



ANNUAL REPORT
for the year ended
31 December 2005



**BIOSENSOR
APPLICATIONS SWEDEN AB**

Company number 556376-6814

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ANNUAL REPORT FOR BIOSENSOR APPLICATIONS SWEDEN AB

President's Statement

Year 2005 was a break-through year for Biosensor Applications Sweden AB and for its owners.

Towards the end of the year the Company received a first major order from the Australian customs authority for ten BIOSENS systems. Several more tests of the BIOSENS system were conducted during the year and correctional institutions in Germany and Sweden provided very positive test reports on the equipment. At Maria Beroende Center in Stockholm studies were conducted with so-called perspiration detection and the result was designated a break-through for use of the technology in drug addiction treatment. This very study provides an extremely important reference in a new and sizable segment and will play a very important role for Biosensor's operations going forward.

The delay encountered in the sale gave rise to a situation where new capital had to be infused in the Company. Some of the Company's existing shareholders made a loan available in the form of bridge financing since the time to do a new issue was deemed to be too long. In connection with this financing, the Board of Directors and Management undertook to analyse the cost structure in detail and a refocusing of operations was undertaken and a plan for cost reduction was implemented. Among other things, the plan called for a reduction in the number of employees from 26 to 19 (in February 2006) and that the Company was to give priority to a new segment for drug addiction rehabilitation ahead of airport security. By reducing the number of development projects, resources have been created for ramping up production. New distribution channels are being created by renegotiating a previously exclusive distribution agreement. The Company's former President, Carl Lundberg, handed over management of the Company to the undersigned in September, allowing him to concentrate on developing the Asian market, starting out from Australia.

The Company has now adjusted its cost structure and we are now contracting distributors in Europe at a rapid rate in an effort to launch our new technology successfully through these customer contacts. The two new Biocells for Cannabis (THC) and Benzodiazepines are under development, together with significant marketing efforts during 2006, allow me to look forward to the new year with confidence.

Bengt Hagander
President & CEO

OPERATIONS 2005

SALES AND MARKETING

Fourteen BIOSENS systems were sold during the year, ten of which to the Australian customs authority. The other four systems were sold in Singapore, Sweden, USA and Japan. These instruments were sold only after the customer had performed extensive testing to determine "price/performance" for our product. This has given us considerable confidence as far as our technology is concerned. With these tests we have at the same time been benchmarked against our competitors and have been able to establish that we have several competitive advantages.

The fact that we did not achieve budgeted sales is mostly due to a lack of certain necessary Biocells in the product range. The Company's focus on narcotics-related market segments has resulted in a decision to complement the Biocell assortment with units for both Cannabis (THC) and Benzodiazepines (such as Valium and Rohypnol). The ability to detect these substances is necessary in order to cultivate the rehabilitation market. Detection of THC and Benzodiazepines is also important for use at correctional facilities and by the police. Development of these Biocells is expected to be completed during Q2, 2006.

During the fourth quarter contacts were established with potential distributors in Norway, Finland, Germany, England, Switzerland, France, Belgium and Poland. The Company also established contacts with marketing consultants in the Nordic region and England. In addition hereto, Carl Lundberg, the former President, focuses on the Asian market from Australia.

DEVELOPMENT

The development department has been generally engaged in making the analysis system more robust and in improving user friendliness. The big projects during autumn related to detection of THC and Benzodiazepines. THC places increased demands on the equipment due to its insolubility in water. At the same time new testing routines must be tested since Cannabis is ingested via smoking. Different methods of detection are required depending on how long after the abuse one is interested in detecting tracer elements.

A clinical study has been carried out at Maria Beroende Center in Stockholm that shows that perspiration detection is a method that provides virtually the same results as tests made with a urine strip. This study must be regarded as a breakthrough for our technology and will be followed up by additional studies during 2006. The market for urine strips in Europe is believed to be worth MUS\$ 90 during 2005 according to BCC Inc.

A major part of the development work has also related to ensuring availability and production of suitable antigens and antibodies and to determine their service life over time. Service life has been extended from 12 to 48 hours, which means a significant cost saving for the user.

PRODUCTION

Production was significantly changed during the year. We have had to switch Biocell production from piece production (for testing with customers) to delivery of larger volumes. This has meant that new production premises have been commissioned for mass production of Biocells.

After evaluation of different potential suppliers, manufacture of the analysis unit has been placed with contractors. Gradually, production of the entire analysis system was placed with contractor Kitron AB, who towards the end of the year delivered complete, ready-to-use instruments to Biosensor for final approval. We have also invested in new production tools for assembly and cost-savings reasons for individual components of the system. Analysis systems are now being built in batches of five with the goal of increasing to batches of ten during Q3, 2006.

Concurrent with the aforementioned projects, we have engaged in constant efforts to reduce costs of components and in manufacturing in a quest to make the analysis system and the Biocells less expensive. Major advances were made during the year in this regard. There are still significant opportunities to achieve cost reductions during 2006.

ADMINISTRATION REPORT

The Board of Directors and the President of Biosensor Applications Sweden AB hereby submits their Annual Report for the operations during the 2005 financial year.

Until January 1998, the Company was a wholly owned subsidiary of Bofors AB, when the company was sold. Following additional sales of shares and stock offerings, the Company has 276 shareholders as of December 31, 2005. The job of developing the Biosensor system was initiated by Bofors in 1995. In connection with a reorganisation of Celsius (the owner of Bofors at the time), the entire project was acquired in the beginning of 1998 by a group of private investors. Ownership has subsequently been changed and expanded. Aside from a group of private individuals, the large shareholders include Four Seasons Venture V A K/S and Four Seasons Venture V B K/S (jointly called "FSV V"), MN Development Inc., Gylling Invest AB, Förvaltnings AB Metallica, Röda Korset, RAB Capital, Yissum Research Development Co and the Swedish Municipal Workers' Union.

Significant events during the financial year and after its close

Financing of the Company

Bridge financing from November 2004 in the amount of MSEK 19 was converted to a convertible debenture at the extraordinary general meeting held 2 February 2005. The investment agreement meant that the lenders received options that gave them the right to subscribe for new class A shares in the Company at a subscription price of SEK 1 per share from 15 April 2005 until 15 April 2008. As of 31 May 2005 all lenders exercised their options and subscribed for 1,900,000 new class A shares, thereby increasing the share capital by MSEK 1.9. The MSEK 19 convertible debenture plus interest was also converted to preferred shares as of 15 September 2005. A total of 20,235,000 new class C shares were subscribed for and the share capital increased by MSEK 20.2.

FSV V acquired Skandia Liv's holding of shares and convertibles in the Company in April 2005. In July 2005, FSV V remitted its convertible debenture loan in the amount of MSEK 6.7 plus accrued interest in the amount of MSEK 781 against granting a new convertible loan in the amount of MSEK 1. The amount remitted was MSEK 6.5, which is reported directly against equity. The new loan was a part of the investment agreement for bridge financing concluded in July 2005 in a total amount of MSEK 21.

In the interest of enabling the Company to float a major new issue, an investment agreement was concluded in July 2005 for bridge financing that added a total of MSEK 21 to the Company, which included FSV V's claim in the amount of MSEK 1. The loan carried interest at a rate of 7 percent p.a. Biosensor's regularly scheduled Annual General Meeting resolved to convert this bridge financing to a convertible debenture. Under the terms of the convertible debenture, the lenders also have the right to subscribe for new class A shares in the Company at a subscription price of SEK 0.16 per share until 30 June 2006. As of 23 December 2005 the convertible debentures in the amount of MSEK 21 plus interest were converted to shares. All lenders subscribed for shares and a total of 133,802,083 new shares were subscribed for. The conversion was registered after year-end and the share capital increased by MSEK 13.4 in January 2006.

During November 2005, a new issue was floated with preferential rights for existing shareholders. The issue price was SEK 0.16 per share and a total of 31,057,773 new shares were issued and subscribed for. MSEK 6.2 was raised by the Company and, after registration in January 2006, the share capital increased by MSEK 3.1.

After a communication to all shareholders dated 20 February 2006, the Company obtained bridge financing amounting to MSEK 15, at an annual rate of interest of 7 percent p.a. The lenders have the right to offset the loan amount as payment for new convertible debentures in the Company. The Board of Directors has also initiated a process to list the Company on an authorised market during 2006.

Against the background of the advanced stage of the development of the Company's products, and a year's sales with positive response from customers, the Board of Directors makes the judgment that opportunities for raising additional financing are good. The annual accounts have thus been prepared on the assumption of continuing operations. There are no guaranties, however, that it will be possible to raise additional financing as planned.

Amendment of the Articles of Association and authorisation

An extraordinary general meeting held 2 February 2005 resolved to amend the Articles of Association in such a way that the Company will be able to issue class C preferred shares in a number equivalent to fifty (50) percent of the Company's share capital. This amendment of the Company's Articles of Association was made to allow the Company to fulfil the Company's undertaking according to the investment agreement entered into by the Company 18 November 2004. By reason of the amendment of the Articles of Association, the extraordinary general meeting resolved to renew the authorisation for the Board of Directors to decide on new issue, issuance of convertible debentures and debentures with attached options, except for preferred shares or instruments that entitle the holder to exchange for preferred shares or to subscribe for new preferred shares. The extraordinary general meeting held 15 September 2005 renewed this authorisation to the Board of Directors.

Reduction of share capital

At the continued Annual General Meeting held 15 August 2005, the Meeting resolved to reduce the Company's share capital with a provision for immediate coverage of losses through a reduction of the nominal value of the shares from SEK 1 to SEK 0.10.

Patent status

The work with patent applications, protection of designs and trademark protection continues according to plan. The Company's patent portfolio currently contains 13 patents and pending patent applications.

Control balance sheet and voluntary moratorium

The Board of Directors makes assessments on an ongoing basis of the Company's financial position and as of 23 March 2006 the assessment was made that there was no need to compile a control balance sheet. During the process of raising capital during summer 2005, the Company carried out a voluntary moratorium. The moratorium was withdrawn in July 2005 when the financing was secured.

Organisational development

During the year Biosensor continued to evolve from essentially being a research and development company to also be engaged in production and sales. For cost-saving reasons the number of employees was reduced from 26 to 24 persons by year-end. In September, Carl Lundberg resigned as President of the Company and was replaced by Bengt Hagander.

New Board of Directors

A new Board of Directors was elected for Biosensor at the Annual General Meeting held 15 August 2005. Jan Persson continued to serve as Chairman until 18 January 2006, at which time he resigned as Chairman of the Board of Directors. Ulf Ericsson, Bengt Hagander and Leif Engström remained as directors. As new directors were elected Peter Gullander, Göran Lundberg and Olle Lundberg. Göran Lundberg was elected as Chairman on 18 January 2006 after Jan Persson's resignation. As new alternate directors were elected Pär Ericson and Arne Handeland. Jan Persson resigned from the Board of Directors at the extraordinary general meeting held 10 March 2006, Pär Ericson was elected director and Bengt Hagander was elected alternate director.

Ownership structure

The number of shares outstanding in Biosensor as of 31 December 2005 was 62,168,942, 20,235,000 of which are class C shares. All shares have a quotient value of SEK 0.10 and the share capital thus amounts to SEK 6,216,894.

The largest shareholders of Biosensor as of 31 December 2005 are as shown below. (Before the new issue in November registered in January 2006.):

| Owner | Class A shares | Class C shares | Total number of shares | Proportion of capital and votes |
|---|-----------------------|-----------------------|-------------------------------|--|
| C2AUD i Intressenterna AB* | 13 491 157 | 10 426 350 | 23 917 507 | 38% |
| MN Developments Inc. | 6 690 000 | 3 514 500 | 10 204 500 | 16% |
| Gylling Invest AB | 3 194 138 | 5 069 400 | 8 263 538 | 13% |
| Jan Persson | 3 849 387 | | 3 849 387 | 6% |
| Hans Mellström | 2 286 708 | | 2 286 708 | 4% |
| RAB Capital | 1 951 943 | | 1 951 943 | 3% |
| Metallica Förvaltnings AB | 1 776 762 | | 1 776 762 | 3% |
| Yissum Research Development Co. | 1 100 000 | | 1 100 000 | 2% |
| The Swedish Red Cross | 1 034 000 | | 1 034 000 | 2% |
| The Swedish Municipal Workers' Union | 929 291 | | 929 291 | 1% |
| Other shareholders | 5 630 556 | 1 224 750 | 6 855 306 | 12% |
| Total number of shares outstanding | 41 933 942 | 20 235 000 | 62 168 942 | 100% |

* Holding company for FSV V.

Proposed allocation of earnings (SEK)

The following amounts are available to the General Meeting for allocation:

| | |
|---------------------------------------|--------------|
| Loss carried forward from prior years | -198 715 177 |
| Reduction of share capital | 55 952 048 |
| Remitted convertible debenture loan | 6 472 667 |
| Net loss for the year | -36 723 410 |

Total **-173 013 872**

The Board of Directors proposes that the loss be dealt with in the following manner:

| | |
|-----------------------|--------------|
| To be carried forward | -173 013 872 |
|-----------------------|--------------|

Total **-173 013 872**

INCOME STATEMENT
(Amounts in SEK thousand)

| | Note | 2005 | 2004 |
|--|---------|----------------|----------------|
| Net revenues | | 5 337 | 2 313 |
| Cost of goods sold | | -2 599 | -1 609 |
| Gross result | | 2 738 | 704 |
| Selling expenses | 1,3 | -4 456 | -3 069 |
| Administrative expenses | 1, 2, 3 | -11 914 | -8 962 |
| Research and development costs | 1, 3 | -20 540 | -17 475 |
| Other operating income | 4 | 528 | 1 249 |
| Operating result | | -33 644 | -27 553 |
| <i>Result from financial investments</i> | | | |
| Interest income and similar items | 5 | 827 | 963 |
| Interest expense and similar items | 6 | -3 906 | -1 178 |
| Result after financial items | | -36 723 | -27 768 |
| Taxes on the year's result | | - | - |
| NET RESULT FOR THE YEAR | | -36 723 | -27 768 |

BALANCE SHEET
(Amounts in SEK thousand)

| ASSETS | Note | 12/31/2005 | 12/31/2004 |
|---|------|---------------|---------------|
| Non-current assets | | | |
| <i>Intangible non-current assets</i> | | | |
| | 8 | | |
| Capitalised expenses for research and development work | | 31 645 | 29 656 |
| Concessions, patents, licences, trademarks and similar rights | | 3 554 | 6 063 |
| | | 35 199 | 35 719 |
| <i>Tangible non-current assets</i> | | | |
| | 9 | | |
| Plant and machinery | | 670 | 1 069 |
| Equipment, tools, fixtures and fittings | | 125 | 200 |
| Leasehold improvements | | 14 | 147 |
| | | 809 | 1 416 |
| <i>Financial non-current assets</i> | | | |
| Deposits rendered | | 18 | 7 |
| | | 18 | 7 |
| Current assets | | | |
| <i>Inventories</i> | | | |
| Raw materials and components | | 1 530 | 457 |
| Work in progress | | 106 | 0 |
| Finished goods and goods for resale | | 1 032 | 678 |
| | | 2 668 | 1 135 |
| <i>Short-term receivables</i> | | | |
| Accounts receivable | | 2 355 | 793 |
| Other receivables | 7 | 1 189 | 3 686 |
| Prepaid expenses and accrued income | 10 | 905 | 588 |
| | | 4 449 | 5 067 |
| Cash and cash equivalents | | 7 540 | 10 195 |
| Total current assets | | 14 657 | 16 397 |
| TOTAL ASSETS | | 50 683 | 53 539 |

BALANCE SHEET
(Amounts in SEK thousand)

| SHAREHOLDERS' EQUITY AND LIABILITIES | Note | 12/31/2005 | 12/31/2004 |
|---|------|-----------------|-----------------|
| Shareholders' equity | 11 | | |
| <i>Restricted equity</i> | | | |
| Share capital (62,168,942 shares, each with a quotient value of SEK 0.10) | | 6 217 | 40 034 |
| New issue in progress | | 6 210 | – |
| Conversion in progress | | 21 000 | – |
| Premium reserve | | – | 175 817 |
| Legal reserve | | 176 017 | 200 |
| Total restricted shareholders equity | | 209 444 | 216 051 |
| <i>Unrestricted shareholders' equity</i> | | | |
| Loss brought forward | | –192 243 | –170 948 |
| Reduction of share capital | | 55 952 | – |
| Net result for the year | | –36 723 | –27 768 |
| Total unrestricted shareholders' equity | | –173 014 | –198 716 |
| Total shareholders' equity | | 36 430 | 17 335 |
| Provisions | | 265 | 135 |
| Liabilities | | | |
| <i>Long-term liabilities</i> | | | |
| Convertible debenture loan | 12 | – | 19 000 |
| Total long-term liabilities | | – | 19 000 |
| <i>Current liabilities</i> | | | |
| Accounts payable | | 2 078 | 3 304 |
| Convertible debenture loan | 12 | 3 994 | 6 691 |
| Other liabilities | | 2 010 | 1 861 |
| Accrued expenses and prepaid income | 13 | 5 906 | 5 213 |
| Total current liabilities | | 13 988 | 17 069 |
| TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES | | 50 683 | 53 539 |
| MEMORANDUM ITEMS | | | |
| Total pledged assets | 14 | – | 933 |
| TOTAL PLEDGED ASSETS | | – | 933 |

CASH FLOW STATEMENT
(Amounts in SEK thousand)

| | Note | 2005 | 2004 |
|--|------|----------------|----------------|
| CURRENT OPERATIONS | | | |
| Result after financial items | | -36 723 | -27 768 |
| Adjustments not included in cash flow | | 8 233 | 4 564 |
| Cash flow from current operations before changes in working capital | | -28 490 | -23 204 |
| <i>Cash flow from changes in working capital</i> | | | |
| Increase in inventories | | -1 534 | -516 |
| Decrease in short-term receivables | | 619 | 595 |
| Decrease in current liabilities | | -2 244 | 1 743 |
| CASH FLOW FROM CURRENT OPERATIONS | | -31 649 | -21 382 |
| INVESTMENT OPERATIONS | | | |
| Acquisition of tangible non-current assets | 9 | -92 | -466 |
| Acquisition of financial non-current assets | | -11 | 2 |
| Capitalized development costs | 8 | -5 023 | -5 881 |
| CASH FLOW FROM INVESTMENT OPERATIONS | | -5 126 | -6 345 |
| FINANCING OPERATIONS | | | |
| Change in convertible debenture loan | 12 | 5 774 | 19 000 |
| New issue | 11 | 28 346 | 1 046 |
| CASH FLOW FROM FINANCING OPERATIONS | | 34 120 | 20 046 |
| CASH FLOW FOR THE YEAR | | -2 655 | -7 681 |
| LIQUID FUNDS AT BEGINNING OF YEAR | | 10 195 | 17 876 |
| LIQUID FUNDS AT YEAR-END | | 7 540 | 10 195 |

NOTES TO THE FINANCIAL STATEMENTS

Accounting principles

The accounting and valuation principles applied conform with the Swedish Annual Accounts Act and the general advice of the Swedish Financial Accounting Standards Council. Unless otherwise specifically stated, the principles are unchanged in comparison with the preceding year.

The Company's assets and liabilities are carried at cost and nominal value, respectively, unless otherwise specifically stated in a note below.

Revenue recognition

Net revenues includes sales of detectors and sensors and service in conjunction therewith. Revenue is reported when essentially all risks and rights associated with the ownership have been transferred to the buyer, which normally takes place in connection with delivery.

Grants for research and development

Grants for research and development are recognised as revenue when, in accordance with agreement, it can be estimated to be based on accrued expenditure. Expenditure for research and development for which grants are received are reported as cost as incurred.

Taxes

The Company's total taxes consist of current taxes and deferred taxes. Deferred taxes consist mainly of estimated taxes on the year's change in untaxed reserves and taxes on unutilised tax loss carryforwards, to the extent these can be met by reversal of untaxed reserves, or otherwise with great certainty can be utilised within the foreseeable future. Deferred taxes are calculated based on the current tax rate.

Intangible non-current assets

The Company reports intangible assets in accordance with BFN R1, which is accordance with recommendation No. 15 of the Swedish Financial Accounting Standards Council. The Company applies a conservative interpretation of BFN R1 and only capitalises approximately 50 percent of accrued expenses. Intangible non-current assets consists primarily of patents and capitalised development expenses.

Patents which are of significant value for the business are carried as intangible assets.

Expenditure for development aimed at completing an asset so that it can be used or sold, is carried as an intangible asset. Development refers in the first instance to design and testing of prototypes and includes external as well as internal expenditure in order to develop the asset.

Tangible non-current assets

Tangible non-current assets, consisting mainly of plant & equipment and leasehold improvements, are reported at acquisition cost less accumulated depreciation.

Depreciation and amortisation according to plan

Depreciation and amortisation according to plan is based on the acquisition value of the assets and their estimated economic life. Leasehold improvements are capitalised and amortised taking the content of the rental agreement into consideration. Capitalised development costs are amortised from the period when commercial sales of the intended product begins.

| | |
|---|------------|
| Capitalised expenditure for research and development work | 5 years |
| Patents | 5 years |
| Plant and equipment | 3-10 years |
| Equipment, tools, fixtures and fittings | 5 years |
| Leasehold improvements | 5 years |

Capitalised development expenses are amortised over 5 years according to a progressive rate of amortisation in order to better meet revenue, i.e. 2 percent 2004, 13 percent 2005, 25 percent 2006, 30 percent 2007 and 30 percent 2008.

Depreciation and amortisation for tax purposes are calculated in accordance with rules and regulations in force. Depreciation and amortisation for tax purposes are treated as supplementary depreciation and amortisation, which are classified as untaxed reserves.

Inventories

Inventories are valued at the lower of cost and fair value.

Receivables

Receivables are carried at the amount which after individual assessment is expected to be collected.

Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency are valued at the year-end rate of exchange. Gains and losses on receivables and liabilities of an operating character are reported net among other operating income or operating expenses, respectively.

Advance payments from customers are carried at the rates of exchange prevailing when each respective advance payment was received, since no obligation to repay is expected to occur.

NOTES – ALL AMOUNTS IN SEK THOUSAND, UNLESS OTHERWISE SPECIFICALLY STATED

Note 1. Personnel

| AVERAGE NUMBER OF EMPLOYEES | 2005 | | 2004 | |
|-----------------------------|---------------------|-------------|---------------------|-------------|
| | Number of employees | Of whom men | Number of employees | Of whom men |
| TOTAL | 24 | 17 | 23 | 16 |

| SALARIES AND OTHER COMPENSATION | 2005 | 2005 | 2005 | 2004 | 2004 | 2004 |
|---------------------------------|--|---|-----------------|--|---|-----------------|
| | Board of Directors and President ¹⁾ | Of which bonus and similar compensation ²⁾ | Other employees | Board of Directors and President ¹⁾ | Of which bonus and similar compensation ²⁾ | Other employees |
| TOTAL | 1 305 | 0 | 11 886 | 1 788 | 175 | 10 156 |

¹⁾ Includes present and previous directors and their alternates and President.

²⁾ Refers only to the group defined under ¹⁾ above.

³⁾ Upon termination, the President has the right to compensation equivalent to 12 months salary.

| SALARIES AND OTHER COMPENSATION (CONT'D) | 2005 | 2005 | 2005 | 2004 | 2004 | 2004 |
|--|---------------------------------|-----------------|------------------------|---------------------------------|-----------------|------------------------|
| | Salaries and other compensation | Social benefits | Of which pension costs | Salaries and other compensation | Social benefits | Of which pension costs |
| TOTAL | 13 191 | 7 038 | 2 903 | 11 944 | 6 467 | 2 846 |

Of the Company's pension costs, 353 (364) refer to the President. All pension commitments have been taken over by insurance companies, or are secured in other ways through funding with an external party.

Two option programmes were outstanding at year-end:

1) In the option programme from 2004, the employees and the Board of Directors together held 1,780,000 options with the right to acquire one share per option at a price of SEK 7, with expiration date 31 December 2006.

2) During 2005 an option programme was distributed to the employees where the employees together hold 2,465,850 options with the right to acquire one share per option at a price of SEK 0.35, with expiration date 31 December 2008.

No options were exercised during 2005.

Absence due to illness

| | 2005 | 2004 |
|-------------------------------------|--------------|--------------|
| Total absence due to illness | 1.39% | 2.46% |
| – long-term absence due to illness | * | * |
| – absence due to illness for men | 0.91% | 2.42% |
| – absence due to illness for women | 2.51% | 2.57% |
| – employees –29 years | * | * |
| – employees 30–49 years | 0.97% | 1.16% |
| – employees 50 years– | * | * |

* Not reported because of legislative exemption when the number of employees in the group is no more than 10.

Note 2. Information about auditors' fees

| | 2005 | 2004 |
|-------------------------------|------------|------------|
| Audit assignment Deloitte AB | 98 | 78 |
| Other assignments Deloitte AB | 93 | 74 |
| Total | 191 | 152 |

By auditing assignment is meant examination of the annual accounts and financial statements and the management by the President and the Board Directors, other tasks the Company's auditor is obliged to perform and advice and counsel prompted by the observations in the course of such examination, or carrying out such other tasks. Everything else is defined as other assignments.

The Company elected Deloitte AB with Kerstin Sundberg as chief auditor at the Annual General Meeting (the Annual Meeting) held 15 August 2005.

Note 3. Amortisation and impairment

The distribution of amortisation is 175 (206) on administrative expenses and 6 067 (3 595) on research and development.

Note 4. Other operating revenue

| | 2005 | 2004 |
|--|------------|--------------|
| Exchange rate result of an operational character | 114 | -6 |
| EU grants | - | 873 |
| Vinnova grants | 414 | 382 |
| Total | 528 | 1 249 |

On 28 December 2000, EU approved two applications for support for further development of the mine sensor and development of a multisensor for the Company, together with, among other, the Swedish *Svenska Räddningsverket* and Norwegian *Norsk Folkehjelp*. EU has approved total grants in an amount of MEUR 1.9 and the projects ran over three years. The Company reports grants when the cost that the grant is intended to cover has been incurred. During 2005 the Company reported 0 (873) as other operating revenue relating to support from EU. Both EU projects were completed during 2005.

On 1 September 2004, Vinnova approved an application for support of further development of a perspiration detector. Vinnova has approved total grants of 700 and the project ran over two years. During 2005, the Company reported 318 (382) as other operating revenue relating to support from Vinnova.

On 1 September 2004, Vinnova approved an additional application for further development of the perspiration detector for indicating narcotics intake. Vinnova has approved total grants of 500 and the project runs for six months. During 2005 the Company reported 96 as other operating revenue relating to this support from Vinnova.

Note 5. Interest income and similar items

| | 2005 | 2004 |
|-------------------------|------------|------------|
| Interest income | 75 | 150 |
| Translation differences | 579 | 698 |
| Other financial income | 173 | 115 |
| Total | 827 | 963 |

Note 6. Interest expense and similar items

| | 2005 | 2004 |
|-------------------------|--------------|--------------|
| Interest expense | 2 695 | 647 |
| Translation differences | 1 211 | 531 |
| Total | 3 906 | 1 178 |

Note 7. Other receivables

| | 2005 | 2004 |
|--|------------|------------|
| Tax claims | | |
| Tax claims relating to special payroll tax are included among claims | 549 | 484 |
| Total | 549 | 484 |

Deferred tax claim

The Company reports in accordance with recommendation No. 9 of the Swedish Financial Accounting Standards Council. The Company has accumulated tax loss carryforwards amounting to 227 550 (197 416), equivalent to a deferred tax claim of 63 714 (55 276).

By way of precaution, the Company does not report any deferred tax claim despite the fact that the Company expects to generate profits in the future.

Note 8. Intangible non-current assets

| | Patents | Capitalised development expenses |
|--|----------------|----------------------------------|
| Opening acquisition cost | 16 145 | 30 123 |
| Purchases/capitalised expenses ¹⁾ | – | 5 023 |
| Closing accumulated acquisition cost | 16 145 | 35 146 |
| Opening amortisation | –10 082 | –467 |
| Amortisation for the year | –2 509 | –3 034 |
| Closing accumulated amortisation | –12 591 | –3 501 |
| CLOSING BOOK VALUE | 3 554 | 31 645 |
| During the preceding financial year the following amounts were reported with respect to: | | |
| Amortisation | –2 509 | –467 |

1) During 2005 internal expenditure relating to payroll expenses amounting to 4 995 (4 863) were capitalised.

Note 9. Tangible non-current assets

| | Plant and machinery | Equipment, tools, fixtures and fittings | Leasehold improvements | Total |
|---|---------------------|---|------------------------|---------------|
| Opening acquisition values | 2 158 | 1 764 | 1 423 | 5 345 |
| Purchases | 45 | 46 | – | 91 |
| Disposals | –25 | – | – | –25 |
| Closing accumulated acquisition values | 2 178 | 1 810 | 1 423 | 5 411 |
| Opening depreciation | –1 089 | –1 564 | –1 276 | –3 929 |
| Depreciation for the year | –419 | –121 | –133 | –673 |
| Disposals | – | – | – | – |
| Closing accumulated depreciation | –1 508 | –1 685 | –1 409 | –4 602 |
| CLOSING BOOK VALUE | 670 | 125 | 14 | 809 |

During the preceding financial year the following amounts were

reported with respect to:

Depreciation

–433 –136 –284 –853

Note 10. Prepaid expenses and accrued income

| | 12/31/2005 | 12/31/2004 |
|---|------------|------------|
| Prepaid rent | 246 | 245 |
| Other prepaid expenses and accrued income | 659 | 343 |
| Total | 905 | 588 |

Note 11. Change in shareholders' equity

| | Share capital | Share capital not registered | Premium reserve | Legal reserve | Unrestricted equity | Total |
|--|---------------|------------------------------|-----------------|----------------|---------------------|---------------|
| Opening balance | 40 033 | – | 175 817 | 200 | –198 715 | 17 335 |
| Transfer to legal reserve | – | – | –175 817 | 175 817 | – | 0 |
| Remitted convertible debenture loan | – | – | – | – | 6 472 | 6 472 |
| New issue paid in but not registered * | – | 6 210 | – | – | – | 6 210 |
| Converted debenture loan ** | – | 21 000 | – | – | – | 21 000 |
| New issue | 22 136 | – | – | – | – | 22 136 |
| Reduction of share capital | –55 952 | – | – | – | 55 952 | 0 |
| Net result for the year | – | – | – | – | –36 723 | –36 723 |
| CLOSING BALANCE | 6 217 | 27 210 | 0 | 176 017 | –173 014 | 36 430 |

* During November 2005, a new issue was floated with preferential rights for existing shareholders. The subscription price was SEK 0.20 per share and a total of 31,057,773 new shares were issued and subscribed for. Total proceeds to the Company were MSEK 6.2 and the share capital increased, after registration in January 2006, by MSEK 3.1 and MSEK 3.1 was added to the premium reserve.

** In the interest of enabling the Company to float a major new issue, an investment agreement was concluded in July 2005 for bridge financing in a total amount of MSEK 21, including FSV V's claim of MSEK 1. The loan carried interest at a rate of 7 percent p.a. Biosensor's extraordinary general meeting held 15 September 2005 resolved to convert this bridge financing to a subordinated convertible debenture. The subordinated convertible debenture also gives the lenders the right to subscribe for new shares in the Company at a subscription price of SEK 0.16 per share until 30 June 2006. The subordinated convertible debenture in the amount of MSEK 21 plus interest was converted to shares as of 23 December 2005. A total of 133,802,083 new shares were subscribed for. The conversion was registered after year-end and the share capital increases by MSEK 13.4 in January 2006 and the premium reserve by MSEK 8.0.

Note 12. Subordinated convertible debenture loan

The bridge financing from November 2004 in the amount of MSEK 19 was converted to a subordinated convertible debenture at the extraordinary general meeting held 2 February 2005. Under the investment agreement the lenders received options entitling the holders to subscribe for new class A shares in the Company at a subscription price of SEK 1 per share during the period 15 April 2005 – 15 April 2008. The lenders exercised their options as of 31 May 2005 and 1,900,000 new class A shares were subscribed for, thereby increasing the share capital by MSEK 1.9. The debenture in the amount of MSEK 19 plus interest was also converted to preferred shares as of 15 September 2005. A total of 20,235,000 new class C shares were subscribed for and the share capital increased by MSEK 20.2.

FSV V acquired Skandia Liv's holding of shares and convertibles in the Company in April 2005. In July 2005, FSV V remitted its convertible debenture loan in the amount of MSEK 6.7 and accrued interest in the amount of MSEK 781 against granting a new convertible loan in the amount of MSEK 1. The amount remitted was MSEK 6.5, which is reported directly against equity. The new loan was part of the investment agreement for bridge financing concluded in July 2005 in a total amount of MSEK 21.

Note 13. Accrued expenses and prepaid income

| | 12/31/2005 | 12/31/2004 |
|------------------------|--------------|--------------|
| Holiday pay liability | 1 418 | 1 253 |
| Social benefits | 776 | 857 |
| Accrued interest | 1 469 | 844 |
| Accrued royalty | 262 | 92 |
| Prepaid income | 349 | 219 |
| Other accrues expenses | 1 632 | 1 948 |
| Total | 5 906 | 5 213 |

Note 14. Pledged assets

| | 12/31/2005 | 12/31/2004 |
|-----------------------------|------------|------------|
| <i>Pledged assets</i> | | |
| Advance payment guarantee | – | 383 |
| Contract guarantee | – | 480 |
| Tender guarantee | – | 70 |
| <i>Total pledged assets</i> | – | 933 |
| TOTAL PLEDGED ASSETS | – | 933 |

Both EU projects were completed during 2005 and EU has released bank funds held in escrow and assets are thus no longer pledged.

Stockholm, 23 March 2006

Göran Lundberg
Chairman

Bengt Hagander
President & CEO

Leif Engström

Pär Ericson

Ulf Ericsson

Peter Gullander

Olle Lundberg

Our audit report differs from the standard wording and was submitted 20 April 2006

Deloitte AB

Kerstin Sundberg
Authorised Public Accountant