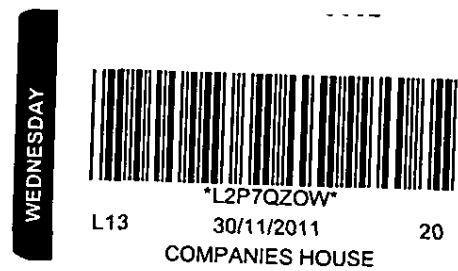


Lectus Therapeutics Limited

Report and Financial Statements

For the period ended 31 July 2011



Lectus Therapeutics Limited

DIRECTORS AND OFFICERS

DIRECTORS

Dr Roland Kozlowski
Mr Antoine Papiernik
Mr Angus Hone

SECRETARY

Mr Simon Wallwork

REGISTERED OFFICE

1 Portland Street
Manchester
M1 3BE

BANKERS

National Westminster Bank Plc
Cambridge Commercial Centre
Conqueror House
Chivers Way
Vision Park
Histon
Cambridge
CB24 9NL

AUDITORS

Baker Tilly UK Audit LLP
The Pinnacle
170 Midsummer Boulevard
Milton Keynes
MK9 1BP

Lectus Therapeutics Limited

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the company for the 17 month period ended 31 July 2011

PRINCIPAL ACTIVITIES AND FUTURE DEVELOPMENTS

The principal activity of the company during the 17 month period to 31 July 2011 was pharmaceutical research to identify novel first-in-class ion channel therapeutics for pain management. Future activities will focus on exploiting the intellectual property owned and generated to provide a return for shareholders.

REVIEW OF BUSINESS

In 2010 Lectus decided to pursue an outsourcing strategy to further develop its clinical assets, taking advantage of the skilled workforce and competitive labour costs available in Central European Countries and in particular Poland. As a result the operations were reduced to a small team to manage the outsourcing strategy and to undertake further fund raising.

The Board investigated a variety of funding strategies and decided to pursue an initial public offering ("IPO") on NewConnect, the Polish stock market for growth companies. On 5 October 2010 to prepare for the IPO the company underwent financial restructuring. This included the conversion into A Preferred shares of £1,897,493 of the Deep Discounted Bonds (and the associated redemption premium of £18,727,447) and the £1,000,000 of Convertible Loan Notes. In return 42,401,844 A Preferred Shares were issued, fully paid. Those 42,401,844 A Preferred Shares, together with the 19,005,627 A Preferred Shares in existence prior to this conversion were all swapped for Ordinary shares in the company, leaving one class of share. All of the share options in the company issued to Directors and staff were extinguished as part of this restructuring.

Lectus Plc was formed on 7 September 2010 to acquire 100% of the issued shares in Lectus Therapeutics Ltd, and to enable the business to undertake the IPO. On 5 October 2010 Lectus Plc completed the acquisition of Lectus Therapeutics Ltd with Lectus Plc issuing 15,459,871 Ordinary £0.04 shares in return for all of the issued share capital in Lectus Therapeutics Ltd. Lectus Plc has subsequently re-registered as a private limited company.

In November 2010, it became clear there was insufficient institutional investor interest to complete a listing on the Polish NewConnect stock market. As a result the business pursued opportunities to exploit lead assets in order to provide shareholders with a return on their investment. On 7 April 2011 the company completed a deal with UCB Pharma resulting in the sale of drug discovery and development programmes targeting ion channels for a specific set of CNS indications (Central Nervous System). Following the sale the Company continues to focus on out-licensing its functional proteomics platform, LEPTICS® (Leveraged Enabling Proteomics Technology for Ion Channel Screening). The terms of the deal remain commercially confidential, however a payment of £380,000 was made by UCB Pharma to Lectus Therapeutics Limited, with further consideration receivable on certain criteria and milestones being met in the future.

RESULTS AND DIVIDENDS

The company made a loss before taxation for the 17 months ended 31 July 2011 amounting to £7,370,806 (2010 £2,338,583). The directors are not able to recommend the payment of a dividend (2010 £nil) owing to a lack of distributable reserves. The loss for the period includes an exceptional loss of £4,494,985 arising from the conversion of deep discount bonds.

RESEARCH EXPENDITURE

The company incurred research expenditure for the 17 months ended 31 July 2011 of £133,145 (2010 £942,285).

RISKS AND UNCERTAINTIES

The principal risks to the business relate to the lack of certainty in respect of the timing of receipts from commercialisation of its activities.

Lectus Therapeutics Limited

DIRECTORS' REPORT

KEY PERFORMANCE INDICATORS

The financial key performance indicators include monitoring overall expenditure against the plan, and in particular (i) monitoring and forecasting cash resources, ensuring sufficient funds to continue operations, and (ii) the research and development costs as a proportion of total expenditure. Non-financial key performance indicators include (i) scientific data on research and development programmes, and (ii) progress with business development activities aimed at securing revenues from sale and collaboration deals.

DIRECTORS

The directors who held office during the period were as follows

Dr Edwin Moses	<i>(resigned 26 July 2011)</i>
Dr Philip Gould	<i>(resigned 18 March 2010)</i>
Dr Raymond Hill	<i>(resigned 17 March 2010)</i>
Dr Roland Kozlowski	
Dr Vincent Mutel	<i>(resigned 18 March 2010)</i>
Mr Antoine Papiernik	
Mr Angus Hone	<i>(appointed 26 July 2011)</i>

The directors benefitted from qualifying third party indemnity provisions in place during the period and at the date of this report.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The company made no political contributions or charitable donations during the 17 month period (2010 £nil)

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

Baker Tilly UK Audit LLP were appointed as auditors during the year and offer themselves for re-appointment at the Annual General Meeting.

On behalf of the Board



Mr G A Hone
Director

Date 30 November 2011

Lectus Therapeutics Limited

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF THE DIRECTOR'S REPORT AND FINANCIAL STATEMENTS

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 period.

The financial statements are required by law to 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 period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LECTUS THERAPEUTICS LIMITED

We have audited the financial statements of Lectus Therapeutics Limited for the 17 month period ended 31 July 2011 set out on pages 6 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, 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 members 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As more fully explained in the Directors' Responsibilities Statement set out on page 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

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on the 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 July 2011 and of its loss for the 17 month period 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.

Opinion on other matter prescribed by the Companies Act 2006

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

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 by the company, or returns adequate for our audit have not been received from branches not visited by us, or
- the company 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.

Baker Tilly UK Audit LLP

30 November 2011

Jeremy Read (Senior Statutory Auditor)

For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor

Chartered Accountants

The Pinnacle

170 Midsummer Boulevard

Milton Keynes

MK9 1BP

Lectus Therapeutics Limited
PROFIT AND LOSS ACCOUNT
for the period ended 31 July 2011

	<i>Note</i>	17 months ended 31 July 2011	10 months ended 28 February 2010
		£	£
TURNOVER		380,000	-
Research, Development and administrative expenses		(843,095)	(1,522,892)
OPERATING LOSS		(463,095)	(1,522,892)
Other income		-	330,790
Profit on disposal of fixed assets		22,137	-
Interest payable and similar charges	6	(6,929,848)	(1,146,481)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	2	(7,370,806)	(2,338,583)
Tax on loss on ordinary activities	7	-	101,896
LOSS FOR THE FINANCIAL PERIOD	15	(7,370,806)	(2,236,687)

The operating loss for the period arises from the company's continuing operations

No separate statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the profit and loss account

Lectus Therapeutics Limited

BALANCE SHEET

at 31 July 2011

Company Registration Number 04562659

	Note	31 July 2011 £	28 February 2010 £
FIXED ASSETS			
Intangible assets	8	40,655	119,211
Tangible assets	9	5	32,424
		<u>40,660</u>	<u>151,635</u>
CURRENT ASSETS			
Debtors	10	26,752	177,666
Cash at bank and in hand		102,008	18,582
		<u>128,760</u>	<u>196,248</u>
CREDITORS amounts falling due within one year			
	11	(1,291,576)	(1,454,141)
NET CURRENT LIABILITIES		<u>(1,162,816)</u>	<u>(1,257,893)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(1,122,156)</u>	<u>(1,106,258)</u>
CREDITORS amounts falling due after more than one year			
	12	(3,376,818)	(5,912,842)
NET LIABILITIES		<u>(4,498,974)</u>	<u>(7,019,100)</u>
CAPITAL AND RESERVES			
Called Up Share Capital	13	61,839	19,437
Share Premium Account	14	31,458,435	9,875,896
Profit and Loss Reserve	15	(36,019,248)	(16,914,433)
SHAREHOLDERS' DEFICIT		<u>(4,498,974)</u>	<u>(7,019,100)</u>

The financial statements on pages 6 to 24 were approved and authorised for issue by the board of directors on 30/06/2011 and were signed on its behalf by



Mr G A Hone
Director

Lectus Therapeutics Limited

CASH FLOW STATEMENT

for the period ended 31 July 2011

	<i>Note</i>	17 months ended 31 July 2011 £	10 months ended 28 February 2010 £
Cash outflow from operating activities	18	(505,049)	(1,045,353)
Returns on investments and servicing of finance	19	(549)	-
Taxation		115,663	271,983
Capital expenditure and financial investment	19	8,361	49,507
		<hr/>	<hr/>
Cash outflow before financing		(381,574)	(723,863)
Financing	19	465,000	460,790
		<hr/>	<hr/>
Increase/(decrease) in cash in the period	20	83,426	(263,073)
		<hr/>	<hr/>

Lectus Therapeutics Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 July 2011

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards

GOING CONCERN

The financial statements have been prepared on a going concern basis which the directors believe is appropriate for the following reasons, notwithstanding the overall net liabilities at the end of the financial period

The directors have produced cash flow forecasts for the period ending 12 months from the date of approval of these financial statements which continue to reflect the company's outsourcing strategy adopted in the period, those forecasts indicate the company will have the financial resources to continue operations for the foreseeable future. In the absence of revenue receipts, the timing and quantum of which cannot be predicted with certainty, there would be little headroom in those forecasts. However, some further revenues are expected from the commercial deal completed earlier this year with UCB, although the timing of these revenues cannot be predicted with certainty nor controlled by the company

The directors are confident that the LEPTICS® technology is capable of being exploited further, accordingly the company has entered into discussions with other pharmaceutical companies with a view to either licence the LEPTICS® technology or to enter into research and development collaborations. These discussions are at an early stage and future revenues and costs cannot be predicted with certainty

It is expected that the liabilities to Wellcome Trust and to bondholders (see notes 11 and 12) can be discharged in the normal course of operations. Under the terms of the Wellcome Trust loan a demand for repayment cannot be served if that places the company into insolvency. The bonds are due to be repaid on 23 July 2013 unless repaid at an earlier point at the discretion of the company. If there is insufficient funds to enable repayment the outstanding bonds together with any premium are converted into Ordinary shares of the parent company – Lectus Ltd – at a rate of £2.04 per Ordinary share

After making enquiries and considering the uncertainties described above, the directors are confident that the company is able to continue its operations and to continue to meet its debts as they fall due for at least 12 months from the signing of the financial statements. For these reasons, they continue to adopt the going concern basis in preparing the annual report and financial statements

INTANGIBLE FIXED ASSETS AND AMORTISATION

Intangible fixed assets purchased separately from a business are capitalised at their cost

Intellectual property and patents purchased by the company are amortised to £nil by equal annual instalments over their useful economic lives of 5 years, or, where appropriate, over the remainder of 5 years from initial in-licensing

FIXED ASSETS AND DEPRECIATION

Depreciation is provided to write off the cost, less the estimated residual value of tangible fixed assets, by equal instalments over their estimated useful economic lives as follows

Computer hardware and office equipment – 3 years

Plant and laboratory equipment – 3 years

Office Furniture – 3 years

Leasehold improvements – over the remaining period of the lease

Lectus Therapeutics Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 July 2011

1 ACCOUNTING POLICIES *(continued)*

TURNOVER

Turnover is recognised when receipts from commercialisation of the company's intellectual property are probable. Depending on the contractual terms with customers, typically turnover is recognised upon receipt of milestone payments where the timing of receipt is not determinable by the company until receipt of the payment. Turnover that is contingent in nature is not recognised until the occurrence of the contingent event.

SHARE BASED PAYMENTS

FRS 20 requires companies to recognise the fair value of the employee services received by reference to the fair value of the share options granted. In determining the fair value the directors have given consideration to the likelihood of an event occurring which will enable the share options to be exercised in accordance with FRS 20. The terms of the Lectus share option scheme prevent exercise of the option until there is a change of control. On 5 October 2010 all share options granted to directors and staff were extinguished. Accordingly no charge is recognised in the accounts.

RESEARCH AND DEVELOPMENT

Expenditure on research and development is written off to the profit and loss account in the period in which it is incurred.

LEASES

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

TAXATION

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

CASH RESOURCES

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

POST-RETIREMENT BENEFITS

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. The amount charged to profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

FOREIGN EXCHANGE POLICY

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The Company incurs very little expenditure denominated in other currencies, and therefore does not require any risk management techniques to be implemented. This position is constantly under review, and appropriate measures will be implemented should the potential exposure become material. The company does not hold cash deposits in other currencies.

Lectus Therapeutics Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 July 2011

1 ACCOUNTING POLICIES *(continued)*

INTEREST BEARING BORROWINGS

Immediately after issue debt is stated at the value of consideration received on the issue of the capital instruments after deduction of issue costs. The finance cost of the debt is allocated to periods over the term of the debt at constant rate on the carrying amount.

CLASSIFICATION OF FINANCIAL INSTRUMENTS ISSUED BY THE COMPANY

Financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists, these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

DEEP DISCOUNT BONDS

Details of the company's deep discount bonds are included in note 12. The premium on deep discount bonds is accrued over the life of the bonds to the expected date of redemption. The premium is charged to the profit and loss account as part of 'Interest payable and similar charges' and the amount accrued is included in creditors.

The early settlement of the bonds by way of conversion is treated as two transactions, being the early settlement of a debt and an issue of equity instruments at the fair value of consideration received.

On conversion, the fair value of the bonds and the initial fair value of equity instruments are calculated at the date of conversion, with the difference between the fair value and the carrying value of the bonds (including redemption premium accrual) charged to the profit and loss account. Fair value is calculated by reference to the anticipated expiry date and a market interest rate for the term and risk attached to the bond.

The terms of the bonds are that early settlement causes the full redemption premium to apply for the purposes of calculating the number of shares to be received by bond holders. This is considered to be the face value of the bonds that has been extinguished and is the amount at which the legal share capital and share premium should be recorded. A reserves transfer from the profit and loss reserve to share premium is required for the difference between this amount (i.e. the face value of the bonds) and the initial fair value of the equity instruments issued in exchange for the extinguishment of the bonds so that the legal share capital and premium are reflected.

Lectus Therapeutics Limited
NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 July 2011

2 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	17 months ended 31 July 2011 £	10 months ended 28 February 2010 £
Loss on ordinary activities before taxation is stated after charging		
Amortisation and other amounts written off intangible fixed assets	78,556	69,798
Depreciation and other amounts written off tangible fixed assets	22,780	80,833
(Profit)/losses on disposal of tangible fixed assets	(22,137)	7,173
Operating lease payments – land and buildings	17,650	108,349
Research and development expenditure	133,145	942,285
Loss/(gain) on foreign currency translation	1,076	(2,857)
	<u> </u>	<u> </u>
Auditors remuneration		
Audit of these financial statements	14,000	11,000
Other services relating to taxation	3,000	23,150
Other services relating to accounts preparation	800	-
	<u> </u>	<u> </u>

3 STAFF NUMBERS AND COSTS

The average number of persons employed by the company (including non-executive directors) during the period, analysed by category, was as follows

	17 months ended 31 July 2011 No	10 months ended 28 February 2010 No
Scientific Research	1	6
Management and Support	7	9
	<u> </u>	<u> </u>
Total average headcount	8	15
	<u> </u>	<u> </u>

The aggregate payroll costs of these persons were as follows

	17 months ended 31 July 2011 £	10 months ended 28 February 2010 £
Wages and salaries	378,219	616,145
Social security costs	27,897	67,524
Pension contributions	22,979	34,282
	<u> </u>	<u> </u>
	429,095	717,951
	<u> </u>	<u> </u>

Lectus Therapeutics Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 July 2011

4 REMUNERATION OF DIRECTORS

	17 months ended 31 July 2011 £	10 months ended 28 February 2010 £
Directors' emoluments	98,928	99,610
Contributions to Directors' pension funds made by the Company	6,206	7,447

Only one Director was eligible for pension contributions

None of the Directors who held office at the end of the period held share options in the Company, none were granted (2010 nil) and none were exercised (2010 nil) during the period. All share options were extinguished as part of the financial restructuring of the business in October 2010.

The terms of the share options are included in note 5.

5 SHARE BASED PAYMENTS

Before 5 October 2010 the Company operated two equity-settled share-based payment schemes for employee remuneration known as Enterprise Management Incentive Scheme ("EMIS") and Executive Share Scheme ("ESS"). These schemes provided members of the Board of Directors, and all other employees of Lectus, with the opportunity to obtain the right to purchase Ordinary Shares in the Company. The grant of the share options is at the discretion of the Remuneration Committee, whose members are appointed by the Board of Directors of Lectus. On 5 October 2010, as part of the financial restructuring of the company none of the holders of share options exercised their rights to share options, and accordingly all share options were extinguished. The following table sets out share option activity under this plan during the period to 31 July 2011.

	Number of options				Outstanding at end of period	Exercise price £	Expiry Date
	At start of period	Granted during the period	Forfeited during the period	Exercised during the period			
Total share option pool	3,807,709	-	3,807,709	-	-	-	-

Although the share option scheme allowed the holder exercise only if there is a change of control of the company none were exercised as part of the financial restructuring in October 2010.

Under FRS 20 the Directors are required to assess whether any provision for share based payments is required. The Directors have assessed the fair value of the share options and conclude that this is £nil (2010 nil), and accordingly no provision has been made in the accounts for share based payments.

Lectus Therapeutics Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 July 2011

6 INTEREST PAYABLE AND SIMILAR CHARGES

	17 months ended 31 July 2011 £	10 months ended 28 February 2010 £
Amounts accrued on 'A' Preferred Shares	516,163	632,989
Amounts accrued on Wellcome Trust Loan	39,391	22,436
Premium accrued on Deep Discount Bond Instruments	1,879,309	491,056
Loss arising on conversion of Deep Discount Bond Instruments	4,494,985	-
	<u>6,929,848</u>	<u>1,146,481</u>

The 'A' Preferred Shares attract a fixed dividend at a rate of 8% per annum, based on the allotment of £0.50 per share

The accrued interest on the Wellcome Trust Loan is calculated at NatWest Bank Plc Base Rate plus 2%

On 5 October 2010 the majority of the Deep Discount Bond Instruments (see note 12) were converted into A Preferred Shares. Immediately afterwards all A Preferred Shares were converted into Ordinary Shares. Accordingly no further charges accrued on the A Preferred Shares after they were extinguished.

7 TAX ON LOSS ON ORDINARY ACTIVITIES

Analysis of credit in period

	17 months ended 31 July 2011 £	10 months ended 28 February 2010 £
UK corporation tax		
Current tax on income for the period (R&D tax credits)	-	101,896
	<u>-</u>	<u>101,896</u>

The current tax credit for the period is lower (2010: lower) than the standard rate of corporation tax in the UK of 27.5% (2010: 28%). The differences are explained overleaf.

Lectus Therapeutics Limited
NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 July 2011

7 TAX ON LOSS ON ORDINARY ACTIVITIES *(continued)*

	17 months ended 31 July 2011 £	10 months ended 28 February 2010 £
Current tax reconciliation		
Loss on ordinary activities before tax	(7,370,806)	(2,338,583)
Current tax at 27.5% (2008: 28%)	(2,026,972)	(654,803)
Effects of		
Expenses not deductible for tax purposes	2,079,475	194,247
Depreciation in excess of capital allowances	7,483	19,044
Tax losses carried forward to future years not recognised	110,429	173,923
Tax losses relating to non-trading items carried forward to future years not recognised	-	137,496
Net impact of research and development tax claims	-	14,429
Other timing differences	(170,415)	13,768
Total current tax credit	-	(101,896)

The company has tax losses of £8,585,000 (2010: £7,990,688) (subject to agreement with HMRC) available for offset against future taxable profits

The unrecognised deferred tax assets relating to the tax losses are explained below

	Taxable loss relating to Trading £	Taxable loss relating to non- trade loans £	Total £
At 1 March 2010	2,237,393	227,426	2,464,819
Movement relating to trading losses incurred during the period	104,406	-	104,406
Movement relating to non-trading losses incurred during the period	-	(161,121)	(161,121)
Impact of change in tax rates to 26%	(160,591)	(15,405)	(175,996)
At 31 July 2011	2,181,208	50,900	2,232,108

The deferred tax asset has not been recognised in the accounts as the Directors believe that the timing of this is difficult to predict and is likely to be a number of years into the future

Lectus Therapeutics Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 July 2011

8 INTANGIBLE FIXED ASSETS

	Intellectual property £
Cost	
At 1 March 2010	360,281
Additions	-
	<hr/>
At 31 July 2011	360,281
	<hr/>
Amortisation	
At 1 March 2010	241,070
Charge for the period	78,556
	<hr/>
At 31 July 2011	319,626
	<hr/>
Net book value	
At 31 July 2011	40,655
	<hr/>
At 1 March 2010	119,211
	<hr/>

There are two Intangible Assets (a) an exclusive licence the Company has over Intellectual Property involved in research and development activities, and (b) the costs of in-licencing a compound to expand the development portfolio

Lectus Therapeutics Limited
NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 July 2011

9 FIXED ASSETS

	Leasehold Improvements	Plant & Laboratory Equipment	Office Furniture	Computer Equipment & Software	Total
	£	£	£	£	£
Cost					
At 1 March 2010	17,258	284,376	9,333	138,834	449,801
Additions	-	-	-	2,513	2,513
Disposals	(17,258)	(217,989)	(9,333)	(128,044)	(372,624)
	<u>-</u>	<u>66,387</u>	<u>-</u>	<u>13,303</u>	<u>79,690</u>
At 31 July 2011	-	66,387	-	13,303	79,690
Depreciation					
At 1 March 2010	13,367	270,901	8,064	125,045	417,377
Charge for the period	1,088	13,347	167	8,178	22,780
Disposals	(14,455)	(217,866)	(8,231)	(119,920)	(360,472)
	<u>-</u>	<u>66,382</u>	<u>-</u>	<u>13,303</u>	<u>79,685</u>
At 31 July 2011	-	66,382	-	13,303	79,685
Net book value					
At 31 July 2011	-	5	-	-	5
At 1 March 2010	3,891	13,475	1,269	13,789	32,424

10 DEBTORS

	31 July 2011 £	28 February 2010 £
Taxation	-	115,663
Other debtors	23,415	26,690
Prepayments	3,337	35,313
	<u>26,752</u>	<u>177,666</u>

11 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 July 2011 £	28 February 2010 £
Trade creditors	427	116,338
Other taxes and social security costs	15,650	72,768
Other creditors	1,912	-
Accruals	83,163	114,002
Wellcome Trust Loan	1,029,866	1,029,866
Accrued interest on Wellcome Trust Loan	160,558	121,167
	<u>1,291,576</u>	<u>1,454,141</u>

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11 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR *(continued)*

The Wellcome Trust Loan of £1,029,866 (2010 £1,029,866) relates to a loan to fund a research programme. Under the terms of the Loan agreement interest is accrued at NatWest Bank Plc Base Rate plus 2% per annum. The accumulated accrued interest at 31 July 2011 is £160,558 (2010 £121,167). After 24 August 2010 the loan became convertible into Ordinary shares at the discretion of the Wellcome Trust subject to certain conditions which could be met by mutual consent including the sale of the company, a qualifying fundraising or a listing. Repayment in cash is possible only by the company generating revenues. Wellcome Trust are unable to require repayment if it is likely to force the company into insolvency, at that point the Trust can elect to convert into shares, or leave as a loan and then to demand repayment in future.

12 CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 July 2011 £	28 February 2010 £
Accrued dividends on 'A' Preferred Shares	3,155,979	2,639,816
Deep Discount Bond Instrument	28,297	1,460,790
Accrued premium on Deep Discount Bond Instrument	192,542	812,236
Unsecured Convertible Loan Note	-	1,000,000
	<u>3,376,818</u>	<u>5,912,842</u>

The dividends on the 'A' Preferred Shares were accrued on a fixed rate of 8% per annum, based on a subscription price of £0.50 per share. On 5 October 2010 all A Preferred Shares were converted into Ordinary Shares. As a result the total accrued dividends remains a liability until such time as it can be discharged through a distribution. The dividend on the 'A' Preferred Shares has a liquidation preference over Ordinary Shares.

There have been four issues of Deep Discount Bond Instruments, two issues were made during the current financial reporting period. On 5 October 2010 the majority of these Bonds were converted into A Preferred Shares.

	31 July 2011 £	28 February 2010 £
Issued between 1 October 2008 and 31 January 2009	1,000,000	1,000,000
Issued on 8 May 2009	460,790	460,790
Issued on 26 March 2010	300,000	-
Issued on 2 September 2010	165,000	-
	<u>1,925,790</u>	<u>1,460,790</u>
Total issued prior to 5 October 2010		
	1,925,790	1,460,790
Converted into A Preferred Shares on 5 October 2010	(1,897,493)	-
	<u>28,297</u>	<u>1,460,790</u>
Total outstanding at year-end		
	28,297	1,460,790

Lectus Therapeutics Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 July 2011

12 CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR *(continued)*

On 5 October 2010 when the majority of the bonds were converted into A Preferred Shares some of the Bond Holders did not want to convert. At the same time the conditions for repayment and conversion of the remaining bonds were varied by mutual consent. As a result the remaining bonds cannot be converted to A Preferred Shares. They remain repayable on the earlier of the repayment date of 23 July 2013 and the date on which the company decides to repay those bonds and associated premium.

Of the total £28,297 of Bonds remaining £10,000 were issued in March 2010, and the other £18,297 were issued between October 2008 and January 2009. Under the terms of the bonds the proceeds on redemption are 10 times the original subscription, accordingly the bonds create a liability of £100,000 and £182,967 respectively. The premium on redemption, therefore, is 9 times the original subscription price. This premium is accrued over the expected period of the bonds remaining outstanding. The directors believe it is reasonable to expect sufficient further receipts before the end of the following financial period from the deal secured with UCB Pharma to repay these remaining bonds in full. Accordingly the premium has been accrued, assuming a constant internal rate of for each bond issue, the resultant effective rate of interest is 66.5% on the £18,297, and 115.8% on the remaining £10,000 of the outstanding bonds. However the bonds can be repaid at any point up to and including 23 July 2013, if the bonds are redeemed on the 23 July 2013 then the effective rate of interest is 48.9% and 71.1% respectively.

On 5 October 2010 a total of £1,897,493 of bonds (2010 nil) along with £18,727,447 of redemption premium (2010 nil) were converted into A Preferred Shares at a price of £0.51 per share. A total of 40,441,062 A Preferred Shares were issued (see note 13).

On 23 July 2008 an Unsecured Convertible Loan Note of £1,000,000 was created, and during the period 1st October 2008 to 31 January 2009 these were issued in full. On 5 October 2010 the Loan Note was converted into A Preferred Shares at a rate of £0.51 per share, a total of 1,960,784 A Preferred Shares were issued (see note 13).

13 SHARE CAPITAL

	31 July 2011 No	28 February 2010 No
Allotted, called up and fully paid		
Ordinary Shares £0.001 each fully paid	61,839,474	432,001
'A' Preferred Shares £0.001 each fully paid	-	19,005,627
	<u>61,839,474</u>	<u>19,437,628</u>
	31 July 2011 £	28 February 2010 £
Allotted, called up and fully paid		
Ordinary Shares £0.001 each fully paid	61,839	432
'A' Preferred Shares £0.001 each fully paid	-	19,005
	<u>61,839</u>	<u>19,437</u>

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NOTES TO THE FINANCIAL STATEMENTS
for the period ended 31 July 2011

13 SHARE CAPITAL (*continued*)

	Ordinary Shares £0 001 No	'A' Preferred Shares £0 001 No	Total No
28 February 2010	432,001	19,005,627	19,437,628
Conversion of deep discount bonds	-	40,441,062	40,441,062
Conversion of loan notes	-	1,960,784	1,960,784
Conversion to ordinary share capital	61,407,473	(61,407,473)	-
At 31 July 2011	61,839,474	-	61,839,474

The accrued dividend on the 'A' Preferred Shares has a liquidation preference over Ordinary Shares to an aggregate amount of the accrued dividend (see note 12)

14 SHARE PREMIUM ACCOUNT

	Ordinary Shares £	'A' Preferred Shares £	Total £
At 28 February 2010	139,720	9,736,176	9,875,896
Conversion of deep discount bonds at initial fair value	-	8,850,492	8,850,492
Transfer from profit and loss reserve to reflect legal share premium	-	11,734,009	11,734,009
Conversion of loan notes	-	998,038	998,038
Conversion to ordinary share capital	31,318,715	(31,318,715)	-
At 31 July 2011	31,458,435	-	31,458,435

15 PROFIT AND LOSS RESERVE

	£
At 28 February 2010	(16,914,433)
Retained loss for the period	(7,370,806)
Transfer to share premium account on conversion of deep discount bond instruments	(11,734,009)
At 31 July 2011	(36,019,248)

Lectus Therapeutics Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 July 2011

16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	17 months ended 31 July 2011 £	10 months ended 28 February 2010 £
Loss for the financial period	(7,370,806)	(2,236,687)
Conversion of deep discount bond and loan note instruments	9,890,932	-
NET DECREASE/(INCREASE) TO SHAREHOLDERS' DEFICIT	2,520,126	(2,236,687)
Opening shareholders' funds	(7,019,100)	(4,782,413)
CLOSING SHAREHOLDERS' DEFICIT	(4,498,974)	(7,019,100)

17 PENSIONS

The company operates a defined contribution scheme in which all employees are invited to participate. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £22,979 (2010 £34,282). The assets of the scheme are held separately from those of the company in independently administered funds. Unpaid contributions at the period end, included in accruals are £3,228 (2010 £5,210).

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

	31 July 2011 £	28 February 2010 £
Operating loss	(463,095)	(1,522,892)
Other income	-	330,790
Depreciation and amortisation charges	101,336	150,631
Loss on disposal of fixed assets	-	7,173
Decrease in debtors	58,666	159,653
Decrease in creditors	(201,956)	(170,708)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(505,049)	(1,045,353)

Lectus Therapeutics Limited
NOTES TO THE FINANCIAL STATEMENTS
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19 ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	17 months ended 31 July 2011 £	10 months ended 28 February 2010 £
Returns on investment and servicing of finance		
Interest paid	(549)	-
Net cash outflow from returns on investment and servicing of finance	(549)	-
Capital expenditure and financial investment		
Payments to acquire intangible fixed assets	-	(5,790)
Payments to acquire tangible fixed assets	(2,513)	(11,870)
Proceeds from sale of fixed assets	10,874	67,167
Net cash inflow from capital expenditure and financial investment	8,361	49,507
Financing		
Receipt from issue of Deep Discount Bond Instrument	465,000	460,790
Net cash inflow from financing	465,000	460,790

20 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	17 months ended 31 July 2011 £	10 months ended 28 February 2010 £
Increase/(Decrease) in cash	83,426	(263,073)
Financing	(465,000)	(460,790)
Other non-cash changes	2,961,633	(1,146,481)
Movement in debt	2,580,059	(1,870,344)
Net debt at the start of the period	(7,045,293)	(5,174,949)
NET DEBT AT THE END OF THE PERIOD	(4,465,234)	(7,045,293)

Lectus Therapeutics Limited

NOTES TO THE FINANCIAL STATEMENTS

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21 ANALYSIS OF CHANGES IN NET DEBT

	At 1 March 2010 £	Cash flow £	Other non cash changes £	At 31 July 2011 £
Cash at bank and in hand	18,582	83,426	-	102,008
Debt due within one year	(1,151,033)	-	(39,391)	(1,190,424)
Debt due after one year	(5,912,842)	(465,000)	3,001,024	(3,376,818)
Net debt	(7,063,875)	(465,000)	2,961,633	(4,465,234)
Total	(7,045,293)	(381,574)	2,961,633	(4,465,234)

Non-cash changes relating to debt due within one year represents interest accrued to, but not paid by, the balance sheet date. Non-cash changes relating to debt due after one year primarily represents conversion of debt to 'A' Preferred shares, for which no cash flows occurred.

22 LEASING COMMITMENTS

At the start of the financial reporting period there was one lease, notice for termination of that was served and the premises was vacated in April 2010. In March 2010 a lease was entered into for another premises, 1 months' notice for termination was required, and was given in July 2011, accordingly the premises was vacated in August 2011. The commitment on the outstanding lease at the balance sheet date was one month's costs of £500 (2010 annual commitment of £10,445).

23 RELATED PARTY DISCLOSURES

On 5 October 2010 the following Directors who served during the year had their interests in Loan Note Instruments repaid at par and they were then issued with A Preferred Shares in the company:

Director	Loan Note instrument repaid (at par)	A Preferred Shares £0.001 issued
Dr Roland Kozlowski	£6,290.29	12,334
Dr Philip Gould	£1,795.12	3,520
Angus Hone	£3,000.00	5,883

Lectus Therapeutics Limited

NOTES TO THE FINANCIAL STATEMENTS

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23 RELATED PARTY DISCLOSURES *(continued)*

On 5 October 2010 the following Directors who served during the year had their holdings of A Preferred Shares £0 001 in the company swapped for Ordinary shares £0.001 in the Company. Those directors then swapped their complete holding of Ordinary shares £0 001 in the Company for Ordinary shares £0 04 in the ultimate parent company.

Director	A Preferred Shares £0 001 prior to swapping for Ordinary shares £0 001	Number of Ordinary shares £0 001 received in return for the A Preferred Shares £0 001 shares held prior to the share swap	Total number of Ordinary shares £0 001 held after A Preferred share swap	Number of Ordinary shares £0 04 issued by ultimate parent company
Dr Roland Kozlowski	12,334	12,334	130,334	32,584
Dr Philip Gould	3,520	3,520	21,520	5,380
Angus Hone	5,883	5,883	5,883	1,471

24 CONTROLLING PARTY

Sofinnova Capital V FCPR is the ultimate controlling party.