

Annual Report

Biosensor Applications Sweden AB

Org.nr 556376-6814

Financial year January 1 – December 31, 2000

The Board of Directors and the Managing Director of Biosensor Application Sweden Aktiebolag hereby present the following annual report and Group financial statements.

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Unless otherwise stated, all amounts are given in thousands of Kronor (SEK). Figures in parentheses refer to the previous financial year.

Management report

Ownership

On January 28, 1998, Ny Industri Venture Capital AB acquired all the shares in Bofors Applied Technologies AB, a private company wholly owned by Bofors AB. At the same time, the company's name was changed to Biosensor Application Sweden AB (publ) and it became a public company.

Credit Agricole Indosuez Cheuvreux Nordic AB completed a new issue of shares in November 2000 thereby broadening the shareholder base through the issue of 400,000 shares and a convertible debenture loan for an amount of SEK 25.0 million.

The largest shareholders:

Shareholder	Number of shares
Allegro Ltd.	376,000
E Trade Sverige AB (Trustee)	227,000
FöreningsSparbanken AB (publ) (Trustee)	570,974
Hellena Ltd.	550,000
Livförsäkrings AB Skandia	504,048
Nordbanken (Trustee)	853,568
Nordiska Fondkommission AB (Trustee)	279,500
SEB (Trustee)	1,077,190
Svenska Handelsbanken (Trustee)	228,730
White Beam Investments Ltd.	1,974,490
Aros Maizel AB (Trustee)	405,000
Svenska Handelsbanken	107,000
Fisher Partners Fondkommission AB (Trustee)	71,000

There are approximately 200 shareholders in total.

The above information was valid as at January 1, 2001.

Business activities

Business activities include the development, production and marketing of extremely sensitive and reliable sensor systems, which are used in the detection of particules and gases.

Important events during and after the financial year under review

After two years in Örebro, in November 2000 the Company moved its activities to suitable rented premises in Stockholm.

The research and development agreement with the Yissum Research and Development Company of the Hebrew University of Jerusalem was terminated during the year. Research results will now be commercialized by means of a licensing agreement. The agreement is designed to provide rights to use patents and applied research carried out by the Hebrew University of Jerusalem and the Weizmann Institute of Science.

During the year the Company signed agreements with Uppsala University, Stockholm University and the Royal Institute of Technology as well as with researchers from Linköping University.

The Company has a wholly owned subsidiary, Biosensor Aviation Security Ltd., registered in London, which has been dormant since June 1, 2000. Another subsidiary, Biosensor Mine Detection A/S registered in Oslo, is being wound up.

Further comprehensive analysis of market opportunities in applicable areas such as flight security, drug detection and mine detection have been carried out. Field tests on prototype mine detectors were carried out in 2000 and this prototype has been sold to the Swedish rescue services for further tests.

During the year, the Company made two applications for EU financial support for the development of mine sensors. The first application relates to the development of mine sensors in a joint project with the Swedish rescue services, a Norwegian aid organization and others. On December 28 the EU granted the Company EUR 1.4 million (roughly SEK 12 million) over three years.

The second application relates to a multisensor in which the Company's mine sensor is one of three components. The company has applied for EUR 530,000 (roughly SEK 4.5 million) and the Company expects to sign a contract with the EU.

The Company's equity was negative at the end of December 2000. As a result of this and in accordance with the Swedish Companies Act, the Board of Directors has prepared a balance sheet for monitoring purposes.

During the year the Board undertook to prepare a balance sheet for monitoring purposes pro forma balance sheet as at April 30, 2000 in accordance with the Swedish Companies Act, which showed that shareholders' equity had fallen below half the share capital.

Consequently, the Board of Directors undertook measures to rebuild the company's equity, including contacting Cheuvreux who agreed to assist the Company in obtaining capital. The Board of Directors also decided to capitalize part of development costs expensed during the year.

In the new share issue, carried out in the second half of the financial year, the Company received SEK 10 million in equity and some of the company's institutional shareholders agreed to subscribe to a convertible debenture loan for an amount of SEK 25 million. The Board of Directors deemed that there was therefore no longer a need for the balance sheet prepared for monitoring purposes, drawn up as at April 30.

The Board of Directors decided to use the mandate given to it at the Annual General Meeting to issue up to five million new shares. The Board of Directors therefore plans to carry out a new issue in the spring of 2001 in order, among other things, to secure equity. The plan is to increase the Company's equity by up to SEK 75 million. Having taken this step, the company's equity should be secured by June 1 at the latest, i.e. within eight months of the balance sheet date.

Research and Development

During 2000, work was focused on developing a prototype for mine detection, field analysis (TNT collection and analysis) and optimization of biochemicals.

The Company's activities have moved from basic research to the development of the three most important products: a mine detection instrument, the sensor cell and a drug detection instrument. The Company has chosen to work with an external consultant on the development of these three prototypes.

The first project is aimed at the development of a prototype mine detector to be tested by selected customers. The product will form the basis for the development of pre-production units. The intention is to use the same procedure for other projects (sensor cells and drug detection instruments), i.e. developing prototypes to be tested by customers which will form the basis for further product development. It is intended that these projects will be completed in 2001.

More than 50% of the Company's costs arise from research and development.

Proposals for the allocation of losses (Parent company)

Figures presented to the general meeting of shareholders:

Accumulated losses	- 55 308
Current year loss	<u>-25 363</u>
	-80 671

The Board of Directors proposes that the losses be dealt with as follows:

To be carried forward	-80 671
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The Group

There is no allocation to the Group's restricted equity.

Group Income statement

	Note	2000	1999
Net revenues	2	1 379	781
Cost of sales		<u>- 611</u>	<u>-561</u>
Gross profit		768	220
Administrative costs	3,4,5,6	-13 062	-15 745
Research and development costs	6	-13 349	-19 504
Other operating income		<u>276</u>	=
Operating loss		-25 367	-35 029
<i>Profits and losses from financial investments:</i>			
Other interest income		318	389
Interest and assimilated costs		-600	-7
Loss before tax		-25 649	-34 647
Tax for the year		<u>4</u>	<u>-3</u>
Current year loss		<u>-25 645</u>	<u>-34 650</u>

Group Balance Sheet

	Note	2000	1999
<i>Assets</i>			
Fixed assets			
Intangible assets	7		
Capitalized research and development costs		4 151	-
Concessions, patents, licenses, brand names and similar rights		<u>1 440</u>	<u>2 160</u>
		5 591	2 160
Tangible assets	8		
Equipment, tools and installations		160	240
Machinery and other technical equipment		593	417
Investment in premises		<u>1 009</u>	<u>871</u>
		1 762	1 528
Total fixed assets		7 353	3 688
Current assets			
Short-term assets			
Trade debtors		28	70
Other debtors		799	358
Prepaid expenses and accrued income		<u>221</u>	<u>305</u>
		1 048	733
Cash and bank accounts		<u>30 773</u>	<u>11 202</u>
Total current assets		31 821	11 935
Total assets		<u>39 174</u>	<u>15 263</u>

Group Balance Sheet (continued)

	Note	2000	1999
Equity and liabilities			
Equity			
<i>Restricted equity</i>	10		
Share capital (7 190 000 shares at SEK 1)		7 190	6 790
Unregistered common stock		20	-
Restricted reserves		<u>71 390</u>	<u>61 540</u>
		78 600	68 330
<i>Unrestricted equity</i>			
Unrestricted reserves/Accumulated losses		-54 945	-20 699
Translation difference		- 105	404
Current year loss		<u>-25 645</u>	<u>-34 650</u>
		-80 695	-54 945
Total equity		- 2 095	13 385
Long-term liabilities			
Convertible debenture loan	11	<u>25 000</u>	-
Total long-term liabilities		25 000	-
Short-term liabilities			
Trade creditors		3 792	623
Tax liabilities		77	38
Other liabilities		10 281	194
Accrued expenses and prepaid income		<u>2 119</u>	<u>1 383</u>
Total short-term liabilities		16 269	2 238
Total equity and liabilities		<u>39 174</u>	<u>15 623</u>
Other items required for information purposes			
Pledged assets			
Deposits in blocked account		85	76
Warranties for advances		2 246	-
Contingent liabilities			
Blocked funds for future royalties		4 767	-

Statement of Changes in Financial Position

	2000	1999
Sources of funds from operations		
Operating loss	-25 367	-35 029
Adjustments for items not affecting cash flow		
Depreciation	1 140	1 230
Translation difference	-2	51
Taxes	4	-3
Write-down of fixed assets	<u>871</u>	-
	-23 354	-33 751
Interest income	318	389
Interest expenses	-600	-7
Funds from operations before changes in working capital	-23 636	-33 369
Changes in working capital		
Decrease/increase in short-term assets	-315	3 132
Decrease/increase in short-term liabilities	14 031	-1 189
Funds from operations	<u>-9 920</u>	<u>-31 426</u>
Investment activities		
Capitalization of development costs	-4 151	-
Acquisition of fixed assets	-367	-21
Investment in premises	<u>-1 158</u>	-
Funds from investment activities	<u>-5 676</u>	<u>-21</u>
Financial operations		
New share issue	10 270	31 500
Issue of convertible debenture loan	25 000	-
Adjusted accumulated loss	<u>-103</u>	<u>353</u>
Funds from financial operations	<u>35 167</u>	<u>31 853</u>
Increase in cash and cash equivalents	19 571	406
Cash and cash equivalents at the beginning of the year	<u>11 202</u>	<u>10 796</u>
Cash and cash equivalents at the end of the year	30 773	11 202

Parent Company Income statement

	Note	2000	1999
Net revenues	2	1 379	781
Cost of sales		<u>-611</u>	<u>-561</u>
Gross profit		768	220
Administrative cost	3,4,5,6	-12 774	-15 759
Research and development costs	6	-13 349	-19 504
Other operating income		<u>276</u>	=
Operating loss		-25 079	-35 043
<i>Profits and losses from financial investments:</i>			
Other interest income		316	387
Interest and assimilated costs		<u>-600</u>	<u>-5</u>
Loss before taxes		-25 363	-34 661
Tax for the year		<u>0</u>	<u>0</u>
Current year loss		<u>-25 363</u>	<u>-34 661</u>

Parent Company Balance Sheet

	Note	2000	1999
Assets			
Fixed assets			
Intangible assets	7		
Capitalized research and development costs		4 151	-
Concessions, patents, licenses, brand names and similar rights		<u>1 440</u>	<u>2 160</u>
		5 591	2 160
Tangible assets	8		
Equipment, tools and installations		160	240
Machinery and other technical equipment		568	407
Investments in premises		<u>1 009</u>	<u>871</u>
		1 737	1 528
Financial fixed assets			
Shares and holdings in Group companies	9	<u>66</u>	<u>66</u>
		66	66
Total fixed assets		7 394	3 744
Current assets			
Short-term assets			
Trade debtors		-	20
Inter-company debtors		47	-
Other debtors		799	358
Pre-paid expenses and accrued income		<u>221</u>	<u>305</u>
		1 067	683
Cash and bank accounts		<u>30 734</u>	<u>10 957</u>
Total current assets		31 801	11 640
Total assets		<u>39 195</u>	<u>15 384</u>

Parent Company Balance Sheet (continued)

	Note	2000	1999
<i>Equity and liabilities</i>			
Equity	10		
<i>Restricted equity</i>			
Share capital (7 190 000 shares at SEK 1)		7 190	6 790
Unregistered common stock		20	-
Premium fund		71 190	61 340
Statutory reserves		<u>200</u>	<u>200</u>
		78 600	68 330
<i>Unrestricted equity</i>			
Accumulated losses		-55 308	-20 647
Current year loss		<u>-25 363</u>	<u>-34 661</u>
		-80 671	-55 308
Total equity		-2 071	13 022
Long-term liabilities			
Convertible debenture loan	11	<u>25 000</u>	-
Total long-term liabilities		25 000	-
Short-term liabilities			
Trade creditors		3 789	623
Intercompany liabilities		-	144
Tax liabilities		77	37
Other liabilities		10 281	194
Accrued expenses and prepaid income		<u>2 119</u>	<u>1 364</u>
Total short-term liabilities		16 266	2 362
Total equity and liabilities		<u>39 195</u>	<u>15 384</u>
Other items required for information purposes			
Pledged assets			
Deposits in blocked account		85	76
Warranties for advances		2 246	-
Contingent liabilities		0	0
Blocked funds for future royalties		4 767	-

Statement of Changes in Financial Position

	2000	1999
Source of funds from operations		
Operating loss	-25 079	-35 043
Adjustments for items not affecting cash flow		
Depreciation	1 133	1 226
Write-down of fixed assets	<u>871</u>	=
	-23 075	-33 817
Interest income	316	387
Interest expense	-600	-5
Funds from operations before changes in working capital	-23 359	-33 435
Changes in working capital		
Decrease/increase in short-term assets	-384	3 167
Decrease/increase in short-term liabilities	<u>13 904</u>	<u>-863</u>
Funds from operations	<u>-9 839</u>	<u>-31 131</u>
Investment activities		
Capitalization of development costs	-4 151	-
Acquisition of fixed assets	-345	-8
Investment in premises	<u>-1 158</u>	=
Funds from investment activities	<u>-5 654</u>	<u>-8</u>
Financial operations		
New share issue	10 270	31 500
Issue of convertible debenture loan	<u>25 000</u>	=
Funds from financial operations	<u>35 270</u>	<u>31 500</u>
Increase in cash and cash equivalents	19 777	361
Cash and cash equivalents at the beginning of the year	<u>10 957</u>	<u>10 596</u>
Cash and cash equivalents at the end of the year	30 734	10 957

Notes

Note 1 Accounting principles

The Swedish Annual Accounts Act governing the presentation of income statements, balance sheets and the evaluation of assets in annual reports has been applied. The accounting principles are unchanged from the previous year.

The company's assets and liabilities have been accounted for at their acquisition cost or nominal value unless otherwise stated in the notes below.

Income statement

Administrative expenses and research and development costs were recalculated during the year in order to show give a true and fair view of the company's costs. Figures for 1999 have also been restated.

Group financial statements

Subsidiaries are included in the Group financial statements where the parent company has direct or indirect control of more than 50% of the voting rights.

Acquisition method

The final Group financial statements were prepared according to the acquisition method, which means that a subsidiary's equity on acquisition, calculated as the difference between the actual value of the assets and liabilities, is completely eliminated. In this way, only the subsidiary's equity after acquisition is included in Group equity.

If the Group's cost of shares exceeds the value reported in the company's net assets, the difference is accounted for as Group goodwill. However, if the cost of shares is less than the value reported in the company's net assets, the difference is eliminated by reducing the value of non-monetary assets. If the full difference is not eliminated by reducing the value of non-monetary assets, the remaining amount is reported as negative goodwill under 'other provisions.' The provision is then reversed on the basis of expectations of future profits.

The tax effect of the various valuations of assets and liabilities at Group and company level is recorded as deferred tax assets and deferred tax liabilities. However, it should be noted that there is no deferred tax on Group goodwill (positive or negative) nor is a deferred tax asset recorded on provisions for losses.

Translation of the results of foreign subsidiaries

The company uses the current method for translating foreign subsidiaries' results; i.e., the foreign subsidiary's assets and liabilities are translated at the year-end exchange rate. All items in the income statement are translated at the average exchange rate for the year. Items included in equity are translated at the rates as at the acquisition date. Translation differences are recorded directly in Group equity.

Receivables

Receivables are accounted for in accordance with the expected recoverable amounts, based on individual assessments.

Receivables and liabilities in foreign currency

Receivables and payables in foreign currency are translated at the year-end exchange rate. Profits and losses on operating receivables, debts and liabilities are recorded at their net amount in ‘Other operating income’ or ‘Other operating expenses.’

Note 2 Intra-group purchases and sales

Sales to Biosensor Aviation Security Ltd. amount to 0. Purchases from Biosensor Aviation Security Ltd. amount to 203. There were no sales or purchases between Biosensor Application Sweden AB and Biosensor Mine Detection A/S during the year.

Note 3 Average number of employees

	2000		1999	
	Number employed	Of which, men	Number employed	Of which, men
Parent company				
Sweden	<u>12</u>	<u>8</u>	<u>9</u>	<u>6</u>
Total parent company	12	8	9	6
Subsidiaries				
Great Britain	0	0	1	1
Norway	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Company total	12	8		

Note 4 Salaries, other compensation and social security costs

	2000		1999	
	Salaries and other compensation	Social security costs (pension costs)	Salaries and other compensation	Social security costs (pension costs)
Parent company	5 399	2 839	3 171	1 501
		(849)*		(466)*
Subsidiary	184	15	759	63
		(0)*		(46)*
Group	5 583	2 854	3 930	1 564
		(849)*		(512)**

* The Board of Directors and the Managing Director account for 433 (272) of the parent company’s pension costs.

** The Board of Directors and the Managing Director account for 433 (272) of the Group pension costs.

Salaries and other compensation by country broken down between the Board of Directors and employees

	2000		1999	
	Board of Directors and MD*	Other employees	Board of Directors and MD*	Other employees
Parent company				
Sweden	<u>1 693</u>	<u>3 706</u>	<u>981</u>	<u>2 190</u>
Total parent company	1 693	3 706	981	2 190
Overseas subsidiaries				
Norway	0	0	0	0
Great Britain	<u>184</u>	<u>0</u>	<u>759</u>	<u>0</u>
Group total	1 877	3 706	1 740	2 190

*No bonuses have been given to the Managing Director or members of the Board of Directors.

Compensation upon termination of contract

The Managing Director is entitled to the equivalent of 12 months salary upon termination of his contract.

Note 5 Auditors' fee

Fees and recoverable costs	2000	1999
Audit	90	85
Other assignments	<u>116</u>	<u>185</u>
	206	270

The audit includes a review of the annual report and financial statements and the management of the company by the Board of Directors and Managing Director. The audit also includes assignments, advice and other support arising from the audit of the financial statements.

Any other services provided are 'Other assignments.'

Note 6 Depreciation and write-downs

Intangible and tangible fixed assets are depreciated by 20% according to plan in Sweden. Tangible fixed assets are depreciated by 10% according to plan in Great Britain. Work on premises in Örebro in previous year has been written down by 871. Investment in premises is depreciated according to a rental period of 31 months.

Note 7 Intangible fixed assets

Capitalized costs of research and development

	Group	Parent Company
Acquisition cost	4 151	4 151
Amortization of intangible assets	<u>0</u>	<u>0</u>
Book value	4 151	4 151

A number of the company's activities moved from the basic research stage to product development in 2000, including the three most important products: the mine detection instrument, the sensor cell and the drug detection instrument.

The first results are a mine detection prototype, which will be tested by selected customers. The product will form the basis for the development of pre-production units. The intention is that other projects follow the same procedure (sensor cells and drug detection instruments). It is intended that these projects will be finalized in 2001.

The final development of the prototypes has been carried out by an external consultant. The consultant's expenses have been capitalized. All internal costs related to development have been expensed during the year.

Concessions, patents, licenses, brand names and similar rights

	Group	Parent Company
Acquisition value at start of the year	<u>3 600</u>	<u>3 600</u>
Accumulated acquisition cost at year-end	3 600	3 600
Amortization at the start of the year	-1 440	-1 440
Amortization for the year	<u>-720</u>	<u>-720</u>
Accumulated amortization at year-end	-2 160	-2 160
Book value at year-end	<u>1440</u>	<u>1440</u>

Note 8 Tangible fixed assets

Equipment, tools and installations	Group	Parent Company
Acquisition value at the start of the year	400	400
Accumulated acquisition value at year-end	400	400
Depreciation at the start of the year	-160	-160
Depreciation for the year	<u>-80</u>	<u>-80</u>
Depreciation at year-end	-240	-240
Book value at year-end	<u>160</u>	<u>160</u>

Machinery and other technical equipment	Group	Parent Company
Acquisition value at the start of the year	691	678
Acquisitions	367	345
Disposals	<u>0</u>	<u>0</u>
Accumulated value at year-end	1 058	1 023
Depreciation at the start of the year	-274	-271
Disposals	0	0
Depreciation for the year	<u>-191</u>	<u>-184</u>
Accumulated depreciation at year-end	-465	-455
Book value at year-end	<u>593</u>	<u>568</u>

Investment in premises	Group	Parent Company
Acquisition value at the start of the year	1 451	1 451
Acquisitions	1 158	1 158
Write-downs	<u>-1 451</u>	<u>-1 451</u>
Accumulated value at year-end	1 158	1 158
Depreciation at the start of the year	-580	-580
Write-downs	580	580
Depreciation for the year	<u>-149</u>	<u>-149</u>
Accumulated depreciation at year-end	-149	-149
Book value at year-end	<u>1 009</u>	

Note 9 Shares in Group companies

	Share of capital	Voting rights	Book value
Biosensor Mine Detection A/S	100%	100%	53
Biosensor Aviation Security Ltd.	100%	100%	13
Total			66

Information about subsidiaries' registration numbers and location:

	Registration number	Location
Biosensor Mine Detection A/S	30781504	Oslo
Biosensor Aviation Security Ltd.	3611900	London

Note 10 Change in equity

Group	Share capital	Unreg. share capital	Restricted reserves	Unrestricted reserves	Loss for the year	Total
Opening balance	6 790		61 540	-20 295	-34 650	13 385
New share issues	400	20	9 850			10 270
Allocation of losses				-34 650	34 650	
Translation difference				-105		-105
Current year loss					-25 645	-25 645
Closing balance	7 190	20	71 390	-55 050	-25 645	-2 095

Parent company	Share capital	Unreg. share capital	Share premium reserve	Statutory reserve	Accumulated losses	Loss for the year	Total
Opening balance	6 790		61 340	200	-20 647	-34 661	13 022
New issues	400	20	9 850				10 270
Allocation of losses					-34 661	34 661	
Current year loss						-25 363	-25 363
Closing balance	7 190	20	71 190	200	-55 308	-25 363	-2 071

Note 11 Convertible debenture loan

The convertible debenture loan is for an amount of SEK 25 million at an interest rate of 5%, and covers the period from November 14, 2000 to November 1, 2002. The convertible debenture loan may be converted to Category A shares in the Company at a conversion rate of thirty (30) Kronor per share. On full conversion the Company's share capital will increase by no more than SEK 833,334 by means of conversion of no more than 833,334 Category A shares.

Örebro, [date]

Jan Persson

Erik Bergenhem

Jan Hillström

Göran Lundberg

Bo Rybeck

Carl Lundberg
Managing Director

Roland Källenfors