



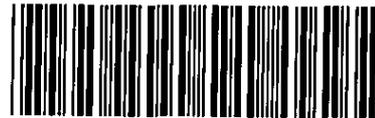
**iQUR LIMITED**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**31<sup>ST</sup> MARCH 2007**

Registered Number 04665665

TUESDAY



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COMPANIES HOUSE



Accredited Medical Laboratory  
Reference No 2838

## **iQUR LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2007**

The Directors present their report and financial statements for the year ended 31<sup>st</sup> March 2007

#### **PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS**

The Company is involved in ongoing research and development and diagnostic testing for chronic liver disease, focusing mainly on viral hepatitis and fatty liver disease. The Company is very well positioned to offer the best in class service to the NHS, with partial reimbursement by its pharmaceutical partners.

During the year the company has assisted a major Corporate diagnostic partner to achieve regulatory approval for a novel test for liver fibrosis. This led to a partnership agreement for iQur to provide diagnostic testing for liver fibrosis. Regulatory approval (CPA) of iQur's laboratories has aided the development of new viral diagnostic business and renewal of existing contracts with pharmaceutical partners.

Continuing research has led to significant advances in iQur's three therapeutic programs

- An anti-viral drug is in development with a US pharmaceutical partner. Several rounds of synthesis and formulation have been completed and it is hoped that a compound which may rapidly progress into *in vivo* testing and clinical trial will shortly be identified.
- iQur's vaccine platform technology has been greatly expanded and a programme of industrial development is underway. We have identified several target antigens and have a lead product which is being scaled for *in vivo* testing. iQur has entered into a consortium agreement with two other industrial partners to develop the technology further and, post year end, have been successful in raising grant funding from the BERR (see post balance sheet events below).
- The development of a novel anti-fibrotic therapy has been partnered by another biotechnology company that is sharing the cost of *in vivo* testing.

#### **RESULTS**

The results for the year and the Company's position at 31<sup>st</sup> March 2007 are set out in the attached financial statements. The Company made a loss, after the introduction of FRS 20 "Share Based Payments", of £2,040,484 (2006 restated - £1,547,259), which was, as in the previous year, largely due to research and development work and administration against which there was no sales income.

As noted above the company has adopted FRS 20 "Share-based Payments" in the year. FRS 20 requires the company to make a charge for the fair value of share options issued since 7 November 2002 which had not vested by 1 April 2006 and it is the adoption of this standard which resulted in the 2006 results being restated. Further information on the adoption of FRS 20 is set out in notes 2 and 17.

The Directors do not recommend the payment of a dividend.

## **iQUR LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2007**

#### **POST BALANCE SHEET EVENTS**

In May 2007 iQur terminated its European licensing and distribution agreement and sold iQur Pharmaceuticals Limited and its interests in certain regulatory approval applications to Three Rivers Pharmaceuticals for US\$1 million, with a potential future revenue stream of royalties once sales of the anti-viral drug commence. In addition there is the likelihood of milestone payments from Three Rivers Pharmaceuticals of €50,000 for each of seven European jurisdictions in which a Marketing Authorisation is granted for the distribution of this anti-viral drug. This application process is currently ongoing and due to be completed by the end of January 2008.

In June 2007, together with academic and industrial partners, the company was successful in raising grant funding from the BERR for a £1.1 million development project linked to iQur's vaccine platform technology.

In July 2007 iQur closed a round of fundraising from existing and new investors raising £3.3 million, of which £2.6 million was new cash and the balance being the conversion of debts due to the University of Southampton and IP Group plc.

#### **DIRECTORS**

The Directors who served during the year and to the date of this report were as follows:

|                      |  |
|----------------------|--|
| Mr J B Boyer         | (Chairman)   |
| Dr D B Campbell      |  |
| Prof W M C Rosenberg |  |
| Mr T P Colford       | (Resigned 22nd August 2006)                                  |
| Mr S Leonard         | (Appointed 13th September 2006, resigned 14th February 2007) |
| B Reynolds           | (Appointed 13th June 2007)                                   |
| P Woodford           | (Appointed 1 September 2007)                                 |

#### **AUDITORS**

All of the current Directors have taken all steps that they ought to have taken to make themselves aware of any information needed by the Company's Auditors for the purpose of their audit and to establish that the Auditors are aware of that information. The Directors are not aware of any relevant audit information of which the Auditors are unaware.

A resolution to re-appoint BDO Stoy Hayward LLP will be proposed at the next Annual General Meeting.

## **iQUR LIMITED**

### **DIRECTORS' REPORT (continued)**

#### **DIRECTORS' RESPONSIBILITIES**

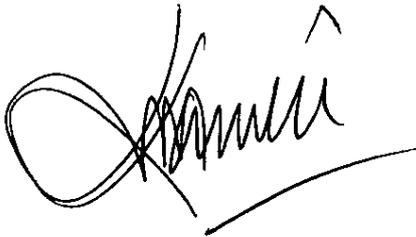
The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practices. Company law requires the Directors to prepare financial statements for each financial year which give a true and fair 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 apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

This report was approved by the Board of Directors on 18th December 2007



Vic Laville,  
Secretary,  
19 December 2007

MP811, Level D, South Block,  
Southampton General Hospital  
Tremona Road  
Southampton,  
SO16 6YD

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF IQUR LIMITED**

We have audited the financial statements of iQur Limited for the year ended 31 March 2007 which comprise the Profit and Loss Account, the Balance Sheet, Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of Directors and Auditors**

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

### **Basis of audit opinion**

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

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

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF IQUR LIMITED  
(Continued)**

**Opinion**

In our opinion -

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs at 31 March 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

*BDO Stoy Hayward LLP*

BDO Stoy Hayward LLP  
Chartered Accountants and Registered Auditors  
Southampton

*9 January, 2008*

**iQUR LIMITED****PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2007**

|   | Note | 2007<br>£    | Restated<br>2006<br>£ |
|---|------|--------------|-----------------------|
| <b>TURNOVER</b>   | 3    | 207,178      | 213,623               |
| Cost of sales   |      | (378,639)    | (263,299)             |
|   |      | <hr/>        | <hr/>                 |
| <b>GROSS LOSS</b>   |      | (171,461)    | (49,676)              |
| Administrative costs  |      | (2,152,677)  | (1,803,687)           |
|   |      | <hr/>        | <hr/>                 |
| <b>OPERATING LOSS</b>   | 4    | (2,324,138)  | (1,853,363)           |
| Interest receivable   |      | 37,965       | 53,822                |
|   |      | <hr/>        | <hr/>                 |
| <b>LOSS ON ORDINARY ACTIVITIES<br/>BEFORE TAXATION</b>  |      | (2,286,173)  | (1,799,541)           |
| <b>TAXATION</b>   | 7    | 245,689      | 252,282               |
|   |      | <hr/>        | <hr/>                 |
| <b>LOSS ON ORDINARY<br/>ACTIVITIES AFTER TAXATION<br/>AND RETAINED DEFICIT<br/>FOR THE FINANCIAL YEAR</b> | 14   | £(2,040,484) | £(1,547,259)          |
|   |      | <hr/>        | <hr/>                 |

There are no recognised gains and losses other than the above and, in the current year, the cumulative loss from the prior year adjustment on the adoption of FRS 20 of £159,089 as detailed in Note 2

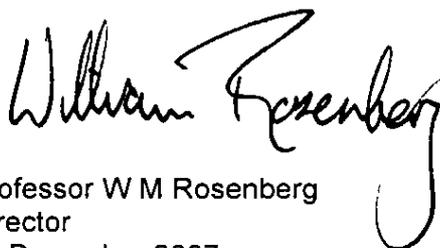
All activities of the Company are continuing operations

The notes on pages 9 to 21 form part of these financial statements

**iQUR LIMITED****BALANCE SHEET AS AT 31<sup>ST</sup> MARCH 2007**

|   | Note | 2007<br>£   | 2006<br>£   |
|---|------|-------------|-------------|
| <b>FIXED ASSETS</b>                                   |      |             |             |
| Intangible assets                                     | 8    | 78,556      | 72,119      |
| Tangible assets                                       | 9    | 86,521      | 153,950     |
| Investments in subsidiaries                           | 10   | 103         | 103         |
|   |      | <hr/>       | <hr/>       |
|   |      | 165,180     | 226,172     |
|   |      | <hr/>       | <hr/>       |
| <b>CURRENT ASSETS</b>                                 |      |             |             |
| Debtors and prepayments                               | 11   | 616,539     | 510,284     |
| Investments Short term deposits                       |      | 243,142     | 1,780,000   |
| Cash at bank and in hand                              |      | 3,870       | 3,305       |
|   |      | <hr/>       | <hr/>       |
|   |      | 863,551     | 2,293,589   |
| <b>CREDITORS: Amounts falling due within one year</b> | 12   | (1,262,597) | (778,186)   |
|   |      | <hr/>       | <hr/>       |
| <b>NET CURRENT (LIABILITIES)/ASSETS</b>               |      | (399,046)   | 1,515,403   |
|   |      | <hr/>       | <hr/>       |
| <b>TOTAL ASSETS</b>                                   |      |             |             |
| <b>LESS CURRENT LIABILITIES</b>                       |      | £(233,866)  | £1,741,575  |
|   |      | <hr/>       | <hr/>       |
| <b>CAPITAL AND RESERVES</b>                           |      |             |             |
| Called-up share capital                               | 13   | 2,175       | 2,175       |
| Share premium account                                 | 14   | 4,431,712   | 4,431,712   |
| Profit and loss account                               | 14   | (4,667,753) | (2,692,312) |
|   |      | <hr/>       | <hr/>       |
| <b>SHAREHOLDERS' FUNDS</b>                            | 14   | £(233,866)  | £1,741,575  |
|   |      | <hr/>       | <hr/>       |

These financial statements were approved and authorised for issue by the Board of Directors on 18<sup>th</sup> December 2007



Professor W M Rosenberg  
Director  
19 December 2007

The notes on pages 9 to 21 form part of these financial statements

**IQR LIMITED****STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2007**

|  |       | 2007<br>£   | 2006<br>£   |
|--|-------|-------------|-------------|
| Net cash outflow from operating activities                       | 15(a) | (1,592,256) | (1,543,292) |
| Returns on investments and servicing of finance                  |       |             |             |
| <i>Interest received</i>   |       | 37,965      | 53,822      |
| Taxation   |       | 85,871      | -           |
| Capital expenditure and financial Investment                     | 15(b) | (68,031)    | (129,134)   |
|  |       | <hr/>       | <hr/>       |
| Cash outflow before management of liquid resources and financing |       | (1,536,451) | (1,618,604) |
| Management of liquid resources                                   |       | 1,536,858   | (980,000)   |
| Financing  | 15(b) | 158         | 2,567,304   |
|  |       | <hr/>       | <hr/>       |
| Increase / (decrease) in cash                                    |       | £565        | £(31,300)   |
|  |       | <hr/>       | <hr/>       |

The notes on pages 9 to 21 form part of these financial statements

## **IQUR LIMITED**

### **NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2007**

#### **1 ACCOUNTING POLICIES**

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

##### **(a) Basis of preparation**

The financial statements are prepared in accordance with applicable accounting standards on a going concern basis and under the historical cost convention

The accounting policies used in preparing the financial statements have been applied consistently throughout all periods presented with the exception of FRS 20 "Share based payments" The Company has adopted FRS 20 for the first time for the year ending 31<sup>st</sup> March 2007 and therefore restated prior year results to reflect the historic impact of this charge See note 2 "Prior year adjustment" for further details

##### **(b) Consolidated financial statements**

The company is exempt from the requirement to prepare consolidated financial statements by virtue of section 248 of the Companies Act 1985 as the group it heads qualifies as a small group These financial statements therefore present information about the company as an individual undertaking and not about its group

##### **(c) Going Concern**

The Company's cash position at 31<sup>st</sup> March 2007 was £247,012 (2006 - £1,783,305) Subsequent to the year end the company has raised additional funds in excess of £2,600,000 from a funding round and has converted £718,567 of year end debts into equity The directors believe that as a consequence the company will have adequate resources to continue operations for the foreseeable future and accordingly they consider that the going concern basis of preparation continues to be appropriate

##### **(d) Turnover**

Turnover represents amounts receivable for services provided in the normal course of business, net of VAT

Turnover is recognised only to the extent that the Company has performed its contractual obligations, principally as certain technical or clinical targets are reached, based on the fair value of the right to consideration for each component of the agreement

**iQUR LIMITED**

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2007**

**1. ACCOUNTING POLICIES (continued)**

**(e) Deferred tax**

Deferred taxation is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using the rates of tax that have been enacted or substantially enacted by the balance sheet date. Deferred tax balances are not discounted.

**(f) Intangible fixed assets**

Intangible fixed assets comprise trademarks, acquired patents and know-how directly relating to current and future licensing and distribution activities. These are recorded at cost and are amortised in equal installments over their anticipated economic working life of seven years, subject to reviews for impairment.

**(g) Depreciation**

Equipment is depreciated on a straight-line basis over its estimated useful life of between three and five years. Leasehold Improvements are depreciated over three years.

**(h) Research and development**

Expenditure on pure and applied research is charged to the profit and loss account in the year in which it is incurred.

Development costs are also charged to the profit and loss account in the year of expenditure, unless individual projects satisfy all of the following criteria:

- The project is clearly defined and related expenditure is separately identifiable,
- The project is technically feasible and commercially viable,
- Current and future costs are expected to be exceeded by future sales, and
- Adequate resources exist for the project to be completed.

Any capitalised amounts are subsequently amortised over the Directors' estimate of their useful economic life.

## **IQUR LIMITED**

### **NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2007**

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

##### **(i) Share based payments**

In accordance with FRS 20 "Share based payments", share options are measured at fair value at their grant date. The fair value is calculated using the Black-Scholes formula and charged to the income statement on a straight-line basis over the expected vesting period. At each balance sheet date, the Company revises its estimate of the number of options that are expected to become exercisable.

##### **(j) Cash and liquid resources**

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash).

##### **(k) Foreign currencies**

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. Any differences are taken to the profit and loss account.

#### **2. PRIOR YEAR ADJUSTMENT**

The company is required to implement FRS 20 "Share-based Payment" for accounting periods beginning on or after 1 January 2006. Adoption of FRS 20 supersedes UITF Abstract 17 "Employee Share Schemes", under which the Company had previously accounted for shares and share options awarded to employees. FRS 20 requires that options awards granted after 7 November 2002 which had not vested by 1 April 2006 be fair valued and charged to the profit and loss account over the period from grant to vesting. The Company has valued option awards using the Black-Scholes model. As required by FRS 20 prior year results have been restated. This change in accounting policy, after the reversal of the UITF 17 charge included in the prior year financial statements, results in a charge of £ 17,024 for the year ended 31 March 2007 (2006 credit of £161,168, 2005 charge of £2,079). As under UITF 17, the credit for the charge has been taken to the Profit and Loss reserve and reported in the reconciliation of movements in shareholders' funds. The restatement has no impact on net assets in the periods presented in these financial statements.

**iQUR LIMITED****NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2007****3. TURNOVER**

|  | 2007     | 2006     |
|--|----------|----------|
|  | £        | £        |
| Liver Diagnostic Testing UK                    | 122,852  | 94,200   |
| USA  | 84,326   | 5,745    |
|  | -----    | -----    |
|  | 207,178  | 99,945   |
| Milestone Income from development projects USA | -        | 113,678  |
|  | -----    | -----    |
|  | £207,178 | £213,623 |
|  | -----    | -----    |

**4. OPERATING LOSS**

|   | 2007    | Restated<br>2006 |
|---|---------|------------------|
|   | £       | £                |
| The operating loss is stated after charging - |         |                  |
| Auditors' remuneration -                      |         |                  |
| - audit services                              | 8,673   | 4,000            |
| Research and development                      | 927,567 | 667,551          |
| Share based payments                          | 65,043  | 36,482           |
| Depreciation                                  | 78,635  | 53,667           |
| Amortisation of intangible assets             | 9,354   | 5,607            |
| Loss on disposal of intangible assets         | 41,034  | -                |
|   | -----   | -----            |

**5. DIRECTORS' EMOLUMENTS**

|                       | 2007    | 2006    |
|-----------------------|---------|---------|
|                       | £       | £       |
| Directors' emoluments | 291,850 | 244,000 |
|                       | -----   | -----   |

The emoluments of the highest paid director were £120,000 (2006 £124,000)

**6. STAFF COSTS**

|                       | 2007       | Restated<br>2006 |
|-----------------------|------------|------------------|
|                       | £          | £                |
| Wages and salaries    | 910,906    | 638,837          |
| Social security costs | 102,498    | 65,619           |
| Share based payments  | 65,043     | 36,482           |
|                       | -----      | -----            |
|                       | £1,078,447 | £740,938         |
|                       | -----      | -----            |

**IQUR LIMITED**

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2007**

**6. STAFF COSTS (continued)**

The average monthly number of employees (including directors) directly employed by the Company during the year was 22 (2006 - 16), comprised as follows -

|                          | 2007  | 2006  |
|--------------------------|-------|-------|
| Administration           | 5     | 5     |
| Research and Development | 10    | 5     |
| Diagnostic Testing       | 7     | 6     |
|                          | ----- | ----- |
|                          | 22    | 16    |
|                          | ----- | ----- |

**7. TAXATION**

(a) Tax on profit on ordinary activities -

|   | 2007<br>£  | 2006<br>£  |
|---|------------|------------|
| UK corporation tax                        | (213,937)  | (166,411)  |
| Adjustment in respect of previous periods | (31,752)   | (85,871)   |
|   | -----      | -----      |
| Current tax credit for the year           | £(245,689) | £(252,282) |
|   | -----      | -----      |

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the period is different to the standard rate of corporation tax in the UK of 30%. The differences are reconciled below -

|  | 2007<br>£   | 2006<br>£   |
|--|-------------|-------------|
| Loss on ordinary activities before tax   | (2,286,173) | (1,799,541) |
|  | -----       | -----       |
| Loss on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 30% | (685,852)   | (539,862)   |
| Effects of -   |             |             |
| Expenses not deductible for corporation tax  | 30,706      | 741         |
| R&D enhancement relief   | (133,711)   | (104,007)   |
| Fixed asset timing differences   | 20,887      | 2,281       |
| Other timing differences   | -           | 59,295      |
| Losses carried forward   | 366,838     | 317,883     |
| Losses surrendered for R&D tax credit  | 187,195     | 145,609     |
| Over provision in respect of previous years  | (31,752)    | (85,871)    |
|  | -----       | -----       |
| Current tax charge for the year  | (245,689)   | (252,282)   |
|  | -----       | -----       |

**IQUR LIMITED**

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2007**

**7. TAXATION (continued)**

There are tax losses available for carry forward against future trading profits of approximately £3,173,000 (2006 - £2,073,000). A deferred tax asset in respect of these losses of approximately £952,000 (2006 - £585,000), and in respect of other timing differences of £59,000 (2006 - £53,000), has not been recognised in the accounts as the full utilisation of these losses in the foreseeable future is uncertain.

**8. INTANGIBLE FIXED ASSETS**

|                                | Patents &<br>Trademarks<br>£ |
|--------------------------------|------------------------------|
| Cost                           |                              |
| At 1 <sup>st</sup> April 2006  | 77,726                       |
| Additions                      | 56,825                       |
| Disposals                      | (44,018)                     |
|                                | <hr/>                        |
| At 31 <sup>st</sup> March 2007 | 90,533                       |
|                                | <hr/>                        |
| Amortisation                   |                              |
| At 1 <sup>st</sup> April 2006  | 5,607                        |
| Charge for the year            | 9,354                        |
| Disposals                      | (2,984)                      |
|                                | <hr/>                        |
| At 31 <sup>st</sup> March 2007 | 11,977                       |
|                                | <hr/>                        |
| Net Book Value                 |                              |
| At 31 <sup>st</sup> March 2007 | £78,556                      |
|                                | <hr/>                        |
| At 31 <sup>st</sup> March 2006 | £72,119                      |
|                                | <hr/>                        |

**iQUR LIMITED****NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2007****9. FIXED ASSETS**

|                                | Leasehold<br>Improvements<br>£ | Equipment<br>£ | Total<br>£ |
|--------------------------------|--------------------------------|----------------|------------|
| Cost                           |                                |                |            |
| At 1 <sup>st</sup> April 2006  | 53,192                         | 174,211        | 227,403    |
| Additions                      | -                              | 11,206         | 11,206     |
|                                | <hr/>                          | <hr/>          | <hr/>      |
| At 31 <sup>st</sup> March 2007 | 53,192                         | 185,417        | 238,609    |
|                                | <hr/>                          | <hr/>          | <hr/>      |
| Depreciation                   |                                |                |            |
| At 1 <sup>st</sup> April 2006  | 23,606                         | 49,847         | 73,453     |
| Charge for the year            | 17,731                         | 60,904         | 78,635     |
|                                | <hr/>                          | <hr/>          | <hr/>      |
| At 31 <sup>st</sup> March 2007 | 41,337                         | 110,751        | 152,088    |
|                                | <hr/>                          | <hr/>          | <hr/>      |
| Net Book Value                 |                                |                |            |
| At 31 <sup>st</sup> March 2007 | £11,855                        | £74,666        | £86,521    |
|                                | <hr/>                          | <hr/>          | <hr/>      |
| At 31 <sup>st</sup> March 2006 | £29,586                        | £124,364       | £153,950   |
|                                | <hr/>                          | <hr/>          | <hr/>      |

# iQUR LIMITED

## NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2007

### 10. INVESTMENTS IN SUBSIDIARIES

Cost as at 1 April 2006 and 31 March 2007 £103

The principal undertakings in which the Company's interest at the year end is 20% or more are as follows

| Subsidiary undertaking  | Proportion of voting rights and ordinary share capital held | Nature of business |
|---|---|--------------------|
| Convention Associates Limited                                     | 100%  | Dormant            |
| iQur Diagnostics Limited  | 100%  | Dormant            |
| iQur Therapeutics Limited   | 100%  | Dormant            |
| iQur Pharmaceuticals Limited<br>(formerly iQur Chemicals Limited) | 100%  | Dormant            |
| iQur Services Limited   | 100%  | Dormant            |

All companies are registered in England

Following the year end, iQur Pharmaceuticals Limited was sold. The disposal formed part of the sale of the Company's interests in certain regulatory approval applications to Three Rivers Pharmaceuticals

### 11. DEBTORS

|                                | 2007<br>£ | 2006<br>£ |
|--------------------------------|-----------|-----------|
| Trade debtors                  | 58,160    | 94,842    |
| Prepayments and accrued income | 83,267    | 29,689    |
| Other debtors                  | 63,012    | 133,471   |
| Corporation tax recoverable    | 412,100   | 252,282   |
|                                | <hr/>     | <hr/>     |
|                                | £616,539  | £510,284  |
|                                | <hr/>     | <hr/>     |

### 12. CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

|                               | 2007<br>£  | 2006<br>£ |
|-------------------------------|------------|-----------|
| Trade creditors               | 589,914    | 423,238   |
| Other tax and social security | 29,846     | 27,944    |
| Accruals and deferred income  | 142,837    | 327,004   |
| Loan from related party       | 500,000    | -         |
|                               | <hr/>      | <hr/>     |
|                               | £1,262,597 | £778,186  |
|                               | <hr/>      | <hr/>     |

Subsequent to the year end the Company has converted £218,567 of its trade creditors and the £500,000 loan from related party into equity as part of the funding round

**iQUR LIMITED**

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2007**

|   |        |        |
|---|--------|--------|
| <b>13. SHARE CAPITAL</b>                          | 2007   | 2006   |
|   | £      | £      |
| <b>Authorised</b>                                 |        |        |
| 250,000 (2006 - 250,000) ordinary shares of £0 01 | £2,500 | £2,500 |
|   | <hr/>  | <hr/>  |

Subsequent to the year end the authorized share capital was increased by 100,000 ordinary shares of £0 01 as part of the funding round

|   |        |        |
|---|--------|--------|
| <b>Allotted, called-up and fully-paid</b>         |        |        |
| 217,499 (2006 - 217,499) ordinary shares of £0 01 | £2,175 | £2,175 |
|   | <hr/>  | <hr/>  |

Subsequent to the year end a further 36,292 ordinary shares of £0 01 were issued as part of the funding round

**Share Options**

At 31 March 2007 the Company had granted options over 5,500 ordinary shares of £0 01. These options had all vested at this date and are exercisable at any time before 23 April 2013 at a price of £10 00 per share

Further share options of 9,136 exist at year end and have been accounted for under FRS 20 as disclosed in Note 17

**14. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES**

|  | Share<br>Capital | Share<br>Premium | Profit &<br>Loss<br>Account | Total<br>Shareholders<br>Funds |
|--|------------------|------------------|-----------------------------|--------------------------------|
|  | £                | £                | £                           | £                              |
| At 1 <sup>st</sup> April 2005          | 1,536            | 1,865,047        | (1,181,535)                 | 685,048                        |
| Share issue                            | 639              | 2,580,713        | -                           | 2,581,352                      |
| Share issue costs                      | -                | (14,048)         | -                           | (14,048)                       |
| Loss for the year - Restated           | -                | -                | (1,547,259)                 | (1,547,259)                    |
| Share based payment                    | -                | -                | 36,482                      | 36,482                         |
|  | <hr/>            | <hr/>            | <hr/>                       | <hr/>                          |
| At 1 <sup>st</sup> April 2006 restated | 2,175            | 4,431,712        | (2,692,312)                 | 1,741,575                      |
| Loss for the year                      | -                | -                | (2,040,484)                 | (2,040,484)                    |
| Share based payment                    | -                | -                | 65,043                      | 65,043                         |
|  | <hr/>            | <hr/>            | <hr/>                       | <hr/>                          |
| At 31 <sup>st</sup> March 2007         | £2,175           | £4,431,712       | £(4,667,753)                | (233,866)                      |
|  | <hr/>            | <hr/>            | <hr/>                       | <hr/>                          |

**iQUR LIMITED**

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2007**

**15. NOTES TO THE STATEMENT OF CASH FLOWS**

|  | 2007                        | Restated<br>2006            |
|--|-----------------------------|-----------------------------|
|  | £                           | £                           |
| (a) Reconciliation of operating loss to net cash outflow from operating activities |                             |                             |
| Operating loss   | (2,324,138)                 | (1,853,363)                 |
| Decrease / (increase) in debtors   | 53,405                      | (159,475)                   |
| Increase in creditors  | 484,411                     | 373,790                     |
| Depreciation   | 78,635                      | 53,667                      |
| Amortisation of intangible assets  | 9,354                       | 5,607                       |
| Loss on disposal of intangible fixed assets  | 41,034                      | -                           |
| FRS 20 charge for fair value of share options                                      | 65,043                      | 36,482                      |
|  | <u>                    </u> | <u>                    </u> |
| Net cash outflow from operating activities   | £(1,592,256)                | £(1,543,292)                |
|  | <u>                    </u> | <u>                    </u> |

(b) Analysis of cash flows for headings netted in the statement of cash flows

|   | 2007                        | 2006                        |
|---|-----------------------------|-----------------------------|
|   | £                           | £                           |
| <i>Capital expenditure and financial investment -</i> |                             |                             |
| Payments to acquire tangible fixed assets             | (11,206)                    | (51,404)                    |
| Payments to acquire intangible fixed assets           | (56,825)                    | (77,726)                    |
| Payments to acquire investments                       | -                           | (4)                         |
|   | <u>                    </u> | <u>                    </u> |
|   | £(68,031)                   | £(129,134)                  |
|   | <u>                    </u> | <u>                    </u> |

(b) Analysis of cash flows for headings netted in the statement of cash flows  
(continued)

|                          | 2007                        | 2006                        |
|--------------------------|-----------------------------|-----------------------------|
|                          | £                           | £                           |
| <i>Financing -</i>       |                             |                             |
| Issue of ordinary shares | 158                         | 2,581,352                   |
| Share issue costs        | -                           | (14,048)                    |
|                          | <u>                    </u> | <u>                    </u> |
|                          | £158                        | £2,567,304                  |
|                          | <u>                    </u> | <u>                    </u> |

The £158 represents a late payment for the exercise of share options in October 2005

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2007** (continued)

**15. NOTES TO THE STATEMENT OF CASH FLOWS** (continued)

(c) Analysis of changes in net funds

|                                 | At<br>31 <sup>st</sup> March<br>2006<br>£ | Cash Flow<br>£ | At<br>31 <sup>st</sup> March<br>2007<br>£ |
|---------------------------------|---|----------------|---|
| Investments Short-term deposits | 1,780,000                                 | (1,536,858)    | 243,142                                   |
| Cash at bank and in hand        | 3,305                                     | 565            | 3,870                                     |
|                                 | <hr/>                                     | <hr/>          | <hr/>                                     |
|                                 | £1,783,305                                | £(1,536,293)   | £247,012                                  |
|                                 | <hr/>                                     | <hr/>          | <hr/>                                     |

**16 RELATED PARTY TRANSACTIONS AND BALANCES**

During the year ended 31<sup>st</sup> March 2007, the Company paid fees and expenses of £20,154 to IP Group Plc for the provision of business consultancy services (2006 - £80,066) In addition a loan of £500,000 was made to the Company by IP Group Plc in February 2007 IP Group Plc has an interest in the Company and Dr Bruce Campbell was a director of IP Group plc during the year ended 31 March 2007 At the balance sheet date the amount unpaid in respect of the loan and these charges was £537,801 (2006 - £17,384), which has all subsequently been converted into equity (see Note 12)

During the year ended 31<sup>st</sup> March 2007, the Company incurred costs of £268,803 (2006 - £237,158) with the University of Southampton in connection with research and development activities, including the purchase of capital items At the balance sheet date the amount unpaid in respect of these costs was £331,477 (2006 £455,116), of which £180,766 has subsequently been converted into equity (see Note 12) The University of Southampton is the controlling shareholder of Southampton Asset Management Limited, which has an interest in the Company, and Mr J B Boyer is a Director of Southampton Asset Management Limited

**iQUR LIMITED**

**NOTES TO THE ACCOUNTS  
FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2007 (continued)**

**17. SHARE BASED PAYMENT**

The following options are within the scope of FRS 20 'Share-based payments' All these options are only capable of being exercised on, or within 30 days of, flotation or change of control of the company, and must be exercised within ten years of the date of grant

In August 2005 the Company granted options over 2,970 ordinary shares of £0.01 at an exercise price of £27.27 per share which had already vested by year end

In November 2004 the Company granted options over 3,956 ordinary shares of £0.01 each. Of these options 2,144 have vested and 1,812 vest on 24 November 2007. These are exercisable at a price of £27.27 per share

In July 2006 Bruce Campbell was granted options over 1,105 ordinary shares of £0.01, to vest with effect from 8 November 2006 at an exercise price of £62.67. In November 2006 he was granted further options over 1,105 ordinary shares of £0.01, to vest with effect from 8 November 2007 at an exercise price of £62.67

|                         | 2007<br>Weighted<br>average<br>exercise price<br>£ | 2007<br>Number | 2006<br>Weighted<br>average<br>exercise price<br>£ | 2006<br>Number |
|-------------------------|--|----------------|--|----------------|
| Outstanding at 1 April  | 27.27  | 6,926          | 27.27  | 2,698          |
| Granted during the year | 62.67  | 2,210          | 27.27  | 4,228          |
|                         |  | -----          |  | -----          |
| Outstanding at 31 March | 35.83  | 9,136          | 27.27  | 6,926          |
|                         |  | -----          |  | -----          |

Of the total number of options outstanding at the end of the year no shares (2006 - nil) were exercisable at the end of the year and their weighted average contractual life was 8.4 years (2006 - 9.1 years)

The weighted average fair value of each option granted during the year was 15.84 (2006 - 39.34)

The following information is relevant in the determination of the fair value of options granted during the year under the equity settled option schemes operated by iQur Limited

|  | 2007          | 2006          |
|--|---------------|---------------|
| <b>Equity-settled</b>                      |               |               |
| Option pricing model used                  | Black-Scholes | Black-Scholes |
| Weighted average share price at grant date | £64.74        | £62.47        |
| Exercise price                             | £62.67        | £27.27        |
| Weighted average life (years)              | 2.2           | 3.3           |
| Expected volatility                        | 32.00%        | 32.00%        |
| Risk-free interest rate                    | 4.5-4.75%     | 4.5-4.75%     |

## iQUR LIMITED

### NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2007 (continued)

#### 17. SHARE BASED PAYMENT (continued)

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices in comparable companies in the bio-technology industry

|   | 2007          | Restated<br>2006 |
|---|---------------|------------------|
|   | £             | £                |
| The share-based remuneration expense (Note 4) comprises |               |                  |
| Equity-settled schemes                                  | <u>65,043</u> | <u>36,482</u>    |

The Company did not enter into any share-based payment transactions with parties other than directors during the current or preceding year

#### 18. POST BALANCE SHEET EVENTS

In May 2007 iQur terminated its European licensing and distribution agreement and sold iQur Pharmaceuticals Limited and its interests in certain regulatory approval applications to Three Rivers Pharmaceuticals for US\$1 million, with a potential future revenue stream of royalties once sales of the anti-viral drug commence. In addition there is the likelihood of milestone payments from Three Rivers Pharmaceuticals of €50,000 for each of seven European jurisdictions in which a Marketing Authorisation is granted for the distribution of this anti-viral drug. This application process is currently ongoing and due to be completed by the end of January 2008.

In June 2007, together with academic and industrial partners, the company was successful in raising grant funding from the BERR for a £1.1 million development project linked to iQur's vaccine platform technology.

In July 2007 iQur closed a round of fundraising from existing and new investors raising £3.3 million, of which £2.6 million was new cash and the balance being the conversion of debts due to the University of Southampton and IP Group plc.