non-current asset to a current asset due to the directors' assessment of the investment.

The directors had 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 were not satisfied that the investment was valued accordingly. The directors at their Board meeting in July 2007 therefore decided to write the investment in Astrum down to zero, on the basis that its 33.3% shareholding in an unlisted drug discovery company requiring additional funding to support its research program would be of minimal value. The directors have advised Astrum that BioProspect will no longer participate in any further capital raisings and that its 33.3% shareholding is available for sale. The directors and

executive team are firmly focused on TERMILONE® and the Bioeffectives® product range from Solagran Limited.

During the year ended 30 June 2008, Astrum was successful in raising additional capital, such to the extent that BioProspect's investment has been diluted from 33.3% to 28.8%. However, the directors of BioProspect have not changed their position since June 2007 and still seek a potential investor to acquire their current shareholding.

## 12. INTANGIBLES

As previously announced on 22 August 2007, BioProspect signed a development and distribution agreement with Solagran Limited for an exclusive licence pertaining to the Bioeffectives® range of products. During October and November 2007, all obligations pertaining to the issue of shares to various parties and cash payments for the licence were settled. The net result of the various

transactions was that the licence has been valued at a gross cost of \$1,169,858 (issue of shares and options aggregating to \$3,307,358 and cash payment of \$800,000 offset by an increase in the fair value of the investment in Solagran by \$2,937,500) which will be amortised over the life of the development agreement (30 months ending 22 February 2010). During the period, an amortisation charge of \$467,943 (2008:\$389,952) was incurred against the gross cost, resulting in a net value of \$311,963 as at 30 June 2009. (2008:\$779,906)

The Directors have conducted an impairment test to ensure the licence is valued at its recoverable amount as at 30 June 2009. The directors have formed the view that there are no external or internal sources of information that would indicate the investment is impaired. There are no indicators from Solagran that the potential for these products have changed since the signing of the agreement.

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>LICENCE</b>				
<b>Solagran licence</b>				
At cost	1,169,858	1,169,858	1,169,858	1,169,858
Accumulated amortisation	(857,895)	(389,952)	(857,895)	(389,952)
Impairment	-	-	-	-
Net carrying amount	311,963	779,906	311,963	779,906
<b>RECONCILIATION OF CARRYING AMOUNTS</b>				
Net carrying amount at beginning of year	779,906	1,169,858	779,906	1,169,858
Amortisation	(467,943)	(389,952)	(467,943)	(389,952)
Impairment	-	-	-	-
Net carrying amount	311,963	779,906	311,963	779,906

## 13. NON-CURRENT ASSETS- AVAILABLE-FOR-SALE FINANCIAL ASSETS

### AT FAIR VALUE

Shares Australian listed	225,000	1,125,000	225,000	1,125,000
	225,000	1,125,000	225,000	1,125,000

Available-for-sale investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

BioProspect acquired 2,500,000 shares in Solagran Limited (SLA) on 11 December 2007 @20 cents per share (\$500,000) and

restated to fair value to \$2,937,500. The value of the investment as at 30 June 2009, based on the closing market price was \$222,500.

On 12 December 2008, BioProspect acquired 250,000 contributing shares in Solagran Limited as part of a non-renounceable

rights issue @ \$0.10 per share for a total cost of \$25,000. The value of the investment as at 30 June 2009, based on the closing market price was \$2,500.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

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## 14. OTHER FINANCIAL ASSETS (NON-CURRENT)

Investments at cost comprise:

	NOTE	CONSOLIDATED		PARENT	
		2009 \$	2008 \$	2009 \$	2008 \$
<b>Controlled entities</b>					
Unlisted		-	-	4,024,344	4,024,344
Provision for diminution		-	-	(4,024,344)	(4,024,342)
		-	-	-	2

## 15. PROPERTY, PLANT & EQUIPMENT

### Plant and equipment

At cost	37,685	37,578	15,393	11,166
Accumulated depreciation	(25,809)	(27,079)	(8,809)	(9,324)
Net carrying amount	11,876	10,499	6,584	1,842

### (A) RECONCILIATIONS

#### Plant and equipment

Carrying amount at beginning	10,499	7,740	1,842	215
Additions	7,524	8,450	6,926	2,787
Disposals	(274)	-	(191)	-
Depreciation expense	(5,873)	(5,691)	(1,993)	(1,160)
Net carrying amount	11,876	10,499	6,584	1,842

## 16. TRADE AND OTHER PAYABLES (CURRENT)

Trade payables	(i)	106,155	270,846	28,807	11,199
Other creditors and accruals	(ii)	60,863	114,284	57,363	52,091
		167,018	385,130	86,170	63,290
Related party payables					
Other related parties	(iii)	-	5,659	154,455	317,842
		167,018	390,789	240,625	381,132

(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 22.

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

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

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## 17. EMPLOYEE ENTITLEMENTS (CURRENT)

	CONSOLIDATED \$	PARENT \$
<b>Annual Leave</b>		
At 1 July 2008	22,695	4,820
Arising during the year	24,757	9,974
Utilised	(35,321)	(8,976)
<b>Current 2009</b>	<b>12,131</b>	<b>5,818</b>

## 18. PAYABLES (NON-CURRENT)

	NOTE	CONSOLIDATED		PARENT	
		2009 \$	2008 \$	2009 \$	2008 \$
Other creditors and accruals	(i)	83,086	83,584	-	-

(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 \$83,086 reflects the 2009 fair value of the \$100,000 minimum royalty payable on 9 November 2010.

## 19. ISSUED CAPITAL

### (A) ISSUED AND PAID UP CAPITAL

Ordinary shares issued and fully paid	26,240,904	26,240,904	26,240,904	26,240,904
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### (B) MOVEMENTS IN SHARES ON ISSUE

Beginning of the financial year	487,040,944	26,240,904	326,950,030	20,268,228
Issued during the year:				
- share placements	-	-	-	-
- payment for licence	(i)	-	54,500,000	2,071,000
- options exercised	(ii)	-	95,590,914	4,779,546
- payments for services	(iii)	-	10,000,000	380,000
Less share issue costs	(iv)	-	-	(1,257,870)
End of the financial year	487,040,944	26,240,904	487,040,944	26,240,904

- (i) On 2 November 2007, 22,500,000 shares (along with 22,500,000 options expiring 31 March 2010 at an exercise price of \$0.05 per share) were issued to Solagran Limited at a value of \$855,000 in consideration for the Bioeffectives® licence agreement. On the 15 November 2007, 32,000,000 shares (along with 32,000,000 options expiring 31 March 2010 at an exercise price at \$0.05 per share) were issued to Nova Vita Pty Ltd at a value of \$1,216,000 in consideration for the same licence.
- (ii) During July 2007, the company received \$4,779,546 (before costs) from its underwriter Max Capital Pty Ltd, for the issue of 95,590,914 ordinary shares associated with options that expired on 30 June 2007 at an exercise price of \$0.05 per share.
- (iii) On 28 February 2008, 10,000,000 shares were issued to Thirteen Eleven Pty Ltd for consulting fees pertaining to the establishment of the Solagran licence agreement.
- (iv) During July 2007, the company issued 35,569,665 options expiring 31 March 2010 @ \$0.05 per share to Max Capital Pty Ltd in consideration for underwriting fees associated with the option exercise. This issue has been valued at \$988,598 and has been included as share issue costs. The company also paid Max Capital \$269,272 for a management fee associated with the option exercise in July 2007. This fee has also been included as share issue costs.

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

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

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## 19. ISSUED CAPITAL

CONTINUED

### (C) CAPITAL MANAGEMENT

#### Going concern statement

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits

for other stakeholders. As at 30 June 2009 the company was in a net asset position of \$2,461,300 (2008: \$5,675,610) and had incurred losses for the year ended of \$3,035,460 (2008: \$4,657,171). The directors believe that the going concern basis is appropriate due to the fact that the company has a strong history of capital raising when it was needed.

The recent acquisition of Re-Gen Wellness Products was completed because of the forecast positive cash flows the business will generate in the future to BioProspect. However, because of uncertainty of when sales will occur, the consolidated entity's ability to continue as a going concern is dependent upon its ability to raise additional capital and generate sufficient cash from future operations.

### (D) SHARE OPTIONS

Options over ordinary shares:

	NO OF OPTIONS
<b>Exercisable on or before 31 March 2010 at 5 cents per share</b>	
Outstanding at beginning of year	132,069,664
Issued during the year	-
Outstanding at end of year	<u>132,069,664</u>
<b>Exercisable on or before 30 September 2010 at 10 cents per share</b>	
Outstanding at beginning of year	17,000,000
Forfeited during the year	<u>12,000,000</u>
Outstanding at end of year	<u>5,000,000</u>
<b>Total options over unissued ordinary shares</b>	<u>137,069,664</u>

### (E) TERMS AND CONDITIONS OF CONTRIBUTED EQUITY

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and

amounts paid up on shares held, after all other creditors have been paid.

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

## 20. AUDITORS' REMUNERATION

The auditor of BioProspect Limited is Cranstoun & Hussein who replaced Ernst & Young at the company's AGM in November 2008

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
Amounts received or due and receivable for: an audit or review of the financial report of the entity and any other entity in the consolidated entity				
- Ernst & Young	11,995	76,881	11,995	76,881
- Cranstoun & Hussein	30,818	-	27,318	-
	<u>42,813</u>	<u>76,881</u>	<u>39,313</u>	<u>71,881</u>
other services in relation to the entity and any other entity in the consolidated entity –Ernst & Young				
- tax compliance	22,745	20,296	22,745	20,296
- AGM attendance	5,213	-	5,213	-
	<u>70,771</u>	<u>97,177</u>	<u>67,271</u>	<u>92,177</u>

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

CONTINUED

## 21. KEY MANAGEMENT PERSONNEL

### (A) OPTION HOLDINGS OF KEY MANAGEMENT PERSONNEL (CONSOLIDATED)

30 JUNE 2009	BALANCE AT BEGINNING OF PERIOD 1 JULY 08	GRANTED AS REMUNERATION	OPTIONS FORFEITED	NET CHANGE OTHER	BALANCE AT END OF PERIOD 30 JUNE 09	VESTED AT 30 JUNE 2009 TOTAL
<b>DIRECTORS</b>						
Dr M Quinlan	3,000,000	-	-	-	3,000,000	3,000,000
C Pellegrino	-	-	-	-	-	-
A Langdon	-	-	-	-	-	-
S. J. Morrow <sup>(a)</sup>	4,000,000	-	(4,000,000)	-	-	-
W. D. Dowse <sup>(b)</sup>	5,000,000	-	(5,000,000)	-	-	-
P. N. Landau <sup>(c)</sup>	3,010,000	-	(3,000,000)	(10,000)	-	-
<b>EXECUTIVES</b>						
C.H. Johnston	2,000,000	-	-	-	2,000,000	2,000,000
<b>Total</b>	<b>17,010,000</b>	<b>-</b>	<b>(12,000,000)</b>	<b>(10,000)</b>	<b>5,000,000</b>	<b>5,000,000</b>

(a) Resigned 24 November 2008 and as he chose not to exercise the options, they were forfeited.

(b) Resigned 23 September 2008 and as he chose not to exercise the options, they were forfeited.

(c) Resigned 24 November 2008 and as he chose not to exercise 3,000,000 director options, they were forfeited. The 10,000 listed options were still held when Mr Landau resigned from the company.

30 JUNE 2008	BALANCE AT BEGINNING OF PERIOD 1 JULY 07	GRANTED AS REMUNERATION	OPTIONS EXERCISED	NET CHANGE OTHER	BALANCE AT END OF PERIOD 30 JUNE 08	VESTED AT 30 JUNE 2008 TOTAL
<b>DIRECTORS</b>						
S. J. Morrow	-	4,000,000	-	-	4,000,000	4,000,000
W. D. Dowse	-	5,000,000	-	-	5,000,000	5,000,000
P. N. Landau	10,000	3,000,000	-	-	3,010,000	3,010,000
Dr M. Quinlan	-	3,000,000	-	-	3,000,000	3,000,000
<b>EXECUTIVES</b>						
C.H. Johnston	-	2,000,000	-	-	2,000,000	2,000,000
<b>Total</b>	<b>10,000</b>	<b>17,000,000</b>	<b>-</b>	<b>-</b>	<b>17,010,000</b>	<b>17,010,000</b>

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

CONTINUED

## 21. KEY MANAGEMENT PERSONNEL CONTINUED

### (B) SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL (CONSOLIDATED)

Shares held in BioProspect Limited (number)

30 JUNE 2009	BALANCE 1 JULY 08	GRANTED AS REMUNERA- TION	ON EXERCISE OF OPTIONS	NET CHANGE OTHER	BALANCE 30 JUNE 2009
<b>DIRECTORS</b>					
Dr M. Quinlan	553,751	-	-	-	553,751
C. Pellegrino	-	-	-	-	-
A. Langdon	-	-	-	-	-
P. A. Stedwell	-	-	-	-	-
W. D. Dowse	-	-	-	-	-
P. N. Landau	10,500,000	-	-	(10,500,000)	-
S.J. Morrow	-	-	-	-	-
<b>Total</b>	<b>11,053,751</b>	<b>-</b>	<b>-</b>	<b>(10,500,000)</b>	<b>553,751</b>

Shares held in BioProspect Limited (number)

30 JUNE 2008	BALANCE 1 JULY 07	GRANTED AS REMUNERA- TION	ON EXERCISE OF OPTIONS	NET CHANGE OTHER	BALANCE 30 JUNE 2008
<b>DIRECTORS</b>					
S. J. Morrow	-	-	-	-	-
W. D. Dowse	-	-	-	-	-
P. N. Landau	500,000	-	-	10,000,000	10,500,000
Dr M. Quinlan	553,751	-	-	-	553,751
<b>Total</b>	<b>1,053,751</b>	<b>-</b>	<b>-</b>	<b>10,000,000</b>	<b>11,053,751</b>

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 those the Group would have adopted if dealing at arm's length.

### (C) OTHER TRANSACTIONS AND BALANCES WITH KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

#### Purchases

Mr P. N. Landau joined the company as a director on 29 May 2007 and resigned on 24 November 2008. He was a director of

Doull Holdings Pty Ltd which is the entity where his director's fees were paid for the financial year amounting to \$20,438 (2008: \$49,050). The amount outstanding to Doull Holdings Pty Ltd at 30 June 2009 is disclosed in Note 16 (2008: \$nil).

During the year ended 30 June 2008, 10 million shares were issued to Thirteen Eleven Pty Ltd, a company owned by Mr P.N. Landau for consulting services whose full value was \$380,000.

During the year ended 30 June 2009, the company incurred \$26,903 (2008: \$nil) of travel expenses through Pellegrino Travel Centre, a company which is owned

by a relative of Mr C Pellegrino, a non-executive director of BioProspect Limited. The amount outstanding to Pellegrino Travel Centre as at 30 June 2009 is disclosed in Note 16 (2008: \$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.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

CONTINUED

Amounts recognised at the reporting date in relation to other transactions with KMP:

	2009 \$	2008 \$
<b>CURRENT LIABILITIES</b>		
Trade and other payables	-	5,659
<b>Total liabilities</b>	-	5,659
<b>EXPENSES</b>		
Consulting and advisory expenses	20,573	385,681
Research and development	5,328	-
Other administration expenses	1,002	-
<b>Total Expenses</b>	26,903	385,681

## 22. RELATED PARTY DISCLOSURES

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

NAME	COUNTRY OF INCORPORATION	CLASS OF SHARES	% EQUITY INTEREST		INVESTMENT* \$	
			2009	2008	2009	2008
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 11 and 14 for further investment disclosures.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

CONTINUED

## 22. RELATED PARTY DISCLOSURES CONTINUED

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 9 and Note 16)

### PARENT

#### Subsidiaries

BioProspect Limited loaned \$1,154,426 to BioProspect Australia Ltd during the financial year to cover operating costs such as salaries, consulting fees, research and development expenditure and administration costs

(2008: \$1,267,122). Balance of this loan as at 30 June 2009 was \$9,179,292 (2008: \$8,024,866) and has been fully provided for.

BioProspect as the parent entity will meet any deficiency in the event of winding up of either controlled entities. Any deficiency in the net assets of a subsidiary are recorded as a liability in the books of the parent entity.

BioProspect Limited loaned \$212 to BioProspect America Pty Ltd during the financial year to cover minor company registration costs (2008: \$212). Balance of this loan as at 30 June 2009 was \$1,125 (2008: \$913).

BioProspect Australia Ltd loaned \$2,000 to Australian Phytochemicals Limited

during the financial year to cover company registration costs and audit fees (2008: \$3,060). Balance of this loan as at 30 June 2009 was \$73,435 (2008: \$71,435).

For the year ended 30 June 2009, the Group has made an allowance for doubtful debts relating to amounts owing from subsidiary companies to the amount of \$2,000 (2008: \$3,060). 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.

This amount has been eliminated on consolidation of the Group accounts.

## 23. EXPENDITURE COMMITMENTS

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
Collection Licence Commitments <sup>(a)</sup>	16,914	16,416	-	-
Southern Cross University <sup>(b)</sup>	15,860	12,905	15,860	12,905
University of Western Sydney <sup>(c)</sup>	49,538	435,121	49,538	435,121
CSIRO <sup>(d)</sup>	19,250	-	19,250	-
Later than one year but not later than five years	101,562	464,442	84,648	448,026

#### (a) Collection Licence

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.

#### (b) Southern Cross University

For 2008, these commitments reflect the contract obligations signed on 1 July 2008 for a pilot plant project pertaining to TERMILONE<sup>®</sup> oil extraction.

For 2009, these commitments reflect the contract obligations signed on 17 April 2009 for further pilot plant project work pertaining to TERMILONE<sup>®</sup> oil extraction.

#### (c) University of Western Sydney

For 2008, these commitments reflected the remaining contract value with the University of Western Sydney signed 24 January 2007.

On 19 June 2009, a variation of agreement was signed with the University of Western Sydney that significantly reduced the value of the original contract and agreed on a new work plan for the next 12 months. Under the contract, there are specific bioassays for TERMILONE<sup>®</sup> that are required in order to provide data for end use product registration. The cost of \$49,538 represents specific bioassays that have commenced or will commence within the next 3 months.

#### (d) CSIRO

For 2009, the \$19,250 commitment reflects the remaining contract value for TERMILONE<sup>®</sup> TT field trials that are underway in Darwin. The contract was signed on 18 July 2008, but due to delays in manufacturing the Eremophilone oil, the field trials were not commenced until April 2009. The results and final report are due in November 2009.

## 24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include the monitoring levels of exposure to interest rates and assessments

of market forecast for interest rates. Liquidity risk is monitored through the development of future rolling cash flow forecasts which are tabled and reviewed at each board meeting.

### RISK EXPOSURES AND RESPONSES

#### Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables. The Group'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 Group minimises 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. Term deposits are placed with major financial institutions to minimize the risk of default of counterparties.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

CONTINUED

## Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's funds held on term deposit. At balance date the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>FINANCIAL ASSETS</b>				
Cash and cash equivalents	2,143,018	3,902,105	2,142,475	3,898,191

The Group's policy is to place funds on interest-bearing term deposit that are surplus to immediate requirements. The Group's interest rate exposure is reviewed near the maturity date of term deposits, to assess whether more attractive rates are available without increasing risk.

The following sensitivity analysis is based on the interest rate exposures in existence at balance date:

**At 30 June 2009, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:**

	POST TAX LOSS HIGHER / (LOWER)		EQUITY HIGHER / (LOWER)	
	2009 \$	2008 \$	2009 \$	2008 \$
<b>CONSOLIDATED</b>				
+ 1% (100 basis points)	(30,107)	(42,368)	(30,107)	(42,368)
-0.5 % (50 points)	15,054	21,184	15,054	21,184
<b>PARENT</b>				
+ 1% (100 basis points)	(30,105)	(40,801)	(30,105)	(40,801)
-0.5 % (50 points)	15,052	20,400	15,052	20,400

The movements in losses are due to higher/ (lower) interest income from cash balances. There is no impact on equity other than impact on accumulated losses.

As the Group does not hold any fixed rate debt, there is little risk that the economic value of a financial instrument will fluctuate because of changes in market interest rates

## Liquidity risk

The Group's objective is to maintain sufficient funds to finance its current operations and additional funds to ensure its long-term survival. The Group has no finance facilities in place, therefore is dependent currently on capital raisings and government tax incentives for short term survival. Refer to note 19 for further details.

## Foreign exchange risk

The Group does not have any exposure to foreign currency exchange movements.

## 25. EVENTS AFTER THE BALANCE SHEET DATE

As announced on 10 August 2009, the Company concluded the acquisition of Re-Gen Wellness Products Pty Ltd, facilitating the Company's expansion into natural healthcare and skin care products with an initial focus on the fast-growing Chinese market. Re-Gen is a specialist provider of skin care and human health products based on natural Australian ingredients, including emu oil.

Under the Share Sale Agreement signed with Re-Gen, a nominal upfront payment was made on 11 August to the owner, Mr Howard Fox, with additional payments contingent on sales performance and contribution to cash flow over a six year period.

On the 28 August 2009, Mr Kamran Shamsi was appointed non-executive Director. Further disclosures are included in the Directors' Report on pages 24 and 25.

On the 24 September 2009, Mr Leo Khouri was appointed non-executive Director. Further disclosures are included in the Directors' Report on pages 24 and 25.

## 26. 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.

# notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2009

CONTINUED

## 27. SHARE-BASED PAYMENT PLANS

### (A) RECOGNISED SHARE-BASED PAYMENT EXPENSES

(i) The expense recognised for employee services received during the year is shown in the table.

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
Expense (reversal) arising from equity-settled share-based payment transactions	(178,850)	253,372	(178,850)	253,372

(ii) The expense recognised for acquisition of the Solagran licence is shown in the table.

22.5m options issued to Solagran Limited	-	510,423	-	510,423
32.0m options issued to Nova Vita Pty Ltd	-	725,935	-	725,935
	-	1,236,358	-	1,236,358

(iii) The expense recognised for capital raising costs in July 2007.

35.6m options issued to clients of Max Capital Ltd	-	988,597	-	988,597
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### TOTAL SHARE-BASED PAYMENTS

	(178,850)	2,478,327	(178,850)	2,478,327
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### (B) RECOGNISED SHARE-BASED PAYMENT EXPENSES

#### Director and KMP options

At the company's AGM held on 4 November 2007, shareholders approved a new class of unlisted options specifically for directors and key management personnel. These options are exercisable on or before 30 September 2010 at an exercise price of \$0.10 per share. Please refer to note 21 for option holding by directors.

### (C) WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE

As there has been no share based payments during 2009, the remaining contractual life as at 30 June 2009 is 1.3 years (2008: 2.3 years).

### (D) RANGE OF EXERCISE PRICE

The range of exercise price for options outstanding at the end of the year was \$0.10 (2008: \$0.10).

### (E) RANGE OF EXERCISE PRICE

As there were no options granted during the year, the weighted average fair value of options granted was nil (2008: \$0.0149).

### (F) OPTION PRICING MODEL

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

The following table lists the inputs to the model used for the year ended 30 June 2008:

	BLACK-SCHOLES
Dividend yield (%)	0.00
Expected volatility (%)	24.54
Risk-free interest rate (%)	6.15
Expected life of options (years)	2.80
Option exercise price (\$)	0.10
Weighted average share price at Measurement date	0.041

# 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 2009 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 2009.

On behalf of the Board



Dr Michael Quinlan  
Chairman

28 September 2009  
Perth Western Australia

# independent auditors report



**Principals**  
Andrew J Cranstoun  
John Feddema  
Masood Ayooob  
Junaide A Latif  
Paul A Copeland  
Julie D Smith

**Consultants**  
David J Cranstoun  
Yusuf Hussein

**Level 2**  
102 Adelaide Street  
Brisbane

GPO Box 563  
Brisbane  
Queensland 4001

**Telephone (07) 3229 5100**  
International +617 3229 5100  
Facsimile (07) 3221 6027


Email [info@cah.com.au](mailto:info@cah.com.au)  
Website [www.cranstounandhussein.com.au](http://www.cranstounandhussein.com.au)  
ABN 11 603 627 400

Our Ref

Your Ref

Date

**Cranstoun & Hussein**  
Chartered Accountants & Business Advisers

 A member of KS International  
An Association of Independent  
Accountants throughout the World

## Independent Auditor's Report To the Members of BioProspect Limited

### Report on the Financial Report

We have audited the accompanying financial report of BioProspect Limited (the company) and BioProspect Limited and Controlled Entities (the consolidated entity), which comprises the balance sheets as at 30 June 2009, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1 the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# independent auditors report



## Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

## Audit Opinion

In our opinion, the financial report of BioProspect Limited and BioProspect Limited and Controlled Entities is in accordance with:

- a) the *Corporations Act 2001*, including:
  - i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
  - ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

## Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Auditor's Opinion

In our opinion the Remuneration Report of BioProspect Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

*Cranstoun + Hussein*

CRANSTOUN & HUSSEIN  
Chartered Accountants

A handwritten signature in blue ink, appearing to read 'J A Latif', with a horizontal line underneath.

J A Latif  
A Member of the Firm

Brisbane, 28 September 2009

# 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 17 September 2009.

## (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	267	231,631	0	0
1,001 – 5,000	200	680,161	0	0
5,001 – 10,000	489	4,568,661	19	190,000
10,001 – 100,000	1,386	63,976,581	7	690,000
100,001 and over	646	418,453,476	45	131,189,664
	<u>2,988</u>	<u>487,910,510</u>	<u>71</u>	<u>132,069,664</u>
The number of shareholders holding less than a marketable parcel of shares are:	<u>1,364</u>			

# asx additional information

CONTINUED

## (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. Bejjal Pty Ltd Super Fund a/c	40,000,000	8.20
2. Solagran Limited	32,339,041	6.63
3. Mr Leo Khouri	20,000,000	4.10
4. AMMF Investments Pty Ltd	20,000,000	4.11
5. Mr Robert Liddon Teasdale	13,652,087	2.80
6. Gun Capital Management Pty Ltd	10,000,000	2.05
7. Hartkon Investments Pty Ltd	9,500,000	1.95
8. Thirteen Eleven Pty Ltd	5,665,252	1.16
9. Gasmere Pty Ltd	5,000,572	1.02
10. Erceg Enterprises Pty Ltd	4,574,108	0.94
11. Imax Superfund a/c	4,500,000	.92
12. Mr Peter Howells	3,800,000	.78
13. Mr Evan Themelakis	2,700,000	.55
14. Mr David John Walls	2,500,000	.51
15. Simius Pty Ltd	2,400,000	.49
16. The Real Estate Business Pty Ltd	2,271,000	.47
17. Ms Joanne Keng Yee Loh	2,160,930	.44
18. Mdm Swee Lan Loh	2,000,000	.41
19. Ms Madonna Therese Walls	2,000,000	.41
20. Mr Kevin David Oliver	1,900,000	.39
	<hr/>	
	186,962,990	38.32

## (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 Cash income a/c	35,900,000	27.18
2. Mr Leo Khouri	32,000,000	24.23
3. Solagran Limited	22,500,000	17.04
4. Vermer Pty Ltd	6,250,000	4.73
5. Mr Robert Liddon Teasdale	5,768,356	4.37
6. J&J Bandy Nominees Pty Ltd	4,500,000	3.41
7. Beachcove Holdings Pty Ltd	4,166,666	3.15
8. Carret Nominees Pty Ltd	2,761,520	2.09
9. Seivad Investments Pty Ltd	2,066,667	1.56
10. Mr Ross Ioannidis	1,125,000	0.85
11. Facilitate Corporation Pty Ltd	1,000,000	0.76
12. Mr Frank Rodi	1,000,000	0.76
13. Mr Robert Liddon Teasdale	1,000,000	0.76
14. Mrs Jenny Ling	950,000	0.72
15. Amanatidid Super Fund a/c	800,000	0.61
16. Reikie Family a/c	641,667	0.49
17. Ms Debbie Nelson	600,000	0.45
18. Johlenaman Pty Ltd	500,000	0.38
19. Exotic Fruit Company	500,000	0.38
20. Ioannidis Super Fund a/c	500,000	0.38
	<u>124,529,876</u>	<u>94.29</u>

## (D) UNQUOTED SECURITIES

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

>> Number of options	5,000,000
>> Number of holders	2

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

>> Quinlan Super Fund	3,000,000
>> ColSandy Super Fund	2,000,000

## (E) VOTING RIGHTS

All ordinary shares carry one vote per share without restriction.

Option holders have no voting rights.

## (F) RESTRICTED SECURITIES

As at 17 September 2009, 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 2009 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.



