

**Medical Device Innovations Limited**

**Financial Statements**

**31 December 2011**



**CHAMPION ACCOUNTANTS LLP**

Chartered Accountants & Statutory Auditor

2nd Floor

Refuge House

33-37 Watergate Row

Chester

CH1 2LE

# **Medical Device Innovations Limited**

## **Financial Statements**

**Year Ended 31 December 2011**

---

<b>CONTENTS</b>	<b>PAGES</b>
Officers and Professional Advisers	1
The Directors' Report	2 to 4
Independent Auditor's Report to the Shareholders	5 to 6
Profit and Loss Account	7
Statement of Total Recognised Gains and Losses	8
Balance sheet	9
Cash flow statement	10 to 11
Notes to the financial statements	12 to 22

---

# **Medical Device Innovations Limited**

## **Officers and Professional Advisers**

---

### **The Board of Directors**

Mr A F Smith (Chairman)  
Dr D J W Roach

### **Company Secretary**

Mrs S Ellis

### **Registered Office**

Highfield Court  
Church Lane  
Maddingley  
Cambridgeshire  
CB23 8AG

### **Auditor**

Champion Accountants LLP  
Chartered Accountants & Statutory Auditor  
2nd Floor  
Refuge House  
33-37 Watergate Row  
Chester  
CH1 2LE

# **Medical Device Innovations Limited**

## **The Directors' Report**

### **Year Ended 31 December 2011**

---

The directors present their report and the financial statements of the company for the year ended 31 December 2011

#### **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The principal activity of the company during the year was the development of medical devices and management of the related intellectual property. The nature of the business is such that the generation of future benefit is uncertain. The Directors therefore monitor and control expenditure so as to ensure that it is relative to the levels of investment available.

The company reports a loss for the year as development of intellectual property (IP) continues. The level of the loss reflects a continuing program of structured cuts in project costs and associated administrative expenses due to reducing cash levels.

During the year further progress has been made in the development of four of the company's devices and discussions continue to take place with third parties regarding marketing, distribution and licensing of these products. Following the successful completion of three clinical trials, an agreement was signed on 30 July 2010 with a French owned medical device supply company for the distribution of the Company's ThoraQuick device and a corresponding manufacturing and supply agreement was signed with a UK manufacturer on 3 August 2010. Both these contracts were cancelled during the year, however an alternative manufacturing agreement was signed during the year and discussions with potential customers for the manufactured devices are continuing.

The Directors operate an ongoing policy of seeking potential new investment including strategic commercial partnerships and discussions continue to take place with various parties.

Due to the nature of the business the key financial performance indicator used by the company is the monitoring of income and expenditure against approved budgets.

#### **FUTURE DEVELOPMENTS**

The company plans to continue in its aim of completing development on its remaining IP ready for sale to the market with the help of strategic partnerships, either by the sale of IP, out-licensing IP for royalties or contract manufacture of products for direct sale to the market. The company will continue to invest in the technologies in its current portfolio as funds become available.

#### **RESULTS AND DIVIDENDS**

The loss for the year amounted to £396,630 (2010 - £234,230). The directors have not recommended a dividend.

#### **RESEARCH AND DEVELOPMENT**

The research and development programme is devoted to the invention and development of new medical devices and the creation of a related broad intellectual property portfolio.

All research costs are expensed within the profit and loss account as incurred. Development costs have also been expensed within the profit and loss account as incurred as, whilst projects are clearly defined and all related expenditure is separately identifiable by device, the ultimate commercial viability of the projects has generally been uncertain. In respect of the ThoraQuick project, development costs incurred during the 2010 financial year were deferred following the successful completion of three clinical trials and the signing of a distribution agreement.

As explained in note 8 to the financial statements, development costs incurred in 2011 in respect of the ThoraQuick project together with costs of £143,350 previously deferred, have now been written of to the profit and loss account in the year.

# Medical Device Innovations Limited

## The Directors' Report *(continued)*

### Year Ended 31 December 2011

---

#### DIRECTORS

The directors who served the company during the year were as follows

Mr A F Smith (Chairman)  
Dr D J W Roach  
Mr D Cottier (resigned 31 December 2011)

The beneficial interests of the directors in the shares of the company during the year were as follows

		At 31 Class of share December 2011	At 1 January 2011
Mr A F Smith (chairman)	Ordinary 10p shares	-	-
	A Ordinary 10p shares	-	-
	B Ordinary 10p shares	-	-
Mr D Cottier	Ordinary 10p shares	833	833
	A Ordinary 10p shares	444	444
	B Ordinary 10p shares	-	-
Dr D J W Roach	Ordinary 10p shares	-	-
	A Ordinary 10p shares	-	-
	B Ordinary 10p shares	-	-

#### DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year.

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Medical Device Innovations Limited

## The Directors' Report *(continued)*

### Year Ended 31 December 2011

---

In so far as the directors are aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

#### AUDITOR

Champion Accountants LLP are eligible for reappointment as auditors to the Company

Registered office  
Highfield Court  
Church Lane  
Madingley  
Cambridgeshire  
CB23 8AG

Signed by order of the directors



Mrs S Ellis  
Company Secretary

Approved by the directors on 24 September 2012

# **Medical Device Innovations Limited**

## **Independent Auditor's Report to the Shareholders of Medical Device Innovations Limited**

**Year Ended 31 December 2011**

---

We have audited the financial statements of Medical Device Innovations Limited for the year ended 31 December 2011 on pages 7 to 22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's shareholders, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR**

As explained more fully in the Directors' Responsibilities Statement set out on pages 3 to 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Without qualifying our opinion, we draw attention to Note 21 in the financial statements which indicates the existence of a material uncertainty which may cast doubt about the Company's ability to continue as a going concern.

### **OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Medical Device Innovations Limited

## Independent Auditor's Report to the Shareholders of Medical Device Innovations Limited *(continued)*

Year Ended 31 December 2011

---

### MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

*Champion Accountants LLP*

MR MICHAEL JACKSON BSC FCA  
(Senior Statutory Auditor)  
For and on behalf of  
CHAMPION ACCOUNTANTS LLP

Chartered Accountants & Statutory Auditor

2nd Floor  
Refuge House  
33-37 Watergate Row  
Chester  
CH1 2LE

24 September 2012



# Medical Device Innovations Limited

## Profit and Loss Account

Year Ended 31 December 2011

	Note	2011 £	2010 £
Turnover	2	26,500	–
Cost of sales		<u>248,629</u>	<u>132,407</u>
Gross Loss		(222,129)	(132,407)
Administrative expenses		<u>181,629</u>	<u>112,447</u>
Operating Loss	3	(403,758)	(244,854)
Attributable to			
Operating loss before exceptional items		(260,408)	(244,854)
Exceptional items	3	<u>(143,350)</u>	<u>–</u>
		(403,758)	(244,854)
Interest receivable and similar income		–	202
Interest payable and similar charges	6	–	(150)
Loss on Ordinary Activities Before Taxation		<u>(403,758)</u>	<u>(244,802)</u>
Tax on loss on ordinary activities	7	(7,128)	(10,572)
Loss for the Financial Year		<u>(396,630)</u>	<u>(234,230)</u>

All of the activities of the company are classed as continuing

The notes on pages 12 to 22 form part of these financial statements.

# **Medical Device Innovations Limited**

## **Statement of Total Recognised Gains and Losses**

**Year Ended 31 December 2011**

---

	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Loss for the financial year		
attributable to the shareholders	(396,630)	(234,230)
Expiry and forfeiture of share options	—	7,852
Total gains and losses recognised since the last annual report	<u>(396,630)</u>	<u>(226,378)</u>

**The notes on pages 12 to 22 form part of these financial statements.**

---

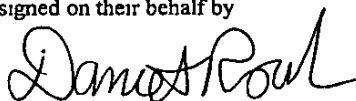
# Medical Device Innovations Limited

## Balance Sheet

31 December 2011

	Note	2011 £	£	2010 £	£
<b>Fixed Assets</b>					
Intangible assets	8		—		143,350
Tangible assets	9		407		—
			407		143,350
<b>Current Assets</b>					
Debtors	10	40,406		70,811	
Cash at bank		11,169		99,754	
		51,575		170,565	
<b>Creditors: Amounts Falling due Within One Year</b>	11	20,416		92,194	
<b>Net Current Assets</b>			31,159		78,371
<b>Total Assets Less Current Liabilities</b>			31,566		221,721
<b>Creditors: Amounts Falling due after More than One Year</b>	12		800,000		600,000
			(768,434)		(378,279)
<b>Capital and Reserves</b>					
Called-up equity share capital	15		5,047		5,047
Share premium account	16		5,994,723		5,994,723
Share options reserve	17		200,929		194,454
Profit and loss account	18		(6,969,133)		(6,572,503)
<b>Deficit in Shareholders' Funds</b>	19		(768,434)		(378,279)

These financial statements were approved by the directors and authorised for issue on 24 September 2012, and are signed on their behalf by



Dr D J W Roach (Director)

Company Registration Number 4344782

The notes on pages 12 to 22 form part of these financial statements.

# Medical Device Innovations Limited

## Cash Flow Statement

Year Ended 31 December 2011

	2011		2010	
	£	£	£	£
Net Cash Outflow from Operating Activities		(448,372)		(270,217)
Returns on Investments and Servicing of Finance				
Interest received	—		202	
Interest paid	—		(150)	
Net Cash Inflow from Returns on Investments and Servicing of Finance		—		52
Taxation		10,572		28,435
Capital Expenditure				
Intangibles – deferred development expenditure	—		(143,350)	
Payments to acquire tangible fixed assets	(610)		—	
Net Cash Outflow from Capital Expenditure		(610)		(143,350)
Cash Outflow Before Financing		(438,410)		(385,080)
Financing				
Increase in share option reserve	6,475		9,497	
Long term loans from Avlar Bioventures Fund II Limited Partnership	200,000		400,000	
Net Cash Inflow from Financing		206,475		409,497
(Decrease)/Increase in Cash		(231,935)		24,417

### RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2011		2010	
	£	£	£	£
Operating loss	(403,758)		(244,854)	
Depreciation	203		—	
Decrease/(increase) in debtors	26,961		(46,201)	
(Decrease)/increase in creditors	(71,778)		20,838	
Net cash outflow from operating activities	(448,372)		(270,217)	

# Medical Device Innovations Limited

## Cash Flow Statement

Year Ended 31 December 2011

### RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2011		2010	
	£	£	£	£
(Decrease)/increase in cash in the period	(231,935)		24,417	
Net cash (inflow) from long term loans from Avlar Bioventures Fund II Limited Partnership	<u>(200,000)</u>		<u>(400,000)</u>	
		(431,935)		(375,583)
Change in net debt		(431,935)		(375,583)
Net debt at 1 January 2011		<u>(500,246)</u>		<u>(124,663)</u>
Net debt at 31 December 2011		<u>(788,831)</u>		<u>(500,246)</u>

### ANALYSIS OF CHANGES IN NET DEBT

	At 1 Jan 2011 £	Cash flows £	At 31 Dec 2011 £
Net cash			
Cash in hand and at bank	<u>99,754</u>	<u>(88,585)</u>	<u>11,169</u>
Debt			
Debt due after 1 year	<u>(600,000)</u>	<u>(200,000)</u>	<u>(800,000)</u>
Net debt	<u>(500,246)</u>	<u>(288,585)</u>	<u>(788,831)</u>

# **Medical Device Innovations Limited**

## **Notes to the Financial Statements**

**Year Ended 31 December 2011**

---

### **1. ACCOUNTING POLICIES**

#### **Basis of accounting**

The financial statements have been prepared under the historical cost convention

#### **Going Concern**

The financial statements have been prepared on a going concern basis

The Directors have reviewed the funding position of the Company for the forward period and considered the viability of business plans and budgets for the twelve month period to June 2013

During the final quarter of 2009 the Company took steps to significantly reduce planned project expenditure together with its ongoing overhead base and this has continued throughout 2010 and 2011. In addition, the company signed a convertible loan agreement dated 15 March 2010 with its holding company, Avlar Bioventures Fund II Limited Partnership, under which an interest free convertible loan facility of up to £1,000,000 has been made available to the Company of which £800,000 has been received up to 31 December 2011.

Negotiations are continuing to take place with a view to generating income from the Company's ThoraQuick IP and the device is now at the manufacturing stage. It is anticipated that this will generate funds to continue to develop the Company's other IP.

Further funding will be required to finance future expenditure necessary to fully develop the Company's IP and talks are continuing to take place with other third parties with the aim of obtaining additional funding from the sale of IP or generating income from royalties.

In the event that further funding is required to meet expenditure over the next twelve months and this funding is not forthcoming from other sources, and on the basis that no external events occur which fundamentally impact on the commercial viability of the Company, Avlar Bioventures Fund II Limited Partnership have confirmed that they will provide sufficient additional funding to enable the business to continue for that twelve month period.

In view of the above, the Directors are confident that the funding now in place and likely to become available together with the steps taken to reduce the level of expenditure to keep it within the funds available will enable the business to continue to trade over the next twelve months.

Accordingly the Directors consider that the going concern basis is appropriate for the preparation of these financial statements.

#### **Turnover**

Turnover represents

- the invoiced value of medical products sold during the year, net of value added tax, sales being recognised at the time delivery takes place
- government grants receivable which are recognised in the profit and loss in the same period as the related expenditure

# Medical Device Innovations Limited

## Notes to the Financial Statements

Year Ended 31 December 2011

---

### 1. ACCOUNTING POLICIES *(continued)*

#### Research and development

Research expenditure is written off in the year in which it is incurred

Development expenditure is written off in the year in which it is incurred except where the following conditions are met to enable the expenditure to be deferred

- a) the project is clearly defined,
- b) the related expenditure is separately identifiable,
- c) the outcome of the project has been assessed with reasonable certainty as to its technical feasibility and its ultimate commercial viability
- d) the aggregate of deferred development costs together with any further development, production, selling and administration costs is reasonably expected to be exceeded by related future sales or other revenues, and
- e) adequate resources exist, or are reasonably expected to be available, to enable the project to be completed

Expenditure deferred to future periods is amortised from the date of commercial production or receipt of revenues from the sale or licence of the products and unamortised expenditure is reviewed at the end of each accounting period to ensure that the above conditions continue to be met

#### Fixed assets

All fixed assets are initially recorded at cost

#### Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Fixtures & Fittings	-	15% on cost
Computer Equipment	-	33% on cost

#### Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions payable for the year are charged in the profit and loss account.

# Medical Device Innovations Limited

## Notes to the Financial Statements

Year Ended 31 December 2011

---

### 1. ACCOUNTING POLICIES *(continued)*

#### Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

#### Share-based payments

Expenses for share-based payment transactions are recognised during the vesting period in the profit and loss account. These expenses recognise the fair value of the share options granted. A corresponding amount is reflected in additional paid-in capital.

#### Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

### 2. TURNOVER

The turnover and loss before tax are attributable to the one principal activity of the company.

An analysis of turnover is given below:

	2011 £	2010 £
Sales contract settlement	<u>26,500</u>	<u>-</u>

### 3. OPERATING LOSS

Operating loss is stated after charging:

	2011 £	2010 £
Research and development expenditure written off	145,352	132,407
Depreciation of owned fixed assets	203	-
Auditor's remuneration		
- as auditor	5,960	5,250
- for other services	5,870	4,105



# Medical Device Innovations Limited

## Notes to the Financial Statements

Year Ended 31 December 2011

---

### 3. OPERATING LOSS *(continued)*

	2011 £	2010 £
Exceptional items –		
Deferred development expenditure written off (note 8)		
Direct costs	103,277	–
Administrative expenses	<u>40,073</u>	<u>–</u>

### 4 PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial year amounted to

	2011 No	2010 No
Number of management staff	<u>1</u>	<u>1</u>

The aggregate payroll costs of the above were

	2011 £	2010 £
Wages and salaries	66,500	66,785
Social security costs	8,624	8,449
Other pension costs	13,361	13,361
EMI and other share options	6,475	9,497
	<u>94,960</u>	<u>98,092</u>

### 5 DIRECTORS' REMUNERATION

The directors' aggregate remuneration in respect of qualifying services were

	2011 £	2010 £
Aggregate remuneration	71,101	71,089
Value of company pension contributions to money purchase schemes	13,361	13,361
	<u>84,462</u>	<u>84,450</u>

The number of directors who accrued benefits under company pension schemes was as follows

	2011 No	2010 No
Money purchase schemes	<u>1</u>	<u>1</u>

# Medical Device Innovations Limited

## Notes to the Financial Statements

Year Ended 31 December 2011

---

### 6. INTEREST PAYABLE AND SIMILAR CHARGES

	2011	2010
	£	£
Credit charges payable	<u>—</u>	<u>150</u>

### 7. TAXATION ON ORDINARY ACTIVITIES

#### Analysis of charge in the year

	2011	2010
	£	£
Current tax		
UK Corporation tax recoverable on Research and Development Tax Credits	(7,128)	(10,572)
Total current tax	<u>(7,128)</u>	<u>(10,572)</u>

The company has tax losses to carry forward against future profits of approximately £5,280,000 (2010 - £4,910,000)

A deferred tax asset has not been recognised in respect of these losses as the likelihood of sufficient future taxable profits to utilise these losses is uncertain. The estimated value of the deferred tax asset not recognised, if measured at the small companies rate for the year of 20%, is £1,056,000 (2010 - £982,000)

# Medical Device Innovations Limited

## Notes to the Financial Statements

Year Ended 31 December 2011

### 8. INTANGIBLE FIXED ASSETS

	Deferred Development Expenditure £
<b>Cost</b>	
At 1 January 2011	143,350
Fully written off	(143,350)
<b>At 31 December 2011</b>	<u>—</u>
<b>Amortisation</b>	
At 1 January 2011 and 31 December 2011	<u>—</u>
<b>Net Book Value</b>	
At 31 December 2011	<u>—</u>
At 31 December 2010	<u>143,350</u>

Development expenditure in respect of ThoraQuick project incurred during the year ended 31 December 2010 was deferred as, following the successful completion of three clinical trials and the signing of manufacturing and supply agreements, the directors considered that the technical feasibility and ultimate commercial viability of this project had become reasonably certain and that costs incurred from 2010 were expected to be exceeded by future revenues. The subsequent cancellation of those agreements and delays in reaching new agreements with potential customers has cast doubt on the ultimate commercial viability of this project and the amount of future revenues has become uncertain. The directors now consider that the conditions for deferral of the expenditure are no longer met and accordingly, expenditure in 2011 has been expensed to the Profit and Loss account and the expenditure previously deferred has been fully written off.

### 9. TANGIBLE FIXED ASSETS

	Fixtures & Fittings £	Computer Equipment £	Total £
<b>Cost</b>			
At 1 January 2011	237	11,025	11,262
Additions	—	610	610
<b>At 31 December 2011</b>	<u>237</u>	<u>11,635</u>	<u>11,872</u>
<b>Depreciation</b>			
At 1 January 2011	237	11,025	11,262
Charge for the year	—	203	203
<b>At 31 December 2011</b>	<u>237</u>	<u>11,228</u>	<u>11,465</u>
<b>Net Book Value</b>			
At 31 December 2011	<u>—</u>	<u>407</u>	<u>407</u>
At 31 December 2010	<u>—</u>	<u>—</u>	<u>—</u>

# Medical Device Innovations Limited

## Notes to the Financial Statements

Year Ended 31 December 2011

---

### 10. DEBTORS

	2011	2010
	£	£
Corporation tax repayable	7,128	10,572
VAT recoverable	13,198	9,798
Other debtors	19,950	50,000
Prepayments and accrued income	130	441
	<u>40,406</u>	<u>70,811</u>

### 11. CREDITORS Amounts Falling due Within One Year

	2011	2010
	£	£
Trade creditors	12,245	31,134
PAYE and social security	2,421	2,270
Other creditors	—	53,000
Accruals and deferred income	5,750	5,790
	<u>20,416</u>	<u>92,194</u>

### 12. CREDITORS Amounts Falling due after More than One Year

	2011	2010
	£	£
Loan from Avlar Bioventures Fund II Limited Partnership	<u>800,000</u>	<u>600,000</u>

The following liabilities disclosed under creditors falling due after more than one year are secured by the company

	2011	2010
	£	£
Loan from Avlar Bioventures Fund II Limited Partnership	<u>800,000</u>	<u>600,000</u>

# Medical Device Innovations Limited

## Notes to the Financial Statements

Year Ended 31 December 2011

### 13. SHARE-BASED PAYMENTS

#### (a) Share-based payments to third parties

All outstanding share-based arrangements with third-party inventors and suppliers of services lapsed during the year ended 31 December 2010

#### (b) Share-based plans for executives and employees

Under the Medical Device Innovations Limited 2003 Enterprise Management Investment Scheme the company has granted options to executive directors and selected employees for them to acquire shares in the company. Under the terms of the Scheme the options lapse on the tenth anniversary of the date of the grant.

On 30 January 2003 and 23 December 2004 Mr D Cottier was granted options to acquire shares in the company at an exercise price of 10p per share, the earliest date that such options can be exercised being the first to occur of a sale of business and assets of the company or the sale of the entire share capital of the company or the admission of any of the company's shares to be dealt with on a Recognised Investment exchange.

On 9 March 2007 Mr D Cottier was granted options to acquire shares in the company at an exercise price of 10p per share, the earliest date that such options can be exercised being the first to occur of a sale of business and assets of the company or the sale of the entire share capital of the company or the admission of any of the company's shares to be dealt with on a Recognised Investment exchange.

Using the Intrinsic Method of measuring fair value of the options and having regard to the vesting periods the expenses recognised in the profit and loss account are as follow:

	2011 £	2010 £
Option-based expenses attributable to EMI options	<u>3,009</u>	<u>4,299</u>

The movements in options granted under the Medical Device Innovations Limited 2003 Enterprise Management Investment Scheme were:

	Number of Shares under EMI options 2011	2010	Weighted average exercise price 2011 £	2010 £
Outstanding at 1 January	3,792	4,092	0.10	0.10
Options lapsed	<u>—</u>	<u>(300)</u>	<u>—</u>	<u>—</u>
Outstanding at 31 December	<u>3,792</u>	<u>3,792</u>	<u>0.10</u>	<u>0.10</u>

The weighted average expected contractual life and remaining expected life of options outstanding at 31 December 2011 were 5.0 years and 1 year respectively.

# Medical Device Innovations Limited

## Notes to the Financial Statements

Year Ended 31 December 2011

### 13. SHARE-BASED PAYMENTS *(continued)*

On 9 March 2007 and 6 November 2007 Mr D Cottier and Mr A Smith were each granted options under an unapproved share option scheme to acquire shares in the company at an exercise price of 10p per share, the earliest date that such options can be exercised being the first to occur of a sale of business and assets of the company or the sale of the entire share capital of the company or the admission of any of the company's shares to be dealt with on a Recognised Investment exchange or, in the case of the 6 November 2007 options, a receipt of at least £2 million in equity funding

			2011 £	2010 £
Option-based expenses attributable to unapproved options			<u>3,466</u>	<u>5,198</u>
	Number of Shares under unapproved options		Weighted average exercise price	
	2011	2010	2011 £	2010 £
Outstanding at 1 January	<u>2,979</u>	<u>2,979</u>	<u>0 10</u>	<u>0 10</u>
Outstanding at 31 December	<u>2,979</u>	<u>2,979</u>	<u>0 10</u>	<u>0 10</u>

#### (c) Further information on share-based payments

In view of the difficulty in measuring directly the fair value of the services received from employees and the fair value of the intellectual property rights that it has acquired, the company has measured the fair value of the services and intellectual property rights by reference to the fair value of the options granted

Furthermore, in view of the fact that the company is unlisted and there is no historical data regarding share price volatility, the Intrinsic Method of measuring the fair value of the options has been used. Under this method the company has accounted for the options by recognising the difference between the market value of the shares at the year end and the exercise price of the options, so that over the vesting period an expense is charged which is equivalent to the option holder's gains on exercise

# Medical Device Innovations Limited

## Notes to the Financial Statements

Year Ended 31 December 2011

### 14 RELATED PARTY TRANSACTIONS

The company was under the control of Avlar Bioventures Fund II Limited Partnership, who owned 88.9% of the ordinary share capital

During the year, loans of £200,000 were made to the Company by Avlar Bioventures Fund II Limited Partnership. The loans are interest free and for a term of no less than 3 years and one day from 15 March 2010. The total loans outstanding at 31 December 2011 were £800,000 (2010 - £600,000)

The loan is secured by a fixed and floating charge in the form of a debenture over all Intellectual Property Rights and other assets of the Company and is convertible into shares in the Company at the direction of the lender

During the year expenses totalling £1,349 (2010 - £47,648) including VAT were paid by Avlar Bioventures Limited on the Company's behalf and recharged to the Company

At the year end Medical Device Innovations Limited owed £Nil (2010 - £513) to Avlar Bioventures Limited in respect of fees and expenses recharged

### 15. SHARE CAPITAL

#### Authorised share capital

	2011	2010
	£	£
12,000 Ordinary shares of £0.10 each	1,200	1,200
24,000 A Ordinary shares of £0.10 each	2,400	2,400
48,000 B Ordinary shares of £0.10 each	4,800	4,800
	<u>8,400</u>	<u>8,400</u>

#### Allotted, called up and fully paid

	2011		2010	
	No	£	No	£
1,083 Ordinary shares of £0.10 each	1,083	108	1,083	108
14,001 A Ordinary shares of £0.10 each	14,001	1,400	14,001	1,400
35,382 B Ordinary shares of £0.10 each	35,382	3,538	35,382	3,538
	<u>50,466</u>	<u>5,047</u>	<u>50,466</u>	<u>5,047</u>

In the event of a return of assets the holders of B Ordinary shares are entitled to repayment of the amount of any premium paid thereon and the par value of such shares in priority to any premium and par value paid on the A Ordinary shares, which in turn are paid in priority to any premium paid on the Ordinary shares and the par value of the Ordinary shares, any balance of net assets is distributable amongst the shareholders pari passu pro rata to the number of shares held

### 16 SHARE PREMIUM ACCOUNT

There was no movement on the share premium account during the financial year

# Medical Device Innovations Limited

## Notes to the Financial Statements

Year Ended 31 December 2011

---

### 17. SHARE OPTIONS RESERVE

	2011 £	2010 £
Balance brought forward	194,454	192,809
Increase in share option reserve	6,475	9,497
Expiry and forfeiture of share options	--	(7,852)
Balance carried forward	<u>200,929</u>	<u>194,454</u>
Represented by		
Fair value of share options		
6,771 (2010 - 6,771) Ordinary shares of 10p	<u>200,929</u>	<u>194,454</u>

### 18. PROFIT AND LOSS ACCOUNT

	2011 £	2010 £
Balance brought forward	(6,572,503)	(6,346,125)
Loss for the financial year	(396,630)	(234,230)
Expiry and forfeiture of share options	--	7,852
Balance carried forward	<u>(6,969,133)</u>	<u>(6,572,503)</u>

### 19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2011 £	2010 £
Loss for the financial year	(396,630)	(234,230)
Increase in share option reserve	6,475	9,497
Net reduction to shareholders' deficit	(390,155)	(224,733)
Opening shareholders' deficit	(378,279)	(153,546)
Closing shareholders' deficit	<u>(768,434)</u>	<u>(378,279)</u>