CANARGO ENERGY CORP
Form 10-K
March 13, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

[X] **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

OR

[ ] **TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number **001-32145**

CANARGO ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**91-0881481**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

P.O. Box 291, St Peter Port, Guernsey, British Isles GY1 3RR
(Address of principal executive offices)

Registrant s telephone number, including area code: **+(44) 1481 729 980**

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.10 per share	American Stock Exchange Oslo Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES___NO Ö__

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act
YES ___NO Ö__

Indicate by check mark whether the registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES Ö__ NO___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
[ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ___ Accelerated filer Ö___ Non-accelerated filer ___
Smaller reporting company ___
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES___ NO ü

The aggregate market value of the voting and non voting common equity held by-non-affiliates as of the most recently completed second fiscal quarter (June 30, 2007), based on the price at which the common equity was last sold on such date was approximately $184 million, based upon the last reported sales price of such stock on The American Stock Exchange on that date.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date: Common Stock, $0.10 par value, 242,120,974 shares outstanding as of March 7, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive Proxy Statement issued in connection with its 2008 Annual Meeting of Shareholders are incorporated by reference in Part III of this Report. Other documents incorporated by reference in this Report are listed in the Exhibit Index.

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PART I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). When used in this Report, the words estimate, project, anticipate, expect, intend, hope, may and similar expressions, as well as will, shall and other indications of future tense, are intended to identi forward-looking statements. The forward-looking statements are based on our current expectations and speak only as of the date made. These forward-looking statements involve risks, uncertainties and other factors that in some cases have affected our historical results and could cause actual results in the future to differ significantly from the results anticipated in forward-looking statements made in this Report. Important factors that could cause such a difference are discussed in this Report, particularly in the sections entitled Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations . You are cautioned not to place undue reliance on the forward-looking statements.

Few of the forward-looking statements in this Report, including the documents that are incorporated by reference, deal with matters that are within our unilateral control. Joint venture, acquisition, financing and other agreements and arrangements must be negotiated with independent third parties and, in some cases, must be approved by governmental agencies. These third parties generally have interests that do not coincide with ours and may conflict with our interests. Unless the third parties and we are able to compromise their various objectives in a mutually acceptable manner, agreements and arrangements will not be consummated.

Although we believe our expectations reflected in forward-looking statements are based on reasonable assumptions, no assurance can be given that these expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the expectations reflected in the forward-looking statements include, among others:

- the market prices of oil and gas;
- uncertainty of drilling results, reserve descriptions, characteristics, estimates and reserve replacement;
- operating uncertainties and hazards;
- economic and competitive conditions;
- natural disasters and other changes in business conditions;
- inflation rates;
- legislative and regulatory changes;
- financial market conditions;
- accuracy, completeness and veracity of information received from third parties;
- wars and acts of terrorism or sabotage;
- political and economic uncertainties of foreign governments; and
- future business decisions.

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In light of these risks, uncertainties and assumptions, the events anticipated by our forward-looking statements might not occur. We undertake no obligation to update or revise our forward-looking statements, whether as a result of new information, future events or otherwise.

In this Annual Report, CanArgo or the Company , we , us and our refer to CanArgo Energy Corporation and, u otherwise indicated by the context, our consolidated subsidiaries.

GLOSSARY OF CERTAIN TERMS

The definitions set forth below shall apply to the indicated terms as used in this Form 10-K. All volumes of natural gas referred to herein are stated at the legal pressure base of the state or area where the reserves exist and at 60 degrees Fahrenheit and in most instances are rounded to the nearest major multiple.

AMEX The American Stock Exchange, Inc.

bbl One stock tank barrel, or 42 U.S. gallons liquid volume, used herein in reference to crude oil or other liquid hydrocarbons.

boe Barrel of oil equivalent, determined by using the ratio of one bbl of oil or natural gas liquids to six Mcf of gas.

bopd Barrels of oil produced per day.

Brent Pricing point for selling North Sea crude oil.

Development drilling The drilling of a well within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.

Exploration prospects or locations A location where a well is drilled to find and produce natural gas or oil reserves not classified as proved, to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir or to extend a known reservoir.

Finding and development costs Costs associated with acquiring and developing proved natural gas and oil reserves which are capitalized pursuant to generally accepted accounting principles, including any capitalized general and administrative expenses.

Farm-in or farm-out An agreement under which the owner of a working interest in an oil and gas lease assigns the working interest or a portion thereof to another party who desires to drill on the leased acreage. Generally, the assignee is required to drill one or more wells in order to earn its interest in the acreage. The assignor usually retains a royalty or reversionary interest in the lease. The interest received by an assignee is a farm-in while the interest transferred by the assignor is a farm-out.

Gross acreage or gross wells The total acres or wells, as the case may be, in which a working interest is owned.

Km Kilometer.

Mcf One thousand cubic feet of natural gas.

MMcf One million cubic feet of natural gas.

Bcf One billion cubic feet of natural gas.

MCM One thousand cubic metres of natural gas.

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MMCM One million cubic metres of natural gas.
mD Millidarcies.
MMbbl One million barrels.
MMboe Million barrels of oil equivalent.
Net acres or net wells The sum of the fractional working interests owned in gross acres or gross wells.
Producing property A natural gas and oil property with existing production.
Proved developed reserves Proved reserves that can be expected to be recovered from existing wells with existing equipment and operating methods.
Proved reserves The estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.
Proved undeveloped reserves Proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units that offset productive units and that are reasonably certain of production when drilled.
PSC or PSA Production Sharing Contract or Production Sharing Agreement.
Recomplete This term refers to the technique of drilling a separate well-bore from all existing casing in order to reach the same reservoir, or redrilling the same well-bore to reach a new reservoir after production from the original reservoir has been abandoned.
SEC United States Securities and Exchange Commission.
Undeveloped acreage Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of natural gas and oil regardless of whether such acreage contains proved reserves.
Working interest An operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and to receive a share of production.
Workovers Operations on a producing well to restore or increase production.

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ITEM 1. BUSINESS.

General Development of Business

We operate as an oil and gas exploration and production company and as a holding company carry out our activities through a number of operating subsidiaries and associated or affiliated companies. These operating companies are generally focused on one of our projects, and this structure assists in maintaining separate cost centers for these different projects.

The address of the principal and administrative offices of CanArgo is P.O. Box 291, St Peter Port, Guernsey, British Isles GY1 3RR (Tel. No. (44) 1481 729 980).

We file reports with the Securities and Exchange Commission (the Commission). The public may read and copy any materials that we file with the Commission at the Commission s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. We make available free of charge our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act on our internet website at www.canargo.com as soon as reasonably practicable after we electronically file or furnish such material with or to the Commission.

Our principal activities are oil and gas exploration, development and production, principally in Georgia. We direct most of our efforts and resources to our exploration and appraisal program in Georgia and the development of the Ninotsminda Field in Georgia. Our management and technical staff have substantial experience in our areas of operation. Currently our principal product is crude oil, and the sale of crude oil is our principal source of revenue.

Exploration, Development and Production Activities

In Georgia our exploration, development and production activities are carried out under four production sharing contracts or agreements (PSC or PSA), these being:

1. The Ninotsminda, Manavi and West Rustavi Production Sharing Contract, covering Block XI ^{E} , (Ninotsminda PSC), in which Ninotsminda Oil Company Limited owns a 100% interest. Ninotsminda Oil Company Limited is a wholly owned subsidiary of CanArgo. This PSC covers an area of approximately 27,923 acres (113 Km ^{2}) This area, excluding any development area, is subject to a voluntary 25% relinquishment in May 2008;

2. The Nazvrevi and Block XIII Production Sharing Contract (Nazvrevi PSC), covering Blocks XI ^{D} and XIII, in which CanArgo (Nazvrevi) Limited owns a 100% interest. CanArgo (Nazvrevi) Limited is a wholly owned subsidiary of CanArgo. This PSC covers an area of approximately acres 194,223 acres (787 Km^{2}), following a 50% relinquishment of the contract area in February 2008;

3. The Norio (Block XI ^{C}) and North Kumisi Production Sharing Agreement (Norio PSA) in which CanArgo Norio Limited currently owns a 100% interest, although this interest may be reduced to 85% should the state oil company, Georgian Oil, exercise an option available to it under the PSA for a limited period following the submission of a field development plan. As a contractor party, Georgian Oil would be liable for all costs and expenses in relation to any interest it may acquire in the PSA. This PSA covers an area of approximately 265,122 acres (1,061 Km ^{2}) following a 25% relinquishment in April 2006 and will be subject to a further 50% relinquishment of the remaining contract area less any development area in April 2011;

4. The Block XI ^{G} and XI ^{H} Production Sharing Contract (Tbilisi PSC), in which CanArgo Norio Limited owns a 100% interest. CanArgo Norio Limited is a wholly owned subsidiary of CanArgo. This PSC covers an area of approximately 119,845 acres (485 Km ^{2}). A first relinquishment of 25% of the contract area, excluding any development, area is due in September 2008 but we are negotiating an extension to this date.

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Until February 16, 2006, we held an interest in the Samgori, Block XI B Production Sharing Contract (Samgori PSC), in which CanArgo Samgori Limited acquired a 50% interest in 2004 subject to completion of an agreed work program to be completed in part by September 16, 2006 and in full by June 2008. This work program did not commence in time and the Samgori PSC was returned to the previous owner without CanArgo retaining any interest. CanArgo Samgori Limited is a wholly owned subsidiary of CanArgo.

Georgia Location Map

Under production sharing contracts, the contractor party (generally a foreign investor) assumes the risk and provides investment into the project (in the above mentioned contracts, CanArgo through its appropriate subsidiary is a contractor party) and in return is entitled to a share of any petroleum produced which is split into a cost recovery and profit share element. The remaining profit petroleum produced from the project is delivered to the State from which the State will assume, pay and discharge, in the name and on behalf of each contractor party, the contractor party s profit tax liability and all other host State taxes, levies and duties. PSCs are a common form of oil and gas exploration and production contract in many parts of the world.

Oil and Gas Fields

Since 1997, our resources have, through our wholly owned subsidiary Ninotsminda Oil Company Limited, been mainly focused on the development of the Ninotsminda Field and related exploration activities in Georgia, including the Manavi prospect. The Ninotsminda Field covers approximately 3,276 acres (13.26 Km^2) and is located approximately 25 miles (40 Kms) north east of the Georgian capital, Tbilisi. It is adjacent to and east of the Samgori Oil Field, which was Georgia s most productive oil field (we acquired an interest in this Field in early 2004 which we held until February 2006). The Ninotsminda Field was discovered later than the Samgori Field and has experienced substantially less development activity. The Georgian State oil company, Georgian Oil and others, including Ninotsminda Oil Company Limited, have drilled 36 wells in the Ninotsminda Field, of which 11 are currently producing.

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We believe that the Ninotsminda PSC area both outside of and beneath the currently producing reservoirs of the Field has significant additional exploration and appraisal potential. To date, we have invested and continue to invest substantial funds in exploring the Ninotsminda PSC area including the Manavi prospect where we made an oil discovery in a deeper stratigraphic interval in 2003.

Other Projects

We have additional exploratory and developmental oil and gas properties and prospects in Georgia which we are actively exploring. Previously we had oil and gas interests in Ukraine, but we exited this country in 2004 when we disposed of our single remaining Ukrainian asset, the Bugruvativske Field. We also had interests in Kazakhstan, but our Kazakhstan assets were discontinued with our disposition of our interest in Tethys Petroleum Limited, which held such assets, on August 3, 2007.

Business Structure

CanArgo is a holding company organized under the laws of the State of Delaware. Our principal product is crude oil, and the sale of crude oil is our principal source of revenue. CanArgo s principal active subsidiaries are held through our wholly owned subsidiary company CanArgo Limited as follows:

Background

Ninotsminda PSC

Our activities at the Ninotsminda Field and on the Manavi prospect are conducted through Ninotsminda Oil Company Limited, a Cypriot corporation (NOC) which became a wholly owned subsidiary of CanArgo in July 2000.

NOC (then named JKX Ninotsminda Limited) obtained its rights to the Ninotsminda Field, including all existing wells, one other field (West Rustavi) and exploration acreage in Block XI ^{E} under a 1996 production sharing contract with Georgian Oil and the State of Georgia (Ninotsminda PSC) which came into effect in February 1996. NOC s rights under the contract expire in December 2019, subject to the possible loss of undeveloped areas prior to that date and a possible extension with regard to developed areas. As such the initial term of the Ninotsminda PSC is until 2019, however, in respect of any development area, if commercial production remains possible beyond 2019 upon giving notice to the State we have an automatic right to extend the contract in respect of such development area for an additional term of 5 years (until 2024) or, if earlier, for the producing life of the development area. Under the Ninotsminda PSC, NOC is required to relinquish at least

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half of the area then covered by the production sharing contract, but not in portions being actively developed, at five year intervals commencing December 1999. In 1998, these terms were amended with the initial relinquishment being due in 2008 and a reduction in the area to be relinquished at each interval from 50% to 25%.

Under the Ninotsminda PSC, up to 50% of petroleum produced under the contract (Production) is allocated to NOC for the recovery of the cumulative allowable capital, operating and other project costs associated with the Ninotsminda Field and exploration in Block XI ^{E} (cost recovery petroleum). NOC pays 100% of the costs incurred in the project as the sole contractor party under the Ninotsminda PSC. The balance of Production (profit petroleum) is allocated on a 70/30 basis between Georgian Oil as the State representative in the PSC and NOC respectively. While NOC continues to have unrecovered costs, it will receive 65% of Production (cost recovery plus profit petroleum). After recovery of its cumulative capital, operating and other allowable project costs, NOC will receive 30% of Production. Thus, while NOC is responsible for all of the costs associated with the Ninotsminda PSC, it is only entitled to receive 30% of Production after cost recovery. The allocation of a share of Production to Georgian Oil, however, relieves NOC of all obligations it would otherwise have to pay the State of Georgia for taxes, duties and levies related to activities covered by the production sharing contract. Georgian Oil and NOC take their respective shares of oil production in kind, and they market their oil independently, however the intention is to market gas jointly.

Samgori PSC

In April 2004, we acquired a 50% interest in the Samgori PSC in Georgia. This interest was acquired from Georgian Oil Samgori Limited (GOSL), a company wholly owned by Georgian Oil, by one of our subsidiaries, CanArgo Samgori Limited (CSL). Under the terms of the agreement dated January 8, 2004, up to 10 horizontal wells were to be drilled on the Samgori Field as a result of GOSL s earlier acquisition of the contractor s interest in the PSC from the original contractor party to the Samgori PSC, National Petroleum Limited (NPL). Completion of well S302 in the autumn of 2004, which was funded 100% by us, satisfied our commitment to GOSL under the acquisition agreement. The intention was that the remainder of the drilling program would be funded jointly by CSL and GOSL, the contractor parties, pro rata their interest in the Samgori PSC. The total cost to us of participating in the whole program, which was due to be completed within 36 months of the commencement of the joint work program, was anticipated to be up to $13,500,000.

On February 17, 2006 we issued a press release announcing that our subsidiary, CSL, was not proceeding with further investment in the Samgori PSC and associated farm-in, and accordingly we terminated our interest in the Samgori PSC with effect from February 16, 2006. The decision by CSL not to proceed with further investment under the current farm-in arrangements was due to the inability of CSL s partner in the project, GOSL, to provide its share of funding to further the development of the Field. We consider that there would have been insufficient time to meet the commitments under the agreement with NPL and we were not prepared to fund the project, which is not without risk, on a 100% basis without different commercial terms and an extension to the commitment period. It was not possible to negotiate a satisfactory position on either matter. NPL subsequently exercised its right to take back 100% of the contractor share in the Samgori PSC from GOSL and, accordingly, effective February 16, 2006 we have withdrawn from the Samgori PSC.

CanArgo Georgia Limited

Pursuant to the terms of CanArgo s PSCs in Georgia, a Georgian not-for-profit company must be appointed as field operator. Until February 2005, there were three such field operating companies, relating to CanArgo s PSCs: Georgian British Oil Company Ninotsminda, Georgian British Oil Company Nazvrevi and Georgian British Oil Company Norio (in respect of both the Norio PSA and the Tbilisi PSC), each of which is 50% owned by a company within the CanArgo group with the remainder owned by Georgian Oil, but with CanArgo having chairmanship of the board and a casting vote. However, on February 1, 2005 Georgian Oil, the State Agency for Regulation of Oil and Gas Resources in Georgia and CanArgo reached agreement on restructuring the field operator companies in our PSCs. A single operator company, CanArgo Georgia Limited, a wholly owned subsidiary company of CanArgo, was appointed the field operator for the Ninotsminda, Nazvrevi, Norio and Tbilisi PSCs. The field operator provides the operating personnel and is responsible for day-to-day operations.

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CanArgo or a company within the CanArgo group pays the operating company s expenses associated with the development of the fields, and the operating company performs its services on a non-profit basis.

Operations under each of the PSCs are determined by a co-ordinating body (Co-ordinating Committee) composed of members designated by the respective CanArgo company and Georgian Oil, representing the State, with the deciding vote allocated to us. If the State believes that any action proposed by us with which the State disagrees would result in permanent damage to a field or reservoir or in a material reduction in production over the life of a field or reservoir, it may refer the disagreement to a western independent expert for binding resolution. Since we acquired our interest in the PSCs, there has been no such disagreement. Georgian regulatory authorities must approve any drilling sites tentatively selected by us before drilling may commence.

Ninotsminda, Manavi and West Rustavi Production Sharing Contract

Ninotsminda

The Ninotsminda Field was discovered in 1979, with commercial production from the Middle Eocene reservoir established in the same year. When NOC assumed developmental responsibility for the Field in 1996, production was minimal. We believe that production was hampered by, among other factors, a lack of funding, civil strife and utilization of old technology and methods.

The Ninotsminda Field is the easternmost element of an elongate anticline which includes the Samgori and Patardzeuli Fields. The Ninotsminda Field is separated from the Patardzeuli Field to the west by a saddle and a NW-SE trending cross fault. The field structure comprises an elongate anticline which measures 6.2 miles (10 Km) (E-W) by 1.9 miles (3 Km) and has a maximum structural relief of around 2,493 feet (760 metres). The main reservoir horizon is the Middle Eocene which consists of well-bedded deep marine sedimentary rocks eroded from volcanoes. Such rocks typically have low matrix porosity with the gross field wide effective porosity of around 0.1% and permeability in the range of 0.5-10 mD, however, in the Ninotsminda Field there are well developed sub-vertical fractures which provide secondary porosity and permeability of up to 100-500 mD. The reservoir which in the field area is up to 1,640 feet (500 metres) thick is at a depth of 8,530 feet (2,600 metres) below surface to 9,843 feet (3,000 metres) below surface. Production from the Field is facilitated by a strong water drive. The oil accumulation has a gas cap which together form a maximum hydrocarbon column of 1,060 feet (323 metres) thickness, with the gas-oil contact at 4,839 feet (1,475 metres) True Vertical Depth Sub Sea (TVDSS) and the oil-water contact at 5,413 feet (1,650 metres) TVDSS. The oil itself is a high quality sweet crude: 41°API, with just 0.24% sulphur, 4.9% paraffin and 8.7% tar and asphaltene.

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NOC began an immediate rehabilitation of the Ninotsminda Field in 1996 which included repairing and adding perforations to existing wells, acquiring additional seismic data and a limited drilling program. The first new well (named N96) was completed in October 1997 and a second well (N98) was completed in October 1998 which was sidetracked as a horizontal producer in 2000. The N98 horizontal well is the most easterly producing well on the field and, although not oriented in an optimal direction so as to best encounter the sub vertical fractures which are important for production, the well has produced approximately 510,000 barrels of oil to date and continues to produce at a steady rate of approximately 200 barrels of oil per day (bopd) with less than 1% water cut.

As a result of this development work, subsequent drilling and the completion of a dynamic reservoir model, it was suggested that a higher level of production could be achieved from the Middle Eocene reservoir from horizontal wells drilled in a preferred orientation so as to intersect the main fracture sets. During 2003, we completed three horizontal sidetrack wells with a total of 3,720 feet (1,134 metres) of horizontal section having been drilled through the reservoir using our own equipment and conventional drilling techniques. Although individual wells tested at rates of over 2,000 barrels of oil per day (bopd) when completed, the wells were put on production at lower rates in accordance with the recommendations of independent petroleum engineering specialists in order to maintain production. However, it has not been possible to maintain production at these levels due to water incursion resulting from what we believe to be coning of water up the fractures, caused to an extent by reservoir damage caused by conventional drilling techniques. Nevertheless, the total production to date from these wells amounts to approximately 745,000 barrels of oil and 597 MMcf (16,908 MCM) of natural gas.

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Despite the fact that initial production results from the horizontal wells indicated significant improvement compared to production from offsetting vertical wells, production was not sustainable at the same high levels due to, what we believe, being drilled overbalanced with a water-based mud that resulted in highly overbalanced pressures and mud invasion into what is already a low permeability reservoir. In an attempt to address this issue, it was decided to employ under balanced drilling (UBD), as well as drilling with coiled tubing (CT) as these technologies have been combined successfully in the international oil industry to drill undamaged horizontal sections for improved production and exploitation of both oil and gas reservoirs.

In June 2004, we signed a contract with WEUS Holding Inc., a subsidiary of Weatherford International Ltd (Weatherford), for the supply of Under Balanced Coiled Tubing Drilling (UBCTD) services to our projects in Georgia. Under the terms of the contract, Weatherford were to supply and operate a UBCTD unit to be used on a program of up to 14 horizontal well-bores on the Ninotsminda and Samgori Fields (we were party to the Samgori PSC at this time). It was considered that these combined drilling technologies would provide the best way to develop and produce both the Ninotsminda and Samgori Fields.

We planned to drill at least five under balanced horizontal sidetracks on the Ninotsminda Field starting with the N22H well which is located in the east part of the Field where the reservoir is tighter but it is believed to be relatively un-drained. We prepared the well with our own crew which involved sidetracking from the existing well-bore at 8,661 feet (2,640 metres) down to 9,193 feet (2,802 metres) and setting a $4^1/2$ inch liner. Weatherford commenced operations in December 2004. However, technical problems with the Weatherford equipment caused a number of delays which resulted in the UBD not being completed until late February, 2005 with a much shorter than planned section being drilled, and the well not achieving its objective, despite flowing gas at reported high rates through the gas cap section.

Subsequent operations by Weatherford on both N100H2 (an eastern sidetrack to the well where we earlier successfully drilled a conventional horizontal side track to the west) and N49H wells also proved unsuccessful, with Weatherford failing to drill any horizontal section in these wells. Progress was hampered by multiple failures of the downhole motors, other equipment malfunctions and the loss of bottom hole assemblies in the wells. As a result of the failure of Weatherford to successfully complete any horizontal sidetrack development wells on the Ninotsminda Field using UBCTD technology, Weatherford demobilized its equipment and left Georgia in July 2005.

Despite this lack of success, which we attribute mainly to multiple equipment failures, we still believe that under-balanced technology is an appropriate technology for the development of this type of reservoir. However, due to alternative UBCTD equipment not being available in the short to medium term due to a high demand for oil field equipment and services in general, we decided to continue with our horizontal development and production program and drill at least two additional sidetrack wells with our own equipment.

In October 2005 we successfully sidetracked the N100H2 well, having drilled a horizontal section of 1,667 feet (508 metres). A pre-perforated liner was run over a 1,421 foot (433 metres) interval in the horizontal section and was tested at a rate of up to 13.07 MMcf (370 MCM) of gas per day plus 301 barrels of condensate per day. The well is currently producing at a steady rate of approximately 1.4 MMcf (40 MCM) of gas per day and 60 barrels of oil per day (bopd).

The last horizontal sidetrack well to be drilled was the N97H well which we completed in March 2006. It targeted oil volumes un-drained from previous offset area wells and was put on production test following the installation of a slotted liner over a 1,509 feet (460 metres) interval furthest from the heel of the well. The well produced initially with a high water cut, approximately 70%, and an oil rate which peaked at 385 barrels of oil per day (bopd) before declining. Subsequent pressure surveys run with downhole gauges suggested that the N97H well was in communication with the offset N4H well. The most likely assumed scenario was that some of the fracture sets encountered at the end of the N97H well were drained by the N4H well and were hence water filled. Once a very high permeability connection is established with the aquifer, water will flow in preference to any oil filled fractures or matrix of lower permeability.

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On the basis of the test data, and due to the fact that the N97H well is approximately 36 feet (11 metres) structurally higher than the N4H well which is still producing oil, we decided to attempt to conduct remedial water isolation. The slotted liner deployed in the horizontal section limited mechanical options for shutting off the toe end of the horizontal section. Previous experience in the field has shown that pulling a liner once set has a very low chance of success due to formation collapse around the liner. Also, a traditional cement isolation was considered to have a low chance of success in a horizontal section, so we opted for a coiled tubing deployed chemical shut-off. Water isolation operations have been performed but subsequent production testing showed that the treatment was not successful.

We plan to set a cement retainer in the solid liner section of the N97H well in order to isolate and abandon the slotted liner part and then perforate the liner in the build up and heel section of the well where there is potential to recomplete this well as a gas producer. This operation will be subject to having a suitable gas off take agreement in place.

Production and development to date at the Ninotsminda Field has focused on the western 2/3rds of the field. The eastern most wells drilled on the field are the N98 horizontal well and the N52 well which is an inclined well towards the southeast. Both of these wells have proven the oil-water contact to be at a deeper level than in the western part of the field. N52, which is a Soviet era well, has never produced from the reservoir due to a complex fish being left in the hole with the well subsequently abandoned. The eastern part of the field has not been exploited because most of the area falls within an environmental protection zone where drilling is prohibited. CanArgo has future plans, subject to financing being available, to develop this area by drilling a highly deviated well from the vicinity of the N98H surface location into the eastern part of the field and completing the well with at least two horizontal sections in the reservoir interval.

During the year, we continued to perform workover operations on the N52 well on the Ninotsminda Field using our own CanArgo Rig #1 and crew to extract the fish (approximately 9,300 feet (2,843 metres) comprising drill pipe, tubing and a milling assembly) from the well and perforate the liner over the reservoir interval. The operation is further complicated due to the inclined nature of the well which has a number of severe doglegs and the potential for the tubing to have deformed when dropped. Although the fishing operation was always considered to present a considerable technical challenge, we did succeed in recovering approximately 7,155 feet (2,181 metres) of 2 7/8 and 2 3/8 tubing. However, we have now reached the pulling capacity of Rig #1 and are unable to progress further with this unit. We are re-evaluating the operation and if we deem the chances of success to be reasonable, we will consider moving our larger rig to the site once it has completed operations on Manavi.

Apart from the Middle Eocene sequence on the Ninotsminda Field there are a number of other reservoirs which contain oil. We have not yet fully evaluated the reserves and economics of production from these zones which include shallower oil reservoirs, the gas cap on the Ninotsminda Field itself or from the hydrocarbon bearing zones below the Middle Eocene. To fully evaluate these zones, further seismic, technical interpretation and the employment of modern drilling techniques such as radial drilling may be required.

Manavi & Cretaceous Exploration

Historically, the main focus of oil and gas exploration in Georgia has been directed at the Middle Eocene sequence which provides the reservoir for the Samgori and Ninotsminda Fields. Although the potential of the underlying Cretaceous sequence has long been recognised from limited drilling, surface outcrop and by analogy to the Cretaceous in nearby Chechnya and Dagestan, this sequence remains very under explored. The Cretaceous is deeper; it was less well defined on Soviet era seismic data and technically more difficult to drill hence the general lack of exploration. As a result, the Cretaceous of the Kura Basin in Georgia has potential to contain very significant volumes of oil and gas reserves and we are fortunate to hold a significant acreage position in this very attractive play fairway.

The Upper Cretaceous stratigraphy typically comprises a chalk and chalky limestone sequence which is of the order of 1,000 feet (300 metres) thick. These rocks, because of their brittle nature, are generally fractured, as seen in outcrop, thus providing reservoirs with potentially significant permeability. Such age rocks are prolific producers in the North Caucasus, and indeed worldwide. The carbonates are deposited on top of a thick pile of

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Cretaceous volcanic rocks which at outcrop are seen to be mainly pillow (submarine) lavas. Although not as good a reservoir as the carbonates, pillow lavas provide a ready made fracture system in the shrinkage joints that separate the individual pillows of a massive lava flow. In the West Rustavi Field well #16 (within CanArgo s acreage) which reached a total depth in the Cretaceous penetrated a volcanic interval which flow tested water with gas at over 3,000 barrels per day thus demonstrating significant permeability.

Following the acquisition and interpretation of new multi-channel 2D seismic data in the Ninotsminda, Manavi and West Rustavi Production Sharing Contract (Ninotsminda PSC) area in 1998 and 2000, we identified several large structures at the Cretaceous level, the largest of which is the Manavi prospect. Manavi is located approximately 28 miles (45 Km) to the east of Tbilisi and just to the east of the Ninotsminda Field and is mapped as a very large, east west trending anticlinal feature at Top Cretaceous reservoir level, measuring approximately 12 miles by 4 miles (19 Km by 5 Km) with 2,950 feet (900 metres) of vertical relief. The prospect lies principally within the Ninotsminda PSC area, but part of the prospect extends into the adjacent Nazvrevi PSC area (also owned by CanArgo). All exploration costs in the Ninotsminda PSC area can be added to the cost recovery pool to be recovered from the sale of oil produced from the Ninotsminda Field subject to there being sufficient production available. CanArgo holds a 100% interest in both of these PSCs through wholly owned subsidiary companies.

The first exploration well drilled on the Manavi structure, Manavi 11 (M11), reached a total depth (TD) of 14,765 feet (4,500 metres) in the Cretaceous in September 2003. The well encountered the Cretaceous limestone target at 14,265 feet (4,348 metres) with over 490 feet (150 metres) of hydrocarbons indicated on wireline logs and with no evidence of an oil-water contact present. On test the M11 well flowed light sweet 34.4ºAPI oil at a visibly significant rate and at a high pressure prior to the test being terminated due to the mechanical failure of the production tubing. Oil was also discovered in the shallower Middle Eocene sequence, but was not tested.

Attempts to recover the damaged tubing from the M11 well were unsuccessful. The well was prepared and subsequently sidetracked using a Saipem S.p.A. (Saipem) Ideco E-2100Az drilling rig equipped with a top-drive drilling system and an oil based mud system provided by Baker-Hughes International (Baker) to control the swelling clays which had proved difficult to drill in the original well.

The Manavi M11Z well reached a TD of 14,994 feet (4,570 metres) in the Cretaceous in October 2005. The well was completed in the Cretaceous using slim-hole drilling technology due to the small size of the casing from which the well was sidetracked. The primary Cretaceous limestone target was encountered at 14,032 feet (4,277 metres) some 230 feet (70 metres) higher than in the original M11 well while the secondary Middle Eocene target zone was penetrated at 13,009 feet (3,965 metres) again significantly higher than in the M11 well. The carbonate section itself was proven to be approximately 980 feet (~300 metres) thick. Drilling data and slim hole wireline logs indicated the presence of hydrocarbons in both the Cretaceous and Middle Eocene target zones. Again no oil water contact was identified.

As initial flow testing only produced small amounts of oil and gas, it quickly became apparent that the reservoir needed to be stimulated in order to properly complete the testing operation. Considering the small diameter of the hole which would limit our ability to optimally test this well, and the fact that the specialist equipment required for this job is both difficult to source and expensive to mobilise for a single operation, we decided to delay completion of this test until after the completion of the planned M12 appraisal well.

The M12 well is located approximately 1.25 miles (2 Km) to the west of the original discovery well. This well was drilled using the Saipem rig and an oil based mud capability with Baker providing mud engineering services. Oil based mud was used in an attempt to control the swelling clays above the target horizon which had proved difficult to drill in the original well. A TD of 16,762 feet (5,109 metres) was reached in mid December 2006 with a total thickness of 1,827 feet (557 metres) of Cretaceous carbonates and volcanics having been encountered. The significant hydrocarbon shows observed during the drilling process and the data obtained from wireline logs indicated a potentially significant hydrocarbon column in the well with no obvious presence of a hydrocarbon-water contact.

Prior to testing the well, an 886 feet (270 metre) 5 pre-perforated production liner was run over the potential reservoir interval and a production testing string set to test the Cretaceous carbonate and interbedded units.

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During setting of the test string, the well began flowing and it was necessary to increase the mud weight to control the well whilst the test string was set. Despite the flow and gas observed at surface during drilling operations, the initial testing operations resulted in a pressure increase at surface but with no discernable flow. Subsequent re-perforating of parts of the test interval has resulted in minor flow with gas being flared and black 40.5º API oil collected at surface. However it is considered likely that formation damage has occurred, probably whilst controlling the well during the setting of the test string, with mud penetrating and blocking the formation.

We concluded that stimulation techniques using acid to clean the well and create conductive pathways from the reservoir to the well-bore and hence bypass any reservoir damage would be required to fully production test the potential of the well. Acid stimulation is a fairly common procedure required to stimulate flow in carbonate reservoirs of the same age in the North Caucasus and indeed elsewhere. However, prior to going to the expense of mobilizing a full acid fracturing spread, it was decided first to conduct a simple acid wash to ensure the effectiveness of acid stimulation under the reservoir conditions encountered in M12. FracTech Ltd., a UK company providing independent well completion and stimulation laboratory testing, design and consultancy services, and Schlumberger well completions experts provided advice on the chemicals and the stimulation program. The stimulation itself was performed through coiled tubing over a 564 foot (172 metres) interval consisting primarily of Cretaceous limestone where the best hydrocarbon shows were observed during drilling. On stimulation, involving a low pressure acid squeeze, the well flowed back unaided and produced liquids at rates of up to 46 barrels per hour (1,104 barrels per day) and a sizeable gas flare. Over a 12 hour period, the well produced a total of 402 barrels of liquids consisting of pumped fluid and chemicals, polymer drilling mud released from the reservoir, oil and gas. The maximum oil cut observed was in excess of 50%.

The well, however, did not sustain flow, and it was concluded that the extent of the formation damage was beyond that which could be cleaned using a simple acid stimulation process, and as such a proper hydraulic fracturing of the formation with acid was required. The results of the initial treatment suggested that acid was the correct approach to opening this formation up to flow while at the same time proving the presence of oil in the reservoir.

On August 13, 2007 we announced that Schlumberger had been contracted to provide pumping equipment, chemicals and services to the Company in order to perform a hydraulic acid fracturing treatment of the Cretaceous reservoir interval in the Manavi 12 well. In order to prepare the well for the fracture stimulation, our operating company, CanArgo Georgia, replaced the 2 7/8 inch production string with a 5 inch fraccing string, and set a temporary plug to reduce the treatment interval, in order to give the operation the best chance of success.

On January 29, 2008 we announced that the acid fracturing operation at the Manavi 12 well had been successfully completed by Schlumberger. The acid fracturing stimulation was conducted using a multi-stage treatment comprising the pumping of a fracture initiating gel followed by hydrochloric acid stimulating fluids and diverter agents. This process was repeated a number of times for maximum efficiency. Approximately 2,700 barrels of treatment fluids were pumped at a maximum rate of up to 15 barrels per minute. An interval totalling 227 feet (69 metres) across the Cretaceous carbonate reservoir section in the well from 15,354 feet (4,680 metres) to 15,581 feet (4,749 metres) was isolated for the treatment. Pressure readings recorded during the operation indicate that fractures were successfully created.

Following the fracturing operation, the well commenced to flow unaided with spent acid and chemicals being flowed to a surface pit. During this time, the effectiveness of the fracture stimulation in opening the reservoir up to flow and the potential deliverability of the reservoir itself was demonstrated by the flow-back rate which reached a maximum flow-back of 223 barrels per hour (5,352 barrels per day). However, despite the initial encouraging oil and gas shows (30 to 35 foot (10 to 11 metre) gas flare) observed during the flow-back or clean up phase, the oil cut did not exceed 7% of the total flow from the well following the clean up process. It would appear that the well was producing excess water, but without further testing and data collection it has not to date been possible to ascertain where this water was coming from. As part of the planned testing program, it is intended to run a production long in the well to determine the origin of this water.

In order to proceed with the testing program, it was necessary to replace the 5 inch frac string required for the stimulation operation with 2 7/8 inch production grade tubing. Attempts to set a blanking plug in the lower completion

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in the well (to isolate the reservoir interval) using coil tubing were abandoned following a mechanical failure of the injector head on the coil tubing unit causing damage to the coil tubing, plug and upper completion string. A wireline unit was mobilised from Baku to reset the plug. This was successfully completed, but on extraction of the frac string by CanArgo Georgia it became apparent that damage had also been caused to the completion which resulted in a modification to the final well completion being required. The production tubing is now in place and pressure tested, however, operations to retrieve the mechanical plug have encountered further complications and additional equipment will need to be mobilised to Georgia to complete the operation. Once the plug is removed, well testing operations will continue. As part of the planned testing program, a wireline-conveyed production logging tool will be run in the well to help locate fluid entry points to the well and provide downhole flow rate and pressure data during the test. This data will assist in the evaluation of well conditions and reservoir performance and help assess the overall potential of the well.

In order to fully evaluate the potential of the Manavi prospect as a whole, significant additional drilling and analysis will be required. As part of this analysis, we are also evaluating the technical feasibility of acquiring a 3-D seismic data survey over the Manavi structure. All these exploratory activities are, however, dependent upon the Company securing additional Funding.

West Rustavi and Kumisi

The West Rustavi Field is located approximately 25 miles (40 Km) southwest of the Ninotsminda Field. Prior to NOC gaining the Ninotsminda PSC, Georgian Oil drilled ten wells in the West Rustavi Field area, two of which produced oil. The Middle Eocene zone is thinner and less productive in this area than at the Ninotsminda Field and only limited production has taken place from the West Rustavi Field. However, NOC has carried out only very limited workover activity on West Rustavi, and potential may yet exist for further oil production from the Middle Eocene dependant on technical and economic factors. Horizontal drilling may also be appropriate for this deposit.

One of the ten wells drilled in the West Rustavi Field by Georgian Oil was deepened to test the deeper Cretaceous and Paleocene horizons. This well, named WR16, was tested and produced at rate of over 1 MMcf (35 MCM) of gas and 3,500 barrels of water per day, thus demonstrating the ability of the Cretaceous to produce at good rates. The WR16 well is interpreted to have tested the down dip extent of a potential Cretaceous gas deposit named Kumisi. Following the signature of the Nazvrevi and Block XIII Production Sharing Contract (Nazvrevi PSC) which lies to the west and south of the West Rustavi Field, we acquired and interpreted additional seismic data over this structure and identified a potentially large prospect extending across the Nazvrevi PSC area with the crestal part of the structure located in the Block XI^{G} which was subsequently secured by CanArgo as part of the Tbilisi PSC area. The structure is potentially very large with the principal risk being closure on the structure to the north and west which is dependent on a downthrown fault seal.

Following an undertaking by the government to purchase any gas produced from the Kumisi prospect on agreed commercial terms, we drilled a well to appraise this prospect in 2007 up-dip of the WR16 well. The Kumisi #1 well is located within the Nazvrevi PSC area and is approximately 7.5 miles (12 Km) southeast of Tbilisi. It is close to the domestic gas transportation grid and the route of the new South Caucasus gas trunkline from Azerbaijan to Turkey. The well commenced drilling in February 2007 and reached a total depth of 11,841 feet (3,609 metres) in June in the Cretaceous.

An extensive testing program was conducted over the Cretaceous section where six separate intervals totalling 482 feet (147 metres) were perforated and tested. Despite elevated gas readings being recorded during drilling, these tests resulted in no discernable flow from the formation and without any hydrocarbons being detected. It is, therefore, reasonable to assume that the Cretaceous reservoir at this location is tight unlike the rocks encountered in other wells in the area. This conclusion was confirmed by a low pressure hydro squeeze which was performed over two separate zones with the data obtained suggesting that these rocks are tight and lack permeability.

Further tests were carried out of potential reservoir units in the overlying Middle and Lower Eocene sequences. Three separate tests were conducted with a total of 79 feet (24 metres) of sandstones being perforated and flow tested. These tests produced water with gas flow to surface in flareable quantities, but non commercial volumes. Each interval was flow tested for a number of days over which there was no increase in the amount of gas produced and the testing was subsequently terminated.

On October 18, 2007 we announced that the Kumisi #1 was being plugged and abandoned. The well results, particularly for the Cretaceous interval, will be reviewed and incorporated into our technical evaluation of the

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area in order to fully understand the remaining potential of the Kumisi area. As part of this analysis, consideration will be given to acid fracture stimulation techniques as a means by which to enhance permeability within the prospect. As no water has been recovered from the well, management believes that potential for a large gas prospect may still exist up-dip of the WR16 well given better reservoir quality.

ITEM 1A. RISK FACTORS

Reference is hereby made to the Section entitled CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS with respect to certain qualifications regarding the following information. The risks described below are not the only ones facing the Company. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations and adversely affect the price of our shares.

RISKS ASSOCIATED WITH OUR BUSINESS AND BUSINESS OPERATIONS.

We Have Experienced Recurring Losses.

For the fiscal years ended December 31, 2007, 2006, 2005, 2004, and 2003, we recorded net losses of $53,777,214, $60,540,851, $12,335,314, $4,611,031, and $7,473,346 respectively, and have an accumulated deficit of $231,519,571 as at December 31, 2007. Impairments of oil and gas properties, ventures and other assets in 2007 included writedowns of $42,000,000 in our carrying value of the Ninotsminda Field. The Company may never achieve or maintain profitability. The Company will need to generate significant revenues to achieve and maintain profitability. The Company cannot guarantee that it will be able to generate these revenues.

Our Ability To Pursue Our Activities Is Dependent On Our Ability To Generate Cash Flows.

Our ability to continue to pursue our principal activities of acquiring interests in and developing oil and gas fields is dependent upon generating funds from internal sources, external sources and, ultimately, maintaining sufficient positive cash flows from operating activities. Our financial statements have been prepared in accordance with U.S. GAAP, which contemplates continuation of the Company as a going concern. The Company incurred net losses from continuing operations to common stockholders of approximately $65,315,000 $54,432,000 and $12,522,000 for the years ended December 31, 2007, 2006 and 2005 respectively. These net losses included non-cash charges related to depreciation and depletion, impairments, loan interest, amortization of debt discount, extinguishment of debt and stock-based compensation of approximately $61,936,000, $48,213,000 and $7,175,000 for the years ended December 31, 2007, 2006 and 2005 respectively.

In the years ended December 31, 2007 and 2006, the Company s revenues from its Georgian operations did not cover the costs of its operations. At December 31, 2007 the Company had unrestricted cash and cash equivalents available for general corporate use or for use in the Georgian operations of approximately $6,869,000. In 2007 the Company experienced a net cash outflow from operations of approximately $1,800,000 in Georgia. In addition, the Company has a planned capital expenditure budget in 2008 of approximately $12,000,000 in Georgia. The exploration and development wells currently undergoing or waiting to undergo production testing in Georgia currently do not produce enough commercially available quantities of oil and or gas and the Company will not have sufficient working capital and may have to delay or suspend its capital expenditure plans and possibly make cutbacks in its operations. There are no assurances the Company could raise additional sources of equity financing and the covenants contained in the Note Purchase Agreements to which the Company is a party (see Note 9 of the consolidated financial statements) restrict the Company from incurring additional debt obligations unless it receives consent from Noteholders holding at least 51% in aggregate outstanding principal amount of the of the Notes covered by such Agreements.

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Consequently, the aforementioned items raise substantial doubt about the Company s ability to continue as a going concern.

We currently have sufficient cash on hand to support our operations through to the third quarter 2008. In order to fund our planned capital expenditure program and to continue our operations after the third quarter 2008, we need to raise substantial funds. As noted elsewhere we are pursuing raising additional funds through -private placements of our equity or debt securities or a possible rights offering to shareholders. We are also actively pursuing the farming out a number of our exploration projects. We are required under the covenants of our existing Convertible Notes to obtain the approval of a majority of our debt holders in order to incur additional indebtedness in excess of $2.5 million, which approval we cannot guarantee. In the event we attempt to raise funds through an equity offering, we would more than likely be required to offer our equity securities at a substantial discount to the current public market price in order to attract investors. In the event that we were to do so, provisions in our outstanding Convertible Notes and Warrants would cause their exercise prices to reset to the lower price in any offering. If low enough, this could effect a significant dilution to current shareholders or possibly to a change of control event.

There can be no assurance of our success in raising these funds. In the event that we are unable to raise additional funds on terms acceptable to us, we will be required to significantly curtail our operations in Georgia and to abandon our currently planned capital expenditure program.

Our Current Operations Are Dependent On the Success of Our Georgian Exploration Activities and Our Activities on the Ninotsminda Field.

To date we have directed substantially all of our efforts and most of our available funds to the development of the Ninotsminda Field in the Kura Basin in the eastern part of Georgia, appraisal of the Manavi oil discovery, and exploration in that area and some ancillary activities in the Kura Basin area. This decision is based on management s assessment of the promise of the Kura Basin area. However, our focus on the Ninotsminda Field has over the past several years resulted in overall losses for us. We cannot assure investors that the exploration and development plans for the Ninotsminda Field will be successful. For example, the Ninotsminda Field may not produce sufficient quantities of oil and gas and at sufficient rates to justify the investment we have made and are planning to make in the Field, and we may not be able to produce the oil and gas at a sufficiently low cost or to market the oil and gas produced at a sufficiently high price to generate a positive cash flow and a profit. Our Georgian exploration program, particularly in the Manavi and Norio areas, is an important factor for future success, and this program may not be successful, as it carries substantial risk. See Our oil and gas activities involve risks, many of which are beyond our control below for a description of a number of these potential risks and losses. In accordance with customary industry practices, we maintain insurance against some, but not all, of such risks and some, but not all, of such losses. The occurrence of an event not fully covered by insurance could have a material adverse effect on our financial condition and results of operations.

Our Operation Of The Ninotsminda Field Is Governed By a Production Sharing Contract Which May Be Subject To Certain Legal Uncertainties.

Our principal business and assets are derived from production sharing contracts in Georgia. The legislative and procedural regimes governing production sharing agreements and mineral use licenses in Georgia have undergone a series of changes in recent years resulting in certain legal uncertainties. Our production sharing agreements and mineral use licenses, entered into prior to the introduction in 1999 of a new Petroleum Law governing such agreements have not as yet been amended to reflect or ensure compliance with current legislation. As a result, despite references in the current legislation grandfathering the terms and conditions of our production sharing contracts, conflicts between the interpretation of our production sharing contracts and mineral use licenses and current legislation could arise. Such conflicts, if they arose, could cause an adverse effect on our rights under the production sharing contracts.

We May Encounter Difficulties In Enforcing Our Title To Our Properties.

Since all of our oil and gas interests are currently held in countries where there is currently no private ownership of oil and gas in place, good title to our interests is dependent on the validity and enforceability of the governmental licenses and production sharing contracts and similar contractual arrangements that we enter into with government

entities, either directly or indirectly. As is customary in such circumstances, we perform a minimal title investigation before acquiring our interests, which generally consists of conducting due diligence reviews and in certain circumstances securing written assurances from responsible government authorities or legal opinions. We believe that we have satisfactory title to such interests in accordance with standards generally accepted in the crude oil and natural gas industry in the areas in which we operate. Our interests in properties are subject to royalty interests, liens incident to operating agreements, liens for current taxes and other burdens, none of which we believe materially interferes with the use of, or affects the value of, such interests. However, as is

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discussed elsewhere, there is no assurance that our title to our interests will be enforceable in all circumstances due to the uncertain nature and predictability of the legal systems in some of the countries in which we operate.

We Will Require Additional Funds To Implement Our Long-Term Oil And Gas Development Plans.

It will take many years and substantial cash expenditures to develop fully our oil and gas properties. We generally have the principal responsibility to provide financing for our oil and gas properties and ventures. Accordingly, we will need to raise additional funds from outside sources in order to pay for project development costs. We may not be able to obtain that additional financing. If adequate funds are not available, we will be required to scale back or even suspend our operations or such funds may only be available on commercially unattractive terms. The carrying value of the Ninotsminda Field may not be realized unless additional capital expenditures are incurred to develop the Field. Furthermore, additional funds will be required to pursue exploration activities on our existing undeveloped properties. While expected to be substantial, without further exploration work and evaluation the amount of funds needed to fully develop all of our oil and gas properties cannot at present be quantified.

We May Be Unable To Finance Our Oil And Gas Projects.

Our long term ability to finance most of our present oil and gas projects and other ventures according to present plans is dependent upon obtaining additional funding. An inability to obtain financing in the future will require us to scale back or abandon part or all of our future project development, capital expenditure, production and other plans. The availability of equity or debt financing to us or to the entities that are developing projects in which we have interests is affected by many factors, including:

world and regional economic conditions;

the state of international relations;

the stability and the legal, regulatory, fiscal and tax policies of various governments in the areas in which we have or intend to have operations;

fluctuations in the world and regional price of oil and gas and in interest rates;

the outlook for the oil and gas industry in general and in areas in which we have or intend to have operations; and

competition for funds from possible alternative investment projects.

Potential investors and lenders will be influenced by their evaluations of us and our projects, including their technical difficulty, and comparison with available alternative investment opportunities.

Our Operations May Be Subject To The Risk Of Political Instability, Civil Disturbance And Terrorism.

Our principal oil and gas properties and activities are in Georgia, which is located in the former Soviet Union. Operation and development of our assets are subject to a number of conditions endemic to former Soviet Union countries, including political instability. The present governmental arrangements in countries of the former Soviet Union in which we operate were established relatively recently, when they replaced communist regimes. If they fail to maintain the support of their citizens, other institutions, including a possible reversion to totalitarian forms of government, could replace these governments. As recent developments in Georgia have illustrated, the national governments in these countries often must deal with civil disturbances and unrest which may be based on religious, tribal and local and regional separatist considerations. Further, relations between Georgia and the Russian Federation have involved periods of political tension. Our operations typically involve joint ventures or other participatory arrangements with the national government or state-owned companies. The production sharing contract covering the Ninotsminda Field is an example of such arrangements. As a result of such dependency on government participants, our operations could be adversely affected by political instability, terrorism, changes in government institutions, personnel, policies or legislation, or shifts in political power. There is also the risk that governments could seek to nationalize, expropriate or otherwise take over our oil and gas properties either directly or through the enactment of laws and regulations which have an economically

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confiscatory result. We are not insured against political or terrorism risks because management deems the premium costs of such insurance to be currently prohibitively expensive.

We Face The Risk Of Social, Economic And Legal Instability In The Countries In Which We Operate.

The political institutions of the countries that were a part of the former Soviet Union have become more fragmented and the economic institutions of these countries have converted to a market economy from a planned economy. New laws have been introduced, and the legal and regulatory regimes in such regions may be vague, containing gaps and inconsistencies, and are subject to amendment. Application and enforceability of these laws may also vary widely from region to region within these countries. Due to this instability, former Soviet Union countries are subject to certain additional risks including the uncertainty as to the enforceability of contracts. Social, economic and legal instability have accompanied these changes due to many factors which include:

low standards of living;

high unemployment;

under-developed and changing legal and social institutions; and

conflicts within and with neighbouring countries.

This instability could make continued operations difficult or impossible. Georgia has democratically elected a President following a popular revolt against the previous administration in November 2003 and has successfully quelled a potential separatist uprising in one of its regions. Although the new administration has made public statements supporting foreign investment in Georgia, and has provided specific written support for our activities, there can be no guarantee that this will continue, or that these changes will not have an adverse affect on our operations. There are also some separatist areas within Georgia that receive support from the Russian Federation that may cause instability and potentially affect our activities.

We Face An Inadequate Or Deteriorating Infrastructure In The Countries In Which We Operate.

Countries in the former Soviet Union often either have underdeveloped infrastructures or, as a result of shortages of resources, have permitted infrastructure improvements to deteriorate. The lack of necessary infrastructure improvements can adversely affect operations. For example, we have, in the past, suspended drilling and testing procedures due to the lack of a reliable power supply.

We May Encounter Currency Risks In The Countries In Which We Operate.

Payment for oil and gas products sold in former Soviet Union countries may be in local currencies. Although we currently sell our oil principally for U.S. dollars, we may not be able to continue to demand payment in hard currencies in the future. Most former Soviet Union country currencies are presently convertible into U.S. dollars, but there is no assurance that such convertibility will continue. Even if currencies are convertible, the rate at which they convert into U.S. dollars is subject to fluctuation. In addition, the ability to transfer currencies into or out of former Soviet Union countries may be restricted or limited in the future. We may enter into contracts with suppliers in former Soviet Union countries to purchase goods and services in U.S. dollars. We may also obtain from lenders credit facilities or other debt denominated in U.S. dollars. If we cannot receive payment for oil and oil products in U.S. dollars and the value of the local currency relative to the U.S. dollar deteriorates, we could face significant negative changes in working capital.

We May Encounter Tax Risks In The Countries In Which We Operate.

Countries may add to or amend existing taxation policies in reaction to economic conditions including state budgetary and revenue shortfalls and political considerations. Since we are dependent on international operations, specifically those in Georgia, we may be subject to changing taxation policies including the possible imposition of confiscatory excess profits, production, remittance, export and other taxes. While we are not aware of any recent or proposed tax changes which could materially adversely affect our operations, such changes could occur although we have negotiated economic stabilization clauses in our production sharing contracts in Georgia and all current taxes are payable from the State s share of petroleum produced under the production sharing contracts.

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We have identified material weaknesses in our internal controls over financial reporting which, if not remediated, may adversely affect our ability to timely and accurately meet our financial reporting responsibilities.

We identified a number of material weaknesses in our internal controls over financial reporting as of December 31, 2007. Our management, in consultation with our audit committee, is continually reviewing the most cost effective way to address material weaknesses and deficiencies identified. Our failure to complete this remediation process may adversely affect our ability to accurately report our financial results in a timely manner.

We currently are not in compliance with American Stock Exchange (AMEX), Continued Listing Rules

On October 2, 2007, the Company announced that on September 27, 2007, in correspondence with the AMEX, it acknowledged that it was not in compliance with the rules of the AMEX as they relate to the requirement that there be at least a majority of independent directors and at least three independent directors on the audit committee with the possible risk that the Company s common stock may be delisted from such Exchange. We have been advised by AMEX that our common stock will continue to be listed until April 4, 2008 within which period we must regain compliance with the AMEX corporate governance rules or face delisting.

Risks Associated with our Industry.

We May Be Required To Write-Off Unsuccessful Properties And Projects.

In order to realize the carrying value of our oil and gas properties and ventures, we must produce oil and gas in sufficient quantities and then sell such oil and gas at sufficient prices to produce a profit. We have a number of unevaluated oil and gas properties. The risks associated with successfully developing unevaluated oil and gas properties are even greater than those associated with successfully continuing development of producing oil and gas properties, since the existence and extent of commercial quantities of oil and gas in unevaluated properties have not been established. We could be required in the future to write-off our investments in additional projects, including the Ninotsminda Field project, if such projects prove to be unsuccessful.

Our Oil And Gas Activities Involve Risks, Many Of Which Are Beyond Our Control.

Our exploration, development and production activities are subject to a number of factors and risks, many of which may be beyond our control. We must first successfully identify commercial quantities of oil and gas, which is inherently subject to many uncertainties. Thereafter, the development of an oil and gas deposit can be affected by a number of factors which are beyond the operator s control, such as:

unexpected or unusual geological conditions;

the recoverability of the oil and gas on an economic basis;

the availability of infrastructure and personnel to support operations;

labor disputes;

local and global oil prices; and

government regulation and legal and political uncertainties.

Our activities can also be affected by a number of hazards, such as:

natural phenomena, such as bad weather and earthquakes;

operating hazards, such as fires, explosions, blow-outs, pipe failures and casing collapses; and

environmental hazards, such as oil spills, gas leaks, ruptures and discharges of toxic gases.

Any of these factors or hazards could result in damage, losses or liability for us. There is also an increased risk of some of these hazards in connection with operations that involve the rehabilitation of fields where less than

up to an additional 90 days. This offering may be terminated by us earlier if we sell all of the shares being offered or we decide to cease selling efforts.

This offering is a self underwritten offering, which means that it does not involve the participation of an underwriter to market, distribute or sell the shares offered under this prospectus. We may sell shares from time to time in one or more transactions directly by us or, alternatively, we may offer the shares through brokers or sales agents, who may receive compensation in the form of commissions or fees. We have entered into several agreements with several sales agents to assist us in identifying and contacting potential investors. Under these agreements, we have generally agreed to pay these sales agents fees based on a percentage (not exceeding 10%) of the aggregate purchase price of shares sold by us to the investors identified and contacted by these sales agents. We have also agreed in some cases to reimburse these sales agents for out-of-pocket expenses incurred in connection with their engagement. Any broker, dealer or sales agent that participates in the distribution of shares may be deemed to be an underwriter, and any profits on the sale of the shares by any such broker, dealer or sales agent and any commissions and fees received by any such broker, dealer or sales agents may be deemed to be underwriting compensation under the Securities Act.

The shares may not be offered or sold in certain jurisdictions unless they are registered or otherwise comply with the applicable securities laws of such jurisdictions by exemption, qualification or otherwise. We intend to sell the shares only in the states in which this offering has been qualified or an exemption from the registration requirements is available, and purchases of shares may be made only in those states. To comply with the securities laws of certain jurisdictions, as applicable, the shares may be required to be offered and sold only through registered or licensed brokers or dealers. If such registered or licensed brokers or dealers are engaged, the total commission and fees paid to such brokers and dealers in connection with the sale of shares will not exceed 10% of the selling price of the shares.

In connection with their selling efforts in the offering, our officers and directors will not register as broker-dealers pursuant to Section 15 of the Securities Exchange Act of 1934, but rather will rely upon the "safe harbor" provisions of Rule 3a4-1 under the Exchange Act. Generally speaking, Rule 3a4-1 provides an exemption from the broker-dealer registration requirements of the Exchange Act for persons associated with an issuer that participate in an offering of the issuer's securities. The conditions to obtaining this exemption include the following:

None of the selling persons are subject to a statutory disqualification, as that term is defined in Section 3(a)(39) of the Exchange Act, at the time of participation;

None of the selling persons are compensated in connection with his or her participation by the payment of commissions or other remuneration based either directly or indirectly on transactions in securities;

None of the selling persons are, at the time of participation, an associated person of a broker or dealer, and

All of the selling persons meet the conditions of paragraph (a)(4)(ii) of Rule 3a4-1 of the Exchange Act, in that they (A) primarily perform or are intending primarily to perform at the end of the offering, substantial duties for or on behalf of the issuer otherwise than in connection with transactions in securities, and (B) are not a broker or dealer, or an associated person of a broker or dealer, within the preceding 12 months, and (C) do not participate in selling an offering of securities for any issuer more than once every 12 months other than in reliance on this rule.

We have not established a minimum amount of proceeds that we must receive in the offering before any proceeds may be accepted. We cannot assure you that all or any of the shares offered under this prospectus will be sold. No one has committed to purchase any of the shares offered. We reserve

the right to withdraw, cancel or modify this offer and to accept or reject any subscription in whole or in part, for any reason or for no reason. Subscriptions will be accepted or rejected promptly. All monies from rejected subscriptions will be returned immediately by us to the subscriber, without interest or deductions. Any accepted subscriptions will be made on a rolling basis. Once accepted, the funds will be deposited into an account maintained by us and considered general assets of BioSante. Subscription funds will not be placed into escrow, trust or any other similar arrangement. There are no investor protections for the return of subscription funds once accepted. Certificates for shares purchased will be issued and distributed by our transfer agent within 10 business days after a subscription is accepted and "good funds" are received in our account. Certificates will be sent to the address supplied in the investor subscription agreement by certified mail.

Our officers, directors, existing stockholders and affiliates may purchase shares in this offering and there is no limit to the number of shares they may purchase.

USE OF PROCEEDS

If all of the shares offered hereby are sold, we will receive net proceeds of approximately $, after payment of offering expenses. This amount of the proceeds will be up to 10% or $ less if we use a broker, dealer or sales agent to assist us in offering and selling the shares. We cannot assure you that we will sell any shares or receive any proceeds. We estimate that we will use approximately $8.0 million of the net proceeds received in this offering for expenses related to the human clinical development of our hormone replacement products and the remaining amount for general corporate purposes, including working capital and funding operating losses. Pending these uses, we plan to invest the net proceeds of this offering in short-term, interest-bearing, investment-grade securities.

DIVIDEND POLICY

We never have declared or paid cash dividends on our common stock or our class C special stock. We currently intend to retain all future earnings for the operation and expansion of our business. We do not anticipate declaring or paying cash dividends on our common stock or class C special stock in the foreseeable future. Any payment of cash dividends on our common stock or class C special stock will be at the discretion of our Board of Directors and will depend upon our results of operations, earnings, capital requirements, contractual restrictions and other factors deemed relevant by our Board of Directors.

PRICE RANGE OF COMMON STOCK

Our common stock is currently trading in the United States on the over-the-counter market on the OTC Bulletin Board, under the symbol "BISP," and traded on the OTC Bulletin Board under the symbol "BTPH" from May 5, 2000 to May 31, 2002. Our common stock traded in Canada on the Canadian Venture Exchange, formerly known as the Alberta Stock Exchange, under the symbol "BAI," from December 20, 1996 to July 20, 2001. From September 10, 1999 to May 4, 2000, our common stock was traded in the United States on the National Quotation Bureau, commonly referred to as the "Pink Sheets," under the symbol "BTPH."

The following table sets forth, in U.S. dollars and in dollars and cents (in lieu of fractions), the high and low sales prices for each of the calendar quarters indicated, as reported by the OTC Bulletin Board and the Pink Sheets. The prices in the table may not represent actual transactions. These

quotations reflect inter-dealer prices, without retail mark up, mark down or commissions and may not represent actual transactions.

OTC Bulletin Board	**High**	**Low**
2002		
First Quarter	$ 7.90	$ 5.10
Second Quarter	$ 7.00	$ 3.60
Third Quarter (through August 13, 2002)	$ 5.25	$ 3.80

	High	**Low**
2001		
First Quarter	$ 7.50	$ 3.80
Second Quarter	$ 10.70	$ 3.90
Third Quarter	$ 10.00	$ 4.60
Fourth Quarter	$ 10.50	$ 4.80

	High	**Low**

OTC Bulletin Board	High	Low
2000		
Second Quarter	$ 12.50	$ 4.70
Third Quarter	$ 10.30	$ 8.00
Fourth Quarter	$ 9.20	$ 5.20

National Quotation Bureau ("Pink Sheets")	High	Low
2000		
First Quarter	$ 15.00	$ 2.80

The following table sets forth, in U.S. dollars and in dollars and cents (in lieu of fractions), the high and low sales prices for each of the calendar quarters indicated, as reported by the Canadian Venture Exchange.

Canadian Venture Exchange	High	Low
2001		
First Quarter	$ 7.20	$ 4.60
Second Quarter	$ 10.70	$ 3.50

	High	Low
2000		
First Quarter	$ 13.80	$ 2.20
Second Quarter	$ 10.70	$ 4.60
Third Quarter	$ 10.10	$ 7.10
Fourth Quarter	$ 9.50	$ 4.90

As of August 13, 2002, there were 713 record holders of our common stock and 10 record holders of our class C stock.

CAPITALIZATION

The following table sets forth our capitalization as of June 30, 2002:

- on an actual basis;
- on an as adjusted basis (without broker commissions) to reflect the sale of shares of common stock at a public offering price of $ per share and our receipt of estimated net proceeds of $ from the offering, after deducting estimated offering expenses and assuming no broker, dealer or sales agent commissions are paid; and
- on an as adjusted basis (with broker commissions) to reflect the sale of shares of common stock at a public offering price of $ per share and our receipt of estimated net proceeds of $ from the offering, after deducting estimated offering expenses and assuming the payment of broker, dealer or sales agent commissions equal to 10% of the aggregate selling price of the shares.

Because the shares being offered in this offering are being offered and sold by us on a best efforts basis, we may not sell all or any of the shares and therefore may not receive all or any of the net proceeds in this offering.

You should read the information presented below in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes included elsewhere in this prospectus. For a description of our capital stock, you should read the information under the caption "Description of Capital Stock."

	June 30, 2002		
	Actual	As Adjusted (without broker commissions)	As Adjusted (with broker commissions)
Stockholders' equity:			
Undesignated preferred stock, par value $0.0001 per share; 10,000,000 shares authorized; no shares issued and outstanding (actual and as adjusted)	$	$	$
Common stock, par value $0.0001 per share; 100,000,000 shares authorized; 6,321,458 shares issued and outstanding (actual); shares issued and outstanding (as adjusted)	22,255,342		
Class C special stock, par value $0.0001 per share; 4,687,684 shares authorized; 466,602 shares issued and outstanding (actual and as adjusted)	467		
Additional paid-in capital			
Warrants			
Accumulated deficit	(20,849,323)		
Total stockholders' equity	1,406,486		
Total capitalization	$ 1,406,486		

The outstanding share information excludes 771,267 shares of common stock issuable upon exercise of outstanding options as of June 30, 2002 with a weighted average exercise price of $3.88 and warrants to purchase 1,643,750 shares of common stock with a weighted average exercise price of $3.70 per share.

DILUTION

Our net tangible book value as of June 30, 2002 was $1,406,486 or $0.22 per share. Net tangible book value per share represents our total tangible assets less our total liabilities, divided by the number of shares of our common stock outstanding. After giving effect to the sale of the shares of common stock offered by this prospectus at a public offering price of $ and after deducting estimated offering expenses and assuming no broker, dealer or sales agent commissions are paid, and without taking into account any other changes in our net tangible book value after June 30, 2002, our net tangible book value as of June 30, 2002 would have been approximately $, or $ per share. This represents an immediate increase in net tangible book value of $ per share to our existing stockholders and an immediate and substantial dilution of $ per share to new investors. Dilution is an accounting concept that refers to the difference between what an investor pays for shares of a company and the book value of the shares immediately after the transaction. Whenever the book value per share is less than the investor paid, the investor suffers dilution. The dilution to investors in the offering is as illustrated in the following table:

	As Adjusted (without broker commissions)
Public offering price per share	$
Net tangible book value per share before the offering	

	As Adjusted (without broker commissions)
Increase per share attributable to new investors	
As adjusted net tangible book value per share after the offering, assuming no broker, dealer or sales agent commissions are paid	
Dilution per share to new investors	$

After giving effect to the sale of the shares of common stock offered by this prospectus at a public offering price of $ and after deducting estimated offering expenses and assuming the payment of broker, dealer or sales agent commissions equal to 10% of the aggregate selling price of the shares, and without taking into account any other changes in our net tangible book value after June 30, 2002, our net tangible book value as of June 30, 2002 would have been approximately $, or $ per share. This represents an immediate increase in net tangible book value of $ per share to our existing stockholders and an immediate and substantial dilution of $ per share to new investors. The dilution to investors in the offering is as illustrated in the following table:

	As Adjusted (with broker commissions)
Public offering price per share	$
Net tangible book value per share before the offering	
Increase per share attributable to new investors	
As adjusted net tangible book value per share after the offering, assuming the payment of broker or sales agent commissions	
Dilution per share to new investors	$

SELECTED CONSOLIDATED FINANCIAL DATA

The selected statement of operations data shown below for the years ended December 31, 1999, 2000 and 2001 and the balance sheet data as of December 31, 2000 and 2001 are derived from our audited financial statements included elsewhere in this prospectus. The selected statement of operations data shown below for the period from August 29, 1996 (date of incorporation) to December 31, 1996 and for the years ended December 31, 1997 and 1998 and the balance sheet data as of December 31, 1997, 1998 and 1999 are derived from our audited financial statements not included elsewhere in this prospectus. The selected statement of operations data for the six months ended June 30, 2001 and 2002 and the balance sheet data as of June 30, 2002 has been derived from our unaudited financial statements included elsewhere in this prospectus, which, in the opinion of management, include all adjustments, consisting solely of normal recurring adjustments, necessary for a fair presentation of the financial information shown in these statements. The results for the six months ended June 30, 2001 and 2002 are not necessarily indicative of the results to be expected for the full year or for any future period. All share and per share numbers have been adjusted to reflect the one-for-ten reverse stock split effected on May 31, 2002. When you read this selected consolidated financial data, it is important that you also read the historical financial statements and related notes included in this prospectus, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations." Historical results are not necessarily indicative of future results.

Period from August 29, 1996 (date of incorporation) to December 31, 1996	Year Ended December 31,					Six Months Ended June 30,	
	1997	1998	1999	2000	2001	2001	2002

	Period from August 29, 1996 (date of incorporation) to December 31, 1996	(in thousands, except per share and share data)					Six Months Ended June 30,	
Statement of Operations Data:								
Licensing income	$	$	$	$	$	$ 1,747	$	$
Interest income	53	144	123	199	228	175	83	30
Total income	53	144	123	199	228	1,922	83	30
Expenses:								
Research and development		336	1,400	661	1,888	2,142	620	1,632
General and administration	547	1,618	1,112	853	1,679	2,299	963	951
Depreciation and amortization	1	52	140	91	98	92	49	45
Loss on disposal of capital assets		28	130					
Total expenses	548	2,034	2,782	1,605	3,665	4,533	1,632	2,628
Loss before other expenses	(495)	(1,890)	(2,659)	(1,406)	(3,437)	(2,611)	(1,549)	(2,598)
Cost of acquisition of Structured Biologicals, Inc.	375							
Purchased in-process research and development	5,377							
Total other expenses	5,752							
Net loss	$ (6,247)	$ (1,890)	$ (2,659)	$ (1,406)	$ (3,437)	$ (2,611)	$ (1,549)	$ (2,598)
Basic and diluted net loss per share	$ (2.56)	$ (0.53)	$ (0.76)	$ (0.28)	$ (0.60)	$ (0.40)	$ (0.25)	$ (0.38)
Weighted average number of shares outstanding	2,437	3,596	3,486	4,942	5,754	6,485	6,209	6,788

The as adjusted column (without broker commissions) in the balance sheet data below gives effect to the sale of shares of common stock in this offering at a public offering price of $ per

share, after deducting estimated offering expenses and assuming no broker, dealer or sales agent commissions are paid. The as adjusted column (with broker commissions) in the balance sheet data below gives effect to the sale of shares of common stock in this offering at a public offering price of $ per share, after deducting estimated offering expenses and assuming the payment of broker, dealer or sales agent commissions equal to 10% of the aggregate selling price of the shares. Because the shares being offered in this offering are being offered and sold by us on a best efforts basis, we may not sell all or any of the shares and therefore may not receive all or any of the net proceeds in this offering.

As of December 31,					As of June 30,		
1997	1998	1999	2000	2001	Actual	2002 As Adjusted (without broker commissions)	2002 As Adjusted (with broker commissions)

	As of December 31,					As of June 30,	
	(in thousands)						
Balance Sheet Data:							
Cash and cash equivalents	$ 1,750	$ 2,841	$ 5,275	$ 2,612	$ 4,502	$ 1,704	$
Working capital	356	2,099	5,004	1,735	3,666	1,041	
Total assets	2,450	3,449	5,780	3,067	4,979	2,142	
Convertible debenture current				500			
Stockholders' equity	1,034	2,631	5,451	2,126	4,051	1,406	

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of BioSante's financial condition and results of operations should be read in conjunction with BioSante's financial statements and related notes included elsewhere in this registration statement and the cautionary statements concerning forward-looking statements presented in the sections entitled "Risk Factors" and "Cautionary Statement Concerning Forward-Looking Statements."

General

We are a development stage biopharmaceutical company engaged in the development and commercialization of hormone replacement products to treat hormone deficiencies in men and women. We also are engaged in the development and commercialization of vaccine adjuvants or immune system boosters, proprietary novel vaccines, drug delivery systems and the purification of the milk of transgenic animals, all applications using calcium phosphate nanoparticles, or CAP.

Our hormone replacement products, which we license on an exclusive basis from Antares Pharma, Inc., address a variety of hormone deficiencies that affect both men and women.

The following is a list of our hormone replacement gel products in development:

LibiGel a transdermal testosterone gel in clinical development for treatment of female sexual dysfunction.

Bio-T-Gel a transdermal testosterone gel in development for testosterone deficiency in men.

Bio-E-Gel a transdermal gel containing estradiol in development for estrogen deficiency in women, including menopausal symptoms.

Bio-E/P-Gel a transdermal gel containing estrogen and progestogen in development for estrogen deficiency.

LibiGel-E/T a transdermal gel containing estrogen and testosterone in development for treatment of female sexual dysfunction.

These gel products are designed to be quickly absorbed through the skin after application on the arms, abdomen or thighs, delivering the required hormone to the bloodstream evenly and in a non-invasive, painless manner. The gels are formulated to be applied once per day and to be absorbed into the skin without a trace of residue.

Under the terms of our license agreement with Antares, we acquired exclusive development and marketing rights, with the right to grant sub-licenses, to the single active ingredient testosterone and estradiol products for all therapeutic indications in the U.S., Canada, Mexico, Israel, Malaysia, Australia, Indonesia, New Zealand, China and South Africa. We acquired exclusive development and marketing rights, with the right to grant sub-licenses, for the combination estradiol and progestogen product in the U.S. and Canada. In partial consideration for the license of the hormone replacement products, we paid Antares an upfront license fee of $1.0 million. In addition, under the terms of the license agreement,

we agreed to fund the development of the proposed products, make milestone payments and, after all necessary regulatory approvals are received, pay royalties to Antares on sales of the products.

In a series of amendments executed during 2001 between BioSante and Antares, BioSante returned to Antares the license rights to one of four previously licensed hormone products, namely the estradiol patch, in all countries of the licensed territory. Additionally, BioSante returned to Antares the license rights to the single entity estrogen and testosterone gel products in Malaysia and Australia. In exchange for the return to Antares of the estradiol patch in all the countries and the single entity estradiol and testosterone gel products in Malaysia and Australia, Antares granted BioSante a credit for

approximately $600,000 of manufacturing and formulation services and a license for the combination estradiol plus testosterone gel product. In August 2002, BioSante and Antares further amended the license agreement to clarify interpretations of the license agreement, including products covered by the license agreement, and to terminate the Supply Agreement with Antares.

In September 2000, we sub-licensed the marketing rights to our portfolio of female hormone replacement products in Canada to Paladin Labs Inc. In exchange for the sub-license, Paladin agreed to make an initial investment in our company, make future milestone payments and pay royalties on sales of the products in Canada. The milestone payments will be in the form of a series of equity investments by Paladin in BioSante common stock at a 10 percent premium to the market price of our stock at the time the equity investment is made. Upon execution of the sub-license agreement, Paladin made an initial investment of $500,000 in our company in the form of a convertible debenture, convertible into our common stock at $10.50 per share. On August 13, 2001, BioSante exercised its right and declared the debenture converted in full. Accordingly, 47,619 shares of BioSante common stock were issued to Paladin on August 23, 2001. During the third quarter 2001, Paladin made a series of equity investments in BioSante as a result of certain sub-licensing transactions and BioSante reaching certain milestones. These equity investments resulted in BioSante issuing an additional 18,939 shares of its common stock to Paladin.

On August 7, 2001, we entered into a sub-license agreement with Solvay Pharmaceuticals, B.V. covering the U.S. and Canadian rights to the estrogen/progestogen combination transdermal hormone replacement gel product licensed from Antares in June 2000. Under the terms of the agreement, Solvay paid us an initial payment of $2.5 million ($1.7 million net of the related payments due to Antares and Paladin) and has agreed to make future milestone payments and pay escalating sales-based royalties. Solvay is responsible for all costs of development and marketing of the estrogen/progestogen combination transdermal hormone replacement gel product. We have retained co-promotion rights to the product and will be compensated for sales we generate over and above those attributable to Solvay's marketing efforts. The Canadian rights to this product had previously been sub-licensed to Paladin as part of that sub-license arrangement and were repurchased by us prior to the Solvay transaction in exchange for $125,000, paid by the issuance of 17,361 shares of BioSante common stock with a market value of $125,000 at the date of the transaction.

Our strategy with respect to our hormone replacement product portfolio is to conduct human clinical trials of our proposed hormone replacement products, which are required to obtain approval from the U.S. Food and Drug Administration, or FDA and to market the products in the United States.

Our strategy with respect to our CAP technology over the next 12 months is to continue development and actively seek collaborators and licensees to accelerate the development and commercialization of products incorporating this technology. We received clearance in August 2000 from the FDA to initiate a Phase I clinical trial of our CAP as a vaccine adjuvant and delivery system based on an Investigational New Drug Application that we filed in July 2000. The Phase I trial was a double-blind, placebo-controlled trial in 18 subjects to determine the safety of CAP as a vaccine adjuvant. The trial was completed in October 2000. The results showed that there was no apparent difference in side effect profile between CAP and placebo.

On October 1, 2001, BioSante licensed its Bio-Vant calcium phosphate based vaccine adjuvant on a non-exclusive basis to Corixa Corporation for use in several potential vaccines to be developed by Corixa. This is the first license agreement signed by BioSante for the development of CAP as a vaccine adjuvant. Under the agreement, Corixa has agreed to pay BioSante milestone payments upon the achievement by Corixa of certain milestones plus royalty payments on sales by Corixa if and when vaccines are approved using Bio-Vant and sold on a commercial basis. If Corixa sub-licenses vaccines that include Bio-Vant, BioSante will share in milestone payments and royalties received by Corixa. The

license agreement covers access to Bio-Vant for a variety of cancer, infectious and auto immune disease vaccines.

Our goal is to develop and commercialize our portfolio of hormone replacement products and CAP technology into a wide range of pharmaceutical products and to expand this product portfolio as appropriate. Our strategy to obtain this goal is to:

Accelerate the development of our hormone replacement products.

Continue to develop our nanoparticle-based CAP platform technology and seek assistance in the development through corporate partner sub-licenses.

Implement business collaborations or joint ventures with other pharmaceutical and biotechnology companies.

License or otherwise acquire other drugs that will add value to our current product portfolio.

We currently expect that we will add employees as we continue to develop and commercialize our hormone replacement products and products incorporating our CAP technology or in-license or otherwise acquire products in late-stage human clinical development.

All of our revenue to date has been derived from interest earned on invested funds and license payments earned on sub-licensing transactions. We have not commercially introduced any products. Since our inception, we have experienced significant operating losses. We incurred a net loss of $2,598,290 for the six month period ended June 30, 2002, resulting in an accumulated deficit of $20,849,323. We expect that we will incur substantial and continuing losses for the foreseeable future as our product development programs expand and various preclinical and clinical trials commence. The amount of these losses may vary significantly from year-to-year and quarter-to-quarter and will depend upon, among other factors:

the timing and cost of product development;

the progress and cost of preclinical and clinical development programs;

the costs of licensure or acquisition of new products

the timing and cost of obtaining necessary regulatory approvals; and

the timing and cost of obtaining third party reimbursement.

In order to generate revenues, we must successfully develop and commercialize our proposed products in pre-clinical development, in late-stage human clinical development, or already on the market that we may in-license or otherwise acquire or enter into collaborative agreements with others who can successfully develop and commercialize them. Even if our proposed products and the products we may license or otherwise acquire are commercially introduced, they may never achieve market acceptance and we may never generate revenues or achieve profitability.

On May 31, 2002, we effected a one-for-ten reverse split of our issued and outstanding shares of common stock and class C special stock. All share and per share numbers in this prospectus have been adjusted to reflect the reverse stock split.

Results of Operations

Three Months Ended June 30, 2002 Compared to Three Months Ended June 30, 2001

General and administrative expenses decreased slightly from $497,972 during the three month period ended June 30, 2001 to $491,851 during the three month period ended June 30, 2002.

Research and development expenses increased from $387,236 during the three month period ended June 30, 2001 to $987,528 during the three month period ended June 30, 2002. This increase is the result of increased expenses during the three month period ended June 30, 2002 associated with the clinical development of our hormone replacement product portfolio. As a result of our hormone replacement product clinical development, we expect that our research and development expenses will continue to increase significantly in future periods. We also are required under the terms of our license agreement with the University of California to have available certain amounts of funds dedicated to research and development activities. The amount of our research and development expenditures, however, may fluctuate from quarter-to-quarter and year-to-year depending on: (1) available resources; (2) our development schedule; (3) results of studies, clinical trials and regulatory decisions; and (4) competitive developments.

Interest income decreased from $50,843 during the three month period ended June 30, 2001 to $6,712 during the three month period ended June 30, 2002 as a result of lower interest rates coupled with lower invested cash balances between the three month periods.

We incurred a net loss of $1,495,364 for the three month period ended June 30, 2002, compared to a net loss of $858,913 for the three month period ended June 30, 2001. The increase in the net loss is the result of increased expenses associated with the clinical development of our hormone replacement product portfolio. We anticipate that our operating losses will continue for the foreseeable future.

Six Months Ended June 30, 2002 Compared to Six Months Ended June 30, 2001

General and administrative expenses decreased slightly from $963,030 during the six month period ended June 30, 2001 to $950,980 during the six month period ended June 30, 2002.

Research and development expenses increased from $620,225 during the six month period ended June 30, 2001 to $1,631,922 during the six month period ended June 30, 2002. This increase is the result of increased expenses during the six month period ended June 30, 2002 associated with the clinical development of our hormone replacement product portfolio. As a result of our hormone replacement product clinical development, we expect that our research and development expenses will continue to increase significantly in future periods.

Interest income decreased from $82,952 during the six month period ended June 30, 2001 to $29,971 during the six month period ended June 30, 2002 as a result of lower interest rates coupled with lower invested cash balances between the six month periods. We expect interest income to decline in future periods as we use our cash balances for operations.

BioSante incurred a net loss of $2,598,290 for the six month period ended June 30, 2002, compared to a net loss of $1,548,813 for the six month period ended June 30, 2001. The increase in the net loss is the result of increased expenses associated with the clinical development of our hormone replacement product portfolio. We anticipate that our operating losses will continue for the foreseeable future.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

General and administrative expenses increased from $1,678,581 during the year ended December 31, 2000 to $2,298,659 during the year ended December 31, 2001. This increase of approximately 37% is due primarily to expenses related to personnel-related expenses and the higher legal expenses related to the increase in our patent, collaboration and licensing activities.

Research and development expenses increased from $1,887,832 during the year ended December 31, 2000 to $2,141,944 during the year ended December 31, 2001. This overall increase is the result of increased expenses during the year ended December 31, 2001 associated with the clinical development of our hormone replacement product portfolio and payment to Antares for certain

manufacturing and formulation services, offset by a $1.0 million upfront license fee paid to Antares during the year ended December 31, 2000. 2001 also included recognition of a $250,000 credit from Antares, which represented the portion of the initial $1.0 million upfront license fee paid in 2000 which was creditable against future payments. As a result of our hormone replacement product in-license agreement with Antares, we expect to continue to incur significant expenses, primarily relating to our research and development activities. Management estimates that it is currently expending approximately $300,000 to $400,000 per month on research and development activities and approximately $400,000 to $500,000 per month in total expenses, including research and development activities. We are required under the terms of our license agreement with the University of California to have available certain amounts of funds for research and development activities. The amount of BioSante's

actual research and development expenditures, however, may fluctuate from quarter-to-quarter and year-to-year depending on: (1) the resources available; (2) our development schedule; (3) results of studies, clinical trials and regulatory decisions; and (4) competitive developments.

On August 7, 2001, we entered into a sub-license agreement with Solvay Pharmaceuticals, B.V. covering the U.S. and Canadian rights to the estrogen/progestogen combination transdermal hormone replacement gel product licensed from Antares in June 2000. Under the terms of the agreement, Solvay paid us an initial payment of $2.5 million ($1.7 million net of the related payments due to Antares and Paladin) and has agreed to make future milestone payments and pay escalating sales-based royalties. Solvay is responsible for all costs of development and marketing of the estrogen/progestogen combination transdermal hormone replacement gel product. We have retained co-promotion rights to the product and will be compensated for sales we generate over and above those attributable to Solvay's marketing efforts. The Canadian rights to this product had previously been sub-licensed to Paladin as part of that sub-license arrangement and were repurchased by us prior to the Solvay transaction in exchange for $125,000, paid by the issuance of 17,361 shares of BioSante common stock with a market value of $125,000 at the date of the transaction.

Interest income decreased from $227,718 during the year ended December 31, 2000 to $174,416 during the year ended December 31, 2001 as a result of lower average cash balances in 2001 and as a result of lower interest rates on invested cash balances in 2001. We expect interest income to decline in future periods as we use our cash balances for operations.

BioSante incurred a net loss of $2,611,361 for the year ended December 31, 2001, compared to a net loss of $3,437,195 for the year ended December 31, 2000. The overall decrease in the net loss is the result of a $1.0 million upfront license fee paid to Antares during the year ended December 31, 2000, offset by the combination of $1.7 million, net, in revenue from a sub-license upfront payment received by BioSante and increased expenses during the year ended December 31, 2001 associated with (1) personnel-related expenses, (2) legal expenses related to increased patent, collaboration and licensing activities, and (3) increased expenses associated with the clinical development of our hormone replacement product portfolio and payment to Antares for certain manufacturing and formulation services. We anticipate that our operating losses will continue for the foreseeable future.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

General and administrative expenses increased from $853,389 during the year ended December 31, 1999 to $1,678,581 during the year ended December 31, 2000. This increase of approximately 97% is due primarily to expenses related to personnel-related expenses and the higher legal expenses related to the increase in our patent, collaboration and licensing activities.

Research and development expenses increased from $660,588 during the year ended December 31, 1999 to $1,887,832 during the year ended December 31, 2000. This overall increase is the result of a $1.0 million upfront license fee paid to Antares during the year ended December 31, 2000 and increased expenses related to the clinical development of our hormone replacement product portfolio.

Interest income increased from $198,683 during the year ended December 31, 1999 to $227,718 during the year ended December 31, 2000 as a result of higher average cash balances in 2000.

BioSante incurred a net loss of $3,437,195 for the year ended December 31, 2000, compared to a net loss of $1,406,259 for the year ended December 31, 1999. The overall increase in the net loss is the result of a $1.0 million upfront license fee paid to Antares during the year ended December 31, 2000, in addition to increases in (1) personnel-related expenses, (2) legal expenses related to increased patent, collaboration and licensing activities, and (3) expenses associated with the clinical development of our hormone replacement product portfolio.

Liquidity and Capital Resources

To date, we have raised equity financing and received licensing income to fund our operations, and we expect to continue this practice to fund our ongoing operations. Since inception, we have raised net proceeds of approximately $12.9 million from private equity financings, class A and class C stock conversions, warrant exercises and in the third quarter 2000, the issuance of a $500,000 convertible debenture, which was converted into 47,619 shares of common stock in the third quarter of 2001. In addition, as a result of licensing upfront payments and milestones, we have received an additional $2.1 million.

Six Months Ended June 30, 2002 Compared to Six Months Ended June 30, 2001

Our cash and cash equivalents were $1,704,495 and $4,502,387 at June 30, 2002 and December 31, 2001, respectively. The decrease in our cash balances is due primarily to cash used in operating activities. We used cash in operating activities of $2,725,352 for the six month period

ended June 30, 2002 versus cash used in operating activities of $1,481,763 for the six month period ended June 30, 2001. This change reflects the cash expenditures associated with: (1) increased research and development and associated personnel-related expenses, (2) increased expenses related to the clinical development of our hormone replacement product portfolio and expenses related to manufacturing and formulation services provided by Antares, and (3) reduction of accounts payable and accrued expenses. Net cash used in investing activities was $25,836 for the six month period ended June 30, 2002 versus $22,546 used in investing activities for the six month period ended June 30, 2001. The uses of cash in investing activities during both six month periods ended June 30, 2002 and 2001 were capital expenditures for the purchases of computer equipment. Net cash used in financing activities was $46,704 for the six months ended June 30, 2002 compared to net cash provided by financing activities of $3,674,612 for the six months ended June 30, 2001. The net cash used in financing activities of $46,704 was the result of transaction costs associated with a current and previous financing, while the net cash provided during the six months ended June 30, 2001 was the result of the receipt of cash proceeds (net of transaction costs) from our private placement of units which closed in April 2001 and licensing milestone payments received.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

We used cash in operating activities of $1,823,820 for the year ended December 31, 2001 versus cash used in operating activities of $3,149,604 for the year ended December 31, 2000. This decrease reflects the combination of the upfront payment received from Solvay in 2001, offset by cash expenditures associated with: (1) increased general and administrative and research and development personnel-related expenses, (2) legal fees associated with the increase in patent, licensing and collaboration activities; and (3) increased expenses related to the clinical development of our hormone replacement product portfolio and expenses related to manufacturing and formulation services provided by Antares. Offsetting these increased expenses for the year ended December 31, 2001 is the recognition of $1.7 million of licensing revenues pursuant to the Solvay sub-license agreement versus the year ended December 31, 2000 and the $1.0 million upfront license fee payment to Antares paid in

June 2000. Net cash used in investing activities was $86,735 for the year ended December 31, 2001 versus $43,238 for the year ended December 31, 2000. The significant uses of cash in investing activities for the year ended December 31, 2001 and 2000 included capital expenditures for computer equipment. Additionally, during the year ended December 31, 2001, we relocated our business office thus incurring the capital expenditures of used office equipment and furniture. Net cash provided by financing activities was $3,801,187 for the year ended December 31, 2001 compared to $530,045 for the year ended December 31, 2000. Net cash provided during 2001 was primarily the result of $3.7 million cash proceeds pursuant to our private placement of common stock and warrants which closed in April 2001 and licensing milestone payments received while net cash provided during 2000 was primarily the result of a $500,000 convertible debenture issued to Paladin Labs Inc. pursuant to a sub-license agreement related to our proposed female hormone replacement products.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

We used cash in operating activities of $3,149,604 for the year ended December 31, 2000 versus cash used in operating activities of $1,787,822 for the year ended December 31, 1999. This change was driven by the increase in research and development expenses, including the hormone product portfolio in-license upfront payment of $1.0 million to Antares Pharma, Inc. during 2000. Net cash used in investing activities was $43,238 for the year ended December 31, 2000 versus $4,219 for the year ended December 31, 1999. The significant uses of cash in investing activities for the year ended December 31, 2000 were capital expenditures for the purchase of office furniture and computer equipment. The significant uses of cash in investing activities for the year ended December 31, 1999 included capital expenditures for office furniture and a computer. Net cash provided by financing activities was $530,045 for the year ended December 31, 2000 compared to $4,225,343 for the year ended December 31, 1999. Net cash provided during 2000 was primarily the result of a $500,000 convertible debenture issued to Paladin Labs Inc. pursuant to a sub-license agreement related to our proposed female hormone replacement products. Net cash provided in 1999 was primarily the result of our private placement in May 1999.

Capital Resources

We currently do not have sufficient resources to complete the commercialization of any of our proposed products. Therefore, we will likely need to raise substantial additional capital to fund our operations. We cannot be certain that any financing will be available when needed. If we fail to raise additional financing as we need it, we may have to delay or terminate our own product development programs or pass on opportunities to in-license or otherwise acquire new products that we believe may be beneficial to our business. We expect to continue to spend capital on:

research and development programs;

pre-clinical studies and clinical trials;

regulatory processes;

establishment of our own marketing capabilities or a search for third party manufacturers and marketing partners to manufacture and market our products for us; and

the licensure or acquisition of new products.

The amount of capital we may need will depend on many factors, including the:

progress, timing and scope of our research and development programs;

progress, timing and scope of our pre-clinical studies and clinical trials;

time and cost necessary to obtain regulatory approvals;

time and cost necessary to seek third party manufacturers to manufacture our products for us;

time and cost necessary to establish our own sales and marketing capabilities or to seek marketing partners to market our products for us;

time and cost necessary to respond to technological and market developments;

changes made or new developments in our existing collaborative, licensing and other commercial relationships; and

new collaborative, licensing and other commercial relationships that we may establish.

Commitments

We have several financial commitments, including those relating to our license agreement with the University of California.

Under our license agreement with the University of California, we are required to:

pay minimum annual royalties on February 28 of each year beginning in the year 2004 in the amounts set forth below, to be credited against earned royalties, for the life of the agreement;

Year

	Minimum Annual Royalty Due
2004	$ 50,000
2005	$ 100,000
2006	$ 150,000
2007	$ 200,000
2008	$ 400,000
2009	$ 600,000
2010	$ 800,000
2011	$ 1,500,000
2012	$ 1,500,000
2013	$ 1,500,000

maintain an annual minimum amount of available capital for development and commercialization of products incorporating the licensed technology until a product is introduced to the market; and

pay the costs of patent prosecution and maintenance of the patents included in the agreement.

In addition, our license agreement with Antares, the licensor of our hormone products, requires us to make certain payments as development milestones are achieved and our license agreement with the University of California, requires us to have available minimum amounts of funds each year for research and development activities relating to our licensed technology and to achieve research and development milestones. Moreover, our fixed expenses, such as rent, license payments and other contractual commitments, may increase in the future, as we may:

enter into additional leases for new facilities and capital equipment;

enter into additional licenses and collaborative agreements; and

incur additional expenses associated with being a public company.

In addition to the commitments to the University of California, we also have minimum annual lease payments.

The following table summarizes the timing of these future contractual obligations and commitments:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less Than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Operating Leases	$ 211,292	$ 151,578	$ 59,714	$	$
Commitments Under License Agreement with UCLA	6,800,000		150,000	$ 350,000	$ 6,300,000
Commitments Under License Agreement with Wake Forest	1,140,000		55,000	145,000	940,000
Total Contractual Cash Obligations	$ 8,151,292	$ 151,578	$ 264,714	$ 495,000	$ 7,240,000

The capital equipment expenditures of $86,735 during 2001 were principally for the acquisition of office furniture and computer equipment. We expect to spend approximately $25,000 to $50,000 in capital expenditures during the next 12 months.

Outlook

We currently do not have sufficient resources to complete the commercialization of any of our proposed products. Based on our current cash resources, we believe we should be able to maintain our current pace and level of expenditures through December 2002, although no assurance can be given that we will not need additional cash prior to such time. Unexpected increases in general and administrative expenses and research and development expenses may cause us to need additional financing prior to December 2002. If we do not sell any of the shares offered in this offering, we believe our existing cash will be sufficient to fund our operations through December 2002. If we are able to sell all of the shares offered in this offering, we believe that with the net proceeds of this offering and our existing cash, we will have sufficient working capital to meet our needs through December 2003. We have based these estimates, however, on assumptions that may prove to be wrong. As a result, we may need to obtain additional financing prior to that time. In addition, we may need to raise additional capital at an earlier time to fund our ongoing research and development activities, acquire new products or take advantage of other unanticipated opportunities. If we are unable to sell any shares offered in this offering, we will be required to seek alternative forms of equity or debt financing. Any equity financing may be dilutive to our existing shareholders, and involve the issuance of securities that may have rights, preferences or privileges senior to those possessed by our current stockholders. A debt financing, if available, may involve restrictive covenants on our business which could limit our operational and financial flexibility, and the amount of debt incurred could make us more vulnerable to economic downturns and limit our ability to compete. We cannot be certain that any financing will be available when needed or will be on terms acceptable to us. In addition, insufficient funds may require us to delay, scale back or eliminate some or all of our programs designed to facilitate the commercial introduction of our proposed products, prevent commercial introduction of our products altogether or restrict us from acquiring new products that we believe may be beneficial to our business. We are required under the terms of our license agreement with the University of California, however, to have available certain amounts of funds for research and development activities.

BUSINESS

General

We are a development stage biopharmaceutical company that is developing a pipeline of hormone replacement products to treat hormone deficiencies in both men and women. We also are engaged in the development of our proprietary calcium phosphate, nanoparticulate-based platform technology, or CAP, for vaccine adjuvants, drug delivery systems and to purify the milk of transgenic animals.

To enhance the value of our current pharmaceutical portfolio, we are pursuing the following corporate growth strategies:

- accelerate the development of our hormone replacement products;
- continue to develop our nanoparticle-based platform technology, or CAP, and seek assistance in such development through corporate partner sub-licenses;
- license or otherwise acquire other drugs that will add value to our current product portfolio; and
- implement business collaborations or joint ventures with other pharmaceutical and biotechnology companies.

Our primary focus is to build a pipeline of hormone replacement products for the treatment of human hormone deficiencies. Symptoms of hormone deficiency in men include impotence, lack of sex drive, muscle weakness and osteoporosis, and in women, menopausal symptoms, such as hot flashes, vaginal atrophy, decreased libido and osteoporosis.

Our proposed hormone replacement products, which we license on an exclusive basis from Antares Pharma Inc., are gel formulations of testosterone, estradiol, a combination of estradiol and testosterone and a combination of estradiol and a progestogen. The gels are designed to be absorbed quickly through the skin after application on the arms, shoulders, abdomen or thighs, delivering the hormone to the bloodstream evenly and in a non-invasive, painless manner. Human clinical trials have begun on four of our proposed hormone replacement products, a necessary step in the process of obtaining United States Food and Drug Administration, or FDA, approval to market the products.

The following is a list of our hormone replacement gel products in development:

LibiGel a transdermal testosterone gel in clinical development for treatment of female sexual dysfunction.

Bio-T-Gel a transdermal testosterone gel in development for testosterone deficiency in men.

Bio-E-Gel a transdermal gel containing estradiol in development for estrogen deficiency in women, including menopausal symptoms.

Bio-E/P-Gel a transdermal gel containing estrogen and progestogen in development for estrogen deficiency.

LibiGel-E/T a transdermal gel containing estrogen and testosterone in development for treatment of female sexual dysfunction.

Our CAP technology, which we license on an exclusive basis from the University of California, is based on the use of extremely small, solid, uniform particles, which we call "nanoparticles," as immune system boosters, for drug delivery, to purify the milk of transgenic animals, among other uses. We have identified three potential initial applications for our CAP technology:

the creation of improved versions of current vaccines and of new vaccines by the "adjuvant" activity of our proprietary nanoparticles that enhance the ability of a vaccine to stimulate an immune response;

the creation of inhaled and oral forms of drugs that currently must be given by injection (*e.g.*, insulin); and

the purification of the milk of transgenic animals, in which protein pharmaceuticals are grown by selectively isolating biologically active therapeutic proteins from the transgenic milk.

The following is a list of our CAP products in development:

Bio-Vant CAP adjuvant technology new proprietary CAP technology in development for improved versions of current vaccines and new vaccines against cancer, viral and bacterial infections and autoimmune diseases.

Bio-Air advanced proprietary technology using CAP as a delivery system for inhalable versions of therapies that currently must be injected.

CAP-Oral an advanced delivery system using proprietary CAP technology for oral administration of therapies that currently must be injected.

CAP biotechnology production use of CAP technology in a new patented process for extracting therapeutic proteins from transgenic milk.

Our company, which was initially formed as a corporation organized under the laws of the Province of Ontario on August 29, 1996, was continued as a corporation under the laws of the State of Wyoming on December 19, 1996 and reincorporated in Delaware on June 26, 2001. Our company is the continuing corporation resulting from an amalgamation, or consolidation, of three companies our company, which was previously named "Ben-Abraham Technologies Inc.," Structured Biologicals Inc., a corporation organized under the laws of the Province of Ontario, and 923934 Ontario Inc., a corporation organized under the laws of the Province of Ontario and a wholly owned subsidiary of

Structured Biologicals. The amalgamation was approved by our stockholders on November 27, 1996 and the articles of arrangement were filed and became effective as of December 6, 1996. In November 1999, our stockholders approved the change of our corporate name from Ben-Abraham Technologies Inc. to BioSante Pharmaceuticals, Inc. In June 2001, our stockholders approved the reincorporation of our company to Delaware.

On May 31, 2002, we effected a one-for-ten reverse split of our issued and outstanding shares of common stock and class C stock. All share and per share numbers in this prospectus have been adjusted to reflect the reverse stock split.

Business Strategy

Our goal is to develop and commercialize our hormone replacement products and CAP technology into a wide range of pharmaceutical products. Key elements of our strategy to obtain this goal are to:

Accelerate the development of our hormone replacement products. We are focused on building a pipeline of hormone replacement products for the treatment of human hormone deficiencies. Symptoms of hormone deficiency in men include impotence, lack of sex drive, muscle weakness and osteoporosis, and in women, menopausal symptoms, such as hot flashes, vaginal atrophy, decreased libido and osteoporosis. Human clinical trials have begun on four of our proposed hormone replacement products, a necessary step in the process of obtaining FDA approval to market the products.

Continue to develop our nanoparticle-based CAP platform technology and seek assistance in the development through corporate partner sub-licenses. We are seeking opportunities to enter into business collaborations, joint ventures or sub-licenses with companies that have businesses or technologies complementary to our CAP technology business, such as vaccine and drug delivery pharmaceutical companies and transgenic milk companies. We believe that this partnering

strategy will enable us to capitalize on our partners' strengths in product development, manufacturing and commercialization and thereby enable us to introduce into the market products incorporating our CAP technology sooner than which we otherwise would be able. In addition, we believe these collaborations would significantly reduce our cash requirements for developing and commercializing products incorporating our CAP technology.

Implement business collaborations or joint ventures with other pharmaceutical and biotechnology companies. We intend to seek opportunities to enter into business collaborations or joint ventures with entities that have businesses or technology complementary to our business. We are particularly interested in entering into product co-development and co-marketing arrangements.

License or otherwise acquire other drugs that will add value to our current product portfolio. We intend to seek opportunities to in-license or otherwise acquire other products in the late-stage development phase or products already on the market. In seeking these opportunities, we intend to target products that cover therapeutic areas treated by a limited number of physicians and drugs that are in or require human clinical trials that involve a limited number of patients and not a significant amount of time and cost needed to complete them. We believe that targeting these products that are currently in or ready for human clinical trials would decrease the risks associated with product development and would likely shorten the time before we can introduce the products into the market. In addition to late-stage development products, we intend to seek opportunities to in-license or otherwise acquire products that (1) have FDA approval, (2) have been or are about to be commercially introduced into the U.S. markets, (3) have a concentrated physician prescriber audience, and (4) have the potential to generate significant sales. This element of our strategy is of a lower priority than the others since we currently have a full portfolio in development.

Description of Our Proposed Hormone Replacement Products

We are focused on building a pipeline of hormone replacement products to treat hormone deficiencies in men and women. Our proposed hormone replacement products are gel formulations of testosterone (the natural male hormone), estradiol (the natural female hormone), a combination of estradiol and testosterone and a combination of estradiol and a progestogen (another female hormone). The gels are designed to be quickly absorbed through the skin after application on the arms, shoulders, abdomen or thighs, delivering the hormone to the bloodstream evenly and in a non-invasive, painless manner. The gels are formulated to be applied once per day and to be absorbed into the skin without a

trace of residue.

The following is a list our hormone replacement gel products in development:

LibiGel a transdermal testosterone gel in clinical development for treatment of female sexual dysfunction.

Bio-T-Gel a transdermal testosterone gel in development for testosterone deficiency in men.

Bio-E-Gel a transdermal gel containing estradiol in development for estrogen deficiency in women, including menopausal symptoms.

Bio-E/P-Gel a transdermal gel containing estrogen and progestogen in development for estrogen deficiency.

LibiGel-E/T a transdermal gel containing estrogen and testosterone in development for treatment of female sexual dysfunction.

Testosterone deficiency in men is known as hypogonadism. Low levels of testosterone may result in lethargy, depression, decreased sex drive, impotence, low sperm count and increased irritability. Men with severe and prolonged reduction of testosterone may also experience loss of body hair, reduced

muscle mass, osteoporosis and bone fractures due to osteoporosis. Approximately five million men in the United States, primarily in the over age 40 male population group, have lower than normal levels of testosterone. Testosterone replacement therapy has been shown to restore levels of testosterone with minimal side effects.

Testosterone often is delivered through injections or dermal, or skin, patches. Delivery of testosterone through dermal patches was developed primarily to promote the therapeutic effects of testosterone replacement therapy without the often painful side effects associated with testosterone injections. Dermal patches, however, have been associated with skin irritation. Our testosterone formulated gel product for men, Bio-T-Gel, is designed to deliver the required amount of testosterone without the pain of injections and the skin irritation and discomfort associated with dermal patches. We are aware of one gel testosterone product for men currently on the market in the United States and several in development.

Estrogen deficiency in women can result in hot flashes and flushes, vaginal atrophy, decreased libido and osteoporosis. Hormone replacement in women decreases the chance that women will experience the symptoms of estrogen deficiency. According to industry estimates, approximately twenty million women in the U.S. currently are receiving some form of estrogen or combined estrogen hormone replacement therapy.

Estrogen is most commonly given orally in pill or tablet form. There are several potential side effects, however, with the use of oral estrogen, including insufficient absorption by the circulatory system, gallstones and blood clots. Although dermal patches have been shown to avoid some of these problems, delivery of estrogen through dermal patches, like testosterone patches, can result in skin irritation. Our estrogen formulated gel product, Bio-E-Gel, is designed to deliver estrogen without the skin irritation associated with, and the physical presence of, dermal patches.

Through a sub-license agreement with Solvay Pharmaceuticals, B.V., we are in the process of developing a combined estrogen/progestogen formulated gel product. Women whose uterus is intact often use a combined hormone replacement therapy because evidence suggests adding progestogen to estrogen therapy may reduce the potential risks of endometrial cancer and endometrial hyperplasia associated with estrogen therapy in these women. In July 2002, the National Institutes of Health announced that it was discontinuing the estrogen-progestin oral tablet combination arm of the Women's Health Initiative study because Prempro, the combination oral HRT product used in the study, caused an increase in the risk of invasive breast cancer after an average of 5.2 years on therapy. Both the estrogen and progestin components of Prempro are different chemical entities than those used in our proposed gel formulated Bio-E/P-Gel, and the means of delivery into the system are significantly different. Prempro is an oral tablet formulation consisting of conjugated equine estrogen and medroxyprogesterone acetate as active

ingredients. Our proposed Bio-E/P-Gel is a gel formulated delivery system containing estradiol, which is identical to the estrogen produced naturally by a woman's ovaries, and progestin, different than the progestin in Prempro. The Women's Health Initiative study results do not necessarily apply to estrogen and progestin administered through the transdermal route and to different hormones which may provide a different risk-benefit profile. In addition, the intended use for our proposed gel-formulated HRT products is no more than two years.

We are also developing a testosterone formulated gel product for women, LibiGel. Though generally characterized as a male hormone, testosterone also is present in women and its deficiency has been found to cause low libido or sex drive. Studies have shown that testosterone replacement therapy can boost sexual desire and pleasure, increase bone density, raise energy levels and improve mood. Similarly, we are developing a combination gel product of testosterone and estradiol for women, LibiGel-E/T, for low libido or sex drive.

We believe our proposed hormone replacement products have a number of benefits, including the following:

- our transdermal gels can be spread over areas of skin where they dry rapidly and decrease the chance for skin irritation versus hormone patches;
- our transdermal gels may have fewer side effects than many pills which have been known to cause gallstones, blood clots and complications related to metabolism;
- adding progestogen to estrogen may reduce the potential risks of endometrial cancer and endometrial hyperplasia of estrogen therapy alone when the uterus is intact;
- our transdermal gels have been shown to be absorbed evenly, thus allowing clinical hormone levels to reach the systemic circulation;
- hormone replacement therapy using gels may allow for better dose adjustment than either patches or oral pills or capsules; and
- clinical trials involving the hormone products are expected to be relatively small requiring fewer patients than most drug development projects, which will keep our costs, time and risks associated with the FDA approval process down.

Human clinical trials have begun on four of our proposed hormone replacement products, which are required to obtain FDA approval to market the products.

We license our proposed hormone replacement products on an exclusive basis from Antares Pharma, Inc. under a license agreement we entered into in June 2000. Under the terms of our license agreement with Antares (which we have amended several times since June 2000), we acquired exclusive development and marketing rights, with the right to grant sub-licenses (1) to the single active ingredient testosterone and estradiol products for all therapeutic indications in the U.S., Canada, Mexico, Israel, New Zealand, China, Indonesia and South Africa, (2) for the combination estradiol and progestogen product in the U.S. and Canada, and (3) for a transdermal hormone replacement gel containing a combination of estradiol and testosterone in the U.S., Canada, Mexico, Israel, Australia, New Zealand, Malaysia, China, Indonesia and South Africa.

In September 2000, we sublicensed the marketing rights for our female proposed hormone replacement products to Paladin Labs Inc. in Canada. In August 2001, we sublicensed our proposed estrogen/progestogen combination transdermal hormone replacement gel product to Solvay Pharmaceuticals, B.V. for development and sale in the U.S. and Canada.

On August 7, 2001, we entered into a sub-license agreement with Solvay Pharmaceuticals, B.V. covering the U.S. and Canadian rights to the proposed estrogen/progestogen combination transdermal hormone replacement gel product licensed from Antares in June 2000. Under the terms of the agreement, Solvay paid us an initial payment of $2.5 million ($1.7 million net of the related payments due to Antares and Paladin) and has agreed to make future milestone payments and pay escalating sales-based royalties. Solvay is responsible for all costs of development and marketing of the proposed estrogen/progestogen combination transdermal hormone replacement gel product. We have retained

co-promotion rights to the product and will be compensated for sales we generate over and above those attributable to Solvay's marketing efforts.

In April 2002, we exclusively in-licensed from Wake Forest University and Cedars-Sinai Medical Center three issued U.S. patents claiming triple hormone therapy (the combination use of estrogen plus progestogen plus androgen, *e.g.* testosterone) and an option for triple hormone contraception. The financial terms of the license include an upfront payment by BioSante, regulatory milestones, maintenance payments and royalty payments by BioSante if the product gets approved and subsequently marketed.

Description of Our CAP Technology and Proposed CAP Technology Products

We believe our CAP technology will serve as an effective vehicle for delivering drugs and vaccines and enhancing the effects of vaccines. The key component, calcium phosphate, or CAP, is on the FDA's GRAS (Generally Regarded as Safe) list. Our nanoparticles have successfully passed the first stage of toxicity studies for administration orally, into muscles, under the skin, and into the lungs by inhalation.

The following is a list of our CAP products in development:

Bio-Vant CAP adjuvant technology new proprietary CAP technology in development for improved versions of current vaccines and new vaccines against cancer, viral and bacterial infections and autoimmune diseases.

Bio-Air advanced proprietary technology using CAP as a delivery system for inhalable versions of therapies that currently must be injected.

CAP-Oral an advanced delivery system using proprietary CAP technology for oral administration of therapies that currently must be injected.

CAP biotechnology production use of CAP technology in a new patented process for extracting therapeutic proteins from transgenic milk.

Research and development involving our CAP technology originated in a project set up under an agreement dated April 6, 1989 between the University of California and our predecessor company, Structured Biologicals, relating to viral protein surface absorption studies. The discovery research was funded by Structured Biologicals at UCLA School of Medicine and was based, in essence, on the use of extremely small, solid, uniform particles as components that could increase the stability of drugs and act as systems to deliver drugs into the body.

These ultra fine particles are made from inert, biologically acceptable materials, such as ceramics, pure crystalline carbon or biodegradable calcium phosphate. The size of the particles is in the nanometer range. A nanometer is one millionth of a millimeter and typically particles measure approximately 1,000 nanometers (nm). For comparison, a polio virus particle is about 27 nm in diameter, a herpes virus particle has a central core measuring 100 nm in diameter, contained in an envelope measuring 150-200 nm, while a tuberculosis bacterium is rod-shaped, about 1,200 nm long by 300 nm across. Because the size of these particles is measured in nanometers, we use the term "nanoparticles" to describe them.

We use the nanoparticles as the basis of a delivery system by applying a layer of a "bonding" coating of cellobiose or another carbohydrate derivative. The critical property of these coated nanoparticles is that biologically active molecules, proteins, peptides or pharmacological agents, for example, vaccine components like bacterial or viral antigens or proteins like insulin, attached to them retain their activity and can be protected from natural alterations to their molecular structure by adverse environmental conditions. It has been shown in studies conducted by us that when these combinations are injected into animals, the attachment can enhance the biological activity as compared to injection of the molecule alone.

A major immune response that is triggered by these combination particles is the creation of antibody molecules, which can then specifically counteract an invading virus or bacterium. Similarly, a drug will produce an effect on an organ system only if it can attach to specific receptors on the surface of target cells (*e.g.*, tumor cells). The stabilizing and slow release capabilities of a drug carrier and delivery system based on this discovery can lead to significant advances towards finding more effective and less toxic or harmful molecules to seek out and attach to such

receptors.

We believe our CAP technology has a number of benefits, including the following:

- it is biodegradable (capable of being decomposed by natural biological processes) and non-toxic and therefore potentially safe to use and introduce into the human body;
- it is fast, easy and inexpensive to manufacture, which will keep our costs down and potentially improve our profit margins;
- the nanometer (one-millionth of a millimeter) size range makes it ideal for delivering drugs through aerosol sprays, inhalation or orally, instead of using often painful and inconvenient injections; and
- it has excellent "loading" capacity the amount of molecules that can bond with the nanoparticles thereby potentially decreasing the dose needed to be taken by patients while enhancing the release capabilities.

Research in these areas has resulted in the issuance of a number of patents that we license from the University of California.

We have completed a Phase I human clinical trial of CAP as a vaccine adjuvant and delivery system, a necessary step in the process of obtaining FDA approval to market the product. The Phase I trial was a double blind, placebo controlled trial, in 18 subjects to determine the safety of CAP as a vaccine adjuvant. The trial results showed that there was no apparent difference in side-effect profile between CAP and placebo.

We plan to develop commercial applications of our CAP technology and any proprietary technology developed as a result of our ongoing research and development efforts. Initially, we plan to pursue the development of (1) vaccine adjuvants, (2) drug delivery systems, including a method of delivering proteins (*e.g.*, insulin) through inhalation, orally and subcutaneous routes of administration, and (3) the purification of the milk of transgenic animals. Our pre-clinical research team in our laboratory in Smyrna, Georgia is currently pursuing the development of our CAP technology.

Vaccine adjuvants. We believe that our CAP nanoparticles may offer a means of preparing new improved formulations of current vaccines that are equal or better in their safety and immunogenicity, that is, in their capacity to elicit an immune response, compared to alum-formulated and non-adjuvanted vaccines but may be injected in lower concentrations and less often which could result in certain benefits, including cost savings and improved patient compliance. Also, we believe that CAP will allow for creation of safe and effective vaccines for diseases and conditions for which no vaccines currently exist.

We intend to seek opportunities to enter into business collaborations or joint ventures with vaccine companies and others interested in vaccine development, co-development and co-marketing arrangements. We believe these collaborations may enable us to accelerate the development of potential improved vaccines. These arrangements also could include out-licenses of our CAP technology to vaccine companies and others for further development and marketing.

Our nanoparticles when combined with vaccine antigens have been shown in animal studies conducted by us and others to possess an ability to elicit a higher immune response than non-adjuvanted vaccines and an immune response of the same magnitude as alum-formulated vaccines but up to 100 times lower concentrations. These preclinical studies also have shown that our CAP nanoparticles also may sustain higher antibody levels over a longer time period than both alum-formulated vaccines and non-adjuvanted vaccines. Because our CAP nanoparticles are made of calcium phosphate, which has a chemical nature similar to normal bone material and therefore is natural to the human body, as opposed to aluminum hydroxide, or alum, which is not natural to the human body, we believe that our nanoparticles may be safer to use than alum. In our animal studies,

we observed no material adverse reactions when our CAP nanoparticles were administered at effective levels.

We filed an investigational new drug, or IND, application with the FDA in July 2000 to commence a Phase I human clinical trial. We completed our Phase I human clinical trial in October 2000. As discussed in more detail under the heading "Government Regulation," the purpose of a Phase I trial is to evaluate the metabolism and safety of the experimental product in humans, the side effects associated with increasing doses, and, if possible, to gain early evidence of possible effectiveness. The Phase I trial of our CAP specifically looked at safety parameters, including local irritation and blood chemistry changes. The trial was completed and there was no apparent difference in the side effects profile between CAP and placebo.

In addition to continuing our own research and development in this area, we intend to seek opportunities to enter into business collaborations or joint ventures with vaccine companies and others interested in co-development and co-marketing arrangements with respect to our CAP nanoparticles for use as a vaccine adjuvant. These arrangements also could include out-licenses of our CAP technology to vaccine companies and others for further development in their on-going vaccine development.

Our outlicensing activities with respect to our adjuvant, which we call Bio-Vant, for use in other companies' vaccines have to date included meeting with target companies and, in some cases, agreeing that the target company will test our adjuvant in their animal models. Thereafter, the target company may send to us its vaccine antigen or DNA which we will then formulate with our nanoparticles and return for use in the target company's animal models. Once this is completed, if the results are positive, we would negotiate an out-license agreement with the target company.

In November 1999, we announced that we formed a collaborative research alliance with Antares Pharma, Inc. to evaluate the efficacy of combining our nanoparticle drug delivery and adjuvant or immune system boosters with Antares' needle-free pressure injection. This research alliance evaluated the ability of the combined systems to deliver DNA vaccines as part of a DNA vaccine program at a major U.S. university. In August 2000, we announced initial preclinical results from our collaboration with Antares. The initial tests demonstrated that Antares' needle-free pressure assisted injections containing our CAP technology produced better cellular immune responses in the injected animals than the injections without our CAP technology. No further work related to our CAP technology with Antares is currently planned.

In June 2000, we announced an option license agreement with ID Biomedical Corporation to use CAP as an adjuvant in a second-generation vaccine against group-A streptococcus ("GAS"). GAS is considered a worldwide public health threat causing strep-throat, skin infections, rheumatic fever, invasive fasciitis (flesh eating disease), toxic shock syndrome and other diseases. We believe ID Biomedical has decided to proceed without the use of CAP in their GAS vaccine.

We announced in August 2000, a non-exclusive option license agreement with Antex Biologics, Inc. to conduct preclinical tests of CAP in vaccines against *Chlamydia pneumoniae* and *H. pylori*. This collaboration is ongoing.

In October 2001, we announced a non-exclusive license agreement with Corixa Corporation to use our Bio-Vant vaccine adjuvant in potential vaccines to be development by Corixa. This is the first license agreement signed by BioSante for the development of CAP as a vaccine adjuvant. Under the license agreement, Corixa has agreed to pay us milestone payments upon the achievement by Corixa of certain milestones plus royalty payments on sales by Corixa if and when vaccines are approved using Bio-Vant and sold on a commercial basis. If Corixa sub-licenses vaccines that include Bio-Vant, we will share in milestone payments and royalties received by Corixa. The license agreement covers access to Bio-Vant for a variety of cancer, infectious and auto immune disease vaccines.

Drug delivery systems. The third field of use in which we are exploring applying our CAP technology involves creating novel and improved forms of delivery of drugs, including proteins (*e.g.*, insulin). The attachment of drugs to CAP may enhance their effects in the body or enable the addition of further protective coatings to permit oral, delayed-release and mucosal (through mucous membranes) applications. Currently, insulin is given by frequent, inconvenient and often painful injections. However, several companies are in the process of developing and testing products that will deliver insulin orally or through inhalation. We believe we may have successfully created a formulation for the inhaled delivery of insulin, which we call Bio-Air. We are in the process of contacting and meeting the insulin manufacturers and companies with devices for inhalation of drugs to pursue collaborations for this development. Furthermore, we have shown pre-clinical efficacy in the oral delivery of insulin in diabetic mouse models. In the oral insulin mouse models, our product, which we call CAP-Oral, has shown an 80% reduction of glucose levels for 12 hours versus 20-30% glucose reduction for five hours for free insulin. Our research and development efforts in this area are ongoing.

Transgenic Milk Purification. The fourth field of use in which we are exploring applying our CAP technology is in the purification of the milk of transgenic animals in which protein drugs are grown. This is achieved by selectively isolating biologically active therapeutic proteins

from the transgenic milk. This method uses our CAP technology to recover greater than 90% of drug protein from the milk in a way that may require less downstream processing and may produce higher overall yields at lower cost than currently used methods. Our method dissolves casein clusters, thereby freeing the drug proteins, and then reforms the casein clusters using CAP as the core. Caseins are then removed from the milk, leaving high concentrations of the drug protein in the remaining crystal clear whey fraction.

Sales and Marketing

We currently have very limited sales and marketing personnel to sell on a commercial basis any of our proposed products. If and when we are ready to commercially launch a product, we will either contract with or hire qualified sales and marketing personnel or seek a joint marketing partner to assist us with this function.

Research and Product Development

We expect to spend a significant amount of our financial resources on research and development activities. We spent approximately $1,632,000 for the six month period ended June 30, 2002, $2,142,000 in the year ended 2001 and $1,888,000 in the year ended 2000 on research and development activities. Since we are not yet engaged in the commercial distribution of any products and we have no revenues from the sale of our products, these research and development costs must be financed by us. We estimate that we are currently spending approximately $300,000 to $400,000 per month on research and development activities. These expenditures, however, may fluctuate from quarter-to-quarter and year-to-year depending upon the resources available and our development schedule. Results of preclinical studies, clinical trials, regulatory decisions and competitive developments may significantly influence the amount of our research and development expenditures. In addition, we expect that our spending on product development will increase if we are successful at in-licensing or otherwise acquiring other late-stage development products.

Manufacturing

We currently do not have any facilities suitable for manufacturing on a commercial scale basis any of our proposed products nor do we have any experience in volume manufacturing. We will either find our own manufacturing facilities, hire additional personnel with manufacturing experience and comply with the extensive Good Manufacturing Practices, or GMP, regulations of the FDA and other regulations applicable to such a facility or we will more likely rely upon third-party manufacturers to manufacture our proposed products in accordance with these regulations.

In September 1999, we entered into an arrangement with the University of Iowa to manufacture our CAP nanoparticles for use in our Phase I human clinical trial. Under the arrangement, the University of Iowa manufactured both a trial batch of our CAP nanoparticles and a clinical batch which was used in the clinical trial.

Currently, our gel hormone products are manufactured through an exclusive agreement with Antares Pharma, Inc.

Patents, Licenses and Proprietary Rights

Our success depends and will continue to depend in part upon our ability to maintain our exclusive licenses, to maintain patent protection for our products and processes, to preserve our proprietary information and trade secrets and to operate without infringing the proprietary rights of third parties. Our policy is to attempt to protect our technology by, among other things, filing patent applications or obtaining license rights for technology that we consider important to the development of our business.

Antares Pharma, Inc. In June 2000, we entered into a license agreement with Antares Pharma, Inc. pursuant to which Antares has granted us an exclusive license to four proposed hormone replacement products for the treatment of testosterone deficiency in men and women and estrogen deficiency in women, including rights to sublicense the hormone replacement technology, in order to develop and market the hormone replacement technology in certain territories. Antares has an issued patent for these technologies in the United States and has filed patent applications for this licensed technology in several foreign jurisdictions, including Argentina, Australia, Canada, Europe, Italy, Japan, Korea, New Zealand, South Africa, and Taiwan.

In a series of amendments executed during 2001 between BioSante and Antares, BioSante returned to Antares the license rights to one of the four previously licensed hormone products, namely the estradiol patch, in all countries of the licensed territory. Additionally, BioSante returned to Antares the license rights to the single entity estrogen and testosterone gel products in Malaysia and Australia. In exchange for the return to Antares of the estradiol patch in all the countries and the single entity estradiol and testosterone gel products in Malaysia and Australia,

Antares granted BioSante a credit for approximately $600,000 of manufacturing and formulation services and a license for a transdermal hormone replacement gel combination of testosterone and estradiol. In August 2002, BioSante and Antares further amended the license agreement to clarify interpretations of the license agreement, including products covered by the license agreement, and to terminate the Supply Agreement with Antares.

The license agreement with Antares required us to pay a $1,000,000 up-front license fee to Antares, which we paid in June 2000. Also pursuant to the terms of the Antares license agreement, we expect to:

- pay royalties to Antares based on a percentage of the net sales of any products we sell incorporating the licensed technology;
- accelerate the human clinical development of the hormone product portfolio, including:
  - testing proposed products;
  - conducting clinical trials;
  - obtaining government approvals;
  - introducing products incorporating the licensed technology into the market; and
- enter into sub-license arrangements or agreements with other entities regarding development and commercialization of the technology covered by the license.

University of California. In June 1997, we entered into a licensing agreement with the Regents of the University of California, which has subsequently been amended, pursuant to which the University has granted us an exclusive license to nine United States patents owned by the University, including rights to sublicense such patents, in fields of use initially pertaining to: (1) vaccine adjuvants; (2) vaccine constructs or combinations for use in immunization against herpes virus; (3) drug delivery systems; and (4) red blood cell surrogates. The University of California has filed patent applications for this licensed technology in several foreign jurisdictions, including Canada, Europe and Japan.

The license agreement with the University of California requires us to undertake various obligations, including:

- payment of royalties to the University based on a percentage of the net sales of any products we sell incorporating the licensed technology;
- payment of minimum annual royalties on February 28 of each year beginning in the year 2004 to be credited against earned royalties, for the life of the agreement;
- maintaining an annual minimum amount of available capital for development and commercialization of products incorporating the licensed technology until a product is introduced to the market;
- payment of the costs of patent prosecution and maintenance of the patents included in the agreement, which amounted to $11,358 in fiscal 2001;
- meeting performance milestones relating to:

hiring or contracting with personnel to perform research and development, regulatory and other activities relating to the commercial launch of a proposed product;

testing proposed products;

conducting clinical trials;

obtaining government approvals;

introducing products incorporating the licensed technology into the market; and

entering into partnership or alliance arrangements or agreements with other entities regarding commercialization of the technology covered by the license.

The license agreement further provides that we have the right to abandon any project in any field of use without abandoning our license to pursue other projects in that or other fields of use covered by the agreement. In May 1999, we notified the University that we would not pursue the red blood cell surrogate use because we did not believe it will be proven an effective use of CAP. In October 1999, we signed an amendment to our license agreement with the University, which removed the red-blood cell surrogate use from the agreement. In addition, under the terms of the amendment, the University agreed to make other changes we suggested to the license agreement, including delaying minimum royalty payments until 2004 and limiting the University's rights to terminate the agreement in cases where we do not perform under the agreement. If we violate or fail to perform any term or covenant of the license agreement and fail to cure this default within 60 days after written notice from the University, the University may terminate some projects included in the agreement. In May 2001, we signed a second amendment to our license agreement with the University to amend certain provisions of the license agreement for sublicensing arrangements with third parties.

Patents and patent applications. We own one United States patent and no foreign patents. In June 1999, we filed a patent for our advanced method of selectively isolating biologically active therapeutic proteins from transgenic milk. This patent was issued in February 2001. In February 2000, we filed a patent application with the U.S. Patent and Trademark Office relating to our development

work with vaccine adjuvants, conventional DNA and RNA vaccines and drug delivery, including aerosol delivery into the lungs. In addition, there are two other patent applications pending for products in development.

Trademarks and trademark applications. We have filed trademark applications in the U. S. for the mark BIOSANTE for vaccines and vaccine adjuvants and for our proposed hormone replacement products. Both applications have been allowed for registration and will register upon submission of proof of use. We have also filed U.S. trademark applications and received Notices of Allowance for the marks BIOVANT, BIOAIR, NANOVANT and LIBIGEL. Two other U. S. trademark applications are pending for BIO-E-GEL and BIO-T-GEL for products in development. The BIOSANTE mark is registered in the European Union and Israel, and BIO-E-GEL and BIO-T-GEL are registered in Mexico. In addition, there are 17 other applications pending in the European Union and other countries for marks including the BIOSANTE mark. We do not have any other registered trademarks.

Confidentiality and assignment of inventions agreements. We require our employees, consultants and advisors having access to our confidential information to execute confidentiality agreements upon commencement of their employment or consulting relationships with us. These agreements generally provide that all confidential information we develop or make known to the individual during the course of the individual's employment or consulting relationship with us must be kept confidential by the individual and not disclosed to any third parties. We also require all of our employees and consultants who perform research and development for us to execute agreements that generally provide that all inventions conceived by these individuals will be our property.

Competition

There is intense competition in the biopharmaceutical industry, including in the hormone replacement therapy market, the market for prevention and/or treatment of the same infectious diseases we target and in the acquisition of products in the late-stage development phase or already on the market. Potential competitors in the United States are numerous and include major pharmaceutical and specialized biotechnology companies, universities and other institutions. In general, competition in the pharmaceutical industry can be divided into four categories: (1) corporations with large research and developmental departments that develop and market products in many therapeutic areas; (2) companies that have moderate research and development capabilities and focus their product strategy on a small number of therapeutic areas; (3) small companies with limited development capabilities and only a few product offerings; and (4) university and other research institutions.

All of our competitors in categories (1) and (2) and some of our competitors in category (3) have longer operating histories, greater name recognition, substantially greater financial resources and larger research and development staffs than we do, as well as substantially greater experience than us in developing products, obtaining regulatory approvals, and manufacturing and marketing pharmaceutical products.

A significant amount of research in the field is being carried out at academic and government institutions. These institutions are becoming increasingly aware of the commercial value of their findings and are becoming more aggressive in pursuing patent protection and negotiating licensing arrangements to collect royalties for use of technology that they have developed.

We expect our products, if and when approved for sale, to compete primarily on the basis of product efficacy, safety, patient convenience, reliability and patent position. In addition, the first product to reach the market in a therapeutic or preventative area is often at a significant competitive advantage relative to later entrants in the market.

We are aware of certain programs and products under development by others which may compete with our proposed hormone replacement products and products we may develop that incorporate our

CAP technology. Several competing companies, including Wyeth-Ayerst Pharmaceuticals, Novartis AG, Solvay Pharmaceuticals, Inc., Noven Pharmaceuticals, Inc. and Berlex Laboratories, Inc., dominate the international hormone replacement industry. The international vaccine industry is dominated by three companies: GlaxoSmithKline, Aventis (through its subsidiaries, including Institut Merieux International, Pasteur Merieux Serums et Vaccins, Connaught Laboratories Limited and Connaught Laboratories, Inc.) and Merck & Co., Inc.

There are several firms currently marketing or developing transdermal hormone replacement products. They include The Procter & Gamble Company, Noven Pharmaceuticals, Inc., Novavax, Inc., Cellegy Pharmaceuticals, Inc., Auxilium A2, Inc., Watson Pharmaceuticals Inc. and Solvay Pharmaceuticals, Inc.

With regard to our CAP technology, the larger, better known pharmaceutical companies have generally focused on a traditional synthetic drug approach, although some have substantial expertise in biotechnology. During the last decade, however, significant research activity in the biotechnology industry has been completed by smaller research and development companies, like us, formed to pursue new technologies. Competitive or comparable companies to us include Corixa Corporation, generally regarded as a leader in vaccine adjuvant development, ID Biomedical Corporation and Antex Biologicals Inc., which both develop sub-unit vaccines from mycobacteria and other organisms.

Governmental Regulation

Pharmaceutical products intended for therapeutic use in humans are governed by extensive FDA regulations in the United States and by comparable regulations in foreign countries. Any products developed by us will require FDA approvals in the United States and comparable approvals in foreign markets before they can be marketed. The process of seeking and obtaining FDA approval for a previously unapproved new human pharmaceutical product generally requires a number of years and involves the expenditure of substantial resources.

Following drug discovery, the steps required before a drug product may be marketed in the United States include:

- preclinical laboratory and animal tests;
- the submission to the FDA of an investigational new drug application, commonly known as an IND application;

clinical and other studies to assess safety and parameters of use;

adequate and well-controlled clinical trials to establish the safety and effectiveness of the drug product;

the submission to the FDA of a new drug application, commonly known as an NDA; and

FDA approval of the NDA prior to any commercial sale or shipment of the product.

Typically, preclinical studies are conducted in the laboratory and in animals to gain preliminary information on a proposed product's uses and physiological effects and harmful effects, if any, and to identify any potential safety problems that would preclude testing in humans. The results of these studies, together with the general investigative plan, protocols for specific human studies and other information, are submitted to the FDA as part of the IND application. The FDA regulations do not, by their terms, require FDA approval of an IND. Rather, they allow a clinical investigation to commence if the FDA does not notify the sponsor to the contrary within 30 days of receipt of the IND. As a practical matter, however, FDA approval is often sought before a company commences clinical investigations. That approval may come within 30 days of IND receipt but may involve substantial delays if the FDA requests additional information.

The initial phase of clinical testing, which is known as Phase I, is conducted to evaluate the metabolism, uses and physiological effects of the experimental product in humans, the side effects associated with increasing doses, and, if possible, to gain early evidence of possible effectiveness. Phase I studies can also evaluate various routes, dosages and schedules of product administration. These studies generally involve a small number of healthy volunteer subjects, but may be conducted in people with the disease the product is intended to treat. The total number of subjects is generally in the range of 20 to 80. A demonstration of therapeutic benefit is not required in order to complete Phase I trials successfully. If acceptable product safety is demonstrated, Phase II trials may be initiated.

Phase II trials are designed to evaluate the effectiveness of the product in the treatment of a given disease and involve people with the disease under study. These trials often are well controlled, closely monitored studies involving a relatively small number of subjects, usually no more than several hundred. The optimal routes, dosages and schedules of administration are determined in these studies. If Phase II trials are completed successfully, Phase III trials are often commenced, although Phase III trials are not always required.

Phase III trials are expanded, controlled trials that are performed after preliminary evidence of the effectiveness of the experimental product has been obtained. These trials are intended to gather the additional information about safety and effectiveness that is needed to evaluate the overall risk/benefit relationship of the experimental product and provide the substantial evidence of effectiveness and the evidence of safety necessary for product approval. Phase III trials usually include from several hundred to several thousand subjects.

A clinical trial may combine the elements of more than one Phase and typically two or more Phase III studies are required. A company's designation of a clinical trial as being of a particular Phase is not necessarily indicative that this trial will be sufficient to satisfy the FDA requirements of that Phase because this determination cannot be made until the protocol and data have been submitted to and reviewed by the FDA. In addition, a clinical trial may contain elements of more than one Phase notwithstanding the designation of the trial as being of a particular Phase. The FDA closely monitors the progress of the phases of clinical testing and may, at its discretion, re-evaluate, alter, suspend or terminate the testing based on the data accumulated and its assessment of the risk/benefit ratio to patients. It is not possible to estimate with any certainty the time required to complete Phase I, II and III studies with respect to a given product.

Upon the successful completion of clinical testing, an NDA is submitted to the FDA for approval. This application requires detailed data on the results of preclinical testing, clinical testing and the composition of the product, specimen labeling to be used with the drug, information on manufacturing methods and samples of the product. The FDA typically takes from six to 18 months to review an NDA after it has been accepted for filing. Following its review of an NDA, the FDA invariably raises questions or requests additional information. The NDA approval process can, accordingly, be very lengthy. Further, there is no assurance that the FDA will ultimately approve an NDA. If the FDA approves that NDA, the new product may be marketed. The FDA often approves a product for marketing with a modification to the proposed label claims or requires that post-marketing surveillance, or Phase IV testing, be conducted.

All facilities and manufacturing techniques used to manufacture products for clinical use or sale in the United States must be operated in conformity with current "good manufacturing practice" regulations, commonly referred to as "GMP" regulations, which govern the production of pharmaceutical products. We currently do not have manufacturing capability. In the event we undertake any manufacturing activities or contract with a third-party manufacturer to perform our manufacturing activities, we intend to establish a quality control and quality assurance

program to ensure that our products are manufactured in accordance with the GMP regulations and any other applicable regulations.

Products marketed outside of the United States are subject to regulatory approval requirements similar to those in the United States, although the requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary widely from country to country. No action can be taken to market any product in a country until an appropriate application has been approved by the regulatory authorities in that country. The current approval process varies from country to country, and the time spent in gaining approval varies from that required for FDA approval. In certain European countries, the sales price of a product must also be approved. The pricing review period often begins after market approval is granted. We intend to seek and utilize foreign partners to apply for foreign approvals of our products.

Employees

We had twelve full-time employees as of June 30, 2002, including nine in research and development and three in management or administrative positions. None of our employees is covered by a collective bargaining agreement. We believe we have an excellent relationship with our employees.

Properties

Our principal executive office is located in Lincolnshire, Illinois. In September 2001, we entered into a new lease agreement for approximately 4,034 square feet of office space for approximately $6,200 per month, which lease expires in December 2003. Our CAP research and development operations are located in Smyrna, Georgia where we lease approximately 11,840 square feet of laboratory space for approximately $5,400 per month. This lease expires in October 2003. Management of our company considers our leased properties suitable and adequate for our current and immediately foreseeable needs.

Legal Proceedings

We are not a party to any material, threatened or pending legal proceedings.

MANAGEMENT

Executive Officers, Directors and Key Employees

Set forth below is information concerning our executive officers, directors and key employees, including their age, as of August 13, 2002:

Name	Age	Title
Stephen M. Simes	50	Vice Chairman, President and Chief Executive Officer
Phillip B. Donenberg	42	Chief Financial Officer, Treasurer and Secretary
Leah M. Lehman, Ph.D.	39	Vice President, Clinical Development
Steven J. Bell, Ph.D.	42	Vice President, Research and Pre-Clinical Development
Louis W. Sullivan, M.D.(1)(2)(3)	68	Chairman of the Board
Victor Morgenstern(2)	59	Director
Fred Holubow(3)	63	Director
Ross Mangano(1)	56	Director
Edward C. Rosenow III, M.D.(3)	67	Director
Angela Ho(2)	49	Director
Peter Kjaer(1)	41	Director

(1) Member of the audit and finance committee

(2)
Member of the compensation committee

(3)
Member of the scientific review committee

Stephen M. Simes has served as our Vice Chairman, President and a director of our company since January 1998 and Chief Executive Officer since March 1998. From October 1994 to January 1997, Mr. Simes was President, Chief Executive Officer and a Director of Unimed Pharmaceuticals, Inc., a company with a product focus on infectious diseases, AIDS, endocrinology and oncology. From 1989 to 1993, Mr. Simes was Chairman, President and Chief Executive Officer of Gynex Pharmaceuticals, Inc., a company which concentrated on the AIDS, endocrinology, urology and growth disorders markets. In 1993, Gynex was acquired by Bio-Technology General Corp., and from 1993 to 1994, Mr. Simes served as Senior Vice President and director of Bio-Technology General Corp. Mr. Simes' career in the pharmaceutical industry started in 1974 with G.D. Searle & Co.

Phillip B. Donenberg, CPA has served as our Chief Financial Officer, Treasurer and Secretary since July 1998. Before joining our company, Mr. Donenberg was Controller of Unimed Pharmaceuticals, Inc. from January 1995 to July 1998. Prior to Unimed Pharmaceuticals, Inc., Mr. Donenberg held similar positions with other pharmaceutical companies, including Gynex Pharmaceuticals, Inc., Molecular Geriatrics Corporation and Xtramedics, Inc.

Leah M. Lehman, Ph.D. has served as our Vice President, Clinical Development since January 2001. Prior to joining our company, Dr. Lehman was Director of Clinical Research with Scientific Research Development Corp. from April 1995 to December 2000. From 1993 to 1995, Dr. Lehman was a clinical statistician at Abbott Laboratories.

Steven J. Bell, Ph.D. has served as our Vice President, Research and Pre-Clinical Development since October 2000 and served as a Director of Research and Development of BioSante from July 1997 to October 2000. Prior to joining our company, Dr. Bell held various positions with Boehringer Mannheim, Hoffman-LaRoche, The Upjohn Company and Boehringer Ingelheim.

The Honorable Louis W. Sullivan, M.D. has been our Chairman of the Board of Directors since March 1998 and has been a director of our company since its formation. Dr. Sullivan served as Secretary of Health and Human Services in the cabinet of President George Bush from 1989 to 1993. Since retiring from the Bush Administration, Dr. Sullivan is currently President Emeritus of the Morehouse School of Medicine in Atlanta, Georgia. He had previously served as President and Dean of the School from 1981 to 1985 and President from 1985 to 1989 and from 1993 to 2002. Since 1993, Dr. Sullivan has served and continues to serve on the Boards of several large U.S. corporations, including 3M Corp., Bristol-Myers Squibb Company, Cigna Corporation, Georgia Pacific Corp. and Household International Inc.

Victor Morgenstern was elected a director of our company in July 1999. Mr. Morgenstern has more than 32 years of investment experience and is the Chairman of the Board of Trustees of The Oakmark Funds, an open-end registered investment company and serves as managing director of Resolute Partners L.P. He is a trustee of the Illinois Institute of Technology.

Fred Holubow was elected a director of our company in July 1999. Mr. Holubow has been a Vice President of Pegasus Associates since he founded Pegasus in 1982. Pegasus Associates is currently an operating division of William Harris Investors, a registered investment advisory firm. He specializes in analyzing and investing in pharmaceutical and biotechnology companies. Mr. Holubow has served on the Boards for Bio-Technology General Corp., ThermoRetec Corporation, Gynex Pharmaceuticals, Inc., Unimed Pharmaceuticals, Inc. and Gynex Pharmaceuticals, Inc.

Ross Mangano was elected a director of our company in July 1999. Mr. Mangano has been the President and a director of Oliver Estate, Inc., a management company specializing in investments in public and private companies since 1971. He is the Chairman of Cerprobe Corporation, and serves as a director for Blue Chip Casino, Inc., Orchard Software Corporation, and U.S. RealTel Inc.

Edward C. Rosenow, III, M.D. has been a director of our company since November 1997. Dr. Rosenow is a Master Fellow of the American College of Physicians as well as Master Fellow of the American College of Chest Physicians. Dr. Rosenow was the Arthur M. and Gladys D. Gray Professor of Medicine at the Mayo Clinic from 1988 until his recent retirement. Beginning with his residency in 1960, Dr. Rosenow has

worked at the Mayo Clinic in many professional capacities including as a Consultant in Internal Medicine (Thoracic Diseases) from 1966 to 1996, an Assistant Professor, Associate Professor and Professor of Medicine at the Mayo Clinic Medical School, President of the Mayo Clinic Staff in 1986, and Chair of the Division of Pulmonary and Critical Care Medicine from 1987 to 1994. Dr. Rosenow has also served as a consultant to NASA, space station FREEDOM at the Johnson Space Center in Houston, Texas from 1989 to 1990 and as the President of the American College of Chest Physicians from 1989 to 1990. In 1998, he received the Mayo Distinguished Alumnus Award.

Angela Ho has been a director of our company since June 1998. Ms. Ho was elected to our Board of Directors as a representative of certain major investors in Hong Kong. Ms. Ho has been the Vice Chairman and Chief Managing Officer of Jet-Asia Ltd., a Hong Kong-based aircraft and management company, since April 1996. From June 1996 to June 1998, Ms. Ho was the President of Ho Galleries Ltd., a New York art gallery.

Peter Kjaer has been a director of our company since July 1999 and is a representative of certain major investors in Hong Kong. Mr. Kjaer has been President and Chief Executive Officer of Jet-Asia Ltd., a Hong Kong-based aircraft and management company, since April 1996. From April 1989 to July 1996, Mr. Kjaer was the General Manager and a director of the Gallery of Contemporary Living Ltd., a Hong Kong-based art gallery.

Board Committees

The Board of Directors has an Audit and Finance Committee, Compensation Committee and Scientific Review Committee.

Audit and Finance Committee. The Audit and Finance Committee provides assistance to the Board of Directors in satisfying its fiduciary responsibilities relating to our accounting, auditing, operating and reporting practices, and reviews our annual financial statements, the selection and work of our independent auditors and the adequacy of internal controls for compliance with corporate policies and directives. The Audit and Finance Committee consists of Mr. Kjaer, Dr. Sullivan and Mr. Mangano.

Compensation Committee. The Compensation Committee:

- reviews general programs of compensation and benefits for all of our employees;
- makes recommendations to the Board of Directors concerning matters as compensation to be paid to our officers and directors; and
- administers our stock option plan, pursuant to which stock options may be granted to our eligible employees, officers, directors and consultants.

The Compensation Committee consists of Dr. Sullivan, Mr. Morgenstern and Ms. Ho.

Scientific Review Committee. The Scientific Review Committee assists in evaluating potential new licenses or new products. The Scientific Review Committee consists of Dr. Sullivan, Mr. Holubow and Dr. Rosenow.

Director Compensation

We do not pay fees to our directors. We do, however, periodically compensate our directors through the granting of stock options. On January 1, 2001, we granted stock options to purchase 2,500 shares of common stock to each of our non-employee directors. These options have an exercise price of $6.70 per share, fully vest on January 1, 2002 and expire ten years from the date of grant. All directors are reimbursed for travel expenses for attending meetings of the Board of Directors and any Board committees.

Executive Compensation

The following table provides summary information concerning cash and non-cash compensation paid to or earned by our Chief Executive Officer and our executive officers, who received or earned cash and non-cash salary and bonus of more than $100,000, for the fiscal year ended

December 31, 2001.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation Salary ($)	Annual Compensation Bonus ($)	Long-Term Compensation Securities Underlying Options (#)	All Other Compensation ($)
Stephen M. Simes	2001	$ 291,500	$ 131,175	71,406	$ 18,388(3)
Vice Chairman, President and	2000	275,000	150,000(1)	0	29,317(3)
Chief Executive Officer	1999	248,917	125,000(2)	185,625	22,965(3)
Phillip B. Donenberg	2001	150,000	45,000	21,546	13,592(6)
Chief Financial Officer, Treasurer	2000	127,000	42,000(4)	0	13,286(6)
and Secretary	1999	110,000	33,000(5)	52,187	13,001(6)
Leah M. Lehman, Ph.D.	2001	180,000	54,000	50,000	12,450(7)
Vice President, Clinical	2000				
Development	1999				
Steven J. Bell, Ph.D.	2001	102,000	30,000	5,000	11,250(9)
Vice President, Research and	2000	91,521	26,000(8)	0	11,250(9)
Pre-Clinical Development	1999	85,313	10,000	12,500	6,500(9)
John E. Lee(10)	2001	146,407			9,338(11)
Former Vice President,	2000	70,833		50,000	81,470(11)
Commercial Development	1999				

(1) Represents a cash bonus of $75,000 and a stock bonus of 12,500 shares of common stock valued at $75,000.

(2) Represents a cash bonus of $75,000 and a stock bonus of 16,385 shares of common stock valued at $50,000.

(3) Represents an auto allowance ($12,000 in 2001, $12,000 in 2000 and $12,000 in 1999), a 401(k) matching contribution ($5,250 in 2001, $5,250 in 2000 and $5,000 in 1999) and insurance premiums and taxes associated with the premiums ($1,138 in 2001, $12,067 in 2000 and $5,965 in 1999).

(4) Represents a cash bonus of $30,000 and a stock bonus of 2,000 shares of common stock valued at $12,000.

(5) Represents a cash bonus of $25,000 and a stock bonus of 2,621 shares of common stock valued at $8,000.

(6) Represents an auto allowance ($7,200 in 2001, $7,200 in 2000 and $7,200 in 1999), a 401(k) matching contribution ($5,250 in 2001, $5,250 in 2000 and $5,000 in 1999) and insurance premiums paid and taxes associated with the premiums ($1,142 in 2001, $836 in 2000 and $801 in 1999).

(7)

Represents an auto allowance of $7,200 and a 401(k) matching contribution of $5,250.

(8)

Represents a cash bonus of $20,000 and a stock bonus of 1,000 shares of common stock valued at $6,000.

(9)

Represents an auto allowance ($6,000 in 2001, $6,000 in 2000 and $1,500 in 1999) and a 401(k) matching contribution ($5,250 in 2001, $5,250 in 2000 and $5,000 in 1999).

(10)

Mr. Lee was Vice President, Commercial Development from August 2000 to September 2001. Mr. Lee resigned as Vice President, Commercial Development on September 28, 2001.

(11)

Represents an auto allowance ($5,400 in 2001 and $3,000 in 2000), a 401(k) matching contribution ($3,938 in 2001 and $2,188 in 2000) and relocation expenses and associated taxes of $76,282 in 2000.

Option Grants in Last Fiscal Year

The following tables summarize option grants and exercises during the fiscal year ended December 31, 2001 to or by each of the executive officers named in the Summary Compensation Table on page 52 and the potential realizable value of the options held by these persons at December 31, 2001.

	Individual Grants(1)			
Name	**Number of Securities Underlying Options Granted (#)**	**Percent of Total Options Granted to Employees in Fiscal Year**	**Exercise Price Per Share**	**Expiration Date**
Stephen M. Simes	71,406(2)	46.32%	$ 4.00	4/5/11
Phillip B. Donenberg	21,546(2)	13.98%	$ 4.00	4/5/11
Leah M. Lehman, Ph.D.	50,000(3)	32.44%	$ 6.70	12/31/10
Steven J. Bell, Ph.D.	5,000(4)	3.24%	$ 6.70	12/31/10
John E. Lee				

(1)

All of the options granted to the individuals in this table were granted under our Amended and Restated 1998 Stock Option Plan.

(2)

This option vests in equal quarterly installments over three years so long as the executive officer remains employed by us at that date. To the extent not already exercisable, this option becomes immediately exercisable in full upon certain changes in control of our company and remains exercisable for the remainder of its term.

(3)

This option vests: (i) with respect to 7,460 shares on 6/30/2001 and 12/31/2001; (ii) 3,730 shares on 3/31/2002, 6/30/2002, 9/30/2002, 12/31/2002, 3/31/2003, 6/30/2003, 9/30/2003 and 12/31/2003; and (iii) 5,240 shares on 1/1/2004. To the extent not already exercisable, this option becomes immediately exercisable in full upon certain changes in control of our company and remains exercisable for the remainder of its term.

(4)

This option vests in equal annual installments over three years so long as the executive officer remains employed by us at that date. To the extend not already exercisable, this option becomes

immediately exercisable in full upon certain changes in control of our company and remains exercisable for the remainder of its term.

Aggregated Option Exercises In Last Fiscal Year and Fiscal Year-End Option Values

The following table summarizes the number and value of options held by each of the executive officers named in the Summary Compensation Table on page 52 at December 31, 2001. None of these executive officers exercised any stock options during 2001.

	Number of Securities Underlying Unexercised Options at December 31, 2001		Value of Unexercised In-the-Money Options at December 31, 2001(1)	
Name	**Exercisable**	**Unexercisable**	**Exercisable**	**Unexercisable**
Stephen M. Simes	287,725	69,305	$ 1,707,667	$ 328,536
Phillip B. Donenberg	87,337	20,396	$ 518,390	$ 95,934
Leah M. Lehman, Ph.D.	14,920	35,080	$ 26,856	$ 63,144
Steven J. Bell, Ph.D.	25,000	5,000	$ 140,625	$ 9,000
John E. Lee	50,000		$	$

(1) Value based on the difference between the fair market value of one share of our common stock at December 31, 2001 ($8.50), and the exercise price of the options ranging from $2.30 to $9.10 per share. Options are in-the-money if the market price of the shares exceeds the option exercise price.

Employment and Separation Agreements

Simes Employment Agreement

In January 1998, we entered into a letter agreement with Stephen M. Simes pursuant to which Mr. Simes serves as our Vice Chairman, President and Chief Executive Officer. The term of this agreement continues until December 31, 2003, after which time the term will be automatically extended for three additional years unless on or before October 1 immediately preceding the extension, either party gives written notice to the other of the termination of the agreement.

Mr. Simes is entitled to receive an annual performance bonus of up to 50% of his then base salary if certain performance criteria are met. If Mr. Simes is terminated without cause or upon a change in control or if he terminates his employment for good reason, all of his options will become immediately exercisable and will remain exercisable for a period of one year (for the remainder of their term in the event of a change in control), and he will be entitled to a minimum severance payment of 12 months base salary. Mr. Simes is also subject to assignment of inventions, confidentiality and non-competition provisions.

Donenberg Employment Agreement

In June 1998, we entered into a letter agreement with Phillip B. Donenberg pursuant to which Mr. Donenberg serves as our Chief Financial Officer. The term of this agreement continues until either party gives 30 days written notice to the other of the termination of the agreement.

Mr. Donenberg is entitled to receive an annual performance bonus of up to 30% of his then base salary if certain performance criteria are met. If Mr. Donenberg is terminated without cause or upon a change in control or if he terminates his employment for good reason, all of his options will become immediately exercisable and will remain exercisable for a period of one year (for the remainder of their term in the event of a change in control), and he will be entitled to a minimum severance payment of 12 months base salary. Mr. Donenberg is also subject to assignment of inventions, confidentiality and non-competition provisions.

Employment Agreements with Other Executive Officers

We have entered into employment agreements with each of our other executive officers, Leah M. Lehman, Ph.D. and Steven J. Bell, Ph.D. These agreements provide for a fixed salary which may be adjusted from time to time by the Chief Executive Officer and the Compensation Committee of the Board. In addition, BioSante may pay Dr. Lehman and Dr. Bell an annual performance bonus of up to a maximum of 30% of their then base salary. The term of each of these employment agreements is for one year and will renew automatically every year unless either party gives the other party written notice of termination at least 30 days prior to the end of the then term of the agreement. If the executive officer's employment is terminated by BioSante without cause, the officer will be entitled to a severance payment in an amount equal to his or her base salary for the shorter of (1) 12 months or (2) the date upon which the officer obtains full-time employment or a consulting position with another company. In addition, the executive officer will receive health and dental benefits from BioSante during any severance period. Dr. Lehman and Dr. Bell are also subject to assignment of inventions, confidentiality and non-competition provisions.

Separation Agreement and Mutual Release

On February 1, 2002, we entered into a separation and mutual release agreement with John E. Lee in connection with Mr. Lee's resignation as Vice President, Commercial Development and an employee of BioSante effective September 28, 2001. In connection with the separation and mutual release agreement, Mr. Lee received a severance payment of $184,166.66 on October 7, 2001 and will receive a monthly payment of $12,000 for eight months, commencing February 1, 2002 in consideration of providing marketing liaison services to BioSante during this time.

Change in Control Arrangements

Under our Amended and Restated 1998 Stock Option Plan, options granted under that plan will become fully exercisable following certain changes in control of our company, such as:

- the sale, lease, exchange or other transfer of all or substantially all of the assets of our company to a corporation that is not controlled by us;
- the approval by our stockholders of any plan or proposal for the liquidation or dissolution of our company;
- certain merger or business combination transactions;
- more than 50% of our outstanding voting shares are acquired by any person or group of persons who did not own any shares of common stock on the effective date of the plan; and
- certain changes in the composition of our Board of Directors.

Stock Option Plan

From time to time we grant options under our Amended and Restated 1998 Stock Option Plan. The option plan was approved by our Board of Directors on December 8, 1998 and approved by our stockholders on July 13, 1999. The option plan has been amended several times to increase the number of shares reserved for issuance. The option plan provides for the grant to employees, officers, directors, consultants and independent contractors of our company and our subsidiaries of options to purchase shares of common stock that qualify as "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, as well as non-statutory options that do not qualify as incentive stock options. This plan is administered by the Compensation Committee of our Board of Directors, which determines the persons who are to receive awards, as well as the type, terms and number of shares subject to each award.

We have reserved an aggregate of 1,000,000 shares of common stock for awards under the option plan. As of August 13, 2002, options to purchase an aggregate of 776,267 shares of common stock were outstanding under the option plan, of which 588,267 were fully vested, and a total of 223,733 shares of common stock remained available for grant. As of August 13, 2002, the outstanding options under the plan were held

by an aggregate of 19 individuals and were exercisable at prices ranging from $2.30 to $10.40 per share of common stock.

Incentive stock options granted under the plan may not have an exercise price less than the fair market value of the common stock on the date of the grant (or, if granted to a person holding more than 10% of our voting stock, at less than 110% of fair market value). Non-statutory stock options granted under the plans may not have an exercise price less than 85% of fair market value on the date of grant. Aside from the maximum number of shares of common stock reserved under the plans, there is no minimum or maximum number of shares that may be subject to options under the plans. However, the aggregate fair market value of the stock subject to incentive stock options granted to any optionee that are exercisable for the first time by an optionee during any calendar year may not exceed $100,000. Options generally expire when the optionee's employment or other service is terminated with us. Options generally may not be transferred, other than by will or the laws of descent and distribution, and during the lifetime of an optionee, may be exercised only by the optionee. The term of each option, which is fixed by our Board of Directors at the time of grant, except that an incentive stock option may be exercisable only for 10 years and an incentive stock option granted to a person holding more than 10% of our voting stock may be exercisable only for five years.

The option plan contains provisions under which options would become fully exercisable following certain changes in control of our company, such as (1) the sale, lease, exchange or other transfer of all or substantially all of the assets of our company to a corporation that is not controlled by us, (2) the approval by our stockholders of any plan or proposal for the liquidation or dissolution of our company, (3) certain merger or business combination transactions, (4) more than 50% of our outstanding voting shares are acquired by any person or group of persons who did not own any shares of common stock on the effective date of the plan, or (5) certain changes in the composition of our Board of Directors.

Payment of an option exercise price may be made in cash, or at the Compensation Committee's discretion, in whole or in part by tender of a broker exercise notice, a promissory note or previously acquired shares of our common stock having an aggregate fair market value on the date of exercise equal to the payment required.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Director Relationships

Messrs. Morgenstern, Holubow and Mangano were elected to our Board of Directors in July 1999 as representatives of the lead investors in our May 1999 private placement. Neither Mr. Morgenstern, Mr. Holubow nor Mr. Mangano has entered into any voting agreements with the lead investors nor does Mr. Morgenstern, Mr. Holubow or Mr. Mangano otherwise have any control over the voting of shares held by the lead investors.

Ms. Ho and Mr. Kjaer were elected to our Board of Directors as representatives of several investors located in Hong Kong. Neither Ms. Ho nor Mr. Kjaer has entered into any voting agreements with these Hong Kong investors nor does Ms. Ho or Mr. Kjaer otherwise have any control over the voting of shares held by these investors.

April 2001 Private Placement

In connection with our April 2001 private placement, we sold an aggregate of 925,000 shares of our common stock and warrants to purchase an aggregate of 462,500 shares of our common stock for

$4.00 per unit, each unit consisting of one-tenth of a share of common stock and a warrant to purchase one-twentieth of a share of our common stock, for an aggregate purchase price of $3,700,000, to accredited investors, including certain existing stockholders, directors and officers. Stephen M. Simes purchased 12,500 shares of common stock and a warrant to purchase 6,250 shares of common stock, Phillip B. Donenberg purchased 1,250 shares of common stock and a warrant to purchase 625 shares of common stock, Leah M. Lehman, Ph.D. purchased 37,500 shares of common stock and a warrant to purchase 18,750 shares of common stock, Steven J. Bell, Ph.D. purchased 375 shares of common stock and a warrant to purchase 187 shares of common stock, Victor Morgenstern, including an affiliated Trust and his wife, purchased an aggregate of 75,000 shares of common stock and warrants to purchase an aggregate of 37,500 shares of common stock and Fred Holubow purchased 12,500 shares of common stock and a warrant to purchase 6,250 shares of common stock.

Other Agreements with Affiliates

In January 2001, we entered into a consulting agreement with Scientific Research Development Corporation, a company owned and operated by Ronald B. McCright, the husband of Leah M. Lehman, Ph.D., an executive officer of BioSante. Under the agreement, Scientific Research Development Corporation provides us with database and statistical programming, database management, medical writing and project management services. In consideration for such services, we paid Scientific Research Development Corporation an aggregate of approximately $60,000 during the fiscal year ended December 31, 2001. This agreement expires on December 31, 2002.

In July 2001, Avi Ben-Abraham, M.D., a former director of BioSante, and BioSante entered into a settlement agreement with a stockholder of BioSante in connection with certain claims and disputes among the stockholder, Dr. Ben-Abraham and BioSante arising out of actions of Dr. Ben-Abraham during 1996. In exchange for a release of all claims, suits, damages and judgments among the stockholder, BioSante and Dr. Ben-Abraham, Dr. Ben-Abraham transferred 50,000 shares of his BioSante common stock to the stockholder.

SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT

The following table sets forth information known to us with respect to the beneficial ownership of each class of our capital stock as of August 13, 2002 for (1) each person known by us to beneficially own more than 5% of any class of our voting securities, (2) each of the executive officers named in the Summary Compensation Table under the heading "Management" (3) each of our directors and (4) all of our executive officers and directors as a group. Except as otherwise indicated, we believe that each of the beneficial owners of our capital stock listed below, based on information provided by these owners, has sole investment and voting power with respect to its shares, subject to community property laws where applicable.

Unless otherwise noted, each of the stockholders listed in the table possesses sole voting and investment power with respect to the shares indicated. Shares not outstanding but deemed beneficially

owned by virtue of the right of a person or member of a group to acquire them within 60 days are treated as outstanding only when determining the amount and percent owned by such person or group.

	Common Stock		Class C Special Stock		Common Stock and Common Stock Equivalents	Percent of Total Voting Power(1)
Name	Number	Percent	Number	Percent		
Stephen M. Simes(2)	394,562(3)	5.9%			394,562	5.5%
Louis W. Sullivan, M.D.(2)	15,000(4)	*	100,000	21.4%	115,000	1.7%
Edward C. Rosenow III, M.D.(2)	12,500(5)	*			12,500	*
Victor Morgenstern(2)	512,500(6)	7.9%			512,500	7.4%
Fred Holubow(2)	66,250(7)	1.0%			66,250	1.0%
Ross Mangano(2)	1,505,499(8)	22.1%			1,505,499	20.7%
Angela Ho(2)	75,000(9)	1.2%	100,000	21.4%	175,000	2.6%
Peter Kjaer(2)	10,000(10)	*			10,000	*
Phillip B. Donenberg(2)	99,865(11)	1.6%			99,865	1.5%
Leah M. Lehman, Ph.D.(2)	74,900(12)	1.2%			74,900	1.1%
Steven J. Bell, Ph.D.(2)	28,228(13)	*			28,228	*
JO & Co.	1,155,000(14)	17.2%			1,155,000	16.1%
Hans Michael Jebsen	425,000(15)	6.6%	100,000	21.4%	525,000	7.6%
King Cho Fung	370,000(16)	5.8%	62,500	13.4%	432,500	6.3%
Marcus Jebsen	175,000(17)	2.8%	50,000	10.7%	225,000	3.3%
Avi Ben-Abraham, M.D.	1,047,980(18)	16.6%			1,047,980	15.4%
All executive officers and directors as a group (11 persons)	2,794,304(19)	37.0%	200,000	42.9%	2,994,304	37.3%

* less than 1%.

(1) In calculating the percent of total voting power, the voting power of shares of our common stock and shares of our class C special stock is combined.

(2) Address: 111 Barclay Boulevard, Suite 280, Lincolnshire, Illinois 60069.

(3) Mr. Simes' beneficial ownership includes 309,427 shares of common stock issuable upon exercise of stock options and 18,750 shares of common stock issuable upon exercise of warrants.

(4) Dr. Sullivan's beneficial ownership includes 15,000 shares of common stock issuable upon exercise of a stock option.

(5) Dr. Rosenow's beneficial ownership includes 12,500 shares of common stock issuable upon exercise of stock options.

(6) Mr. Morgenstern's beneficial ownership includes: (1) 10,000 shares of common stock issuable upon exercise of a stock option, (2) 95,000 shares of common stock issuable upon exercise of warrants, (3) 32,500 shares of common stock issuable upon exercise of warrants and 80,000 shares of common stock held by Mr. Morgenstern's wife as trustee of the Morningstar Trust, as to which Mr. Morgenstern disclaims control, direction or beneficial ownership, (4) 10,000 shares of common stock issuable upon exercise of a warrant and 20,000 shares of common stock held by Mr. Morgenstern's wife, as to which Mr. Morgenstern disclaims control, direction or beneficial ownership, and (5) 25,000 shares of common stock issuable upon exercise of a warrant and 50,000 shares of common stock held by Resolute Partners L.P. Victor Morgenstern is managing director of Resolute Partners L.P.

(7) Mr. Holubow's beneficial ownership includes 18,750 shares of common stock issuable upon exercise of warrants and 10,000 shares of common stock issuable upon exercise of a stock option.

(8) Mr. Mangano's beneficial ownership includes: (1) 10,000 shares of common stock issuable upon exercise of a stock option, (2) 375,000 shares of common stock issuable upon exercise of a warrant and 780,000 shares of common stock held by JO & Co., of which Mr. Mangano is President, and (3) an aggregate of 225,000 shares of common stock and an aggregate of 112,499 shares of common stock issuable upon exercise of warrants held in various accounts, of which Mr. Mangano is an advisor and/or a trustee. Mr. Mangano has sole dispositive power over these shares. See note (14) below.

(9) Ms. Ho's beneficial ownership includes 15,000 shares of common stock issuable upon exercise of stock options.

(10) Mr. Kjaer's beneficial ownership includes 10,000 shares of common stock issuable upon exercise of a stock option.

(11) Mr. Donenberg's beneficial ownership includes 93,369 shares of common stock issuable upon exercise of stock options and 625 shares of common stock issuable upon exercise of a warrant.

(12) Dr. Lehman's beneficial ownership includes 18,650 shares of common stock issuable upon exercise of a stock option and 18,750 shares of common stock issuable upon exercise of a warrant.

(13) Dr. Bell's beneficial ownership includes 26,666 shares of common stock issuable upon exercise of stock options and 187 shares of common stock issuable upon exercise of a warrant.

(14) Includes 375,000 shares of common stock issuable upon exercise of a warrant. Ross Mangano, a director of BioSante, has sole voting power over these shares. See note (8) above. The address for JO & Co. is 112 West Jefferson Boulevard, Suite 613, South Bend,

Indiana 46634.

(15)

Mr. Jebsen's beneficial ownership includes 75,000 shares of common stock issuable upon exercise of a warrant. Mr. Jebsen's address is c/o Jebsen & Co. Ltd., 28/F Caroline Center, 28 Yun Ping Road, Causeway Bay, Hong Kong.

(16)

Mr. Fung's beneficial ownership includes 75,000 shares of common stock issuable upon exercise of a warrant. Mr. Fung's address is c/o SP 2, 15/F, 46 Lyndhurst Terrace, Central Hong Kong.

(17)

Mr. Jebsen's beneficial ownership includes 25,000 shares of common stock issuable upon exercise of a warrant. Mr. Jebsen's address is c/o Jebsen & Co. Ltd., 28/F Caroline Center, 28 Yun Ping Road, Causeway Bay, Hong Kong.

(18)

Dr. Ben-Abraham's beneficial ownership includes 5,000 shares of common stock issuable upon exercise of a stock option. Mr. Ben-Abraham's address is 22 Maskit Street, Suite MB-12550, Lumir Bldg., Herzelya Pituach, 46733, Israel.

(19)

The amount beneficially owned by all current directors and executive officers as a group includes 682,672 shares issuable upon exercise of warrants and stock options held by these individuals and 554,999 shares issuable upon exercise of warrants held by entities affiliated with these individuals. See notes (6), (8) and (14) above.

DESCRIPTION OF CAPITAL STOCK

Authorized Shares

We are authorized to issue 100,000,000 shares of common stock, $0.0001 par value per share, and 10,000,000 shares of undesignated preferred stock, $0.0001 par value per share. The following is a summary of the material terms and provisions of our capital stock. Because it is a summary, it does not include all of the information that is included in our certificate of incorporation. The text of our certificate of incorporation, which is attached as an exhibit to this registration statement, is incorporated into this section by reference.

Common Stock

We are authorized to issue 100,000,000 shares of common stock, of which 6,321,458 shares were issued and outstanding as of August 13, 2002. Each share of our common stock entitles its holder to one vote per share. Holders of our common stock are entitled to receive dividends as and when declared by our Board of Directors from time to time out of funds properly available to the payment of dividends. Subject to the liquidation rights of any outstanding preferred stock, the holders of our common stock are entitled to share pro rata in the distribution of the remaining assets of our company upon a liquidation, dissolution or winding up of our company. The holders of our common stock have no cumulative voting, preemptive, subscription, redemption or sinking fund rights.

Class C Special Stock

We are authorized to issue 4,687,684 shares of class C special stock, of which 466,602 shares were issued and outstanding as of August 13, 2002. Each share of class C special stock entitles its holder to one vote per share. Each share of our class C special stock is exchangeable, at the option of the holder, for one share of common stock, at an exchange price of $2.50 per share, subject to adjustment upon certain capitalization events. Holders of our class C special stock are not entitled to receive dividends. Holders of our class C special stock are not entitled to participate in the distribution of our assets upon any liquidation, dissolution or winding-up of our company. The holders of our class C special stock have no cumulative voting, preemptive, subscription, redemption or sinking fund rights.

Undesignated Preferred Stock

We are authorized to issue 10,000,000 shares of preferred stock, none of which are issued and outstanding. Our Board of Directors is authorized to issue one or more series of preferred stock with such rights, privileges, restrictions and conditions as our Board may determine.

The preferred stock, if issued, may be entitled to rank senior to our common stock with respect to the payment of dividends and the distributions of assets in the event of a liquidation, dissolution or winding-up of our company.

Options and Warrants

As of August 13, 2002, we had outstanding options to purchase an aggregate of 771,267 shares of common stock at a weighted average exercise price of $3.88 per share. All outstanding options provide for antidilution adjustments in the event of certain mergers, consolidations, reorganizations, recapitalizations, stock dividends, stock splits or other similar changes in our corporate structure and shares of our capital stock. We typically grant options with a ten-year term. We have outstanding warrants to purchase an aggregate of 1,643,750 shares of common stock at a weighted average exercise price of $3.70 per share with a majority of those warrants having a five-year term. The warrants provide for antidilution adjustments in the event of certain mergers, consolidations, reorganizations, recapitalizations, stock dividends, stock splits or other changes in our corporate structure of our company and, subject to certain exceptions, the issuance by our company of any securities for a purchase price of less than $4.00 per share.

Registration Rights

The holders of the common stock and warrants purchased in our April 2001 private placement are entitled to certain registration rights under the Securities Act. No later than 90 days after April 4, 2001, we were required to file a registration statement to register under the Securities Act the resale of the shares of BioSante common stock underlying the shares of common stock and warrants purchased in our April 2001 private placement. We are required to use our reasonable best efforts to cause the registration statement to become effective under the Securities Act as promptly as practicable and to use our reasonable best efforts to cause the registration statement to remain effective until the earlier

of (1) the sale of all the shares of BioSante common stock covered by this registration statement; or (2) such time as the selling stockholders named in this registration statement become eligible to resell the shares of BioSante common stock and the shares of BioSante common stock issuable upon exercise of the warrants pursuant to Rule 144(k) under the Securities Act.

The holders of the common stock and warrants purchased in our May 1999 private placement are entitled to certain registration rights under the Securities Act. If at any time after we become listed on Nasdaq, the holders of a specified amount of these registrable shares request that we file a registration statement covering the shares, we will use commercially reasonable efforts to cause these shares to be registered. We are not required to file more than two registration statements under these demand rights, or more than one registration statement in any twelve-month period. In addition, the holders of these registrable shares are entitled to have their shares included in a registration statement under the Securities Act in connection with the public offering of our securities. In any underwritten public offering, the registration rights are limited to the extent that the managing underwriter has the right to (1) limit the number of registrable shares to be included in the registration statement; (2) prohibit the sale of any of our securities other than those registered and included in the underwritten offering for a period of 180 days; and (3) require holders of registrable shares not to sell or otherwise dispose of any securities of our company (other than securities included in the registration) without the prior written consent of the underwriters for a period of up to 180 days from the effective date of such registration. These registration rights will terminate as to any registrable shares when such registrable shares are effectively registered and sold by the holder thereof or when such registrable shares are sold pursuant to Rule 144(k) or are sold pursuant to Rule 144 under the Securities Act.

In September 2001, we filed a registration statement on Form SB-2 to register, under the Securities Act, the resale of the shares of BioSante common stock underlying the shares of common stock and warrants purchased in our April 2001 private placement and the shares of common stock purchased in our May 1999 private placement. This registration statement became effective on September 19, 2001. In May 2002, we filed a post-effective amendment to our registration statement on Form SB-2.

Anti-Takeover Provisions of Delaware Law and Our Certificate of Incorporation

We are subject to Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years following the date the person became an interested stockholder, unless the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Generally, a business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an interested stockholder is a person who, together with affiliates and associates, owns or, in the case of affiliates or associates of the corporation, within three years prior to the determination of interested stockholder status, did own 15% or more of a corporation's voting stock. The existence of this provision could have anti-takeover effects with respect to transactions not approved in advance by the Board of Directors, such as discouraging takeover attempts that might result in a premium over the market price of

the common stock.

There are several provisions of our amended and restated certificate of incorporation that may have the effect of deterring or discouraging hostile takeovers or delaying changes in control of our company. In addition, stockholders are not entitled to cumulative voting in the election of directors. Our certificate of incorporation has authorized undesignated preferred stock which could make it possible for our Board of Directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to effect a change of control of our company.

Limitation on Liability of Directors and Indemnification

Our certificate of incorporation limits our directors' liability to the fullest extent permitted under Delaware's corporate law. Specifically, our directors are not liable to us or our stockholders for monetary damages for any breach of fiduciary duty by a director, except for liability for:

any breach of the director's duty of loyalty to us or our stockholders;

acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

dividends or other distributions of our corporate assets that are in contravention of restrictions in Delaware law, our amended and restated certificate of incorporation, bylaws or any agreement to which we are a party; and

any transaction from which a director derives an improper personal benefit.

This provision generally does not limit liability under federal or state securities laws.

Delaware law, and our certificate of incorporation, provide that we will, in some situations, indemnify any person made or threatened to be made a party to a proceeding by reason of that person's former or present official capacity with our company against judgments, penalties, fines, settlements and reasonable expenses including reasonable attorney's fees. Any person is also entitled, subject to some limitations, to payment or reimbursement of reasonable expenses in advance of the final disposition of the proceeding.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of BioSante pursuant to the provisions described above, or otherwise, BioSante has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Transfer Agents and Registrars

The transfer agent and registrar for our common stock is Computershare Trust Company of Canada, formerly Montreal Trust of Canada.

LEGAL MATTERS

The validity of the shares of common stock offered hereby has been passed upon for BioSante by Oppenheimer Wolff & Donnelly LLP, Minneapolis, Minnesota.

EXPERTS

The financial statements as of December 31, 2001 and 2000 and for each of the three years in the period ended December 31, 2001, included in this prospectus, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein (which report expresses an unqualified opinion and includes an explanatory paragraph referring to the development stage nature of BioSante). This report has been included in reliance upon the report of such firm given upon its authority as an expert in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file reports, proxy statements and other information with the Securities and Exchange Commission. Copies of our reports, proxy statements and other information may be inspected and copied at the following public reference facilities maintained by the SEC:

Judiciary Plaza	175 W. Jackson Blvd.	233 Broadway
450 Fifth Street, N.W.	Suite 900	Woolworth Building
Washington, D.C. 20549	Chicago, Illinois 60604	New York, New York 10279

Copies of these materials also can be obtained by mail at prescribed rates from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549 or by calling the SEC at 1-800-SEC-0330. The SEC maintains a web site that contains reports, proxy statements and other information regarding us. The address of the SEC web site is *http://www.sec.gov*. The Securities Act file number for our SEC filings is 0-28637.

We have filed a registration statement on Form SB-2, as amended, with the SEC for the common stock offered under this prospectus. This prospectus does not include all of the information contained in the registration statement. You should refer to the registration statement and its exhibits for additional information that is not contained in this prospectus. Whenever we make reference in this prospectus to any of our contracts, agreements or other documents, you should refer to the exhibits attached to the registration statement for copies of the actual contract, agreement or other document.

We also file annual audited and interim unaudited financial statements, proxy statements and other information with the Ontario, Alberta and British Columbia Securities Commissions. Copies of these documents that are filed through the System for Electronic Document Analysis and Retrieval ("SEDAR") of the Canadian Securities Administrators are available at its web site *http://www.sedar.com*.

This prospectus does not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this prospectus or the solicitation of a proxy, in any jurisdiction to or from any person to whom or from whom it is unlawful to make an offer, solicitation of an offer or proxy solicitation in that jurisdiction.

BIOSANTE PHARMACEUTICALS, INC.

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PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

BIOSANTE PHARMACEUTICALS, INC.
(a development stage company)
Balance Sheets
June 30, 2002 and December 31, 2001 (Unaudited)

	June 30, 2002	December 31, 2001
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 1,704,495**	**$ 4,502,387**
Prepaid expenses and other sundry assets	**72,213**	**91,859**
	1,776,708	**4,594,246**
PROPERTY AND EQUIPMENT, NET	**365,473**	**384,996**
	$ 2,142,181	**$ 4,979,242**
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	**$ 287,236**	**$ 90,653**
Accrued compensation	**98,982**	**379,346**
Other accrued expenses	**61,277**	**24,444**
Due to Antares	**288,200**	**433,319**

	June 30, 2002	December 31, 2001
	735,695	927,762
COMMITMENTS		
STOCKHOLDERS' EQUITY		
Capital stock		
Issued and Outstanding		
466,602 (2001 466,602) Class C special stock	467	467
6,321,458 (2001 6,321,880) Common stock	22,255,342	22,302,046
	22,255,809	22,302,513
Deficit accumulated during the development stage	(20,849,323)	(18,251,033)
	1,406,486	4,051,480
	$ 2,142,181	$ 4,979,242

See accompanying notes to the financial statements.

BIOSANTE PHARMACEUTICALS, INC.
(a development stage company)
Statements of Operations
Three and six months ended June 30, 2002 and 2001 and the cumulative period from August 29, 1996 (date of incorporation) to June 30, 2002
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		Cumulative period from August 29, 1996 (date of incorporation) to June 30, 2002
	2002	2001	2002	2001	
REVENUE					
Licensing income	$	$	$	$	$ 1,747,386
Interest income	6,712	50,843	29,971	82,952	950,923
	6,712	50,843	29,971	82,952	2,698,309
EXPENSES					
Research and development	987,528	387,236	1,631,922	620,225	8,058,238
General and administration	491,851	497,972	950,980	963,030	9,059,877
Depreciation and amortization	22,697	24,548	45,359	48,510	519,753
Loss on disposal of capital assets					157,545
Costs of acquisition of Structured Biologicals Inc.					375,219
Purchased in-process research and development					5,377,000

					Cumulative period from August 29, 1996 (date of incorporation) to June 30, 2002
	1,502,076	909,756	2,628,261	1,631,765	28,547,632
NET LOSS	$ (1,495,364)	$ (858,913)	$ (2,598,290)	$ (1,548,813)	$ (20,849,323)
BASIC AND DILUTED NET LOSS PER SHARE	$ (0.22)	$ (0.13)	$ (0.38)	$ (0.25)	
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	6,788,343	6,648,403	6,788,412	6,208,676	

See accompanying notes to the financial statements.

BIOSANTE PHARMACEUTICALS, INC.
(a development stage company)
Statements of Cash Flows
Six months ended June 30, 2002 and 2001 and the cumulative period from August 29, 1996 (date of incorporation) to June 30, 2002
(Unaudited)

	Six Months Ended June 30,		Cumulative period from August 29, 1996 (date of incorporation) to June 30, 2002
	2002	2001	
CASH FLOWS USED IN OPERATING ACTIVITIES			
Net loss	$ (2,598,290)	$ (1,548,813)	$ (20,849,323)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation and amortization	45,359	48,510	519,753
Amortization of deferred unearned compensation		18,000	42,290
Repurchase of licensing rights			125,000
Employee compensation paid in shares of common stock			151,000
Purchased in-process research and development			5,377,000
Loss on disposal of equipment			157,545
Changes in other assets and liabilities affecting cash flows from operations			
Prepaid expenses and other sundry assets	19,646	1,078	(69,245)
Accounts payable and accrued expenses	(46,948)	(538)	(292,692)
Due to licensors	(145,119)		288,200
Due from SBI			(128,328)
Net cash used in operating activities	(2,725,352)	(1,481,763)	(14,678,800)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of capital assets	(25,836)	(22,546)	(1,008,661)

			Cumulative period from August 29, 1996 (date of incorporation) to June 30, 2002
CASH FLOWS (USED IN) PROVIDED BY FINANCING ACTIVITIES			
Issuance of convertible debenture			**500,000**
Proceeds from sales or conversion of shares	**(46,704)**	**3,674,612**	**16,891,956**
Net cash (used in) provided by financing activities	**(46,704)**	**3,674,612**	**17,391,956**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(2,797,892)**	**2,170,303**	**1,704,495**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**4,502,387**	**2,611,755**	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 1,704,495**	**$ 4,782,058**	**$ 1,704,495**
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION			
Acquisition of SBI			
Purchased in-process research and development	**$**	**$**	**$ 5,377,000**
Other net liabilities assumed			**(831,437)**
			4,545,563
Less: common stock issued therefor			**4,545,563**
	$	**$**	**$**
Income tax paid	**$**	**$**	**$**
Interest paid	**$**	**$**	**$**

See accompanying notes to the financial statements.

BIOSANTE PHARMACEUTICALS, INC.

Notes to Financial Statements (Unaudited)
June 30, 2002

1. INTERIM FINANCIAL INFORMATION

In the opinion of management, the accompanying unaudited financial statements contain all necessary adjustments, which are of a normal recurring nature, to present fairly the financial position of BioSante Pharmaceuticals, Inc. as of June 30, 2002, the results of operations for the three and six months ended June 30, 2002 and 2001 and for the cumulative period from August 29, 1996 (date of incorporation) to June 30, 2002, and the cash flows for the six months ended June 30, 2002 and 2001 and for the cumulative period from August 29, 1996 (date of incorporation) to June 30, 2002, in conformity with accounting principles generally accepted in the United States of America. Operating results for the three and six month periods ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 4 to the financial statements, the Company's cash resources are limited and additional capital will need to be raised in the near future. The Company's plans in regard to this situation are also described in Note 4. The financial statements do not include any adjustments that might result from the success or failure of management to raise additional capital in the near future.

On May 31, 2002, BioSante effected a one-for-ten reverse split of our issued and outstanding shares of common stock and class C stock. All share and per share stock numbers in this Form 10-QSB have been adjusted to reflect the reverse stock split.

These unaudited interim financial statements should be read in conjunction with the financial statements and related notes contained in BioSante's Annual Report on Form 10-KSB for the year ended December 31, 2001.

2. BASIC AND DILUTED NET LOSS PER SHARE

The basic and diluted net loss per share is computed based on the weighted average number of shares of common stock and class C stock outstanding, all being considered as equivalent of one another. Basic net loss per share is computed by dividing the net loss by the weighted average number of shares outstanding for the reporting period. Diluted net loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Because BioSante has incurred net losses from operations in each of the periods presented, there is generally no difference between basic and diluted net loss per share amounts. The computation of diluted net loss per share does not include options and warrants with dilutive potential that would have an antidilutive effect on net loss per share.

3. LICENSE AND SUPPLY AGREEMENTS

On June 13, 2000, BioSante entered into a license agreement and a supply agreement with Antares Pharma Inc. (the entity that resulted from the merger of Permatec Technologie, AG with Medi-Ject Corporation), covering four hormone products for the treatment of hormone deficiencies in men and women. The license agreement requires BioSante to pay Antares a percentage of future net sales, if any, as a royalty. Under the terms of the license agreement, BioSante is also obligated to make milestone payments upon the occurrence of certain future events. Under terms of the supply agreement, Antares has agreed to manufacture or have manufactured and sell exclusively to BioSante,

and BioSante has agreed to purchase exclusively from Antares, BioSante's total requirements for the products covered under the license agreement between the two parties.

As allowed by the license agreement with Antares, on September 1, 2000, BioSante entered into a sub-license agreement with Paladin Labs Inc. ("Paladin") to market the female hormone replacement products in Canada. In exchange for the sub-license, Paladin agreed to make an initial investment in BioSante, make future milestone payments and pay royalties on sales of the products in Canada. The milestone payments will be in the form of a series of equity investments by Paladin in BioSante's common stock at a 10% premium to the market price of BioSante's common stock at the date of the equity investment.

In April 2002, BioSante exclusively in-licensed from Wake Forest University and Cedars-Sinai Medical Center three issued U.S. Patents claiming triple hormone therapy (the combination use of estrogen plus progestogen plus androgen, *e.g.* testosterone) and an option for triple hormone contraception. The financial terms of the license include an upfront payment by BioSante of $100,000, regulatory milestones, maintenance payments and royalty payments by BioSante if the product gets approved and subsequently marketed.

4. FINANCING

In April 2001, BioSante closed a private placement raising $3.7 million upon the issuance of units, which consisted of an aggregate of 925,000 shares of common stock and five-year warrants to purchase an aggregate of 462,500 shares of common stock. The price of each unit, which consisted of one share of common stock plus a warrant to purchase one half-share of common stock was $4.00, the approximate market price of BioSante's common stock at closing. The exercise price of the warrant is $5.00 per full share. Transaction costs related to the private placement have been netted against the proceeds.

In May 2002, BioSante filed a registration statement on Form SB-2 with the Securities and Exchange Commission. The filing relates to a proposed best-efforts, self underwritten offering by BioSante of up to $10 million in shares of common stock. The per share public offering price will be determined shortly after the registration statement is declared effective.

BioSante will need to raise additional capital in the near future to fund operations and may be unable to raise such funds when needed and on acceptable terms. BioSante currently does not have sufficient resources to complete the commercialization of any of its proposed products.

Therefore, the Company needs to raise additional capital to fund operations sometime in the near future. BioSante cannot be certain that any financing will be available when needed. If BioSante fails to raise additional financing as needed, it may have to delay or terminate product development programs or pass on opportunities to in-license or otherwise acquire new products that BioSante believes may be beneficial to its business.

5. COMMITMENTS

University of California License

BioSante's license agreement with the University of California requires BioSante to undertake various obligations, including:

Payment of royalties to the University based on a percentage of the net sales of any products incorporating the licensed technology;

Payment of minimum annual royalties on February 28 of each year beginning in the year 2004 in the amounts set forth below, to be credited against earned royalties, for the life of the agreement;

Year	Minimum Annual Royalty Due
2004	$ 50,000
2005	100,000
2006	150,000
2007	200,000
2008	400,000
2009	600,000
2010	800,000
2011	1,500,000
2012	1,500,000
2013	1,500,000

Development of products incorporating the licensed technology until a product is introduced to the market;

Payment of the costs of patent prosecution and maintenance of the patents included in the agreement, which for the year ended December 31, 2001 amounted to $11,358;

Meeting performance milestones relating to:

Hiring or contracting with personnel to perform research and development, regulatory and other activities relating to the commercial launch of a proposed product;

Testing proposed products and obtaining government approvals;

Conducting clinical trials; and

Introducing products incorporating the licensed technology into the market;

Entering into partnership or alliance arrangements or agreements with other entities regarding commercialization of the technology covered by the license; and

Indemnifying, holding harmless and defending the University of California and its affiliates, as designated in the license agreement, against any and all claims, suits, losses, damage, costs, fees and expenses resulting from or arising out of exercise of the license agreement, including but not limited to, any product liability claims.

Antares Pharma, Inc. License

BioSante's license agreement with Antares required BioSante to make a $1.0 million upfront payment to Antares. $250,000 of this upfront payment was creditable against future milestone or other payments and was utilized in the third quarter of 2001. The result was a $250,000 reduction in research and development expense in the statement of operations during the quarter ended September 30, 2001 as the initial $1.0 million payment had been expensed in its entirety in 2000. BioSante expects to fund the development of the products, make milestone payments and once regulatory approval to market is received and sales of the products commence, pay royalties on the sales of products. BioSante must also make cash payments to Antares for manufacturing and formulation services performed by Antares at BioSante's request, related to the products and must pay Antares a portion of any up front sublicense or milestone payment received by BioSante from the sublicense of the products.

6. NEW ACCOUNTING PRONOUNCEMENTS

On July 20, 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." These statements establish new accounting and reporting standards for business combinations and associated goodwill and intangible assets. They require, among other things, elimination of the pooling of interests method of accounting, no amortization of acquired goodwill, and a periodic assessment for impairment of all goodwill and intangible assets acquired in a business combination. SFAS 141 is effective for all business combinations accounted for by the purchase method that are completed after June 30, 2001. SFAS 142 was adopted on January 1, 2002. There was no impact on BioSante's financial statements as a result of the adoption of SFAS 142.

Independent Auditors' Report

Board of Directors
BioSante Pharmaceuticals, Inc.
Lincolnshire, Illinois

We have audited the accompanying balance sheets of BioSante Pharmaceuticals, Inc. (a development stage company) as of December 31, 2001 and 2000 and the related statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001, and for the period from August 29, 1996 (date of incorporation) through December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2001 and 2000 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, and for the period from August 29, 1996 (date of incorporation) through December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Company is in the development stage.

/s/ Deloitte & Touche LLP

February 15, 2002
(May 31, 2002 as to Note 14)
Chicago, Illinois

BIOSANTE PHARMACEUTICALS, INC.
(a development stage company)
Balance Sheets
December 31, 2001 and 2000

	2001	2000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 4,502,387**	**$ 2,611,755**
Prepaid expenses and other sundry assets	**91,859**	**64,341**
	4,594,246	**2,676,096**
PROPERTY AND EQUIPMENT, NET (Note 5)	**384,996**	**390,821**
	$ 4,979,242	**$ 3,066,917**
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable (Note 12)	**$ 90,653**	**$ 44,746**
Accrued compensation	**379,346**	**258,598**
Other accrued expenses	**24,444**	**137,919**
Due to Antares (Note 4)	**433,319**	
Convertible debenture (Notes 7 and 13)		**500,000**
	927,762	**941,263**
COMMITMENTS (Notes 11 and 13)		
STOCKHOLDERS' EQUITY (Note 8)		
Capital stock		
Issued and Outstanding		
2001 466,602; 2000 468,768 Class C special stock	**467**	**469**
2001 6,321,880; 2000 5,295,294 Common stock	**22,302,046**	**17,782,857**
	22,302,513	**17,783,326**
Deferred unearned compensation		**(18,000)**
Deficit accumulated during the development stage	**(18,251,033)**	**(15,639,672)**

	2001	2000
	4,051,480	2,125,654
	$ 4,979,242	$ 3,066,917

See accompanying notes to the financial statements.

BIOSANTE PHARMACEUTICALS, INC.
(a development stage company)
Statements of Operations
Years ended December 31, 2001, 2000 and 1999
and the cumulative period from August 29, 1996 (date of incorporation) to December 31, 2001

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999	Cumulative period from August 29, 1996 (date of incorporation) to December 31, 2001
REVENUE				
Licensing income, net (Note 4)	$ 1,747,386	$	$	$ 1,747,386
Interest income	174,416	227,718	198,683	920,952
	1,921,802	227,718	198,683	2,668,338
EXPENSES				
Research and development	2,141,944	1,887,832	660,588	6,426,316
General and administration	2,298,659	1,678,581	853,389	8,108,897
Depreciation and amortization	92,560	98,500	90,965	474,394
Loss on disposal of capital assets				157,545
Costs of acquisition of Structured Biologicals Inc.				375,219
Purchased in-process research and development				5,377,000
	4,533,163	3,664,913	1,604,942	20,919,371
NET LOSS	$ (2,611,361)	$ (3,437,195)	$ (1,406,259)	$ (18,251,033)
BASIC AND DILUTED NET LOSS PER SHARE (Note 2)	$ (0.40)	$ (0.60)	$ (0.28)	
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	6,485,349	5,753,676	4,942,414	

See accompanying notes to the financial statements.

BIOSANTE PHARMACEUTICALS, INC.
(a development stage company)
Statements of Stockholders' Equity
Years ended December 31, 2001, 2000 and 1999
and the cumulative period from August 29, 1996 (date of incorporation) to December 31, 2001

	Class A Special Shares		Class C Special Shares		Common Stock		Deferred Unearned Compensation	Deficit Accumulated During the Development Stage	Total
	Shares	Amount	Shares	Amount	Shares	Amount			
Balance, August 29, 1996, Date of incorporation		$		$		$	$	$	$
Issuance of Class "C" shares August 29, 1996 ($0.0001 per share)			415,000	415					415
Issuance of Class "A" shares September 23, 1996 ($0.0001 per share)	2,000,000	2,000							2,000
Issuance of common shares									
September 23, 1996					410,000	4,100,000			4,100,000
Financing fees accrued						(410,000)			(410,000)
November 27, 1996 issued as consideration upon acquisition of SBI (Note 3)					743,432	4,545,563			4,545,563
Exercise of Series "X" warrants (Note 7)					21,571	275,387			275,387
Exercise of Series "Z" warrants (Note 7)					143	2,553			2,553
Net loss								(6,246,710)	(6,246,710)
Balance, December 31, 1996	2,000,000	2,000	415,000	415	1,175,146	8,513,503		(6,246,710)	2,269,208
Conversion of shares									
January 13, 1997			(28,285)	(28)	28,285	70,741			70,713
January 13, 1997			(9,428)	(9)	9,429	23,580			23,571
December 2, 1997			(10,639)	(11)	10,639	26,607			26,596
December 2, 1997			(10,000)	(10)	10,000	25,010			25,000
Exercise of Series "V" warrants (Note 7)					2,400	36,767			36,767
Exercise of Series "X" warrants (Note 7)					2,857	36,200			36,200
Exercise of Series "W" warrants (Note 7)					2,000	25,555			25,555
Adjustment for partial shares issued upon amalgamation					13				
Financing fees reversed						410,000			410,000
Net loss								(1,890,093)	(1,890,093)
Balance, December 31, 1997	2,000,000	2,000	356,648	357	1,240,769	9,167,963		(8,136,803)	1,033,517
Conversion of shares									
March 4, 1998			(2,000)	(2)	2,000	5,002			5,000
March 16, 1998			(1,000)	(1)	1,000	2,501			2,500
May 8, 1998	(1,500,000)	(1,500)			1,500,000	3,751,500			3,750,000
June 1, 1998	(100,000)	(100)			100,000	250,100			250,000
June 1, 1998	(100,000)	(100)			100,000	250,100			250,000
Return of shares to treasury									
May 8, 1998	(146,861)	(147)							(147)
May 8, 1998			(25,000)	(25)					(25)
Net loss								(2,659,415)	(2,659,415)

Balance, December 31, 1998	153,139	153	328,648	329	2,943,769	13,427,166		(10,796,218)	2,631,430
Conversion of shares									
February 2, 1999			(1,000)	(1)	1,000	2,501			2,500
Private placement of common shares, net									
May 6, 1999					2,312,500	4,197,843			4,197,843
Share redesignation									
July 13, 1999	(153,139)	(153)	153,139	153					
Issuance of common shares									
August 15, 1999					7,000	25,000			25,000
Net loss								(1,406,259)	(1,406,259)
Balance, December 31, 1999			480,787	481	5,264,269	17,652,510		(12,202,477)	5,450,514
Conversion of shares									
March 17, 2000			(1,000)	(1)	1,000	2,501			2,500
March 24, 2000			(3,184)	(3)	3,184	7,963			7,960
June 12, 2000			(5,000)	(5)	5,000	12,505			12,500
July 13, 2000			(2,835)	(3)	2,834	7,088			7,085
Issuance of common shares									
July 18, 2000					19,007	58,000			58,000
Issuance of warrants for services received						42,290	(42,290)		
Amortization of deferred unearned compensation							24,290		