ABN: 58 008 130 336

ASX Half Yearly Report to 31 December 2005

Lodged with the ASX under Listing Rule 4.2A

The Information provided in this Half Yearly Report should be read in conjunction with the Company's 2005 Annual Financial Report.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

SUMMARY RESULTS FOR THE 6 MONTHS TO 31 DECEMBER 2005

The following is a summary of the financial results for the 6 months ended 31 December 2005 (previous corresponding period 31 December 2004).

1. SUMMARY RESULTS TO 31 DECEMBER 2005

	Increase/ (Decrease) %	**Six months ended 31 December 2005 $**	**Six months ended 31 December 2004 $**
Revenue from ordinary activities	(56.1%)	66,149	150,774
Profit/(Loss) before Interest, Tax, Depreciation and Amortisation **(EBITDA)** from ordinary activities	(6.4%)	(532,071)	(500,009)
Profit/(Loss) before Interest and Tax **(EBIT)** from ordinary activities	(5.5%)	(537,091)	(509,192)
Net Profit/(Loss) for the period attributable to members (**NPAT)**	(14.4%)	(386,327)	(337,665)

2. COMMENTARY

During the six months to 31 December 2005, the Company recorded a loss after tax of $386,327 (2004: loss of $337,665). This increase over the prior period was mainly due to a lower R&D tax offset for 2005 of $156,344 compared to $178,927 that was received in the 2004 year. There was also in this year's results, a $26,364 equity accounted share of the loss of Astrum Therapeutics Pty Ltd, in which BioProspect has a 33.3% investment.

Total expenses from ordinary activities of $576,876 were a 13% reduction over the prior period with the main reasons as follows:-

1. Research and development expenditure reduced by $36,400 due to completion of the Biotechnology Innovation Fund project.
2. Administrative costs decreased by $19,079 as a result of $51,117 lower tax advice fees provided by Ernst & Young in relation to the ATO audit of the 2002 and 2003 R&D tax offset claims. This was partially offset by tax penalties associated with the audit amounting to $40,273.
3. Lower sales and marketing expenses due to the termination of the contract with the company's PR consultant.

In December 2005, the company successfully raised $540,000 through a share placement of 27,000,000 shares at 2 cents per share, along with a free 1:1 attaching option. The options are a new class that will be exercisable at 5 cents per share on or before 30 June 2007.

The issue of shares and options was passed at the Special General Meeting held on 25th January 2006.

In addition, subsequent to 31 December 2005, BioProspect completed an underwritten renounceable rights issue that raised $1.41 million. The issue provided shareholders with the opportunity to subscribe for one new share for every three shares held as of 28th December

2005, with a free attaching option exercisable at 5 cents on or before 30 June 2007. Shareholders were notified of their acceptances on 27 January 2006.

The monies raised will be applied towards the continuing development of AP778, investment into the Company's IP portfolio, assessment of further investment opportunities and for working capital.

The contingent liability for the R&D Tax offset rebate claims for the 2002 and 2003 year outlined in the 2005 Annual Report, has been successfully resolved with the Australian Tax Office. Please refer to Note 5 in the Financial Statements.

AP778 – NATURAL TERMITICIDE

Capital recently raised by BioProspect will be directed to the development of AP778 to create a data package for registration and subsequent commercialisation with focus on the following milestones:

- Mode of Action studies – scientific research to understand how AP778 physically affects termites
- Environmental fate and ecotoxicity studies – studies involving how AP778 interacts with the environment, particularly on organisms living in waterways and the soil.
- Production and synthesis of AP778 – developing various strategies to produce AP778 for commercial production, including natural and chemical methods.
- Formulation of end use products – formulating AP778 to enhance its activity on termites.
- Toxicology and efficacy studies – studies on AP778's activity and safety for use as a termiticide.

BioProspect and specialist contractors will conduct the research over the next two to three years. The Company is now finalising the activities within these milestones and securing the contractors to undertake them, as well as seeking additional funding from Federal Government supported grant schemes.

3. DIVIDENDS

No interim dividend is declared for the reporting period.

4. EARNINGS PER SHARE (EPS)

	31 December 2005 ¢	31 December 2004 ¢
Basic earnings per share	(0.2) cps	(0.2) cps
Weighted average number of shares used in the calculation of basic EPS	187,621,547	149,813,755

The amount used in the numerator in calculating basic EPS is the same as the net loss reported in the statement of financial performance.

There were share options outstanding of 112,981,407, which are not dilutive (due to operating losses) and therefore have not been included in the calculation of diluted earnings per share.

5. NET TANGIBLE ASSET BACKING

	31 December 2005 ¢	31 December 2004 ¢
Net tangible asset backing per ordinary share	0.6 cents	0.4 cents

6. COMPLIANCE STATEMENT

The accounts (attached) are not subject to audit dispute or qualification. This report is based on accounts that have been subject to a review. The entity has a formally constituted audit committee.

Colin Johnston
Chief Financial Officer/Company Secretary

Date: 7 March 2006

BioProspect Limited

A.B.N. 58 008 130 336

HALF-YEAR FINANCIAL REPORT

31 DECEMBER 2005

Provided in accordance with Section 320 of The Corporation Act.

BIOPROSPECT LIMITED
ABN 58 008 130 336

Contents

Director's Report

The Directors submit their report for the half-year ended 31 December 2005.

DIRECTORS

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

Mr Ian Macliver (Chairman)

Dr Michael Quinlan

Mr Justin Hondris (appointed 26 September 2005)

Mr Matthew Kealley (alternate director for Mr Ian Macliver from 25-31 January 2006)

Mr Jeremy Shervington (resigned 26 September 2005)

Mr Selwyn Snell (resigned 29 July 2005)

REVIEW AND RESULTS OF OPERATIONS

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Director's Report (continued)

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AUDITOR'S INDEPENDENCE DECLARATION

We have obtained the following independence declaration from our auditors, Ernst & Young.

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 review of the financial report of BioProspect Limited for the half-year ended 31 December 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

Brisbane

6 March 2006

Signed in accordance with a resolution of the Board of Directors:

Ian Macliver

Director

Date 7 March 2006

Perth Western Australia

Condensed Income Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	Notes	CONSOLIDATED 2005 $	2004 $
Continuing operations			
Revenue	2	47,078	125,419
Other income	2	19,071	25,355
Other expenses	2	(576,876)	(659,966)
Share of profit (loss) of associate		(26,364)	-
Loss from continuing operations before tax and finance costs	2	(537,091)	(509,192)
Finance costs	2	(5,580)	(7,400)
Loss before income tax		(542,671)	(516,592)
Income tax (expense)benefit	7	156,344	178,927
Loss after tax from continuing operations		(386,327)	(337,665)
Net loss attributable to members of parent		(386,327)	(337,665)
Basic earnings per share (cents per share)		(0.2)	(0.2)
Diluted earnings per share (cents per share)		(0.2)	(0.2)

Condensed Balance Sheet

AS AT 31 DECEMBER 2005

	Notes	CONSOLIDATED As at 31 December 2005 $	As at 30 June 2005 $
ASSETS			
Current Assets			
Cash and cash equivalents	8	805,943	725,352
Trade and other receivables		220,971	47,094
Prepayments		-	495
Total Current Assets		1,026,914	772,941
Non-current Assets			
Investments in associates accounted for using the equity method		622,824	649,188
Other financial assets		2	2
Property, plant & equipment		11,967	16,806
Total Non-current Assets		634,793	665,996
TOTAL ASSETS		1,661,707	1,438,937
LIABILITIES			
Current Liabilities			
Payables		329,094	141,472
Provisions		11,991	23,116
Total Current Liabilities		341,085	164,588
Non-current Liabilities			
Payables		-	75,000
Total Non-current Liabilities		-	75,000
TOTAL LIABILITIES		341,085	239,588
NET ASSETS		**1,320,622**	**1,199,349**
EQUITY			
Issued capital	3	17,885,678	17,378,078
Accumulated losses		(16,565,056)	(16,178,729)
TOTAL EQUITY		**1,320,622**	**1,199,349**

Condensed Cash Flow Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	CONSOLIDATED	
	2005	**2004**
	$	**$**
Cash Flows from operating activities		
Receipts from customers	17,159	59,393
Payments to suppliers and employees	(453,175)	(557,074)
Interest paid	(5,580)	(2,108)
Research & development expenditure	(34,222)	(104,290)
Grants received	19,071	12,680
Net cash flows from / (used in) operating activities	(456,747)	(591,399)
Cash Flows from investing activities		
Interest received	29,919	20,571
Purchase of plant and equipment	(181)	-
Proceeds from sale of plant and equipment	-	27,633
Net cash flows from / (used in) investing activities	29,738	48,204
Cash Flows from financing activities		
Proceeds from the issue of ordinary shares	540,000	-
Share issue costs	(32,400)	-
Repayment of finance lease principal	-	(22,908)
Net cash flows from / (used in) financing activities	507,600	(22,908)
Net increase / (decrease) in cash held	80,591	(566,103)
Cash and cash equivalents at beginning of period	725,352	1,120,675
Cash and cash equivalents at end of period	805,943	554,572

Condensed Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

CONSOLIDATED	Issued Capital $	Accumulated Losses $	Total Equity $
At 1 July 2004	15,970,835	(15,055,589)	915,246
Loss for the period	-	(337,665)	(337,665)
Issue of shares in lieu of corporate fee	14,910	-	14,910
At 31 December 2004	15,985,745	(15,393,254)	592,491

CONSOLIDATED	Issued Capital $	Accumulated Losses $	Total Equity $
At 1 July 2005	17,378,078	(16,178,729)	1,199,349
Loss for the period	-	(386,327)	(386,327)
Issue of share capital by placement	540,000	-	540,000
Less share issue costs	(32,400)	-	(32,400)
At 31 December 2005	17,885,678	(16,565,056)	1,320,622

Notes to the Half-Year Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of BioProspect Limited as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 January 2005 ('AGAAP').

It is also recommended that the half-year financial report be considered together with any public announcements made by BioProspect Limited and its controlled entities during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis. For the purposes of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Statement of compliance

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

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies for the Group under AIFRS are disclosed in Note 1(c) below.

Reconciliations of:

- AIFRS equity as at 31 July 2004, 31 December 2004 and 30 June 2005; and
- AIFRS profit (loss) for the half-year 31 December 2004 and full year 30 June 2005,

to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1 (e) below.

(c) Summary of significant accounting policies

(i) Basis of Consolidation

The consolidated financial statements comprise the financial statements of BioProspect Limited and its subsidiaries ('the Group').

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

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(i) Basis of Consolidation (continued)

All intercompany 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.

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

(ii) Investment in associate

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

The financial statements of the associate are used by the Group to apply the equity method. The reporting dates of the associate and the Group are identical and both use consistent accounting policies.

The investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects the Group's share of the results of operations of the associate.

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

(iii) Other financial assets

Investment in Tradewyns Pty Ltd is carried at cost. Management believes that the fair value of this investment cannot be reliably measured since the investee is still in the process of consolidating its operations and the range of any reasonable fair value estimates will be significant and the probabilities of the various estimates cannot be reasonably assessed.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

(iv) Foreign currency translation

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

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

The majority of the company's business is conducted within Australia but does receive some income from the Unites States of America in US$ which are converted at the date of the transaction into A$.

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(v) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

Depreciation is provided on a straight line basis on all plant and equipment as follows:

Office Equipment	20%-25%
Computer Equipment	40%
Furniture and Fittings	20%-40%
Laboratory Equipment	20%

(vi) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(vii) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent assets.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised. It is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

(viii) Inventories

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

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(ix) Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

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

(x) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

(xi) Provisions

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

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to that liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(xii) 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 over the term of the lease.

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(xii) Leases (continued)

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.

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.

(xiii) Revenue

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

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

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

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
Risks and rewards of ownership of the goods have passed to the buyer or performance of the service has occurred.

(xiv) Government grants

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

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

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(xv) Income tax

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

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

• when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

• when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

• when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

• when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

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

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

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(xvi) Other taxes

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 balance sheet.

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

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

(xvii) Intangible assets

Patents and Licences

The company has capitalised costs associated with securing its collection licence from the Western Australian Department of Conservation and Land Management (CALM). These are recorded at cost and were amortised over the period in which the related benefits were expected to be received (15 years). In June 2005, the directors determined that it was difficult to reliably determine the fair value of the license and subsequently wrote off the remaining value of $363,114.

Research and development costs

Research and development costs are expensed as incurred except for development expenditure incurred on an individual project that is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

(xviii) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(c) Summary of significant accounting policies (continued)

(xviii) Recoverable amount of assets (continued)

value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(d) AASB 1 Transitional exemptions

The Group has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

Business combinations

AASB 3 'Business Combinations' was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS).

(e) Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and loss after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below.

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	CONSOLIDATED		
	30-Jun-05 $	31-Dec-04 $	01-Jul-04 $
Total equity under AGAAP	4,436,495	4,362,586	4,857,705
Adjustments to equity:			
Write-back of goodwill amortisation (A)	307,617	155,073	-
Impairment of assets (B) Goodwill	(3,544,763)	(3,544,763)	(3,544,763)
Impairment of assets (C) CALM Licence	-	(397,696)	(397,696)
Write-back of amortisation CALM Licence	-	17,291	-
Total equity under AIFRS	1,199,349	592,491	915,246

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(e) Impact of adoption of AIFRS (continued)

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS (continued)

(A) Goodwill is not amortised under AASB 3 'Business Combinations', but was amortised under AGAAP.

(B) Under AASB 136 '*Impairment of Assets',* assets are subject to an annual impairment test to ensure that they are carried at amounts that are not in excess of their recoverable amount. The 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 consolidated entity, this policy applies to its intangible asset, 'Goodwill' on consolidation which at 1 July 2004 was valued at $3,544,763. The 'Goodwill' on consolidation arose from the acquisition of BioProspect Australia Pty Ltd on 31 January 2001.

The Directors have formed a view that the carrying value of Goodwill on consolidation of $3,544,763 should be written off effective 1 July 2004 after assessing whether the "value in use" or the "fair value less costs to sell" can be reliably measured under the requirements of AASB 136.

(C) Under AASB 136 '*Impairment of Assets',* assets are subject to an annual impairment test to ensure that they are carried at amounts that are not in excess of their recoverable amount. The directors determined that at 30 June 2005 it was difficult to reliably determine the fair value of the licence agreement with CALM, as the focus of the business is to commercialise a few key natural products and furthermore the licence is not transferable. As a consequence the company wrote off the remaining value of the licence at 30 June 2005 of $363,114.

The directors have determined at 31 December 2005 that the CALM licence should also be written off against retained earnings as at 1 July 2004 for the same reasons, which at that date was valued at $397,696.

(ii) Reconciliation of profit / (loss) after tax under AGAAP to that under AIFRS

	CONSOLIDATED	
	Year ended 30-Jun-05 $	Half-Year ended 31-Dec-04 $
Loss after tax as previously reported	(1,828,453)	(510,029)
Write-back of goodwill amortisation (A)	307,617	155,073
Write-back of amortisation CALM Licence (B)	34,582	17,291
Loss after tax under AIFRS	(1,486,254)	(337,665)

(A) Goodwill is not amortised under AASB 3 'Business Combinations', but was amortised under AGAAP.

(B) Amortisation of CALM licence due to Under AASB 136 '*Impairment of Assets',* assets are subject to an annual impairment test to ensure that they are carried at amounts that are not in excess of their recoverable amount.

1 BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (continued)

(e) Impact of adoption of AIFRS (continued)

(iii) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

2 REVENUES AND EXPENSES

(a) Specific Items

Loss before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:

	CONSOLIDATED	
	2005	2004
	$	$
(i) Revenue		
Licence fees	-	90,909
Sale of goods	17,159	13,939
Finance income	29,919	20,571
	47,078	125,419
(ii) Other income		
Government grants released	19,071	12,680
Gain on disposal of property, plant and equipment	-	12,675
	19,071	25,355
(iii) Expenses		
Depreciation	5,020	9,183
Employee benefits	193,001	188,837
Research & development expenses (direct)	51,374	70,154
Sales and marketing	12,911	31,225
Consulting fees	101,672	117,017
Legal fees	24,131	29,631
General and administrative expenses	188,767	213,919
	576,876	659,966
(iv) Borrowing costs expensed		
Other parties	5,580	7,400

3 ISSUED CAPITAL

	Dec-05	Jun-05
	$	$
Ordinary shares		
Issued and fully paid	17,885,678	17,378,078

	Qty	$
Movements in ordinary shares on issue		
At 1 July 2005	185,126,982	17,378,078
Issued 14 December 2005 by way of a placement	27,000,000	540,000
Less share issue costs		(32,400)
	212,126,982	17,885,678

4 SEGMENT REPORTING

The consolidated entity only operates in one business sector being the biotechnology segment. The revenue and loss information for the half-year periods ended 31 December 2005 and 31 December 2004 are all attributable to this segment.

5 CONTINGENT LIABILITIES

As reported in the 30 June 2005 Annual Report, the Australian Tax Office (ATO) was undertaking an audit of the consolidated entity's 2002 and 2003 research and development tax rebates assessments. The ATO had prepared a paper that outlined a potential maximum assessment of $600,045 (being $520,659 for the 2002 year and $79,386 for the 2003 year).

The Directors wish to advise that the audit has been completed with a successful resolution for the company. The company expects to receive a net refund in the March quarter 2006 of $156,344 and this amount has been accrued into the financial statements.

6 EVENTS AFTER THE BALANCE DATE

The company issued a prospectus on the 20th December 2005, for the intention of raising 70,708,994 rights shares at an issue price of $0.02 to raise $1,414,179.88 (before costs). Subsequent to 31 December 2005, the company successfully completed the underwritten renounceable rights issue for the maximum of $1.4m.

In relation to the ATO audit mentioned under Note 5, the company has been issued with tax penalties for the 2002 and 2003 tax years amounting to $40,273 which represents 25% of the expenditure that has been disallowed by the ATO. This amount was paid on the 2nd March 2006.

7 TAXATION

The $156,344 income tax benefit for 2005 consists of a refund of $184,094 pertaining to the 2003 R&D tax offset and a refund to the ATO of $27,750 for an overpayment of the 2002 R&D tax offset that the company received in 2003. This was identified during the recent ATO audit as explained in Note 5 "Contingent Liabilities'.

The $178,927 income tax benefit for the year ended 31 December 2004 relates to the successful R&D tax offset that was claimed in the June 2004 income tax return.

8 ADDITIONAL INFORMATION

Reconciliation of Cash

For the purposes of the Condensed Cash Flow Statement, cash and cash equivalents comprise the following at 31 December:

	CONSOLIDATED	
	2005	2004
	$	$
Cash at bank and in hand	456,483	34,572
Short-term deposits	349,460	520,000
Total cash	805,943	554,572

Director's Declaration

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

In the opinion of the Directors:

1. the financial statements and notes of the consolidated entity:

   (a) give a true and fair view of the financial position as at 31 December 2005 and the performance for the half-year ended on that date of the consolidated entity: and

   (b) comply with the Accounting Standard AASB 134 "Interim Financial Reporting": and the Corporations Regulations 2001: and

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

On behalf of the Board

Ian Macliver
Chairman

Perth 7 March 2006

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

Independent review report to members of BioProspect Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the consolidated entity comprising both BioProspect Limited (the company) and the entities it controlled during the six months period, and the directors' declaration for the company, for the period ended 31 December 2005.

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 consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", 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.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, 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 review of the financial report, we were engaged to undertake other non-audit services. The provision of these services has not impaired our independence.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising BioProspect Limited and the entities it controlled during the six months period is not in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the six months period ended on that date; and

  (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Mike Meintjes

Partner

Brisbane

10 March 2006