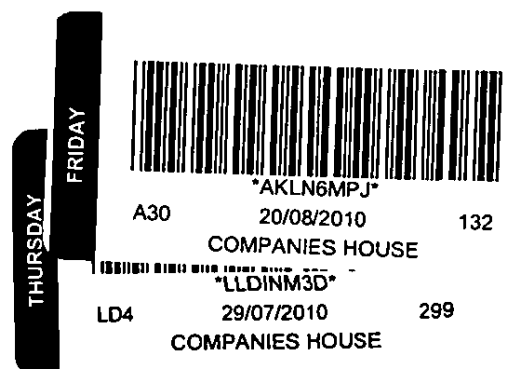


# **Lectus Therapeutics Limited**

Directors' report and financial statements

Registered number 4562659

Period ended 28 February 2010



**Directors**

Dr Edwin Moses  
Dr Philip Gould *(resigned 18 March 2010)*  
Dr Raymond Hill *(resigned 17 March 2010)*  
Dr Roland Kozlowski  
Dr Vincent Mutel *(resigned 18 March 2010)*  
Mr Antoine Papiernik

**Secretary**

Mr Simon Wallwork

**Registered Office**

123 Deansgate  
Manchester  
M3 2BU

**Bankers**

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

**Auditors**

KPMG LLP  
37 Hills Road  
Cambridge  
CB2 1XL

## Contents

Directors' report	1
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	3
Independent auditor's report to the members of Lectus Therapeutics Limited	4
Profit and loss account	6
Balance sheet	7
Cash flow statement	8
Reconciliation of net cash flow to movement in net debt	8
Reconciliation of movements in shareholders' funds	8
Notes	9

## Directors' report

The directors present their report and the audited financial statements of the company for the 10 months period ended 28 February 2010

### Principal activities

The principal activity of the company during the 10 months period to 28 February 2010 was pharmaceutical research to identify novel first-in-class ion channel therapeutics for pain management

### Review of business and events since the balance sheet date

During the period the company focussed expenditure on the more mature assets within its research programme portfolio compared with the previous 9 month period

On 8<sup>th</sup> May 2009 £460,790 of funding was secured from existing shareholders by issuing Deep Discounted Bond Instruments, on 25 March 2010, as a post balance sheet event, a further £300,000 of funding was secured through the issue of further Deep Discount Bond Instruments. Repayment is ten times the issue price, and to be repaid on or before 23 July 2013 unless an earlier repayment is triggered by a sale, listing or liquidation of the company. The £300,000 Deep Discount Bond issued on 25 March 2010 was secured over all of the assets of the company by way of fixed and floating charges. Further details on the repayment conditions are included in note 22

The primary goal is to fund the development of the business by securing further finance through a private placement on a European stock exchange. In parallel commercial discussions continue with a number of pharmaceutical companies aimed at securing a collaboration deal. Continued investor support for the business assures continuation of operations until securing funds through flotation or from commercial transaction with a pharmaceutical company

At the financial period end cash resources were £18,582 with net current liabilities of £1,257,893, and total net liabilities of £7,019,100. The total net liabilities include £5,912,842 of creditors falling due after more than one year

Notwithstanding the net liabilities at the period end, the Directors have considered the financial position of the company, the funding provided by the company's investors on 25 March 2010, investor ongoing support, and the strong likelihood of securing funding from flotation or a commercial transaction, the Directors conclude it is appropriate to prepare the financial statements on a Going Concern basis

The Directors recognise the principal risks and uncertainties to the business depend primarily on two areas, (a) continued success in the research activities, and (b) continued funding of the business either through the sale or out-licensing of assets, or through additional investment by the company's investor. The funding risks are managed through regular reviews of the operational plan and available funds, keeping investors fully briefed, and continuing to seek further funding from current investors, potential new investors and also through potential collaborative partnerships

### Results and dividends

The company made a loss before taxation for the 10 months ended 28 February 2010 amounting to £2,338,583 (*9 months ended 30 April 2009 £3,694,339*). The directors do not recommend the payment of a dividend (*9 months ended 30 April 2009 £nil*)

### Research Expenditure

The company incurred research expenditure for the 10 months ended 28 February 2010 of £942,285 (*9 months ended 30 April 2009 £2,111,488*)

## Directors' report *(continued)*

### Directors

The directors who held office during the period were as follows

Dr Edwin Moses	
Dr Philip Gould	(resigned 18 March 2010)
Dr Raymond Hill	(resigned 17 March 2010)
Dr Roland Kozlowski	
Dr Vincent Mutel	(resigned 18 March 2010)
Mr Antoine Papiernik	

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 10 month period (*9 months ended 30 April 2009 £nil*)

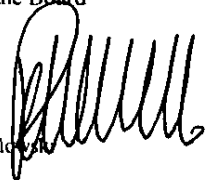
### Disclosure of information to auditors

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

Pursuant to Section 487 of Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office

On behalf of the Board

  
Dr Roland Kozlowski  
Director

Date

27 June 2010

Registered Office 123 Deansgate, Manchester M3 2BU

## **Statement of directors' responsibilities in respect of the Directors' Report and the 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 period. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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.



## **KPMG LLP**

37 Hills Road  
Cambridge  
CB2 1XL  
United Kingdom

### **Independent auditor's report to the members of Lectus Therapeutics Limited**

We have audited the financial statements of Lectus Therapeutics Limited for the 10 months period ended 28 February 2010 set out on pages 6 to 22. 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 explained more fully in the Directors' Responsibilities Statement set out on page 3, 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 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 web-site at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

#### **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 28 February 2010 and of its loss for the period then ended
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

#### **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 company's ability to continue as a going concern, in particular that the company's forecasts indicate a need to raise additional funding from existing investors and a private placement or to identify a collaboration partner in order to continue the development of the company's research programmes towards commercialisation. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

#### **Opinion on other matter 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.

## **Report of the independent auditors to the members of Lectus Therapeutics Limited** *(continued)*

### **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

*Steve Muncey*

Steve Muncey (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*

*23 July 2010*



**Profit and loss account**  
*for the period ended 28 February 2010*

	<i>Note</i>	<b>10 months ended 28 February 2010</b>	<b>9 months ended 30 April 2009</b>
		<b>£</b>	<b>£</b>
Research, Development and administrative expenses		<b>(1,522,892)</b>	<b>(2,789,537)</b>
<b>Operating loss</b>		<b>(1,522,892)</b>	<b>(2,789,537)</b>
Other income		<b>330,790</b>	<b>-</b>
Interest receivable and similar income	6	<b>-</b>	<b>11,250</b>
Interest payable and similar charges	7	<b>(1,146,481)</b>	<b>(916,052)</b>
<b>Loss on ordinary activities before taxation</b>	2	<b>(2,338,583)</b>	<b>(3,694,339)</b>
Tax on loss on ordinary activities	8	<b>101,896</b>	<b>274,672</b>
<b>Loss for the financial period</b>	16	<b>(2,236,687)</b>	<b>(3,419,667)</b>

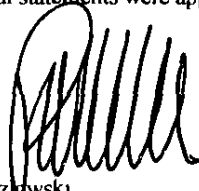
The company has no recognised gains or losses other than the results for the period as set out above

All of the activities of the company relate to continuing operations

**Balance sheet**  
**at 28 February 2010**

	Note	28 February 2010		30 April 2009	
		£	£	£	£
<b>Fixed assets</b>					
Intangible assets	9		119,211		183,219
Tangible assets	10		32,424		175,727
			<u>151,635</u>		<u>358,946</u>
<b>Current assets</b>					
Debtors	11	177,666		507,406	
Cash at bank and in hand		18,582		281,655	
		<u>196,248</u>		<u>789,061</u>	
Creditors: amounts falling due within one year	12	(1,454,141)		(473,816)	
<b>Net current (liabilities)/assets</b>			<u>(1,257,893)</u>		<u>315,245</u>
<b>Total assets less current liabilities</b>			<u>(1,106,258)</u>		<u>674,191</u>
Creditors amounts falling due after more than one year	13		(5,912,842)		(5,456,604)
<b>Net liabilities</b>			<u>(7,019,100)</u>		<u>(4,782,413)</u>
<b>Capital and reserves</b>					
Called Up Share Capital	14		19,437		19,437
Share Premium Account	15		9,875,896		9,875,896
Profit and Loss Reserve	16		(16,914,433)		(14,677,746)
<b>Shareholders' deficit</b>			<u>(7,019,100)</u>		<u>(4,782,413)</u>

These financial statements were approved by the board of directors on <sup>23 July 2010</sup> [Date] and were signed on its behalf by



Dr Roland Kozłowski  
Director  
Registered No 4562659

**Cash flow statement**  
*for the period ended 28 February 2010*

	<i>Note</i>	<b>10 months ended 28 February 2010 £</b>	<b>9 months ended 30 April 2009 £</b>
Cash flow from operating activities	18	(1,045,353)	(3,052,645)
Returns on investments and servicing of finance	19	-	11,250
Taxation		271,983	471,025
Proceeds from disposal of fixed assets		67,167	-
Capital expenditure	19	(17,660)	(50,999)
		<hr/>	<hr/>
Cash outflow before financing		(723,863)	(2,621 369)
Financing	19	460,790	2 000,000
		<hr/>	<hr/>
Decrease in cash in the period	20	(263,073)	(621,369)
		<hr/>	<hr/>

**Reconciliation of net cash flow to movement in net debt**  
*for the period ended 28 February 2010*

	<i>Note</i>	<b>10 months ended 28 February 2010 £</b>	<b>9 months ended 30 April 2009 £</b>
Decrease in cash in the period		(263,073)	(621 369)
Financing	19	(460,790)	(2,000 000)
Other non-cash changes	7	(1,146,481)	(916 052)
		<hr/>	<hr/>
Movement in net debt in the period		(1,870,344)	(3,537,421)
Net debt at the start of the period	20	(5,174,949)	(1 637 528)
		<hr/>	<hr/>
Net debt at the end of the period	20	(7,045,293)	(5,174 949)
		<hr/>	<hr/>

**Reconciliation of movements in shareholders' funds**  
*for the period ended 28 February 2010*

	<b>10 months ended 28 February 2010 £</b>	<b>9 months ended 30 April 2009 £</b>
Loss for the financial period	(2,236,687)	(3,419,667)
	<hr/>	<hr/>
Net increase to shareholders' deficit	(2,236,687)	(3,419,667)
Opening shareholders' funds	(4,782,413)	(1 362 746)
	<hr/>	<hr/>
Closing shareholders' deficit	(7,019,100)	(4,782,413)
	<hr/>	<hr/>

## Notes

*(forming part of the financial statements)*

### 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 in accordance with applicable accounting standards in the United Kingdom and under the historical cost accounting rules

#### *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 company continues its research and development activities to create commercial products based on its research programmes. Prior to such commercialisation, the company will require significant additional funding to continue these activities. The programmes reached a sufficiently advanced stage to enable the company to implement reductions to the operating overheads in March 2010.

The primary goal of the company is to fund the development of the business by securing further equity funding through a private placement on the New Connect platform of the Warsaw Stock Exchange during 2010. In parallel, commercial discussions continue with a number of pharmaceutical companies aimed at securing a collaboration deal to co-develop one or more programmes.

The company continues to receive funding from its investors to continue its research activities and to meet its day-to-day working capital requirements. On 25 March 2010 an additional £300,000 of funding from the company's major shareholder was secured in the form of a Deep Discounted Bond, secured against the assets of the company by way of fixed and floating charges (see note 22).

The directors have produced cash flow forecasts for the period ending 12 months from the date of the approval of these financial statements, those forecasts indicate that additional funding will be required to continue to fund the development of the company's research programmes and operations in the period before flotation or securing a commercial collaboration deal. Based on these forecasts, the majority shareholder has indicated that it will provide additional funding, by way of further discounted bonds on terms similar to those issued in March although with a conversion rate of 20 times rather than the 10 times for the existing bonds, such funding is sufficient to meet the forecast working capital needs up to the time of raising additional equity funding (see below). The issue of the bonds is subject to shareholder approval which the Directors are confident will be obtained.

In order to raise the additional equity funding by private placement on the New Connect platform of the Warsaw Stock Exchange shareholder approval is required, which the directors are confident will be obtained. In preparation for the private placement, the directors are recommending the conversion into Ordinary Shares of all Deep Discount Bonds, Convertible Loan Notes and A Preferred Shares, accordingly approval of such conversions requires Bondholders, Convertible Loan Note holder and Shareholder consent, the directors are confident the appropriate consents will be secured. Acadia (a Warsaw Stock Exchange authorised advisor for New Connect) has been appointed to manage the private placement onto New Connect, the directors are confident the private placement will raise the necessary additional funds to advance the research programmes.

After making enquiries and considering the uncertainties described above, the directors are confident that the company can secure sufficient funds to continue in operational existence and to continue its research programmes for at least 12 months from the signing of the accounts. For these reasons, they continue to adopt the going concern basis in preparing the annual report and financial statements. Whilst there is considerable support from both shareholders and bondholders to the proposed private placement the directors have concluded that the above matters represent a material uncertainty that may cast significant doubt upon the company's ability to continue as a going concern. If the company is unable to undertake the private placement or secure a successful collaboration deal it may, therefore, be unable to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### ***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

#### ***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. At the date of signing the financial statements the Directors concluded that the probability of an exercisable event is relatively low, and even if there was such an event the magnitude of the likely charge would not be material. Accordingly no charge has been 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.

## Notes (continued)

### 1 Accounting policies (continued)

#### *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.

#### *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.

## Notes (continued)

### 2 Loss on ordinary activities before taxation

	10 months ended 28 February 2010 £	9 months ended 30 April 2009 £
<i>Loss on ordinary activities before taxation is stated after charging</i>		
Amortisation and other amounts written off intangible fixed assets	69,798	56,849
Depreciation and other amounts written off tangible fixed assets	80,833	153,030
Losses on disposal of tangible fixed assets	7,173	-
Operating lease payment	108,349	192,411
Research and development expenditure	942,285	2,111,488
(Gain)/loss on foreign currency translation	(2,857)	22,267
	<hr/>	<hr/>
<i>Auditors remuneration</i>		
Audit of these financial statements	11,000	12,000
Other services relating to taxation	23,150	4,050
	<hr/>	<hr/>

## Notes (continued)

### 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

	10 months ended 28 February 2010 No	9 months ended 30 April 2009 No
Scientific Research	6	17
Management and Support	9	9
	<hr/>	<hr/>
Total average headcount	15	26
	<hr/> <hr/>	<hr/> <hr/>

The aggregate payroll costs of these persons were as follows

	10 months ended 28 February 2010 £	9 months ended 30 April 2009 £
Wages and salaries	616,145	958,259
Social security costs	67,524	112,494
Pension contributions	34,282	42,413
	<hr/>	<hr/>
	717,951	1,113,166
	<hr/> <hr/>	<hr/> <hr/>

### 4 Remuneration of directors

	10 months ended 28 February 2010 £	9 months ended 30 April 2009 £
Directors' emoluments	99,610	180,380
	<hr/>	<hr/>
Contributions to Directors' pension funds made by the Company	7,447	5,657
	<hr/> <hr/>	<hr/> <hr/>

Only one Director was eligible for pension contributions

Five Directors who held office at the end of the period held share options in the Company, none were granted (2009 945,192) and none were exercised (2009 nil) during the period

The terms of the share options are included in note 5



## Notes (continued)

### 5 Share based payments

The Company operates two equity-settled share-based payment schemes for employee remuneration known as Enterprise Management Incentive Scheme ("EMIS") and Executive Share Scheme ("ESS"). These schemes provide 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. The following table sets out share option activity under this plan during the period to 28 February 2010.

	Number of options					Exercise price £	Expiry Date
	At start of period	Granted during the period	Forfeited during the period	Exercised during the period	Outstanding at end of period		
Total share option pool	3,931,300	-	123,591	-	3,807,709	£0.01	19 June 2016

The share options are only exercisable if there is a change of control of the company, each share option provides the holder with the opportunity to purchase one Ordinary Share with a nominal value per share of £0.001. At the point of the share option becoming exercisable the option holder must be employed by the company.

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 (9 months ended 30 April 2009 nil), and accordingly no provision has been made in the accounts for share based payments.

In reaching this conclusion the Directors considered the likelihood of an event allowing the options to be exercised is relatively low, and even if it did occur the value of the options is relatively immaterial.

### 6 Interest receivable and similar income

	10 months ended 28 February 2010 £	9 months ended 30 April 2009 £
Amounts receivable on cash deposits	-	11,250
	-	11,250

### 7 Interest payable and similar charges

	10 months ended 28 February 2010 £	9 months ended 30 April 2009 £
Amounts accrued on 'A' Preferred Shares	632,989	562,879
Amounts accrued on Wellcome Trust Loan	22,436	31,993
Amounts accrued on Deep Discount Bond Instruments	491,056	321,180
	1,146,481	916,052

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%.

There are two issues of Deep Discount Bond Instruments, £1,000,000 issued on 23 July 2008 and £460,790 issued on 8 May 2009. The interest is calculated at the effective interest rate of 61.7% and 71.7% per annum respectively.

## Notes (continued)

### 8 Tax on loss on ordinary activities

#### Analysis of credit in period

	10 months ended 28 February 2010 £	9 months ended 30 April 2009 £
<i>UK corporation tax</i>		
Current tax on income for the period (R&D tax credits)	101,896	274,672

The current tax credit for the period is lower (2008 lower) than the standard rate of corporation tax in the UK of 28% (2009 28%). The differences are explained below

	10 months ended 28 February 2010 £	9 months ended 30 April 2009 £
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(2,338,583)	(3,694,339)
Current tax at 28% (2008 28%)	(654,803)	(1,034,415)
<i>Effects of</i>		
Expenses not deductible for tax purposes	194,247	262,377
Depreciation in excess of capital allowances	19,044	35,607
Tax losses relating to trading carried forward to future years not recognised	173,923	337,982
Tax losses relating to non-trading items carried forward to future years not recognised	137,496	89,930
Net impact of research and development tax claims	14,429	38,854
Other timing differences	13,768	(5,008)
Total current tax credit (see above)	(101,896)	(274,672)

The company has tax losses of £7,990,688 (30 April 2009 £7,323,375) (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 30 April 2009	1,960,615	89,930	2,050,545
Relating to trading losses incurred during the period	412,778	-	412,778
Relating to non-trading losses incurred during the period	-	137,496	137,496
At 28 February 2010	2,237,393	227,426	2,600,819

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

## Notes (continued)

### 9 Intangible fixed assets

	Intellectual property £
<i>Cost</i>	
At 30 April 2009	354,491
Additions during the period	5,790
	<hr/>
At 28 February 2010	360,281
	<hr/>
<i>Amortisation</i>	
At 30 April 2009	171,272
Charge for the period	69,798
	<hr/>
At 28 February 2010	241,070
	<hr/>
<i>Net book value</i>	
At 28 February 2010	119,211
	<hr/>
At 30 April 2009	183,219
	<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

### 10 Fixed assets

	Leasehold Improvements £	Plant & Laboratory Equipment £	Office Furniture £	Computer Equipment & Software £	Total £
<i>Cost</i>					
At 30 April 2009	22,151	506,610	23,318	163,952	716,031
Additions during the period	11,870	-	-	-	11,870
Disposals during the period	(16,763)	(222,234)	(13,985)	(25,118)	(278,100)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 28 February 2010	17,258	284,376	9,333	138,834	449,801
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
At 30 April 2009	21,530	386,138	16,129	116,507	540,304
Charge for the period	8,150	42,484	2,664	27,535	80,833
Accumulated depreciation on disposals	(16,313)	(157,721)	(10,729)	(18,997)	(203,760)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 28 February 2010	13,367	270,901	8,064	125,045	417,377
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 28 February 2010	3,891	13,475	1,269	13,789	32,424
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 April 2009	621	120,472	7,189	47,445	175,727
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

## Notes (continued)

### 11 Debtors

	28 February 2010 £	30 April 2009 £
Taxation	115,663	285,750
Other debtors	26,690	110,244
Prepayments	35,313	111,412
	<u>177,666</u>	<u>507,406</u>

### 12 Creditors: amounts falling due within one year

	28 February 2010 £	30 April 2009 £
Trade creditors	116,338	341,213
Other taxes and social security costs	72,768	35,662
Accruals	114,002	96,941
Wellcome Trust Loan	1,029,866	-
Accrued interest on Wellcome Trust Loan	121,167	-
	<u>1,454,141</u>	<u>473,816</u>

The Wellcome Trust Loan of £1,029,866 (30 April 2009 £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 28 February 2010 is £121,167 (30 April 2009 £98,731). After 24 August 2010 the loan becomes convertible into Ordinary shares subject to certain conditions which could be met by mutual consent. The repayment in cash is possible only by generating revenues from commercialisation of the products into which the Wellcome Trust invested; the directors do not believe such conditions will be met within the foreseeable future and not within the next 12 months.

### 13 Creditors: amounts falling due after more than one year

		28 February 2010 £	30 April 2009 £
Wellcome Trust Loan	12	-	1,029,866
Accrued interest on Wellcome Trust Loan	12	-	98,731
Accrued dividends on 'A' Preferred Shares		2,639,816	2,006,827
Deep Discount Bond Instrument		1,460,790	1,000,000
Accrued Interest on Deep Discount Bond Instrument		812,236	321,180
Unsecured Convertible Loan Note		1,000,000	1,000,000
		<u>5,912,842</u>	<u>5,456,604</u>

## Notes (continued)

### 13 Creditors: amounts falling due after more than one year (continued)

The Accrued dividends on the 'A' Preferred Shares are calculated on a fixed rate of 8% per annum, based on a subscription price of £0.50 per share. The dividend, together with the 'A' Preferred Share capital either (a), becomes payable on the earlier of (i) a return of assets on liquidation after payment of its liabilities, or (ii) a sale of the business, or (b) converts to Ordinary Shares at £0.50 per Ordinary share. The 'A' Preferred Shares have a liquidation preference over Ordinary Shares to an aggregate amount of the original subscription (£0.50 each) plus accrued dividend to the point of liquidation. Thereafter they share in any balance *pari passu* with Ordinary shareholders pro rata based on the holding of each shareholder. At 28 February 2010 the total dividends accrued was £2,639,816 (30 April 2009 £2,006,827).

On 23 July 2008 a Deep Discount Bond Instrument of £1,000,000 was created, and during the period 1<sup>st</sup> October 2008 to 31 January 2009 these were issued in full. On 8 May 2009 a further £460,790 of Deep Discount Bond Instruments were issued. Under the terms of the Deep Discount Bond Instrument repayment can occur on or before 23 July 2013, the liability to repay earlier than 23 July 2013 is triggered on the sale, the listing or the liquidation of the company. Any proceeds received by the company in relation to a sale, a listing or a liquidation shall first be applied in redeeming the bonds. The redemption amount is equal to ten times the original subscription price. Under the issue of £1,000,000 of Bonds this will create a liability on the company of £10,000,000, the £9,000,000 premium on redemption is treated as an interest on the original subscription, and accrues over the expected life of the financial instrument. The effective compound rate of interest is 61.7% per annum. Under the issue of £460,790 of Bonds this will create a liability on the company of £4,607,900, the £4,147,110 of premium on redemption is treated as an interest on the original subscription, and accrues over the expected life of the financial instrument. The effective compound rate of interest is 71.7% per annum. The total interest accrued on both Bonds as at 28 February 2010 was £812,235 (30 April 2009 £321,180).

On 23 July 2008 an Unsecured Convertible Loan Note of £1,000,000 was created, and during the period 1<sup>st</sup> October 2008 to 31 January 2009 these were issued in full. Under the terms of the Loan Note Instrument the Holder has the option to either convert into 'A' Preferred Shares or demand repayment. Repayment is on or before 23 July 2013, earlier repayment is triggered by the sale, listing or liquidation of the company. In the event of a conversion to 'A' Preferred Shares the conversion rate is £0.51 for each fully paid 'A' Preferred Share. This is a zero coupon Loan Note and therefore does not attract a premium on redemption.

## Notes (continued)

### 14 Share Capital

	28 February 2010 £	30 April 2009 £
<b>Authorised share capital:</b>		
5,949,201 (2009 5,949,201) Ordinary Shares £0.001 each	5,949	5,949
23,909,501 (2009 22,927,196) 'A' Preferred Shares £0.001 each	23,910	22,927
	<u>29,859</u>	<u>28,876</u>

On 1<sup>st</sup> May 2009 the authorised share capital was increased from £28,876 to £29,859 by the creation of 982,305 A Preferred Shares

	28 February 2010 No.	30 April 2009 No.
<b>Allotted, called up and fully paid</b>		
Ordinary Shares £0.001 each fully paid	432,001	432,001
'A' Preferred Shares £0.001 each fully paid	19,005,627	19,005,627
	<u>19,437,628</u>	<u>19,437,628</u>

	28 February 2010 £	30 April 2009 £
<b>Allotted, called up and fully paid:</b>		
Ordinary Shares £0.001 each fully paid	432	432
'A' Preferred Shares £0.001 each fully paid	19,005	19,005
	<u>19,437</u>	<u>19,437</u>

	Ordinary Shares £0.001 No	'A' Preferred Shares £0.001 No	Total No
30 April 2009	432,001	19,005,627	19,437,628
<b>At 28 February 2010</b>	<u>432,001</u>	<u>19,005,627</u>	<u>19,437,628</u>

The 'A' Preferred Shares have a liquidation preference over Ordinary Shares to an aggregate amount of the original subscription (£0.50 each) plus accrued dividend (see note 13) to the point of liquidation. Thereafter they share in any balance *pari passu* with Ordinary shareholders pro rata based on the holding of each shareholder.

## Notes (continued)

### 15 Share Premium Account

	Ordinary Shares	'A' Preferred Shares	Total
	£	£	£
At 30 April 2009	139,720	9,736,176	9,875,896
At 28 February 2010	139,720	9,736,176	9,875,896

### 16 Profit and Loss Reserve

	£
At 30 April 2009	(14,677,746)
Retained loss for the period	(2,236,687)
At 28 February 2010	(16,914,433)

### 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 £34,282 (9 months ended 30 April 2009 £42,413). 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 £5,210 (30 April 2009 £11,665).

### 18 Reconciliation of operating loss to net cash flow from operating activities

	28 February 2010	30 April 2009
	£	£
<b>Reconciliation of operating loss to net cash flow from operating activities</b>		
Operating loss	(1,522,892)	(2,789,537)
Other income	330,790	-
Depreciation and amortisation charges	150,631	209,879
Loss on disposal of fixed assets	7,173	-
Decrease in debtors	159,653	45,442
Decrease in creditors	(170,708)	(518,429)
<b>Net cash outflow from operating activities</b>	<b>(1,045,353)</b>	<b>(3,052,645)</b>

## Notes (continued)

### 19 Analysis of cash flows

	10 months ended 28 February 2010		Period ended 30 April 2009
	£	£	£
<b>Returns on investment and servicing of finance</b>			
Interest paid	-	-	-
Interest received	-	11,250	-
		<u>-</u>	<u>11,250</u>
<b>Capital expenditure and financial investment</b>			
Purchase of intangible fixed assets	(5,790)	(38,658)	-
Purchase of tangible fixed assets	(11,870)	(12,341)	-
		<u>(17,660)</u>	<u>(50,999)</u>
<b>Financing</b>			
Issue of Deep Discount Bond Instrument	460,790	1,000,000	-
Issue of Unsecured Convertible Loan Notes	-	1,000,000	-
		<u>460,790</u>	<u>2,000,000</u>

### 20 Analysis of net debt

	At beginning of Period £	Cash flow £	Other non-cash changes £	At end of period £
Cash at bank and in hand	281,655	(263,073)	-	18,582
Debt due within one year	-	-	(1,151,033)	(1,151,033)
Debt due after one year	(5,456,604)	(460,790)	4,552	(5,912,842)
	<u>(5,174,949)</u>	<u>(723,863)</u>	<u>(1,146,481)</u>	<u>(7,045,293)</u>

### 21 Commitments

On 1<sup>st</sup> May 2009 there were two operating lease commitments on two premises occupied by the company. On 30 June 2009 one of the leases was terminated by mutual agreement with the landlord. The terms of the second lease were renegotiated to enable termination by one month's notice. The commitment on the outstanding lease at the balance sheet date was one month's costs of £10,445 (30 April 2009 annual commitment of £249,079).

### 22 Post Balance Sheet Events

On 25 March 2010 a further £300,000 of Deep Discount Bonds were issued, secured against all the assets of the company by way of a fixed and floating charge. Under the terms of the Deep Discount Bond Instrument repayment can occur on or before 23 July 2013, the liability to repay earlier than 23 July 2013 is triggered on the sale, the listing or the liquidation of the company, or on demand of majority of the bond holders. Any proceeds received by the company in relation to a sale, a listing or a liquidation shall first be applied in redeeming the bonds. The redemption amount is equal to ten times the original subscription price, accordingly this will create a liability on the company of £3 million.

The bondholders have confirmed that they have no intention of calling for repayment on demand. The directors are also recommending that the bonds are converted to ordinary shares prior to listing in NewConnect as discussed in note 1.



**Notes** *(continued)*

**23 Related party disclosures**

There were no related party transactions during the period

**24 Controlling Party**

Sofinnova Capital V FCPR is the ultimate controlling party