CONTENTS TO FINANCIAL REPORT

CORPORATE INFORMATION

ABN 58 008 130 336

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

A description of the Group's operations and its principal activities is included in the review of operations and activities in the Managing Directors' report on pages 5 to 15.

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

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Dr MF Quinlan
PN Landau
WD Dowse Managing Director

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CH Johnston

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MESSAGE FROM THE CHAIRMAN

As I reflect on what has occurred during 2008 for the company, there has been a mixture of excellent trial results on our natural termiticide product TERMILONE® coupled with the impacts of an Australian share market that has seen over a 13.4% fall in the ASX 200 during the 12 months ended 30 June 2008 and with a fall of 15.9% in the first six months of 2008. The Australian share market has followed the severe downturn experienced in the US economy and as the common saying goes " when the US sneezes, Australia catches a cold!!".

However, BioProspect cannot control its share price and has no intention to; management must focus on its research and development projects and ensure we get products to market as efficiently and timely as possible.

To that extent I am personally excited about the favourable trial results we have had during the last 12 months pertaining to TERMILONE®; in most cases, what we said we would achieve during 2008 has occurred with the only exception being a manufacturing study that was delayed due to the extremely wet conditions across the east coast of Australia. In the Managing Director's report, Warwick Dowse presents a detailed summary of what we achieved.

As announced on 22 August 2007, the company signed a licensing agreement with Solagran Limited (Solagran) for the exclusive development and commercialization of a range of Bioeffectives® into the animal health, nutrition and agricultural markets on an international scale. Subsequent to this date, the company has completed two initial trials; namely a broiler chicken study managed by the University of New England and a screening trial testing Bioeffectives® on Arabian horses to reduce the effects of EGUS (equine gastric ulcer syndrome). The trial results were announced in late August 2008 showing encouraging results.

Unfortunately, the Australian share market was severely impacted by the financial crash of Melbourne stock broker Opes Prime Limited (OPES); BioProspect and Solagran were both affected. Over 46% of Solagran shares and 26% of BioProspect shares were seized by the ANZ, being the prime lender to OPES. BioProspect took the initiative of applying to the Takeovers Panel to stop the ANZ Banking Group from disposing of its 26% holding in the company and was successful in that the ANZ gave an undertaking that they would not dump the shares but would manage a slow sell down. As of the 25 August 2008 the ANZ holding had been completely sold off. The Solagran shareholding held by the ANZ has also been gradually declining and the final tranche was sold on the 7 August 2008.

To some extent, the OPES collapse has slowed the development work on Bioeffectives® during the June quarter due to the focus of Solagran management on the company's ownership issues. Under the licensing agreement between the two companies, BioProspect is committed to spend $3m on development activities up to 31 March 2010 and for the year ended 30 June 2008 spent only $270,000. However, both companies expect to be back on track in December quarter 2008.

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

- Submission of a complete regulatory package for the TERMILONE® oil as an active ingredient to the Australian Pesticides and Veterinary Medicines Authority;
- Securing development and evaluation agreements with key partners that can effectively demonstrate ability to use the product in the 3 market sectors identified by BioProspect (Barrier Treatment, Contact Sprays and Timber Treatment);
- Identifying potential collaborators to conduct further development work on the Bioeffectives® range of products

My role will be assisting management in identifying potential partners and collaborators as the products become closer to commercialization.

The company's cash position as at 30 June 2008 of $3.9m ensures that the company

MESSAGE FROM THE CHAIRMAN

has the resources to support these 3 key objectives; we are in a good position and have the advantage of not having to raise additional shareholder funds within the next 12 months.

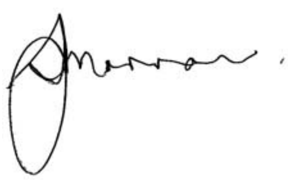
BioProspect is managed by a small executive team but the commitment and drive of the individuals is unquestionable. The Directors and I congratulate management on their achievements during the last financial year.

As announced on 25 June 2008, our Managing Director Warwick Dowse tendered his resignation from the company and has returned to New Zealand where he has accepted a CEO role with an agricultural company called Farmers Industries Limited (FIL). I do wish to thank Warwick for his excellent contribution to the business over the two years he has been with the company, particularly with the management of our TERMILONE® project.

The company is conducting an executive search for a replacement and has not appointed a replacement as of the date of this report.

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

It is with great pleasure that I present to you the company's Annual Report for 2007-2008.



Stephen Morrow 28 August 2008

MANAGING DIRECTOR'S REPORT

OPERATING AND FINANCIAL REVIEW

Group Overview

TERMILONE®

The global demand for termiticide products that are non toxic to the environment and the people that use the products, yet can control and deter termites effectively is increasing every year. Regulatory authorities around the world are making it known very clearly that current termite products are being assessed very closely and in some cases their use is being banned or restricted.

The company is taking this challenge in terms of developing a range of products that are based on TERMILONE® oil that can at least supplement the remaining products that are in use. TERMILONE® will never completely replace the existing synthetic chemicals that are used today; however in certain circumstances and market segments, we will see an increased demand for natural and non-toxic compounds. It is here where TERMILONE® will be recognised as a market participant given that we can prove its efficacy, environmental attributes and market fit.

We now have three potential formulations (TERMILONE® CS, TERMILONE® TT and TERMILONE® BT) that should progress to market and field testing from BioProspect and parties that have shown an interest in product manufacturing, development and distribution. It is important that the company starts to share its IP during this crucial stage of commercialisation.

The objective is to have the TERMILONE® oil registered as an active ingredient with the Australian Pesticides and Veterinary Medicines Authority (APVMA). This enables BioProspect and suitable partners to register the oil in countries like the USA and Japan a lot faster than expected due to the rigorous and internationally accepted regulatory system experienced in Australia. A successful registration in Australia will also assist with faster development of EUP's (End Use Products) that contain the TERMILONE® oil.

The last financial year has seen some significant milestone achievements, namely:

- Completion of developing potential formulations containing the natural oil;
- Dermal toxicity study completed in late November 2007 and April 2008;
- Excellent bioassay results confirmed the project path to commercialization, announced April 2008.

These are explained in more detail as follows:

Formulation efficacy testing - University of Western Sydney (UWS).

Formulation efficacy testing was completed on TERMILONE® CS (contact spray) and TERMILONE® TT (timber treatment) with promising results. The TT formulation subjected to a vacuum-pressure timber impregnation at Ensis (CSIRO Timber Biosciences) Clayton laboratory yielded a 3% oil level in commercial timber and after drying under commercial scale conditions, the timber samples maintained their TERMILONE® levels. This was particularly encouraging taking into account the biological nature of the oil. The formulation obviously kept the oil in the timber sample and it was well distributed through the whole profile.

The CS formulation was tested in the UWS laboratory under the supervision of Associate Professor Robert Spooner-Hart and Dr. Albert Basta. The UWS team used termites from the same group collected by CSIRO/Ensis to enable direct efficacy comparisons between the formulations.

In both cases the TERMILONE® oil in the respective formulations performed equivalently and better than the industry standard.

The formulations will undergo further testing for stability and longevity in order to establish a likely candidate for a final commercial product.

The active ingredient definitely works and it is now a case of getting it into stable formulations that can be used by people in the timber treatment and professional pest control markets.

ICP Firefly Pty Ltd

Work commenced in September 2007 on a 12 day dermal toxicity sighting study on the Eremophilone oil. The APVMA requires that toxicity tests of this nature are carried out to determine exposure risks and hazard ratings for humans that may come into direct and indirect contact with TERMILONE® during commercial applications in homes, building structures and construction materials.

The preliminary 12 day experimental period was finalised in November 2007 to establish the NOAEL (no observed adverse effect level). The results of the trial confirmed there was:

- No mortality
- No clinical abnormality
- No erythema or oedema
- No gross abnormality in the major organs

The net result from this allowed the Company to proceed with a specific 28 day dermal toxicity test with the knowledge that high doses under dermal application are non-toxic which eliminates the need for expensive multi-dose test and treatment regimes which are very expensive. The Company tested a single dose regime as defined in the 12 day dermal sighting study report.

The 28 day study commenced in late February 2008 and results of the 28-day study were announced on 1 May 2008. The study was conducted according to the OECD Guidelines for the Testing of Chemicals.

The final mammalian toxicity test was conducted in the UK during June 2008 to determine Acute Inhalation toxicity. The full report was issued early August 2008 and the results showed no toxicity from an inhalation perspective at all; an excellent result. This satisfies one of the critical components of the submission with the APVMA.

Mammalian Toxicity Study Rationale

Mammalian toxicity testing is required to identify any potential and immediate toxicity issues for humans when a pesticide (either synthetically or naturally derived) is used. All avenues of exposure and effect must be assessed before a product can obtain an approval for use. The lower the toxicity, the better the product looks from a marketing and 'user' perspective.

TERMILONE® has been tested for toxicity in the following areas with each revealing no toxicity.

- Genotoxicity and mutagenicity
- Acute oral
- Acute dermal
- Acute Inhalation
- Repeat-dose dermal.

TERMILONE® in its natural state is a safe product to use and there are no side effects to humans when used as directed. Further toxicity work will be required when the final commercial formulations (End Use Products) have passed their field studies.

CSIRO Timber Biosciences Division, Southern Cross University (SCU) & University of Western Sydney (UWS)

The company announced on 8 April 2008, excellent bioassay results from a scientific collaboration with the UWS, SCU's Centre of

Phytochemistry and CSIRO Timber Biosciences Division (formerly Ensis). Two formulations containing TERMILONE® as the active constituent were tested under bioassay conditions to determine the compound's efficacy against two key subterranean termites, *Coptotermes acinaciformis* and *Mastotermes darwiniensis*.

The *Coptotermes* species is the most destructive timber pest in Australia, accounting for more than 70 per cent of serious damage to building in New South Wales, whilst *Mastotermes* is one of the world's most destructive termite species found in the Northern tropics of Australia.

The formulations tested revealed excellent control and deterrence characteristics and most importantly, the results revealed that the compound performed better than the industry standard in the timber protection bioassay (see Figures 1 and 2 for the *Mastotermes* results).

Current Products

The need to search for and commercialise new products with lower human and environmental toxicity ratings but with acceptable termite control is a reflection of consumer sentiment and the international regulatory authorities that are restricting the use of current products like Copper Chrome Arsenate (CCA) and Chlorpyrifos (organophosphate). Chemical compounds like the cyclodiene products (organochlorines) were banned in Australia in the early 1990's due to harmful environmental and human toxicity issues.

Thorough testing using OECD and US EPA protocols are required in order to look at all of the potential toxicity issues. The work conducted on TERMILONE® to date indicates that the product has safe environmental and human levels, yet is toxic to termites. This is a unique characteristic and is very favourable for TERMILONE®.

The UWS tested two contact spray formulations for direct contact and killing power attributes towards the termites, with one of the two proving effective. Residual efficacy and deterrence were also recorded and this may lead to a barrier treatment test at a later stage.

Ensis tested two concentrations of a timber treatment formulation deigned for protecting commercial timber from termite attack when impregnated into the timber using standard vacuum/pressure equipment. The higher concentration revealed a better result than the industry standard (a synthetic pyrethroid) for the *Mastotermes* termite species and an equivalent result for the *Coptotermes* termites.

Study Rationale

The bioassays were designed to place higher than normal termite pressure on the formulations and the active compound. The protocols were set up with the intention to

Figure 1: PHOTOGRAPHS OF TEST RESULTS FOR *Mastotermes* bioassay

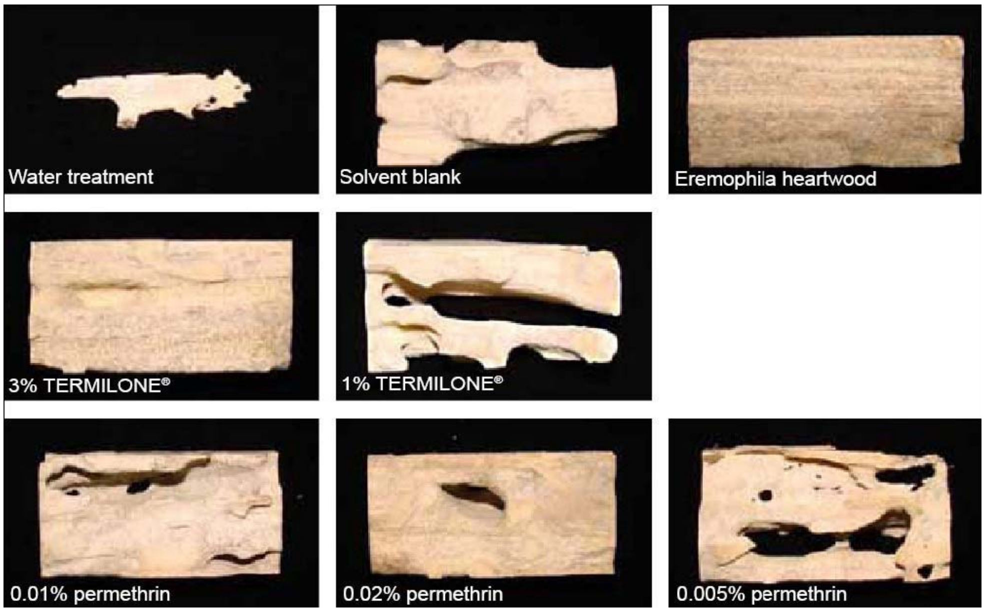


Figure 1 shows the condition of test radiata pine sapwood specimens after six weeks of exposure to *M. darwiniensis* in the laboratory bioassay. Test specimens treated with the formulation base solvent and water were included as solvent controls, while specimens treated with permethrin were used as a reference control (indicating the industry standard). The TERMILONE® specimens were treated with either one percent or three per cent *Eremophilone* oil. *Eremophila* heartwood (similar to the original fence post which TERMILONE® is derived) was also tested.

Figure 2 shows the mean mass loss (g) of preservative-treated and control *Pinus radiata* and untreated

Eremophila test specimens after exposure to *M. darwiniensis* in a laboratory bioassay for six weeks.

Figure 2: GRAPHICAL ANALYSIS for *Mastotermes* bioassay

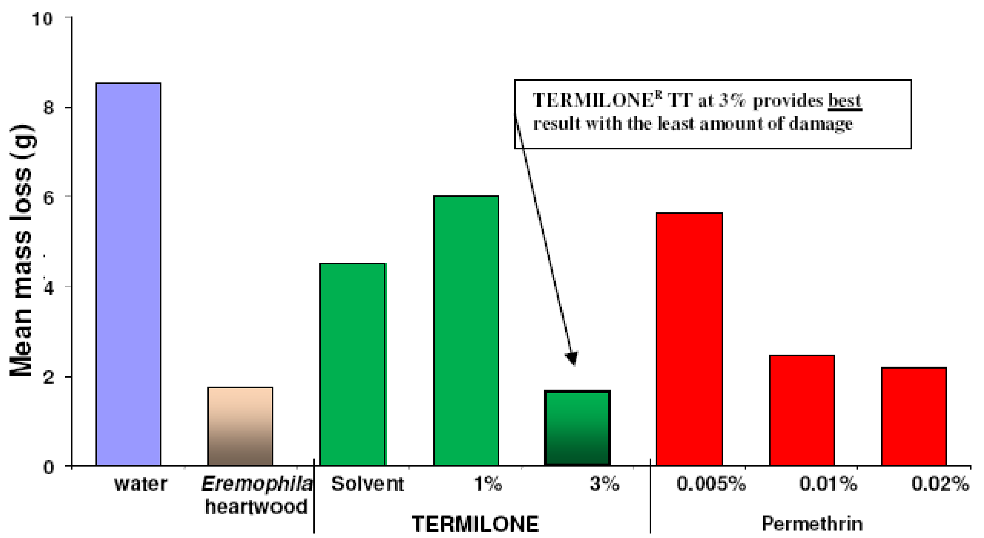


Figure 2a: GRAPHICAL ANALYSIS for *Coptotermes* bioassay

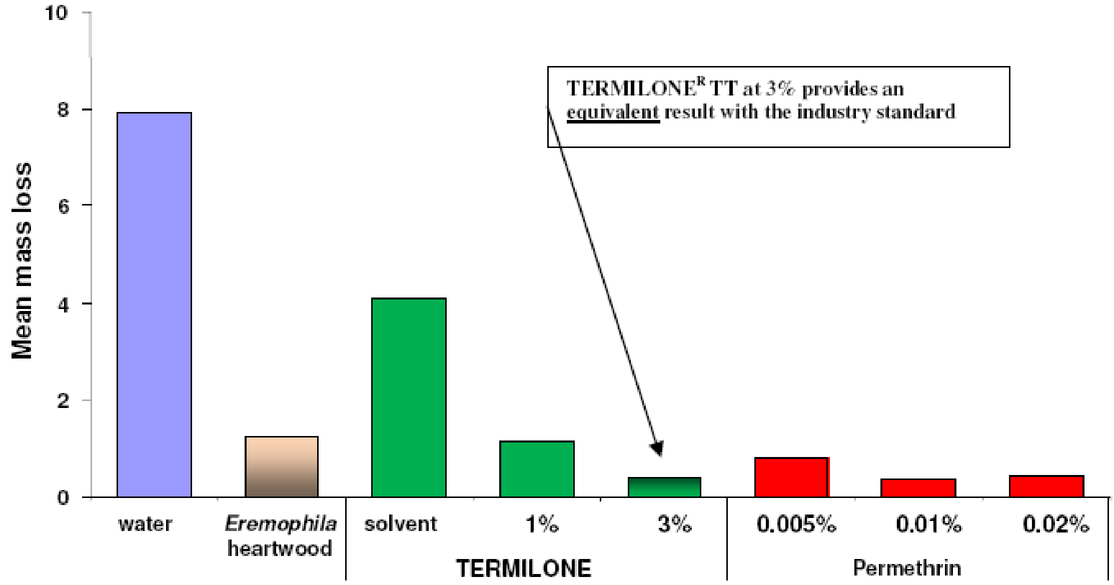


Figure 2a shows the mean mass loss (g) of preservative-treated and control *Pinus radiata* and untreated *Eremophila* test specimens after exposure to *C. acinaciformis* in a laboratory bioassay for eight weeks.

Interpretation of results

The *Pinus radiata* samples from each treatment are exposed to a large population of termites (*Mastotermes* and *Coptotermes* separately) where the termites have nothing else to eat for six and eight weeks respectively. The protocols are designed to 'break' the product in order to look for the lower and upper concentration limits for efficacy. The wood samples are weighed following the treatment period and the ones with the heaviest volume can be interpreted as having the best resistance to attack under the bioassay conditions (less timber is eaten). This is expressed as Mean Mass loss in grams. The *Pinus radiata* blocks started the bioassay as 10g in total weight.

Mastotermes Bioassay (graph figure 2 and photos figure 1 above)

- Treatment of *Pinus radiata* specimens with the 3% TERMILONE® TT formulation successfully prevented attack by *M. darwiniensis* with a Mean Mass loss of 19%. The industry standard highest concentration received a Mean Mass loss of 24.8% revealing that the TERMILONE®TT 3% was superior.

Coptotermes Bioassay (graph figure 2a)

- Treatment of *Pinus radiata* specimens with the 3% TERMILONE® TT formulation successfully prevented attack by *C. acinaciformis* with a Mean Mass loss of 4.6%. The industry standard highest concentration received a Mean Mass loss of 4.1% revealing that the TERMILONE®TT 3% was equivalent.

Researcher comments

When used to treat *Pinus radiata* (radiata pine) sapwood, TERMILONE® TT with a 3% concentration of *Eremophilone* oil demonstrated a high level of termiticidal efficacy. Compared to the untreated and solvent controls, it appears that a retention of approximately 2.5-3.0% m/m of *Eremophilone* oil in oven dried wood was effective in significantly reducing the amount of attack of *Pinus radiata* sapwood by Australia's two most economically important species of subterranean termites.

When used as a contact spray, TERMILONE® CS formulated with a 3% concentration of *Eremophilone* oil demonstrated the highest level of termiticidal efficacy against both economically important termite species

Based on these results, the company will now expedite field testing on two formulations; one for immediate contact spray applications (TERMILONE® CS as a contact spray) and the other timber treatment (TERMILONE® TT as a timber treatment).

University of Western Sydney (UWS) and Southern Cross University (SCU), Centre of Pharmacology and Phytochemistry

UWS and SCU have been key research partners for BioProspect with the TERMILONE® compound in 2007/08. Their work has been focused on bioassays to determine how toxic the compound is to termites, how the product actually works (Mode of Action), its chemical properties, how it acts in the environment and its manufacturing requirements. All of this work and associated data will form part of the actual regulatory submission that is due for completion and submission in September 2008. In summary the findings are:

TERMILONE® is:

- Unique in the way it acts on termites with possible two modes of action (direct poison effecting a termites nervous system and a fumigant effect at low concentrations)
- Relatively non-toxic from an environmental perspective when compared to existing products used today.
- Specific in terms of its chemical composition. The chemical structure is composed of four unique *eremophilone*-based chemical structures that collectively make-up approximately 75 percent of the whole oil that is extracted from *Eremophila mitchellii* or False Sandalwood. It is this structure and composition that forms the basis of the company's patent application.
- Easily extracted from chipped *Eremophila mitchellii* using steam; however more work is required to design an efficient separation method as the oil is slightly heavier than water.
- Constant in terms of chemical composition when harvested from many sources in Queensland. This is important from a manufacturing perspective when wood can be harvested from a range of locations therefore providing flexibility for the manufacturing cycle.

The key milestones for the next financial year are identified as follows:

- Planning for a manufacturing study has been initiated in collaboration with Southern Cross University, the Queensland Herbarium/EPA and a potential collaborator that has large-scale plant oil extraction facility. The objective is to assess the likely base cost of the raw oil from the harvest stage through to the oil extraction stage. The study concentrates on the most economic way to harvest and transport the timber (*Eremophila mitchellii*) to the oil extraction facility, what the optimum chip size is (processed timber) and the optimum steam extraction time that is required to take the oil out of the chipped timber. All of these factors have a bearing on oil quality, volume (% oil/ton of harvest timber) and ultimately cost. The manufacturing study is also required to generate data for the APVMA and to select suitable partners for locating suitable stands of the tree and harvesting contractors.
- Finalising formulation testing for TERMILONE® BT/TT and CS. This is required to enable large-scale field testing. As the trials progress, the company can assess the likely changes required in the formulation which in turn guides collaborators on a market fit and a base for commercial agreements with BioProspect. Success here improves the IP value of TERMILONE® and the time it takes to have a commercially available product for the market place.
- Successful patent approval in Australia, USA and Japan.
- Submission of a complete regulatory package for the TERMILONE® oil as

an active ingredient to the Australian Pesticides and Veterinary Medicines Authority.

- Securing development and evaluation agreements with key partners that can effectively demonstrate ability to use the product in the three market sectors identified by BioProspect (Barrier Treatment, Contact Sprays and Timber Treatment).

In summary, the company is still on-track to have TERMILONE® oil registered with the APVMA as a termiticide by early 2010. Commercial formulations could be ready for use in the market by the following year.

QCIDE

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

On 24 June 2008, the company announced that it had signed an exclusive licence agreement with Bio-Gene Technology Limited to develop and commercialise Qcide on an international scale. Key points of the agreement are as follows:

- Bio-Gene will initiate development work, grow-out and extraction programs to produce the natural oil and place it into market sectors where a naturally derived and low toxicity pesticide is required. This will cover both human and animal health market opportunities;
- Upon commercialisation, BioProspect will receive a royalty of two percent from gross sales of any product containing Qcide (Tasmanone);
- Bio-Gene pays an initial fee of $100,000 to BioProspect;
- Bio-Gene will be responsible for all further development, IP/patent costs, Biodiscovery agreements and product registration;
- BioProspect will remain involved in assisting Bio-Gene with collaborations relating to research, oil extraction and registration requirements. Any expenses incurred by BioProspect will be recovered from Bio-Gene.

Work conducted previously for BioProspect by a scientific collaborator revealed encouraging results on synthetic pyrethroid resistant Buffalo Flies (*Haematobia irritans exigua*). Flies of this nature are undesirable pests for feedlot and dairy cattle in countries like Australia and the USA. A compound that can be administered directly to cattle and their environment with little or no side effects down the food chain could be an important breakthrough for both companies.

Bio-Gene is a West Australian company with expertise in growing, harvesting and extracting compounds from Australian native plants. The company has previously produced an Essential oil from *Boronia megastigma*, a rare plant, which is endemic to the South West of Australia.

Through collaboration with Southern Cross University, the West Australian Chemistry Centre and Western Flora, Bio-Gene has developed a practical, hands-on experience in farming and cultivating Australian Flora and possesses a unique knowledge in this field. Bio-Gene has already instigated work on human hygiene applications and fabrics/textile sanitizers that contain Qcide.

This agreement permits a focused market specific approach on the compound by Bio-Gene using the existing toxicological and efficacy data that has been generated by BioProspect. This is a good outcome for both companies and the product.

BIOEFFECTIVES®

On 22 August 2007, the company signed an exclusive licence agreement with Solagran Limited (ASX: SLA) to develop and commercialise a range of Bioeffectives® in the animal health, nutrition and agricultural markets on an international scale.

Bioeffectives® are plant extracts derived from coniferous trees. Through a patented extraction system, the technology can deliver a range of different Bioeffectives® that have applications ranging from skin care through to animal nutrition. BioProspect's agreement with Solagran allows for the development of five Bioeffectives® and a water extract for the animal health, nutrition and agricultural markets on an international scale.

Bioeffective® technology has been used in Russia for over 50 years and it has been through the development work by Solagran in the human health sector that such technology has become available to the western world. Solagran, a Melbourne based listed company recently announced that their lead Bioeffective® compound called RoprenR (based on Bioeffective® R which is derived from Bioeffective® A) has received a full pharmacopeia registration in Russia for the treatment of liver disease. Commercial production and sales will commence in late 2008.

This sort of work is important for BioProspect as it helps the company navigate its way through development and regulatory channels more effectively. Bioeffective® A for example has an Australian Therapeutic Goods (TGA) approval and this will help BioProspect with regulatory approvals. Bioeffective® A will be the first compound that the company will focus on in terms of animal nutrition and health screening trials.

The chemistry behind Bioeffectives® is complex as the compounds contain a mixture of phytosterols (cholesterol lowering properties), polyprenols (cellular metabolism and immune systems), carotenoids (are free-radical scavengers and are important in vertebrate immune systems. They are also a natural source of Vitamin A).

Under the agreement Solagran will allow BioProspect exclusive access to a selected range of Bioeffectives® (A, K, S, I and X). BioProspect will initiate trials that will provide

the backing and drive to enter markets according to the respective characteristics of each Bioeffective®. In the early stages of development, BioProspect will concentrate on Bioeffective® A which has an immediate application potential in animal feeds to act as an alternative natural supplement for commonly used antibiotics, growth promotants and synthetic nutritional supplements.

World Market

In livestock production, the stimulation of productivity is traditionally achieved by using intensive housing and feeding operations in conjunction with medicated products such as antibiotics and synthetic growth hormones. While the intensive housing and feeding operations are difficult to avoid given the demand for food, there is a definite trend to restrict and in some cases ban the use on medicated synthetic products.

This is a strategy that is welcomed by both companies and we can now set a path forward to develop a range of viable replacements and supplements in this market sector.

The current global market for livestock performance enhancing products and medicated animal health compounds is estimated at US$6.7 billion. This is expected to reach US$7.3 billion in 2011. The actual medicated product category in the nutritional (feed additives) is estimated at US$2.3 billion per year.

The USA is the largest market (38% total sales) with Western Europe (27%) and Asia/Pacific (17%) running second and third respectively.

The chance to participate in the market is very encouraging and based on the information that we have about the Bioeffective® compounds coupled with a genuine demand for safer and effective natural products, the next one to two years will be very exciting for BioProspect.

The 'companion animal' market (dogs, cats and horses) is estimated to be US$1 billion on its own in 2006. This is an attractive Nutritional and Dietary supplement market given that animal disease is being now viewed as 'animal health management' and the field of animal nutrition as such has established itself as an important factor in the achievement and maintenance of the well-being of farmed and domestic animals.

Specific trials that were commenced during the last financial year were:

University of New England (UNE)

On 11 December 2007, an agreement was signed with the UNE, School of Environmental and Rural Science, to conduct a feeding study on broiler chickens using Bioeffective® A as a feed additive.

Trial Objective

The objective of this trial was to assess Bioeffective® A in a direct comparison with a commercially available antibiotic feed additive (Zinc Bacitracin) that is used in standard broiler feed mixes. The trial assessed palatability and feed conversion under a range of rates.

Trial Results

The results of this study were released in late August 2008 and showed encouraging results. Based on these results, BioProspect can now proceed with a more detailed evaluation program that is designed to assess a range of Bioeffectives® as potential candidates for poultry feed supplements.

EGUS (equine gastric ulcer syndrome) trial on Arabian horses

The company announced on 24 April 2008, that a screening trial testing Bioeffectives® on Arabian horses to reduce the effects of EGUS had commenced.

EGUS is one of the horse industry's most common complaints. It is a broad term used to describe a wide array of clinical and behavioral symptoms that arise from the development of ulcers in a horse's stomach. There is a prevalence of EGUS in horses used in many competitive activities such as dressage, racing and show jumping. Gastric ulceration affects a large number of horses and it is quite common to see figures of up to 90 percent in race horses, particularly for horses that are housed under cover on a continual basis.

The cause of EGUS is thought to be a combination of diet, stress related activity and behaviour. The actual ulcers are formed following the continual production of stomach acids that are not controlled by regular intakes of food and saliva production. Horses under training and stress-related activities also have a propensity to produce more stomach acids. The net effect for owners and managers of horses with the condition is that it leads to poor performance and behaviour. It is sometimes difficult to diagnose externally, which in turn can make it difficult to treat.

Current Treatments

The registered medicated treatments used to combat EGUS all focus on either the suppression of gastric acids into the stomach (H2 Antagonists and Proton Pump Inhibitors), mucosal protectants within the stomach (Sucralfate) or reducing the effect of increased acid levels in the stomach (Antacids). There are some products available that induce gastric emptying. All are synthetically derived active ingredients that are formulated for use under veterinary supervision or advice. In general terms they are expensive for complete courses and have varying levels of success.

Naturally derived compounds like Bioeffectives® have a lot of potential due to their immediate activity on an ulcer in the horse's stomach as well as a prolonged effect on a horse's metabolism to aid in infection control and recovery from stress-related conditions. It is also thought that a dose regime on a continual basis in horse feeds as a supplement might aid in the resistance to ulcer development.

The trial was conducted under veterinary supervision from the Sharjah Equine Hospital with 3 Arabian horses located at the Albidayer Stud in Sharjah, one of the emirates within the United Arab Emirates, (U.A.E). The stud is owned by Sheikh Mohammed Bin Saud Al Qasimi, a prominent U.A.E Royal Family member and internationally recognised breeder of highly valuable Arabian bloodstock lines.

Sheikh Mohammed and his stud manager, Ms. Dawn Martin are keen to promote the testing of naturally derived compounds like Bioeffectives® due to their low toxicity and side-effects characteristics.

Trial Objective

The screening of Bioeffective® A has been established to ascertain any immediate effect on Arabian horses that have positively identified ulcers in their stomachs using endoscopic equipment. The ulcer is graded at the start and finish of the trial in accordance with known protocols and guidelines.

Trial Results

The trial indicated a positive response from the use of Bioeffective® A at rates between 3mL and 18mL/day. Based on the results, BioProspect will look at further testing in Australia and New Zealand on a larger scale using a calculated dose rate and application regime.

The key milestones for the next financial year are identified as follows:

- Initiation of further trials in poultry nutrition in direct comparison with antibiotics;
- Initiation of a water intake trial using Bioeffective® I (increasing water intake in farrowing sows);
- Initiation of large scale trials for EGUS control in horses;
- Evaluation of toxicity data as part of the regulatory process; and
- Collaborative work with existing animal feed manufacturers.

OPERATING RESULTS FOR THE YEAR

The company generated a trading loss after tax of $4,657,171 some $3,227,327 higher than 2007. However, to give a clearer picture, cash fixed costs need to be separated from impairment impacts as follows:-

Cash Fixed Costs

- An increase in research and development expenditure on the company's natural termiticide product, TERMILONE® of $450,000;
- First development trials of the Bioeffective® natural plant extracts into poultry and Arabian horses of $226,000;
- An increase in the research and development tax offset from the ATO of $105,000.

Impairment and amortisation

- An impairment write down of the company's investment in Solagran due to the decline in their share price (explained in further detail in note 13 to the financial statements) for $1,812,500; and
- Amortisation of the Solagran licence amounting to $389,952.

The company's cash reserves at the end of the financial year amounted to $3,902,105.

Review of Financial Condition

Capital Structure

During July 2007, the company received $4,779,546 (before costs) from its underwriter Max Capital Pty Ltd, for the issue of 95,590,914 ordinary shares associated with options that expired on 30 June 2007 at an exercise price of $0.05 per share.

MANAGING DIRECTOR'S REPORT

During July 2007, the company also issued 35,569,665 options expiring 31 March 2010 @$0.05 per share to Max Capital Pty Ltd in consideration for underwriting fees associated with the option exercise. This issue has been valued at $988,598 and has been included as share issue costs. The company also paid Max Capital $269,272 for a management fee associated with the option exercise in July 2007. This fee has also been included as share issue costs.

On 2 November 2007, 22,500,000 shares (along with 22,500,000 options expiring 31 March 2010 at an exercise price of $0.05 per share) were issued to Solagran Limited at a value of $855,000 in consideration for the Bioeffectives® licence agreement. On 15 November 2007, 32,000,000 shares (along with 32,000,000 options expiring 31 March 2010 at an exercise price at $0.05 per share) were issued to Nova Vita Pty Ltd at a value of $1,216,000 in consideration for the same licence.

On 28 February 2008, 10,000,000 shares were issued to Thirteen Eleventh Pty Ltd for consulting fees pertaining to the establishment of the Solagran licence agreement at a cost of $380,000.

Cash from Operations

Net cash flows used in operating activities for the year were $1,928,789 (2007: $992,149), some $936,640 higher than 2007. Further information is contained in the Cash Flow Statement on page 36.

Liquidity and Funding

The company's current cash position (as at 30 June 2008) will enable it to continue to focus on the development program for TERMILONE® and the Bioeffectives® range of products through its licence agreement with Solagran Limited. The company does not have an overdraft facility and therefore must regularly revise its cash flow forecast to ensure sufficient cash reserves are maintained. However, experience has shown the company can raise capital quite easily through its association with Max Capital Pty Ltd and the company's cash reserves have never fallen below around $600,000.

The Future

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

- Continuing the research and development program of TERMILONE® in order to obtain registration as a termiticide;
- Continuing discussions with suitable partners for the commercialisation of TERMILONE® with a view to establishing an appropriate commercial relationship;
- Finalising a detailed work program and continuing research and development activities for the Bioeffectives® range of products; and
- Assist Bio-Gene with collaborative contacts in order to fine tune development for Qcide.

In Summary

The events over the past 12 months indicate that the company has made a significant change in direction in terms of management, partners and projects. We are well funded and have the plans in place to generate data that will take us to commercialisation sooner rather than later.

As announced to the market on 25 June 2008 I tendered my resignation from the company and have accepted a CEO role with an NZ agribusiness company called Farmers Industries Limited (FIL).

I would like to thank the Board for their governance, friendship and support and I look forward to maintaining a relationship in the years to come.

Warwick Dowse

W Dowse

Managing Director

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 21. Directors of BioProspect Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

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

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

Name	Position
S.J. Morrow	Chairperson
Dr M.F. Quinlan	Non-executive Director
P.N. Landau	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	Position
S.J. Morrow	1.2 years
Dr M.F. Quinlan	5 years
P.N. Landau	1.3 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 16 December 2004 that formalises the obligations of all BioProspect people including directors to behave ethically, act within the law, avoid conflicts of interest and act honestly in all business activities.

Trading in BioProspect Shares

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

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

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

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

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

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

Financial Report Accountability

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

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.

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 Managing Director and the Chief Financial Officer provide statements in writing to the Board on the quality and effectiveness of the company's risk management and internal compliance and control systems.

Legal Compliance Risks

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

a. Audit Committee – reviews and reports to the Board in relation to the company's financial reporting, internal control structure, risk management systems and the external audit function. An independent external audit is performed on the annual financial report of BioProspect as well as a review of the half-yearly accounts.

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

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 Managing Director and, through the Chairman, the Board on all corporate governance matters.

Performance

The Board endorsed a Board Performance Review Policy on 16 December 2004. During the year ended 30 June 2008, the Board had not conducted a review of its own performance. When a review is completed, 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 24.

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.

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 2008, 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 2008, BioProspect Limited did not have a formal risk management policy as such. However, the company carries out regular risk assessments in a timely manner and covers the entire operational aspects of the company.

Remuneration

ASXCGC Principle 9.2 requires the establishment of a remuneration committee. During the year ended 30 June 2008, BioProspect did not have a separately established remuneration committee. However, the duties and responsibilities typically delegated to such a committee are expressly included in the main Board's responsibilities. The Board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate remuneration committee.

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2008.

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

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

Joined the board on 15 June 2007. Mr. Morrow's background has specialized in the Australian agribusiness sector ranging from growers, manufacturers, retailers and financiers. Steve is currently a non-executive Director of the Gardner Smith Group of companies and is also non-executive Chairman of Brooklyn Park Olives. Most recently he was CEO of Golden Circle Limited until 2006 and prior to this was General Manager Agribusiness with Suncorp Metway Bank and Managing Director of Primac Holdings Limited.

Mr Morrow was appointed Chairman on 15 June 2007 and resides in Brisbane. During the past three years, he has not been a director of any other ASX listed companies.

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

Warwick David Dowse (Managing Director)

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

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

Mr Dowse announced his resignation from the company on 23 June 2008 and under his contract has given 3 months notice.

Peter Neil Landau

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

DIRECTORS' REPORT

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

View Resources Ltd	13/06/2003 to 03/09/2007
Cape Lambert Iron Ore Ltd	15/05/2007 to current
NKWE Platinum Ltd	14/09/2006 to current
Continental Capital Ltd	10/12/2002 to current
Range Resources Ltd	08/11/2005 to current

COMPANY SECRETARY

Colin Henry Johnston, Dip. Bus Accounting, CPA

Mr Johnston 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 30 years and has many years of experience mainly within the Orica Group of Companies (formerly ICI Australia Pty Ltd). Mr Johnston resides in Brisbane.

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

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

	Ordinary Shares	Options over Ordinary Shares
S. J. Morrow	-	4,000,000
W.D. Dowse	-	5,000,000
Dr M.F. Quinlan	553,751	3,000,000
P.N. Landau	10,500,000	3,010,000

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
Final for 2008 shown as recommended in the 2008 report		
-on ordinary shares	0.0	0

REVIEW AND RESULTS OF OPERATIONS

Operating Results for the Year

The company generated a trading loss after tax of $4,657,171, some $3,227,327 higher than 2007. However, to give a clearer picture, cash fixed costs need to be separated from impairment impacts as follows:-

Cash Fixed Costs

- An increase in research and development expenditure on the company's natural termiticide product, TERMILONE® of $450,000;
- First development trials of the Bioeffective® natural plant extracts into poultry and Arabian horses of $226,000;
- An increase in the research and development tax offset from the ATO of $105,000 and

Impairment and amortisation

- An impairment write down of the company's investment in Solagran due to the decline in their share price (explained in further detail in note 13 to the financial statements)for $1,812,500; and

- Amortisation of the Solagran licence amounting to $389,952.

The company's cash reserves at the end of the financial year amounted to $3,902,105.

REVIEW OF FINANCIAL CONDITION

Capital Structure

During July 2007, the company received $4,779,546 (before costs) from its underwriter Max Capital Pty Ltd, for the issue of 95,590,914 ordinary shares associated with options that expired on 30 June 2007 at an exercise price of $0.05 per share.

During July 2007, the company also issued 35,569,665 options expiring on 31 March 2010 @$0.05 per share to Max Capital Pty Ltd in consideration for underwriting fees associated with the option exercise. This issue has been valued at $988,598 and has been included as share issue costs. The company also paid Max Capital $269,272 for a management fee associated with the option exercise in July 2007. This fee has also been included as share issue costs.

On 2 November 2007, 22,500,000 shares (along with 22,500,000 options expiring on 31 March 2010 at an exercise price of $0.05 per share) were issued to Solagran Limited at a value of $855,000 in consideration for the Bioeffectives® licence agreement. On 15 November 2007, 32,000,000 shares (along with 32,000,000 options expiring 31 March 2010 at an exercise price at $0.05 per share) were issued to Nova Vita Pty Ltd at a value of $1,216,000 in consideration for the same licence.

On 28 February 2008, 10,000,000 shares were issued to Thirteen Eleven Pty Ltd at a value of $380,000 for consulting fees pertaining to the establishment of the Solagran licence agreement.

The Future

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

- Continuing the research and development program of TERMILONE® in order to obtain registration as a termiticide;
- Continuing discussions with suitable partners for the commercialisation of TERMILONE® with a view to establishing an appropriate commercial relationship;
- Finalising a detailed work program and continuing research and development activities for the Bioeffectives® range of products; and
- Assist Bio-Gene with collaborative contacts in order to fine tune development for Qcide.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

SIGNIFICANT EVENTS AFTER BALANCE DATE

The company's Managing Director Mr Warwick Dowse handed in his resignation on 23 June 2008. Under the terms of his employment contract, which requires a 3 month notice, his termination date will be 23 September 2008.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

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

SHARE OPTIONS

Unissued shares

As at balance date, there were 149,069,664 unissued ordinary shares under option. The shares will be issued by BioProspect Limited when the options are exercised. Refer to Note 19 of the financial statements for further details of the options outstanding.

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

During the year ended 30 June 2008, the company had secured directors' and officers' insurance to indemnify all current officers of the company against all liabilities to another person (other than the company or a related body corporate) that may arise from their position with the company and its controlled entities.

REMUNERATION REPORT (AUDITED)

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

For the purposes of this report, the term 'executive' encompasses the chief financial officer and company secretary (one person) of the parent and group.

Details of key management personnel (including the five highest executives of the company and the Group)

(i) Directors

S. J. Morrow	Chairman (non-executive)
W.D. Dowse	Managing Director – resigned 23 June 2008
P.N. Landau	Director (non-executive)
Dr M.F. Quinlan	Director (non-executive)

(ii) Executives

C.H.Johnston	Chief Financial Officer/ Company Secretary

Other than the resignation of W. D. Dowse, there were no other changes of the KMP after reporting date and before the date the financial report was authorized for issue

Compensation by category (KMP and directors)

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
Short-term employee benefits	488,717	372,180	290,715	221,012
Post-employment benefits	37,950	31,481	21,750	19,496
Share-based payments	253,372	-	253,372	-
Total compensation	780,039	403,661	565,837	240,508

Remuneration Philosophy

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

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

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

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and senior manager remuneration is separate and distinct.

Non-executive director remuneration

Objective

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

Structure

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

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

is allocated among them:

i. on an equal basis having regard to the proportion of the relevant year for which each director held office: or

ii. as otherwise decided by the Board.

Senior manager and executive director remuneration

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

The remuneration of non-executive directors for the period ending 30 June 2008 is detailed in Table 1 on page 28 of this report.

Objective

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

Structure

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

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

Fixed Remuneration

Objective

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

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

Structure

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

The fixed remuneration component of the only 1 senior manager in the group is detailed in Table 1 on page 28.

Variable Remuneration

Objective

The objective of the variable component is to link the achievement of the Group's operational targets with the compensation received by the Managing Director and the Chief Financial Officer.

Structure

The Board finalised some key milestones for the financial year ended 30 June 2008 with the Managing Director specifically associated with the development of TERMILONE® and the Bioeffectives® range of products from Solagran Limited. The proposed milestones (considered short term) consist of successful mammalian toxicity trials, environmental toxicity trials, manuafacturing studies and development of formulations for TERMILONE®. The Bioeffectives® development milestones consisted of completion of a business plan, completion of broiler chicken studies and identification of collaborators.

The Board also finalised some key milestones for the Chief Financial Officer for the year ended 30 June 2008 pertaining to corporate governance, financial management, project management, taxation management and shareholder management.

On successful achievement of these milestones, the Managing Director and Chief Financial Officer will potentially receive a cash payment during August 2008 which will be recommended and approved by the Board.

Consequence of company's performance on shareholders' wealth

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

DIRECTORS' REPORT

Shareholder returns

	30/06/08	30/06/07	30/06/06	30/06/05	30/06/04
Share price -cents	1.8	4.6	2.1	4.0	8.0
Shares on issue	487,040,944	326,950,030	282,835,976	185,126,982	149,797,017
Capitalisation	$8.8m	$15.0 m	$5.9 m	$7.4 m	$12.0 m
Loss per share –cents	(0.6)	(0.5)	(0.3)	(0.7)	(1.6)

Employment contracts

The company does have employment contracts with both the Managing Director and the Chief Financial Officer. Terms are as follows:

	Managing Director	Chief Financial Officer
Standard conditions	Salary subject to annual review	Salary subject to annual review
	Statutory superannuation	Statutory superannuation
Term	No fixed term	No fixed term
Notice	3 months	3 months
Termination by company		
-reorganisation	12 months	6 months
-general	6 months	3 months
-cause	Employment may be terminated without notice and without payment of any salary or compensation in lieu of notice.	

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

Table 1: Remuneration for the year ended 30 June 2008

	Short-term Salary & fees	Non monetary	Post Employment Superannuation	Share-Based Payment Options	Total
Non-executive directors	$	$	$	$	$
S. J. Morrow - Chairman	70,000	-	6,300	59,617	135,917
P.N. Landau	49,050	-	-	44,713	93,763
Dr M.F. Quinlan	45,000	-	4,050	44,713	93,763
Sub-total non-executive directors	164,050	-	10,350	149,043	323,443
Executive directors					
W.D. Dowse	180,000	18,000	16,200	74,521	288,721
Other key management personnel (KMP)					
C.H. Johnston	126,667	-	11,400	29,808	167,875
Totals	470,717	18,000	37,950	253,372	780,039

Table 2: Remuneration for the year ended 30 June 2007

		Short-term Salary & fees	Non monetary	Post Employment Superannuation	Share-Based Payment Options	Total
Non-executive directors		$	$	$	$	$
S. J. Morrow - Chairman	(a)	2,917	-	262	-	3,179
P.N. Landau	(b)	4,395	-	-	-	4,395
I.A. Macliver	(c)	39,306	-	3,538	-	42,844
M.F. Quinlan		35,833	-	3,225	-	39,058
J Hondris	(d)	31,895	-	2,871	-	34,766
Sub-total non-executive directors		114,346	-	9,896	-	124,242
Executive directors						
W.D. Dowse	(e)	43,167	4,500	3,885	-	47,052
Other key management personnel (KMP)						
W.D. Dowse –General Manager	(f)	90,000	13,500	8,100	-	111,600
C.H. Johnston – Chief Financial Officer		106,667	-	9,600	-	116,267
Sub-total executive KMP		239,834	18,000	21,585	-	279,419
Totals		354,180	18,000	31,481	-	403,661

(a) Appointed 15 June 2007
(b) Appointed 29 May 2007
(c) Resigned 12 April 2007
(d) Resigned 29 May 2007
(e) Appointed Managing Director 12 April 2007
(f) Represents costs up to 12 April 2007 as General Manager

Table 3: Compensation options: Granted and vested during the year (consolidated)

30 June 2008	Granted No	Grant Date	Fair value per option at grant date $	Expiry Date	Exercise Price $	First exercise date	Vested
Directors							
S. J. Morrow	4,000,000	5/11/2007	0.0149	30/09/2010	0.10	5/11/07	5/11/07
W. D. Dowse	5,000,000	5/11/2007	0.0149	30/09/2010	0.10	5/11/07	5/11/07
P. N. Landau	3,000,000	5/11/2007	0.0149	30/09/2010	0.10	5/11/07	5/11/07
Dr M. Quinlan	3,000,000	5/11/2007	0.0149	30/09/2010	0.10	5/11/07	5/11/07
					0.10		
Executives							
C. H. Johnston	2,000,000	5/11/2007	0.0149	30/09/2010	0.10	5/11/07	5/11/07
Total	17,000,000						

There were no options granted and vested during the year ended 30 June 2007

Table 4: Options granted as part of remuneration

	Value of options granted during the year $	Value of options exercised during the year $	Value of options lapsed during the year $	Remuneration consisting of options for the year %
S. J. Morrow	59,617	n/a	n/a	43.9
W. D. Dowse	74,521	n/a	n/a	25.8
P. N. Landau	44,713	n/a	n/a	47.7
Dr M. Quinlan	44,713	n/a	n/a	47.7
C. H. Johnston	29,808	n/a	n/a	17.8

There were no alterations to the terms and conditions of options granted as remuneration since their grant date. For details on the valuation of the options, including models and assumptions used, please refer to Note 26.

There were no forfeitures during the period.

DIRECTORS' REPORT

DIRECTORS' MEETINGS

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

	Directors' Meetings	Eligible to Attend	Audit Committee
Number of meetings held	5		2
Number of meetings attended:			
S.J. Morrow	5	5	2
W.D. Dowse	5	5	n/a
Dr M.F. Quinlan	5	5	2
P.N. Landau	5	5	n/a

Committee membership

As at the date of this report, the company had an Audit committee, consisting of Dr M.F. Quinlan (Chairman) and S.J. Morrow.

Members acting on the audit committee during the year consisted of Dr M.F. Quinlan (Chairman) and S.J. Morrow.

AUDITOR 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 2001. 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 services $20,296

AUDITOR INDEPENDENCE

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

1 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
www.ey.com/au

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 2008, 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

Winna Brown
Partner
28 August 2008

DIRECTORS' REPORT

Signed in accordance with a resolution of the directors

STEVE MORROW

Chairman

28 August 2008

Brisbane, Queensland

INCOME STATEMENT

For the year ended 30 June 2008

	Note	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	PARENT 2008 $	PARENT 2007 $
Licence fees		90,909	-	90,909	-
Sale of goods		-	8,356	-	8,356
Finance Revenue	5	315,784	101,612	304,261	101,606
REVENUE		406,693	109,968	395,170	109,962
Other income	5	-	3,818	-	-
Finance costs	5	(9,478)	(8,242)	(9,478)	(8,242)
Amortisation and depreciation	5	(395,643)	(4,880)	(391,112)	(226)
Employee costs	5	(780,039)	(403,661)	(565,837)	(240,508)
Impairment of available for sale investment /investment in associates	11/13	(1,812,500)	(463,102)	(1,812,500)	(463,102)
Research & development expenses		(1,170,130)	(159,262)	137,656	32,375
Provision for diminution in receivables from controlled entities	9	-	-	(1,580,218)	(467,808)
Other expenses	5	(896,074)	(370,823)	(866,262)	(330,688)
Share of net profit (losses) of associate	11	-	(133,660)	-	(133,660)
Loss before income tax		(4,657,171)	(1,429,844)	(4,692,581)	(1,501,897)
Income tax expense	6	-	-	-	-
Loss attributable to members of the parent	19	(4,657,171)	(1,429,844)	(4,692,581)	(1,501,897)
Basic earnings per share (cents per share)	7	(1.0)	(0.5)		
Diluted earnings per share (cents per share)	7	(1.0)	(0.5)		

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

BALANCE SHEET

As at 30 June 2008

	Note	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	PARENT 2008 $	PARENT 2007 $
ASSETS					
Current Assets					
Cash and cash equivalents	8	3,902,105	1,954,543	3,898,191	1,954,444
Trade and other receivables	9	307,253	41,258	256,621	37,958
Inventories	10	-	-	-	-
Investment in Associate held for sale	11	-	-	-	-
Prepayments		47,915	58,055	-	-
Total Current Assets		4,257,273	2,053,856	4,154,812	1,992,402
Non-current Assets					
Intangibles	12	779,906	-	779,906	-
Available for sale investments	13	1,125,000	-	1,125,000	-
Other financial assets	14	-	-	2	2
Property, plant and equipment	15	10,499	7,740	1,842	215
Total Non-current Assets		1,915,405	7,740	1,906,750	217
TOTAL ASSETS		6,172,678	2,061,596	6,061,562	1,992,619
LIABILITIES					
Current Liabilities					
Trade and other payables	16	390,789	99,133	381,132	68,680
Provisions	17	22,695	17,722	4,820	6,751
Total Current Liabilities		413,484	116,855	385,952	75,431
Non-current Liabilities					
Other payables	18	83,584	62,963	-	-
Total Non-current Liabilities		83,584	62,963	-	-
TOTAL LIABILITIES		497,068	179,818	385,952	75,431
NET ASSETS		5,675,610	1,881,778	5,675,610	1,917,188
EQUITY					
Equity attributable to equity holders of the parent					
Contributed equity	19 (a)	26,240,904	20,268,228	26,240,904	20,268,228
Reserves		2,478,327	-	2,478,327	-
Accumulated losses	19 (f)	(23,043,621)	(18,386,450)	(23,043,621)	(18,351,040)
Parent's interest		5,675,610	1,881,778	5,675,610	1,917,188
TOTAL EQUITY		5,675,610	1,881,778	5,675,610	1,917,188

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2008

Consolidated Group

	Note	Issued Capital $	Accumulated Losses $	Share Based Payments Reserve $	Total Equity $
At 1 July 2006		19,215,006	(16,956,606)	-	2,258,400
Issue of share capital		1,113,702	-	-	1,113,702
Share issue costs	19(b)	(60,480)	-	-	(60,480)
Loss for the year		-	(1,429,844)	-	(1,429,844)
At 30 June 2007		20,268,228	(18,386,450)	-	1,881,778
Loss for period		-	(4,657,171)	-	(4,657,171)
Total loss for year		-	(4,657,171)	-	(4,657,171)
Equity transactions					
Shares issued	19(b)	6,850,546	-	-	6,850,546
Share issue costs	19(b)	(1,257,870)	-	-	(1,257,870)
Share based payments	19(b)	380,000	-	2,478,327	2,858,327
Total equity transactions		5,972,676	-	2,478,327	8,451,003
At 30 June 2008		26,240,904	(23,043,621)	2,478,327	5,675,610

Parent

	Note	Issued Capital $	Accumulated Losses $	Share Based Payments Reserve $	Total Equity $
At 1 July 2006		19,215,006	(16,849,143)	-	2,365,863
Issue of share capital	19(b)	1,113,702	-	-	1,113,702
Share issue costs	19(b)	(60,480)	-	-	(60,480)
Loss for the year		-	(1,501,897)	-	(1,501,897)
At 30 June 2007		20,268,228	(18,351,040)	-	1,917,188
Loss for period		-	(4,692,581)	-	(4,692,581)
Total loss for year		-	(4,692,581)	-	(4,692,581)
Equity transactions					
Shares issued	19(b)	6,850,546	-	-	6,850,546
Share issue costs	19(b)	(1,257,870)	-	-	(1,257,870)
Share based payments	19(b)	380,000	-	2,478,327	2,858,327
Total equity transactions		5,972,676	-	2,478,327	8,451,003
At 30 June 2008		26,240,904	(23,043,621)	2,478,327	5,675,610

CASH FLOW STATEMENT

For the year ended 30 June 2008

	Note	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	PARENT 2008 $	PARENT 2007 $
Cash flows from operating activities					
Receipts from customers		-	8,356	-	8,356
Interest paid		(9,478)	(8,242)	(9,478)	(8,242)
Payment to suppliers and employees		(1,082,217)	(764,865)	(786,886)	(554,871)
Research & development expenditure		(974,750)	(259,773)	-	-
Income tax R&D offset received		137,656	32,375	137,656	32,375
Net cash flows used in operating activities	8 (a)	(1,928,789)	(992,149)	(658,708)	(522,382)
Cash flows from investing activities					
Interest received		174,527	80,868	163,003	80,862
Purchase of plant and equipment		(8,450)	(2,144)	(2,787)	-
Proceeds from sale of property, plant and equipment		-	3,818	-	-
Payments for intangibles		(800,000)	-	(800,000)	-
Loans to controlled entities		-	-	(1,268,035)	(467,808)
Net cash flows from (used) in investing activities		(633,923)	82,542	(1,907,819)	(386,946)
Cash flows from financing activities					
Proceeds from issues of shares		4,779,546	1,113,702	4,779,546	1,113,702
Transaction costs of issue of shares		(269,272)	(60,480)	(269,272)	(60,480)
Net cash flows from financing activities		4,510,274	1,053,222	4,510,274	1,053,222
Net increase (decrease) in cash and cash equivalents		1,947,562	143,615	1,943,747	143,894
Cash and cash equivalents at beginning of year		1,954,543	1,810,928	1,954,444	1,810,550
Cash and cash equivalents at end of the year	8	3,902,105	1,954,543	3,898,191	1,954,444

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

1. CORPORATE INFORMATION

The financial report of BioProspect Limited (the Company) for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 28 August 2008.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

Change in accounting policy

In prior years, the company recognised income tax benefits related to the research and development income tax rebate program sponsored by the Australian Taxation Office (the "income tax rebate' program). Where companies are eligible (as BioProspect was in prior years), companies may elect to receive this income tax deduction as an immediate cash payment, rather than increasing tax losses for a future benefit.

The company recognised the receipt of these amounts as an income tax benefit based on the timing in which they recovered qualifying research and development costs, as identified in the income tax rebate program. In regards to compliance with AIFRS, it is noted that "investment tax credits" are not defined within AIFRS and given the lack of authoritative guidance in regards to the accounting for investment tax credits under AIFRS, the company had previously elected to follow AASB 112 Income Taxes in terms of the classification of the receipts under this program as an income tax benefit. The company has now determined that although this tax incentive is described as a tax credit, its amount is not dependent upon the taxable income of the company and as a result it would improve the relevance and reliability of the financial statements if the tax credit is accounted for as a government grant in accordance with AASB 120 Accounting for Government Grants and Disclosure of Government Assistance.

As the company charges research and development directly to income, this tax credit should be credited against research and development expenditure.

The net impact on the company's loss for the 30 June 2008 and 2007 financial years as a result of this change is nil. It is simply a reclassification of the tax credit from the 'income tax benefit' line in the income statement to the 'research and development' (R&D) line in the income statement. The line by line impact is as follows:

		CONSOLIDATED		PARENT	
		2008	2007	2008	2007
		$	$	$	$
R&D before change in policy		(1,307,786)	(191,637)	-	-
R&D after change in policy		(1,170,130)	(159,262)	137,656	32,375
Net change		137,656	32,375	137,656	32,375
Loss before income tax before change		(4,794,827)	(1,462,219)	(4,830,237)	(1,534,272)
Loss before income tax after change		(4,657,171)	(1,429,844)	(4,692,581)	(1,501,897)
Net change		137,656	32,375	137,656	32,375
Income tax benefit before change		137,656	32,375	137,656	32,375
Income tax benefit after change		-	-	-	-
Net change	Note 6	137,656	32,375	137,656	32,375

a. Compliance with AIFRS

The financial report complies with Australian Accounting Standards, as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

b. New accounting standards and interpretations

Except for the amendments arising from AASB2007-4: Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments, which the Group has early adopted, Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2008.

These are outlined in the table below:-

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 123 (Revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	1 January 2009	These amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. The Group has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the Group's financial report.	1 July 2009

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Group has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The Group has share-based payment arrangements that may be affected by these amendments. However, the Group has not yet determined the extent of the impact, if any.	1 July 2009
AASB 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into – to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1 July 2009	The Group may enter into some business combinations during the next financial year and may therefore consider early adopting the revised standard. The Group has not yet assessed the impact of early adoption, including which accounting policy to adopt.	1 July 2009

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 127 (Revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	1 July 2009	If the Group changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give rise to a gain or a loss in the Group's income statement.	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	1 July 2009	Refer to AASB 3 (Revised) and AASB 127 (Revised) above.	1 July 2009
AASB 2008-5 & AASB 2008-6	Amendments to Australian Accounting Standards arising from the Annual Improvements Project Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	1 January 2009 1 July 2009	The Group has not yet assessed the impact of early adoption,	1 July 2009

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2008-7	Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to AASB 127 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value (An issue sometimes known as a "dividend trap" in newcos).	1 January 2009	The Group has not yet assessed the impact of early adoption.	1 July 2009
Amendments to International Financial Reporting Standards	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to IAS 27 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	1 January 2009	Recognising all dividends received from subsidiaries, jointly controlled entities and associates as income will likely give rise to greater income being recognised by the parent entity after adoption of these amendments. In addition, if the Group enters into any group reorganisation establishing new parent entities, an assessment will need to be made to determine if the reorganisation meets the conditions imposed to be effectively accounted for on a 'carry-over basis' rather than at fair value.	1 July 2009

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
Amendments to International Financial Reporting Standards	Improvements to IFRS	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	1 January 2009 except for amendments to IFRS 5, which are effective from 1 July 2009.	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009

Adoption of new accounting standard

The Group has adopted AASB 7 Financial Instruments: Disclosures and all consequential amendments which became applicable on 1 January 2007. The adoption of this standard has only affected the disclosure in these financial statements. There has been no affect on profit and loss or the financial position of the entity.

c. Basis of consolidation

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

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

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

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

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

d. Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions & balances

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

e. Segment reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. The Group operates within one business segment, the biotechnology industry focusing on natural plant extracts for use within the insecticide, termiticide and human health markets.

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

f. Revenue recognition

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

(i) Sale of goods

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

(ii) Interest income

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

(iii) Rendering of services

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

(iv) Licence fee

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

g. Government grants

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

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

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

h. Borrowing costs

Borrowing costs are recognised as an expense when incurred.

i. Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

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

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

j. Cash and cash equivalents

Cash and cash eqiuivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

k. Trade and other receivables

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

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

l. Inventories

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

m. Investments and other financial assets

Investments and financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through the profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

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

Recognition and Derecognition

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

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

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

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables

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

(iv) Available-for-sale securities

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

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

n. Investment in associate

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

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The income statement reflects the Group's share of the results of operations of the associate.

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

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

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

o. Income tax

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.

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

p. Other taxes

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

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

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

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

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

q. Property, plant and equipment

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

Category of plant & equipment	Useful life	Useful life
	2008	2007
Office Equipment	4-5 yrs	4-5 yrs
Computer Hardware	2.5 yrs	2.5 yrs
Furniture & Fittings	2.5-5 yrs	2.5-5 yrs

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

Derecognition and disposal

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

r. Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalised and expenditure is charged against profits in the year in which expenditure is incurred.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Research and development costs

Research and development costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

s. Impairment of non financial assets other than goodwill

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

t. Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of the goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

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

u. Interest-bearing loans and borrowings

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

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

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

v. Provisions

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

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

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

w. Employee leave benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employee's services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

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

As of the 30 June 2008, the Group did not have any employees with significant service to necessitate a provision for long service leave.

x. Share-based payment transactions

Equity settled transactions

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

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

y. Contributed equity

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

z. Earnings per share

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

a. Significant accounting judgment

Impairment of assets and investments

The group determines whether non-current assets should be assessed for impairment based on identified impairment triggers. At each reporting date management assesses the impairment triggers based on their knowledge and judgement. Where an impairment trigger is identified, an estimate of future cash flows or fair value is required.

b. Significant accounting estimates and assumptions

Contingent Liabilities and Contingent Assets

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

(i) they can be reliably measured; and

(ii) the probability that an asset or liability will eventually be recognised is greater than remote.

(iii) the items are considered material

4. SEGMENT REPORTING

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

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

5. REVENUES AND EXPENSES

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	$	$	$	$
REVENUES AND EXPENSES				
(a) Finance Revenue				
Bank interest received and receivable	314,439	101,482	302,916	101,476
Interest received on tax return	1,345	130	1,345	130
	315,784	101,612	304,261	101,606
(b) Other income				
Net gains on disposal of property, plant and equipment	-	3,818	-	-
	-	3,818	-	-
(c) Finance costs				
Finance charges payable under operating lease	(7,670)	(7,356)	(7,670)	(7,356)
Interest payable on insurance policies	(1,808)	(886)	(1,808)	(886)
	(9,478)	(8,242)	(9,478)	(8,242)
(d) Amortisation and depreciation				
Amortisation of licence	(389,952)	-	(389,952)	-
Depreciation	(5,691)	(4,880)	(1,160)	(226)
	(395,643)	(4,880)	(391,112)	(226)
(e) Employee benefits expense				
Wages and salaries	(306,667)	(239,834)	(126,665)	(106,666)
Directors fees	(164,050)	(114,346)	(164,050)	(114,346)
Superannuation	(37,950)	(31,481)	(21,750)	(19,496)
Allowances	(18,000)	(18,000)	-	-
Share based payments	(253,372)	-	(253,372)	-
	(780,039)	(403,661)	(565,837)	(240,508)
(f) Other expenses				
Consulting and advisory expenses	(488,826)	(46,262)	(488,826)	(46,262)
Legal fees	(26,859)	(33,636)	(26,859)	(26,665)
Listing fees	(43,638)	(8,980)	(43,638)	(8,980)
Share registry charges	(36,379)	(36,335)	(36,379)	(36,335)
Sales and marketing	(55,147)	(13,354)	(55,147)	(13,354)
Other administration expenses	(245,225)	(232,256)	(215,413)	(199,092)
	(896,074)	(370,823)	(866,262)	(330,688)

6. INCOME TAX

	CONSOLIDATED		PARENT	
	2008 $	2007 $	2008 $	2007 $
INCOME TAX				
Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate				
A reconciliation between tax expense and the product of accounting profit (loss) before income tax multiplied by the Group's applicable income tax rate as follows:				
Accounting loss before tax	(4,657,171)	(1,429,844)	(4,692,581)	(1,501,897)
Add back R&D tax offset received (see note 2)	(137,656)	(32,375)	(137,656)	(32,375)
Total loss before tax	(4,794,827)	(1,462,219)	(4,830,237)	(1,534,272)
At the Parent Entity's statutory tax rate of 30% (2007: 30%)	(1,438,448)	(438,666)	(1,449,071)	(460,282)
Research and development deduction	(240,191)	-	-	-
Astrum loss not deductible	-	40,098	-	40,098
Entertainment	1,060	932	56	192
Share based payments	76,011	-	76,011	-
Other	346,425	-	355,129	-
	(1,255,143)	(397,636)	(1,017,875)	(419,992)
Tax effect of temporary differences and current year loss not brought to account	1,255,143	397,636	1,017,875	419,992
Aggregate income tax expense	-	-	-	-
Deferred tax asset arising from tax losses not brought to account at reporting date as realisation is not regarded as probable	4,635,460	3,477,559	4,635,460	3,477,559

The potential deferred tax asset will only be obtained if:

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

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

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

The Group has tax losses arising in Australia of $15,311,310 (2007: $11,127,907) with a further $140,225 capital losses as at 30 June 2008. The continued availability of these losses depends on the ability of the parent to satisfy the requirements of the continuity of ownership test (COT) or alternatively the same business test (SBT).

At 30 June 2008, there is no recognised or unrecognized deferred tax liability (2007: $nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associate, as the Group has no liability for additional taxation should such amounts be remitted.

Tax Consolidation

Effective 1 July 2003, for the purposes of income taxation, BioProspect Limited and its 100% owned subsidiaries have formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. However, as the Group has accumulated tax losses of $15,451,535 with the majority of this in the hands of the head entity, it will be some time before the Group will actually incur a tax liability.

Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding arrangement. The tax funding arrangement provides for the allocation of current taxes to members of the tax consolidated group in accordance with the available fractions belonging to each subsidiary, which is directly linked to prior year losses that have been accumulated. In the event of the company generating future taxable profits, the tax losses will be absorbed according to the available fractions available within the group.

The allocation of taxes under the tax funding agreement is recognised as an increase/ decrease in the subsidiaries' intercompany accounts with the tax consolidated group head company, BioProspect Limited. The group has applied the stand alone approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group.

7. EARNINGS PER SHARE

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

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

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

EARNINGS PER SHARE

	CONSOLIDATED	
	2008 $	**2007 $**
Net loss attributable to equity holders of the company from continuing operations	(4,657,171)	(1,429,844)
	Number of Shares	**Number of Shares**
Weighted average number of ordinary shares used in calculating basic earnings per share:	452,555,102	297,496,236

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

8. CASH AND CASH EQUIVALENTS

	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	PARENT 2008 $	PARENT 2007 $
CASH AND CASH EQUIVALENTS				
Cash at bank and in hand	718,125	125,787	714,211	125,689
Short-term deposits	3,183,980	1,828,756	3,183,980	1,828,755
	3,902,105	1,954,543	3,898,191	1,954,444

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

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

	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	PARENT 2008 $	PARENT 2007 $
(a) Reconciliation of loss after tax to net cash flows from operations:				
Net loss	(4,657,171)	(1,429,844)	(4,692,581)	(1,501,897)
Adjustments for:				
Depreciation	5,691	4,880	1,160	226
Amortisation	389,952	-	389,952	-
Shares issued by the company in payment for operating expenses	380,000	-	380,000	-
Impairment of non-current assets	1,812,500	463,102	1,812,500	463,102
Diminution in receivables from controlled entities	-	-	1,580,218	467,808
Net (profit)/loss on disposal of plant and equipment	-	(3,818)	-	-
Share of associate's net (profits)/ losses	-	133,660	-	133,660
Interest received	(174,527)	(80,868)	(163,003)	(80,862)
Share options expensed	253,372	-	253,372	-
Changes in assets and liabilities				
(Increase)/ decrease in trade and other receivables	(265,995)	(17,883)	(218,663)	(18,005)
(Increase)/ decrease in prepayments	10,140	(57,214)	-	-
(Decrease) / increase in trade and other payables	291,655	(79,351)	268	10,543
(Decrease) / increase in non-current liabilities	20,621	62,963	-	-
(Decrease) / increase in employee entitlements	4,973	12,224	(1,931)	3,043
Net cash used in operating activities	(1,928,789)	(992,149)	(658,708)	(522,382)

	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	PARENT 2008 $	PARENT 2007 $
(b) Non cash financing and investing activities				
Issue of 10,000,000 shares for consulting fees related to Solagran Licence Agreement	380,000	-	380.000	
Share-based payments to KMP and directors	253,372	-	253,372	-
Issue of 22,500,000 shares to Solagran for payment of licence	855,000	-	855,000	-
Issue of 22,500,000 options to Solagran for payment of licence	510,243	-	510,243	-
Issue of 32,000,000 shares to Nova Vita for payment of licence	1,216,000	-	1,216,000	-
Issue of 32,000,000 options to Nova vita for payment of licence	725,935	-	725,935	-
	-	-	-	-

9. TRADE AND OTHER RECEIVABLES

	NOTE	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	PARENT 2008 $	PARENT 2007 $
TRADE AND OTHER RECEIVABLES					
Trade debtors	(i)	100,000	-	100,000	-
Other debtors	(ii)	207,253	41,258	156,621	37,958
		307,253	41,258	256,621	37,958
Related party receivables	(iii)	-	-	8,024,866	6,757,744
Provision for diminution		-	-	(8,024,866)	(6,757,744)
		-	-	-	-

Movement in provision for diminution in related party receivables is due to funding provided by the parent entity during the year of $1,267,122.

a. Terms and conditions

(i) Trade debtors are non-interest bearing and generally on 30 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired.

(ii) Sundry debtors and other receivables are non-interest bearing and have repayment terms of 30 days. An allowance for doubtful debts is made when there is objective evidence that a sundry debtor or other receivable is impaired.

(iii) For terms and conditions relating to related party receivables refer to Note 22.

(iv) None of the trade and other receivables are contractually overdue.

10. INVENTORIES

	Note	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	PARENT 2008 $	PARENT 2007 $
INVENTORIES					
Finished Goods					
Plant extracts at cost		927,110	927,110	-	-
Write down of inventory		(927,110)	(927,110)	-	-
Total inventories at the lower of cost and net realisable value		-	-	-	-

11. INVESTMENT IN ASSOCIATE HELD FOR SALE

	Note	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	PARENT 2008 $	PARENT 2007 $
INVESTMENT IN ASSOCIATE HELD FOR SALE					
Investment in Astrum	(a)	-	-	-	-

(a) Astrum Therapeutics Pty Ltd – Ordinary shares

Ownership Interest	
2008	2007
27.2%	33.3%

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

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

	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $
(ii)*Share of associate's profits (losses).*		
Revenue	1,912	-
Profit / (loss) before income tax	(71,422)	(133,660)
Income tax expense	-	-
Profit / (loss) after income tax expense	(71,422)	(133,660)
(ii)*Carrying amount of investment in associate*		
Balance at the beginning of the financial year	-	596,762
- share of associates net profit (losses) for the financial year	-	(133,660)
- impairment write down	-	(463,102)
Carrying amount of investment in associate at the end of the year (1)	-	-
(iiii)*Accumulated losses of the consolidated entity attributable to associate*		
Balance at the beginning of the financial year	-	(77,367)
Share of associates net profit (losses)	-	(133,660)
Balance at the end of the financial year	-	(211,027)
(iv)*Share of associate's balance sheet*		
Current assets	95,441	56,033
Non-current assets	329	403
Intangibles	-	-
	95,770	56,436
Current Liabilities	-	-
Net assets	95,770	56,436

[1] As the carrying value of the investment is recorded as nil, no further share of loss is taken up in 2008.

b. Astrum Therapeutics Pty Ltd – Current Asset classification

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

The directors had conducted an impairment test to ensure the investment is valued at its estimated recoverable amount (the higher of its fair value less costs to sell and its value in use) and were not satisfied that the investment was valued accordingly. The directors at their Board meeting in July 2007 therefore decided to write the investment in Astrum down to zero, on the basis that its 33.3% shareholding in an unlisted drug discovery company requiring additional funding to support its research program would be of minimal value. The directors have advised Astrum that BioProspect will no longer participate in any further capital raisings and that its 33.3% shareholding is available for sale. The directors and executive team are firmly focused on TERMILONE® and the Bioeffectives® product range from Solagran Limited.

During the year ended 30 June 2008, Astrum was successful in raising additional capital, such to the extent that BioProspect's investment has been diluted from 33.3% to 27.2%. However, the directors of Bioprospect have not changed their position since June 2007 and still seek a potential investor to acquire their current shareholding.

12. INTANGIBLES

As previously announced on 22 August 2007, BioProspect signed a development and distribution agreement with Solagran Limited for an exclusive licence pertaining to the Bioeffectives® range of products. During October and November 2007, all obligations pertaining to the issue of shares to various parties and cash payments for the licence were settled. The net result of the various transactions was that the licence has been valued at a gross cost of $1,169,858 (issue of shares and options aggregating to $3,307,358 and cash payment of $800,000 offset by an increase in the fair value of the investment in Solagran by $2,937,500) which will be amortised over the life of the development agreement (30 months ending 22 February 2010). During the period, an amortisation charge of $389,952 was incurred against the gross cost, resulting in a net value of $779,906 as at 30 June 2008.

The Directors have conducted an impairment test to ensure the licence is valued at its recoverable amount as at 30 June 2008. The directors have formed the view that there are no external or internal sources of information that would indicate the investment is impaired. There are no indicators from Solagran that the potential for these products have changed since the signing of the agreement.

	CONSOLIDATED		PARENT	
	2008 $	2007 $	2008 $	2007 $
Reconciliation of carrying amounts				
Year ended 30 June 2007	-	-	-	-
Acquisition of Solagran licence	1,169,858	-	1,169,858	-
Amortisation	(389,952)	-	(389,952)	-
Impairment	-	-	-	-
Net carrying amount	779,906	-	779,906	-

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

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	$	$	$	$
At fair value				
Shares Australian listed	1,125,000	-	1,125,000	-
	1,125,000	-	1,125,000	-

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

BioProspect acquired 2,500,000 shares in Solagran Limited (SLA) on 11 December 2007 @20 cents per share ($500,000) and restated to fair value to $2,937,500. The value of the investment as at 30 June 2008, based on the closing market price was $787,500.

The directors conducted an impairment test at 30 June 2008 to ensure the investment was fair valued and have decided that there were external factors impacting the investment that needed to be considered in the valuation process. Solagran shareholders were impacted by the crash of Opes Prime Limited (as mentioned in the Chairman's Report) and as such, the SLA share price reduced dramatically during the period March to June 2008; the closing price at 30 June 2008 being $0.315 per share. However, on 7 August SLA announced that ANZ had sold their last parcel of SLA shares. As a consequence, the SLA share price has increased by over 40% since July and as of 22 August 2008 was $0.45 per share.

The directors have therefore decided to fair value the investment in SLA at this price of $0.45 on the basis that this is more representative of a normal market valuation. For the financial year this has resulted in an impairment write down of the investment for $1,812,500 which has been expensed for the period.

14. OTHER FINANCIAL ASSETS (NON-CURRENT)

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	$	$	$	$
OTHER FINANCIAL ASSETS (NON-CURRENT)				
Investments at cost comprise:				
Controlled entities				
Unlisted	-	-	4,024,344	4,024,344
Provision for diminution	-	-	(4,024,342)	(4,024,342)
	-	-	2	2

15. PROPERTY, PLANT & EQUIPMENT

	Note	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	PARENT 2008 $	PARENT 2007 $
PROPERTY, PLANT & EQUIPMENT					
Plant and equipment					
At cost		37,568	30,001	11,166	8,379
Accumulated depreciation		(27,079)	(22,261)	(9,324)	(8,164)
Impairment		-	-	-	-
Net carrying amount		10,499	7,740	1,842	215
(a) Reconciliations					
Plant and equipment					
Carrying amount at beginning		7,740	10,476	215	441
Additions		8,450	2,144	2,787	-
Disposals		-	-	-	-
Depreciation expense		(5,691)	(4,880)	(1,160)	(226)
Impairment		-	-	-	-
Net carrying amount		10,499	7,740	1,842	215

16. TRADE AND OTHER PAYABLES (CURRENT)

	Note	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	PARENT 2008 $	PARENT 2007 $
TRADE AND OTHER PAYABLES (CURRENT)					
Trade payables	(i)	270,846	55,542	11,199	31,269
Other creditors and accruals	(ii)	114,284	38,756	52,091	32,576
		385,130	94,298	63,290	63,845
Related party payables					
Other related parties	(iii)	5,659	4,835	317,842	4,835
		390,789	99,133	381,132	68,680

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 22.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

17. PROVISIONS

PROVISIONS	CONSOLIDATED	PARENT
Annual Leave	**$**	**$**
At I July 2007	17,722	6,751
Arising during the year	24,843	11,035
Utilised	(19,870)	(12,966)
Current 2008	22,695	4,820

18. PAYABLES (NON-CURRENT)

		CONSOLIDATED		PARENT	
		2008	2007	2008	2007
		$	$	$	$
PAYABLES (NON-CURRENT)	Note				
Other creditors and accruals	(i)	83,584	62,963	-	-
		83,584	62,963	-	-

(i) This amount reflects the payable by the consolidated entity under the Benefit Sharing Agreement entered into with the State of Queensland on 9 November 2001. The $83,584 reflects the 2008 fair value of the $100,000 minimum royalty payable on 9 November 2010.

19. CONTRIBUTED EQUITY AND RESERVES

		CONSOLIDATED		PARENT	
		2008	2007	2008	2007
		$	$	$	$
CONTRIBUTED EQUITY AND RESERVES					
(a) Issued and paid up capital					
Ordinary shares issued and fully paid		26,240,904	20,268,228	26,240,904	20,268,228

(b) Movements in shares on issue		2008		2007	
		#	$	#	$
Beginning of the financial year		326,950,030	20,268,228	282,835,976	19,215,006
Issued during the year:					
- share placements	(i)	-	-	42,000,000	1,008,000
- payment for licence	(ii)	54,500,000	2,071,000	-	-
- options exercised	(iii) (iv)	95,590,914	4,779,546	2,114,054	105,702
- payments for services	(v)	10,000,000	380,000		
Less share issue costs	(vi)	-	(1,257,870)	-	(60,480)
End of the financial year		487,040,944	26,240,904	326,950,030	20,268,228

Notes:

(i) On 23 February 2007, a placement was completed for 42,000,000 ordinary shares at an issue price of 2.4 cents, along with a free attaching new class of options exercisable at 5 cents per share on or before 31 March 2010. The new issue of shares and options was passed at a general meeting held on 8 June 2007.

(ii) On 2 November 2007, 22,500,000 shares (along with 22,500,000 options expiring 31 March 2010 at an exercise price of $0.05 per share) were issued to Solagran Limited at a value of $855,000 in consideration for the Bioeffectives® licence agreement. On the 15 November 2007, 32,000,000 shares (along with 32,000,000 options expiring 31 March 2010 at an exercise price at $0.05 per share) were issued to Nova Vita Pty Ltd at a value of $1,216,000 in consideration for the same licence.

(iii) During May and June 2007, shareholders exercised their option rights to acquire 2,114,054 ordinary shares at a price of 5 cents per share.

(iv) During July 2007, the company received $4,779,546 (before costs) from its underwriter Max Capital Pty Ltd, for the issue of 95,590,914 ordinary shares associated with options that expired on 30 June 2007 at an exercise price of $0.05 per share.

(v) On 28 February 2008, 10,000,000 shares were issued to Thirteen Eleven Pty Ltd for consulting fees pertaining to the establishment of the Solagran licence agreement.

(vi) During July 2007, the company issued 35,569,665 options expiring 31 March 2010 @$0.05 per share to Max Capital Pty Ltd in consideration for underwriting fees associated with the option exercise. This issue has been valued at $988,598 and has been included as share issue costs.

The company also paid Max Capital $269,272 for a management fee associated with the option exercise in July 2007. This fee has also been included as share issue costs.

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

c. **Capital management**

Going concern statement

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. As at 30 June 2008 the company was in a net asset position of $5,675,610 (2007: $1,881,778) and had incurred losses for the year ended of $4,657,171 (2007: $1,429,844). The directors believe that the going concern basis is appropriate due to the fact that the company has a strong history of capital raising when it was needed.

The current cash forecast shows that the company may need to raise additional capital by late calendar year 2009. Should the company not receive future funds, there is significant uncertainty whether the company will be able to continue as a going concern and be able to pay its debts as and when they fall due.

d. Share Options

Options over ordinary shares:	No of Options
Exercisable on or before 30 June 2007 at 5 cents per share	
Outstanding at beginning of year	95,594,940
Exercised during the year	(95,594,940)
Outstanding at end of year	-
Exercisable on or before 28 February 2008 at 20 cents per share	
Outstanding at beginning of year	450,000
Lapsed during the year	(450,000)
Outstanding at end of year	-
Exercisable on or before 30 September 2008 at 10 cents per share	
Outstanding at beginning of year	-
Issued during the year	17,000,000
Outstanding at end of year	17,000,000
Exercisable on or before 31 March 2010 at 5 cents per share	
Outstanding at beginning of year	42,000,000
Issued during the year	90,069,664
Outstanding at end of year	132,069,664
Total options over unissued ordinary shares	149,069,664

e. Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held, after all other creditors have been paid.

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

f. Accumulated losses

	CONSOLIDATED		PARENT	
	2008 $	2007 $	2008 $	2007 $
Accumulated losses Movements in accumulated losses Were as follows:				
Balance at beginning of year	(18,386,450)	(16,956,606)	(18,351,040)	(16,849,143)
Net loss attributable to members of BioProspect Limited	(4,657,171)	(1,429,844)	(4,692,581)	(1,501,897)
Balance at the end of year	(23,043,621)	(18,386,450)	(23,043,621)	(18,351,040)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2008

20. AUDITORS' REMUNERATION

	CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	PARENT 2008 $	PARENT 2007 $
AUDITORS' REMUNERATION				
The auditor of BioProspect Limited is Ernst & Young				
Amounts received or due and receivable by Ernst & Young for:				
- an audit or review of the financial report of the entity and any other entity in the consolidated entity	76,881	53,802	71,881	46,975
- other services in relation to the entity and any other entity in the consolidated entity				
- tax compliance	20,296	35,457	20,296	35,457
	97,171	89,259	92,177	82,432

21. KEY MANAGEMENT PERSONNEL

a. Option Holdings of key management personnel (consolidated)

30 June 2008	Balance at Beginning of Period 1 July 07	Granted as Remuneration	Options Exercised	Net Change Other	Balance at End of Period 30 June 08	Vested at 30 June 2008 Total
Directors						
S. J. Morrow	-	4,000,000	-	-	4,000,000	4,000,000
W. D. Dowse	-	5,000,000	-	-	5,000,000	5,000,000
P. N. Landau	10,000	3,000,000	-	-	3,010,000	3,010,000
Dr M. Quinlan	-	3,000,000	-	-	3,000,000	3,000,000
Executives						
C.H.Johnston	-	2,000,000	-	-	2,000,000	2,000,000
Total	**10,000**	**17,000,000**	**-**	**-**	**17,010,000**	**17,010,000**

30 June 2007	Balance at Beginning of Period 1 July 06	Granted as Remuneration	Options Exercised	Net Change Other	Balance at End of Period 30 June 07	Vested at 30 June 2007 Total
Directors						
S. J. Morrow	-	-	-	-	-	-
W.D. Dowse	-	-	-	-	-	-
Dr M. Quinlan	79,639	-	(79,639)	-	-	-
I. A. Macliver (a)	222,804	-	-	(222,804)	-	-
P.N. Landau	-	-	-	10,000	10,000	-
Total	**302,443**	**-**	**(79,639)**	**(212,804)**	**10,000**	**-**

(a) Resigned 12 April 2007 and chose not to exercise his options.

b. Compensation by category (KMP and directors)

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Short-term employee benefits	488,717	372,180	290,715	221,012
Post-employment benefits	37,950	31,481	21,750	19,496
Share-based payments	253,372	-	253,372	-
Total compensation	780,039	403,661	565,837	240,508

c. Shareholdings of key management personnel (consolidated)

Shares held in BioProspect Limited (number)

30 June 2008		Balance 1 July 07	Granted as remuneration	On exercise of options	Net change other	Balance 30 June 2008
Directors						
S. J. Morrow		-	-	-	-	-
W. D. Dowse		-	-	-	-	-
P. N. Landau		500,000	-	-	10,000,000	10,500,000
Dr M. Quinlan		553,751	-	-	-	553,751
Total		**1,053,751**	**-**	**-**	**10,000,000**	**11,053,751**

30 June 2007		Balance 1 July 07	Granted as remuneration	On exercise of options	Net change other	Balance 30 June 2007
Directors						
S. J. Morrow		-	-	-	-	-
W. D. Dowse		-	-	-	-	-
P. N. Landau		-	-	500,000	-	500,000
M Quinlan		474,112	-	-	79,639	553,751
I. A. Macliver	(a)	691,217	-	(691,217)	-	-
Total		**1,165,329**	**-**	**(191,217)**	**79,639**	**1,053,751**

(a) Resigned 12 April 2007.

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

d. Other transactions and balances with key management personnel and their related parties

Purchases

Mr I. A. Macliver who was non-executive chairman until he resigned from the company on 12 April 2007, was a director of Grange Consulting Group Pty Ltd which has provided corporate advisory services to the consolidated entity during 2008 of $nil (2007: $37,486). The 2007 figure of $37,486 was up to 30 April 2007.

Mr P. N. Landau joined the company as a director on 29 May 2007. He is a director of Doull Holdings Pty Ltd which is the entity where his director's fees are paid for the financial year amounting to $49,050 (2007: $4,395). The amount outstanding to Doull Holdings Pty Ltd at 30 June 2008 is disclosed in Note 16 (2007: $nil).

10 million shares were issued to Thirteen Eleven Pty Ltd, a company owned by Mr P.N. Landau for consulting services whose full value was $380,000.

Terms and conditions of transactions with related parties

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

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

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

	2008 $	2007 $
Current Liabilities	-	-
Trade and other payables	5,659	-
Non-current liabilities	-	-
Total liabilities	5,659	-
Equity		
Contributed equity-share issue costs	-	60,480
Total Equity	-	60,480
Expenses		
Consulting fees	385,681	37,486
Total Expenses	385,681	37,486

22. RELATED PARTY DISCLOSURES

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

Name	Country of Incorporation	Class of Shares	% Equity Interest 2008	% Equity Interest 2007	Investment * $ 2008	Investment * $ 2007
BioProspect Australia Limited	Australia	Ord	100%	100%	4,024,341	4,024,341
Australian Phytochemicals Limited	Australia	Ord	100%	100%	1,323,464	1,323,464
BioProspect America Pty Ltd	Australia	Ord	100%	100%	2	2

* - Cost before provisioning. Refer to Note 11 and 14 for further investment disclosures.

The following summary provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances at year-end, refer to Note 9 and Note 16)

PARENT

Subsidiaries

BioProspect Limited loaned $1,267,122 to BioProspect Australia Ltd during the financial year to cover operating costs such as salaries, consulting fees, research and development expenditure and administration costs. (2007: $467,596). Balance of this loan as at 30 June 2008 was $8,024,866 (2007: $6,757,043) and has been fully provided for.

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

BioProspect Limited loaned $212 to BioProspect America Pty Ltd during the financial year to cover minor company registration costs (2007: $212). Balance of this loan as at 30 June 2008 was $913 (2007: $701).

BioProspect Australia Ltd loaned $3,060 to Australian Phytochemicals Limited during the financial year to cover company registration costs and audit fees. (2007: $4,270). Balance of this loan as at 30 June 2008 was $71,435(2007: $68,375).

For the year ended 30 June 2008, the Group has made an allowance for doubtful debts relating to amounts owing from subsidiary companies to the amount of $3,060 (2007: $4,270). This provision has been created due to the expectation that BioProspect Australia Limited and Australian Phytochemicals Limited will not generate their own positive cash flows within the immediate future. This amount has been eliminated on consolidation of the Group accounts.

23. EXPENDITURE COMMITMENTS

		CONSOLIDATED 2008 $	CONSOLIDATED 2007 $	PARENT 2008 $	PARENT 2007 $
EXPENDITURE COMMITMENTS					
Collection Licence Commitments	**(a)**	16,416	37,037	-	-
Southern Cross University	**(b)**	12,905	-	12,905	-
University of Western Sydney	**(c)**	435,121	146,247	435,121	146,247
Later than one year but not later than five years		464,442	183,284	448,026	146,247

a. Collection Licence

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

b. Southern Cross University

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

c. University of Western Sydney

For 2008, these commitments reflect the remaining contract value with the University of Western Sydney signed 24 January 2007. Due to the positive trial results on TERMILONE® to date there is only a small probability that these remaining funds will not be spent.

For 2007, these commitments reflect the minimum stage 1 expenditure payable to the University of Western Sydney under the agreement pertaining to the development of TERMILONE® signed 24 January 2007.

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main risks arising from the Group's financial instruments are credit risk, interest rate risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include the monitoring levels of exposure to interest rates and assessments of market forecast for interest rates. Liquidity risk is monitored through the development of future rolling cash flow forecasts which are tabled and reviewed at each board meeting.

Risk exposures and responses

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables. The Group's maximum exposures to credit risk at reporting date in relation to each class of recognized financial assets is the carrying amount of those assets as indicated in the Balance Sheet.

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

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Term deposits are placed with major financial institutions to minimize the risk of default of counterparties.

Interest rate risk

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

	CONSOLIDATED		PARENT	
	2008	2007	2008	2007
	$	$	$	$
Financial assets				
Cash and cash equivalents	3,902,105	1,954,543	3,898,191	1,954,444

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

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

At 30 June 2008, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

	Post tax loss Higher/ (lower)		Equity Higher/ (lower)	
	2008		2008	2007
	$		$	$
Consolidated				
+ 1% (100 basis points)	(42,368)	(14,090)	(42,368)	(14,090)
-0.5 % (50 points)	21,184	7,045	21,184	7,045
Parent				
+ 1% (100 basis points)	(40,801)	(13,569)	(40,801)	(13,569)
-0.5 % (50 points)	20,400	6,784	20,400	6,784

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

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

Liquidity risk

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

Foreign exchange risk

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

25. EVENTS AFTER THE BALANCE SHEET DATE

There were no events which occurred subsequent to year end, other than those noted elsewhere in this report which requires disclosure.

26. SHARE-BASED PAYMENT PLANS

	CONSOLIDATED		PARENT	
	2008 $	2007 $	2008 $	2007 $
Expense arising from equity-settled share-based payment transactions	253,372	-	253,372	-

a. Recognised share-based payment expenses

The expense recognised for employee services received during the year is shown in the above table

b. Recognised share-based payment expenses

Director and KMP options

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

Please refer to note 21 for option holding by directors.

c. Weighted average remaining contractual life

As there has been only one class of share based payments during 2008, the remaining contractual life as at 30 June 2008 is 2.3 years (2007: $nil).

d. Range of exercise price

The range of exercise price for options outstanding at the end of the year was $0.10 (2007: $nil).

e. Range of exercise price

The weighted average fair value of options granted during the year was $0.0149 (2007: $nil).

f. Option pricing model

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

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

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

DIRECTORS' DECLARATION

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

1. In the opinion of the directors:

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

   b. giving a true and fair view of the of the company's and the consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

   c. complying with Accounting Standards and Corporations Regulations 2001, and

   d. 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 2008.

On behalf of the Board

STEVE MORROW

Chairman

28 August 2008

Brisbane Queensland

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Independent auditor's report to the members of BioProspect Limited

Report on the Financial Report

We have audited the accompanying financial report of BioProspect Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001.* This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(a), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

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

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

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

ERNST & YOUNG

Independence

In conducting our audit we have met the independence requirements of 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. In addition to our audit of the financial report, 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.

Auditor's Opinion

In our opinion:

1. The financial report of BioProspect Limited is in accordance with the *Corporations Act 2001*, including:

   - Giving a true and fair view of the financial position of BioProspect Limited and the consolidated entity at 30 June 2008 and of their performance for the year ended on that date; and

   - Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 24 to 28 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of BioProspect Limited for the year ended 30 June 2008, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Winna Brown
Partner
Brisbane
28 August 2008

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 25 August 2008.

a. Distribution of equity securities

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

b. Twenty largest shareholders – ordinary shares quoted on ASX

	Ordinary shares		Options	
	No. of Holders	No. of Shares	No. of Holders	No. of Options
1 – 1,000	266	232,074	0	0
1,001 – 5,000	194	662,493	0	0
5,001 – 10,000	504	4,713,222	20	200,000
10,001 – 100,000	1,392	63,741,208	7	593,333
100,001 and over	674	417,691,947	23	76,776,331
	3,030	487,040,944	50	77,569,664
The number of shareholders holding less than a marketable parcel of shares are:	1,016			

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

		Listed ordinary shares	
		Number of Shares Held	% Held
1	Bejjal Pty Ltd Super Fund a/c	40,000,000	8.21
2.	Solagran Limited	22,500,000	4.62
3.	Mr Leo Khouri	20,000,000	4.11
4.	Maverick Trading Pty Limited	20,000,000	4.11
5.	ANZ Nominees Limited SL Cash Income a/c	13,764,041	2.83
6.	Gun Capital Management Pty Ltd	10,000,000	2.05
7.	Thirteen Eleven Pty Ltd	10,000,000	2.05
8.	Mr Robert Liddon Teasdale	9,552,087	1.96
9.	Hartkon Investments Pty Ltd	9,500,000	1.95
10.	Gasmere Pty Ltd	5,000,572	1.03
11.	Erceg Enterprises Pty Ltd	4,808,415	.99
12.	Imax Superfund a/c	4,500,000	.92
13.	Mr Robert and Mrs Joan Blanden	3,050,000	.63
14.	Mr Evan Themelakis	2,700,000	.55
15.	Mr Peter Howells	2,400,000	.49
16.	Simius Pty Ltd	2,400,000	.49
17.	Ms Joanne Keng Yee Loh	2,160,930	.44
18.	Mdm Swee Lan Loh	2,000,000	.41
19.	Mr David John Walls	2,000,000	.41
20.	Ms Madonna Therese Walls	2,000,000	.41
		188,336,045	38.66

c. Optionholders – options quoted on ASX

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

		Listed Options	
		Number of Options Held	% Held
1.	ANZ Nominees Limited Cash income a/c	36,901,520	27.94
2.	Mr Leo Khouri	32,000,000	24.23
3.	Solagran Limited	22,500,000	17.04
4.	J&J Bandy Nominees Pty Ltd	7,000,000	5.30
5.	Vermer Pty Ltd	6,250,000	4.73
6.	Mr Robert Liddon Teasdale	5,768,356	4.37
7.	Beachcove Holdings Pty Ltd	4,166,666	3.15
8.	Seivad Investments	3,566,667	2.70
9.	Mr Ross Ioannidis	1,125,000	0.85
10.	Facilitate Corporation Pty Ltd	1,000,000	0.76
11.	Teasdale Family a/c	1,000,000	0.76
12.	Seventy Three Pty Ltd	950,000	0.72
13.	Amanatidis Super Fund a/c	800,000	0.61
14.	Wilhaja Pty Ltd	641,667	0.49
15.	Ms Debbie Nelson	600,000	0.45
16.	Panhuber Family Super Fund a/c	500,000	0.38
17.	Ioannidis Super Fund a/c	500,000	0.38
18.	Johlenaman Pty Ltd	500,000	0.38
19.	Helmick Pty Ltd	450,000	0.34
20.	Mr Terence Arthur Bevan	400,000	0.30
		126,619,876	95.88

d. Unquoted Securities

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

Number of options	Number of holders
17,000,000	5

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

Tradewyns Pty Ltd	5,000,000
Morrow Super Fund a/c	4,000,000

e. Voting Rights

All ordinary shares carry one vote per share without restriction.

Option holders have no voting rights.

f. Restricted Securities

As at 25 August 2008, 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 2008 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.

NOTES