

**ANNUAL REPORT AND**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**  
**FOR**  
**EDEN RESEARCH PLC**

TUESDAY



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**EDEN RESEARCH PLC**

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**EDEN RESEARCH PLC**

**COMPANY INFORMATION**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

**DIRECTORS:** K W Brooks  
T Griffiths  
A J Abrey  
C Newitt  
A B N Gill  
S R O'Brien

**SECRETARY:** R E Sims  
Oxford Corporate Services Limited

**REGISTERED OFFICE:** Unit 3, Manor Business Park  
Witney Road  
Finstock  
Chipping Norton  
OX7 3DG

**REGISTERED NUMBER:** 3071324 (England and Wales)

**AUDITOR:** Baker Tilly UK Audit LLP  
Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6AD

**BANKERS:** The Royal Bank of Scotland plc  
Southern Corporate Office  
P O Box 391  
40 Islington High Street  
London  
N1 8JX

**SOLICITORS:** BrookStreet Des Roches  
1 Des Roches Square  
Witan Way  
Witney  
Oxfordshire  
OX8 6BE

**STOCKBROKERS:** J M Finn and Co  
4 Coleman Street  
London  
EC2R 5TA

## **EDEN RESEARCH PLC**

### **CHAIRMAN'S REVIEW**

#### **FOR THE YEAR ENDED 31 DECEMBER 2008**

##### **Chairman's Review**

##### **Overview**

2008 saw Eden's promising technology progressing steadily to commercialisation. Emphasis was put on the following activities:

- completing the key European regulatory process required to allow commencement of initial sales of our lead fungicide (3AEY), for control of botrytis;
- further developing our products for the control of nematodes with a number of development trials in high value vegetable crops in Southern Europe;
- continuing work to exploit the potential of our products for control of spider mites and whitefly in vegetable crops;
- developing new formulation technology to utilise the properties of terpenes to improve ease of use to the grower through granule formulation and increased product loading which will allow the same amount of actives to be applied at a lower field use rate;
- identifying potential to control post harvest soft rot diseases for high value and highly perishable fruit and vegetables;
- identifying further insect pest applications for our terpene products in a range of uses both in agriculture/horticulture and household and personal care markets;
- strengthening our relationships with our existing commercial partners to ensure the opportunities for our products in the major agricultural chemical markets are fully exploited; and
- identifying further relationships with potential commercial partners, especially for new fungicidal uses of our products.

##### **Bringing 3AEY to Market**

In 2008 our efforts concentrated on regulatory matters relating to our lead product 3AEY. Following the submission of the regulatory dossier, 2008 has been a period when the regulatory authorities reviewed the submitted data and made their conclusions leading to their interim summary being published in early 2009. In mid 2008, Eden was informed of a significant milestone in that the dossiers had passed the regulatory authority completeness check and the reviews had begun.

By achieving approval for each of the active ingredients in 3AEY, this will lead to significant cost saving in terms of both R&D regulatory costs and timelines for new products based around these active ingredients.

Our partners in Europe - Redestos and Cheminova - have also been active in increasing the fund of efficacy data, with ongoing regulatory testing programmes on grapes in France and Germany, which were additional countries to those originally adopted. These will be repeated and expanded in 2009, with further regulatory efficacy testing on crops such as strawberries and tomatoes.

**EDEN RESEARCH PLC**  
**CHAIRMAN'S REVIEW**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

...continued ...

This work alongside Eden's own efficacy testing on grapes has continued to reveal that 3AEY performs as well as the standard conventional chemistry at controlling grape botrytis.

**Nematodes**

Following the screening work in previous years, Eden concentrated in 2008 on testing the three most promising products in development field trials in Europe.

The development work, which will be the first step towards a regulatory dossier, examined efficacy against a number of nematode species attacking crops including tomato, peppers, cucurbits, beans and carrots. All of these crops suffer damage usually resulting in high yield losses to the growers from nematodes and/or are affected by diseases spread by a variety of nematode species. Results from these trials are due mid 2009 as the main yield loss/damage is only visible at the end of the growing season, but early indications on crop growth is already showing positive benefits for the Eden treatments under investigation, where the crops are looking more healthy than the untreated plants.

Conventional nematode products are formulated from highly toxic insecticides, and several of these products will be banned from use in the near future in Europe. There is significant interest on bringing a low risk terpene product into this well established commercial market. Eden therefore plans to place emphasis on finalising the best terpene combinations, rates and formulations in 2009, and begin registration trials leading to regulatory submission in the near future.

Discussions with a number of suitable commercial partners are therefore ongoing that are expected to lead to joint venture (JV) development of this strand of our technology in 2009.

**Spider Mites and Whitefly**

Following the successful screening trials of several Eden terpene products in early 2008 on common horticultural glasshouse pests e.g. spider mite and whitefly, a number of lead candidate Eden terpene products were sent for field testing in key glasshouse crops such as tomato, pepper and beans in Southern Europe. As well as showing excellent pest control in the screening, these products also showed no or very little activity on a number of key beneficial insects used in glasshouse crops as part of IPM (Integrated Pest Management) strategies. Conventional insecticides tend to be very broad-spectrum and will kill the beneficials as well as the target pests.

The first data at the end of 2008 confirmed the screening results with excellent control of whitefly from two Eden terpene products which was superior to the standard registered bio-pesticide used as a comparison in the field trials. The remaining spider mite trials will not be completed until early 2009 and further trials are planned for 2009 as part of the first stage of the registration process.

**EDEN RESEARCH PLC**  
**CHAIRMAN'S REVIEW**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

...continued ...

**Other activities**

In addition to our main emphasis on fungicides, acaricide and nematode control products we have continued to identify the potential of encapsulated terpenes by:

- Developing new granule formulations to further expand product usage once commercialised;
- Identifying further insect pest applications for our terpene products in a range of uses both in agriculture/horticulture and household and personal care markets; and
- Identifying potential use of Eden's terpene products for controlling diseases in fruit and vegetables post harvest. Loss of potentially valuable crops from soft rot diseases after harvest is a major issue to growers worldwide.

**Commercial Prospects**

As alluded to already, since concluding the commercial agreement with Cheminova in the first half of 2007 they, as part of the agreement, have been progressing efficacy trials that will maximise the potential for usage of 3AEY in their territories. Field testing in France and Germany is already part completed and seven additional territories were added for development in 2009 onwards.

A licensing agreement was signed by Lachlan Kenya Limited for Kenya, Uganda, Burundi, Malawi, Ethiopia, Zimbabwe, Tanzania and Rwanda for use in Food Crop Production and Floriculture. Lachlan are exclusive marketing and distribution agents in East Africa for a number of international principals.

The licence agreement provides for Lachlan to pay initial and milestone payments totalling USD\$250,000 plus royalty payments once marketing of the products begin.

Lachlan and Eden will work in partnership together to bring a range of products to the food crop production and floriculture markets in these territories. Following Eden's licensing model, Lachlan will undertake the cost to obtain registration of the products in each country which will be greatly supported from work done to date on Eden's lead product 3AEY.

Lachlan's position as a market leader in distribution of agricultural products in East and Southern Africa will help Eden's products penetrate existing markets.

Interest in and support for our technology from distributors, growers and regulators continues. During the period, Eden has progressed a number of potential partnerships of its technology for plant protection and also further uses of the IP in new areas such as animal health.

**EDEN RESEARCH PLC**  
**CHAIRMAN'S REVIEW**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

...continued ...

**Outlook**

Eden's team has, as highlighted, new project areas for initial testing of both existing and new combination terpene products in 2009 leading to continued development and registration of the terpene products in global agriculture and horticulture.

The future of a wide range of traditional chemicals is under threat from the regulators especially in the EU with a large number coming up for review between 2012 and 2020 and many expected to be banned. This opens up a huge potential for a wide range of uses for Eden's low risk products and the continued success of Eden Research plc in developing and registering a wide range of products into the global market.

**Ken Brooks**  
**Chairman**  
**16 March 2009**

**EDEN RESEARCH PLC**  
**REPORT OF THE DIRECTORS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

The directors present their report with the financial statements of the company and the group for the year ended 31 December 2008.

**PRINCIPAL ACTIVITY**

The principal activity of the Group in the year under review was the development and marketing of intellectual property, particularly in the area of terpenes and other health-related projects.

**DIVIDENDS**

The loss for the year after taxation amounted to £2,101,237 (2007 : £2,463,869). The directors are unable to recommend any dividend.

**REVIEW OF BUSINESS**

The review of this year's business activities is as set out in the Chairman's Review.

The key performance indicators of the business are that of the development of the Group's products and the management of its cash position.

The Group has capitalised £0.6m of development expenditure in the year which is a reflection of the continued development of the Group's products. In addition to this, £0.3m of patent fees have been incurred to protect the Group's biggest asset; its intellectual property.

The increase in the shareholder loans during the year reflects the on-going management of the Group's cash position.

The progress of the development of the Group's products is measured against internally set timescales as well as against the regulatory process which will result in the registration of products.

The Chairman's Review contains an update regarding this progress.

Cash is managed by tightly controlling the Group's creditor position and through the provision of convertible shareholder loans.

**Results**

Revenue in 2008 was £0.1 million, down from £0.4 million in 2007. Operating loss for the year was £2.0 million compared to £2.5 million for the previous year. Loss before tax was £2.1 million, down from £2.6 million in 2007.

The loss per share was 3.86 pence compared to 5.13 pence in 2007.

**Trading**

Revenue in 2008 consisted of a milestone payment received from Cheminova AS, as part of the consideration of the license agreement signed in May 2007. Further payments of €1.6 million are to be paid in due course, under the same licensing agreement, in line with specific milestones.

Administrative expenses, (excluding the amortisation of intangible assets and share based payments charge) were £1.3 million. This reflects IAS 38 which has resulted in the capitalisation of £0.6 million of development expenditure in the year (2007 : £0.6m), but, also shows the consistent policy of keeping a low head count in order to maintain a low level of overheads.

Intellectual property, including development expenditure, is written off over sixteen years in line with the remaining life of the Group's master patent.



**EDEN RESEARCH PLC**  
**REPORT OF THE DIRECTORS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

...continued ...

**Financing**

During the year, the Group received £0.8 million from the issue of equity shares from the exercise of options and warrants.

Also during the year, the Group received loans from shareholders of £0.9 million. In addition, £0.4 million of debt was either converted into equity or repaid. The holders of the convertible loans have confirmed their on-going commitment and support to the Group for the foreseeable future, a period of at least one year from the date of approval of these financial statements.

With this on-going support and the receipt of milestone payments and royalty revenues in the near future, the Group has sufficient funds to reach commercialisation and be cash generative.

The on-going financial support by shareholders has, up until now, been the main source of finance to the Group. This has primarily been by way of convertible loans which, the Directors believe, provide fair, cost effective financing. With this continued support, along with milestone payments that are due from existing licensing agreements as well as expected further licensing agreements, it is expected that the requirement for this type of financing will gradually diminish in the foreseeable future.

**RESEARCH AND DEVELOPMENT**

An indication of research and development activities is included within the Chairman's Review.

**FUTURE DEVELOPMENTS**

An indication of future developments is included within the Chairman's Review.

**DIRECTORS**

The directors during the year under review were:

K W Brooks  
T Griffiths  
A J Abrey  
C Newitt  
A B N Gill  
S R O'Brien

**PAYMENT OF CREDITORS**

It is the Group's and the Company's policy to pay suppliers within an acceptable period of allowed creditor days in accordance with the agreed terms. The Group and the Company acted in accordance with this policy throughout the year. The Group and the Company had 158 days purchases outstanding at 31 December 2008 (2007: 293 days) based on the average daily amount invoiced by suppliers during the year ended 31 December 2008.

**PRINCIPAL RISKS AND UNCERTAINTIES**

The Group's credit risk is primarily attributable to its trade receivables. Credit risk is managed by running credit checks on customers and by monitoring payments against contractual agreements.

The Group monitors cash flow as part of its day to day control procedures. The board considers cash flow projections at its meetings and ensures that appropriate facilities are available to be drawn down upon as necessary.

Interest rate risk is controlled by the use of fixed rate convertible loans.

**EDEN RESEARCH PLC**  
**REPORT OF THE DIRECTORS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

...continued ...

The Group's prime risk is the on-going commercialisation of the Group's intellectual property, which involves testing of the Group's products, obtaining regulatory approval and reaching a commercially beneficial agreement for each product to be taken to market.

Exchange rate risk is reduced, where practical, by entering into forward foreign exchange contracts with financial institutions.

**INDEMNITY COVER**

The Company purchases Directors and Officers insurance cover to protect the Directors from third party claims.

**FINANCIAL INSTRUMENTS**

Details of the use of financial instruments by the Group are contained in note 23 to the financial statements.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

UK Company law requires the directors to prepare Group and Company Financial Statements for each financial year. Under that law the directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

The group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The company financial statements are required by law to give a true and fair view of the state of affairs of the company.

In preparing each of the group and company financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether they have been prepared in accordance with IFRSs adopted by the EU; and
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of the Eden Research plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**EDEN RESEARCH PLC**  
**REPORT OF THE DIRECTORS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

...continued ...

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR**

So far as the directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the group's auditor is unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the group's auditor is aware of that information.

**AUDITOR**

The auditor, Baker Tilly UK Audit LLP, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

**ON BEHALF OF THE BOARD:**



**A J Abrey**  
**Director**  
**16 March 2009**

## **REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF**

### **EDEN RESEARCH PLC**

We have audited the financial statements of Eden Research plc for the year ended 31 December 2008 on pages fourteen to forty eight. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards as adopted for use in the European Union are set out on page ten.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Report of the Directors is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's review that is cross referenced from the Review of Business, Research and Development and Future Developments sections in the Directors' Report.

In addition we also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Chairman's Review and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistency with the parent company financial statements. Our responsibilities do not extend to any other information.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF**

**EDEN RESEARCH PLC**

... continued ...

**Opinion**

In our opinion:-

- the group financial statements give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of the loss of the group for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008 ;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the financial statements.

**Emphasis of matter – going concern**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Group's ability to continue as a going concern. The Group incurred a loss of £2,101,237 for the year ended 31 December 2008 and had net current liabilities of £3,119,083. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements have been prepared on a going concern basis, the validity of which depends upon the continued support of the shareholders and the Group's products achieving commercial viability. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

*Baker Tilly UK Audit LLP*

**Baker Tilly UK Audit LLP  
Chartered Accountants and Registered Auditor  
Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6AD**

**16 March 2009**

**EDEN RESEARCH PLC**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

|  | Notes | 2008<br>£   | 2007<br>£   |
|--|-------|-------------|-------------|
| <b>CONTINUING OPERATIONS</b>   |       |             |             |
| Revenue  |       | 84,003      | 360,788     |
| Cost of sales  |       | -           | (5,706)     |
|  |       | <hr/>       | <hr/>       |
| <b>GROSS PROFIT</b>  |       | 84,003      | 355,082     |
| Administrative expenses  |       |             |             |
| - normal   |       | (1,334,116) | (1,033,910) |
| - amortisation of intangible assets  |       | (604,340)   | (455,543)   |
| - share based payments   |       | (173,729)   | (1,361,248) |
|  |       | <hr/>       | <hr/>       |
| Total administrative expenses  |       | (2,112,185) | (2,850,701) |
|  |       | <hr/>       | <hr/>       |
| <b>OPERATING LOSS</b>  | 5     | (2,028,182) | (2,495,619) |
| Finance costs  | 4     | (123,438)   | (129,814)   |
| Finance income   | 4     | 3,148       | 3,919       |
|  |       | <hr/>       | <hr/>       |
| <b>LOSS BEFORE TAX</b>   |       | (2,148,472) | (2,621,514) |
| Tax  | 6     | 47,235      | 157,645     |
|  |       | <hr/>       | <hr/>       |
| <b>LOSS FOR THE YEAR attributable to equity shareholders of the parent</b> |       | (2,101,237) | (2,463,869) |
|  |       | <hr/>       | <hr/>       |
| <b>LOSS PER SHARE (PENCE)</b>  |       |             |             |
| - basic and diluted  | 8     | (3.86)p     | (5.13)p     |
|  |       | <hr/>       | <hr/>       |

**EDEN RESEARCH PLC**

**CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

|   | 2008<br>£   | 2007<br>£   |
|---|-------------|-------------|
| LOSS FOR THE FINANCIAL YEAR   | (2,101,237) | (2,463,869) |
|   | <hr/>       | <hr/>       |
| TOTAL RECOGNISED EXPENSE FOR THE YEAR<br>ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS<br>OF THE PARENT | (2,101,237) | (2,463,869) |
|   | <hr/>       | <hr/>       |

**EDEN RESEARCH PLC**  
**COMPANY STATEMENT OF RECOGNISED INCOME AND EXPENSE**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

|  | 2008<br>£   | 2007<br>£   |
|--|-------------|-------------|
| <b>LOSS FOR THE FINANCIAL YEAR</b>   | (2,101,237) | (2,463,869) |
|  | <hr/>       | <hr/>       |
| <b>TOTAL RECOGNISED EXPENSE FOR THE YEAR<br/>ATTRIBUTABLE TO THE EQUITY SHAREHOLDERS<br/>OF THE PARENT</b> | (2,101,237) | (2,463,869) |
|  | <hr/>       | <hr/>       |



**EDEN RESEARCH PLC**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2008**

|   | <u>Note</u> | 2008<br>£    | 2007<br>£    |
|---|-------------|--------------|--------------|
| <b>ASSETS</b>   |             |              |              |
| <b>NON-CURRENT ASSETS</b>   |             |              |              |
| Intangible assets   | 9           | 8,365,870    | 8,149,403    |
| Property, plant and equipment   | 10          | 6,926        | 3,556        |
|   |             | <hr/>        | <hr/>        |
|   |             | 8,372,796    | 8,152,959    |
| <b>CURRENT ASSETS</b>   |             |              |              |
| Trade and other receivables   | 12          | 177,791      | 106,569      |
| Cash and cash equivalents   | 13          | 13,065       | 663,022      |
|   |             | <hr/>        | <hr/>        |
|   |             | 190,856      | 769,591      |
| <b>TOTAL ASSETS</b>   |             |              |              |
|   |             | <hr/>        | <hr/>        |
|   |             | 8,563,652    | 8,922,550    |
| <b>LIABILITIES</b>  |             |              |              |
| <b>CURRENT LIABILITIES</b>  |             |              |              |
| Trade and other payables  | 14          | 1,038,253    | 933,191      |
| Financial liabilities - borrowings  |             |              |              |
| - Convertible loan notes  | 15          | 2,271,686    | 1,829,081    |
|   |             | <hr/>        | <hr/>        |
| <b>TOTAL CURRENT LIABILITIES AND<br/>TOTAL LIABILITIES</b>                |             |              |              |
|   |             | <hr/>        | <hr/>        |
|   |             | 3,309,939    | 2,762,272    |
| <b>EQUITY</b>   |             |              |              |
| Called up share capital   | 17          | 563,133      | 529,158      |
| Share premium account   | 18          | 13,116,119   | 12,387,217   |
| Merger reserve  | 19          | 10,209,673   | 10,209,673   |
| Warrant reserve   | 19          | 2,120,637    | 2,441,708    |
| Retained earnings   | 20          | (20,755,849) | (19,407,478) |
|   |             | <hr/>        | <hr/>        |
| <b>TOTAL EQUITY attributable to equity<br/>Shareholders of the parent</b> |             |              |              |
|   |             | <hr/>        | <hr/>        |
|   |             | 5,253,713    | 6,160,278    |
| <b>TOTAL EQUITY AND LIABILITIES</b>                                       |             |              |              |
|   |             | <hr/>        | <hr/>        |
|   |             | 8,563,652    | 8,922,550    |

The financial statements were approved by the Board of Directors and authorised for issue  
on 16 March 2009 and were signed on its behalf by:

**K W Brooks**  
**Director**



**EDEN RESEARCH PLC****COMPANY BALANCE SHEET****AS AT 31 DECEMBER 2008**

|   | <u>Note</u> | 2008<br>£    | 2007<br>£    |
|---|-------------|--------------|--------------|
| <b>ASSETS</b>   |             |              |              |
| <b>NON-CURRENT ASSETS</b>   |             |              |              |
| Intangible assets   | 9           | 8,365,870    | 8,149,403    |
| Property, plant and equipment   | 10          | 6,926        | 3,556        |
| Investments   | 11          | 100          | 100          |
|   |             | <hr/>        | <hr/>        |
|   |             | 8,372,896    | 8,153,059    |
| <b>CURRENT ASSETS</b>   |             |              |              |
| Trade and other receivables   | 12          | 177,791      | 106,569      |
| Cash and cash equivalents   | 13          | 13,065       | 663,022      |
|   |             | <hr/>        | <hr/>        |
|   |             | 190,856      | 769,591      |
| <b>TOTAL ASSETS</b>   |             |              |              |
|   |             | <hr/>        | <hr/>        |
|   |             | 8,563,752    | 8,922,650    |
| <b>LIABILITIES</b>  |             |              |              |
| <b>CURRENT LIABILITIES</b>  |             |              |              |
| Trade and other payables  | 14          | 1,038,353    | 933,291      |
| Financial liabilities - borrowings  |             |              |              |
| - Convertible loan notes  | 15          | 2,271,686    | 1,829,081    |
|   |             | <hr/>        | <hr/>        |
| <b>TOTAL CURRENT LIABILITIES AND<br/>TOTAL LIABILITIES</b>                |             |              |              |
|   |             | <hr/>        | <hr/>        |
|   |             | 3,310,039    | 2,762,372    |
| <b>EQUITY</b>   |             |              |              |
| Called up share capital   | 17          | 563,133      | 529,158      |
| Share premium account   | 18          | 13,116,119   | 12,387,217   |
| Merger reserve  | 19          | 10,209,673   | 10,209,673   |
| Warrant reserve   | 19          | 2,120,637    | 2,441,708    |
| Retained earnings   | 20          | (20,755,849) | (19,407,478) |
|   |             | <hr/>        | <hr/>        |
| <b>TOTAL EQUITY attributable to equity<br/>Shareholders of the parent</b> |             |              |              |
|   |             | <hr/>        | <hr/>        |
|   |             | 5,253,713    | 6,160,278    |
| <b>TOTAL EQUITY AND LIABILITIES</b>                                       |             |              |              |
|   |             | <hr/>        | <hr/>        |
|   |             | 8,563,752    | 8,922,650    |

The financial statements were approved by the Board of Directors and authorised for issue  
on **16 March 2009** and were signed on its behalf by:



**K W Brooks**  
Director

**EDEN RESEARCH PLC****CONSOLIDATED AND COMPANY CASH FLOW STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2008**

|   | <u>Note</u> | 2008<br>£          | 2007<br>£        |
|---|-------------|--------------------|------------------|
| <b>Cash flows from operating activities</b>             |             |                    |                  |
| Cash outflow from operations                            | 1           | (1,207,811)        | (260,335)        |
| Finance costs   |             | (123,438)          | (129,814)        |
| Tax credit received                                     |             | 47,235             | 157,645          |
|   |             | <hr/>              | <hr/>            |
| <b>Net cash used in operating activities</b>            |             | <b>(1,284,014)</b> | <b>(232,504)</b> |
|   |             | <hr/>              | <hr/>            |
| <b>Cash flows from investing activities</b>             |             |                    |                  |
| Purchase of property, plant & equipment                 |             | (8,089)            | -                |
| Capitalisation of development expenditure               |             | (562,741)          | (591,141)        |
| Finance income  |             | 3,148              | 3,919            |
|   |             | <hr/>              | <hr/>            |
| <b>Net cash used in investing activities</b>            |             | <b>(567,682)</b>   | <b>(587,222)</b> |
|   |             | <hr/>              | <hr/>            |
| <b>Cash flows from financing activities</b>             |             |                    |                  |
| Shareholders' loan – repayment                          |             | (418,617)          | (1,327,406)      |
| Shareholders' loan - drawdown                           |             | 857,479            | 501,173          |
| Issue of equity shares                                  |             | 762,877            | 2,304,203        |
|   |             | <hr/>              | <hr/>            |
| <b>Net cash from financing activities</b>               |             | <b>1,201,739</b>   | <b>1,477,970</b> |
|   |             | <hr/>              | <hr/>            |
| <b>(Decrease)/increase in cash and cash equivalents</b> |             | <b>(649,957)</b>   | <b>658,244</b>   |
| <b>Cash and cash equivalents at beginning of year</b>   |             | <b>663,022</b>     | <b>4,778</b>     |
|   |             | <hr/>              | <hr/>            |
| <b>Cash and cash equivalents at end of year</b>         |             | <b>13,065</b>      | <b>663,022</b>   |
|   |             | <hr/>              | <hr/>            |

Cash and cash equivalents comprises bank account balances.

**EDEN RESEARCH PLC**

**NOTES TO THE CONSOLIDATED AND COMPANY CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

**1. Cash outflow from operations**

**GROUP AND COMPANY**

|  | 2008<br>£          | 2007<br>£        |
|--|--------------------|------------------|
| Loss before tax  | (2,148,472)        | (2,621,514)      |
| Depreciation of property, plant and equipment                  | 4,719              | 4,908            |
| Equity share based payment charge                              | 173,729            | 1,361,248        |
| Amortisation of trademarks and intellectual property           | 604,340            | 455,543          |
| Finance costs  | 123,438            | 129,814          |
| Finance income   | (3,148)            | (3,919)          |
|  | <hr/>              | <hr/>            |
| <b>Operating cash flows before movement in working capital</b> | <b>(1,245,394)</b> | <b>(673,920)</b> |
| (Increase)/decrease in trade and other receivables             | (71,222)           | 49,874           |
| Increase in trade and other payables                           | 108,805            | 363,711          |
|  | <hr/>              | <hr/>            |
| <b>Cash outflow from operations</b>                            | <b>(1,207,811)</b> | <b>(260,335)</b> |
|  | <hr/>              | <hr/>            |

£258,066 of the capitalised Intellectual Property is a non cash transaction and represents share option costs incurred and capitalised to acquire the Intellectual Property.

## **EDEN RESEARCH PLC**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **FOR THE YEAR ENDED 31 DECEMBER 2008**

## **1. ACCOUNTING POLICIES**

### **General information**

Eden Research plc is a company incorporated and domiciled in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page three. The nature of the group's operations and its principal activities are set out in the Chairman's Review on page four. The company is listed on the PLUS Market in London.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the group operates.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:-

|          |   |
|----------|---|
| IFRS 8   | Operating Segments  |
| IFRIC 13 | Customer Loyalty Programmes   |
| IFRIC 14 | IAS 19 – The limit on a Defined Benefit Asset<br>Minimum Funding Requirements and their Interaction |
| IFRIC 15 | Agreements for Construction of Real Estate  |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation   |
| IFRIC 17 | Distributions of Non-cash Assets to Owners  |
| IFRIC 18 | Transfer of Assets from Customers   |

Others:

Amendment to IAS23 – Borrowing costs

Amendment to IAS1 – Presentation of financial statements

Amendment to IFRS3 / IAS27 – Business combinations project

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group, except for additional disclosures on operating segments when the relevant standard comes into effect for periods commencing on or after 1 January 2009.

### **Basis of preparation**

These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

**EDEN RESEARCH PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

... continued ...

**1. ACCOUNTING POLICIES (continued)**

**Basis of consolidation**

The group financial statements combine the financial statements of Eden Research plc and its wholly owned subsidiary Eden Research Europe Limited. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date irrespective of the extent of any minority interest.

The excess of cost of acquisition over the fair values of the Group's share of identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair value of identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the income statement.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

Inter-company transactions, balances and unrealised gain on transactions between group companies are eliminated. The accounting policies of the subsidiaries are consistent with those adopted by the Group.

**Going concern**

The financial statements have been prepared on a going concern basis which contemplates the realisation of assets and the settlement of liabilities in the ordinary course of business.

The group has reported a loss for the year after taxation of £2,101,237 (2007 : £2,463,869). Net current liabilities amounted to £3,119,083 (2007 : £1,992,681).

**EDEN RESEARCH PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

...continued ...

**1. ACCOUNTING POLICIES (continued)**

**Going concern (continued)**

The ability of the Group to continue as a going concern is ultimately dependent upon the amounts and timing of cash flows from the exploitation of the Group's intellectual property. The Directors consider that it is appropriate that the financial statements be prepared on a going concern basis based on the ongoing support of the shareholders, by way of convertible loans, the existence of a committed equity facility, as well as expected further licensing agreements which provide the Board with confidence that the Group is a going concern for the foreseeable future and for a period of at least 12 months from the date of approval of the financial statements.

No adjustments have been made for impairment and reclassification of assets, and reclassification of liabilities, which would be necessary if the Group were no longer a going concern.

**Revenue recognition**

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the company and the amount of revenue can be reliably estimated.

Revenue represents amounts receivable by the Group in respect of goods sold and services rendered during the year in accordance with the underlying contract or licence, stated net of value added tax.

Royalty income, milestone and upfront payments are recognised on a receivable basis.

**Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

**Intangible assets**

Trademarks, reflected at cost, are capitalised when the costs are incurred and amortised on a straight line basis over their useful economic lives and the life of the trademark which is currently deemed to be 10 years.

Intellectual property, including development costs, is capitalised and amortised on a straight line basis over its estimated useful economic life of 16 years in line with the remaining life of the Group's master patent.

**Impairment of non financial assets**

The directors regularly review the intangible assets for impairment and provision is made if necessary. Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**EDEN RESEARCH PLC**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

... continued ...

**1. ACCOUNTING POLICIES (continued)**

**Research and development**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's development activities is recognised only if all the following conditions are met:-

- the project is technically and commercial feasible;
- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably; and
- there are sufficient resources available to complete the project.

Internally-generated intangible assets are amortised on a straight line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

**Property, plant and equipment**

Property, plant and equipment is reflected at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided at the following annual rates in order to write off the depreciable amount of each asset over its estimated useful life:

|                                  |                       |
|----------------------------------|-----------------------|
| Plant and equipment              | - 20% straight line   |
| Furniture, fixtures and fittings | - 25% straight line   |
| Computer and office equipment    | - 33.3% straight line |

**Financial instruments**

The Group uses certain financial instruments in its operating and investing activities that are deemed appropriate for its strategy and circumstances.

Financial assets and liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provisions of the instrument.

Financial instruments recognised on the balance sheet include cash and cash equivalents, trade receivables, trade payables and borrowings and fixed interest convertible debt.

Cash and cash equivalents comprise cash on hand and demand deposits, and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Interest bearing loans and overdrafts are recorded at the proceeds received less any direct issue costs. Finance charges are accounted for on an accruals basis and are added to the instrument to the extent that they are not settled in the period in which they arise.



**EDEN RESEARCH PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

... continued ...

**1. ACCOUNTING POLICIES (continued)**

**Financial assets**

In accordance with IFRS 7, trade receivables, loans and other receivables that have fixed or determinable payments are classified as "Loans and receivables" and are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

Financial assets are assessed for impairment at each balance sheet date and any impairment recognised in the income statement. Trade receivables are assessed for collectability and where appropriate the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account and changes in the carrying amount of the allowance account are recognised in the profit or loss in the income statement.

**Debt and equity instruments issued by the Group**

**Convertible loan notes**

Instruments where the holder has the option to redeem for cash or convert into a pre-determined quantity of equity instruments are classified as compound instruments in the balance sheet and presented partly as a liability and partly within equity.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instrument. The difference between the proceeds of issue and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity.

Transaction costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the instrument. The difference between this amount and the interest paid is added to the carrying value of the convertible loan note.

**Equity instruments**

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

**Financial liabilities**

In accordance with IFRS 7 financial liabilities such as trade payables and loans are classified as "Other financial liabilities" and are measured initially at fair value. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, except for short term payables when the recognition of interest would be immaterial.

**Leasing**

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

**EDEN RESEARCH PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

... continued ...

**1. ACCOUNTING POLICIES (continued)**

**Current and deferred income tax**

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interest in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

**EDEN RESEARCH PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

... continued ...

**1. ACCOUNTING POLICIES (continued)**

**Foreign currencies**

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve. Such translation differences are recognised as income or as an expense in the period in which the operation is disposed of.

**Share based payments**

The Group has applied the requirements of IFRS2 Share-Based Payment.

The Group operates an unapproved share option scheme for executive directors, senior management and certain employees.

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that ultimately the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted, as long as other vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in fair value of the options, measured immediately before and after the modification is also charged to the income statement over the remaining vesting period.

Fair value is measured using the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions.

**EDEN RESEARCH PLC**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

... continued ...

**1. ACCOUNTING POLICIES (continued)**

**Critical accounting estimates and areas of judgement**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:-

**Capitalised development costs**

The Directors have considered the recoverability of the internally generated intangible asset which has a carrying value of £1.7m. The project continues to progress in a satisfactory manner and the Directors are confident that the carrying amount of the asset will be recovered in full. This situation will be closely monitored and adjustments made in future periods if future market activity indicates that such adjustments are appropriate.

**Financial risk management**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risks), credit risk and liquidity risk. Risk management focuses on minimising any potential adverse effect on the Group's financial performance and is carried out under policies approved by the Board of Directors. Further detail is given in note 23 to the financial statements Financial Instruments.

**2. SEGMENT REPORTING**

The Directors are of the opinion that the Group's activities at the current time relate to one business segment.

Revenue is royalty income attributable to the principal activity of the company. Revenue in 2008 originated in Europe (2007 : originated in Europe) and all the assets of the Group are situated in the United Kingdom.

**EDEN RESEARCH PLC**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008**

... continued ...

**3. EMPLOYEES AND DIRECTORS**

During the year staff costs, including executive directors amounted to:-

|                       | 2008<br>£ | 2007<br>£ |
|-----------------------|-----------|-----------|
| Wages and salaries    | 165,282   | 145,410   |
| Social security costs | 18,324    | 12,411    |
|                       | <hr/>     | <hr/>     |
|                       | 183,606   | 157,821   |
|                       | <hr/>     | <hr/>     |

Staff costs, including executive directors' remuneration are included within administrative expenditure on the Income Statement.

The average monthly number of employees, including executive directors, during the year was as follows:

|                | 2008  | 2007  |
|----------------|-------|-------|
| Management     | 6     | 3     |
| Administration | 1     | 1     |
|                | <hr/> | <hr/> |
|                | 7     | 4     |
|                | <hr/> | <hr/> |

Details of charges incurred with related parties with respect to management services are set out in note 22.

|                       | 2008<br>£ | 2007<br>£ |
|-----------------------|-----------|-----------|
| Directors' emoluments | 182,000   | 104,629   |
|                       | <hr/>     | <hr/>     |

None of the directors are accruing benefits under Company pension schemes.

None of the share based payment charge in 2008 or 2007 relates to directors.

**EDEN RESEARCH PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

... continued ...

**4. NET FINANCE COSTS**

|                                | 2008<br>£       | 2007<br>£       |
|--------------------------------|-----------------|-----------------|
| Finance income:                |                 |                 |
| Bank interest received         | 3,148           | 3,919           |
|                                | <hr/> 3,148     | <hr/> 3,919     |
| Finance costs:                 | 2008<br>£       | 2007<br>£       |
| Bank interest                  | -               | (39)            |
| Interest on shareholders loans | (123,438)       | (129,775)       |
|                                | <hr/> (123,438) | <hr/> (129,814) |
| Net finance costs              | <hr/> (120,290) | <hr/> (125,895) |

**5. OPERATING LOSS**

The operating loss is stated after charging/(crediting):

|  | 2008<br>£ | 2007<br>£ |
|--|-----------|-----------|
| Other operating leases   | 31,500    | 31,039    |
| Depreciation – owned assets  | 4,719     | 4,908     |
| Amortisation of trademarks, intellectual property, and development costs | 604,340   | 455,543   |
| Auditor's remuneration   | 21,000    | 20,500    |
| Auditor's remuneration for non audit work                                |           |           |
| – taxation and corporate finance   | 10,500    | 16,900    |
| Foreign exchange differences   | 2,226     | (4,086)   |
| Research and development costs   | 12,291    | 114,948   |
| Equity share based payment charge  | 173,729   | 1,361,248 |
|  | <hr/>     | <hr/>     |
|  | 2008<br>£ | 2007<br>£ |
| <i>Baker Tilly UK Audit LLP and Associates</i>                           |           |           |
| Fees in respect of the audit of the parent and consolidated accounts     | 21,000    | 20,500    |
|  | <hr/>     | <hr/>     |
| Total audit fees   | 21,000    | 20,500    |
| Other services – tax services  | 5,500     | 6,820     |
| – corporate finance services   | 5,000     | 15,000    |
|  | <hr/>     | <hr/>     |
| Total non-audit fees   | 10,500    | 21,280    |

**EDEN RESEARCH PLC****NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008**

... continued ...

**6. TAX****Analysis of the tax credit**

|                                      | 2008<br>£ | 2007<br>£ |
|--------------------------------------|-----------|-----------|
| Current tax:                         |           |           |
| Current taxation                     | -         | -         |
| Research and development credit      | 47,235    | 157,645   |
|                                      | <hr/>     | <hr/>     |
| Total tax credit in income statement | 47,235    | 157,645   |
|                                      | <hr/>     | <hr/>     |

**Corporation tax**

No tax charge arises on the results for the year. Tax losses carried forward amount to approximately £10,000,000 (2007 : £8,500,000). The tax credit represents the research and development tax credit received for the year ended 31 December 2007.

**Factors affecting the tax charge**

The UK standard rate of corporation tax is 28% (2007 : 30%). Current tax assessed for the financial year as a percentage of the loss before taxation is nil (2007 : nil)

The differences are explained below:

|  | 2008<br>£ | 2008<br>% | 2007<br>£ | 2007<br>% |
|--|-----------|-----------|-----------|-----------|
| Standard rate of corporation tax in the UK       |           | (28.0)    |           | (30.0)    |
| Loss before tax at standard rate of tax          | (601,572) |           | (786,454) |           |
| Effects of:                                      |           |           |           |           |
| Losses carried forward                           | 389,216   | 18.1      | 235,936   | 9.0       |
| Other expenses not deductible for tax purposes   | 212,356   | 9.9       | 550,518   | 21.0      |
| Research and development tax relief              | (47,235)  | (2.2)     | (157,645) | (6.0)     |
|  | <hr/>     | <hr/>     | <hr/>     | <hr/>     |
| Total current tax charge/(credit) and tax rate % | (47,235)  | (2.2)     | (157,645) | (6.0)     |
|  | <hr/>     | <hr/>     | <hr/>     | <hr/>     |
| Deferred tax                                     |           |           |           |           |
| Unprovided deferred tax asset                    | 2,471,741 |           | 2,420,469 |           |
|  | <hr/>     |           | <hr/>     |           |

The company had unutilised tax losses carried forward at 31 December of approximately £10,000,000 (2007 : £8,500,000) which are available to offset against future taxable profits.

The unprovided deferred tax asset arises principally in respect of trading losses, together with other minor timing differences at 28% (2007 : 30%) and has not been recognised due to the uncertainty of timing of future profits against which it may be realised.

**7. LOSS OF PARENT COMPANY**

As permitted by Section 230 of the Companies Act 1985, the income statement of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was £2,101,237 (2007 : £2,463,869).

**EDEN RESEARCH PLC****NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008**

... continued ...

**8. LOSS PER SHARE**

|   | 2008   | 2007   |
|---|--------|--------|
| Loss per ordinary share (pence) - basic and diluted | (3.86) | (5.13) |

Loss per share has been calculated on the net basis on the loss after tax of £2,101,237 (2007 : loss £2,463,869) using the weighted average number of ordinary shares in issue of 54,438,431 (2007 : 48,004,203).

Due to the loss for the year there is no dilution of the loss per share arising from options in existence.

**9. INTANGIBLE ASSETS - GROUP AND COMPANY**

|                        | Intellectual<br>property | Licences<br>and<br>trademarks | Development<br>Costs | Total      |
|------------------------|--------------------------|-------------------------------|----------------------|------------|
|                        | £                        | £                             | £                    | £          |
| <b>COST</b>            |                          |                               |                      |            |
| At 1 January 2007      | 8,333,708                | 290,118                       | 598,260              | 9,222,086  |
| Additions              | -                        | -                             | 591,141              | 591,141    |
| At 1 January 2008      | 8,333,708                | 290,118                       | 1,189,401            | 9,813,227  |
| Additions              | 258,066                  | -                             | 562,741              | 820,807    |
| At 31 December 2008    | 8,591,774                | 290,118                       | 1,752,142            | 10,634,034 |
| <b>AMORTISATION</b>    |                          |                               |                      |            |
| At 1 January 2007      | 1,082,747                | 125,534                       | -                    | 1,208,281  |
| Charge for the year    | 426,527                  | 29,016                        | -                    | 455,543    |
| At 1 January 2008      | 1,509,274                | 154,550                       | -                    | 1,663,824  |
| Charge for the year    | 490,218                  | 29,012                        | 85,110               | 604,340    |
| At 31 December 2008    | 1,999,492                | 183,562                       | 85,110               | 2,268,164  |
| <b>CARRYING AMOUNT</b> |                          |                               |                      |            |
| At 31 December 2008    | 6,592,282                | 106,556                       | 1,667,032            | 8,365,870  |
| At 31 December 2007    | 6,824,434                | 135,568                       | 1,189,401            | 8,149,403  |
| At 31 December 2006    | 7,250,961                | 164,584                       | 598,260              | 8,013,805  |



**EDEN RESEARCH PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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The net carrying value of intangible assets pledged as security for borrowing was £nil (2007 : £nil).

The amortisation charge is included within administration expenses. Intellectual property represents intellectual property in relation to use of encapsulated terpenes in agrochemicals. The remaining amortisation period of that asset is sixteen years.

An annual impairment review is undertaken by the Board of Directors using discounted cashflow forecasts. The result of this review was that the Intellectual Property is not impaired in respect of its carrying value.

**10. PROPERTY, PLANT AND EQUIPMENT**

**GROUP AND COMPANY**

|                        | Plant<br>and<br>equipment | Furniture<br>fixtures<br>and fittings | Computer<br>and office<br>equipment | Total  |
|------------------------|---------------------------|---------------------------------------|-------------------------------------|--------|
|                        | £                         | £                                     | £                                   | £      |
| <b>COST</b>            |                           |                                       |                                     |        |
| At 1 January 2007      | 2,790                     | 15,123                                | 32,746                              | 50,659 |
| At 1 January 2008      | 2,790                     | 15,123                                | 32,746                              | 50,659 |
| Additions              | -                         | -                                     | 8,089                               | 8,089  |
| At 31 December 2008    | 2,790                     | 15,123                                | 40,835                              | 58,748 |
| <b>DEPRECIATION</b>    |                           |                                       |                                     |        |
| At 1 January 2007      | 1,214                     | 13,864                                | 27,117                              | 42,195 |
| Charge for year        | 564                       | 564                                   | 3,780                               | 4,908  |
| At 1 January 2008      | 1,778                     | 14,428                                | 30,897                              | 47,103 |
| Charge for year        | 564                       | 612                                   | 3,543                               | 4,719  |
| At 31 December 2008    | 2,342                     | 15,040                                | 34,440                              | 51,822 |
| <b>CARRYING AMOUNT</b> |                           |                                       |                                     |        |
| At 31 December 2008    | 448                       | 83                                    | 6,395                               | 6,926  |
| At 31 December 2007    | 1,012                     | 695                                   | 1,849                               | 3,556  |
| At 31 December 2006    | 1,576                     | 1,259                                 | 5,629                               | 8,464  |

The net carrying value of assets pledged on security for borrowings was £ nil (2007 : £ nil).

The depreciation charge is included within administration expenses.

**EDEN RESEARCH PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**11. INVESTMENTS**

**COMPANY**

|                        | 2008<br>£ | 2007<br>£ |
|------------------------|-----------|-----------|
| <b>CARRYING AMOUNT</b> |           |           |
| At 1 January           | 100       | 100       |
|                        | <hr/>     | <hr/>     |
| At 31 December         | 100       | 100       |
|                        | <hr/>     | <hr/>     |

The investment in subsidiary companies at book value comprises the following:-

|                              | 2008<br>£ | 2007<br>£ |
|------------------------------|-----------|-----------|
| Eden Research Europe Limited | 100       | 100       |
|                              | <hr/>     | <hr/>     |
|                              | 100       | 100       |
|                              | <hr/>     | <hr/>     |

The Company's investment in the capital of unlisted subsidiary and associated undertakings is as follows:-

| <u>Company</u>               | <u>Nature of business</u> | <u>Shareholding</u> | <u>Incorporated</u> |
|------------------------------|---------------------------|---------------------|---------------------|
| Subsidiary undertakings      |                           |                     |                     |
| Eden Research Europe Limited | Dormant                   | 100%                | England             |
| Associated undertakings      |                           |                     |                     |
| Bioclinical Services Limited | Dormant                   | 30%                 | England             |

Bioclinical Services Limited is dormant and had no revenue or assets or liabilities at 31 December 2007 or 31 December 2008.

**EDEN RESEARCH PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**12. TRADE AND OTHER RECEIVABLES**

|                   | <b>Group</b> |         | <b>Company</b> |         |
|-------------------|--------------|---------|----------------|---------|
|                   | 2008         | 2007    | 2008           | 2007    |
|                   | £            | £       | £              | £       |
| Current:          |              |         |                |         |
| Other receivables | 135,904      | 57,521  | 135,904        | 57,521  |
| VAT recoverable   | 41,887       | 49,048  | 41,887         | 49,048  |
|                   | <hr/>        | <hr/>   | <hr/>          | <hr/>   |
|                   | 177,791      | 106,569 | 177,791        | 106,569 |
|                   | <hr/>        | <hr/>   | <hr/>          | <hr/>   |

The Directors consider that the carrying value of trade and other receivables approximates to the fair value.

There are no debts impaired, collateral held or debts that were past due at year end but not impaired.

**13. CASH AND CASH EQUIVALENTS**

|                          | <b>Group and Company</b> |         |
|--------------------------|--------------------------|---------|
|                          | 2008                     | 2007    |
|                          | £                        | £       |
| Short term bank deposits | 13,065                   | 663,022 |
|                          | <hr/>                    | <hr/>   |

The carrying amount of these short term bank deposits approximates to the fair value.

**14. TRADE AND OTHER PAYABLES**

|                              | <b>Group</b> |         | <b>Company</b> |         |
|------------------------------|--------------|---------|----------------|---------|
|                              | 2008         | 2007    | 2008           | 2007    |
|                              | £            | £       | £              | £       |
| Current:                     |              |         |                |         |
| Trade payables               | 748,436      | 829,111 | 748,436        | 829,111 |
| Other payables               | 46,285       | 6,110   | 46,385         | 6,210   |
| Accruals and deferred income | 243,532      | 97,970  | 243,532        | 97,970  |
|                              | <hr/>        | <hr/>   | <hr/>          | <hr/>   |
|                              | 1,038,253    | 933,191 | 1,038,353      | 933,291 |
|                              | <hr/>        | <hr/>   | <hr/>          | <hr/>   |

The Directors consider that the carrying value of trade and other payables approximates to the fair value.

See note 23 for disclosure of amount of trade payables denominated in foreign currency

See Directors' Report for disclosure of average credit period taken.

**EDEN RESEARCH PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

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**15. FINANCIAL LIABILITIES - BORROWINGS**

|                            |  | <b>Group and Company</b> |             |
|----------------------------|--|--------------------------|-------------|
|                            |  | <b>2008</b>              | <b>2007</b> |
|                            |  | <b>£</b>                 | <b>£</b>    |
| Current:                   |  |                          |             |
| Convertible debt (note 23) |  | 2,271,686                | 1,829,081   |
|                            |  | <hr/>                    | <hr/>       |
|                            |  | 2,271,686                | 1,829,081   |
|                            |  | <hr/>                    | <hr/>       |

**GROUP AND COMPANY**

|                  | <b>1 year<br/>or less</b> | <b>1-2 years</b> | <b>2-5 years</b> | <b>Totals</b> |
|------------------|---------------------------|------------------|------------------|---------------|
|                  | <b>£</b>                  | <b>£</b>         | <b>£</b>         | <b>£</b>      |
| Convertible debt | 2,271,686                 | -                | -                | 2,271,686     |
|                  | <hr/>                     | <hr/>            | <hr/>            | <hr/>         |
|                  | 2,271,686                 | -                | -                | 2,271,686     |
|                  | <hr/>                     | <hr/>            | <hr/>            | <hr/>         |

The convertible loan notes were issued on 1 January 2006. The notes are convertible into ordinary shares of the Company at any time from the date of issue of the notes but must be by way of mutual agreement by both parties.

The convertible debt carries an interest rate of 7.5% and there are no fixed terms for repayment.

Conversion is at a discount of 10% on the closing bid price on the date of conversion or (if less) the lowest price per share paid in any fundraising, debt conversion or warrant exercise or any other form of share allotment in the course of the year.

The net proceeds received from the issue of the convertible loan notes are split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Group. The convertible loans did not have an equity component in 2007 or 2008.

The convertible loan balance includes £1,080,634 (2007 : £nil) which is secured by a fixed and floating charge over the company's assets. More details in relation to this charge are included within note 22.

**EDEN RESEARCH PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

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**15. FINANCIAL LIABILITIES – BORROWINGS (continued)**

|  |          |                  |
|--|----------|------------------|
| <b>Convertible Loan Notes</b>  | £        | £                |
| Convertible loan balance as at 1 January 2007 (including £167,895 of interest) |          | 2,655,314        |
| New convertible loans issued in the year                                       |          |                  |
| - Nominal value of convertible loan notes issued                               | 501,173  |                  |
| - Equity component of convertible loan notes                                   | <u>-</u> | 501,173          |
| Loan notes converted in the year   |          | (904,746)        |
| Loan notes repaid in the year  |          | (422,660)        |
| Convertible loan balance as at 31 December 2007                                |          | 1,829,081        |
| New convertible loans issued in the year                                       |          |                  |
| - Nominal value of convertible loan notes issued                               | 691,117  |                  |
| - Equity component of convertible loan notes                                   | <u>-</u> | 691,117          |
| Interest charged in the year   |          | 123,438          |
| Interest paid in the year  |          | -                |
| Loan notes repaid in the year  |          | (371,950)        |
| Loan notes converted in the year   |          | -                |
|  |          | <u>2,271,686</u> |
| Convertible loan balance as at 31 December 2008                                |          | <u>2,271,686</u> |

**16. LEASING AGREEMENTS**

**GROUP AND COMPANY**

Minimum lease payments under operating leases recognised as an expense in the year:

|               |               |
|---------------|---------------|
| 2008          | 2007          |
| £             | £             |
| 31,500        | 31,039        |
| <u>31,500</u> | <u>31,039</u> |

**EDEN RESEARCH PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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... continued ...

**16. LEASING AGREEMENTS (continued)**

At the balance sheet date the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:-

|                            | 2008<br>£     | 2007<br>£     |
|----------------------------|---------------|---------------|
| Within one year            | 31,500        | 31,500        |
| Between one and five years | 118,125       | 126,000       |
| In more than five years    | -             | 23,625        |
|                            | <hr/> 149,625 | <hr/> 181,125 |

Operating lease payments represent rentals payable by the Group for office properties. Leases are negotiated for an average term of six years and rentals are fixed for an average of three years.

**17. CALLED UP SHARE CAPITAL – GROUP AND COMPANY**

|  | 2008<br>£     | 2007<br>£     |
|--|---------------|---------------|
| Authorised   |               |               |
| 100,000,000 ordinary shares of £0.01 each                    | 1,000,000     | 1,000,000     |
| Allotted and called up                                       |               |               |
| 56,313,274 ordinary shares of £0.01 each (2007 : 52,915,829) | <hr/> 563,133 | <hr/> 529,158 |

During the year the following ordinary shares were issued by Eden Research plc:

| <u>Date</u> | <u>Number of<br/>ordinary shares</u> | <u>Aggregate<br/>nominal<br/>value</u><br>£ | <u>Issue Price</u><br>£ | <u>Premium<br/>on issue</u><br>£ | <u>Total<br/>share<br/>premium</u><br>£ |
|-------------|--------------------------------------|---|-------------------------|----------------------------------|---|
| 03.01.08    | 24,800                               | 248   | 0.60                    | 0.59                             | 14,752                                  |
| 01.05.08    | 25,000                               | 250   | 0.19                    | 0.18                             | 4,500                                   |
| 01.05.08    | 25,000                               | 250   | 0.20                    | 0.19                             | 4,750                                   |
| 01.05.08    | 83,333                               | 833   | 0.30                    | 0.29                             | 24,167                                  |
| 01.05.08    | 750,000                              | 7,500                                       | 0.30                    | 0.29                             | 217,500                                 |
| 04.06.08    | 27,000                               | 270   | 0.34                    | 0.33                             | 8,910                                   |
| 09.07.08    | 2,239,565                            | 22,396                                      | 0.18                    | 0.17                             | 380,726                                 |
| 09.07.08    | 86,085                               | 861   | 0.30                    | 0.29                             | 24,965                                  |
| 09.07.08    | 50,000                               | 500   | 0.20                    | 0.19                             | 9,500                                   |
| 09.07.08    | 47,059                               | 471   | 0.43                    | 0.42                             | 19,529                                  |
| 10.07.08    | 39,603                               | 396   | 0.51                    | 0.50                             | 19,603                                  |
|             |                                      | <hr/> 33,975                                |                         |                                  | <hr/> 728,902                           |

No shares have been issued since the year end.

The number of £0.01 ordinary shares issued in the year totalled 3,397,445 (2007 : 6,394,844).

**EDEN RESEARCH PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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... continued ...

**18. SHARE PREMIUM ACCOUNT**

| <b>GROUP AND COMPANY</b>             | 2008<br>£  | 2007<br>£  |
|--------------------------------------|------------|------------|
| At 1 January                         | 12,387,217 | 10,146,962 |
| Premium on shares issued in the year | 728,902    | 2,240,255  |
|                                      | <hr/>      | <hr/>      |
| At 31 December                       | 13,116,119 | 12,387,217 |
|                                      | <hr/>      | <hr/>      |

**19. RESERVES**

| <b>GROUP AND COMPANY</b>            | <u>Merger<br/>reserve</u><br>£ | <u>Warrant<br/>reserve</u><br>£ |
|-------------------------------------|--------------------------------|---------------------------------|
| At 1 January 2007                   | 10,209,673                     | 1,504,843                       |
| Increase                            |                                |                                 |
| – warrants/options granted          | -                              | 1,361,248                       |
| Transfer to profit and loss reserve |                                |                                 |
| - warrants exercised or lapsed      | -                              | (424,383)                       |
|                                     | <hr/>                          | <hr/>                           |
| At 1 January 2008                   | 10,209,673                     | 2,441,708                       |
| Increase                            |                                |                                 |
| – warrants/options granted          | -                              | 431,795                         |
| Transfer to profit and loss reserve |                                |                                 |
| - warrants exercised or lapsed      | -                              | (752,866)                       |
|                                     | <hr/>                          | <hr/>                           |
| At 31 December 2008                 | 10,209,673                     | 2,120,637                       |
|                                     | <hr/>                          | <hr/>                           |

The merger reserve arose on the acquisition of a subsidiary undertaking in a prior year for which merger accounting was permitted under the Companies Act 1985.

The warrant reserve represents the fair value of share options and warrants granted, and not exercised or lapsed, in accordance with the requirements of IFRS 2 Share Based Payment

**20. RETAINED EARNINGS**  
**GROUP AND COMPANY**

|   | 2008<br>£    | 2007<br>£    |
|---|--------------|--------------|
| At 1 January                            | (19,407,478) | (17,367,992) |
| Loss for the year                       | (2,101,237)  | (2,463,869)  |
| Transfer from warrant reserve (note 19) | 752,866      | 424,383      |
|   | <hr/>        | <hr/>        |
| At 31 December                          | (20,755,849) | (19,407,478) |
|   | <hr/>        | <hr/>        |

**EDEN RESEARCH PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

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**21. CAPITAL COMMITMENTS**

The group and company had no capital commitments at 31 December 2008 (2007: £nil).

**22. RELATED PARTY DISCLOSURES**

Related party transactions

There were no transactions between the Company and its subsidiary and associate during 2007 or 2008.

Disclosures required in respect of IAS24 regarding remuneration of key management personnel is covered by the disclosure of directors' remuneration on page 29.

Transactions with other related parties are set out below.

During the year, the Group traded with BrookStreet Des Roches, a firm of solicitors for which K W Brooks acts as a consultant, as follows:-

|                                    | 2008<br>£ | 2007<br>£ |
|------------------------------------|-----------|-----------|
| Provision of legal services        | 475       | 2,750     |
| Trade payables due at the year end | 530       | 969       |

Also during the year, the Group traded with A H Brooks, of which K W Brooks is a partner. The transactions in aggregate were as follows:-

|                                    | 2008<br>£ | 2007<br>£ |
|------------------------------------|-----------|-----------|
| Provision of consulting services   | 42,518    | 51,250    |
| Trade payables due at the year end | 21,478    | 78,675    |

During the year the Group traded with Insight Medical Writing Limited, a company controlled by T Griffiths and his spouse K Walker. The transactions in aggregate were as follows:-

|                                    | 2008<br>£ | 2007<br>£ |
|------------------------------------|-----------|-----------|
| Data writing fees                  | 64,290    | 64,200    |
| Trade payables due at the year end | 69,479    | 16,685    |

During the year, the Group traded with Battlebridge Group Limited, a shareholder, in respect of management consultancy, as follows:-

|                                    | 2008<br>£ | 2007<br>£ |
|------------------------------------|-----------|-----------|
| Provision of management services   | 100,690   | 6,250     |
| Trade payables due at the year end | 17,083    | 7,344     |



**EDEN RESEARCH PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**22. RELATED PARTY DISCLOSURES (continued)**

During the year, the Group traded with Ricewood Limited, of which A Abrey is a Director and shareholder, in respect of consultancy services, as follows:-

|                                    | 2008<br>£ | 2007<br>£ |
|------------------------------------|-----------|-----------|
| Provision of consultancy services  | 15,000    | 50,028    |
| Trade payables due at the year end | 10,250    | 58,783    |

During the year, the Group traded with Agri-Nova Technology Limited, of which C Newitt is a Director and shareholder, in respect of marketing consultancy, as follows:-

|                                    | 2008<br>£ | 2007<br>£ |
|------------------------------------|-----------|-----------|
| Provision of marketing consultancy | 68,884    | 46,044    |
| Trade payables due at the year end | 7,383     | 9,048     |

During the year, the Group traded with Hawkhill Consultancy Limited, of which B Gill is a Director and shareholder, in respect of director's fees, as follows:-

|                                    | 2008<br>£ | 2007<br>£ |
|------------------------------------|-----------|-----------|
| Director's fees                    | 32,786    | -         |
| Trade payables due at the year end | 7,619     | -         |

The directors regard all the transactions disclosed above as being on an arm's length basis and in the normal course of business.

During the year, K Brooks, director, loaned £10,000 (2007: £nil) to the Group. This amount was outstanding at the year end (2007: £nil). The loan is interest free and there are no fixed terms for repayment.

Liabilities include the following convertible loans advanced by the shareholders of the Company:-

|                                    | 2008<br>£       | 2007<br>£       |
|------------------------------------|-----------------|-----------------|
| Battlebridge Group Limited         | 404,802         | 579,959         |
| Battlebridge Nominees Limited      | 145,860         | 276,990         |
| Oxford Commercial Services Limited | 1,254           | 1,255           |
| Oxford Equities Limited            | 43,387          | 59,223          |
| Oxford Capital Limited             | 1,080,634       | 354,393         |
| Oxford Business Services Limited   | 49,510          | 56,088          |
| Ricewood Limited                   | 3,673           | 1,173           |
| Efford Nominees Limited            | 208,296         | -               |
|                                    | <hr/> 1,937,416 | <hr/> 1,329,081 |

The loans carry an interest rate of 7.5% (2007: 7.5%) per annum and there are no fixed terms for repayment.

All loans with the exception of the loan received from Oxford Capital Limited are unsecured.

The Group is party to a guarantee and debenture entered into on 29 December 2008 whereby all sums due to Oxford Capital Limited are secured by a first fixed and floating charge over the assets of the Group.

**EDEN RESEARCH PLC**  
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**23. FINANCIAL INSTRUMENTS**

**Financial assets**

**Group and Company**

|                              | 2008<br>£ | 2007<br>£ |
|------------------------------|-----------|-----------|
| Loans and receivables        |           |           |
| Trade receivables            | -         | -         |
| Allowance for doubtful debts | (   - )   | (   - )   |
|                              | <hr/>     | <hr/>     |
|                              | -         | -         |
|                              | <hr/>     | <hr/>     |

Other financial assets comprise bank deposits and an immaterial amount of cash in bank current accounts.

The average credit period for sales of goods and services is 30 days. No interest is charged on overdue trade receivables. At 31 December 2008 there were no trade receivables and no receivables past due (31 December 2007 no receivables past due).

The Company's and Group's policy is to provide for doubtful debts based on estimated irrecoverable amounts determined by reference to specific circumstances and past default experience. At the balance sheet date the directors consider that no provision for doubtful debts is required and that there is no further credit risk.

**Financial liabilities**

**Group and Company**

|                                    | 2008<br>£ | 2007<br>£ |
|------------------------------------|-----------|-----------|
| Trade payables                     | 748,436   | 829,111   |
| Interest bearing convertible loans | 2,271,686 | 1,829,081 |
|                                    | <hr/>     | <hr/>     |
|                                    | 3,020,122 | 2,658,192 |
|                                    | <hr/>     | <hr/>     |

The carrying amount of trade payables approximates to fair value.

The average credit period on purchases of goods is 30 days. No interest is charged on trade payables. The Company and Group have policies in place to ensure that trade payables are paid within the credit timeframe or as otherwise agreed.

Details of the interest bearing loans are disclosed in note 15 to the financial statements. The Company and Group currently finances its operations partly through these borrowings. The Company and Group borrows in pounds sterling generally at fixed interest rates.

Holders of the convertible loans have a right to convert the loans and any outstanding interest into shares. The conversion would be at a discount of 10% on the closing bid price at the date of conversion or, if less, the lowest price per share paid on any fund raising, debt conversion or warrant exercise or other share allotment in the course of the year.

Certain of the convertible loans also have share warrants attached.

In accordance with the substance of the arrangements the convertible loans are included in liabilities and it is considered that there is no material equity component.

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**23. FINANCIAL INSTRUMENTS (continued)**

**Credit risk**

As explained above, the directors consider there is no material exposure to credit risk at the balance sheet date.

**Currency risk**

The Group publishes its financial statements in pounds sterling and conducts some of its business in US dollars. As a result, it is subject to foreign currency exchange risk due to exchange movements, which will affect the Group's transaction costs and translation of the results. No financial instruments are utilised to manage risk and currency gains, and losses are charged to the income statement as incurred. At the year end, the Group had the following net foreign currency balances in liabilities:

|                  | 2008<br>£ | 2007<br>£ |
|------------------|-----------|-----------|
| US dollars       | 36,091    | 92,141    |
| Euro             | 107,118   | 20,378    |
| Norwegian Kroner | 65,279    | 36,548    |

**Liquidity risk**

Short-term flexibility is achieved by overdraft facilities. The interest rate profile and maturity profile of financial liabilities is set out below:-

The interest rate profile of the Group's financial liabilities at 31 December 2008 was:-

|                 | <u>Total</u>                              | <u>Floating rate<br/>financial<br/>liabilities</u>             | <u>Fixed rate<br/>financial<br/>liabilities</u>       | <u>Financial<br/>liabilities on<br/>which no<br/>interest is paid</u> |
|-----------------|---|--|---|---|
|                 | £   | £  | £   | £   |
| <b>Sterling</b> |   |  |   |   |
| 2008            | 3,309,939                                 | -  | 2,271,686   | 1,038,253   |
| 2007            | 2,658,192                                 | -  | 1,827,826   | 830,366   |
|                 | <u>Weighted average<br/>interest rate</u> | <u>Weighted average<br/>period for which<br/>rate is fixed</u> | <u>Weighted average<br/>period until<br/>maturity</u> |   |
|                 | %   | Years  | Years   |   |
| <b>Sterling</b> |   |  |   |   |
| 2008            | 7.5                                       | 1.0  | 1.0   |   |
| 2007            | 7.5                                       | 1.0  | 1.0   |   |

**EDEN RESEARCH PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**

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**23. FINANCIAL INSTRUMENTS (continued)**

**Maturity of financial liabilities**

The maturity profile of the Group's financial liabilities at 31 December was as follows:-

|   | 2008<br>£       | 2007<br>£       |
|---|-----------------|-----------------|
| In one year or less, or on demand                   | 2,271,686       | 1,829,081       |
| In more than one year but not more than two years   | -               | -               |
| In more than two years but not more than five years | -               | -               |
| In more than five years                             | -               | -               |
|   | <hr/> 2,271,686 | <hr/> 1,829,081 |

The Group has no undrawn committed borrowing facilities. Liquidity risk is managed by regular monitoring of the Group's undrawn borrowing facilities, levels of cash and cash equivalents, and expected future cash flows, and availability of loans from shareholders.

**Market price risk**

The Group's exposure to market price risk comprises interest rate and currency risk exposures. It monitors these exposures primarily through a process known as sensitivity analysis. This involves estimating the effect on results before tax over various periods of a range of possible changes in interest rates and exchange rates. The sensitivity analysis model used for this purpose makes no assumptions about any interrelationships between such rates or about the way in which such changes may affect the economies involved. As a consequence, figures derived from the Group's sensitivity analysis model should be used in conjunction with other information about the Group's risk profile.

The Group's policy towards currency risk is to eliminate all exposures that will impact on reported results as soon as they arise. This is reflected in the sensitivity analysis, which estimates that five and ten percentage point increases in the value of sterling against all other currencies would have had minimal impact on results before tax.

On the other hand, the Group's policy is to accept a degree of interest rate risk as long as the effects of various changes in rates remain within certain prescribed ranges. On the basis of the Group's analysis, it is estimated that a rise of one percentage point in all interest rates would have increased 2008 loss before tax by approximately 0.5 per cent and that a three percentage point increase would have increased such losses by 1.8 per cent. This is well within the ranges that the Group regards as acceptable.

**EDEN RESEARCH PLC**  
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... continued ...

**23. FINANCIAL INSTRUMENTS (continued)**

**Capital risk management**

The group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order, in due course, to provide returns to shareholders, and to maintain an optimal capital structure.

The Group monitors capital on the basis of the gearing ratio calculated as net debt divided by total capital (equity plus net debt).

|                                  | 2008<br>£ | 2007<br>£ |
|----------------------------------|-----------|-----------|
| Borrowings                       | 2,271,686 | 1,829,081 |
| Less : Cash and cash equivalents | ( 13,065) | (663,022) |
| Net debt                         | 2,258,621 | 1,166,059 |
| Total equity                     | 5,512,331 | 6,160,278 |
| Total capital                    | 7,254,268 | 7,326,337 |
| Gearing ratio                    | 31%       | 16%       |

The increase in gearing ratio at 31 December 2008 resulted from the additional borrowings in the year.

**24. SHARE BASED PAYMENT**

Eden Research plc operates an unapproved option scheme for executive directors, senior management and certain employees.

|  | <u>2008</u>                                   |           | <u>2007</u>                                   |             |
|--|---|-----------|---|-------------|
|  | Weighted<br>average exercise<br>price (pence) | Number    | Weighted<br>average exercise<br>price (pence) | Number      |
| Outstanding at the beginning of the year | 32  | 5,318,974 | 30  | 8,615,161   |
| Granted during the year                  | 46  | 950,000   | 30  | 100,000     |
| Exercised during the year                | 23  | (127,000) | 23  | (3,116,187) |
| Lapsed during the year                   | -   | -         | 78  | (280,000)   |
|  | 34  | 6,141,974 | 32  | 5,318,974   |

The exercise price of options outstanding at the end of the year ranged between 9p and 60p (2007 : 9p and 42p) and their weighted average contractual life was 1.6 years (2007 : 2.3 years).

The weighted average share price (at the date of exercise) of options exercised during the year was 23p (2007 : 62p).

The weighted average fair value of each option granted during the year was 40p (2007 : 16p).

**EDEN RESEARCH PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**24. SHARE BASED PAYMENT (continued)**

The share based payment charge for the year was £173,729 (2007: £1,361,248).

The following information is relevant in the determination of the fair value of options granted during the year under the unapproved options scheme operated by Eden Research plc.

|  | <u>2008</u>   | <u>2007</u>   |
|--|---------------|---------------|
| <b>Equity-settled</b>                              |               |               |
| Option price model used                            | Black Scholes | Black Scholes |
| Weighted average share price at grant date (pence) | 68            | 35            |
| Exercise price (pence)                             | 46            | 30            |
| Weighted average contractual life (days)           | 756           | 259           |
| Expected volatility                                | 73.6%         | 73.6%         |
| Expected dividend growth rate                      | -             | -             |
| Risk-free interest rate                            | 4.43%         | 4.43%         |

Eden Research plc issued warrants to third parties for the provision of services rendered and the provision of finance.

|   | <u>2008</u>  |               | <u>2007</u>  |               |
|---|--|---------------|--|---------------|
|   | <u>Weighted<br/>average exercise<br/>price (pence)</u> | <u>Number</u> | <u>Weighted<br/>average exercise<br/>price (pence)</u> | <u>Number</u> |
| Outstanding at the beginning<br>of the year | 26   | 8,839,565     | 21   | 5,539,565     |
| Granted during the year                     | -  | -             | 30   | 4,400,000     |
| Exercised in the year                       | 21   | (3,158,983)   | 30   | (1,100,000)   |
| Outstanding at the end of the year          | 21   | 5,680,582     | 26   | 8,839,565     |

The exercise price of warrants outstanding at the end of the year ranged between 10p and 34p (2007 : 10p and 50p) and their weighted average contractual life was 1.1 years (2007 : 2.5 years).

The weighted average share price (at the date of exercise) of warrants exercised during the year was 21p (2007 : 63p).

The weighted average fair value of each warrant granted during the year was nil p (2007 : 31p).

**EDEN RESEARCH PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**24. SHARE BASED PAYMENT (continued)**

The following information is relevant in the determination of the fair value of warrants granted during the year by Eden Research plc.

|  | <u>2008</u>   | <u>2007</u>   |
|--|---------------|---------------|
| <b>Equity-settled</b>                              |               |               |
| Option price model used                            | Black Scholes | Black Scholes |
| Weighted average share price at grant date (pence) | -             | 49            |
| Exercise price (pence)                             | -             | 30            |
| Weighted average contractual life (days)           | -             | 1,091         |
| <br>Expected volatility                            | <br>73.6%     | <br>73.6%     |
| Expected dividend growth rate                      | -             | -             |
| Risk-free interest rate                            | 4.43%         | 4.43%         |

The volatility assumption, measured at the standard deviation of expected share price returns is based on a statistical analysis of daily share prices over 4 years.

**25. RECONCILIATION OF MOVEMENTS IN EQUITY**

**GROUP**

|   | <u>2008</u><br><u>£</u> | <u>2007</u><br><u>£</u> |
|---|-------------------------|-------------------------|
| Loss for the financial year                           | (2,101,237)             | (2,463,869)             |
| Issued share capital                                  | 33,975                  | 63,948                  |
| Share premium arising on new share capital subscribed | 728,902                 | 2,240,255               |
| Increase in Warrant reserve on grants in the year     | 431,795                 | 1,361,248               |
| <br><b>Net (deductions from)/additions to equity</b>  | <br><b>(906,568)</b>    | <br><b>1,201,582</b>    |
| Opening equity  | 6,160,278               | 4,958,696               |
| <br><b>Closing equity</b>                             | <br><b>5,253,710</b>    | <br><b>6,160,278</b>    |
| <br><b>Equity interests</b>                           | <br><b>5,253,710</b>    | <br><b>6,160,278</b>    |

**EDEN RESEARCH PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**25. RECONCILIATION OF MOVEMENTS IN EQUITY (continued)**

**COMPANY**

|   | 2008<br>£        | 2007<br>£        |
|---|------------------|------------------|
| Loss for the financial year                           | (2,101,237)      | (2,463,869)      |
| Issued share capital                                  | 33,975           | 63,948           |
| Share premium arising on new share capital subscribed | 728,902          | 2,240,255        |
| Increase in Warrant reserve on grants in the year     | 431,795          | 1,361,248        |
|   | <hr/>            | <hr/>            |
| <b>Net (deductions from)/additions to equity</b>      | <b>(906,568)</b> | <b>1,201,582</b> |
| Opening equity  | 6,160,278        | 4,958,696        |
|   | <hr/>            | <hr/>            |
| <b>Closing equity</b>                                 | <b>5,253,710</b> | <b>6,160,278</b> |
|   | <hr/>            | <hr/>            |
| <b>Equity interests</b>                               | <b>5,253,710</b> | <b>6,160,278</b> |
|   | <hr/>            | <hr/>            |

**26. EVENTS AFTER BALANCE SHEET DATE**

There have been no adjusting, or non-adjusting, post balance sheet events.