BIOTRON LIMITED

A.B.N. 60 086 399 144

INTERIM
FINANCIAL REPORT
31 DECEMBER 2005

BIOTRON LIMITED

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BIOTRON LIMITED

DIRECTORS' REPORT

Your Directors have pleasure in submitting their report together with the interim financial report of Biotron Limited ('the Company') for the six months ended 31 December 2005 and the review report thereon.

Directors

The names of the Directors of the Company in office during or since the end of the half year are:

Mr Michael J. Hoy
Independent and Non-Executive Chairman

Mr Hoy has more than 30 years' corporate experience in Australia, the United Kingdom, USA and Asia. He is Chairman of CityPrint Holdings Pty Limited and a director of Eiffel Technologies Limited and a former director of John Fairfax Holdings Limited and FXF Trust.

He has been a director since 7 February 2000 and Chairman since 16 March 2000.

Dr Michelle Miller, BSc, MSc, PhD
Managing Director

Dr Miller has over 20 years' experience in the bioscience industry, with extensive experience in managing commercial bioscience research. She completed her PhD in the Faculty of Medicine at Sydney University investigating molecular models of cancer development. Her experience includes a number of years at Johnson and Johnson developing anti-HIV gene therapeutics through preclinical research to clinical trials. She has experience in early-stage start-ups from time spent as Investment Manager with a specialist bioscience venture capital fund.

She was appointed as Managing Director on 21 June 2002.

Dr Michael S. Hirshorn, MBA, MB, BS
Independent and Non-Executive Director

Dr Hirshorn has over 20 years' experience in the commercialisation of Australian Technology, particularly in the medical device industry, and extensive experience in collaboration with Australian research institutes.

He played a major role in all commercial aspects of Cochlear Limited's development, was a founding director of Resmed Inc., and Chief Executive Marketing for Polartechnics Limited.

He has served on numerous government advisory committees, including the Start IT and T Committee, the Start Grants Biological Sciences Committee of the Department of Industry, Science and Resources and is currently an Investment Manager with a venture capital firm, Nanyang Ventures.

Dr Hirshorn was appointed as a director on 16 March 2000.

Mr Bruce Hundertmark
Independent and Non-Executive Director

Mr Hundertmark is an independent businessman and company director with a wide range of experience in high technology based company start-up operations and promoting the formation of venture capital companies, including News Datacom Limited in Israel and PT Indo Bio Products in Indonesia.

He has been a director of News International PLC, Prudential Cornhill Insurance Limited and was Managing Director of IMFC Limited, a merchant bank.

Mr Hundertmark was appointed as a director on 16 March 2000.

Mr Peter G. Scott
Non-Executive Director

Mr Scott is a founding director of Biotron Limited with more than 30 years of commercial and entrepreneurial experience in Australia.

He is a director of Scott's Acorn Pty Ltd and was formerly Chairman and Managing Director of Scottcom Pty Ltd and Managing Director of ICAM Pty Ltd, audio visual and multimedia companies.

Mr Scott has been a director since 23 February 1999.

Professor Peter W. Gage, MB ChB, PhD, DSc FAA
Research Director

Professor Gage was professor of Physiology at the John Curtin School of Medical Research at the Australian National University and President of the Australian Physiological and Pharmacological Society.

He had more than 35 years' experience in medical research, including training medical researchers, particularly PhD students. For the past 25 years his research focus had been on ion channels.

Professor Gage was admitted as a fellow of the Australian Academy of Science in 1977 and was the recipient of an Award of a Special Research Centre by the government in 1982 for research on nerve and muscle ion channels.

He was a director from 23 February 1999 to 13 August 2005.

We were all saddened by the death during the half year of Biotron founder and fellow director, Professor Peter Gage whose ion channel research formed the basis of the Company's Virion project. He was an internationally acclaimed pioneer of the use of ion channels as a treatment for viral diseases, and Biotron is now privileged to have the opportunity to develop the outcomes of his research into treatments for life threatening diseases such as HIV and HCV.

Peter J. Nightingale
Company Secretary

Mr Nightingale graduated with a Bachelor of Economics degree from the University of Sydney and is a member of the Institute of Chartered Accountants in Australia. He has worked as a chartered accountant in both Australia and the USA.

Mr Nightingale has, for the past 18 years, been a director or company secretary of a number of private and publicly listed companies in Australia, the USA and Europe. Mr. Nightingale has been responsible for the financial control, administration, secretarial and in-house legal functions of these companies. He is currently a director or company secretary of Australian listed public companies Bolnisi Gold NL, Cockatoo Coal Limited, IMD Group Limited and Planet Gas Limited and Palmarejo Silver and Gold Corporation, a Canadian public listed company.

Review of Operations

The half year ended 31 December 2005 has seen a continued focus on commercial development of the two tier one projects under development at Biotron, with a particular emphasis on the Virion antiviral program.

Significant events achieved in this half year period include:

- Selection of a lead drug, BIT225, to progress into a clinical development program for HIV.
- Demonstration that BIT225 is active against multiple resistant strains of HIV.
- Demonstration that BIT225 improves the activity of existing HIV drugs.
- Selection of a contractor, Dr Reddy's Laboratories Ltd, Hyderabad, India, to manufacture and supply 5 kilograms of GMP-grade BIT225 for the final preclinical safety studies and the proposed Phase I/IIa clinical trial. Process development and scale up for manufacture of BIT225 is currently underway.
- Selection of a contract research organisation for undertaking the final safety studies that will be the last stage before the commencement of human trials.

Virion

Biotron's Virion project has seen significant progress during this half-year period. In September 2005 Biotron announced that it had selected a lead compound, BIT225, to progress into a clinical development program heading towards clinical trials for HIV. This is a very significant milestone for the Company, and was the culmination of many months of robust testing of several lead candidate compounds, each of which had favourable characteristics in terms of safety, bioavailability and efficacy. BIT225 consistently outperformed the other candidates in these studies.

BIT225 represents a novel, first in class approach to the treatment of HIV. BIT225 targets a different HIV protein, Vpu, than those targeted by other existing HIV therapies. It is well recognised that new approaches to HIV therapy are needed to counteract the development of drug resistance that occurs with current therapies. By blocking a new pathway in HIV infectivity, Biotron's Vpu inhibitors have the potential to combat drug-resistant viral strains, in combination with highly active antiretroviral therapies ('HAART') and in monotherapy.

Studies conducted during the half year ended 31 December 2005 have shown that BIT225 is active against strains of HIV that are resistant to other HIV drugs.

Critically, BIT225 specifically targets HIV in reservoir cells, in contrast to current therapies that work by reducing the levels of HIV in the blood to undetectable levels. However, these drugs have no effect on the underlying reservoir of infected cells where the HIV hides from the immune system. Over the lifetime of a patient virus from these reservoir cells rebounds into the blood, necessitating on-going treatment with antiretroviral drugs. Currently, no therapies are active in these latent cells and elimination of this reservoir of HIV is essential if the virus is to be completely eliminated from the body. BIT225 is specifically active in these reservoir cells and represents an opportunity to attack HIV at its source.

BIT225 could be used in combination with existing antiretroviral therapies to achieve the dual effect of arresting viral replication and eliminating the viral reservoir to achieve total elimination of HIV in the body. Recent in vitro studies have demonstrated that BIT225 is able to improve the activity of current HIV therapies, further supporting the use of BIT225 in combination with other antiretrovirals.

After a period of extensive review of quotations and capabilities of chemical manufacturers, Dr Reddy's Laboratories Ltd, Hyderabad, India was contracted to manufacture and supply 5 kilograms of GMP-grade BIT225. Process development and scale up of the manufacturing process from the previous bench top scale to large scale reactors is currently in progress.

BIT225 is a relatively simple compound to make, with only four steps in its synthetic process. The average number of steps for drugs on the market is 12, and several have even longer, very complicated processes. The relative ease of manufacture of BIT225 will keep the cost of manufacture low. The 5 kilograms of BIT225 will be manufactured in two batches of 2.5 kilograms, to minimise any risk associated with the manufacturing process and to validate the process.

The manufacturing is being done to audited international regulatory standards and will be suitable for use in human clinical trials.

Biotron has selected an international contract research organisation ('CRO') to undertake the final preclinical safety studies that must be completed before a human trial can commence. These studies will comply with international regulatory standards, and the results will form the basis of future regulatory approvals for Biotron's drug with organisations including the Therapeutic Goods Administration ('TGA') in Australia and the Food and Drug Administration ('FDA') in the USA, which control approvals for new drugs in humans. These safety studies will be completed using the batches of BIT225 manufactured by Dr Reddy's Laboratories.

The risk associated with development of any new drug has been considerably reduced for BIT225, due to the extensive preclinical testing program to which BIT225 has been subjected. During Biotron's rigorous lead optimisation and selection program which culminated in selection of BIT225:

- The drug underwent extensive preliminary safety testing which showed that it had good bioavailability (the rate and extent that the active drug is absorbed from a dosage form and becomes available in the systemic circulation) following both oral and intravenous dosing.
- Acute toxicity studies in mice and rats were conducted to determine 'no observed adverse effect levels' (NOAELs) which demonstrated that BIT225 was absorbed and metabolised by the animals and that toxicity levels were within acceptable levels.

The final preclinical safety studies currently underway include longer-term, chronic, multiple-dosing toxicity tests in two species of animals, as well as additional in vitro safety tests. The data from these and earlier safety studies will be submitted to appropriate hospital, ethics and regulatory authorities to support approval for commencement of a Phase I/IIa clinical trial.

To expedite this process, Biotron has been in discussions with doctors specialising in treatment of HIV as well as clinical trial consultants, regarding design and location of the proposed trial. Preliminary meetings have already been held with regulatory authorities. The final design of the human trial and selection of a trial site will be concluded during the next half year ending 30 June 2006.

At present, whilst Biotron's financial and management resources are primarily committed to development of the HIV program, development of therapeutics for viruses other than HIV continue with a focus on Hepatitis C virus ('HCV').

Biotron has identified several compounds with activity against the HCV virus through screening of its rationally designed compound library in the Company's proprietary assays. Lead optimisation is in process to identify a lead compound suitable for progression into clinical trials for HCV. Further, several Biotron compounds have been shown to be active against other commercially relevant viruses, from in-house assays as well as in conjunction with the National Institute of Health ('NIH'), USA. These programs will be further developed as resources become available.

During the half year, on-going discussions have been held with potential partners regarding the Virion technology. Whilst keen to secure a partner to take the compounds through into clinical development, Biotron can significantly increase the value of the technology by undertaking the proposed Phase I/IIa clinical trial before forming an alliance. This will translate into much higher returns to the Company in the form of upfront payments as well as increased milestone and royalty payments in the future.

C-Test

Cancer cells have a number of characteristics that distinguish them from normal cells. Most tumour markers are neither sensitive nor specific enough to screen for cancer or to diagnose the type of cancer without the support of other clinical tests. While a number of tumour markers have been identified in the past, they have generally been found to lack sensitivity and specificity for different types of cancers.

There is a real call for new tests that allow unambiguous cancer diagnoses to be made at an early stage. The best tests will be simple and non-invasive assays that allow rapid and accurate diagnosis of the type of cancer and its stage.

To address this need, Biotron is developing sensitive, rapid, non-invasive assays to detect and diagnose specific types of cancer. Research undertaken by the C-Test project team has led to the profiling of sera from patients with different types of cancer, showing that the glycolipid expression pattern is unique between cancer types. The Company has developed proprietary technology for extraction and analysis of carbohydrates from blood, and has developed algorithms for analysing the expression profile of these molecules. Trials have been undertaken to demonstrate the utility of this glycomics approach for diagnosis of prostate and colorectal cancers. In 2005 Biotron was awarded a competitive grant of $200,000 from the ACT Government to facilitate further commercial development of C-Test for these diseases.

During this half year period, Biotron has continued to optimise its assay methods and identify differences in the free oligosaccharide and glycolipid expression profiles between cancer patients and normal individuals. Analysis of a larger data set is currently in progress to validate earlier results.

In the coming year, the Company aims to extend its studies to include patients with breast cancer and mesothelioma.

Analysis of biomarkers in the blood for diagnosis of diseases such as cancer is receiving increased attention in the scientific and medical fields. Biotron's technology is well placed to take advantage of this upsurge of interest internationally. Biotron has a strong competitive position and has filed international patent applications to protect the C-Test technology platform. Biotron's primary aim is to generate a product that can be commercialised as rapidly as possible.

Tier Two Projects

The remaining projects are underpinned by a platform technology, research on ion channels in membranes. These projects are at an earlier stage of development than the Virion and C-Test projects and, as such, limited resources are committed due to the Company's focus on commercial development of the Virion and C-Test projects.

In the Muscion project, good progress is being made on designing small synthetic versions, or mimetics, of larger peptides that Biotron researchers have previously identified as potential drugs for treatment of damaged or failing heart muscle. The aim of this project is to develop small, cost effective compounds for advancement into preclinical and clinical development for cardiovascular disease.

The Hypoxion project is focused on identifying compounds that prevent the symptoms of stroke and heart attack. Animal models of the diseases are being established.

The GeneTrans project has generated a novel cell line that will have utility in drug screening tests to check the safety of new pharmaceutical drugs.

The Gabion project is investigating compounds that act on the GABA receptor, which has been implicated in numerous neurological disorders.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 6 and forms part of the Directors' Report for the half year ended 31 December 2005.

This report has been signed in accordance with a resolution of the Directors and is dated 14 March 2006:

Michael J. Hoy
Director

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the Directors of Biotron Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 31 December 2005, there have been:

(i) no contravention of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

S.J. Board
Partner

Brisbane
14 March 2006

BIOTRON LIMITED

CONDENSED INTERIM INCOME STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	Notes	31 December 2005 $	31 December 2004 $
Other operating income		358,056	519,288
Administration and consultants' expenses		(156,861)	(155,623)
Depreciation		(40,921)	(69,513)
Direct research and development expenses		(645,556)	(688,745)
Employee and director expenses		(288,577)	(247,913)
Legal fees		(3,103)	(3,093)
Rent		(22,295)	(53,331)
Travel		(25,739)	(24,814)
Other expenses from ordinary activities		(109,430)	(113,338)
Operating loss before financing income		(934,426)	(837,082)
Financial income		46,426	61,362
Net financing income		46,426	61,362
Loss before tax		(888,000)	(775,720)
Income tax expense		-	-
Loss for the period	3	(888,000)	(775,720)
Basic loss per share attributable to ordinary equity holders	4	(1.27) cents	(1.21) cents
Diluted loss per share attributable to ordinary equity holders	4	(1.27) cents	(1.21) cents

The condensed interim income statement is to be read in conjunction with the notes to the condensed interim financial statements set out on pages 11 to 15.

BIOTRON LIMITED

CONDENSED INTERIM STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	31 December 2005 $	31 December 2004 $
Loss for the period	(888,000)	(775,720)
Total recognised income and expense for the period	(888,000)	(775,720)

Other movements in equity arising from transactions with owners as owners are set out in note 3.

The condensed interim statement of recognised income and expense is to be read in conjunction with the notes to the condensed interim financial statements set out on pages 11 to 15.

BIOTRON LIMITED

CONDENSED INTERIM BALANCE SHEET
AS AT 31 DECEMBER 2005

	Notes	31 December 2005 $	30 June 2005 $
Current assets			
Cash and cash equivalents		1,368,160	2,112,796
Trade and other receivables		21,123	45,729
Inventories		37,123	38,781
Other		16,244	6,909
Total current assets		1,442,650	2,204,215
Non-current assets			
Plant and equipment		184,684	224,393
Other		17,471	-
Total non-current assets		202,155	224,393
Total assets		1,644,805	2,428,608
Current liabilities			
Trade and other payables		103,600	118,440
Employee entitlements		33,809	31,438
Total current liabilities		137,409	149,878
Total liabilities		137,409	149,878
Net assets		1,507,396	2,278,730
Equity			
Issued capital	3	12,651,368	12,651,368
Reserves	3	165,416	110,850
Retained losses	3	(11,309,388)	(10,483,488)
Total equity		1,507,396	2,278,730

The condensed interim balance sheet is to be read in conjunction with the notes to the condensed interim financial statements set out on pages 11 to 15.

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CONDENSED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2005

	31 December 2005 $	31 December 2004 $
Cash flows from operating activities		
Cash receipts in the course of operations	393,861	571,217
Cash payments in the course of operations	(475,546)	(463,626)
Interest received	41,917	61,362
Payments for research and development	(703,656)	(750,732)
Net cash from operating activities	(743,424)	(581,779)
Cash flows from investing activities		
Payments for plant and equipment	(1,212)	(184)
Net cash from investing activities	(1,212)	(184)
Cash flows from financing activities		
Proceeds from issue of shares	-	1,206,408
Net cash from financing activities	-	1,206,408
Net increase/(decrease) in cash held and cash equivalents	(744,636)	624,445
Cash and cash equivalents at 1 July	2,112,796	2,617,629
Cash and cash equivalents at 31 December 2005	1,368,160	3,242,074

The condensed interim statement of cash flows is to be read in conjunction with the notes to the condensed interim financial statements set out on pages 11 to 15.

1. SIGNIFICANT ACCOUNTING POLICIES

Biotron Limited (the 'Company') is a company domiciled in Australia.

The interim financial report was authorised for issue by the Directors on 10 March 2006.

Statement of compliance
The interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001.

International Financial Reporting Standards ('IFRS') form the basis of Australian Accounting Standards adopted by the AASB, being Australian equivalents to IFRS ('AIFRS').

This is the Company's first AIFRS condensed interim financial report for part of the period covered by the first AIFRS annual financial report and AASB 1 *First time adoption of Australian equivalents to International Financial Reporting Standards*. The Company's interim financial report does not include all of the information required for a full annual financial report.

This half year financial report is to be read in conjunction with the 30 June 2005 Annual Financial Report and any public announcements by the Company during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

Basis of preparation
The financial report is presented in Australian dollars and is prepared on the historical cost basis.

The preparation of an interim financial report in conformity with AASB 134 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

This condensed interim financial report has been prepared on the basis of AIFRS on issue that are effective or available for early adoption at the Company's first AIFRS annual reporting date, 30 June 2006. Based on these AIFRS, the Board of Directors has made assumptions about the accounting policies expected to be adopted when the first AIFRS annual financial report is prepared for the year ending 30 June 2006.

The preparation of the condensed interim financial report in accordance with AASB 134 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous GAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed interim financial statements. They also have been applied in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS, as required by AASB 1. The impact of the transition from previous GAAP to AIFRS is explained in note 6. Where relevant, the accounting policies applied to the comparative period have been disclosed if they differ from the current period policy.

The accounting policies have been applied consistently for purposes of this interim financial report.

Going concern
The ongoing operation of the Company is dependent upon the Company obtaining additional funding from shareholders and/or external parties. In the event that the Company does not obtain this funding, it will be unable to continue its operations as a going concern and therefore the Company may not be able to realise its assets and extinguish its liabilities in the normal course of operations and at the amounts stated in the financial statements.

Trade and other receivables
Trade and other receivables are stated at their cost less impairment losses.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and at call deposits.

Trade and other payables
Trade and other payables are stated at their cost.

Property, plant and equipment
Property plant and equipment are stated at their historical cost and are depreciated over their estimated useful lives using the reducing balance method from the date of acquisition at rates between 13% and 40% per annum.

Earnings per share
Basic earnings per share (EPS), is calculated by dividing the net profit for the reporting period by the weighted average number of ordinary shares of the Company.

Inventory
Stock is carried at the lower of cost allocated and net realisable value

Employee benefits
Wages, salaries, annual leave and sick leave
Liabilities for employee benefits for wage, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wages and salary rates that the company expect to pay as to reporting date including related on-cost, such as workers compensation insurance and superannuation.

Impairment
The carrying amounts of the Company's assets, other than deferred tax assets and inventories, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

Calculation of recoverable amount
The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Share capital
Transaction costs
Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

Research and development
Grants
Where a grant is received relating to research and development costs that have been expensed, the grant is recognised as revenue on a cash receipts basis.

Costs
Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Company has sufficient resources to complete development.

Net financing costs
Net financing costs comprise interest payable on borrowings calculated using the effective interest method and interest income. Interest income is recognised in the income statement as it accrues, using the effective interest method.

Provisions
A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

Taxation
Income tax
Income tax on the profit or loss for the six months comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probably that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Goods and services tax
Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Net fair values of financial assets and liabilities
The carrying amounts of financial assets and liabilities approximate their net fair values.

Incentive option plan
The Incentive Option Plan allows the Company's employees or directors, or individuals whom the Plan Committee determine to be employees for the purposes of the Plan, with the opportunity to acquire options over unissued shares in the Company. The fair value of options granted is measured at grant date and spread as an expense over the period during which the employees or directors become unconditionally entitled to the options. The fair value of the options granted is measured using Black-Scholes formula, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

2. FINANCIAL REPORTING BY SEGMENTS

The Company operates in the biotechnology industry in Australia.

3. CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves

	Share capital $	Equity remuneration reserve $	Retained losses $	Total $
Balance at 1 July 2005	12,651,368	110,850	(10,483,488)	2,278,730
Transfer from reserve to retained losses	-	(62,100)	62,100	-
Total recognised income and expense	-	-	(888,000)	(888,000)
Equity settled transactions net of tax	-	116,666	-	116,666
Balance at 31 December 2005	12,651,368	165,416	(11,309,388)	1,507,396

Dividends
There were no dividends paid or declared during the six months ended 31 December 2005.

Options
During the six months ended 31 December 2005:

- 900,000 options, each exercisable at 50 cents to acquire one fully paid ordinary share at any time up to 30 September 2005, lapsed unexercised.
- 2,600,000 options were granted with a fair value of $116,666 resulting in a credit of $116,666 (30 June 2005 – nil) to the equity remuneration reserve.

The fair value of the options at grant date was determined based on the Black-Scholes formula. The model inputs were the Company's share price of $0.17 at the grant date, a volatility factor of 50% based on historic share price performance and a risk free interest rate of 5.2% based on the five year government bond rate.

4. LOSS PER SHARE

	31 December 2005 $	31 December 2004 $
Basic and diluted loss per share have been calculated using:		
Net loss for the six months ended 31 December 2005	888,000	775,720
Weighted average number of ordinary shares	69,800,550	64,311,074

Options disclosed in the Capital and Reserves note above are potential ordinary shares, but are not included in the calculation of diluted loss per share as they are not dilutive.

5. RELATED PARTY INFORMATION

During the six months ended 31 December 2005, 2,600,000 options with a fair value of $116,666 were granted to directors and executives.

During the six months ended 31 December 2005, Michael J. Hoy had an interest in an entity, CityPrint Holdings Pty Limited, which provided printing services to the Company. Payments to CityPrint Holdings Pty Limited, which were in the ordinary course of business and on normal terms and conditions, amounted to $20,704 (31 December 2004 – $17,027).

6. EXPLANATION OF TRANSITION TO AIFRS

This is the Company's first AIFRS condensed interim financial report for part of the period covered by the first AIFRS annual financial report and AASB 1 First time adoption of Australian equivalents to International Financial Reporting Standards.

The accounting policies set out in Note 1 have been applied consistently to all periods presented in these condensed interim financial statements. They also have been applied in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS, as required by AASB 1.

Transition from previous GAAP to AIFRS has no material impact on the Company's financial position, financial performance or cash flows, hence no adjustments have been made by the Company to amounts reported previously in financial statements prepared in accordance with previous GAAP.

BIOTRON LIMITED

DIRECTORS' DECLARATION

In the opinion of the directors of Biotron Limited:

(a) the financial statements and notes, set out on pages 7 to 15, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company as at 31 December 2005 and of its performance, as represented by the results of its operations and cash flows for the half year ended on that date; and

(ii) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

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

This report has been signed in accordance with a resolution of the directors and is dated 14 March 2006:

Michael J. Hoy
Director

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF BIOTRON LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the condensed interim statement of income, condensed interim statement of changes in recognised income and expense, condensed interim balance sheet, condensed interim statement of cash flows, accompanying notes 1 to 6 to the financial statements, and the directors' declaration set out on pages 7 to 16 for Biotron Limited for the half year ended 31 December 2005.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing the relevant reconciling information regarding adjustments required under the Australian Accounting Standard AASB 1 *First-Time Adoption of Australian equivalents to International Financial Reporting Standards.*

Review approach

We conducted an independent review in order for the Company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of Company personnel; and
- analytical procedures applied to the financial data.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the half year financial report of Biotron Limited is not in accordance with:

a) the Corporations Act 2001, including:
   i. giving a true and fair view of the Company's financial position as at 31 December 2005 and of its performance for the half year ended on that date; and
   ii. complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

b) other mandatory financial reporting requirements in Australia.

KPMG
14 March 2006

S.J. Board
Partner

BIOTRON LIMITED

CORPORATE DIRECTORY

Directors:

Mr Michael J. Hoy (Chairman)
Dr Michelle Miller (Managing Director)
Dr Michael S. Hirshorn
Mr Bruce Hundertmark
Mr Peter G. Scott

Company Secretary:

Mr Peter J. Nightingale

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Phone: 61-7 3237 2100
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BRISBANE QLD 4000

Home Exchange:

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SYDNEY NSW 2000

Solicitors:

Minter Ellison
88 Phillip Street
SYDNEY NSW 2000

Biotron Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.