BioProspect Limited

ANNUAL REPORT 2011

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FRONTIER

- Heads of Agreement signed with Frontier Gasfields
- Shareholders approval obtained for Frontier investment
- 50% interest acquired in Frontier with option to increase to 75%

REGEN®

- REGEN® Pain Relief Spray launched into Australian natural therapeutics market
- Developed and implemented a promotional strategy in support of marketing programs
- Novel products and brands developed to commercialise REGEN® and DEMURE® products
- REGEN® Pain Relief Gel developed and approved for use in Australia.

AGRIPRO®

- Development Agreement with Solagran terminated with commercial certainty and market opportunities maintained
- Alternative supply of conifer green needle complex (CGNC) secured and commercial programs with AGRIPRO® and GI-GUARD® products implemented
- Application to the Australian Pesticides and Veterinary Medicines Authority (APVMA) for GI-GUARD® Oral Paste passed screening and in review phase

HIGHLI

- Completed pilot study in horses in Australia with GI-GUARD® Oral Paste for gastro-intestinal health
- AGRIPRO® Topical Gel prepared for testing in horses and AGRIPRO® Teat Spray developed for application in the dairy industry
- Middle East markets targeted for GI-GUARD® horse products in Agency Agreement with Middle East-based company
- GI-GUARD® and AGRIPRO® trademarks registered in Australia and selected overseas markets for use in animal health and nutrition applications.

TERMILONE®

- Completed field tests with TERMILONE® 80EC, in collaboration with Ensystex Corporation, to assess performance as a soil-applied treatment under field conditions

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GHTS

- Completed laboratory tests with TERMILONE® 80EC and established minimum effective concentrations and residual activity as a soil-applied termiticide
- Completed manufacturing study on extracting Eremophilone Oil from timber on a commercial scale
- Completed economic analysis of the use of TERMILONE® as both a soil applied termiticide and a timber treatment
- Decision made to suspend further development of TERMILONE® in the termiticide segment due to high product and treatment costs.

MESSAGE FROM THE MANAGING DIRECTOR

And just when the market seemed to be recovering, concerns over European sovereign debt, Chinese inflation and the slow pace of US growth have impacted the market.

Despite this uncertain background BioProspect has continued to develop current projects whilst also expanding into a new exciting area of investment.

In July 2011, following extensive due diligence that involved visits by me to Singapore, China and the Philippines, BioProspect shareholders approved the acquisition of up to 75% of Frontier Gasfields. Frontier is an Australian company with a suite of oil and gas assets mainly focused in the Philippines.

The Frontier investment offers considerable potential, giving BioProspect the opportunity to broaden the company's portfolio into the resource sector whilst also reducing risk through diversification.

Frontier has a strong and experienced management team that is well equipped to manage Frontier's resource projects which have excellent potential.

In August 2011, BioProspect increased its stake in Frontier to 50% following the securing of BHP Billiton as a farm-in partner on SC55 in the Philippines, with an option to increase this to a 75% interest.

BioProspect has strengthened its Board to oversee the Frontier investment, with the appointment in September 2011 of Winton Willesee as the Company's new chairman and non-executive director.

Mr Willesee is a director of a number of ASX-listed resource/energy companies, and his experience in this sector together with his financial market expertise will greatly assist BioProspect as it enters a new phase in its development.

charles pellegrino

The 2011 financial year has been a period of challenge and change influenced by both macro and local events. Following initial post-GFC confidence buoyed by Australia's economic resilience and continued demand in the region for resources and other local products, natural disasters both local and international served to moderate global sentiment.

Mr Willesee's appointment followed the retirement of BioProspect's long-serving chairman, Dr Michael Quinlan. First appointed a director in May 2003, Dr Quinlan has made a considerable contribution to the Company's development and on behalf of the Company I thank him for his past efforts.

Communication with shareholders and the market is a high priority for BioProspect. BioNews as a six monthly publication has continued to provide an update on BioProspect's products and projects and I would encourage shareholders to register their interest on www.bioprospect.com in order to obtain email notification and copies of BioNews and other company announcements.

On the project front, following resolution of the dispute with Solagran in July 2010 the Company has now established an alternative supply of conifer green needle complex (CGNC) that meets the quality specifications for the product thus enabling a seamless continuation of projects in animal health.

The application for registration of GI-GUARD® Oral Paste for horses in Australia has entered the review stage for the product chemistry component and the safety/efficacy component of the submission is subject to the successful completion of a trial in horses currently being undertaken in the UAE.

As shareholders may have seen in our new REGEN® newsletter "REGENerate," REGEN® continues to attract sales of REGEN® Pain Relief Spray and REGEN® Emu Oil Capsules with focus on distribution into Australian pharmacies via Doward International.

In early 2010 the company made the decision to suspend development of TERMILONE® as a termite control product. This followed a detailed economic analysis of treatment costs for both soil and timber treatment based on efficacy data as well as costs of timber collection and oil manufacture.

Unfortunately the treatment cost of TERMILONE® was shown not to be competitive with current products in the market.

BioProspect's executive team remains committed to successful project outcomes. The Directors and I congratulate management on their achievements during the 2011 financial year.

On behalf of the Directors, I thank shareholders for their ongoing support of BioProspect. Your commitment is essential to the achievement of company objectives and realisation of the commercial potential of BioProspect's natural products and associated IP.

It is with great pleasure that I present to you the company's Annual Report for FY2011.

CHARLES PELLEGRINO
Managing Director

October 2011

frontier

frontier

COMMERCIAL

In May 2011 BioProspect announced the signing of a Heads of Agreement for the potential acquisition of interests in Frontier Gasfields Pty Ltd (Frontier), a privately owned Australian incorporated oil and gas exploration company. Included in the agreement was an option to acquire up to 75 per cent of the company.

Due diligence was completed in April 2011, however an extension of the 45 day exclusivity period referred to in the Heads of Agreement was negotiated with Frontier to preserve BioProspect's position pending consideration by BioProspect shareholders. In July 2011 shareholders approved the acquisition of up to 75 per cent issued capital in Frontier.

The initial acquisition saw BioProspect subscribing for one million new shares in the capital of Frontier at $1.00 each, for a 25 per cent equity in Frontier. Included was the option to acquire an additional 50 per cent equity in two tranches of 25 per cent each. In consideration for the option BioProspect issued 150 million ordinary BioProspect shares to the existing Frontier shareholders.

The initial acquisition was finalised in late July 2011 and in August 2011 BioProspect announced an increase in its ownership in Frontier to 50 per cent. The move to exercise the option to move to 50 per cent ownership followed Frontier's notification of the securing of a farm-in partner to drill at least one well (at the partner's cost) at SC55 (Service Contract 55), located offshore Palawan Islands in the Philippines.

Consideration for the additional 25 per cent shareholding was a cash payment of $1.25 million, and the issue of 100 million ordinary shares in BioProspect and 100 million options ($0.03 each, expiring 31 December 2013).

The second option to increase BioProspect's ownership in Frontier to 75 per cent may be exercised by BioProspect at any time up to 60 days after Frontier formally advises BioProspect that the first exploration well has commenced on SC55. Upon exercising the Second Option, BioProspect will purchase a further 1,250,000 shares in Frontier at a cost of $1.00 per share and the issue of 150 million ordinary BioProspect shares and 150 million listed BioProspect options to the existing shareholders of Frontier excluding BioProspect itself.

HIGHLIGHTS 2011

> Heads of Agreement signed with Frontier Gasfields
> Shareholders' approval obtained for Frontier investment
> 50% interest acquired in Frontier with option to increase to 75%
> Major projects comprise SC52, SC55 and SC69 in the Philippines

FRONTIER PROJECTS

A summary of the main projects in which Frontier has an interest are listed below:

SC52

Service Contract 52 (SC52) is an onshore oil and gas permit located in the Cagayan Valley of Northern Luzon in the Philippines. The block contains one untested gas discovery and a number of other large and prospective oil and gas targets. It is strategically positioned to commercially exploit gas production for an electricity power generation development being less than one kilometre from the national high-voltage power grid.

Frontier has an 80 per cent interest in SC52, which is subject to the entry into assignment documentation with E.F.Durkee & Associates Inc. and approval from the Philippines Department of Energy, which cannot be unreasonably withheld.

SC55

SC 55 is located in the south west Palawan Basin in the Philippines, on a regional oil and gas fairway that extends from the productive Borneo offshore region in the southwest to the offshore Philippines production assets northwest of Palawan.

Frontier has an option to acquire from Trans-Asia Oil and Energy Development Corporation (Trans-Asia) the five per cent interest in the SC55, which Trans-Asia has the right to acquire from NorAsian Energy Limited pursuant to the terms of a Participation Agreement made between Trans-Asia, AustraAsian Energy Limited and Otto Energy Limited.

SC69

SC69 (Service Contract 69) is located offshore in the East Visayan Basin in the Philippines. The area has potential for both oil and gas.

Frontier has a 15% interest in SC69 subject to the completion of assignment and assumption documentation with Trans-Asia and NorAsian PH and approval from the DoE (Department of Energy), which cannot be unreasonably withheld.

agripro®

agripro®

COMMERCIAL

In July 2010, BioProspect served notice on Solagran as the first step in a dispute resolution process prescribed under the Development Agreement. BioProspect contended that it had entered into the Development Agreement in reliance on misrepresentations made by Solagran concerning the nature and extent of Solagran's intellectual property rights in and to the Bioeffectives technology, and Solagran's obligations under the Agreement to supply Bioeffectives to BioProspect at cost price.

In September 2010 BioProspect sought and obtained an injunction from the Federal Court of Australia to prevent Solagran selling BPO shares. In October 2010, after a period of mediation, BioProspect withdrew its court action and the parties agreed to terminate the Development Agreement and to pursue their business strategies separately. In the meantime, BioProspect had secured an alternative supply of conifer green needle complex (CGNC) that enabled it to continue CGNC-based product programs targeting companion animal markets. The initial focus has been on the equine market with both oral and topical animal healthcare products.

In July 2011 BioProspect announced that a Supply Agreement had been finalised for active ingredients of AGRIPRO® natural animal health products, including pine needle and other natural plant extracts.

A branding strategy is well advanced with AGRIPRO® now a registered trademark in a number of target countries including Australia, the USA, UK, New Zealand and Singapore; and GI-GUARD® a registered trademark in Australia and New Zealand and pending in other markets.

MARKETING

Market development programs have been undertaken in key target markets including New Zealand, the USA, Middle East and Europe. Initial focus has been on the equine market as well as selected opportunities in food production animals such as dairy.

In July 2011, the company announced the signing of an Agency Agreement under which market development activities would be undertaken in the Middle East focused on GI-GUARD® Oral Paste for horses, and in particular assessing the opportunities in treating performance horses in the region.

RESEARCH

In February 2011, a pilot study in horses with GI-GUARD® Oral Paste was completed. The 15-day study of six horses sought to assess the efficacy of GI-GUARD® Oral Paste in preventing equine gastric ulcer syndrome (EGUS) or alleviating the symptoms with three horses assigned to the treatment group and three in the control group.

The study indicated certain trends in the use of the product, however, it was determined that further studies would be required to validate the trends and provide statistically significant data to support registration.

In July 2011 BioProspect announced that further testing was being initiated in the United Arab Emirates in collaboration with the Sharjah Equine Hospital. Results from this trial are expected towards the end of 2011.

AGRIPRO® Topical Gel is a CGNC-based product for the treatment of surface cuts and abrasions as well as skin complaints. A safety study with this product has already been undertaken and efficacy test protocols prepared.

Opportunities for CGNC-based and other products have been identified with applications in both companion and food production animals. AGRIPRO® Teat Spray formulation has been developed and has undergone anti-microbial testing to confirm activity against the mastitis causing organism *Staphlyococcus aureus*.

REGULATORY

The application to register GI-GUARD® Oral Paste for horses submitted to the APVMA in 2010 has passed screening and entered the review phase. This was part of a phased application involving the initial submission of product chemistry followed by the submission of efficacy/safety data.

Completion of the efficacy studies with GI-GUARD® Oral Paste in horses will enable submission of the efficacy/safety data package to the APVMA to support approval as a natural veterinary health product.

Completion of efficacy testing of AGRIPRO® Topical Gel will enable submission of a registration application for this product. This will target the significant segment comprising natural skin and surface treatments in horses and other companion and production animals.

COMMERCIAL

In December 2010, BioProspect announced the signing of a Distribution Agreement with Doward International, for the exclusive distribution of REGEN® therapeutic products in Australia and New Zealand. Melbourne-based Doward International is a family owned company with more than 90 years experience in the Australian pharmacy and retail sector. It specialises in supplying a range of quality personal care and other products to the wholesale and retail trade.

Under the REGEN® banner, the company also enhanced its natural skin care product range with the signing of a Deed of Assignment with Nova Vita for the rights to the L'AZURE® cosmetic range which is developed with natural plant extracts. The intellectual property related to L'AZURE® includes formulas, brands and trademarks and complements the DEMURE® range of cosmetic products based on emu oil.

PRODUCT DEVELOPMENT

Product development projects have focused on new products to complement the existing range of therapeutic products. REGEN® Pain Relief Gel targets the pain management segment and was developed to complement REGEN® Pain Relief Spray. The product is now listed on the ARTG (Australian Register of Therapeutic Goods; Aust L 185584). Similar to the REGEN® Pain Relief Spray, the new product contains a unique blend of natural oils and specialised plant extracts which offers pain relief, including rosemary, peppermint, ginger and emu oil. It also features the unique Transdermal Solvency®, which is designed to penetrate the skin to achieve rapid and long-term benefits from its active components.

termilone®

termilone®

DEVELOPMENT

Results of field testing TERMILONE® TT (60% Eremophilone Oil), a timber treatment formulation, were announced in early 2010 and confirmed effective control of *Coptotermes acinaciformis*, the major termite pest in Australia. They also showed limited control of *Mastotermes darwiniensis*, a more aggressive but less economically important species.

Results of laboratory testing of TERMILONE® 80EC as a soil applied termiticide were also announced in 2010. These studies established minimum effective concentrations (MEC) against *Coptotermes acinaciformis* (5,000-6,500 ppm of Eremophilone Oil in soil) and a less aggressive species *Nasutitermes exitiosus* (<2,000 ppm). They also determined that under laboratory conditions vs. *C. acinaciformis* an initial application rate of >10,000 ppm would be required to maintain residual effectiveness over an extended period of up to five and a half months.

These findings formed the basis for application rates used in a field trial established in north Queensland in 2010 to test TERMILONE® 80EC as a soil-applied barrier as part of a two-year testing program. Application rates tested ranged from 500 to 10,000 ppm, with treatment plots exposed or covered (by concrete slab) to simulate building construction types. Results of an initial assessment undertaken six months after treatment revealed significant levels of termite attack, even at the highest treatment rate of TERMILONE® 80EC. These findings confirmed that a higher rate of TERMILONE® 80EC (>10,000 ppm) would be required to provide effective control.

MANUFACTURING

A manufacturing study was completed in 2010 in collaboration with Southern Cross University and a commercial producer of essential oils. Eremophilone oil was produced from *Eremophila mitchellii* timber chips using a commercial steam extraction plant. This process confirmed the production parameters required to successfully extract the oil as well as enabling production costs to be more accurately determined.

ECONOMIC ANALYSIS

Based on the outcome of both the efficacy tests and the manufacturing study, a detailed economic analysis of TERMILONE® as both a soil-applied termiticide and timber treatment was undertaken.

Given the relatively high use rates of TERMILONE® that would be required to achieve acceptable levels of performance, and assuming estimated manufacturing costs, TERMILONE® was determined to be commercially unviable as either a soil-applied termiticide or as a timber treatment at this stage. The decision was therefore taken to suspend development of the product in the termiticide segment and focus resources on other projects

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Corporate Information

ABN 58 008 130 336

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

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

Directors

W Willesee	Chairman
C Pellegrino	Managing Director
J Khouri	Non-executive Director

Company Secretary
CH Johnston

Registered Office
Suite 4, Level 1
50 Bourke Street
Melbourne VIC 3000
Telephone (03) 9650 7111
Facsimile: (03) 9662 1766

Solicitors
McCullough Robertson
66 Eagle Street
Brisbane QLD 4000

HWL Ebsworth Lawyers
Level 26, 530 Collins Street
Melbourne VIC 3000

Lavan Legal
1 William Street
Perth WA 6841

Bankers
Westpac Banking Corporation

Auditors
William Buck
Level 21, 307 Queen Street
Brisbane QLD 4000

Home Exchange
Australian Securities Exchange
Exchange Plaza
2 The Esplanade
Perth WA 6000

Internet Address
www.bioprospect.com

Share Registry
Computershare Investor Services Pty Limited
117 Victoria Street
West End, QLD 4101
Telephone: 1300 850 505
Facsimile: (03) 9473 2500

Corporate Governance Statement

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

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

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

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

The ASX on 6 August 2009 released findings of their first review of Corporate Governance Reporting under the revised Principles mentioned above. For each Principle, the ASX have suggested clear statements be made by each company in their annual report as to whether or not they comply with their recommendations. For each recommendation, BioProspect has decided to include a table with references to the company's compliance and where further information can be found. On 30 June 2010, the ASX released some further amendments to the August 2007 document which have been considered by BioProspect in the following disclosures.

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

Lay solid foundations for management and oversight (ASXCGC Principle 1)

ASX Recommendation 1.1	BioProspect's response	Corporate Policy
• A statement that the entity has established the functions reserved to the board;	See commentary below and Board Charter	Board Charter
• A statement that the entity has established the functions delegated to senior executives;	See commentary below and Board Charter	Board Charter
• A clear description or disclosure of the functions reserved to the board; and	See commentary below and Board Charter	Board Charter
• A clear description or disclosure of the functions delegated to senior executives.	See commentary below and Board Charter	Board Charter

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

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

THE BOARD IS ACCOUNTABLE TO SHAREHOLDERS FOR THE PERFORMANCE OF BIOPROSPECT

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

Corporate Governance Statement (continued)

Lay solid foundations for management and oversight (ASXCGC Principle 1) (continued)

ASX Recommendation 1.2	BioProspect's response	Corporate Policy
• A clear description of the process for evaluating the performance of senior executives.	See Remuneration Report, 'Remuneration Philosophy' and 'Variable Remuneration' pages 23 to 24.	Remuneration Policy
ASX Recommendation 1.3		
• An explanation of whether an evaluation of senior executives took place in the financial year;	Evaluation of senior executives for the year ended 30 June 2011 occurred during July 2011	Remuneration Policy
• If a performance evaluation of senior executives took place a statement as to whether it was in accordance with the process disclosed;	Yes	
• A statement as to where a copy of matters reserved for the board is publicly available;	Yes. BioProspect website	Board Charter
• A statement as to where a copy of matters delegated to senior executives is publicly available; and	Yes. BioProspect website	Board Charter
• A statement as to where a copy of the board charter is publicly available.	Yes. BioProspect website	Board Charter

Structure the board to add value (ASXCGC Principle 2)

ASX Recommendation 2.1	BioProspect's response	Corporate Policy
• A statement as to whether the board has a majority of directors who are independent; and	See commentary below	Board Charter
• A statement as to which directors are independent and which are not	See commentary below	Board Charter
ASX Recommendation 2.2		
• A statement as to who is the chair of the board and if the chair is independent.	See commentary below	Board Charter
ASX Recommendation 2.3		
• A statement as to who is the CEO and, if the same person is the chair, a statement as to the reasons why.	Mr Charles Pellegrino is the Managing Director	Board Charter for Managing Director's responsibilities.
ASX Recommendation 2.4		
• A statement as to whether the board has established a nomination committee.	See Disclosure of non-compliance with ASX recommendations on page 24.	Not applicable
ASX Recommendation 2.5		
• A clear description of the process for evaluating the performance of the board, its committees and individual directors.	Available on company's website.	Board Performance Review

Corporate Governance Statement (continued)

Structure the board to add value (ASXCGC Principle 2) (continued)

ASX Recommendation 2.6	BioProspect's response	Corporate Policy
• A clear description of the skills and experience of each director and their period of office;	See Director's Report page 25.	
• Details of the names of the directors considered to be independent and the reasons why they are independent;	See Structure of the Board below page 17	
• If any of the relationships set out in Box 2.1 apply and the director is still regarded as independent a statement explaining why a director is still considered to be independent;	Not applicable.	
• A statement whether or not there is a procedure in place for directors to take independent professional advice at the expense of the entity;	Yes. See Structure of the Board below page 17	
• Details of the names of members of the nomination committee and attendance at meetings; • If the board has not established a nomination committee a statement as to how the functions of the nomination are performed;	BioProspect does not have a Nomination Committee. See Disclosure of non-compliance with ASX recommendations on page 24.	
• An explanation of whether an evaluation of the board, its committees and directors took place in the reporting period;	See Disclosure of non-compliance with ASX recommendations on page 24.	
• If a performance evaluation of the board, its committees and the directors took place a statement as to whether it was in accordance with the process disclosed;	Not applicable	
• A description of the procedure for the selection and appointment of new directors and re election of incumbents;	See Election of Directors on page 17and Corporate Policy.	Board Performance Review
• A statement as to where a copy of the nomination committee charter or a summary is publicly available; and	Not applicable. See Disclosure of non-compliance with ASX recommendations on page 24.	
• A description of the board's policy for the nomination and appointment of directors and details of where this information is publicly available.	See Corporate Policy on BioProspect's website.	Board Performance Review

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

The BioProspect Board Charter was endorsed on 23 June 2010 and describes the structure of the Board and its committees and some of the major responsibilities of directors.

Corporate Governance Statement (continued)

Structure the board to add value (ASXCGC Principle 2) (continued)

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 25. 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	Name	Position
W Wilesee	Chairperson		

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

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

Name	Term in Office	Name	Term in Office
W Willesee	0.1 year	J Khouri	0.5 years
C. Pellegrino	2.9 years		

For additional details regarding Board appointments, please refer to our website.

Board Committees

To increase its effectiveness, the Board has established an Audit Committee, which has a charter, approved by the Board. Further explanation on its role is explained further on under ASXCGC Principle 4.

Election of Directors

Non-executive directors are subject to re-election by rotation at least every three years. One-third of the company's non-executive directors (except the Managing Director) are required to retire by rotation at each AGM, with each director being eligible for re-election.

BIOPROSPECT'S ESTABLISHED VALUES UNDERPIN ITS ACTIVITIES

BioProspect's corporate governance culture is critically important to BioProspect's commercial success.

Corporate Governance Statement (continued)

Promote ethical and responsible decision-making (ASXCGC principle 3)

ASX Recommendation 3.1	**BioProspect's response**	**Corporate Policy**
• A statement that the entity has established a code of conduct as to the :- (a) Practices necessary to maintain confidence in the company's integrity; (b) Practices necessary to take into account their legal obligations and the expectations of their stakeholders; and (c) Responsibilities and accountability of individuals for reporting and investigating reports of unethical practices; an	See commentary below. Code of Conduct endorsed 23 June 2010.	Code of Conduct
ASX Recommendation 3.2		
• Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	No policy established as of the date of this report	
ASX Recommendation 3.3		
• Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	Not implemented as of the date of this report	
ASX Recommendation 3.4		
• Companies should disclose in each annual report the proportion of women employees in the whole organization, women in senior executive positions and women on the board.	Not implemented as of the date of this report	

Companies should actively promote ethical and responsible decision-making.

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

Code of Conduct

The Board endorsed a Code of Conduct on 23 June 2010 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.

Corporate Governance Statement (continued)

Promote ethical and responsible decision-making (ASXCGC principle 3) (continued)

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.

Safeguard integrity in financial reporting (ASXCGC Principle 4)

ASX Recommendation 4.1	BioProspect's response	Corporate Policy
• A statement that the entity has established an audit committee.	See commentary below- Audit Committee.	
ASX Recommendation 4.2		
• A detailed description of the composition of the audit committee including the names of the directors and whether they are independent or not.	See commentary below. For comments on independence, refer to Structure of the Board page 17	
ASX Recommendation 4.3		
• A statement that the entity has adopted an audit committee charter.	See commentary below. Charter endorsed 23 June 2010.	Audit Committee Charter
ASX Recommendation 4.4		
• Details of the names and qualifications of those appointed to the audit committee;	See commentary below.	
• If the board has not established an audit committee a statement as to how the functions of the audit committee are performed;	Not applicable.	
• Details of the number of meetings of the audit committee;	See Directors' Meetings page 36.	
• A statement as to where a copy of the audit committee charter is publicly available; and	Available on BioProspect's website.	Audit Committee Charter
• A statement as to the procedures for the selection, appointment and rotation of external audit engagement partners.	See commentary below and Charter on BioProspect's website.	Audit Committee Charter

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

Audit Committee

The Audit Committee was chaired by Mr A Langdon, the other members being Dr Michael Quinlan and Colin Johnston. At the date of this report the Board is currently reviewing members of the Audit Committee. 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 23 June 2010. 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

Corporate Governance Statement (continued)

Safeguard integrity in financial reporting (ASXCGC Principle 4) (continued)

Audit Committee (continued)

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.

Make timely and balanced disclosure (ASXCGC Principle 5)

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

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

Continuous Disclosure
The Board endorsed a Continuous Disclosure Policy on 23 June 2010. 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 statements of cash flow are announced to the ASX and are made available on the company's internet site.

Respect the rights of shareholders (ASXCGC Principle 6)

ASX Recommendation 6.1	BioProspect's response	Corporate Policy
• A statement that the entity has designed a communications policy: (a) For promoting effective communication with shareholders; and (b) Encouraging shareholder participation at AGM's; and	See commentary below.	Investor Relations

Corporate Governance Statement (continued)

Respect the rights of shareholders (ASXCGC Principle 6) (continued)

ASX Recommendation 6.1(continued)	BioProspect's response	Corporate Policy
• Disclosure of the terms of the communications policy or a summary of the policy in the annual report or a clear statement as to where the policy is disclosed.	See commentary below	Investor Relations
ASX Recommendation 6.2		
• A statement at to where the communications policy or a summary is publicly available.	Available on BioProspect's website	Investor Relations

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

The Board endorsed an Investor Relations Policy on 23 June 2010. The objectives of this policy are to promote effective communications with shareholders, promote ready access to balanced and clearly understandable information about BioProspect and easy participation in general meetings.

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

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

Recognise and manage risk (ASXCGC Principle 7)

ASX Recommendation 7.1	BioProspect's response	Corporate Policy
• A statement that the entity has established policies for the oversight of material business risks; • A statement that the entity has established policies for the management of material business risks; • Disclosure of the terms of the risk management policies or a summary of the policies in the annual report or a clear statement as to where the policies are disclosed; and	See commentary below. BioProspect does not have a separate policy pertaining to risk management.	
• The categories of risk reported on or referred to in the annual report.	See commentary below- business, financial and legal compliance risks.	
ASX Recommendation 7.2		
• A statement that the board has required management to design and implement a risk management and internal control system to manage the entity's material business risks;	See commentary below.	
• A statement that the board has required management to report to it on whether those risks are being managed effectively; and	See commentary below- Business Risks.	

Corporate Governance Statement (continued)

Recognise and manage risk (ASXCGC Principle 7) (continued)

ASX Recommendation 7.2 (continued)	BioProspect's response	Corporate Policy
• A statement that management has reported to the board as to effectiveness of the entity's management of its material business risks.	Letter provided annually by COO and CFO to board. See commentary below.	
ASX Recommendation 7.3		
• A statement that the board has received assurance from the COO and CFO that the s. 295A declaration is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial risks.	See commentary below. Letter provided annually by COO and CFO to board. See commentary below.	
ASX Recommendation 7.4		
• A statement that the board has received the report from management under Recommendation 7.2; • A statement that the board has received assurance from the COO and CFO under Recommendation 7.3; and • A statement as to where the entity's policies on risk oversight and management of material business risks are publicly available.	Letter received for year ended 30 June 2011. Assurance letter received for year ended 30 June 2011. Not available.	

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

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

Business Risks

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

Financial Integrity Risks

Management has put into practice procedures and controls to ensure the integrity of its accounting and financial reporting to stakeholders. As part of the process of approving the financial statements, The Chief Operating Officer and the Chief Financial Officer provide statements in writing to the Board on the quality and effectiveness of the company's risk management and internal compliance and control systems.

Corporate Governance Statement (continued)

Recognise and manage risk (ASXCGC Principle 7) (continued)

Legal Compliance Risks
The Board maintains policies and procedures to ensure compliance with all major legal requirements in the conduct of BioProspect's business. The Board oversees and reviews the effectiveness of the risk management systems implemented by management. The Board has assigned responsibility to:
(a) Audit Committee – reviews and reports to the Board in relation to the company's financial reporting, internal control structure, risk management systems and the external audit function. An independent external audit is performed on the annual financial report of BioProspect as well as a review of the half-yearly accounts.
(b) Management – manages and reports to the Board on business and financial risks and compliance with other legal obligations.

Remunerate fairly and responsibly (ASXCGC Principle 8)

ASX Recommendation 8.1	**BioProspect's response**	**Corporate Policy**
• A statement that the entity has established a remuneration committee	No separate committee established. See Disclosures of Non-Compliance on page 24.	
ASX Recommendation 8.2		
• A description of the structure of non-executive directors' remuneration and executive directors' and senior executives' remuneration in sufficient detail that the distinction is clear.	See Remuneration Report pages 30-35.	
ASX Recommendation 8.3		
• Details of the names of the members of the remuneration committee and their attendance at meetings;	Not applicable.	
• If the board has not established a remuneration committee a statement as to how the functions of the remuneration committee are carried out;	See Disclosures of Non-Compliance on page 24.	
• Details of the existence and terms of any schemes for retirement benefits other than superannuation, for non executive directors;	No retirement schemes exist.	
• A statement as to where a copy of the remuneration committee charter is publicly available; and	Charter does not exist	
• A statement as to where a summary of the entity's policy on prohibiting transactions in associated products which limit risk of participating in unvested entitlements under any equity based remuneration schemes is publicly available.	Is included in 'Securities Trading' Policy authorized by the board on 21 December 2010 and released to the ASX on 22 December 2010.	

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

Corporate Governance Statement (continued)

Remunerate fairly and responsibly (ASXCGC Principle 8) (continued)

The Board endorsed a Remuneration Policy on 23 June 2010, which is designed to reward executives with a combination of fixed remuneration and short term incentives structured to drive improvements in share holder value. Non-executive directors are not entitled to incentive payments or a retirement benefit. Employees cannot approve their own remuneration, nor that of their direct subordinates, without their manager's approval.

BioProspect's discussion on Board policy for determining the nature and amount of emoluments of Board members and senior executives of the company and the relationship between such policy and the company's performance is provided in the Remuneration Report section of the Directors' Report on page 31.

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 2011, BioProspect did not have a separately established nomination committee. However, the duties and responsibilities typically delegated to such a committee are expressly included in the Board's responsibilities. The Board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate nomination committee.

Board Performance evaluation
ASXCGC Principle 2 requires that a statement be made in the annual report as to whether a performance evaluation for the Board has taken place in the reporting period. During the year ended 30 June 2011, BioProspect had not conducted such an evaluation.

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 2011, BioProspect Limited did not have a formal risk management policy as such. However, the company carries out regular risk assessments in a timely manner and covers the entire operational aspects of the company.

Remuneration
ASXCGC Principle 8.1 requires the establishment of a remuneration committee. During the year ended 30 June 2011, 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 2011.

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

Winton Willesee (Non-Executive Chairman) BBus., DipEd., PGDipBus., FFin, CPA, MAICD, ACIS

Mr Willesee was appointed to the Board on 16 September 2011 and is an experienced director in the small capitalisation sector of the ASX and brings to the board extensive experience in company administration, corporate governance, company public listings, merger and acquisition transactions, reconstructions and corporate finance.

Mr Willesee has a Master of Commerce, Post-Graduate Diploma in Business, a Graduate Diploma of Applied Corporate Governance, a Diploma in Education and a Bachelor of Business. He is a Fellow of the Financial Services Institute of Australasia, a Member of the Australian Institute of Company Directors and a Member of CPA Australia and a Chartered Secretary.

Mr Willesee is currently the chairman of Cove Resources Limited and Mining Group Limited, and a director of Base Resources Limited, Coretrack Limited, Newera Resources Limited and Otis Energy Limited.

During the last three years Mr Willesee has been a director of Incentive Limited (now Hawkley Oil and Gas Limited), Boss Energy Limited (now Boss Resources Limited) and Hawk Resources (now New Standard Energy Limited)

Mr Willesee resides in Perth.

Charles Pellegrino (Managing Director) B.A., B. Bus (Acc)

Mr Pellegrino was appointed Managing Director on 1 November 2009 after his appointment to the board on 1 September 2008 as a non executive director. His most previous employment was with another ASX listed company, Solagran Limited where he was responsible for international marketing and management of their production facilities over a period of 14 years. Prior to joining Solagran, Mr Pellegrino operated in public practice for approximately fifteen years as an accountant and financial advisor. He is also the founder and Director of the Stanford Group of Companies. Mr Pellegrino resides in Melbourne.

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

Jacob Khouri (Non-Executive Director)

Mr Khouri was appointed to the board on 16 February 2011. Mr. Khouri is the son of major shareholder Mr Elias Leo Khouri. Jacob has a broad range of corporate experience, having served as a director of Gun Capital Management and has been involved with associated ASX-listed companies Cape Lambert Iron Ore Limited, among others.

Mr Khouri also founded and operates a successful mechanical engineering business, specialising in the design and construction of custom-made off-road vehicles for recreational and commercial use.

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

Former Directors

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

Dr Quinlan joined the Board on 28 May 2003. An independent director, Dr Quinlan is a Consultant Physician and a Clinical Professor of Medicine of the University of Western Australia. He was also Professor Foundation Dean of the College of Health and Professor of Medicine of the University of Notre Dame and since 2008 has

Directors' Report (continued)

Names, qualifications, experience and special responsibilities (continued)

Former Directors (continued)

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

also been Chancellor of the University. Dr Quinlan holds the position of Chairman of the St John of God Foundation and is a trustee for the St John of God Australia Ltd. He was also a director of the Raine Medical Research Foundation (University of WA) for 21 years and is a Director of the Feilman Foundation, the Ear Science Institute of Australia and the Child Health Research Foundation of WA. Dr Quinlan resides in Perth. During the past three years, Dr Quinlan has not been a director of any other ASX listed companies.

Dr Quinlan resigned from the board on 16 September 2011.

Anthony Langdon (Non-Executive Director)

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

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

Mr Langdon resigned from the board on 15 August 2011.

Elias Leo Khouri (Non-Executive Director)

Mr Khouri was appointed to the board on 24 September 2009. Mr Khouri has been involved in the international finance and equity markets since 1987 through his involvement in various listed companies listed on the ASX, AIM, TSX, Dow Jones, NASDAQ and the German exchange. This has enabled him to gain vast experience in the areas of corporate finance, advisory, mergers and acquisitions, capital raisings, joint venture and farm in negotiations for both listed and unlisted companies in the resource, bio-tech, media and entertainment and telecommunications industries.

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

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

Mr Khouri resigned from the board on 16 September 2010.

EXECUTIVE MANAGEMENT

Peter Donald May (Chief Operating Officer) B. App. Sc. (Hons), MBA, AFAIM, GAICD

Mr May was appointed to the role of CEO of BioProspect on 23 September 2008 and on the 27 November 2009 was appointed to the new position of COO.

Mr May's career has included positions s with CFL, Incitec and Crop Care Australasia, where he managed professional products, toll formulation and international business development. In 2001, he founded his own consulting company Xavca Pty Ltd, where he assisted businesses to evaluate new markets and commercialise products.

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

Directors' Report (continued)

EXECUTIVE MANAGEMENT (continued)

COMPANY SECRETARY

Colin Henry Johnston Dip. Bus Accounting, CPA, GAICD

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

Prior to holding this position he held the role of Chief Financial Officer and Company Secretary for Griffin Corporation Australia Pty Ltd for 4 years and prior to that was Finance Manager for Crop Care Australasia Pty Ltd. He has been a CPA for over 34 years and has many years of experience mainly within the Orica Group of Companies (formerly ICI Australia Pty Ltd).

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
W. Willesee	nil	nil
C. Pellegrino	6,000,000	6,000,000
J. Khouri	3,000,000	3,000,000

DIVIDENDS

No dividends have been paid or provided during the year ended 30 June 2011.

PRINCIPAL ACTIVITIES

The consolidated entity has been primarily involved in conducting research and early stage commercialisation activities in the pesticide and agricultural sectors. However, with the purchase of Re Gen Wellness Products Pty Ltd in August 2009 the consolidated entity has also entered the human health and skin care market segment.

On 8 July 2011 at an extraordinary general meeting of shareholders, approval was given to change the nature of the Company's activities to include the exploration, development and production of oil and gas domestically and internationally and as well as other associated activities This investment opportunity is in line with the Company's strategy of increasing shareholder value. Please see 'Significant Events After Balance Date' on page 29.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than that detailed under Principal Activities above and Review and Results of Operations there have been no significant changes in the state of affairs of the consolidated entity.

REVIEW AND RESULTS OF OPERATIONS

Operating Results for the Year

The consolidated entity generated a trading loss after tax of $3,220,121 some $81,333 lower than 2010. Sales of REGEN products for the year were $294,042, significantly higher than the 2010 result of $1,456 reflecting the exclusive distribution arrangement signed with Doward International in February 2011. However, there were other significant impacts as follows:-

Directors' Report (continued)

Operating Results for the Year (continued)

Other Income

- Re Gen Wellness Products received $42,346 from the Australian government's Export Market Development Grant for costs associated with establishing markets in Asia.
- BioProspect realised $104,666 profit on disposal of its shares held in Solagran Limited (ASX:SLA)

Cash Fixed Costs

Total cash fixed costs for 2011 at $3,868,072 was some $1,037,049 higher than 2010 for the following key reasons:-

- An increase in legal expenses ($1,050,573) due to the finalisation of the development agreement dispute with Solagran limited, due diligence costs associated with the Frontier Gasfields investment, notice of extraordinary meeting costs and other development and marketing agreements;
- Sales and marketing expenses increased by $84,367 due to activities associated with the Re Gen Wellness Product's portfolio (advertising, product samples, trademark searches), promoting the *AGRIPRO*™ and *GI-Guard*™ brands (trademarks) and corporate advertising;
- Employee benefits expenses were some $124,740 lower than 2010 primarily due to a reversal of share based payments for director options that expired in September 2010 of $74,521.

Non Cash Expenses

- Amortisation costs were significantly below the 2010 figure of $311,963 as the Solagran Development Licence was fully amortised during 2010;
- Impairment provisions were some $585,000 below the 2010 write down that occurred for the Solagran Development licence.

Review of Financial Condition

Capital Structure

During the last twelve months the company has been able to raise capital when needed due to an excellent relationship with several major shareholders and underwriters, particularly Novus Capital Limited. Please refer to note 21 for specific details of placements and other initiatives that occurred during the year ended 30 June 2011.

Cash Reserves

The company's cash reserves at the end of the financial year amounted to $1,718,019.

The Future

FRONTIER GASFIELDS
Finalise the investment opportunity into Frontier and continue to develop the asset.

TECHNOLOGY PROJECTS
The Company will continue to seek to maximize the value of its REGEN, AGRIPRO and Qcide assets to the Company.

OTHER
Continue to evaluate new business opportunities consistent with BioProspect's long term strategy to grow market value through the development of novel and natural technologies.

Directors' Report (continued)

SIGNIFICANT EVENTS AFTER BALANCE DATE

Extraordinary general meeting

The Company held an extraordinary general meeting of shareholders on 8 July 2011 and all resolutions put forward at the meeting were passed. A summary of the resolutions is as follows:

- Ratification of the issue of 123,900,000 shares from the February 2011 placement;
- Approval of 191,100,000 placement shares for funds received in February 2011;
- Approval of 315,000,000 free attaching options conditional with the February placement;
- Approval of 22,000,000 options to underwriters for the February placement;
- Approval of 19,000,000 shares and 19,000,000 options to directors and executives;
- Approval of a change in the nature of activities in order for the company to proceed with its investment in Frontier Gasfields Pty Ltd (Frontier);
- Approval of the issue of 150,000,000 shares to the shareholders of Frontier;
- Approval of 25,000,000 shares and 25,000,000 options to Novus Capital for securing the Frontier investment opportunity for BioProspect;
- Pre approval for a future placement of 200,000,000 shares and 200,000,000 options;
- Approval of 7,000,000 shares and 50,000,000 options to consultants and advisors.

Frontier Gasfields

Subsequent to shareholder approval, on 19 July 2011 the Company paid the remaining $625,000 to Frontier to secure 1,000,000 ordinary shares in Frontier at $1.00 each. This $1,000,000 shareholding in Frontier represents a 25% holding in the company.

In accordance with the Heads of Agreement with Frontier, BioProspect issued 150,000,000 shares to the shareholders of Frontier on 19 July 2011 in consideration for an option to acquire a further 50% interest in Frontier.

On the 23 August 2011 the Company announced that it had increased its stake in Frontier from 25 per cent to 50 per cent. Consideration for the 25 per cent holding was $1.25m cash and the issue of 100 million shares and 100 million options expiring 31 December 2013 at an exercise price of 3 cents per share.

Corporate

On 22 July 2011 Mr Anthony Langdon, a non-executive director announced his resignation from the Company effective 15 August 2011.

On 16 September 2011, Mr Winton Willesee was appointed a director and Chairman of the Company. On the same date Dr Michael Quinlan resigned from the board.

Financing

On the 29 August 2011 the Company announced the finalisation of the issue of convertible notes to the value of $1.2m to primarily fund the further investment in Frontier as highlighted above. The notes will accrue interest at 8% per annum and the conversion price will be the lower of 1 cent per share or 80% of the 5 day VWAP of the share price immediately prior to the conversion of the notes. The maturity date for the convertible notes is 31 August 2013

Directors' Report (continued)

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 consolidated entity.

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 the end of the reporting period, there were 740,362,135 unissued ordinary shares under option. The shares will be issued by BioProspect Limited when the options are exercised. Refer to Note 21 of the financial statements for further details of the options outstanding.

INDEMNIFYING OFFICERS OR AUDITOR

During the year ended 30 June 2011, the company has paid a premium for this policy.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of a Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

This company was not a party to any such proceedings during the year.

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 operating officer and the chief financial officer/ company secretary.

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

(i) Directors

W Willesee	Chairman (non-executive) – appointed 16 September 2011
Dr M F Quinlan	Chairman (non-executive) – Resigned 16 September 2011
C Pellegrino	Managing Director
A Langdon	Director (non-executive) – resigned 15 August 2011
J Khouri	Director (non-executive) – appointed 16 February 2011
L Khouri	Director (non-executive) – resigned 16 September 2010.

Directors' Report (continued)

REMUNERATION REPORT (audited) (continued)

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

(ii) Executives

P. D. May	Chief Operating Officer
C. H. Johnston	Chief Financial Officer/Company Secretary

Compensation by category (KMP and directors)

	Consolidated	
	2011	**2010**
	$	**$**
Short-term employee benefits	683,297	701,916
Post-employment benefits	42,834	50,955
Share-based payments	(74,521)	20,000
Total compensation	651,610	772,871

Remuneration Philosophy

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

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

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

Remuneration structure

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

Non-executive director remuneration

Objective

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

Structure

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

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

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

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.

REMUNERATION REPORT (audited) (continued)

The remuneration of non-executive directors for the period ending 30 June 2011 is detailed in Table 1 on page 34 of this report.

Senior manager and executive director remuneration

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

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

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

Fixed Remuneration

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

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

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

The fixed remuneration component of senior management in the group is detailed in Table 1 on page 34.

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, Chief Operating Officer and the Chief Financial Officer.

Structure
The Board agrees with the Managing Director and Chief Operating Officer, key performance indicators (KPI's) for each financial year to which their performance is assessed. Targets are set for a range of activities covering corporate governance, development project management, new business opportunities, taxation and shareholder management. A performance review had been completed during July 2011for Mr Pellegrino and Mr May.

The Board also agrees with the Chief Financial Officer KPI's for each financial year to which his performance is assessed. Targets are also set for a similar range of activities with more focus on corporate governance, financial and taxation management. A performance review had been completed during July 2011for Mr Johnston.

Directors and executives who receive share based payments are prohibited from entering into external hedge arrangements to limit their risk exposure to movements in the price of the underlying instruments. Terms of employment signed by such personnel contain details of these restrictions. During the year, no 'at risk' remuneration was paid.

Directors' Report (continued)

REMUNERATION REPORT (audited) (continued)

Consequence of company's performance on shareholders' wealth

The company is committed to completing the development activities associated with the CGNC range of products into animal health and the Re Gen Wellness Products range into human skin care. As critical stages of the development program are passed and produce positive results, significant value should be generated to shareholders through an increase in the share price. As the company is several years away from generating taxable profits, shareholder growth will not come through the payment of dividends but by an expected increase in the average share price.

Shareholder returns

	30/06/11	30/06/10	30/06/09	30/06/08	30/06/07
Share price -cents	0.8	1.3	1.7	1.8	4.6
Shares on issue	1,116,570,347	563,113,565	487,040,944	487,040,944	326,950,030
Capitalisation	$8.9m	$7.3 m	$8.3 m	$8.8 m	$15.0 m
Loss per share –cents	(0.3)	(0.6)	(0.6)	(1.0)	(0.5)

Employment contracts

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

	Managing Director & Chief Operating Officer	***Chief Financial Officer***
Standard conditions	Salary subject to annual review Statutory superannuation	Salary subject to annual review 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 REPORT (audited) (continued)

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 2011

		Short-term			Post Employment	Share Based Payments	
		Salary & Fees	Cash Bonus	Non Monetary Benefits	Super		Total
Non-executive directors		$	$	$	$	$	$
Dr M F Quinlan - Chairman		50,000	-	-	4,500	(44,713)	9,787
L Khouri	(a)	10,900	-	-	-	-	10,900
A Langdon		40,000	-	-	3,600	-	43,600
J Khouri	(b)	16,220	-	-	-	-	16,220
Sub-total non-executive directors		117,120	-	-	8,100	(44,713)	80,507
Executive directors							
C Pellegrino		219,378	-	-	6,294	-	225,672
Other key management personnel (KMP)							
P D May		185,866	-	12,000	16,110	-	213,976
C H Johnston		148,933	-	-	12,330	(29,808)	131,455
Sub-total executive KMP		554,177	-	12,000	34,734	(29,808)	571,103
Totals		671,297	-	12,000	42,834	(74,521)	651,610
						(c)	

Non monetary benefits represent motor vehicle allowances.

(a) Resigned 16 September 2010
(b) Appointed 16 February 2011

(c) These director options expired on 30 September 2010 at an exercise price of 10 cents per share. Due to the strike price being substantially higher than the current share price, no options were exercised. As a result, a reversal of the original accrual for each director was completed as at 30 June 2011, for a total value of $74,521.

Directors' Report (continued)

REMUNERATION REPORT (audited) (continued)

Table 2: Remuneration for the year ended 30 June 2010

		Short-term			Post Employment	Share Based Payments	
		Salary & Fees	Cash Bonus	Non Monetary Benefits	Super		Total
Non-executive directors		$	$	$	$	$	$
Dr M F Quinlan - Chairman		50,000	-	-	4,500	-	54,500
C Pellegrino	(a)	14,533	-	-	-	-	14,533
A Langdon		40,000	-	-	3,600	-	43,600
K Shamsi	(b)	33,640	-	-	3,028	-	36,668
L Khouri	(c)	33,525	-	-	-	-	33,525
Sub-total non-executive directors		171,698	-	-	11,128	-	182,826
Executive directors							
C Pellegrino	(d)	138,389	-	-	7,200	-	145,589
Other key management personnel (KMP)							
P D May		184,937	-	12,000	16,012	10,000	213,976
C H Johnston		136,672	-	-	12,225	10,000	131,455
A K Acland	(e)	50,970	-	7,250	4,390	-	62,610
Sub-total executive KMP		510,968	-	19,250	39,827	20,000	590,045
Totals		682,666	-	19,250	50,955	20,000	772,871

Non monetary benefits represent motor vehicle allowances.

(a) Costs are for the period 1 July 2009 to 31 October 2009 prior to his appointment as Managing Director.
(b) Appointed 28 August 2009 and resigned 28 June 2010.
(c) Appointed 24 September 2009 and resigned 16 September 2010.
(d) Appointed managing director 1 November 2009. Costs are for the period 1 November 2009 to 30 June 2010.
(e) Resigned 5 February 2010.

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

There were no options granted and vested during the years ended 30 June 2010 and 2011.

Directors' Report (continued)

DIRECTORS' MEETINGS

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

	Directors' Meetings	Eligible to Attend	Audit Committee	Eligible to Attend
Number of meetings held	**7**		**2**	
Number of meetings attended:				
Dr M Quinlan	6	7	2	2
C Pellegrino	7	7		
A Langdon	7	7	2	2
E Khouri	1	1		
J Khouri	2	2		

Committee membership

As at the date of this report, the company had an Audit committee, consisting of J Khouri (Chairman).

Members acting on the audit committee during the year consisted of A Langdon (Chairman) and Dr M Quinlan.

AUDITOR NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, William Buck. 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 and APES 110 Code of Ethics for Professional Accountants*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

William Buck received the following amounts for the provision of non-audit services:

Due Diligence Advise	$ 2,500
Tax compliance services	$13,000
Attendance at AGM	$ 801

AUDITOR INDEPENDENCE

The auditor's independence declaration has been received and can be found on page 37.

Signed in accordance with a resolution of the directors

Winton Willesee

Chairman

29 September 2011
Perth, Western Australia

Auditor Independence Declaration

William Buck

The Directors
BioProspect Limited
Suite 6, Level 3
320 Adelaide Street
Brisbane QLD 4077

Auditor's Independence Declaration Under Section 307c Of The Corporations Act 2001

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2011 there have been:

— no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

— no contraventions of any applicable code of professional conduct in relation to the audit.

William Buck

William Buck (Qld)
ABN: 11 603 627 400

J. A. Latif
A Member of the Firm

Brisbane

29 September 2011

Sydney
Melbourne
Brisbane
Perth
Adelaide
Auckland

Level 21, 307 Queen Street, Brisbane QLD 4000
GPO Box 563, Brisbane QLD 4001
Telephone: +61 7 3229 5100 • Facsimile: +61 7 3221 6027
williambuck.com

Consolidated Income Statement
FOR THE YEAR ENDED 30 JUNE 2011

	Note	CONSOLIDATED 2011 $	2010 $
Sale of goods		294,042	1,456
Other income	5	205,202	41,517
Revenue		499,244	42,973
Cost of sales		(237,903)	(834)
Gross Profit		261,341	42,139
Finance costs	5	(2,360)	(6,490)
Amortisation and depreciation	5	(14,384)	(322,849)
Employee costs	5	(705,547)	(830,287)
Impairment of licence	13	-	(585,000)
Research and development expenses		(720,537)	(717,946)
Other expenses	5	(2,439,628)	(1,276,300)
Loss before income tax		(3,621,115)	(3,696,733)
Income tax benefit	6	400,994	395,279
Loss attributable to members of BioProspect Limited		(3,220,121)	(3,301,454)
Basic earnings per share (cents per share)	7	(0.37)	(0.65)
Diluted earnings per share (cents per share)	7	(0.37)	(0.65)

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

Consolidated Statement of Comprehensive Income
FOR THE YEAR ENDED 30 JUNE 2011

	Consolidated 2011 $	Consolidated 2010 $
Loss for the period	(3,220,121)	(3,301,454)
Other comprehensive income		
Net (loss) gain on revaluation of available for sale financial assets	(69,842)	93,750
Total other comprehensive (loss) income for the period net of tax	(69,842)	93,750
Total comprehensive loss attributable to members of BioProspect	(3,289,963)	(3,207,704)

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

Consolidated Statement of Financial Position
AS AT 30 JUNE 2011

	Note	CONSOLIDATED 2011 $	2010 $
ASSETS			
Current Assets			
Cash and cash equivalents	8	1,718,019	738,672
Trade and other receivables	9	133,405	69,363
Inventories	10	638,945	160,843
Prepayments		9,790	13,635
Total Current Assets		2,500,159	982,513
Non-current Assets			
Other financial asset	12	375,000	-
Intangibles	13	300,000	50,000
Available for sale investments	14	78,981	343,750
Property, plant and equipment	15	22,673	32,306
Total Non-current Assets		776,654	426,056
TOTAL ASSETS		3,276,813	1,408,569
LIABILITIES			
Current Liabilities			
Trade and other payables	16	560,131	209,803
Share application funds received	17	1,494,547	-
Provisions	18	32,665	18,127
Total Current Liabilities		2,087,343	227,930
Non-current Liabilities			
Other payables	19	-	83,087
Provisions	20	11,933	-
Total Non-current Liabilities		11,933	83,087
TOTAL LIABILITIES		2,099,276	311,017
NET ASSETS		1,177,537	1,097,552
EQUITY			
Issued capital	21 (a)	31,210,774	28,084,860
Reserves		2,567,419	2,393,227
Accumulated losses		(32,600,656)	(29,380,535)
TOTAL EQUITY		1,177,537	1,097,552

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity
FOR THE YEAR ENDED 30 JUNE 2011

	Issued Capital	Accumulated Losses	Available for Sale Financial Assets Revaluation Reserve	Share Based Payments Reserve	Total Equity
	$	$	$	$	$
At 1 July 2009	**26,240,904**	**(26,079,081)**	**-**	**2,299,477**	**2,461,300**
Comprehensive income					
Loss for the period	-	(3,301,454)	-	-	(3,301,454)
Other comprehensive income					
Available for sale financial assets	-	-	93,750	-	93,750
Total comprehensive (loss) income	-	(3,301,454)	93,750	-	(3,207,704)
Transactions with owners					
Shares issued	1,933,580	-	-	-	1,933,580
Share issue costs	(89,624)	-	-	-	(89,624)
Total transactions with owners	1,843,956	-	-	-	1,843,956
At 30 June 2010	**28,084,860**	**(29,380,535)**	**93,750**	**2,299,477**	**1,097,552**
At 1 July 2010	**28,084,860**	**(29,380,535)**	**93,750**	**2,299,477**	**1,097,552**
Comprehensive income					
Loss for the period	-	(3,220,121)	-	-	(3,220,121)
Other comprehensive loss					
Available for sale financial assets	-	-	(69,842)	-	(69,842)
Total comprehensive loss	-	(3,220,121)	(69,842)	-	(3,289,963)
Transactions with owners					
Shares issued	3,511,784	-	-	-	3,511,784
Share issue costs	(385,870)	-	-	-	(385,870)
Option Funds Received	-	-	-	318,555	318,555
Expiry of KMP options	-	-	-	(74,521)	(74,521)
Total transactions with owners	3,125,914	-	-	244,034	3,369,948
At 30 June 2011	**31,210,774**	**(32,600,656)**	**23,908**	**2,543,511**	**1,177,537**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows
FOR THE YEAR ENDED 30 JUNE 2011

	Note	CONSOLIDATED 2011 $	2010 $
Cash flows from operating activities			
Receipts from customers		294,474	256
Grants Received		42,346	-
Payment to suppliers and employees		(3,578,748)	(2,312,359)
Research and development expenditure		(827,294)	(696,918)
Income tax R&D offset received		400,994	395,279
Net cash flows used in operating activities	8 (a)	(3,668,228)	(2,613,742)
Cash flows from investing activities			
Interest received		38,874	41,516
Purchase of plant and equipment		(4,751)	(31,316)
Proceeds from sale of available for sale investments		299,435	-
Payments for acquisition of subsidiary		-	(50,000)
Payment for other financial asset		(375,000)	-
Purchase of available for sale investments		-	(25,000)
Net cash flows used in investing activities		(41,442)	(64,800)
Cash flows from financing activities			
Proceeds from issues of shares and options		3,580,340	1,328,580
Unissued equity funds received		1,494,547	-
Transaction costs of issue of shares		(385,870)	(54,384)
Net cash flows from financing activities		4,689,017	1,274,196
Net increase (decrease) in cash and cash equivalents		979,347	(1,404,346)
Cash and cash equivalents at beginning of the year		738,672	2,143,018
Cash and cash equivalents at end of the year	8	1,718,019	738,672

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2011

1. CORPORATE INFORMATION

The financial statements of BioProspect Limited and Controlled Entities for the year ended 30 June 2011 were authorised for issue in accordance with a resolution of the directors on 29 September 2011.

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

The financial statements cover the consolidated entity of BioProspect Limited and its controlled entities. The Corporations Amendment (Corporate Reporting Reform) Bill 2010 received Royal Assent on 28 June 2010. The accompanying Corporations Amendment Regulations 2010 (No.6) were made on 29 June 2010. In compliance with these legislative changes disclosures regarding the parent entity have been limited to those included in note 30.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements are general-purpose financial statements which have 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 statements have also been prepared on a historical cost basis, except for investment properties, land and buildings, derivative financial instruments and available-for-sale investments, which have been measured at fair value.

The financial statements have been prepared on a going concern basis. As disclosed in note 21 the consolidated entity's ability to continue as a going concern is dependent upon its ability to generate sufficient cash from future operations and to raise additional capital.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

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

(b) New accounting standards and interpretations

New Accounting Standards for Application in Future Periods

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

- *AASB 9: Financial Instruments, AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applicable for annual reporting periods commencing on or after 1 January 2013)*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards for Application in Future Periods (continued)

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The changes also incorporate the classification and measurement requirements for financial liabilities, and the recognition and derecognition requirements for financial instruments. The consolidated entity has not yet determined any potential impact on the financial statements.

The changes made to accounting requirements include:
- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and
- financial assets will need to be reclassified where there is a change in an entity's business model as they are initially classified based on (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows.

- *AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011)*

  This standard removes the requirement for government related entities to disclose details of all transaction with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. This Standard is not expected to impact the consolidated entity.

- *AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013).*

  AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:
  - Tier 1: Australian Accounting Standards; and
  - Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

  Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

  The following entities are required to apply Tier 1 reporting requirements (i.e. full IFRS):
  - for-profit private sector entities that have public accountability; and
  - the Australian Government and State, Territory and Local Governments.

  Subject to AASB 1049, General Government Sectors of the Australian Government and State and Territory Governments would also apply Tier 1 reporting requirements.

  The following entities can elect to apply Tier 2 of the framework when preparing general purpose financial statements:
  - for-profit private sector entities that do not have public accountability;
  - not-for-profit private sector entities; and
  - public sector entities, whether for-profit or not-for-profit, other than the Australian Government and State, Territory and Local Governments.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards for Application in Future Periods (continued)

AASB 2010-2 makes amendments to Australian Accounting Standards and Interpretations to give effect to the reduced disclosure requirements for Tier 2 entities. It achieves this by specifying the disclosure paragraphs that a Tier 2 entity need not comply with as well as adding specific 'RDR' disclosures.

This Standard is not expected to impact the consolidated entity.

- *AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011)*

  This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The standard also amends AASB 8 to require entities to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. This Standard is not expected to impact the consolidated entity.

- *AASB 2009-14: Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011)*

  This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan. This Standard is not expected to impact the consolidated entity.

- *AASB 2010-4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011)*

  This standard details numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. This Standard is not expected to impact the consolidated entity.

- *AASB 2010-5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods commencing on or after 1 January 2011)*

  The Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board. This Standard is not expected to impact the consolidated entity.

- *AASB 2010-6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] (applicable for annual reporting periods commencing on or after 1 July 2011)*

  This Standard adds and amends disclosure requirements about transfers of financial assets, including in respect of the nature of the financial assets involved and the risks associated with them. This Standard is not expected to impact the consolidated entity.

- *AASB 2010-8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applicable for annual reporting periods commencing on or after 1 January 2012)*

  This standard provides a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in AASB 140 Investment Property. This Standard is not expected to impact the consolidated entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards for Application in Future Periods (continued)

- *AASB 2010-9: Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2011)*

  This standard makes amendments to provide relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards. The standard also provides guidance for entities emerging from severe hyperinflation either to resume presenting Australian-Accounting-Standards financial statements or to present Australian-Accounting-Standards financial statements for the first time. This Standard is not expected to impact the consolidated entity.

- *AASB 2010-10: Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009-11 & AASB 2010-7] (applicable for annual reporting period commencing on or after 1 January 2013)*

  This standard provides relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards. This Standard is not expected to impact the consolidated entity.

- AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132 & AASB 134 and Interpretations 2, 112 & 113] (applicable for annual reporting periods commencing on or after 1 July 2011)*

  AASB 2011-1 makes amendments to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to IFRSs and harmonisation between Australian and New Zealand Standards. The Standard deletes various Australian-specific guidance and disclosures from other Standards (Australian-specific disclosures retained are now contained in AASB 1054), and aligns the wording used to that adopted in IFRSs. This Standard is not expected to impact the consolidated entity.

- *AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements [AASB 101 & AASB 1054] (applicable for annual reporting periods commencing on or after 1 July 2013)*

  AASB 2011-2 establishes reduced disclosure requirements for entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements in relation to the Australian additional disclosures arising from the Trans-Tasman Convergence Project. This Standard is not expected to impact the consolidated entity.

- *AASB 2011-3 Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments [AASB 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).*

  This Standard makes amendments to AASB 1049 Whole of Government and General Government Sector Financial Reporting to amend the definition of the ABS GFS Manual, provide relief from adopting the latest version of the ABS GFS Manual, and require related disclosures where the latest version of the ABS GFS Manual has not been applied. The standard is not expected to impact the consolidated entity.

- *AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124] (applicable for annual reporting periods commencing on or after 1 July 2013).*

  This standard removes all the individual key management personnel disclosures contained in Aus paragraphs 29.1 to 29.9.3 of AASB 124. The changes apply to each disclosing entity, or group of which a disclosing entity is the parent that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act 2001 for their first annual reporting period beginning on or after 1 July 2013. This standard is not available for early adoption. The consolidated entity has not yet assessed the impact of this standard.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards for Application in Future Periods (continued)

- *AASB 2011-5 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation [AASB 127, AASB 128 & AASB 131] (applicable for annual reporting periods commencing on or after 1 July 2011)*

  This Standard extends the relief from consolidation, the equity method and proportionate consolidation by removing the requirement for the consolidated financial statements prepared by the ultimate or any intermediate parent entity to be IFRS compliant, provided that the parent entity, investor or venturer and the ultimate or intermediate parent entity are not-for-profit entities that comply with Australian Accounting Standards. The standard is not expected to impact the consolidated entity.

- *AASB 2011-6 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements [AASB 127, AASB 128 & AASB 131] (applicable for annual reporting periods commencing on or after 1 July 2013)*

  This Standard extends the relief from consolidation, the equity method and proportionate consolidation by removing the requirement for the consolidated financial statements prepared by the ultimate or any intermediate parent entity to be IFRS compliant, provided that the parent entity, investor or venturer and the ultimate or intermediate parent entity comply with Australian Accounting Standards or Australian Accounting Standards – Reduced Disclosure Requirements, as stated above. The standard is not expected to impact the consolidated entity.

  The consolidated entity does not anticipate early adoption of any of the above Australian Accounting Standards or Interpretations.

(c) Basis of consolidation

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

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

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

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

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

(d) Foreign currency translation

(i) Functional and presentation currency

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

(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 end of the reporting period. All exchange differences are taken to profit and loss when incurred.

(e) Segment reporting

Operating segments are identified and segment information is disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the group's chief operating decision maker which, for the Group, is the board of directors. In this regard, such information is provided using different measures to those used in preparing the Income Statement, Statement of Comprehensive Income and Statement of Financial Position. Reconciliations of such management information to the statutory information contained in the annual financial statements have been included.

As a result of the adoption of the revised AASB 8, certain cash generating units have been redefined having regard to the requirements in AASB 136: Impairment of Assets.

In relation to geographic segments, the company is currently operating within the Australian region but is targeting several Asian countries along with the Middle East for expansion.

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

All revenue is stated net of the amount of GST.

(g) Government grants

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

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Government grants (continued)

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 directly attributable to the acquisition, construction and production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended user sale.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(i) Leases

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

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

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

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

(j) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position 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 Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(k) Trade and other receivables

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

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

(l) Inventories

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 i.e. 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 the income statement and the related assets are classified as current assets in the statement of financial position.

(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 the income statement 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 the income statement 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 the end of the reporting period, which are classified as non-current.

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

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 at the end of the reporting period. 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.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Investments and other financial assets (continued)

(v) Impairment
At the end of each reporting period, the consolidated entity assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the income statement.

(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 statement of financial position 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 comprehensive income.

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

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

(o) Income tax

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax (continued)

• 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 the end of each reporting period 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 the end of each reporting period 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 end of the reporting period. 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. Receivables and payables are stated with the amount of GST included.

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

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

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

(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:

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Property, plant and equipment (continued)

Category of plant & equipment	Useful life 2011	Useful life 2010
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 assets' residual values, useful lives and amortisation methods are reviewed, and adjusted, at the end of each reporting period.

Derecognition and disposal

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

(r) Intangible assets

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Impairment of non financial assets other than goodwill

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

(t) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the reporting period 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 end of the reporting period.

(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 end of the reporting period. 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 benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, expected to be settled within 12 months of the end of the reporting period are recognised in other payables in respect of employee's services up to the end of reporting period. 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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Employee benefits (continued)

is taken and are measured at the rates paid or payable.

Liabilities for annual leave and long service leave are recognised in current and non-current provisions and 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 end of the reporting period 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 period 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 2011, the Group had only one employee 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).

During the year ended 30 June 2010, Mr Peter May (Chief Operating Officer) and Mr Colin Johnston (Chief Financial Officer) both received $10,000 worth of ordinary shares as part of their remuneration review.

There were no issues of shares to executives or directors during the year ended 30 June 2011.

(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.

(aa) Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Business combinations (continued)

from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exceptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting date to fair value, recognising each change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the Income Statement.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

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:

(i) *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 the end of each reporting period management assesses the impairment triggers based on their knowledge and judgement. Where an impairment trigger is identified, an estimate of future cash flows or fair value is required.

(ii) *Significant accounting estimates and assumptions*

Contingent Liabilities and Contingent Assets

The group assesses contingent liabilities and contingent assets at the end of each reporting period and will account for them only if:-
(a) they can be reliably measured;
(b) the probability that an asset or liability will eventually be recognised is greater than remote; and
(c) the items are considered material.

4. SEGMENT REPORTING

Segment Information
Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

4. SEGMENT REPORTING (continued)

The Group is managed primarily on the basis of product category and service offerings since the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- The products sold and/or services provided by the segment;
- The manufacturing process;
- The type or class of customer for the products or service;
- The distribution method; and
- External regulatory requirements.

Types of products and services by segment

(i) Agriculture/Animal Health
This market segment includes the income and expenditures pertaining to Qcide, the Company's natural insecticide and the range of plant extracts derived from coniferous trees (known as Coniferous Green Needle Extract or CGNC) that are marketed under the *AGRIPRO*™ and *GI-Guard*™ brands (trademarks).

(ii) Human Health/Skin Care
This market segment includes the income and expenditures pertaining to the emu oil product range distributed through Re Gen Wellness Products Pty Ltd and marketed as REGEN. The segment also includes the *DEMURE*™ skin care product range which will be targeted in the near future.

(iii) Mining and Gas Exploration
This market segment includes the income and expenditures pertaining to the investment opportunity through Frontier Gasfields Pty Ltd.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions

For the reporting period there have not been any inter-segment sales.

Salaries for research and development employees have been allocated to market segments on the basis of time sheets that support claims for the research and development tax offset credit. Corporate employee costs such as directors' fees, salaries and superannuation are allocated to market segments on the basis of direct expenses and research and development salaries as a percentage of total expenses for the Group.

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs.

4. SEGMENT REPORTING (continued)

Segment assets

In the majority of instances, segment assets are clearly identifiable on the basis of their nature (i.e. prepayments, inventories, sundry debtors). Corporate fixed assets such as computer equipment and furniture and fittings have not been allocated to market segments.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the liability incurred and the operations of the segment. Segment liabilities include trade and other payables.

Unallocated Items

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Cash and term deposits;
- Interest received;
- Income tax expense or credit;
- Fixed assets;
- Unallocated share application funds; and
- Other payables.

(i) Segment performance

	Human Health/Skin Care	Agriculture/ Animal Health	Mining and Gas	Total
Twelve months ended 30 June 2011	**$**	**$**	**$**	**$**
Revenue				
External sales	294,042	-	-	294,042
Profit on sale of investments	-	104,666	-	104,666
Export Market Grant received	42,346	-	-	42,346
Total segment revenue	**336,388**	**104,666**	-	**441,054**
Inter-segment elimination	-	-	-	-
Unallocated revenue				58,190
Total consolidated revenue				**499,244**

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

4. SEGMENT REPORTING (continued)

(i) Segment performance (continued)

	Human Health/Skin Care	Agriculture/ Animal Health	Mining and Gas	Total
Twelve months ended 30 June 2011	**$**	**$**	**$**	**$**
Segment net loss before tax	(667,343)	(1,274,646)	-	(1,941,989)
Reconciliation of segment result to group net loss before tax				
Amounts not included in segment result but reviewed by the Board:				
• Depreciation				(14,384)
Unallocated items:				
• Interest received				58,190
• Other corporate costs				(1,722,932)
Net loss before tax				**(3,621,115)**

Twelve months ended 30 June 2010				
Revenue				
External sales	1,456	-	-	1,456
Inter-segment sales	-	-	-	-
Interest Revenue	-	-	-	-
Total segment revenue	**1,456**	-	-	**1,456**
Inter-segment elimination	-	-	-	-
Unallocated revenue				41,517
Total consolidated revenue				**42,973**

4. SEGMENT REPORTING (continued)

(i) Segment performance (continued)

Twelve months ended 30 June 2010	Human Health/Skin Care $	Agriculture/ Animal Health $	Mining and Gas $	Total $
Segment net loss before tax	(1,038,832)	(2,106,715)	-	(3,145,547)
Reconciliation of segment result to group net loss before tax				
Amounts not included in segment result but reviewed by the Board:				
• Depreciation				(10,886)
Unallocated items:				
• Interest received				41,517
• Other corporate costs				(581,817)
Net loss before tax				**(3,696,733)**

(ii) Segment assets

30 June 2011				
Segment assets	893,385	215,788	375,000	1,484,173
Unallocated assets				
• Cash				1,718,019
• Other				74,621
Total assets				**3,276,813**

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

4. SEGMENT REPORTING (continued)

(ii) Segment assets (continued)

	Human Health/Skin Care	Agriculture/ Animal Health	Mining and Gas	Total
30 June 2010	**$**	**$**	**$**	**$**
Segment assets	204,193	400,569	-	604,762
Unallocated assets				
• Cash				738,672
• Other				65,135
Total assets				**1,408,569**

(iii) Segment Liabilities

	Human Health/Skin Care	Agriculture/ Animal Health	Mining and Gas	Total
30 June 2011	**$**	**$**	**$**	**$**
Segment liabilities	369,923	153,426	-	523,349
Unallocated liabilities				1,575,927
Total liabilities				**2,099,276**
30 June 2010	**$**	**$**	**$**	**$**
Segment liabilities	35,376	149,407	-	184,783
Unallocated liabilities				126,234
Total liabilities				**311,017**

(iv) Revenue by geographical region

Revenue for the 2011 year consisted of $294,042 of Re Gen Wellness product sales, an export market development grant of $42,346, bank interest of $58,190 and a gain on disposal of listed investments of $104,666. For the 2010 financial year, revenue consisted of $1,456 of Re Gen Wellness product sales and bank interest of $41,157. All revenues over the two financial years are from one geographical segment being Australia.

(v) Assets by geographical region

Currently all assets reside in one geographical region being Australia.

	CONSOLIDATED 2011 $	2010 $
5. REVENUES AND EXPENSES		
(a) Other Income		
Bank interest received and receivable	58,190	41,517
EMDG Grant received	42,346	-
Profit on sale of investments	104,666	-
	205,202	41,517
(b) Finance costs		
Finance charges payable under operating lease	(2,360)	(6,490)
	(2,360)	(6,490)
(c) Amortisation and depreciation		
Amortisation of licence	-	(311,963)
Depreciation	(14,384)	(10,886)
	(14,384)	(322,849)
(d) Employee benefits expense		
Wages and salaries	(590,797)	(552,480)
Directors fees	(117,120)	(171,698)
Superannuation	(45,680)	(55,619)
Allowances/leave	(26,471)	(30,490)
Share based payments	74,521	(20,000)
	(705,547)	(830,287)
(e) Other expenses		
Consulting and advisory expenses	(505,184)	(493,291)
Legal fees	(1,130,498)	(79,925)
Listing fees	(52,826)	(37,986)
Share registry charges	(31,379)	(27,470)
Sales and marketing	(256,216)	(171,849)
Other administration expenses	(463,525)	(465,779)
	(2,439,628)	(1,276,300)

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

	CONSOLIDATED	
	2011	2010
	$	$
6. INCOME TAX		
Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate		
A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting loss before tax	(3,621,115)	(3,696,733)
At the statutory tax rate of 30% (2010: 30%)	(1,086,334)	(1,109,020)
Research and development deduction	(32,746)	(58,025)
Entertainment	1,848	3,976
Share based payments	(22,356)	6,000
Other	383,779	508,490
	(755,809)	(648,579)
Tax effect of temporary differences and current year loss not brought to account	755,809	648,579
Add back R&D tax offset received (see note 2 (o))	400,994	395,279
Aggregate income tax benefit	400,994	395,279
Deferred tax asset arising from tax losses not brought to account at the end of the reporting period as realisation is not regarded as probable	-	-

The potential deferred tax asset will only be obtained if:

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

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

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

The Group has tax losses arising in Australia of $14,801,107 (2010: $18,524,436) with a further $140,225 capital losses as at 30 June 2011 (2010: $140,225). 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 2011, there is no recognised or unrecognised deferred tax liability (2010: 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.

6. INCOME TAX (continued)

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 $14,801,107 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 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 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

	COMPANY	
	2011 $	**2010 $**
Net loss attributable to equity holders of the company from continuing operations	(3,220,121)	(3,301,454)
	Number of Shares	**Number of Shares**
Weighted average number of ordinary shares used in calculating basic earnings per share:	859,402,201	505,999,794

Due to the consolidated entity incurring an operating loss, options do not have a dilutive effect. The share options on issue as detailed in Note 21 are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2011. These options could potentially dilute basic earnings per share in the future.

	CONSOLIDATED	
	2011 $	**2010 $**
8. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	224,019	738,672
Short-term deposits	1,494,000	-
	1,718,019	738,672

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.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

8. CASH AND CASH EQUIVALENTS (continued)

	CONSOLIDATED 2011 $	2010 $
(a) Reconciliation of loss after tax to net cash flows from operations:		
Net loss	(3,220,121)	(3,301,454)
Adjustments for:		
Depreciation	14,384	10,886
Amortisation	-	311,963
Impairment of non-current assets	-	585,000
Share transactions costs not paid	-	(35,240)
Interest received	(38,874)	(41,516)
Share based payments	(74,521)	20,000
Profit on sale of available for sale investments	(104,666)	-
Changes in assets and liabilities		
(Increase)/ decrease in trade and other receivables	(63,885)	(44,615)
(Increase)/ decrease in inventories	(478,102)	(160,843)
(Increase)/ decrease in prepayments	3,845	(6,705)
(Decrease) / increase in trade and other payables	350,328	42,785
(Decrease) / increase in other payables	(83,087)	1
(Decrease) / increase in employee entitlements	26,471	5,996
Net cash used in operating activities	(3,668,228)	(2,613,742)

(b) Non cash financing and investing activities

	CONSOLIDATED 2011 $	2010 $
Issue of 22,500,000 shares to Solagran for payment of licence	-	585,000
Issue of 22,500,000 options to Solagran for payment of licence	-	-
Issue of 869,566 shares to KMP	-	20,000
Issue of 25,000,000 shares to Nova Vita Pty Ltd for payment of licence	250,000	-

9. TRADE AND OTHER RECEIVABLES

	Note	CONSOLIDATED 2011 $	2010 $
Trade debtors	(i)	768	1,200
Other debtors	(ii)	132,637	68,163
		133,405	69,363

Terms and conditions

(i) Trade debtors are non-interest bearing and generally on 30 day terms. A provision for impairment 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. A provision for impairment 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 24.
(iv) None of the trade and other receivables are contractually overdue.

Due to the short-term nature of these receivables their carrying amounts are assumed to approximate their fair value.

	CONSOLIDATED 2011 $	CONSOLIDATED 2010 $
10. INVENTORIES		
Finished goods		
Re Gen finished goods	314,878	77,010
AGRIPRO finished goods	-	31,425
Plant extracts at cost	927,110	927,110
Write down of inventory	(927,110)	(927,110)
Total finished goods	314,878	108,435
Raw materials		
Re Gen raw materials and work in progress	223,422	52,408
CGNC and other raw materials	100,645	-
Total raw materials	324,067	52,408
Total inventories	638,945	160,843
11. INVESTMENT IN ASSOCIATE HELD FOR SALE		
Investment in Astrum (a)	-	-

	Ownership interest 2011	Ownership interest 2010
(a) Astrum Therapeutics Pty Ltd – Ordinary shares	**28.76**%	28.76%

(i) Astrum Therapeutics Pty Ltd is an unlisted Australian drug discovery company focused on Type 2 Diabetes Mellitus ("T2DM").

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

	CONSOLIDATED 2011 $	CONSOLIDATED 2010 $
(i)*Share of associate's profits (losses).*		
Revenue	-	-
Profit / (loss) before income tax	-	-
Income tax expense	-	-
Profit / (loss) after income tax expense	-	-
(ii)*Carrying amount of investment in associate*		
Balance at the beginning of the financial year	-	-
- share of associates net profit (losses) for the financial year	-	-
- impairment write down	-	-
Carrying amount of investment in associate at the end of the year (1)	-	-
(iii)*Accumulated losses of the consolidated entity attributable to associate*		
Balance at the beginning of the financial year	596,762	596,762
Share of associates net profit (losses)	-	-
Balance at the end of the financial year	596,762	596,762
(iv)*Share of associate's statement of financial position*		
Current assets	-	-
Non-current assets	-	-
	-	-
Current Liabilities	-	-
Net assets	-	-

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

11. INVESTMENT IN ASSOCIATE HELD FOR SALE (continued)

(1) As the carrying value of the investment is recorded as nil, no further share of loss was taken up in 2011 or 2010.

(b) Current Asset classification

The directors of BioProspect have not changed their position since June 2007 and still seek a potential investor to acquire their current 28.76% shareholding in Astrum Therapeutics.

12. OTHER FINANCIAL ASSET - FRONTIER ADVANCE

On the 12 May 2011, BioProspect paid $375,000 to Frontier Gasfields Pty Ltd (Frontier) for the extension of an exclusivity period under a Supplemental Agreement to 7 days after an extraordinary general meeting (EGM) of BioProspect shareholders that was held on 8 July 2011. Under the terms of the supplemental agreement, the $375,000 was to be deducted from the initial $1,000,000 payment required to exercise the first option of subscribing for 1,000,000 new shares in the capital of Frontier. If BioProspect shareholders did not approve the investment into Frontier, the $375,000 deposit would not be returned to BioProspect.

However, at the EGM, BioProspect shareholders did approve the investment opportunity into Frontier and subsequently on 19 July 2011 the Company paid Frontier the remaining $625,000 to secure the 1,000,000 shares.

13. INTANGIBLES

	CONSOLIDATED	
	2011	2010
	$	$
Licence		
Solagran licence		
At cost	-	1,754,858
Accumulated amortisation	-	(1,169,858)
Impairment	-	(585,000)
Net carrying amount	-	-
Nova Vita licence		
At cost	250,000	-
Accumulated amortisation	-	-
Impairment	-	-
Net carrying amount	250,000	-
Goodwill		
Re Gen Wellness Products Pty Ltd		
At cost	50,000	-
Additions	-	50,000
Impairment	-	-
Net carrying amount	50,000	50,000
Reconciliation of carrying amount		
Net carrying amount at beginning of year	50,000	311,963
Additions	250,000	635,000
Amortisation	-	(311,963)
Impairment	-	(585,000)
Net carrying amount	300,000	50,000

13. INTANGIBLES (continued)

Nova Vita Licence

As announced on 19 January 2011, the Company issued 25,000,000 ordinary shares to Nova Vita Pty Ltd in consideration of their assignment of their rights to manufacture and supply the *L'AZURE*™ range of cosmetics based on natural plant extracts.

Under the terms of the agreement, BioProspect has been assigned ownership of all intellectual property related to the *L'AZURE*™ products. This includes formulas, brands and trademarks, and exclusive rights to the supply of *Bioeffectives*® from Solagran Limited for use in cosmetics for the specific areas of China, Malaysia and Singapore, with non-exclusive rights to the supply of *Bioeffectives*® for use in cosmetics globally.
The *L'AZURE*™ range of plant extract-based natural products complements the current *DEMURE*® range of cosmetic products where the Company already has 12 core products targeted at local and overseas markets.

Directors have conducted an impairment test to ensure the licence was valued at its recoverable amount as at 30 June 2011. The directors have formed the view that the licence is appropriately valued and there is no need to provide for any impairment charge.

Goodwill

As announced on 10 August 2009, the company acquired 100% of Re Gen Wellness Products Pty Ltd, facilitating the company's expansion into natural healthcare and skin care products, which was a new market segment for the business.

Under the Share Sale Agreement, an upfront payment of $50,000 was made, with additional payments contingent on sales performance and contribution to cash flow over a six year period ending 30 June 2015.

The Directors have conducted an impairment test to ensure that the goodwill is valued at its recoverable amount as at 30 June 2011. The directors have formed the view that with the signing of an exclusive distribution agreement with Doward International in February this year and a subsequent increase in product sales, not to write down the goodwill that arose on the acquisition.

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

	CONSOLIDATED	
	2011 $	2010 $
Australian listed shares at fair value	78,981	343,750
	78,981	343,750

In accordance with the previous Solagran Limited (SLA) development agreement signed on 22 August 2007, BioProspect acquired 2,500,000 shares in SLA on 11 December 2007. In late November 2008, BioProspect acquired a further 250,000 contributing shares with $0.10 payable on application and a final $0.10 by the end of November 2009. BioProspect exercised its option on 27 November 2009 and paid a remaining $25,000.

During the year ended 30 June 2011, BioProspect has been gradually disposing of its shareholding in SLA due to the completion of the Development agreement and the legal dispute which was finalised in October 2010 whereby BioProspect and SLA agreed to commercialise Conifer Green Needle Complex on their own terms. As at 30 June 2011, the value of 607,544 SLA shares, based on the closing market price was $78,981.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

	Note	CONSOLIDATED 2011 $	2010 $
15. PROPERTY, PLANT & EQUIPMENT			
Plant and equipment			
At cost		67,302	69,001
Accumulated depreciation		(44,629)	(36,695)
Net carrying amount		22,673	32,306
(a) Reconciliations			
Plant and equipment			
Carrying amount at beginning		32,306	11,876
Additions		4,751	31,316
Depreciation expense		(14,384)	(10,886)
Net carrying amount		22,673	32,306
16. TRADE AND OTHER PAYABLES- CURRENT			
Trade payables	(i)	389,353	111,915
Other creditors and accruals	(ii)	143,030	79,563
		532,383	191,478
Related party payables	(iii)	27,748	18,325
		560,131	209,803

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 24.

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

17. SHARE APPLICATION MONIES RECEIVED

The Company announced on 16 February 2011the completion of a $3m (before costs) private placement managed by Novus Capital Limited. The placement was well supported and $1.3m of shares were issued immediately under the Company's existing 15% capacity at that time. There was $1,494,547 of placement funds received by the Company that could not be issued with shares until approval at an EGM that was held on 8 July 2011 (subsequent to the end of the reporting period). See note 27 for further clarification.

	CONSOLIDATED 2011 $	2010 $
18. PROVISIONS- CURRENT		
Annual Leave		
At I July	18,127	12,131
Charged to income statement	38,854	40,764
Utilised	(24,316)	(34,768)
Closing balance	32,665	18,127

	Consolidated 2011 $	2010 $
19. OTHER PAYABLES (NON-CURRENT)		
Other creditors and accruals	-	83,087

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 $83,087 reflects the 2010 fair value of the $100,000 minimum royalty payable on 9 November 2011.

20. PROVISIONS (NON-CURRENT)

	2011	2010
Long Service Leave		
At 1 July	-	-
Charged to income statement	11,933	-
Utilised	-	-
Closing Balance	11,933	-

21. ISSUED CAPITAL

	2011	2010
(a) Issued and paid up capital		
Ordinary shares issued and fully paid	31,210,774	28,084,860

(b) Movements in shares on issue	Number of shares 2011	Number of shares 2010	$ 2011	$ 2010
Beginning of the financial year	563,113,565	487,040,944	28,084,860	26,240,904
Issued during the year:				
- share placements (i)	197,900,000	29,248,571	1,609,000	906,400
- payment for licence (ii)	25,000,000	22,500,000	250,000	585,000
- rights Issue (iii)	330,556,782	-	1,652,784	-
- share purchase plan (iv)	-	23,454,484	-	422,180
- share issues to KMP (v)	-	869,566	-	20,000
Less share issue costs	-	-	(385,870)	(89,624)
End of the financial year	1,116,570,347	563,113,565	31,210,774	28,084,860

Notes:

(i) On 20 October 2010, a placement was completed for 74,000,000 ordinary shares at an issue price of 0.5 cents, along with a free 1:1 attaching new class of options exercisable at 3 cents per share on or before 31 December 2013.

On 16 February 2011, a placement was completed for 123,900,000 ordinary shares at an issue price of 1 cent, along with a free 1:1 attaching new class of options exercisable at 3 cents per share on or before 31 December 2013. These options were issued during July 2011 after shareholder approval on the 8 July 2011. See Note 27.

On 28 January 2010, a placement was completed for 21,428,571 ordinary shares at an issue price of 3.5 cents, (along with 21,428,571options expiring 31 March 2010 at an exercise price of 5 cents per share, plus a free 1:1 attaching new class of options exercisable at 5 cents per share on or before 31 December 2013). The issue of shares and options was passed at a special general meeting held on 3 June 2011.

On 30 April 2010, a placement was completed for 7,820,000 ordinary shares at an issue price of 2 cents, along with a free 1:1 attaching new class of options exercisable at 5 cents per share on or before 31 December 2013.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

21. ISSUED CAPITAL (continued)

(ii) On 19 January 2011, 25,000,000 shares were issued to Nova Vita Pty Ltd at a value of $250,000 in consideration for the licence associated with the *L'AZURE™* range of plant extract-based natural cosmetic products.

On 5 March 2010, 22,500,000 shares (along with 22,500,000 options expiring 31 March 2010 at an exercise price of 5 cents per share) were issued to Solagran Limited at a value of $585,000 in consideration for the licence associated with the Bioeffectives Development Agreement.

(iii) On 6 December 2010, the company completed a rights issue that was offered to all shareholders resulting in an issue of 330,556,782 shares at an issue price of 0.5 cents, along with 318,556,782 attaching loyalty options exercisable at 3 cents per share on or before 31 December 2013, and 318,556,782 1:1 attaching new class of options issued at 0.1 cent.

(iv) On 18 June 2010, the company completed a share purchase plan that was offered to all shareholders resulting in an issue of 23,454,484 ordinary shares at an issue price of 1.8 cents per share.

(v) On 15 September 2009, 434,783 ordinary shares were issued each to Mr Peter May, Chief Operating Officer and to Mr Colin Johnston, Chief Financial officer as part of their remuneration review for the year ended 30 June 2009.

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

(c) Capital management

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. The company's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Going concern statement

As at 30 June 2011 the company was in a net asset position of $1,177,537 (2010: $1,097,552) and had incurred losses of $3,220,121 (2010: $3,301,454) and had cash outflows from operations of $3,668,228 (2010: $2,613,742) for the year then ended. The consolidated entity's ability to continue as a going concern is dependent upon the generation of cash from current operations, the sufficiency of current cash reserves to meet its existing obligations and its ability to reschedule planned research and development activity if considered necessary.

In addition to this, the Company's 15% issuing capacity for future capital placements was restored to full entitlement and an additional placement of 200,000,000 shares to be completed before 8 October 2011 was approved at the Company's EGM held on 8 July 2011.

Based on the above factors and the company's history of being able to adequately raise funds the directors believe the company will be able to pay its debts as and when they fall due for a period of at least 12 months from the date of the directors' report.

(d) Share Options

Options over ordinary shares:	2011 No of Options	2010 No of Options
Exercisable on or before 31 December 2013 at 5 cents per share		
Outstanding at beginning of year	29,248,571	-
Issued during the year	-	29,248,571
Outstanding at end of year	29,248,571	29,248,571
Exercisable on or before 31 December 2013 at 3 cents per share		
Outstanding at beginning of year	-	-
Issued during the year	711,113,564	-
Outstanding at end of year	711,113,564	-

21. ISSUED CAPITAL (continued)

(d) Share Options (continued)

	No of Options	No of Options
Exercisable on or before 30 September 2010 at 10 cents per share		
Outstanding at beginning of year	5,000,000	5,000,000
Expired during the year	(5,000,000)	-
Outstanding at end of year	-	5,000,000
Total options over unissued ordinary shares	740,362,135	34,248,571

(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.

Ordinary shares have no par value.

	CONSOLIDATED 2011 $	CONSOLIDATED 2010 $
22. AUDITORS' REMUNERATION		
The auditor of BioProspect Limited is William Buck (Qld)		
Amounts received or due and receivable for:		
- an audit or review of the financial report of the entity and any other entity in the consolidated entity -	40,900	31,320
	40,900	31,320
- other services in relation to the entity and any other entity in the consolidated entity –		
- tax compliance	13,000	4,750
- due diligence advice	2,500	6,000
- AGM attendance	801	305
	57,201	42,375

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

23. KEY MANAGEMENT PERSONNEL

(a) Option holdings of key management personnel (consolidated)

30 June 2011	Balance at 1 July 10	Granted As Remuneration	Options Forfeited	Net Change Other (i)	Balance At 30 June 11	Vested at 30 June 2011 Total
Directors						
Dr M Quinlan	3,000,000	-	-	(2,116,618)	883,382	883,382
C Pellegrino	-	-	-	-	-	-
A Langdon	-	-	-	-	-	-
J Khouri	-	-	-	-	-	-
Executives						
P May	-	-	-	-	-	-
C Johnston	2,000,000	-	-	(2,000,000)	-	-
Total	**5,000,000**	**-**	**-**	**(4,116,618)**	**883,382**	**883,382**

(i) Expired options offset by options acquired through participation in rights issue on 6 December 2010.

30 June 2010	Balance at 1 July 09	Granted As Remuneration	Options Forfeited	Net Change Other	Balance At 30 June 10	Vested at 30 June 2010 Total
Directors						
Dr M Quinlan	3,000,000	-	-	-	3,000,000	3,000,000
C Pellegrino	-	-	-	-	-	-
A Langdon	-	-	-	-	-	-
E Khouri	-	-	-	-	-	-
Executives						
P May	-	-	-	-	-	-
C Johnston	2,000,000	-	-	-	2,000,000	2,000,000
Total	**5,000,000**	**-**	**-**	**-**	**5,000,000**	**5,000,000**

(b) Shareholdings of key management personnel (consolidated)

Shares held in BioProspect Limited (number)

30 June 2011		Balance 1 July 10	Granted as remuneration	On exercise of options	Net change other	Balance 30 June 2011
Directors						
Dr M Quinlan		831,529	-	-	493,543	1,325,072
C Pellegrino		-	-	-	-	-
A Langdon		-	-	-	-	-
E Khouri	(a)	30,000,000	-	-	(30,000,000)	-
J Khouri	(b)	-	-	-	-	-
Executives						
P May		434,783	-	-	217,392	652,175
C Johnston		434,783	-	-	-	434,783
Total		**31,701,095**	**-**	**-**	**(29,289,065)**	**2,412,030**

(a) Resigned 16 September 2010
(b) Appointed 16 February 2011

23. KEY MANAGEMENT PERSONNEL (continued)

(b) Shareholdings of key management personnel (consolidated)

30 June 2010		Balance 1 July 09	Granted as remuneration	On exercise of options	Net change other	Balance 30 June 2010
Directors						
Dr M Quinlan		553,751	-	-	277,778	831,529
C Pellegrino		-	-	-	-	-
A Langdon		-	-	-	-	-
E Khouri	(a)	-	-	-	30,000,000	30,000,000
Executives						
P May		-	434,783	-	-	434,783
C Johnston		-	434,783	-	-	434,783
Total		**553,751**	**869,566**	**-**	**30,277,778**	**31,701,095**

(a) Appointed 24 September 2009

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

(c) Other transactions and balances with key management personnel and their related parties

Purchases

Pellegrino Travel Centre

During the year ended 30 June 2011, the company incurred $93,997 (2010: $100,563) of travel expenses through Pellegrino Travel Centre, a company which is owned by a relative of Mr C Pellegrino, an executive director of BioProspect Limited. The amount outstanding to Pellegrino Travel Centre as at 30 June 2011 was $nil (2010: $nil).

Gun Capital Corporate

During the year ended 30 June 2011, the company incurred $61,320 (2010: $154,068) in consulting services provided by Gun Capital Corporate Pty Ltd, a company which is owned by Mr Leo Khouri, (father of non-executive director Mr Jacob Khouri). The consulting services covered the provision of corporate advice on acquisitions, strategic alliances, broker presentations, capital raisings and information technology infrastructure services and advice including the purchase of computer equipment. The amount outstanding to Gun Capital Corporate Pty Ltd as at 30 June 2011 was $15,400 (2010: $15,400).

Bejjal Super Fund

During the year ended 30 June 2011, the company incurred $13,295 (2010: $nil) in lease costs for the Melbourne office at 50 Bourke Street. The office is owned by Bejjal Super Fund of which the Trustee is Anne Khouri, mother of non-executive director Mr Jacob Khouri. The amount outstanding to Bejjal Super Fund as at 30 June 2011 was $2,925 (2010: $nil).

Obelisk SAL

During the year ended 30 June 2011, the company incurred $123,197 (2010: $nil) of consulting services provided by Obelisk SAL, a company which is owned by Mr Leo Khouri, father of non-executive director Mr Jacob Khouri. The consulting services covered the access to and supply of CGNC for trials associated with *GI-Guard™* Oral Paste and other *AGRIPRO™* products for use in animal health and nutrition. Obelisk SAL also provided consulting services in relation to establishing European markets for the *REGEN™* therapeutic and *DEMURE™* skin care product ranges. The amount outstanding to Obelisk SAL as at 30 June 2011 was $9,423 (2010: $nil).

Terms and conditions of transactions with related parties

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

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

23. KEY MANAGEMENT PERSONNEL (continued)

(c) Other transactions and balances with key management personnel and their related parties (continued)

Amounts recognised at the end of the reporting period in relation to other transactions with KMP:

	Consolidated 2011 $	2010 $
Non-current Assets		
Property, plant and equipment	5,720	5,720
Accumulated depreciation	(2,508)	(279)
NBV Property, plant and equipment	3,212	5,441
Current Liabilities		
Trade and other payables	27,748	18,325
Total liabilities	27,748	18,325
Expenses		
Consulting and advisory expenses	81,546	145,305
Research and development	109,311	10,543
Other administration expenses	100,952	109,025
Total Expenses	291,809	264,873

(d) Compensation by category (KMP and directors)

	Consolidated 2011 $	2010 $
Short-term employee benefits	683,297	701,916
Post-employment benefits	42,834	50,955
Share-based payments	(74,521)	20,000
Total compensation	651,610	772,871

24. 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 2011	% Equity Interest 2010	Investment * $ 2011	Investment * $ 2010
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
Re Gen Wellness Products Pty LTd	Australia	Ord	100%	100%	50,000	50,000

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

Refer to Note 23 for further disclosures regarding related parties.

		CONSOLIDATED 2011 $	2010 $
25. EXPENDITURE COMMITMENTS			
Collection Licence Commitments	(a)	-	7,802
H Fox	(b)	-	16,129
L Guo Cai	(c)	-	5,000
Obelisk – GI-GUARD	(d)	329,816	-
Obelisk –CGNC	(e)	113,800	-
Gun Capital Corporate	(f)	168,000	-
Due not later than one year		611,616	28,931

(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) H Fox

On 5 August 2009, the Company signed a consulting agreement with Howard Fox for services related to securing markets for the emu oil based products to be used in human health and skin care market segments. Under the terms of the agreement, the consulting agreement is fixed for a period of twelve (12) months where at the end of this period the agreement can be terminated or renewed. This commitment reflects the differential between fees incurred as at 30 June 2010 and the full contract term to 19 August 2010. On the 20 September 2010, the twelve month contract was replaced by a monthly retainer.

(c) L Guo Cai

On 2 September 2009, the Company signed a consulting agreement with Liao Guo Cai for services related to supporting market development activities, mainly within China for the emu oil based products. Under the terms of the agreement, the consulting agreement is fixed for a period of twelve (12) months where at the end of this period the agreement can be terminated or renewed. This commitment reflects the differential between fees incurred as at 30 June 2010 and the full contract term to 1 August 2010. A new contract was signed on 1 August 2010 confirming a new monthly arrangement based on hours worked with no minimum retainer.

(d) GI-GUARD

Obelisk SAL $118,734

On 3 June 2011, the Company signed an agreement with Obelisk SAL to manage and coordinate field testing of products in the Middle East and North Africa (MENA) including the United Arab Emirates (UAE). Under the terms of the contract, Obelisk will be paid US$126,000 (A$118,734) for a trial commencing in the UAE in July 2011 through to December 2011. Services covered include the engagement of contractors and suitable potential operators in the UAE to enable the testing and assessment of product on horses, provision of advice on the testing of products and collation of data generated by the contractors to prepare a final study report.

Obelisk SAL $211,082

On 3 June 2011, the Company signed an agreement with Obelisk SAL to co-ordinate marketing and promotion programs with a view to establish ongoing export sales of the products in the Middle East and North America (MENA) including the United Arab Emirates (UAE). Under the terms of the contract, Obelisk will be paid US$224,000 (A$211,082) for work undertaken from July 2011 to December 2011. Services covered include the engagement of contractors and suitable potential operators in the UAE to enable the marketing and promotion of products, collation of market information and preparation of a final report on market development and promotional programs with a view to create solid export markets in the territory.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

25. EXPENDITURE COMMITMENTS (continued)

(e) Conifer Green Needle Complex (CGNC)

Obelisk $113,080

On 9 September 2010, the Company executed a supply agreement with Obelisk SAL for the supply of CGNC (the raw material used in GI-GUARD and AGRIPRO) and other products. The monthly consulting retainer covers the securing of supply for global distribution and provision of technical support for development of new formulations. The termination clause under the agreement requires 12 months notice and the expenditure of US$120,000 (A$113,800) reflects this 12 month commitment.

(f) Corporate services

Gun Capital Corporate Pty Ltd (GCC) $168,000

On 5 January 2011, the Company executed a Deed of Amendment with GCC for the provision of corporate consulting services pertaining to business development (strategic project development, identification of capital raising opportunities, investor support) and support services relating to information technology (provision of reliable and uninterrupted IT services, integrity and storage of data and integrated IT communications platform). The Deed of Amendment changed the termination terms from monthly to 12 months in order to secure the long term relationship with GCC. This commitment reflects the 12 month termination notice.

26. 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, foreign exchange risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring the 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 the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position. The Group minimises concentrations of credit risk in relation to trade receivables by having payment terms of 30 days and receivable balances are monitored on an ongoing basis with the result that the Group has currently never had an exposure to bad debts.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Term deposits are placed with major financial institutions to minimise 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 the end of the reporting period 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	
	2011 $	2010 $
Financial assets		
Cash and cash equivalents	1,718,019	738,672

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 the end of the reporting period:

At 30 June 2011, 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)	
	2011	2010	2011	2010
	$	$	$	$
Consolidated				
+ 1% (100 basis points)	(12,402)	(10,622)	12,402	10,622
- 0.5 % (50 points)	6,201	5,311	(6,201)	(5,311)

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 and therefore it is currently dependent on capital raisings and government tax incentives for short term survival. Refer to note 21 for further details.

Foreign exchange risk
The Group has minor exposure to foreign currency exchange movements. The consulting arrangements with Obelisk SAL are in US$.

Fair value
The carrying amount of all recognised financial assets and financial liabilities is considered a reasonable approximation of their fair value due to their short term nature.

27. EVENTS AFTER THE REPORTING PERIOD

Extraordinary general meeting

The Company held an extraordinary general meeting of shareholders on 8 July 2011 and all resolutions put forward at the meeting were passed. A summary of the resolutions is as follows:
- Ratification of the issue of 123,900,000 shares from the February 2011 placement;
- Approval of 191,100,000 placement shares for funds received in February 2011;
- Approval of 315,000,000 free attaching options conditional with the February placement;
- Approval of 22,000,000 options to underwriters for the February placement;
- Approval of 19,000,000 shares and 19,000,000 options to directors and executives;
- Approval of a change in the nature of activities in order for the company to proceed with its investment in Frontier Gasfields Pty Ltd (Frontier);
- Approval of the issue of 150,000,000 shares to the shareholders of Frontier;
- Approval of 25,000,000 shares and 25,000,000 options to Novus Capital for securing the Frontier investment opportunity for BioProspect;
- Pre approval for a future placement of 200,000,000 shares and 200,000,000 options;
- Approval of 7,000,000 shares and 50,000,000 options to consultants and advisors.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

27. EVENTS AFTER THE REPORTING PERIOD (continued)

Extraordinary general meeting (continued)

Frontier Gasfields

Subsequent to shareholder approval, on the 19 July the Company paid the remaining $625,000 to Frontier to secure 1,000,000 ordinary shares in Frontier at $1.00 each. This $1,000,000 shareholding in Frontier represents a 25% holding in the company.

In accordance with the Heads of Agreement with Frontier, BioProspect issued 150,000,000 shares to the shareholders of Frontier on 19 July 2011 in consideration for an option to acquire a further 50% interest in Frontier.

On the 23 August 2011 the Company announced that it had increased its stake in Frontier from 25 per cent to 50 per cent. Consideration for the 25 per cent holding was $1.25m cash and the issue of 100 million shares and 100 million options expiring 31 December 2013 at an exercise price of 3 cents per share.

Corporate

On 22 July 2011 Mr Anthony Langdon, a non-executive director announced his resignation from the Company effective 15 August 2011.

On 16 September 2011, Mr Winton Willesee was appointed a director and Chairman of the Company. On the same date Dr Michael Quinlan resigned from the board.

Financing

On the 29 August 2011 the Company announced the finalisation of the issue of convertible notes to the value of $1.2m to primarily fund the further investment in Frontier as highlighted above. The notes will accrue interest at 8% per annum and the conversion price will be the lower of 1 cent per share or 80% of the 5 day VWAP of the share price immediately prior to the conversion of the notes. The maturity date for the convertible notes is 31 August 2013

28. 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 consolidated entity.

29. SHARE-BASED PAYMENT PLANS

(1) Recognised share-based payment expenses

(a) The expense recognised for employee services received during the year is shown below.

	CONSOLIDATED 2011 $	2010 $
Expense (reversal) arising from equity-settled share-based payment transactions	(74,521)	20,000

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 were exercisable on or before 30 September 2010 at an exercise price of $0.10 per share. As the option strike price was much higher than the current share price, these options all expired resulting in a reversal for $74,521 during the year ended 30 June 2011.

Refer to note 23 for option holdings by directors.

29. SHARE-BASED PAYMENT PLANS (continued)

(b) The cost recognised for acquisition of various licences is shown in the table.

	CONSOLIDATED 2011 $	2010 $
22.5m shares issued to Solagran Limited		585,000
22.5m options issued to Solagran Limited	-	-
25.0m shares issued to Nova Vita Pty Ltd	250,000	-
	250,000	585,000
TOTAL SHARE-BASED PAYMENTS	175,479	605,000

(2) Weighted average remaining contractual life

As all of the director options expired 30 September 2010, there is no remaining contractual life.

(3) 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 2011:

	Black-Scholes
Dividend yield (%)	0.000
Expected volatility (%)	24.540
Risk-free interest rate (%)	6.150
Expected life of options (years)	2.800
Option exercise price ($)	0.100
Weighted average share price at measurement date	0.041

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

30. PARENT ENTITY INFORMATION

	2011 $	2010 $
Net loss attributable to members of BioProspect Limited	(3,220,121)	(3,301,454)
Change in market value of available for sale financial assets	(69,842)	93,750
Total comprehensive income for the year attributable to members of BioProspect Limited	**(3,289,963)**	**(3,207,704)**
Current assets	1,770,656	769,779
Total assets	**3,123,248**	**1,326,353**
Current liabilities	1,919,194	228,801
Total liabilities	**1,945,711**	**228,801**
Issued Capital	31,210,774	28,084,860
Share based payments reserve	2,543,511	2,299,477
Available for sale asset revaluation reserve	23,908	93,750
Retained earnings	(32,600,656)	(29,380,535)
Total equity	**1,177,537**	**1,097,552**
Contingent liabilities	-	-
Guarantees in relation to debt of subsidiaries	-	-
Capital and other expenditure commitments not provided for in the financial statements	168,000	-
Future operating leases not provided for in the financial statements	-	-

DIRECTORS' DECLARATION

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

(1) In the opinion of the directors:

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

(i) giving a true and fair view of the of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

(ii) complying with Accounting Standards and Corporations Regulations 2001, and

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

(c) The financial statements and notes to the financial statements are prepared in compliance with International Financial Reporting Standards as made by the International Accounting Standards Board.

(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 year ended 30 June 2011.

On behalf of the Board

Winton Willesee
Chairman

29 September 2011
Perth Western Australia

William Buck

The Directors
BioProspect Limited
Suite 6, Level 3
320 Adelaide Street
Brisbane QLD 4077

Auditor's Independence Declaration Under Section 307c Of The Corporations Act 2001

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2011 there have been:

— no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

— no contraventions of any applicable code of professional conduct in relation to the audit.

William Buck

William Buck (Qld)
ABN: 11 603 627 400

J. A. Latif
A Member of the Firm

Brisbane

29 September 2011

Sydney
Melbourne
Brisbane
Perth
Adelaide
Auckland

Level 21, 307 Queen Street, Brisbane QLD 4000
GPO Box 563, Brisbane QLD 4001
Telephone: +61 7 3229 5100 • Facsimile: +61 7 3221 6027
williambuck.com

William Buck

Auditor's Opinion

In our opinion:

a. the financial report of the consolidated entity is in accordance with the Corporations Act 2001, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2 (a).

Emphasis of matter regarding Going Concern

Without qualifying our opinion, attention is drawn to Note 21 (c) to the financial statements which indicates that as at 30 June 2011 the company was in a net asset position of $1,177,537 (2010: $1,097,552) but had incurred losses for the year then ended of $3,220,121 (2010: $3,301,454). These conditions, along with other matters as set out in Note 21 (c) indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 30 to 35 of the directors' report for the year ended 30 June 2011. 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 2011, complies with section 300A of the Corporations Act 2001.

William Buck.

William Buck (Qld)

ABN: 11 603 627 400

J. A. Latif

A Member of the Firm

Brisbane

29 September 2011

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 23 September 2011.

(a) Distribution of equity securities

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

	Ordinary shares		Options	
	No. of Holders	**No. of Shares**	**No. of Holders**	**No. of Options**
1 – 1,000	288	225,400	15	6,178
1,001 – 5,000	191	627,084	25	82,583
5,001 – 10,000	452	4,221,977	40	348,953
10,001 – 100,000	1,232	57,624,234	269	12,511,313
100,001 and over	936	1,530,971,652	353	1,224,364,537
	3,099	1,593,670,347	702	1,237,313,564
The number of shareholders holding less than a marketable parcel of shares are:	1,858			

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

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

		Listed ordinary shares	
		Number of Shares Held	**% Held**
1	Mining Investments Limited	203,904,859	12.79
2.	Middle East Petroleum Services Ltd	127,304,625	7.99
3	Pitt Street Absolute Return Fund	60,918,592	3.82
4.	Bejjal Super Fund	58,500,000	3.67
5.	Panther Petroleum Limited	46,875,000	2.94
6.	Citicorp Nominees Pty Limited	38,241,334	2.40
7.	Dentost Pty Ltd	37,500,000	2.35
8.	Alimond Pty Ltd	28,000,000	1.76
9.	Nova Vita Pty Ltd	25,000,000	1.57
10.	Mr Andrew Brian Teasdale	24,720,775	1.55
11.	The Suburban Super Fund	22,250,000	1.40
12.	The Real Estae Business Pty Ltd	20,000,000	1.25
13.	HSBC Custody Nominees (Aust) Limited	18,956,001	1.19
14.	Hartkon Investments Pty Ltd	15,115,050	0.95
15.	Hawthorn Grove Investments Pty Ltd	15,000,000	0.94
16.	Sanperez Pty Ltd	15,000,000	0.94
17.	The Robert Rowley Super Fund	12,016,970	0.75
18.	Greenfields Securities Pty Ltd	11,666,667	0.73
19.	Mr Peter Allan Learmont	11,100,000	0.70
20.	AYL Pty Ltd	10,000,000	0.63
		802,069,873	50.33

ASX ADDITIONAL INFORMATION (CONTINUED)

(c) Optionholders – options quoted on ASX

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

		Listed ordinary shares	
		Number of Options Held	**% Held**
1	Mining Investments Limited	254,460,169	20.57
2.	Pitt Street Absolute Return Fund	96,346,233	7.79
3	Obelisk SAL	50,000,000	4.04
4.	Middle East Petroleum Services Ltd	48,554,625	3.92
5.	Bejjal Super Fund	39,000,000	3.15
6.	Bell Potter Nominees Ltd	31,081,712	2.51
7.	Citicorp Nominees Pty Limited	30,015,000	2.43
8.	Jacobs Corporation Pty Ltd	20,322,800	1.64
9.	U5 Pty Ltd	20,250,000	1.64
10.	Mr Antoine Aboukhalil	20,000,000	1.62
11.	Panther Petroleum Limited	18,750,000	1.52
12.	Greenfields Securities Pty Ltd	18,666,667	1.51
13.	Suburban Holdings Pty Ltd	18,500,000	1.50
14.	Trayburn Pty Ltd	17,700,000	1.43
15.	Mr Andrew Brian Teasdale	15,813,850	1.28
16.	Dentost Pty Ltd	15,000,000	1.21
17.	Hawthorn Grove Investments Pty Ltd	15,000,000	1.21
18.	The Robert Rowley Super Fund	12,016,970	0.97
19.	Annapanna Pty Ltd	12,000,200	0.97
20.	Hartkon Investments Pty Ltd	10,076,700	0.81
		763,554,926	61.71

(d) Unquoted Securities

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

Number of options	Number of holders
48,248,571	29

There are no option holders that hold 20% or more of the unquoted options:

(e) Voting Rights

All ordinary shares carry one vote per share without restriction.

Option holders have no voting rights.

(f) Restricted Securities

As at 23 September 2011, the Company had no restricted securities.

notes

BioProspect Limited