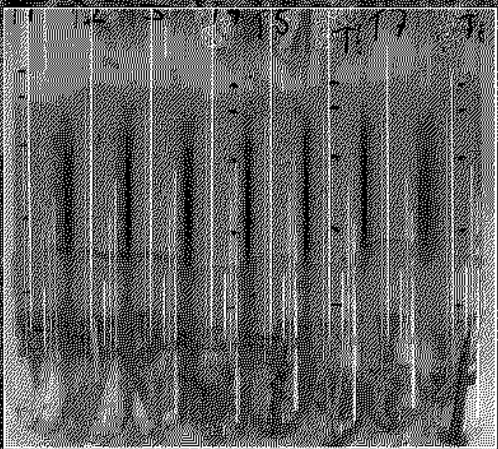
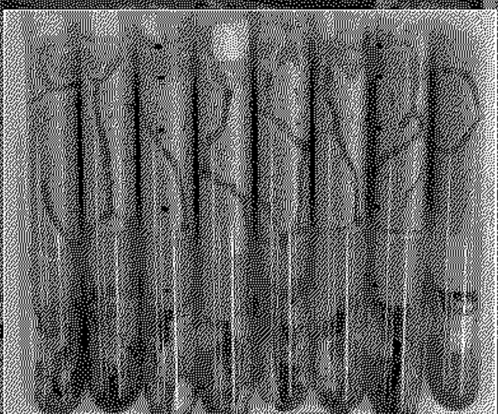
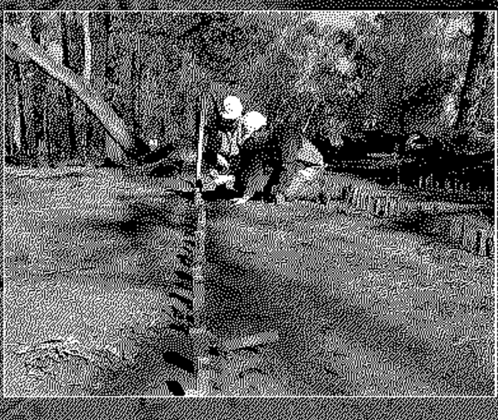
BioProspect Limited







2005 Annual Report

CORPORATE INFORMATION

Directors
Jeremy David Shervington (Chairman)
Ian Alexander Macliver
Michael Francis Quinlan

Company Secretary
Colin Henry Johnston

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

Solicitors
McCullough Robertson
Blakiston & Crabb

Bankers
Westpac Banking Corporation

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

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

Internet Address
www.bioprospect.com

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

Cover
Top: Narrandera Termite Testing Field Trials
Second: Barrier Test with AP778
Third: Barrier Test without AP778
Bottom: Narrandera Termite Testing Field Trials

C O N T E N T S

Review Of Operations

AP778

AP778, the natural termiticide, has become the principal focus within BioProspect's IP portfolio. The product is derived from an endemic Australian tree species and was discovered from an old fence line that had remained unaffected by termites in a region with high termite activity.

The global termite market is approximately US$3 billion and Australia is the third largest market behind the US and Japan. Products in the termite market are well defined, have applications of either prevention or control and consist of physical and chemical barrier termite products, termite management systems and termite treatment products. BioProspect has identified market opportunities for AP778 in building, termite treatment and termite protection. The company has strong interest in AP778 from international and Australian companies and continues with confidential collaborator evaluations.

BioProspect has completed a series of trials and studies on AP778, that has seen research progress from the laboratory to field trials under high termite pressure. A Federal Government Grant awarded to BioProspect under the Biotechnology Innovation Fund (BIF) has supported most of this work.

In order to commercialise a new termiticide, it is important that the product demonstrate characteristics including:

- Safety – safe to humans, animals and environment.
- High kill rate – kills termites quickly and efficiently.
- Repellency – prevents termites from penetrating barriers.
- Longevity – continues to work for extended periods of time without reapplication.

BioProspect has conducted trials to address the above key characteristics with the following results:

- Safety – BioProspect has conducted acute toxicity studies that have indicated that AP778 has extremely low toxicity to mammals.
- High kill rate – AP778 has shown ability to kill 100% of termites at low concentrations in three species of subterranean termites, *Nasutitermes exitiosus*, *Coptotermes frenchi*, and *Coptotermes acinaciformis*.
- Repellency – BioProspect has conducted a series of barrier trials to determine the repellency effect of AP778. The conclusion from the trials was that AP778 has excellent repellency characteristics.
- Longevity – Laboratory trials have shown AP778 continues to show activity over extended periods of time indicating it can be competitive with commercially available products.

BioProspect has been conducting field trials under the guidance of the University of Western Sydney to determine AP778's ability to perform under high termite pressure in environmental conditions, where external factors such as sun, rain, humidity, and moisture from the soil can affect the product's performance. These trials have been conducted on a recognised Australian Pesticides & Veterinary Medicines Authority (APVMA) testing site in Narrandera, New South Wales.

Pine timber stakes have been impregnated with concentrations of AP778 ranging from 10% to 1%, using a high-pressure impregnation unit specifically used for CCA timber impregnation. The AP778 impregnated stakes, untreated stakes (control), and CCA treated stakes (commercial comparative) were set out at the testing site to determine AP778's ability to protect timber from termite attack when used in the building industry and home environment.

Subsequent visits to the site in February and June 2005 have indicated that 100% of the AP778 impregnated timber stakes remained untouched under heavy termite pressure. In comparison, 36% of the untreated control stakes had been affected, whilst the comparative CCA treated stakes also remained untouched. Further inspections of the ongoing trial will continue throughout the coming year.

Whilst the results achieved to date have been encouraging, the challenge remains for BioProspect to attract an appropriate partner to assist the company to finalise the registration and commercialisation of AP778. This will be the main focus of management over the next six months.

BioProspect continued with its patent protection process for AP778 in the territories of Australia, United States and Japan. The PCT patent has progressed to regional and national phases in those territories.

QCIDE

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

The company has a number of confidential collaborators from Australia and the US evaluating Qcide in the markets of hygiene, horticulture, and animal health. These companies are continuing with their research and their future interest in Qcide will determine the position the natural insecticide will play in future products and markets.

BioProspect entered into a grow-out licence with Bio-Gene Technology Pty Ltd in December 2004 that allows Bio-Gene to exclusively develop and produce Qcide. It is anticipated that the grow-out program will produce oil that will allow BioProspect to supply its potential collaborators with Qcide product for future commercialisation opportunities.

BioProspect continues with its patent protection of Qcide in Australia, New Zealand, Japan, United States, Canada and Europe. The PCT patent has moved into the regional and national phase for the respective territories.

HEPATITIS C

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

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

ASTRUM THERAPEUTICS PTY LTD

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

T2DM also known as Type 2 Diabetes or non-insulin dependent diabetes is the most common form of diabetes. The disease affects beta-cells of the pancreas and commences with insulin resistance, whereby the body's cells fail to respond to insulin. This in turn diminishes glucose transport into cells, leading to an increase in blood glucose levels. The beta-cells of the pancreas compensate by increasing insulin secretion resulting in clinical diabetes.

The disease affects approximately 177 million worldwide and the number of people who will develop Type 2 Diabetes is estimated to be 370 million by 2030. The problem is largely attributed to affluence in developing countries, increased sugar consumption, poor diet, sedentary life styles and aging populations. In many people with T2DM, the beta-cells progressively die off due to the accumulation of a beta-cell protein called Islet Amyloid Polypeptide (IAPP), which is toxic to beta-cells. Insulin production then fails and insulin replacement in needed.

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

Astrum's science is considered to be unique and novel in its approach to the treatment of T2DM as opposed to the current methods of treatment. The company has a strong scientific team, advisory board, patents and IP protection and has outlined the following milestones:

- Synthesis and testing of novel drugs that prevent the death of insulin secreting cells of the pancreas;
- IP and Patent protection based on Astrum's research in T2DM;
- Research and development focusing on novel target identification and drug development for specific cardiovascular, inflammatory and neurological complications of T2DM;
- Clinical trials of suitable identified compounds; and
- Commercialisation with suitable partners.

Review Of Operations (continued)

NATURAL PLANT LIBRARY

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

BioProspect maintains its well establish library of diverse plant extracts and continues to provide samples to collaborators including Diversa and Apath.

FINANCIAL

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

This was achieved through restructuring of the company's fixed cost base and a reduction in its research and development expenditure as the Biotechnology Innovation Fund (BIF) project for AP778 was completed during the September quarter 2004.

Additional equity capital of $1,300,000 was raised during the financial period.

The company's cash reserves at the end of the financial year amounted to $725,352.

THE FUTURE

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

- Moving towards registration of AP778 as a termiticide;
- Attracting an appropriate partner to assist in the commercialisation of AP778;
- Achieving a commercial outcome for Qcide;
- Continuing to seek commercial opportunities for other products in the BioProspect IP portfolio; and
- Seeking additional business opportunities in the biotech/human health sectors to enhance the current portfolio.

Directors' Report

Your directors submit their report for the year ended 30 June 2005.

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

Selwyn James Snell, *Dip Ag, Dip Marketing* (Director and Chief Executive Officer)

Joined the Board on 8 January 2002. Selwyn is a former CEO of IAMA Limited ("IAMA") which was Australia's largest retailer of agricultural merchandise with annual turnover in excess of $1 billion and which employed over 1,150 people. Mr Snell was instrumental in leading the re-structure of the IAMA business and also constructed, managed and finalised the successful merger of IAMA with Wesfarmers Limited. Prior to his time with IAMA, Mr Snell was based in Japan as President and Managing Director of Zeneca KK Limited ("Zeneca"), a subsidiary of Zeneca Agrochemical PLC. Zeneca KK is a large Japanese-based company involved in the manufacture and supply of agrochemicals to the Asian market. Mr Snell was also a Director of Astra Zeneca KK Limited, a leading Japanese pharmaceutical company which, through a joint venture with Sumitomo Chemical Limited, supplied western type pharmaceutical products into the traditional Japanese natural health care market. Mr Snell was also Managing Director of Teijin Agrochemicals KK Limited ("Teijin"). Teijin was a base manufacturer of chemicals, which, through a joint venture with Zeneca, supplied chemicals to Zeneca's Asia-Pacific businesses. Prior to his time in Japan, Mr Snell was the General Manager of Crop Care Australasia Pty Ltd, Australia's largest agrochemical supplier, where he successfully led and managed the merger and implementation of the crop protection businesses of ICI Limited and Incitec Limited to form a profitable company. Selwyn resides in Brisbane.

Selwyn resigned from the company on 1 August 2005.

Jeremy David Shervington, *B.Juris, LL.*

Joined the Board on 28 February 2000 and was elected Chairman on 16 April 2003. An independent director, Jeremy is a solicitor who specialises in the laws regulating companies and the securities industry in Australia. During the past three years Jeremy has been or is currently on the Board of the following other listed companies:

Riversdale Mining Ltd	07/05/2003 to 14/09/2004
Investment Company of the West Ltd	11/10/2002 to current
Australian Zircon Ltd	16/02/1998 to current
Biron Capital Ltd	17/02/2005 to current

Jeremy is also a member of the audit committee and resides in Perth.

Ian Alexander Macliver, *B.Com, CA*

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

Port Bouvard Limited	14/12/1994 to current
Mount Gibson Iron Limited	19/02/2001 to current
Ottoman Energy Ltd	07/01/2004 to current
Stratatel Limited	01/07/2000 to current
Commoditel Limited	16/10/2003 to 24/12/2003
Continental Goldfields Limited	16/12/1997 to 10/12/2002
Konekt Limited	03/12/1999 to 10/12/2002
ORT Limited	20/02/2001 to 23/08/2002

Ian is currently Chairman of the audit committee and resides in Perth.

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

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

Anthony John King, *B.Com, CA*

Anthony is a corporate advisor with Grange Consulting Group Pty Ltd and advises businesses on acquisitions, corporate governance issues and capital raising opportunities. Anthony was appointed as an alternate director for Ian Macliver for the period 15 October 2004 to 10 November 2004. Anthony resides in Perth.

COMPANY SECRETARY

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

Colin was appointed Company Secretary and Chief Financial Officer on 1 March 2004. Prior to holding this position he held the role of Chief Financial Officer and Company Secretary for Griffin Corporation Australia Pty Ltd for 4 years and previous to that was Finance Manager for Crop Care Australasia Pty Ltd. He has been a CPA for 28 years and has many years of experience mainly within the Orica Group of Companies. Colin 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
J.D. Shervington	975,556	1,050,000
I.A. Macliver	518,413	1,050,000
M.F. Quinlan	394,473	488,917

EARNINGS PER SHARE

	Cents
Basic earnings per share	(1.2)
Diluted earnings per share	(1.2)

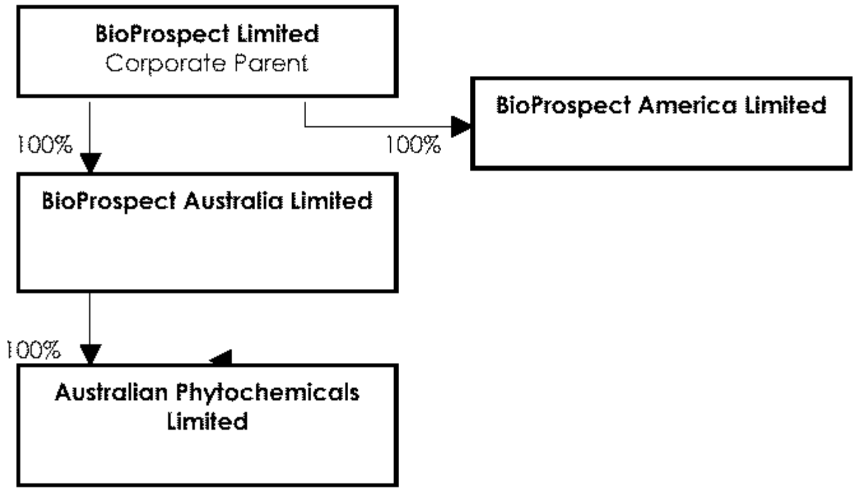
DIVIDENDS

	Cents	$'000
Final dividends recommended		
-on ordinary shares	0.0	0
Dividends paid in the year		
Interim for the year		
-on ordinary shares	0.0	0
Dividends paid in the year		
Interim for the year		
-on ordinary shares	0.0	0
Final for 2005 shown as recommended in the 2005 report		
-on ordinary shares	0.0	0

CORPORATE INFORMATION

Corporate Structure

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



Nature of operations and principal activities

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

- continuing research and development of AP778 through a Biotechnology Innovation Fund Grant (BIF).
- continuing development and commercialisation of its natural insecticide, Qcide.
- ongoing management of PCT patent processes for both AP778 and Qcide within Australia and internationally.
- further screening and research by Apath LLC on potential drug candidates from BioProspect's natural plant library for Hepatitis C virus and other RNA viruses.
- ongoing management and marketing of the natural plant library.

On 1 April 2005, BioProspect Limited acquired 33.3% of the share capital in Astrum Therapeutics Pty Ltd, a US/Australian drug discovery company focused on Type 2 Diabetes Mellitus ("T2DM"). Astrum has identified critical residues of a beta-cell protein called Islet Amyloid Polypeptide (IAPP) that is toxic to beta-cells and clarified the mechanism of IAPP mediated beta-cell toxicity. The active destruction of beta-cells inevitably results in worsening of diabetes and the shortening of lifespan. Astrum has identified the crucial fragments of IAPP that can be targeted with drugs designed to prevent IAPP mediated beta-cell toxicity and aims to synthesise such drugs.

Employees

The consolidated entity employed 4 employees as at 30 June 2005 (2004: 3 employees).

Operating Results for the Year

The consolidated net loss after income tax of the consolidated entity attributable to members for the financial year was $1,828,453 (2004: $2,282,838). This improvement over the previous year has been due to an increase in revenues (Qcide Grow-Out License to Bio-Gene $90,909), a significant reduction in research and development expenditure as the company completed the last stage of the BIF Grant on AP778, and a reduction in overheads due to restructuring of the company's fixed cost base.

Investments for Future Performance

Based on the positive laboratory and field results for AP778 against termites, the group will focus on further research and development activities in the coming financial year. Where possible, the company will seek out various sources of funding to achieve this objective. Identified sources of funding include Government Grants, capital raisings or third party investments from interested collaborators.

The group will continue to direct resources into the development of Qcide and its other projects including HCV and the natural plant library.

The group will also actively seek business opportunities in the biotech/human health sectors to enhance its current portfolio.

Review of Financial Condition

Capital Structure
On 16 December 2004, 204,246 ordinary shares were issued to Starlink Media for media and publicity services provided to the company at a deemed price of $0.073 per share

In addition, 425,710 ordinary shares were issued on 27 January 2005 to Madison Keatts LLC, a US corporate advisory firm for services provided to the company at a deemed issue price of $0.0783 per share.

During the period $1,300,000 was raised through the issue of 32,500,009 ordinary shares of which $674,129 was used as consideration for acquiring 33.3% of the shares of Astrum Therapeutics Pty Ltd and the balance for working capital requirements.

An issue of 2,200,000 ordinary shares at a deemed price of $0.04 per share was completed on 8 June to Rosepoint Capital in relation to the acquisition of Astrum Therapeutics Pty Ltd

Cash from Operations
Net cash flows from operating activities for the year were an outflow of $997,010 some $105,345 lower than 2004. Please refer to the Statement of Cash Flows on page 22 for a further detailed analysis.

Liquidity and Funding
The group will be considering several options available to source funds in the later half of the 2005 calendar year to complete further registration requirements of AP778 and maintain an adequate cover for working capital purposes. The group does not have an overdraft facility and therefore must regularly revise its cash flow forecast to ensure sufficient cash reserves are maintained.

Contingent Liabilities
As referred to in note 29 of the accounts, the company has a contingent liability arising from an Australian Taxation Office (ATO) audit pertaining to Research and Development tax offset claims for 2002 and 2003. The company, in consultation with its taxation advisors does not believe a liability will emerge.

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

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

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Please refer to the capital structure section on this page for details of share issue during the year.

SIGNIFICANT EVENTS AFTER BALANCE DATE

The company's Chief Executive Officer, Mr Selwyn Snell, resigned from the company on 1 August, 2005. The company's Research and Development Manager Mr Matthew Kealley has been appointed General Manager. The company is currently negotiating an arrangement with Mr Snell to act as a consultant.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

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

SHARE OPTIONS

Unissued shares

As at the date of this report, there were 136,931,407 unissued ordinary shares under option. Refer to page 35 of the financial statements for further details of the options outstanding.

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

REMUNERATION REPORT

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

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, the Chief Executive Officer and the executive team. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

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

Remuneration structure

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

REMUNERATION REPORT (continued)

Non-executive director remuneration

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

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

(a) does not:
  (i) in any year exceed in aggregate the amount last fixed by ordinary resolution: or
  (ii) consist of a commission on or percentage of profits or operating revenue; and

(b) is allocated among them:
  (i) on an equal basis having regard to the proportion of the relevant year for which each director held office: or
  (ii) as otherwise decided by the Board.

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

Non-executive directors have been encouraged by the Board to hold shares in the company (purchased by the director on market).

The remuneration of non-executive directors for the period ending 30 June 2005 is detailed in Table 1 on page 12 of this report.

Senior manager and executive director remuneration

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

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

It is the Board's current policy that no fixed term employment contracts are entered into with any executives.

Remuneration consists only of fixed remuneration.

Fixed Remuneration

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

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

REMUNERATION REPORT (continued)

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

The fixed remuneration component of the 5 most highly remunerated senior managers is detailed in Table 2 below.

Variable Remuneration

The company does not provide a variable remuneration component to any executive.

Employment contracts

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

Table 1: Director remuneration for the year ended 30 June 2005

		Primary benefits		Post employment	Equity	Other	Total
	Year	Salary & fees	Non monetary	Superannuation	Options	Bonuses	
		$	$	$	$	$	$
S.J. Snell	2005	145,833	7,536	13,125	24,750	-	191,244
	2004	250,000	8,642	24,375	24,750	-	307,767
J.D. Shervington	2005	50,000	-	4,500	-	-	54,500
	2004	50,000	-	4,594	-	-	54,594
I.A. Macliver	2005	35,000	-	3,150	-	-	38,150
	2004	35,000	-	3,525	-	-	38,525
M.F. Quinlan	2005	35,000	-	3,150	-	-	38,150
	2004	35,833	-	3,413	-	-	39,246
A.J. King	2005	-	-	-	-	-	-

The amount disclosed as equity options in the above table, has been determined by allocating the fair value of the option evenly over the period from the grant date to the vesting date which is 25 January 2006. As a result, the current year amounts include $24,750 that were granted in the year ended 30 June 2002 and therefore were disclosed as part of Directors' emoluments during the year ended 30 June 2002 using the grant date basis of measurement.

Table 2: Remuneration of the 5 named executives who receive the highest remuneration for the year ended 30 June 2005

		Primary benefits		Post employment	Equity	Other	Total
	Year	Salary & fees	Non monetary	Superannuation	Options	Bonuses	
		$	$	$	$	$	$
C. H. Johnston	2005	91,654	5,236	2,824	-	-	99,714
	2004	47,750	6,776	4,298	-	-	58,824
M Kealley	2005	71,042	1,745	6,394	-	-	79,181
	2004	65,917	-	5,933	-	-	71,850

DIRECTORS' MEETINGS

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

	Directors' Meetings	Audit Committee
Number of meetings held	**10**	**3**
Number of meetings attended:		
J.D. Shervington	10	3
I.A. MacIver	9	3
S.J. Snell	10	-
M.F. Quinlan	10	-
A.J. King	1	-

Committee membership

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

Members acting on the audit committee during the year consisted of I.A. MacIver (Chairman), J.D. Shervington, C.H. Johnston (Company Secretary) and representatives from Ernst & Young (auditors) by invitation.

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.

AUDITOR NON-AUDIT SERVICES AND INDEPENDENCE

NON-AUDIT SERVICES

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

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

Tax compliance and advisory services	$78,353 (2004: $64,850)
Special audits required by regulators	$1,500 (2004: -)

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

ERNST & YOUNG

1 Eagle Street
Brisbane QLD 4000
Australia

PO Box 7878
Waterfront Place
Brisbane QLD 4001

Tel 61 7 3011 3333
Fax 61 7 3011 3100
DX 165 Brisbane

Auditor's Independence Declaration to the Directors of BioProspect Limited

In relation to our audit of the financial report of BioProspect Limited for the financial year ended 30 June 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Mike Meintjes
Partner
8 September 2005

Corporate Governance Statement

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

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

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

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

BIOPROSPECT'S GOVERNANCE STRUCTURE IS DESIGNED TO PROMOTE GROWTH

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

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

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

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

THE BOARD IS ACCOUNTABLE TO SHAREHOLDERS FOR THE PERFORMANCE OF BIOPROSPECT

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

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

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

Structure of the Board

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

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

Corporate Governance Statement (continued)

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

Name	Position	Name	Position
J.D. Shervington	Chairperson	M.F. Quinlan	Non-executive Director
I.A. Macliver	Non-executive Director		

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

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

Name	Term in Office	Name	Term in Office
J.D. Shervington	5 years	M.F.Quinlan	2 years
I.A. Macliver	5 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.

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

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

Code of Conduct

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

Trading in BioProspect Shares

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

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

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

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

Audit Committee

The Audit Committee is chaired by Ian Macliver, the other members being Jeremy Shervington and Colin Johnston. The external audit firm partner in charge of the BioProspect audit attends Audit Committee meetings by invitation and relevant senior executives.

Corporate Governance Statement (continued)

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

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

Financial Report Accountability

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

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

Continuous Disclosure

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

Commentary on Financial Results

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

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

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

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

Auditor Attends the Annual General Meeting

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

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

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

Business Risks

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

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

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

Corporate Governance Statement (continued)

Financial Integrity Risks

Management has put into practice procedures and controls to ensure the integrity of its accounting and financial reporting to stakeholders. As part of the process of approving the financial statements, The 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.

(b) Management – manages and reports to the Board on business and financial risks and compliance with other legal obligations.

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

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

Access to Information

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

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

Performance

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

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

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

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

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

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

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

Corporate Governance Statement (continued)

Disclosure of non-Compliance with ASX Recommendations

Nomination Committee
ASXCGC principle 2.4 requires listed entities to establish a nomination committee. During the year ended 30 June 2005, BioProspect did not have a separately established nomination committee. However, the duties and responsibilities typically delegated to such a committee are expressly included in the Board's responsibilities. The Board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate nomination committee.

Risk Management.
ASXCGC Principle 7.1 requires that the company has a formal risk management policy and internal compliance and control system. During the year ended 30 June 2005, 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. A risk management policy will be adopted by the Board by November 2005.

ASXCGC Principle 7.1 also requires that the formal risk policy should be posted on the company's website in a clearly marked corporate governance section. During the period ended 30 June 2005, BioProspect Limited had developed a corporate governance section on its website and will post the policy by November 2005.

Remuneration
ASXCGC Principle 9.2 requires the establishment of a remuneration committee. During the year ended 30 June 2005, 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.

The director's statutory report is signed in accordance with a resolution of the directors of BioProspect Limited.

JEREMY SHERVINGTON
Chairman
13 September 2005
Perth, Western Australia

Statement of Financial Performance

YEAR ENDED 30 JUNE 2005	Note	CONSOLIDATED 2005 $	CONSOLIDATED 2004 $	BIOPROSPECT LIMITED 2005 $	BIOPROSPECT LIMITED 2004 $
REVENUES FROM ORDINARY ACTIVITIES	2	207,404	149,701	135,837	99,316
Depreciation and amortisation expenses	3	(362,880)	(382,428)	(3,193)	(1,552)
Borrowing costs expenses	3	(12,770)	(10,659)	(11,582)	(10,659)
Salaries and employee benefits expenses		(422,001)	(771,681)	(338,052)	(751,131)
Consultancy and advisory fees expenses		(372,746)	(152,935)	(372,746)	(152,935)
Legal fees expenses		(39,221)	(6,189)	(39,221)	(6,189)
Sales & marketing expenses		(52,763)	(57,958)	(52,763)	(57,842)
Research & development expenses		(195,073)	(163,924)	(5,150)	-
Forgiveness of loan	3	-	(141,364)	-	(141,364)
Write off of deferred research and development costs	3	-	(363,936)	-	-
Write off of CALM license	3	(363,114)	-	-	-
Provision for diminution in receivables from controlled entities	3	-	-	(913,000)	(888,994)
General & administration expenses		(369,275)	(381,465)	(382,863)	(372,351)
Share of net profit (losses) of associates accounted for under the equity method	9	(24,941)	-	(24,941)	-
LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(2,007,380)	(2,282,838)	(2,007,674)	(2,283,701)
INCOME TAX BENEFIT RELATING TO ORDINARY ACTIVITIES	4	178,927	-	178,927	-
NET LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		(1,828,453)	(2,282,838)	(1,828,747)	(2,283,701)
NET LOSS ATTRIBUTABLE TO MEMBERS OF BIOPROSPECT LTD	19	(1,828,453)	(2,282,838)	(1,828,747)	(2,283,701)
Share issue costs		(29,000)	(29,999)	(29,000)	(29,999)
TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS OF BIOPROSPECT LIMITED AND RECOGNISED DIRECTLY IN EQUITY	18	(29,000)	(29,999)	(29,000)	(29,999)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO THE MEMBERS OF BIOPROSPECT LIMITED		(1,857,453)	(2,312,837)	(1,857,747)	(2,313,700)
Basic earnings per share (cents per share)	23	(1.2)	(1.6)		
Diluted earnings per share (cents per share)	23	(1.2)	(1.6)		

The accompanying notes form part of these financial statements.

Statement of Financial Position

At 30 JUNE 2005	Note	CONSOLIDATED		BIOPROSPECT LIMITED	
		2005	2004	2005	2004
		$	$	$	$
CURRENT ASSETS					
Cash assets	5	725,352	1,120,675	725,129	1,101,958
Receivables	6	47,094	22,526	44,335	12,460
Inventories	7	-	-	-	-
Other	8	495	-	495	-
TOTAL CURRENT ASSETS		772,941	1,143,201	769,959	1,114,418
NON CURRENT ASSETS					
Receivables	6	-	-	3,151,816	3,859,853
Investments under equity accounting	9	649,188	-	649,188	-
Other financial assets	10	2	2	4	4
Property, plant and equipment	11	16,806	48,999	3,634	6,827
Intangible assets	12	3,237,146	3,942,459	-	-
Other	13	-	-	-	-
TOTAL NON CURRENT ASSETS		3,903,142	3,991,460	3,804,642	3,866,684
TOTAL ASSETS		4,676,083	5,134,661	4,574,601	4,981,102
CURRENT LIABILITIES					
Payables	14	141,472	169,909	125,351	104,008
Interest bearing liabilities	15	-	22,908	-	-
Provisions	16	23,116	29,139	13,940	20,280
TOTAL CURRENT LIABILITIES		164,588	221,956	139,291	124,288
NON CURRENT LIABILITIES					
Payables	17	75,000	55,000	-	-
TOTAL NON CURRENT LIABILITIES		75,000	55,000	-	-
TOTAL LIABILITIES		239,588	276,956	139,291	124,288
NET ASSETS		4,436,495	4,857,705	4,435,310	4,856,814
EQUITY					
Contributed equity	18	17,378,078	15,970,835	17,378,078	15,970,835
Accumulated losses	19	(12,941,583)	(11,113,130)	(12,942,768)	(11,114,021)
Total parent entity interest in equity		4,436,495	4,857,705	4,435,310	4,856,814
TOTAL EQUITY		4,436,495	4,857,705	4,435,310	4,856,814

The accompanying notes form part of these financial statements.

Statement of Cash Flows

YEAR ENDED 30 JUNE 2005	Note	CONSOLIDATED		BIOPROSPECT LIMITED	
		2005	2004	2005	2004
		$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		113,053	47,742	90,909	-
Interest received		40,949	51,854	40,896	49,133
Dividends received		4,032	-	4,032	-
Interest paid		(12,770)	(10,659)	(11,582)	(10,659)
Payment to suppliers and employees		(1,190,730)	(1,266,766)	(1,066,769)	(1,339,754)
Research & development expenditure		(152,117)	(480,611)	(5,150)	-
Grants received		21,646	232,633	-	50,183
Income tax R&D offset received		178,927	323,452	178,927	-
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	20	(997,010)	(1,102,355)	(768,737)	(1,251,097)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of plant and equipment		-	(11,409)	-	(8,379)
Proceeds on disposal of plant and equipment		27,724	10,909	-	-
Repayments from (loans to) controlled entities		-	-	(204,963)	151,821
Purchase of controlled entity		-	24,638	-	24,638
Loan to related entity	20	-	(141,364)	-	(141,364)
Purchase of shares in Associate	9	(674,129)	-	(674,129)	-
NET CASH FLOWS FROM/(USED) IN INVESTING ACTIVITIES		(646,405)	(117,226)	(879,092)	26,716
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of ordinary shares		1,300,000	1,912,097	1,300,000	1,912,097
Payment of share issue costs		(29,000)	(29,999)	(29,000)	(29,999)
Repayment of finance lease principal		(22,908)	(10,995)	-	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		1,248,092	1,871,103	1,271,000	1,882,098
NET INCREASE/(DECREASE) IN CASH HELD		(395,323)	651,522	(376,829)	657,717
Add opening cash brought forward		1,120,675	469,153	1,101,958	444,241
CLOSING CASH CARRIED FORWARD	20	725,352	1,120,675	725,129	1,101,958

Notes to the Financial Statements

30 JUNE 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The financial report is a general-purpose financial report that has been prepared in accordance with the Corporations Act 2001, including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report.

(b) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year.

(c) Going Concern Basis

The financial report has been prepared on the going concern basis. The consolidated entity has incurred operating losses after tax of $1,828,453 (2004:$2,282,838) and cash outflows from operating activities of $997,010 (2004:$1,102,355). Subsequent to the date of this report, the ability of the company and consolidated entity to pay their debts (including any contingent liabilities that may materialise- see Note 29) as and when they fall due will become dependent on the company and consolidated entity (i) completing further capital raisings to source new funds or (ii) generating sufficient income from services, licensing and grant applications, to cover costs. The Directors believe there is no reason to doubt that these sources of funds will become available. However, should these sources of funding not become available there will be significant uncertainty as to whether the company and consolidated entity will continue as going concerns and therefore whether they will realise their assets and extinguish their liabilities in the course of normal business at amounts stated in the financial report. The financial report does not include any adjustments related to the recoverability or classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the company and the consolidated entity not be able to continue as going concerns.

(d) Principles of Consolidation

The consolidated financial statements are those of the consolidated entity comprising BioProspect Limited (the parent company) and all entities that BioProspect Limited controlled from time to time during the year and at reporting date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control. Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting practices that may exist.

All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

(e) Cash and Cash Equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purpose of the statement of cash flows, cash includes; cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

(f) Trade and other receivables

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

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value.

(h) Investments

Investments in associates are carried at the lower of the equity-accounted amount and recoverable amount in the consolidated financial report.

All other non-current investments are carried at the lower of cost and recoverable amount.

(i) Property, plant and Equipment

Cost and valuation

Plant and equipment are carried at cost.

Depreciation

Depreciation is provided on a straight line basis on all plant and equipment.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate 2005	Depreciation Rate 2004
Office Equipment	20% - 25%	20% - 25%
Computer Hardware	40%	40%
Furniture & Fittings	20% - 40%	20% - 40%
Laboratory Equipment	20%	20%

(j) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the lease item, are recognised as an expense on a straight-line basis.

Finance leases

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the consolidated entity are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Notes (continued)

30 JUNE 2005

(j) Leases continued

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and recognised directly in net profit.

(k) Intangibles

Patents and licenses

The Company has capitalised costs associated with securing its collection licence. These are recorded at cost and are amortised over the period in which the related benefits are expected to be received. This is taken as being fifteen years. The carrying value of the license is reviewed annually by Directors to determine whether any amounts are no longer recoverable. All amounts which do not meet the recoverable amount test are written off.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the time of acquisition of a business or shares in a controlled entity. Goodwill is amortised on a straight line basis over the period during which the benefits are expected to be received. This is taken as being 15 years.

(l) Other non-current assets

Research and development costs

Research and development costs are expensed as incurred, except where future benefits are expected, beyond reasonable doubt, to exceed those costs. Where research and development costs are deferred such costs are amortised over future periods on a basis related to expected future benefits. Unamortised costs are reviewed at each balance date to determine the amount (if any) that is no longer recoverable and any amount identified is written off.

(m) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

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

(n) Interest-bearing liabilities

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

Finance lease liability is determined in accordance with the requirements of AASB 1008 "Leases".

(o) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Notes (continued)

30 JUNE 2005

(p) Revenue recognition

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

Sale of goods
Control of the goods has passed to the buyer.

Interest
Control of the right to receive the interest payments.

Grant Income
Revenue arising from research grants are recognised on actual receipt of monies.

Services
Performance of the service by the consolidated entity.

Licence fee
Control of the goods has passed to the buyer or performance of the service has occurred.

(q) Taxes

Income Taxes

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Research and development tax offset claims are recognised as a tax benefit when a cash refund is received from the ATO.

Goods and Services Tax (GST)

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

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

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

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

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

(r) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on National Government Bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories:

- Wages and salaries, non-monetary benefits, annual leave, long service leave and other leave benefits; and
- Other types of employee benefits are recognized against profits on a net basis in their respective categories.

(s) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

(t) Earnings per share

Basic EPS is calculated as net profit attributable to members, 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, 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.

(u) Provisions

Provisions are recognised when the consolidated entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

(v) Recoverable amount

Non current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where the carrying value exceeds this recoverable amount, the asset is written down. In determining recoverable amount, the expected net cash flows have not been discounted.

Notes (continued)

30 JUNE 2005

	CONSOLIDATED 2005 $	CONSOLIDATED 2004 $	BIOPROSPECT LIMITED 2005 $	BIOPROSPECT LIMITED 2004 $
2. REVENUE FROM ORDINARY ACTIVITIES				
Revenues from operating activities				
Revenue from license fees	90,909	-	90,909	-
Revenue from services	22,144	36,755	-	
Total revenues from operating activities	113,053	36,755	90,909	-
Revenues from non-operating activities				
Interest received – other persons	40,949	51,854	40,896	49,133
Proceeds from disposal of property, plant and equipment	27,724	10,909	-	-
Grant revenue	21,646	50,183	-	50,183
Dividends received	4,032	-	4,032	
Total revenues from non-operating activities	94,351	112,946	44,928	99,316
Total revenues from ordinary activities	207,404	149,701	135,837	99,316
3. EXPENSES AND LOSSES/(GAINS)				
Expenses				
Depreciation of non-current assets				
Plant and equipment	20,681	39,386	3,193	1,552
Amortisation of non-current assets				
Patents and licenses	34,582	34,581	-	-
Goodwill	307,617	308,461	-	-
Total depreciation and amortisation expenses	362,880	382,428	3,193	1,552
Borrowing Costs expensed				
Interest expense				
Finance lease	10,221	9,897	10,221	9,897
Other	2,549	762	1,361	762
Total borrowing costs expensed	12,770	10,659	11,582	10,659
Losses/(gains)				
Net loss (gains) on disposal of property, plant and equipment	(16,213)	(1,231)	-	-
Significant Items				
Loss from ordinary activities before income tax includes the following material expenses whose disclosure is relevant in explaining the financial performance of the entity:				
Write off of deferred research and development costs (a)	-	363,936	-	-
Provision for diminution in receivable from controlled entities	-	-	913,000	888,994
Tradewyns operating expenses (b)	-	224,387	-	224,387
Forgiveness of loan- Tradewyns (b)	-	141,364	-	141,364
Write-off of collection license (c)	363,114	-	-	-

Notes (continued)

30 JUNE 2005

3. EXPENSES AND LOSSES/(GAINS) (continued)

(a) The Directors determined that at 30 June 2004 the research and development costs previously deferred were difficult to objectively substantiate when having to apply the 'recoverable beyond reasonable doubt' assessment. Consequently, in accordance with the accounting policy in Note 1 (l) these costs were expensed.

This accounting treatment does not alter the Directors' belief that the products to which these costs relate have economic benefit to the consolidated entity, nor their decisions regarding further research, development and commercialisation activities.

(b) During the 2004 year BioPospect Limited loaned funds to Tradewyns Pty Ltd. No interest was charged on these loans. At 30 June 2004 there were no loan balances outstanding.

(c) The directors determined that at 30 June 2005 it was difficult to reliably determine the fair value of the licence agreement with the Western Australian Department of Conservation and Land Management (CALM) as the focus of the business currently is to commercialise a few key natural products. Furthermore the license is not transferable. The plant extracts collected under this license and held in the natural data library together with the opportunity to collect further samples in the future will nevertheless represent a benefit to the group.

	CONSOLIDATED		BIOPROSPECT LIMITED	
	2005	2004	2005	2004
	$	$	$	$
4. INCOME TAX				
The prima facie tax, on operating profit items differs from the income tax provided in the financial statements as follows:				
Prima facie tax on loss from ordinary activities	(602,214)	(684,851)	(602,302)	(685,110)
Tax effect of permanent differences:				
Non deductible expenses	83,095	93,340	(343)	12,356
	(519,119)	(591,511)	(602,645)	(672,754)
Tax effect of Timing differences and current year loss not brought to account	519,119	591,511	602,645	672,754
Income tax benefit for R&D offset claim	178,927	-	178,927	-
Income tax attributable to ordinary activities	178,927	-	178,927	-
Future income tax benefits arising from tax losses not brought to account at reporting date as realisation is not virtually certain	2,629,013	2,318,228	1,677,019	1,066,237

The potential future income tax benefit will only be obtained if:

(i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

(ii) the conditions for deductibility imposed by tax legislation continue to be complied with; and

(iii) no changes in tax legislation adversely affect the consolidated entity in realizing the benefit.

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.

		Note	CONSOLIDATED 2005 $	CONSOLIDATED 2004 $	BIOPROSPECT LIMITED 2005 $	BIOPROSPECT LIMITED 2004 $
5.	**CASH ASSETS**					
	Cash assets		725,352	1,120,675	725,129	1,101,958
6.	**RECEIVABLES**					
	CURRENT					
	Trade debtors	(i)	-	-	-	-
	Other debtors	(ii)	47,094	22,526	44,335	12,460
			47,094	22,526	44,335	12,460
	NON CURRENT					
	Amounts receivable from controlled entities (iii)		-	-	6,263,647	6,058,684
	Provision for diminution		-	-	(3,111,831)	(2,198,831)
			-	-	3,151,816	3,859,853

(a) Terms and conditions

(i) Trade debtors are non-interest bearing and generally on 30 day terms.
(ii) Sundry debtors and other receivables are non-interest bearing and have repayment terms between 30 and 90 days.
(iii) The amounts receivable from controlled entities are non-interest bearing and repayable on demand.

			CONSOLIDATED 2005 $	CONSOLIDATED 2004 $	BIOPROSPECT LIMITED 2005 $	BIOPROSPECT LIMITED 2004 $
7.	**INVENTORIES (CURRENT)**					
	Finished Goods					
	Plant extracts at cost		927,110	927,110	-	-
	Write down of inventory		(927,110)	(927,110)	-	-
	Total inventories at lower of cost and net realisable value		-	-	-	-
8.	**OTHER ASSETS**					
	CURRENT					
	Prepayments		495	-	495	-
9.	**INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**					
	Investments in associate	9(a)	649,188	-	649,188	-

	Ownership interest 2005	Ownership interest 2004
(a) Astrum Therapeutics Pty Ltd – Ordinary shares	33.3%	-

9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (continued)

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

	CONSOLIDATED 2005 $	2004 $
(ii)*Share of associate's profits (losses).*		
Share of associate's:		
net profit (losses) before income tax	(24,941)	-
(iii)*Carrying amount of investment in associate*		
Balance at the beginning of the financial year	-	-
- acquired 1 April 2005	674,129	-
- share of associates net profit (losses) for the financial year	(24,941)	-
Carrying amount of investment in associate at the end of the year	649,188	-
(iii)*Retained profits of the consolidated entity attributable to associate*		
Balance at the beginning of the financial year	-	-
Share of associates net profit (losses)	(24,941)	-
Balance at the end of the financial year	(24,941)	-

	Note	CONSOLIDATED 2005 $	2004 $	BIOPROSPECT LIMITED 2005 $	2004 $
10. OTHER FINANCIAL ASSETS (NON-CURRENT)					
Investments at cost comprise:					
Shares					
Unlisted	(i)	2	2	2	2
		2	2	2	2
Controlled entities	25				
Unlisted		-	-	4,024,344	4,024,344
Provision for diminution		-	-	(4,024,342)	(4,024,342)
		-	-	2	2
Total investments		2	2	4	4

Included in unlisted shares at cost are the following investments:

(i) Tradewyns Pty Ltd

Tradewyns Pty Ltd is a consulting company that accesses the international agricultural market for opportunities to supply farm merchandise inputs.
BioProspect Limited holds a 20% (2004: 20%) ownership interest in Tradewyns Pty Ltd. The carrying amount of this investment at 30 June 2005 is $2 (2004; $2). This investment has not been equity accounted for under AASB 1016 as the impact of doing this would not be material.

Notes (continued)

30 JUNE 2005

		CONSOLIDATED		BIOPROSPECT LIMITED	
		2005	2004	2005	2004
		$	$	$	$
11. PLANT & EQUIPMENT					
Plant and equipment	11(b)				
At cost		73,067	106,823	8,379	8,379
Accumulated depreciation		(56,261)	(73,931)	(4,745)	(1,552)
		16,806	32,892	3,634	6,827
Plant and equipment under lease	11(a),(b)				
At cost			53,944	-	-
Accumulated amortisation		-	(37,837)	-	-
		-	16,107	-	-
Total plant and equipment		16,806	48,999	3,634	6,827

(a) Assets pledged as security
Assets under lease are pledged as security for the associated lease liabilities.

(b) Reconciliations

Plant and equipment				
Carrying amount at beginning	32,892	58,448	6,827	-
Additions	-	11,409	-	8,379
Disposals	(1,238)	(9,576)	-	-
Depreciation expense	(14,848)	(27,389)	(3,193)	(1,552)
	16,806	32,892	3,634	6,827
Plant and equipment under lease				
Carrying amount at beginning	16,107	28,206	-	-
Disposals	(10,274)	(102)		
Amortisation expense	(5,833)	(11,907)	-	-
	-	16,107	-	-

12. INTANGIBLES					
CALM Collection Licence	12(a), (b)	519,078	519,078	-	-
Less Accumulated amortisation and write-offs		(519,078)	(121,382)	-	-
		-	397,696	-	-
Goodwill on consolidation		4,954,907	4,954,907	-	-
Less Accumulated amortisation		(1,717,761)	(1,410,144)	-	-
		3,237,146	3,544,763	-	-
Total Intangibles		3,237,146	3,942,459	-	-

Notes (continued)

30 JUNE 2005

12 INTANGIBLES (continued)	CONSOLIDATED 2005 $	CONSOLIDATED 2004 $	BIOPROSPECT LIMITED 2005 $	BIOPROSPECT LIMITED 2004 $
(a) Reconciliations				
Collection License				
Carrying amount at beginning	397,696	432,277	-	-
Amortisation expense	(34,582)	(34,581)	-	-
License write off	(363,114)	-		
	-	397,696	-	-
Goodwill on consolidation				
Carrying amount at beginning	3,544,763	3,853,224	-	-
Additions	-	-	-	
Goodwill write off	-	-	-	-
Amortisation expense	(307,617)	(308,461)	-	-
	3,237,146	3,544,763	-	-

(b) BioProspect Australia Limited was granted a licence by the Department of Conservation and Land Management ("CALM") to collect and screen biota to identify bio-active substances which may be capable of commercialisation for the payment of a licence fee of $500,000. The term of the licence is 15 years. Under the licence, BioProspect must pay a royalty based on the gross receipts it derives from the samples, discoveries, products or the bioprospecting of the biota. In addition, a fee is payable for each sample obtained from the existing CALM data library extracts.

	Note	CONSOLIDATED 2005 $	CONSOLIDATED 2004 $	BIOPROSPECT LIMITED 2005 $	BIOPROSPECT LIMITED 2004 $
13. OTHER NON-CURRENT ASSETS					
Deferred research and development costs					
Balance at the beginning of year		-	229,699	-	-
Research and development costs incurred during the year and deferred		-	316,687	-	-
Grant received		-	(182,450)		
		-	363,936	-	-
Written off to expenses		-	(363,936)	-	-
Balance at end of year		-	-	-	-
14. PAYABLES (CURRENT)					
Trade creditors	(i)	109,907	132,042	95,351	74,723
Other creditors and accruals	(ii)	31,565	37,867	30,000	29,285
		141,472	169,909	125,351	104,008
Aggregate amounts payable to related parties					
Additional related parties	(iii)	4,400	4,501	4,400	4,501

Terms and conditions relating to the above financial instruments

(i) Trade creditors are non-interest bearing and normally settled on 30 day terms.
(ii) Other creditors are non-interest bearing and have repayment terms between 30 and 90 days.
(iii) Details of the terms and conditions of related party payables are set out in note 21 (f).

Notes (continued)

30 JUNE 2005

	Note	CONSOLIDATED 2005 $	CONSOLIDATED 2004 $	BIOPROSPECT LIMITED 2005 $	BIOPROSPECT LIMITED 2004 $
15. INTEREST BEARING LIABILITIES (CURRENT)					
Lease Liability					
Secured lease liability – finance lease	28	-	22,908	-	-

Terms and conditions

(i) Finance leases had an average lease term of 5 years with the option to purchase that asset at the completion of the lease for an agreed residual amount. The average discount rate implicit in the leases was 9.75%. Secured lease liabilities were secured by a charge over the leased assets.

	Note	CONSOLIDATED 2005 $	CONSOLIDATED 2004 $	BIOPROSPECT LIMITED 2005 $	BIOPROSPECT LIMITED 2004 $
16. PROVISIONS					
Employee benefits	27	23,116	29,139	13,940	20,280
17. PAYABLES (NON-CURRENT)					
Other creditors and accruals		75,000	55,000	-	-
		75,000	55,000	-	-

This amount reflects the payable by the consolidated entity under the Benefit Sharing Agreement entered into with the State of Queensland on 9 November 2001. The $75,000 reflects a pro-rata accrual of the $100,000 minimum royalty payable on 9 November 2006.

		CONSOLIDATED 2005 $	CONSOLIDATED 2004 $	BIOPROSPECT LIMITED 2005 $	BIOPROSPECT LIMITED 2004 $
18. CONTRIBUTED EQUITY					
a) Issued and paid up capital					
Ordinary shares fully paid		17,378,078	15,970,835	17,378,078	15,970,835
b) Movements in shares on issue		**2005** #	**2005** $	**2004** #	**2004** $
Beginning of the financial year		149,797,017	15,970,835	127,882,981	13,980,617
Issued during the year:					
- share placements	(i),(ii)	32,500,009	1,300,000	12,015,970	1,118,597
- Executive agreements	(iii)	-	-	1,000,000	100,000
- share purchase plan	(iv)	-	-	8,816,692	793,500
- payment for services	(v),(vi)	2,829,956	136,243	81,374	8,120
Less share issue costs		-	(29,000)	-	(29,999)
End of the financial year		185,126,982	17,378,078	149,797,017	15,970,835

Notes (continued)

30 JUNE 2005

18. CONTRIBUTED EQUITY (continued)

Notes:

(i) On 1 April 2005, $1,300,000 was raised through the issue of 32,500,009 ordinary shares in two tranches. The second tranche of 10,685,443 ordinary shares at an issue price of 4 cent was subject to shareholder approval which was ratified at a general meeting on 7 June 2005.

(ii) During the year ended 30 June 2004, 12,015,970 ordinary shares were issued as follows:
On 22 September 2003 3,715,970 ordinary shares were issued as a placement. The value paid was 10 cents per share.
On 16 December 2003, 1,700,000 ordinary shares were issued as a placement. The value paid was 9 cents per share.
On 7 January 2004, 6,600,000 ordinary shares were issued as a placement. The value paid was 9 cents per share.

(iii) On 5 February 2004, 1,000,000 ordinary shares were issued to executives of Tradewyns Pty Ltd as part of their service agreements. The value of the shares issued was 10 cents per share.

(iv) On 16 December 2003, 8,816,692 ordinary shares were issued as a result of the share purchase plan. The value paid was 9 cents per share.

(v) During the year ended 30 June 2005, 2,829,956 ordinary shares were issued in lieu of fees as follows:
On 16 December 2004, 204,246 ordinary shares were issued to Starlink Media in lieu of a corporate fee.
On 27 January 2005, 425,710 ordinary shares were issued to Madison Keatts LLC in lieu of a corporate fee.
On 8 June 2005, 2,200,000 ordinary shares were issued to Rosepoint Capital for services pertaining to the 33.3% acquisition of Astrum Therapeutics Pty Ltd. As a condition of this acquisition, BioProspect has a priority right where it can acquire an additional 9% of Astrum Therapeutics Pty Ltd in any subsequent capital raising. If BioProspect proceeds with its second investment, a further 2,800,000 ordinary shares and 2,800,000 options will be issued to the promoters of Astrum Therapeutics Pty Ltd.

(vi) On 5 February 2004, 81,374 ordinary shares were issued to Starlink Media in lieu of a corporate fee.

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

c) Share Options

Options over ordinary shares:	Note	**No of Options**
Exercisable on or before 28 February 2008 at 20 cents each		
Outstanding at beginning of year		450,000
Outstanding at end of year		450,000
Exercisable on or before 25 January 2006 at 20 cents each		
Outstanding at beginning of year	(i),(ii)	101,781,398
Issued during the year	(iii)	34,700,009
Outstanding at end of year		136,481,407
Total options over unissued ordinary shares		136,931,407

Note (i) 20,000,000 of these options are piggyback options. On exercise of these options the holder then has a further option to subscribe for one share exercisable at a price of 40 cents on or before the expiry of 5 years from the date of the exercise of the first option.
(ii) 3,000,000 of these options are incentive options. One half of the total number of Options may be exercised for a 12 month period from the date of issue ("First Exercise Period") with the remaining one half (and any options not exercised in the First Exercise Period) exercisable at any time after the First Exercise period if the option holder is still an employee of the Company. The exercise period of the Options is on or before 25 January 2006.
(iii) Please refer to Note 18 (b) for details of all shares and options issued during 2005. There were no options issued to Directors or Executives of the company in the current year. Options granted in the year ended 30 June 2002 have been valued and amortised over the vesting period, refer Remuneration Report included as part of the Directors' Report on Page 12.

d) Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.
Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

Notes (continued)

30 JUNE 2005

	CONSOLIDATED		BIOPROSPECT LIMITED	
	2005	2004	2005	2004
	$	$	$	$
19. ACCUMULATED LOSSES				
Accumulated losses	(12,941,583)	(11,113,130)	(12,942,768)	(11,114,021)
Reconciliation				
Balance at beginning of year	(11,113,130)	(8,830,292)	(11,114,021)	(8,830,320)
Net loss attributable to members of BioProspect Limited	(1,828,453)	(2,282,838)	(1,828,747)	(2,283,701)
Balance at the end of year	(12,941,583)	(11,113,130)	(12,942,768)	(11,114,021)

	CONSOLIDATED		BIOPROSPECT LIMITED	
	2005	2004	2005	2004
	$	$	$	$
20. STATEMENT OF CASH FLOWS				
(a) Reconciliation of the operating loss after tax to the net cash flows from operations:				
Operating loss	(1,828,453)	(2,282,838)	(1,828,747)	(2,283,701)
Non cash items				
Depreciation of non-current assets	20,681	39,386	3,193	1,552
Amortisation of non-current assets	342,199	343,042	-	-
Grant income offset against deferred research and development	-	182,450	-	-
Other	-	(24,640)	-	(24,642)
Write-off of licence	363,114			
Write-off of loans	-	141,364	-	141,364
Shares issued by the Company in payment for operating expenses	136,243	108,120	136,243	108,120
Diminution in receivables from controlled entities	-	-	913,000	888,994
Write off of deferred research and development costs	-	363,936	-	-
Net (profit)/loss on disposal of plant and equipment	(16,213)	(1,231)	-	-
Share of associate's net (profits)/ losses	24,941	-	24,941	-
Changes in assets and liabilities				
(Increase)/ decrease in trade and other receivables	(24,567)	337,345	(31,875)	19,926
(Increase)/ decrease in deferred research and development	-	(316,687)	-	-
(Increase)/ decrease in prepayments	(495)	7,030	(495)	-
(Decrease) / increase in trade and other creditors	(8,437)	(8,466)	21,343	(109,709)
Increase / (decrease) in Employee entitlements	(6,023)	8,834	(6,340)	6,999
Net cash flow used in operating activities	(997,010)	(1,102,355)	(768,737)	(1,251,097)
(b) Reconciliation of cash				
Cash balance comprises;				
Cash at bank	725,352	1,120,675	725,129	1,101,958

Notes (continued)

30 JUNE 2005

(c) Financing facilities available

At 30 June 2005 the consolidated entity had not arranged any facilities with its bankers.

(d) Non cash financing activities

During the year the consolidated entity acquired services with a value of $136,243 in exchange for shares to the same value (2004: $108,120).

21. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Specified Directors and Specified Executives

(i) Specified Directors

J.D. Shervington	Chairman (non-executive)
S.J. Snell	Director and Chief Executive Officer (resigned 1 August 2005)
I.A. Macliver	Director (non-executive)
M.F. Quinlan	Director (non-executive)
A.J.W.King	Alternate Director

(ii) Specified Executives

C.H.Johnston	Chief Financial Officer/Company Secretary
M.J.Kealley	Research and Development Manager

(b) Remuneration Policy

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

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

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

(d) Option holdings of specified directors and specified executives

Options Held in BioProspect Ltd (number)	Balance at Beginning Of Period 1 July 2004	Granted As Remuneration	Options Exercised	Net Change Other	Balance At End Of Period 30 June 2005
Specified Directors					
S. Snell	3,000,000	-	-	-	3,000,000
J. Shervington	1,050,000	-	-	-	1,050,000
M. Quinlan	488,917	-	-	-	488,917
I. Macliver	1,050,000	-	-	-	1,050,000
Total	5,588,917	-	-	-	5,588,917

Notes (continued)

30 JUNE 2005

(e) Shareholdings of specified directors and specified executives

SHARES HELD IN BIOPROSPECT LTD (NUMBER)	BALANCE AT 1 JULY 2004 ORD	GRANTED AS REMUNERATION ORD	NET CHANGE OTHER ORD	BALANCE 30 June 2005 ORD
SPECIFIED DIRECTORS				
S. Snell	100,000	-	-	100,000
J. Shervington	975,556	-	-	975,556
M. Quinlan	394,473	-	-	394,473
I. Macliver	518,413	-	-	518,413
Total	1,988,442	-	-	1,988,442

f) Other transactions and balances with specified directors and specified executives

Services

Mr I. A. Macliver is a Director of Grange Consulting Group Pty Ltd which has provided corporate advisory services and financial management services to the consolidated entity on normal commercial terms amounting to $100,287 (2004 $107,921). The amount outstanding to Grange Consulting at 30 June 2005 is disclosed in Note 14 (2004: $4,501).

Mr I. A. Macliver and Mr A. J. King are both Directors of Max Capital which provided capital raising advisory services to the consolidated entity on normal commercial terms amounting to $38,000 (2004: nil).

As of 30 June 2005, the Chief Executive Officer, Mr Selwyn Snell, had in his possession, a cash advance of $2,412 for an overseas trip that he conducted in June and July 2005. During August 2005, any balances owing to the company have been repaid.

22. SEGMENT INFORMATION

Segment products and locations

The consolidated entity historically has only operated in one business segment being the biotechnology segment. However, during 2004 with the acquisition of Tradewyns Pty Ltd, the consolidated entity entered the Australian agrochemicals market which is significantly different from the biotechnology market. The following table recognizes the fixed expenses pertaining to Tradewyns for the period that it was a 100% controlled entity. The consolidated entity operates entirely in Australia. At 30 June 2005 all assets and liabilities relate to the biotechnology segment.

SEGMENT INFORMATION – PRIMARY SEGMENT

Business Segments	Biotechnology		Agrochemical		Other		Consolidated	
Revenue	2005 $	2004 $	2005 $	2004 $	2005 $	2004 $	2005 $	2004 $
Sales to customers outside the consolidated entity	113,05	36,755		-		-	113,05	36,755
Other revenues from customers outside the consolidated entity	49,37	61,092		-		-	49,37	61,092
Total segment revenue	162,42	97,847		-		-	162,42	97,847
Non-segment revenues								
Interest		-		-		-	40,94	51,854
Dividends		-		-		-	4,03	-
Total consolidated revenue							207,40	149,701

Notes (continued)

30 JUNE 2005

22. SEGMENT INFORMATION (continued)

Business Segments	Biotechnology		Agrochemical		Other		Consolidated	
Results	**2005 $**	**2004 $**	**2005 $**	**2004 $**	**2005 $**	**2004 $**	**2005 $**	**2004 $**
Segment Result	**(1,706,893)**	(1,500,153)	**-**	(365,751)	**(3,193)**	(1,552)	**(1,710,086)**	(1,867,456)
Non-segment expenses								
Directors remuneration							**(297,294)**	(415,382)
Income tax benefit/ (expense)							**178,927**	-
Consolidated entity loss from ordinary activities after income tax expense							**(1,828,453)**	(2,282,838)
Net Loss							**(1,828,453)**	(2,282,838)
Assets	**4,672,447**	5,127,832	**2**	2	**3,634**	6,827	**4,676,083**	5,134,661
Liabilities								
Segment liabilities	**239,588**	254,048	**-**	-	**-**	-	**239,588**	254,048
Non-segment liabilities								
Finance lease liability							**-**	22,908
Total liabilities							**239,588**	276,956
Other Segment information:								
Equity accounted investments included in segment assets	**649,188**	-	**-**	-	**-**	-	**649,188**	-
Acquisition of property, plant and equipment	**-**	-	**-**	-	**-**	-	**-**	8,379
Depreciation	**17,488**	37,834	**-**	-	**3,193**	1,552	**20,681**	39,386
Amortisation	**342,199**	343,042	**-**	-	**-**	-	**342,199**	343,042

All amortisation and acquisitions of assets are attributable to the Biotechnology segment.

23. EARNINGS PER SHARE

	CONSOLIDATED	
	2005 $	**2004 $**
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Net loss attributable to members of BioProspect Ltd	(1,828,453)	(2,282,838)
	Number of Shares	**Number of Shares**
Weighted average number of ordinary shares used in calculating basic earnings per share:	157,207,981	139,993,835

	CONSOLIDATED 2005 $	CONSOLIDATED 2004 $	BIOPROSPECT LIMITED 2005 $	BIOPROSPECT LIMITED 2004 $
24. AUDITOR'S REMUNERATION				
Amounts received or due and receivable by Ernst & Young for:				
- an audit or review of the financial report of the entity and any other entity in the consolidated entity	48,187	36,739	48,187	36,739
- other services in relation to the entity and any other entity in the consolidated entity				
- tax compliance	78,353	64,850	78,353	64,850
- assurance related	-	-	-	-
- special audits required by regulators	1,500	-	-	-
	79,853	64,850	78,353	64,850
	128,040	101,589	126,540	101,589

25 CONTROLLED ENTITIES

	Country of Incorporation	Class of Shares	Percentage Owned 2005	Percentage Owned 2004
BioProspect Australia Limited	Australia	Ord	100%	100%
Australian Phytochemicals Limited	Australia	Ord	100%	100%
BioProspect America Pty Ltd	Australia	Ord	100%	100%

Notes (continued)

30 JUNE 2005

26 FINANCIAL INSTRUMENTS

(a) Interest rate risk

The consolidated entity's exposure to interest rate risks, and the effective interest rates of financial assets and financial liabilities, both recognized and unrecognized at the reporting date, are as follows:

Financial Instruments	Floating Interest Rate		Fixed interest rate maturing in: 1 Year or less		Over 1 to 5 Years		Non-interest bearing		Total Carrying amount as per the statement of financial position		Weighted average effective interest rate	
			$		$		$		$		$	
Financial Assets	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Cash.	12,396	194,957	-	-	-	-	-	-	12,396	194,957	2.4%	3.8%
Trade and other receivables.	-	-	-	-	-	-	47,094	22,526	47,094	22,526	N/A	N/A
Short term deposits.	712,733	925,718	-	-	-	-	-	-	712,733	925,718	5.34%	5.3%
Total financial assets.	**725,129**	**1,120,675**	**-**	**-**	**-**	**-**	**47,094**	**22,526**	**772,223**	**1,143,201**		
Financial Liabilities												
Trade creditors.	-	-	-	-	-	-	109,906	132,042	109,906	132,042	N/A	N/A
Other creditors.	-	-	-	-	-	-	106,566	92,867	106,566	92,867	N/A	N/A
Finance lease liability.	-	-	-	22,908	-	-	-	-	-	22,908	N/A	9.75%
Total Financial Liabilities.	**-**	**-**	**-**	**22,908**	**-**	**-**	**216,472**	**224,909**	**216,472**	**247,817**		

(b) Net fair values

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

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

Recognised financial instruments

Cash, cash equivalents and short-term investments: The carrying amount approximates fair value because of their short-term to maturity.

Trade receivables, trade creditors, other creditor and finance lease liabilities: The carrying amount approximates fair value.

(c) Credit risk exposures

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

Notes (continued)

30 JUNE 2005

26 FINANCIAL INSTRUMENTS (continued)

Concentrations of credit risk

The company minimizes concentrations of credit risk in relation to trade receivables by having payment terms of 30 days.

		CONSOLIDATED		BIOPROSPECT LIMITED	
		2005	2004	2005	2004
	Note	$	$	$	$
27. EMPLOYEE BENEFITS					
The aggregate employee benefit liability is Comprised of:					
Provisions (current)	16	23,116	29,139	13,940	20,280
28. EXPENDITURE COMMITMENTS					
Finance Lease Commitments (a(i))					
Not later than one year		-	26,135	-	-
Later than one year but not later than five years		-	-	-	-
		-	26,135	-	-
Future interest charges		-	(3,227)	-	-
	15	-	22,908	-	-
Collection Licence Commitments (a(ii))					
Later than one year but not later than five years		25,000	45,000	-	-

(a) Terms and conditions

(i) Finance leases had an average lease term of 5 years with the option to purchase that asset at the completion of the lease for an agreed residual amount. The average discount rate implicit in the leases was 9.75%. Secured lease liabilities were secured by a charge over the leased assets.

(ii) 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.

29. CONTINGENT LIABILITIES

The consolidated entity has claimed a gross $961,379 and $780,612 under the R&D Tax offset (rebate) claims for the 2002 and 2003 year. The consolidated entity has received a rebate of $288,564 for the 2002 year which was recognised as income on a cash received basis. The Australian Tax Office ("ATO") commenced an audit whilst assessing the 2003 claim. No income has been recognised in respect of the 2003 tax year.

The ATO has produced a paper outlining their initial position with regards to the consolidated entity's 2002 and 2003 Research and Development Tax Offset (rebate) claims. In the ATO's *Discussion* Position Paper, a number of issues have been raised identifying continuing concern on the entitlement to claim certain expenditures under the R&D tax offset cash rebate.

29. CONTINGENT LIABILITIES (continued)

The Directors have considered the issues raised and obtained professional advice from the consolidated entity's tax advisors. Based on these considerations it would appear that in the majority of instances incorrect conclusions have been reached or the matters raised are subject to interpretation of the facts. The consolidated entity's response to the ATO's Position Paper is currently being prepared and will be submitted to the ATO in the coming weeks.

In the event that the ATO maintain their position on all issues raised, resulting in the consolidated entity being regarded as ineligible for the R&D tax offset cash rebate for the 2002 and 2003 years, an assessment is likely to be raised. Applying penalties and interest, the maximum amount, that the ATO could include in any assessment would be a total of $600,045 (being $520,659 for the 2002 year and $79,386 for the 2003 year).

The Directors believe that sound arguments exist to respond to the issues raised by the ATO. In the coming weeks the Directors, management and the tax advisors will be meeting with the ATO to address the matters raised. Based on a review of the issues raised by the ATO, the Directors, in consultation with its taxation advisors do not believe a liability will emerge.

30. SUBSEQUENT EVENTS

The Chief Executive Officer, Mr Selwyn Snell resigned from the company on 1 August 2005. The company's Research and Development Manager Mr Matthew Kealley has been appointed General Manager. The company is currently negotiating an arrangement with Mr Snell to act as a consultant.

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

31. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

The current status of the BioProspect group's review of the impact of International Reporting Standards on BioProspect's group's statements of financial performance and position is discussed below:

In accordance with the Financial Reporting Council's strategic directive and pronouncements of the Australian Accounting Standards Board, the BioProspect group will be required to prepare financial statements that comply with Australian equivalents to International Financial Reporting Standards (AIFRS) for annual reporting periods beginning on or after 1 January 2005. Accordingly, the BioProspect group's first half year report prepared under AIFRS will be for the half year reporting period ending 31 December 2005, and its first annual financial report prepared under AIFRS will be for the year ending 30 June 2006.

On first-time adoption of AIFRS, the BioProspect group will be required to restate its comparative financial statements such that the comparative balances presented comply with the requirements specified in AIFRS. That is, the balances that will be presented in the financial report for the year ended 30 June 2005 may not be the balances that will be presented as comparative numbers in the financial report for the following year, as a result of the requirement to retrospectively apply AIFRS. In addition, certain assets and liabilities may not qualify for recognition under AIFRS. The Chief Financial Officer is responsible for the preparation of this opening balance sheet and the transition to IFRS generally. Expert consultation will be sought when necessary.

Set out below are the key areas where accounting policies are expected to change on adoption of A-IFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net loss for the year ended 30 June 2005.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of the transition to AIFRS may differ from the estimates disclosed due to (a) finalisation of the analysis and impairment testing for Goodwill on consolidation (see (e) below); (b)potential amendments to AIFRSs and Interpretations thereof being issued by the standard-setters and I-FRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

31. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(a) Reconciliation of equity as presented under AGAAP to that under AIFRS for impacts quantified to date

	Note	CONSOLIDATED		BIOPROSPECT LIMITED	
		2005	2004	2005	2004
		$	$	$	$
Total Equity under AGAAP		4,436,495	4,857,705	4,798,310	4,856,814
Adjustments to retained earnings (net of Tax)					
Write back of goodwill amortisation	(i)	307,617	-	-	-
Total Equity under AIFRS		4,744,112	4,857,705	4,798,310	4,856,814

(i)Under AASB 3 *Business Combinations* goodwill would not be permitted to be amortised but instead will be subject to annual impairment testing. This will result in a change in the group's current accounting policy which amortises goodwill over its useful life but not exceeding 15 years. The Group has not elected to apply AASB 3 retrospectively and hence, prior year amortisation would not be written back as at the date of transition.

(ii) Under AASB 136 *Impairment of Assets* the Group is required to assess whether the recoverable amount, determined as the higher of net selling price and value in use (using discounted cash flows) is in excess of the carrying value. At 30 June 2005 the Group has not finalised its review of the impacts of adopting AASB 136 – see (e) below for the reasons that this assessment is incomplete.

(b) Reconciliation of net loss under AGAAP to that under AIFRS for impacts quantified to date

	Note	CONSOLIDATED	BIOPROSPECT LIMITED
YEAR ENDED 30 JUNE 2005		$	$
Net loss as reported under AGAAP		(1,828,453)	(1,828,747)
Amortisation of goodwill	(i)	307,617	-
Net profit under AIFRS		(1,520,836)	(1,828,747)

(i)Under AASB 3 *Business Combinations* goodwill would not be permitted to be amortised but instead will be subject to annual impairment testing. This will result in a change in the group's current accounting policy which amortises goodwill over its useful life but not exceeding 15 years. Under the new policy, amortisation will no longer be charged, but goodwill will be written down to the extent it is impaired.

(c) Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005

No material impacts are expected to the Cash Flows presented under AGAAP on adoption of AIFRS.

(d) Income taxes

Current accounting standards currently recognize deferred taxes by accounting for the difference between accounting profits and taxable income, which give rise to permanent and timing differences. Under AIFRS, deferred taxes are measured by reference to temporary differences determined as the difference between the carrying amount and the tax base of assets and liabilities recognised in the balance sheet. However, the group does not recognize tax losses as a future income tax benefit because of the uncertainty that they will realize. Under the new standard, income tax losses will be recognised based on probability not virtual certainty. No impact is anticipated from this change in recognition criteria.

31. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(e) Impairment testing

Under AASB 136 '*Impairment of Assets*', assets will be subject to an annual impairment test to ensure that they are carried at amounts that are not in excess of their recoverable amount. The standard requires that at the reporting date the recoverable amount of an asset be determined and compared with its carrying amount whenever there is an indication that the asset may be impaired. For the group, this policy applies to its intangible asset, 'Goodwill' on consolidation, which at 30 June 2004 and 30 June 2005 was valued at \$3,544,763 and \$3,237,146. The 'Goodwill' on consolidation arose from the acquisition of BioProspect Australia Pty Ltd on 31 January 2001. This entity held the CALM licence to harvest natural plant extracts in Western Australia and had established a data library containing the analysis of the properties of extracts collected. The commercialisation of products such as Q-cide and AP778 have occurred with reference to properties identified in the data library. Patents for these products currently under development have however been lodged by BioProspect Limited.

The Group is still evaluating whether the Goodwill referred to above includes any identifiable intangible assets that meet the recognition criteria under AASB 138 Intangible Assets. The residual balance after this determination will then be subject to an impairment test and given the uncertainties on the extent and timing of future cashflows from products under development, it is likely that the Group will perform this test based on the fair value less costs to sell. Where the fair value less costs to sell is lower than the book value of \$3,544,763 at 1 July 2004 then a portion or all of this amount will be written off against opening retained earnings. This assessment will be completed by 31 December 2005.

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 2005 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 2005.

On behalf of the Board

JEREMY SHERVINGTON
Chairman

13 September 2005
Perth, Western Australia

INDEPENDENT AUDIT REPORT

Independent audit report to members of BioProspect Limited

Scope

The financial report, remuneration disclosures and directors' responsibility
The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for BioProspect Limited (the company) and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by Accounting Standard 1046 *Director and Executive Disclosures by Disclosing Entities*, under the heading "remuneration report" in tables 1 an 2 on page 12 of the directors' report, as permitted by the *Corporations Regulations 2001*.

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

Independence

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

Audit Opinion

In our opinion:
1. the financial report of BioProspect Limited is in accordance with:

(a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of BioProspect Limited and the consolidated entity at 30 June 2005 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

2. the remuneration disclosures that are contained in tables 1 an 2 on page 12 of the directors' report comply with Accounting Standard AASB 1046 and the *Corporations Regulations 2001*.

Inherent Uncertainty Regarding Continuation of Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1(c) to the financial statements, there is significant uncertainty whether the company will be able to continue as a going concern and therefore whether it will be able to pay its debts as and when they fall due and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

Ernst & Young

Mike Meintjes
Partner
Brisbane
13 September 2005

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 1 September 2005.

(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	286	257,125	8	2,034
1,001 – 5,000	251	925,784	103	491,525
5,001 – 10,000	631	5,917,235	58	491,552
10,001 – 100,000	1,214	53,561,352	209	9,929,095
100,001 and over	338	124,465,486	167	102,067,201
	2,720	185,126,982	545	112,981,407
The number of shareholders holding less than a marketable parcel of shares are:	1,349			

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

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

		Listed ordinary shares	
		Number of Shares Held	**% Held**
1	Graceford Holdings Ltd	13,227,775	7.15
2.	CSFB Fourth Nominees Pty Ltd	4,975,000	2.69
3.	Mrs Joanne Keng Yee Loh	2,160,930	1.17
4.	Madam Swee Lan Hoh	2,000,000	1.08
5.	National Nominees Ltd	2,000,000	1.08
6.	Mrs Joanne Keng Yee Loh	1,865,556	1.01
7.	Colbern Fiduciary Nominees Pty Ltd	1,500,000	0.81
8.	Ms Madonna Therese Walls	1,500,000	0.81
9.	Graceford Holdings Ltd	1,383,000	0.75
10.	Dr Bradley Kenneth Hampton	1,333,333	0.72
11.	Mr Jeffrey Wood & Mrs Janice Wood	1,300,000	0.70
12.	Ajava Holdings Pty Ltd	1,250,000	0.68
13.	Mr Stuart Ross McDonald	1,217,325	0.66
14.	Bond Street Custodians Limited	1,000,000	0.54
15.	Mr Brian Peter Byass	1,000,000	0.54
16.	Mr Giuseppe Calabro	1,000,000	0.54
17.	Mr Gregory Jones & Mrs Christine Jones	1,000,000	0.54
18.	Kapiri Holdings Pty Ltd	1,000,000	0.54
19.	Mr Robert Liddon Teasdale	1,000,000	0.54
20.	Panga Pty Ltd	975,556	0.53
		42,688,475	23.08

(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.	Mr Mohamad Abas	9,000,000	7.97
2.	CSFB Fourth Nominees Pty Ltd	4,375,000	3.87
3.	Kevin Nolan Rumble	3,992,670	3.53
4.	A Champion Investments Pty Ltd	2,760,000	2.44
5.	Colbern Fiduciary Nominees Pty Ltd	2,500,000	2.21
6.	Saint Roman Management Limited	2,500,000	2.21
7.	Kapiri Holdings Pty Ltd	2,250,000	1.99
8.	Mr Richard Scotter	2,000,000	1.77
9.	Mrs Annette Del Pizzo	1,705,051	1.51
10.	Mr Peter James Devlin	1,578,450	1.40
11.	Rosepoint Capital	1,550,000	1.37
12.	Mrs Dido Anne Smith	1,550,000	1.37
13.	Mr Ruben Buttigieg	1,500,000	1.33
14.	Mr David Noel Rieke	1,417,714	1.25
15.	Mr John Tregeagle & Mrs Rosslyn Tregeagle	1,401,100	1.24
16.	Dr Bradley Kenneth Hampton	1,375,000	1.22
17.	Graceford Holdings Ltd	1,328,887	1.18
18.	Ajava Holdings Pty Ltd	1,250,000	1.11
19.	Dr Robert Liddon Teasdale	1,250,000	1.11
20.	Mr Devakumar Adigopula	1,224,147	1.08
		46,508,019	41.16

(d) Unquoted Securities

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

Number of options	Number of holders
20,450,000	11

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

Graceford Holdings Ltd 17,750,000

(e) Voting Rights

All ordinary shares carry one vote per share without restriction.

Option holders have no voting rights.

(f) Restricted Securities

As at 1 September 2005, 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 2005 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.