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Proximagen Neuroscience plc
Annual report & accounts 2006

Discoveries for life

PROXIMAGEN
NEUROSCIENCE

Highlights

- Positive pre-clinical data for PRX1 – extended half-life of our Parkinson's disease drug candidates compared to current treatments.
- Important milestones reached across discovery and development pipeline.
- Signed in-licensing agreement with Northwestern University for a platform of drug candidates for the treatment of central nervous system disorders.
- Five fee-for-service contracts signed during the year with leading pharmaceutical companies.
- Three new patent applications filed and three existing UK applications extended internationally.
- Strong cash position at year end of £11.5 million (2005: £13.0 million).
- Two Board appointments – Finance Director and non-executive Director.

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At Proximagen Neuroscience plc we are focused on developing novel drugs for the treatment of age-related neurodegenerative disorders, including Parkinson's disease and Alzheimer's disease.

The Group's drug candidate programmes made excellent progress in 2006, with substantial milestones having been reached Our commercial aim is to out-license our programmes at early stages up to and including Phase II proof-of-concept studies, as we believe that this approach matches the competencies of the Group and is likely to generate the best returns for shareholders.

Proximagen seeks to fill its pipeline not only with its proprietary programmes, but also with promising in-licensed drug candidates from academic institutions and industry partners. This year the Group in-licensed a select series of compounds from Northwestern University in the United States.

Proximagen has continued to build strong relationships with global pharmaceutical companies. The Group undertook five fee-for-service studies with leading pharmaceutical companies, further demonstrating the value of our technology and expertise in the field of Parkinson's disease.

Neurodegenerative disease

At least 1 million people in the United Kingdom are affected by neurodegenerative disease These illnesses include Alzheimer's disease, Lewy body dementia, Parkinson's disease, Huntington's disease, motor neurone disease, Friedreich's ataxia, multiple sclerosis and peripheral neuropathies They affect all parts of the central and peripheral nervous systems They share a common theme in that they are currently incurable and that, for most patients, there is not even symptomatic treatment available Some are inherited, such as Huntington's disease, and although a small proportion of cases of Alzheimer's disease, Parkinson's disease and motor neurone disease have a genetic predisposing factor, the cause of most neurodegenerative disease remains largely unknown

The most common disorders affecting the brain are the age-related illnesses of Alzheimer's disease, Lewy body dementia and Parkinson's disease They largely occur in the elderly population and the incidence increases with advancing years For example, Alzheimer's disease is found in 1 in 20 people over 60 and Parkinson's disease occurs in 1 in 100 of the same age group Since life expectancy is increasing with a significant rise in the proportion of people living in to their 80s, the number of individuals affected is forecast to increase dramatically

Neurodegenerative disease represents a major area of unmet therapeutic need For most patients, there is no effective treatment Symptomatic therapy for dementia is limited and largely only of benefit in the earlier stages of the illness As symptoms progress, there is little that can be done to control the cognitive and behavioural components of the disease One exception is Parkinson's disease where the slowness, stiffness and tremor that characterise the illness can be reversed to some extent by the use of drugs that replicate the effects of the chemical neurotransmitter dopamine Some small effects may occur with disease modifying strategies in motor neurone disease and multiple sclerosis but overall there is little to offer individual patients with relatively common neurological disorders Importantly, there is no proven neuroprotective strategy for diseases such as Alzheimer's disease or Parkinson's disease which slows or stops their natural degenerative progression

Parkinson's disease is distinguished from the other neurodegenerative illnesses by the availability of symptomatic treatment Since the 1960's the amino acid precursor of dopamine, L-DOPA, has been used to replace dopamine lost as a result of the degeneration of dopaminergic neurones in the brain It remains the 'gold standard' drug providing relief from the difficulties with movement throughout the course of the disease Synthetic dopamine agonist drugs, such as ropinirole and pramipexole, have been introduced more recently although none are as effective as L-DOPA In Parkinson's disease, there is major unmet need as the effectiveness of drugs in controlling the motor symptoms declines with disease progression Furthermore non-motor symptoms, such as dementia, do not respond to current treatment and major motor and psychiatric side-effects appear as a result of treatment Despite various claims of neuroprotective actions of drugs such as selegiline, in Parkinson's disease there is no proven disease modifying agent available for this increasingly common disorder of the elderly

Neurodegenerative disease poses a major therapeutic challenge for the 21st century There is a need for novel symptomatic therapies, and for treatments that are effective over the entire duration of the illness and that avoid current problems with tolerability, toxicity and side-effects Even more urgent is the need for agents that alter the pathological processes underlying these disorders and that will stop or slow the otherwise inevitable progression of disease

"Neurodegenerative disease represents a major area of unmet therapeutic need. For most patients, there is no effective treatment."

Regulated clinical trial process

Pre-clinical studies
Studies undertaken in a laboratory to test a drug for its safety and toxicological profile Pre clinical studies are required before clinical trials can be started

Phase I
Clinical trials are conducted with a small number (typically 10-50) of healthy volunteers to determine the early safety profile and pharmacokinetic profile (pattern of drug distribution and metabolism) and whether any side-effects are associated with increasing doses.

Phase II
Clinical trials are conducted in groups of patients (typically 100-200) with a specified disease to determine the product s effectiveness optimal dose levels and method of delivery as well as to gain expanded evidence of safety This is intended to show that the drug is effective in different patient populations under a variety of doses

Phase III
Large-scale (typically >1 000) comparative clinical trials in different clinical settings with patients having the target disease to provide sufficient data to statistically evaluate the effectiveness and safety of the product During these trials, the manufacture of the drug will be refined and an optimal formulation will be selected

Chairman's statement

Since my report last year, Proximagen has made excellent progress Based on the world-class expertise and scientific knowledge of Proximagen's founder, Professor Peter Jenner, Proximagen is developing a unique pipeline of drug candidates that target the treatment and prevention of neurodegenerative disease With a growing ageing population, this market is expected to be one of the largest segments of the pharmaceutical market, and represents a large unmet medical need Our development programmes are well positioned to reach important pre-clinical and clinical milestones over the next two years

Progress in Proximagen's focused discovery and development programmes can be demonstrated, for example, by the success of PRX1, our pro-drug programme designed to improve the characteristics of L-DOPA for the treatment of Parkinson's disease Our drug candidates in this programme showed significantly increased biological half-life (the period of time required for the concentration or amount of drug in the body to be reduced by one-half) in pre-clinical studies compared with L-DOPA This could represent a significant advance in the current treatment of patients, since the existing L-DOPA controlled release preparations increase the half-life of L-DOPA by less than two hours Preliminary data generated by Proximagen shows that the half-life can be significantly extended in pre-clinical models By increasing the plasma half-life in patients, the desired effect of Proximagen's drug candidate would be to reduce the peak and trough blood levels associated with involuntary movements in Parkinson's disease, reduce the number of daily doses needed, and improve patients' sleep

Several of the programmes in our pipeline have the potential to address a range of other indications and markets such as pain, depression and anxiety In addition to our proprietary programmes, we continue to evaluate in-licensing opportunities that we believe will complement our pipeline Once our drug candidates have reached a value inflection point at or before Phase II clinical development, we intend to partner these programmes with companies who have the necessary resources to achieve rapid global commercialisation We believe that this strategy gives Proximagen many chances of success, enhancing shareholder value and reducing risk for our investors

Board

We were pleased to welcome Michael Ashton and James Hunter to the Board of Directors as non-executive Director and Finance Director respectively Mr Ashton has more than 30 years' experience in the pharmaceutical industry having worked for Merck Inc , Pfizer Inc , Purepac Inc and SkyePharma plc, where he was CEO for seven years Prior to SkyePharma, Mr Ashton worked for Faulding Inc , where he was chairman, president and CEO He is currently also chief executive of LMA International NV Mr Hunter joined Proximagen in 2005 as Financial Controller after six years in corporate finance at Ernst and Young

I would like to thank the entire Board for their support and sound commercial and scientific advice

Outlook

2007 will be a very important year for Proximagen as we look forward to bringing our drug candidates into later stage development and laying the foundation for their future commercialisation

I would like to thank our shareholders for their steadfast support, and thank our staff for their continuing outstanding contribution to Proximagen's progress and success

Bruce Campbell
Chairman
27 February 2007

"2007 will be a very important year for Proximagen as we look forward to bringing our drug candidates into later stage development."

Chief Executive's review

I am pleased to report that Proximagen continued to make important progress in all areas of the business during the year, delivering on milestones to advance drug candidates in the pipeline and enhancing our portfolio by acquiring promising new drug candidates Our achievements demonstrate some of the key strengths of the business, whereby we aim to develop a risk-weighted portfolio of development programmes which can be out-licensed at early stages up to and including Phase II

Pipeline advances

We remain committed to maximising returns from our pipeline of promising drug candidates for the treatment of Parkinson's disease, cognitive decline, and other age-related neurodegenerative diseases Our guiding strategy is to raise the probability of successful development through stringent selection criteria and develop these programmes to a point where they become valuable out-licensing candidates

Our proprietary programmes have generated a pipeline of drug candidates designed to improve the standard of care for patients with age-related neurodegenerative diseases The current market for Parkinson's disease drugs is characterised by a number of drugs offering symptomatic treatment, primarily by increasing dopamine levels or mimicking dopamine's activity in the brain Our drug candidate programme for the symptomatic treatment of Parkinson's disease, PRX1, has achieved important milestones and could represent a major advance in Parkinson's disease therapy We are encouraged by the extensive pre-clinical studies conducted in our laboratories that show plasma levels of drug over an extended time period, and by other supporting evidence showing that this series of compounds has the potential to reduce the incidence of major side-effects typical of current treatments for Parkinson's disease In 2007 we expect to announce that we have selected a development compound to further characterise safety, determine how the drug will be formulated and manufactured, and determine how it will be administered in our first human clinical trials anticipated next year

Our second drug candidate programme, PRX2, was discovered in our laboratories as a novel treatment for the involuntary movements associated with Parkinson's disease Involuntary movements in patients, known as 'dyskinesia', are produced following dosing of dopaminergic anti-Parkinson's disease medication and may become the factor significantly limiting some current Parkinson's disease treatments In 2006 we announced that we had advanced this programme significantly by in-licensing a series of highly selective and potent drug candidates from Northwestern University after extensive evaluation of these compounds in our predictive models of disease to determine their therapeutic potential These compounds were discovered by Professor Richard Silverman, who was responsible for the discovery of Lyrica, a new and novel medicine for the management of pain marketed by Pfizer Proximagen has the exclusive rights to further develop, manufacture and market this series of compounds worldwide In addition to these drug candidates providing an excellent fit with our therapeutic pipeline, this agreement with Northwestern University underlines the value of our in-house expertise and technology, and reflects the careful approach we take to selecting drug development programmes In 2007 we anticipate further data on efficacy and safety to support our pre-clinical dossier Future clinical trials are expected to demonstrate that a drug candidate will provide a novel treatment that greatly reduces the incidence and severity of debilitating dyskinesia Furthermore, we are encouraged by the development potential of these potent molecules in other indications Considerable pre-clinical studies in our laboratories and elsewhere have provided supporting evidence that drug candidates with this mechanism of action may be able to treat not only movement disorders but also depression and pain

Our proprietary discovery programme, PRX4, is for the prevention and treatment of a pathological change common in a large number of neurodegenerative diseases This programme represents what we believe to be a groundbreaking approach to addressing these major unmet medical needs as there is nothing currently marketed which slows or stops the inevitable progression of age-related neurodegenerative diseases For example, there is enormous demand for a treatment to halt or control the underlying brain tissue degeneration in diseases such as Alzheimer's disease since current treatments only offer symptomatic relief in the early stages of the disease Our current studies have shown that osteopontin is implicated in the control of many mechanisms associated with the degeneration of neurones We have shown that even in very low concentrations, PRX4 derivatives act as highly potent inhibitors of neurodegeneration in neuronal cells We have initiated a series of development routes, for example gene therapy and peptide mimetics, so that we can focus future resources on the development route which is shown to be the most promising

Finally, the PRX5 drug discovery programme aims to improve the lives of patients with age-related cognitive decline Many older individuals suffer from cognitive decline with advancing age which, in its severest forms, translates

"The designation of National Parkinson Foundation Center of Excellence requires the highest quality comprehensive care and most advanced research in Parkinson's disease. Its hallmarks are the inspiration, motivation and commitment that lead to the best practices, the most appropriate outreach to all families affected by Parkinson's disease, and the latest groundbreaking research that will ultimately lead to a cure for this challenging disease."

National Parkinson Foundation Annual Report 2006

"Our proprietary programmes have generated a pipeline of drug candidates designed to improve the standard of care for patients."

into dementias such as Alzheimer's disease The PRX5 programme has been initiated utilising both traditional medicinal chemistry as well as computational chemistry in areas of unique intellectual property Proximagen applies biochemical and pharmacological models which are selective and predictive of activity in humans as part of our screening cascade Discoveries in this programme have led to the identification of a novel series of compounds which show behavioural effects In 2007 we expect to report that we have characterised orally active drug candidates with an effect on cognitive decline in Parkinson's disease, Alzheimer's disease and dementing illnesses

Solid infrastructure

As Proximagen grows, it is essential that its pipeline portfolio expands to include further areas of neurodegenerative and central nervous system ("CNS") medical need Proximagen has a strong infrastructure for developing drug candidates so that we can rapidly add value to our programmes as well as efficiently evaluate opportunities in specialised CNS disease areas which, through careful selection, can be in-licensed into our programmes portfolio In 2006 we further enhanced our development capabilities through the recruitment of experienced scientists from industry and academia, and through investment in state-of-the-art analytical equipment We continue to be located in offices and laboratories on Guy's Campus, part of King's College London, one of the largest biomedical campuses in the United Kingdom In 2006 our academic facility was designated as a Center of Excellence by the National Parkinson Foundation

Growing intellectual property

During the period Proximagen continued to pursue its aggressive intellectual property strategy Two new UK patent applications were filed, and three existing UK applications were extended internationally In addition a new US patent application, under which the Group has licence rights, was filed by Northwestern University in accordance with our licence agreement

To date, the Group has rights to patent applications pending in eight distinct patent families that encompass all aspects of our discovery programmes, ranging from specific composition of matter patents to use patents claiming novel mechanisms of actions associated with those programmes

We recognise the enormous value that our existing and future intellectual property represents and we will continue to safeguard this value as we develop our proprietary programmes

Financial review

The Group made prudent use of investors' funds during the year and closed the year with £11 5 million cash, compared with £13 0 million in 2005 Research and development investment has advanced multiple programmes to a stage where we expect to reach further important milestones in development during 2007 and 2008 and, although we anticipate significant further investment, we expect current resources to be sufficient to reach these and future milestones

In our service business we signed five contracts during the year which made an important contribution to the Group's operations We are pleased to report that revenues for the period were in line with expectations but with an improved gross margin In addition to generating revenue, contracts with many of the world's leading pharmaceutical companies demonstrate the value of our technology and expertise in the field of Parkinson's disease, and help us build relationships with these important industry partners The outlook for the service business is healthy although we are mindful of the need to retain capacity for our own programmes

Summary

Proximagen moves into 2007 with a strong and diverse pipeline of drug candidates, and with enthusiasm for the opportunities that our drug programmes offer in the focused area of neurodegenerative disease The Company expects to continue to generate value in its balanced, focused pipeline, while remaining disciplined in its use of capital and resources

The Board is confident that the Company's clear strategic and scientific focus, coupled with the progress made in 2006, has left Proximagen well placed to deliver increased value to shareholders

I would like to thank our employees, who are crucial to the success of Proximagen, for their continued commitment, hard work and enthusiasm It is their skill and expertise that drives the business forward and enables us to meet our objectives

Kenneth Mulvany
Chief Executive Officer
27 February 2007

Chief Scientist's report
Introduction

Significant progress has been made in advancing Proximagen's drug discovery and development programmes during the course of 2006 We have increased the number of scientists engaged in these programmes and enlarged our in-house facilities by the establishment of a unit dedicated to pharmacokinetic studies The Group has begun to diversify from Parkinson's disease into other neurodegenerative illnesses and a variety of therapeutic areas For example, the PRX5 programme is orientated towards the control of cognitive decline and a range of other neurological and psychiatric illnesses The PRX2 programme, under development for the treatment of dyskinesia in Parkinson's disease, is also to be examined for use as a neuroprotective agent and for use in migraine, neuropathic pain and anxiety/depression During the year, there have been considerable expressions of interest in the PRX programmes from pharmaceutical companies, indicating the potential value associated with these development areas

The established PRX programmes have all seen major advances in the last twelve months PRX1 has passed through the selection of lead chemical series and has reached the identification of key molecular templates In 2007, it is planned to complete the data set on specific molecules to characterise a development candidate The nominated development candidate is expected to be characterised by improved absorption, reduced metabolism and increased biological activity compared to L-DOPA itself

PRX2 has seen a major development through the in-licensing of a novel series of highly potent and selective compounds from Northwestern University This has advanced the PRX2 programme from being a novel use for a known target to a small molecule development programme with a well-defined chemical series and potentially excellent patent position Proof-of-principle studies were conducted in models of Parkinson's disease and chemical optimisation of the Northwestern University compound series has been initiated It is expected that major progress in PRX2 development will occur in 2007, leading to selection of molecular templates for further chemical optimisation, followed by the nomination of a candidate series for development

Disease modification in progressive neurodegenerative disease is a major therapeutic challenge that is addressed by the PRX4 programme Key basic science discoveries made in our laboratories demonstrated the use of PRX4 derivatives as a naturalistic replacement therapy approach to neuroprotection, studies which subsequently have been published in core peer-reviewed neuroscience journals PRX4 derivatives identified as being protective in experimental models of Parkinson's disease are being explored for further development by four different routes of systemic administration These include exciting development in gene therapy approaches to the utilisation of PRX4 in man through viral vector delivery

Finally, the services offered by the Group continue to attract business based on the reputation of Proximagen's scientists for the evaluation of novel pharmacological approaches to the treatment of Parkinson's disease and the exploration of novel therapeutic strategies

"The Group has begun to diversify from Parkinson's disease into other neurodegenerative illnesses and a variety of therapeutic areas."

"The established PRX programmes have all seen major advances in the last twelve months."

Chief Scientist's report continued
PRX1 Prodrugs of L-DOPA for the symptomatic treatment of Parkinson's disease

L-DOPA remains the gold standard treatment for Parkinson's disease and no treatment introduced subsequently, including the dopamine agonist drugs, produces equivalent clinical benefit throughout the course of the illness However, the effectiveness of L-DOPA is compromised by its poor absorption over a limited portion of the upper small intestine, its rapid metabolism and its short duration of effect These factors lead to a lack of predictability of response and to the high degree of motor complications produced by standard formulations of the drug Controlled release preparations of L-DOPA have also failed to overcome the shortcomings and do not provide significant additional clinical effect

The PRX1 programme has focused on producing prodrugs of L-DOPA that possess characteristics designed to improve both the pharmacokinetic and pharmacodynamic properties of the molecule The key objectives are

1) to improve absorption by switching from active transport to simple passive diffusion,
2) to slow metabolic conversion, and
3) to improve duration of pharmacological effect

Using a combination of pharmacokinetic analysis and functional experimental models of Parkinson's disease, molecular templates have been identified that fit the key objectives and these have been selected as lead molecular series This series appears to be absorbed over the entire gastro-intestinal tract as a result of controlled dissolution and the use of passive diffusion-based absorption By design, lead molecules are converted to an intermediate prodrug derivative that is in turn slowly converted to L-DOPA This process produces the improvement of motor symptoms required to control Parkinson's disease These lead molecules have longer biological effects and longer plasma half-lives than L-DOPA A decision over the selection of a lead candidate for development is expected to be made in 2007

PRX1 is aimed at providing a 'super' version of L-DOPA that overcomes many of the current problems of a drug that dominates the treatment of Parkinson's disease It has the potential to become the drug of first choice in the treatment of Parkinson's disease and to displace many existing drugs that are currently used for addressing motor symptoms

"PRX1 has the potential to become the drug of first choice in the treatment of Parkinson's disease."

Chief Scientist's report continued
PRX2 Prevention of dyskinesia in Parkinson's disease

Dyskinesia is a major disabling side-effect of the treatment of Parkinson's disease affecting approximately 40% of the patient population Currently when dyskinesia appears, it is controlled by a reduction of anti-Parkinsonian medication (often increasing disability) or by the administration of the NMDA antagonist, amantadine, which is tolerated by only about half of patients There are no other drug treatments available and there are no agents that prevent the initiation of dyskinesia in Parkinson's disease This remains a major area of unmet therapeutic need

We discovered that the inhibition of neuronal nitric oxide synthase (n-NOS) inhibited the expression of dyskinesia in an experimental model of Parkinson's disease without worsening disability This effect was not observed when inhibitors of the other isoforms of NOS were used (i-NOS and e-NOS) This discovery forms a previously unrecognised use for n-NOS inhibitors and a potential novel approach to the treatment of dyskinesia in Parkinson's disease

Currently available n-NOS inhibitors lacked potency and selectivity for the enzyme Through the in-licensing of a novel platform of compounds from Northwestern University, we have acquired reversible n-NOS inhibitors that *in vitro* are the most potent and selective molecules so far described A synthetic chemistry programme has been designed to optimise the bioavailability of the lead derivatives and computational chemistry is on-going to utilise the template for the design of further molecular series Two experimental models of dyskinesia in Parkinson's disease are established and selective PRX2 compounds have been studied for their ability to inhibit the involuntary movements that characterise dyskinesia

The initial objective in this programme is to inhibit existing dyskinesia in Parkinson's disease However, a series of PRX2 compounds is also being evaluated for its ability to prevent the initial onset of dyskinesia This expands the potential therapeutic indication for this drug class as it would need to be administered with other medications at the initiation of Parkinson's disease therapy and treatment would continue throughout the course of the disease Selective n-NOS inhibitors have also been shown to exert neuroprotective actions relevant to a range of neurodegenerative diseases and we have initiated a new programme of research to explore this potential of the PRX2 series Additionally, we are also exploring the potential use of PRX2 compounds in indications such as the treatment of neuropathic pain, migraine and psychiatric disorders

"A series of PRX2 compounds is also being evaluated for its ability to prevent the initial onset of dyskinesia."

Chief Scientist's report continued
PRX4 A naturalistic approach to the prevention of progression of neurodegenerative diseases

There are currently no treatments available to stop or slow the progression of Parkinson's disease, Alzheimer's disease or other neurodegenerative illnesses Small molecule approaches to inhibiting specific components of the cell death pathway have failed to show efficacy in clinical trials Prevention of only one of the processes that forms a cascade of events leading to neuronal loss may simply cause cells to die by an alternate route Consequently, a broad spectrum approach is sought that provides neuroprotection through the inhibition of multiple pathways

In this context, we have discovered the expression of the endogenous neuroprotective protein, osteopontin ("OPN"), in the area of brain that primarily degenerates in Parkinson's disease OPN is known to prevent a range of processes involved in neuronal cell death, including apoptosis and inflammation We have shown in normal brain that OPN is up-regulated in response to toxic insult but that in Parkinson's disease, there is a marked loss of OPN expression in the brain Since the effect of OPN is lost with age, this may lead to cell loss and the onset of Parkinson's disease

Importantly, we have demonstrated that inactivation of OPN in primary neurone cultures leads to cell death and that in low concentrations, fragments of the OPN protein can totally protect against a range of toxins acting through mechanisms relevant to the pathogenesis of Parkinson's disease These findings have now been confirmed in a series of experiments and strongly support the use of OPN derivatives as neuroprotective agents

We have assessed the minimum peptide sequences of OPN and identified a small series of peptide fragments, collectively PRX4 derivatives, which retain neuroprotective activity Computational chemistry has been used to identify peptide sequences that may mimic PRX4's action and a synthetic programme has been designed to produce PRX4 mimics as cyclic peptides and as peptidomimetics Blood-brain barrier penetration issues are currently under evaluation and the identification of the PRX4 signalling pathways involved in PRX4's neuroprotective actions have been initiated In addition, the potential use of PRX4 derivatives in over-expressing cell lines is being evaluated as is the viral vector delivery of PRX4 as a gene therapy approach to the treatment of Parkinson's disease

The development of a naturalistic approach to neuroprotection using a PRX4 derivative as a replacement therapy has immediate application to Parkinson's disease and offers a novel means of preventing cell death Furthermore, OPN has also been identified as having a potential use in Alzheimer's disease, multiple sclerosis, stroke and other neurodegenerative diseases where the cell death process resembles that in Parkinson's disease As a consequence, the science plan for PRX4 has been extended to look for the protective effects of OPN fragments in cellular models of these disorders

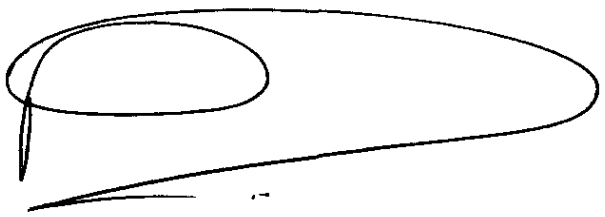
"A naturalistic approach to neuro-protection using a PRX4 derivative as a replacement therapy has immediate application to Parkinson's disease and offers a novel means of preventing cell death."

Chief Scientist's report continued
PRX5 A novel approach to treating Parkinson's disease and cognitive decline

Our newest programme is aimed at both the symptomatic treatment of Parkinson's disease and the control of cognitive decline in a range of disorders PRX5 targets the D-1 dopamine receptor subtype which we believe is an unexploited target in the central nervous system for the treatment of neurological and psychiatric disorders Despite good evidence in experimental models of Parkinson's disease and in man for a key role of D-1 receptors in the control of motor function and in learning and memory, no selective D-1 agonist drugs are currently available for clinical use Importantly, recent advances in the pharmacology of dopamine receptors have identified different linkages to second messenger systems that allow highly selective targeting of novel dopamine agonists so as to ensure clinical efficacy while eliminating potential side-effects

A chemical template has been identified around which both synthetic and computational chemistry has been initiated These approaches have led to the synthesis of a platform of molecules that exhibit potency and selectivity for D-1 dopamine receptors in *in vitro* receptor binding assays A series of compounds selective for D-1 receptors have been shown to be active in a model of Parkinson's disease, producing behavioural effects indicative of CNS penetration following administration Further agonist activity of these molecules is under assessment and their interaction with transduction mechanisms and second messenger systems is currently being determined In contrast to previously known D-1 agonists, some derivatives show activity after oral administration Models of cognition are currently being established to examine the effects of this novel drug series on cognitive decline

Parkinson's disease remains a key target for D-1 agonists based on previous experience and they would be expected to show efficacy without some of the major side-effects shown by D-2 agonist drugs in current clinical use However, we will focus on the potential use of these molecules in relation to cognitive decline in Parkinson's disease, Alzheimer's disease and Lewy body dementia, cognitive decline in the elderly and cognitive decline associated with the negative symptoms of schizophrenia



Professor Peter Jenner
Chief Scientist
27 February 2007

"PRX5 targets the D-1 dopamine receptor subtype which we believe is an unexploited target in the CNS for the treatment of neurological and psychiatric disorders."

Financial review

Profit and loss account

Revenue was generated entirely from our fee-for-service business and for the year was as expected at £738,000 (2005 £878,000) with an improvement in gross margin over 2005 The Group is selective of the service work that it undertakes and has had to turn away business on occasions when the service work competes for resource with our internal research and development programmes The Group is mindful that our programmes represent the best opportunity to deliver shareholder value and we aim to strike a balance between progressing our own research and development and meeting the needs of our valued customers

Investment in the Group's programmes has risen significantly Research and development expenditure increased from £330,000 in 2005 to £1 7 million in 2006 The most significant programme expenditure related to PRX1 where we have been conducting a substantial development effort, investing in synthetic chemistry and screening activity

Overheads for the year were £861,000, an increase of 36% over 2005 costs This reflects the increased cost of operating as a quoted company for a full year (2005 8 months) together with the recruitment of experienced scientists and the scaling-up of operations to support our scientific activity During the year, laboratory-based staff increased in number from 9 to 16 whilst administrative staff numbers remained at three

The retained loss for the year was £1 6 million, equating to a loss per share of 8 0p compared with a retained profit in 2005 of £5,000 and earnings per share of 0 03p

Balance sheet and cash flow

Net assets at the year end totalled £11 5 million (2005 £13 1 million) with cash and deposits of £11 5 million (2005 £13 0 million)

The decrease in the cash balance of £1 5 million from the previous year is principally accounted for by

- Cash outflow from operations of £1 9 million
- Capital expenditure of £181,000
- Interest received of £581,000

The Group made an investment in laboratory equipment during the year, including the purchase of equipment designed to reduce costs and decrease the turnaround time of sample analysis which had previously been outsourced Where we can see an obvious benefit to bringing an operation in-house we are prepared to invest the necessary capital and with the purchase of certain laboratory equipment we have reduced sample turnaround times from two weeks to three days and reduced the cost per thousand samples by a factor of seven

Adoption of International Financial Reporting Standards

Adoption of International Financial Reporting Standards (IFRS) became mandatory for companies listed on the Alternative Investment Market of the London Stock Exchange for accounting periods beginning on or after 1 January 2007 The Company has begun planning its transition and expects to adopt IFRS for its financial year beginning 1 December 2007

James Hunter
Finance Director
27 February 2007

"We have reduced sample turnaround times from two weeks to three days and reduced the cost per thousand samples by a factor of seven."

"The most significant programme expenditure related to PRX1 where we have been conducting a substantial development effort."

Directors

Bruce Campbell
Chairman
Bruce joined Proximagen in September 2004 as non-executive Chairman Bruce has more than 30 years' drug development experience which has culminated in advancing sixteen novel drugs into the market Bruce has specific expertise in the practical and regulatory aspects of clinical pharmacology, pharmacokinetics, metabolism and toxicology in new drug development Bruce sits on the Board of IP Group plc as Chief Scientific Officer and he is also a non-executive director of Synairgen Plc, IQur Ltd, Modern Biosciences Ltd and Retroscreen Ltd

Kenneth Mulvany
Chief Executive Officer
Kenneth joined Proximagen in April 2004 as Chief Executive where, under his leadership, Proximagen has grown from a privately held company with five employees to a publicly traded, leading biotechnology company with an exciting pipeline of drug candidates Kenneth began his career at Scripps Research Institute and gained pharmaceutical industry experience at Merck Prior to Proximagen, Kenneth played a key role in developing several successful high-tech start-ups He brings 14 years of biotechnology and business expertise to the Group

Professor Peter Jenner
Chief Scientist
As co-founder and Chief Scientist, Peter is responsible for scientific leadership and management of Proximagen's pre-clinical research and discovery initiatives Peter has published more than 600 papers in peer reviewed journals, is a frequent speaker at international congresses and to lay groups of patients and caregivers, and is widely considered an opinion leader in Parkinson's disease

James Hunter
Finance Director
James joined the Group in January 2005 as Financial Controller and was subsequently appointed to the Board in February 2006 James joined Proximagen after spending six years in the corporate finance team at Ernst & Young where he worked in mergers and acquisitions and corporate restructuring, latterly advising companies on improving their management of working capital James has an MBA from the Cranfield School of Management

Michael Ashton
Non-executive Director
Michael joined the Board in December 2005 He has more than 30 years' experience in the pharmaceutical industry having worked for Merck Inc , Pfizer Inc , Purepac Inc , Faulding Inc and, most recently, SkyePharma plc as CEO Michael is also chief executive of LMA International NV, and a non-executive director of Hikma Pharmaceuticals plc and Transition Therapeutics Inc

Nigel Whittle
Non-executive Director
Nigel has more than 20 years' scientific and commercial experience in the biotechnology and pharmaceutical industry, with Genentech, Celltech and as vice-president of Project Management at Cantab Pharmaceuticals Most recently Nigel has been working as an international technology adviser for the United Kingdom government, covering life science opportunities in Australasia Nigel has a PhD in biochemistry from Imperial College and an MBA from Cambridge University

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Registrars
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The Registry
34 Beckenham Road
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Directors' report

Financial statements
The directors present their report and financial statements for the Company and Group for the year ended 30 November 2006

Principal activities
The principal activity of Proximagen Neuroscience plc and its subsidiary is the discovery and development of therapeutic treatments for neurodegenerative disease

Business review
Further details relating to a review of the business, its results and future direction are included in the Chairman's statement, Chief Executive's review and Financial review

Principal risks and uncertainties

Clinical and regulatory risk
Whilst the Group's drug development programmes are progressing to plan, the drugs in development remain subject to further clinical testing to demonstrate efficacy and safety to the satisfaction of the relevant regulatory bodies such as the Food and Drug Administration and the European Medicines Agency

Competition and intellectual property risk
Whilst the Group monitors the progress of competitive drug programmes, there can be no certainty that other companies' drugs will not limit or render obsolete the commercial value of the Group's drugs Furthermore, the Group's intellectual property rights may expire or become invalid before any commercial value is derived from them

Financial risk
With the Group's operations currently based entirely in the UK and with no debt financing currently in place, the directors consider the Group to be exposed to limited financial risks The Group principally relies on its cash deposits to fund its operations but the contribution from its service business and the returns on its invested cash deposits also contribute positively to its ongoing funding Details relating to exposure to financial instrument risks are provided in note 11

Key performance indicators
The Board employs a number of key performance indicators to monitor performance of the business The key financial performance indicators include the gross margin achieved from the service business and the levels of research and development expenditure compared with the progress of the programmes The operational performance indicators include hitting development milestones, retaining those employees who are rated highly in Proximagen's performance management process and the utilisation levels of scientific staff

Research and development
Details of the company's research and development programmes can be found in the Chief Scientist's report on pages 10-17

Charitable and political donations
The Group made no charitable or political donations in the year under review (2005 £nil)

Dividends
The directors do not recommend the payment of a dividend (2005 £nil)

Directors
The following directors have held office during the year

Bruce Campbell	
Kenneth Mulvany	
Peter Jenner	
Nigel Whittle	
George Murlewski	Resigned 31 December 2005
Michael Ashton	Appointed 15 December 2005
James Hunter	Appointed 27 February 2006

Share capital
As at 30 November 2006, the authorised and issued share capital of the Company was

	Number of Ordinary 1p shares	Amount £
Authorised	500,000,000	5,000,000
Issued and fully paid up	20,035,622	200,356

The average market price of the Company's ordinary shares at close of business on 30 November 2006 was 118 5p
The maximum share price during the period was 138 5p (13 December 2005) and the minimum price was 116p per share (25 September 2006)

Substantial share interests

The interests in the share capital of the Company of the directors who held office at 30 November 2006 are shown in the Directors' remuneration report on page 26-27

At 26 February 2007, the Company had been advised or is aware of the following interests of 3% or more of the Company's issued share capital

	Number of shares	Percentage of issued share capital
IP2IPO Management II Ltd	3,984,000	19 88
King's College London	2,204,324	11 00
Lansdowne Partners	1,546,400	7 72
New Star Asset Management	1,148,648	5 73
Goldman Sachs	1,072,518	5 35
Black Rock Investment Management Ltd*	985,878	4 92
USS	925,946	4 62
Henderson Global Investors	893,137	4 46
Gartmore Investment Management	784,010	3 91
IP2IPO Management Ltd	720,000	3 59

* Formerly known as Merrill Lynch Investment Management Group Ltd

Statement as to disclosure of information to auditors

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor

Auditors

A resolution to re-appoint Baker Tilly as auditors was proposed and adopted at the Company's Annual General Meeting on 5 July 2006

Annual General Meeting

The 2007 Annual General Meeting will be held on 17 April 2007, the business of which is set out in the Notice of Meeting at the end of this report

By order of the Board,

Kenneth Mulvany
Director
27 February 2007

Corporate governance

Proximagen Neuroscience plc has adopted the majority of the July 2003 Combined Code on Corporate Governance ("the Code") principles as set out below although, as an AIM company, it is not required to comply with the Code

The Board

The Board of Proximagen Neuroscience plc is responsible for the Group's system of corporate governance and internal control and is accountable for its activities The Board currently comprises two executive directors and four non-executive directors, one of whom is the Chairman The roles of Chairman and Chief Executive are distinct and are held by different people to ensure a clear division of responsibility The role of non-executive directors is to bring valuable judgment and insight to Board deliberations and decisions The non-executive directors are all experienced and influential individuals whose blend of skills and business experience contributes to the proper functioning of the Board and its Committees, ensuring that matters are fully debated and that no individual or group dominates the Board's decision-making processes

During 2006, a formal evaluation was undertaken of the executive directors' performance based on information provided by directors and senior staff It is the Board's intention to review annually its performance and that of its Committees and individual directors

All directors have access to the advice and services of the Company Secretary and are able in the course of their duties, if necessary, to take independent professional advice at the Company's expense Committees have access to such resources as are required to fulfil their duties

The Board receives reports covering finance, business development, operations and science, together with any other material deemed necessary for the Board to discharge its duties The Chairman, Bruce Campbell, is primarily responsible for the effective operation and chairing of the Board and for ensuring that it receives appropriate information to make informed judgments The Board has a formal schedule of matters reserved to it for decision but otherwise delegates specific responsibilities to Committees, as described below The terms of reference of the Committees are available on request from the Company Secretary The Board is responsible for decisions, and the review and approval of key policies and decisions in respect of business strategy, board appointments, budgets, items of substantial investment and acquisitions

Board Committees

The Board has established an Audit Committee, a Nomination Committee and a Remuneration Committee with written terms of delegated responsibilities for each Details of these committees can be found on pages 24-25 Under the Articles of Association all directors must offer themselves for re-election at least once every three years One third of the directors retire by rotation at every Annual General Meeting and are eligible for reappointment

Internal control and risk management

The Board has ultimate responsibility for the system of internal control maintained by the Group and for reviewing its effectiveness

The Board's approach is designed to manage rather than eliminate risk and can provide only reasonable and not absolute assurance against material misstatement or loss It operates with principles and procedures designed to achieve the accountability and control appropriate to a science-based business operating internationally in a highly regulated business sector The principal features of the Group's internal control system are as follows

- an organisational structure is in place with clearly drawn lines of accountability and delegation of authority,
- Group employees are required to adhere to specified codes of conduct, policies and procedures,
- financial results and key operational and financial performance indicators are reported regularly throughout the year and variances from plans and budgets are investigated and reported,
- financial control protocols are in place to safeguard the assets and maintain proper accounting records, and
- risk management is monitored on an on-going basis to identify, quantify and manage risks facing the Group

Shareholder relations

Proximagen aims to ensure a timely, open, comprehensive, and consistent flow of information to investors and the financial community By this approach we aim to help investors to understand the Group's strategic objectives, its activities and the progress it makes The Company meets with its institutional shareholders and analysts as appropriate and uses the Annual General Meeting to further encourage communication with shareholders In addition, the Company will be using the Annual Report and Accounts, Interim Statement, and website (www proximagen com) to provide further information to shareholders The Company uses the services of Buchanan Communications to assist in the communication with shareholders

Audit Committee

Following the resignation from the Board in December 2005 of George Murlewski who chaired the Audit Committee, Michael Ashton was appointed to replace him as chairman of the Audit Committee The Audit Committee currently comprises three non-executive directors Michael Ashton (chairman), Bruce Campbell and Nigel Whittle The external auditors, Chief Executive Officer and Finance Director attend meetings and, following each meeting, the Committee and external auditors have the opportunity to meet with no executives present

The Committee reviewed the half year and full year results and the Interim Statement and Annual Report and Accounts prior to their submission to the Board and considered any matters raised by the external auditors The meetings were fully attended by all Committee members and the conclusions were presented to the full Board The Audit

Committee reviews on an annual basis the need for an internal audit function In 2006, in common with other companies of its size and complexity of operation, the Group did not operate an internal audit function

It is the Group's policy to employ the auditors on assignments additional to their statutory audit duties where their expertise and their experience of the Group are important, such as providing tax advice They are awarded assignments on a competitive basis

The Audit Committee pre-approves all permitted non-audit expenditure incurred and during the year reviewed the cost-effectiveness, independence and objectivity of the external auditors The Committee recommended to the Board the reappointment of the Company's external auditors A formal Statement of Independence is received from the external auditors each year

Nomination Committee

In 2006, the Nomination Committee consisted of Bruce Campbell, who chairs the Committee, Nigel Whittle and Michael Ashton who replaced George Murlewski The Committee keeps under review the Board structure, size and composition, identifies and nominates candidates for the approval of the Board and ensures plans are put in place for succession of the executive directors

Remuneration Committee

During the year, the Remuneration Committee of the Board consisted of Nigel Whittle, who chairs the Committee, Bruce Campbell and Michael Ashton, who replaced George Murlewski It is responsible for considering directors' remuneration packages and makes its recommendations to the Board The Committee met once during the year and the conclusions were presented to the full Board

The Chief Executive Officer may be invited to attend Remuneration Committee meetings, other than when his own remuneration is discussed No director is involved in deciding his own remuneration

The Committee was provided with a benchmarking study prepared by New Bridge Street Consultants, an independent remuneration, performance evaluation, and share scheme consultancy The benchmarking study provided remuneration data on senior executives of 58 companies within the UK biotechnology sector ("Comparator Group") and excludes participation by large multinational pharmaceutical companies

Directors' remuneration report

This report sets out the remuneration policy operated by the Company in respect of the executive directors Where executive directors have attended a Remuneration Committee meeting there was no discussion relating to their own remuneration and benefits The Remuneration Committee received a wholly independent report on executive compensation and incentives from New Bridge Street Consultants during the year No other services were provided to the Group by New Bridge Street Consultants during the year

Remuneration policy overview

It is the aim of the Remuneration Committee to encourage and reward superior performance by executives with that performance being based on the measurable delivery of achieving corporate goals, strong financial performance and the delivery of value to shareholders Following consultation and a review of remuneration paid to executives in 2005, the Remuneration Committee recommended a remuneration policy which benchmarks main elements of the remuneration package against the Group's Comparator Group The policy would benchmark executive base salaries to the average lower quartile of base salaries in the Comparator Group and provide annual bonus potential with measurable deliveries set by the Board The base salary and performance-based bonus together would provide compensation benchmarked between the lower and median quartiles of total compensation in the Comparator Group Performance-based share options would be awarded in-line with the biotechnology industry

Base salary	Average lower quartile
Performance-based bonus	Average upper quartile
Share incentives	Industry average
Total compensation	Between lower quartile and median

At present, the executive directors, Kenneth Mulvany and James Hunter, are entitled to receive salary, medical insurance, pension contributions and a discretionary bonus The timing and amount of bonuses are decided by the Remuneration Committee with reference to the individual's performance and benchmarked against those offered by the Comparator Group

Mr Mulvany has foregone his entitlement to the Company's contribution to his pension for the period under review and all prior periods

The Remuneration Committee believes that the current policy retains and motivates Executives appropriately while enforcing a strong pay for performance culture within the Group

The Remuneration Committee will continue to review the policy on an annual basis to ensure that it is in line with the Group's objectives and shareholders' interests

Executive service contract

Kenneth Mulvany has an executive service agreement with the Company dated 23 March 2005, which continues unless terminated by the Company on 30 days' written notice and six months written notice by the executive In the event of termination by the Company, salary and benefits will be payable for the period of six months If the executive terminates for certain reasons set out in the service agreement, then the notice period that he is required to give is reduced to 30 days In the event of termination under these conditions, salary and benefits will be payable for the period of six months

James Hunter has an executive service agreement with the Company dated 27 February 2006, which continues unless terminated by either party on six months' written notice

Non-executive directors

The non-executive directors have entered into letters of engagement with the Company, with the Board determining the fees paid to the non-executive directors During 2006, the current directors were all remunerated at the same rate Non-executive directors do not participate in the Group's pension or bonus schemes The appointments can be terminated upon three months' notice being given by either party

Pensions

The Group operates a Group Personal Pension scheme Under the scheme rules, the Group will either match employee contributions up to the equivalent of a maximum of 5% of salary or will make direct contributions under a 'salary sacrifice' arrangement The scheme is open to executive directors and employees

Directors' remuneration

Full details of the directors' remuneration can be found in note 4 on page 36

External directorships

Bruce Campbell is a director of IP Group plc, the Company's largest shareholder He is also a non-executive director of Synairgen Plc, IQur Ltd, Modern Biosciences Ltd and Retroscreen Ltd

Peter Jenner is a director of Primagen Ltd, a company that provides consultancy services to the Group Details of this contract can be found in note 17 to the financial statements.

Michael Ashton is a director of LMA International NV and a non-executive director of Transition Therapeutics Inc and Hikma Pharmaceuticals plc

Nigel Whittle is a director of NRW Consulting Ltd

Directors' interests (other than options) in the Company's share capital

The shares described are Ordinary 1p shares

	30 November 2006	30 November 2005
Peter Jenner	1,800,000	1,800,000
Kenneth Mulvany	781,568	781,568
Bruce Campbell	67,567	67,567
Michael Ashton	20,384	–

Share incentive schemes

The Company currently operates two share option schemes, an Inland Revenue approved Enterprise Management Incentive ("EMI") scheme and an Unapproved Share Option Scheme

In setting up the share option schemes, the Remuneration Committee took into account the recommendations of shareholder bodies on the number of options to issue, the criteria for vesting and the desirability of granting share options to executive and non-executive directors

The grant of share options to executive directors is determined by the Remuneration Committee and recommended to the Chief Executive Grants are related to the achievement of individual performance objectives and to the performance of the Group against its key development objectives

Directors' share options

	Number of options granted during the year	Options as at 30 November 2005	Options as at 30 November 2006	Date from which exercisable	Expiry date	Exercise price
Bruce Campbell	–	600,000	600,000	27/09/2004	26/09/2014	8 33p
Michael Ashton	45,455	–	45,455	28/06/2006	27/06/2016	136p
James Hunter	–	60,000	60,000	17/01/2005	16/01/2012	83 33p
	–	39,999	39,999	25/10/2008	24/10/2010	130p
	150,267	–	150,267	27/02/2006	26/02/2011	135p

No directors exercised any options during the year

Statement of 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 Practice

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 the Group and of the profit or loss of the Group for that period In preparing those financial statements, the directors are required to

a) select suitable accounting policies and then apply them consistently,
b) make judgements and estimates that are reasonable and prudent,
c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts, and
d) 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 the Group and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985 They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are also responsible for the maintenance and integrity of the Proximagen Neuroscience plc website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Employees
The Group is committed to providing equal opportunities in employment All job applicants and employees receive equal treatment regardless of sex, race, colour, age, and nationality or ethnic origin

The motivation of staff and the maintenance of an environment where innovation and team working is encouraged are seen as key objectives by the Board and all employees are given the opportunity to participate in the Company's share option scheme We promote internal communication of the Group's progress by means of regular meetings held with staff where issues are discussed in an open manner

The Board also recognises that a safe, secure and healthy working environment contributes to productivity and improved performance

Environment
The Group is conscious of its responsibilities in respect of the environment and follows a Group-wide environmental policy Proximagen disposes of its waste products through regulated channels using reputable agents

Creditor payment policy
The Group's standard payment policy is to pay suppliers at the end of the month following the month of invoice, where no other agreement is in place This equates to average payment terms of 45 days Excluding amounts owed to King's College London, Group trade creditors as at 30 November 2006 represented 48 days of purchases (2005 45 days) Suppliers are made aware of the terms of payment and it is the Group's policy to abide by the agreed terms, subject to the terms and conditions being fulfilled by the supplier

Going concern
Having made appropriate enquiries, the directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future Accordingly, they consider it appropriate to adopt the going concern basis in preparing the financial statements

Report of the independent auditors

to the shareholders of Proximagen Neuroscience plc

We have audited the financial statements on pages 30 to 43

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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

The directors' responsibilities for preparing the Annual Report and 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 We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements

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

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements This other information comprises the Directors' report, the Chairman's statement, the Chief Executive's review, the Chief Scientist's report, the Financial review, the Corporate Governance statement and the Director's Remuneration report We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Basis of audit opinion

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

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 Group's and parent Company's affairs as at 30 November 2006 and of the Group's loss for the year then ended and 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

Baker Tilly

Baker Tilly
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

27 February 2007

Consolidated profit and loss account

For the year ended 30 November 2006

	Note	Year ended 30 November 2006 £	Year ended 30 November 2005 £
Turnover	1	**737,509**	878,310
Cost of sales		**(334,353)**	(405,798)
Gross profit		**403,156**	472,512
Net operating costs			
Research and development		**(1,742,528)**	(329,842)
Administrative expenses		**(860,818)**	(632,087)
		(2,603,346)	(961,929)
Operating loss		**(2,200,190)**	(489,417)
Net interest receivable	2	**564,033**	410,432
Loss before tax	3	**(1,636,157)**	(78,985)
Corporation Tax	5	**32,361**	83,597
(Loss)/profit after tax and retained for the period		**(1,603,796)**	4,612
(Loss)/earnings per share			
Basic (pence)	6	**(8.00)**	0 03
Diluted (pence)	6	**(8.00)**	0 03

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

All Group activities relate to continuing operations

The accompanying accounting policies and notes form an integral part of these financial statements

Consolidated balance sheet

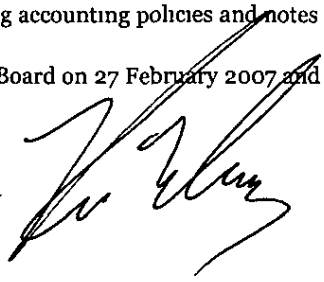
At 30 November 2006

	Note	At 30 November 2006 £	At 30 November 2005 £
Fixed assets			
Tangible fixed assets	8	**231,543**	87,437
Current assets			
Debtors	9	**526,934**	678,530
Cash at bank and in hand		**11,486,310**	13,027,699
		12,013,244	13,706,229
Creditors: amounts falling due within one year	10	**(673,057)**	(618,140)
Net current assets		**11,340,187**	13,088,089
Net assets		**11,571,730**	13,175,526
Capital and reserves			
Called up share capital	12	**200,356**	200,356
Share premium account	13	**12,659,223**	12,659,223
Merger reserve	13	**298,900**	298,900
Profit and loss account	13	**(1,586,749)**	17,047
Equity shareholders' funds	14	**11,571,730**	13,175,526

The accompanying accounting policies and notes form an integral part of these financial statements

Approved by the Board on 27 February 2007 and signed on its behalf by

Kenneth Mulvany
Bruce Campbell
Directors



Company balance sheet

At 30 November 2006

	Note	At 30 November 2006 £	At 30 November 2005 £
Fixed assets			
Investments	7	**102,000**	102,000
Current assets			
Debtors			
Amounts due within one year	9	**164,344**	220,148
Amounts due after one year	9	**2,742,194**	230,319
Cash at bank and in hand		**11,018,451**	12,763,848
		13,924,989	13,214,315
Creditors: amounts falling due within one year	10	**(190,208)**	(52,541)
Net current assets		**13,734,781**	13,161,774
Net assets		**13,836,781**	13,263,774
Capital and reserves			
Called up share capital	12	**200,356**	200,356
Share premium account	13	**12,659,223**	12,659,223
Profit and loss account	13	**977,202**	404,195
Equity shareholders' funds	14	**13,836,781**	13,263,774

The accompanying accounting policies and notes form an integral part of these financial statements

Approved by the Board on 27 February 2007 and signed on its behalf by

Kenneth Mulvany
Bruce Campbell
Directors

Consolidated cash flow statement

For the year ended 30 November 2006

	Note	Year ended 30 November 2006 £	Year ended 30 November 2005 £
Net cash outflow from operating activities	15a	**(1,941,183)**	(195,875)
Returns on investment	15b	**580,624**	244,707
Capital expenditure	15b	**(180,830)**	(93,877)
Management of liquid resources	15b	**1,600,000**	(12,600,000)
Financing	15b	**–**	12,757,580
Increase in cash in the period	15b	**58,611**	112,535

Reconciliation of net cash flow to movement in net funds

For the year ended 30 November 2006

	Note	Year ended 30 November 2006 £	Year ended 30 November 2005 £
Increase in cash in the period		**58,611**	112,535
Cash (drawn down from)/placed on deposit in the period		**(1,600,000)**	12,600,000
Change in net funds resulting from cash flows		**(1,541,389)**	12,712,535
Movement in net funds in the period		**(1,541,389)**	12,712,535
Net funds at beginning of period		**13,027,699**	315,164
Net funds at end of period	15c	**11,486,310**	13,027,699

The accompanying accounting policies and notes form an integral part of these financial statements

Accounting policies

Basis of accounting
These financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

Basis of consolidation
Proximagen Neuroscience plc acquired the entire share capital of Proximagen Limited on 9 March 2005 by way of a share for share exchange In accordance with the principles set out in Financial Reporting Standard 6 the financial information is presented as though the merged business had always been a single group Accordingly, in those years where mergers take place, the whole of the results, assets, liabilities and shareholders' funds of the merger companies are consolidated, regardless of the actual merger date and corresponding figures for previous years are re-stated

No profit and loss account is presented for Proximagen Neuroscience plc as provided by Section 230(3) of the Companies Act 1985

Turnover
Turnover represents the value of services provided to third parties after deducting Value Added Tax

Turnover is derived from a broad range of services aimed at accelerating the drug discovery process in neurology Services are generally provided through specific research agreements with distinct milestones, each with a typical study duration of six to twelve months

Turnover from these services is recognised on a percentage to completion basis Fixed price contracts are assessed on a contract by contract basis and reflected in the profit and loss account by recording turnover and related costs as contract activity progresses Turnover is recognised so as to reflect the right to consideration as contract activity progresses by reference to the value of work performed The amount by which turnover exceeds payments on account is included in debtors, to the extent that payments on account exceed relevant turnover, the excess is included as a creditor Provisions for estimated losses, if any, on uncompleted contracts are recognised in the period in which the likelihood of such losses is determined

Research and development
Expenditure on pure and applied research is charged to the profit and loss account in the period 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

Tangible fixed assets
All fixed assets are stated at historical cost Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual life, as follows

Laboratory equipment over £500	10%-25% straight line
Computer and office equipment over £500	25% straight line

The need for any fixed asset impairment write down is assessed by comparing the carrying value of the asset against the higher of its realisable value and its value in use

Liquid resources
Liquid resources comprise term deposits of less than one year which are convertible into cash at the date of maturity

Foreign currency
Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction All differences are taken to the profit and loss account

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated, but not reversed, at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date Deferred tax is measured on a non-discounted basis

Investments
Long-term investments are classified as fixed assets Short-term investments are classified as current assets

Long-term investments are stated at cost less impairment in the Company balance sheet

Pension contributions
The Group contributes to the personal pension plans of certain employees only Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme

Notes to the accounts

For the year ended 30 November 2006

1 Turnover on ordinary activities before taxation

The Group's turnover was all derived from its principal activity Sales were made in the following geographical areas

	2006 £	2005 £
United Kingdom	**17,550**	142,470
Rest of Europe	**286,800**	515,210
Japan	**40,000**	159,760
United States of America	**393,159**	60,870
	737,509	878,310

2 Investment income and interest payable

	2006 £	2005 £
Bank interest paid	**(61)**	–
Bank interest receivable	**5,343**	11,798
Interest receivable from short-term deposits	**558,751**	398,634
	564,033	410,432

Funds belonging to the Group not required for immediate working capital have been lent to a number of UK-based banks and building societies on fixed term contracts (see note 11)

3 Loss on ordinary activities before taxation

	2006 £	2005 £
Loss on ordinary activities before taxation is stated after charging/(crediting)		
Depreciation charged for the year on owned assets	**36,724**	6,441
Research and development costs	**1,742,528**	329,842
Auditors' remuneration audit services	**28,425**	25,000
Auditors' remuneration non-audit services	**8,000**	6,000
Exchange gains	**(6,697)**	(1,578)

4 Employees	2006 Number	2005 Number
The average number of persons (including directors) employed by the Group during the period was		
Laboratory	**16**	9
Administrative	**3**	3
	19	12
	£	£
Staff costs for the above persons		
Wages and salaries	**932,519**	500,577
Social security costs	**85,455**	42,774
Pension costs	**21,635**	10,928
	1,039,609	554,279

Directors' remuneration 2006

	Total salary and fees £	Bonus £	Benefits £	Total emoluments £	Pension contributions £	Total £
Executive directors						
Kenneth Mulvany	130,000	19,500	1,085	150,585	–	150,585
James Hunter*	77,422	14,625	1,356	93,403	7,803	101,206
Non-executive directors						
Bruce Campbell	50,000	–	–	50,000	–	50,000
Peter Jenner	92,000	–	–	92,000	–	92,000
Michael Ashton#	19,246	–	–	19,246	–	19,246
Nigel Whittle	20,000	–	–	20,000	–	20,000
George Murlewski‡	83	–	–	83	–	83
Total	**388,751**	**34,125**	**2,441**	**425,317**	**7,803**	**433,120**

* appointed 27 February 2006
\# appointed 15 December 2005
‡ resigned 31 December 2005

Directors' remuneration 2005†

	Total salary and fees £	Bonus £	Benefits £	Total emoluments £	Pension contributions £	Total £
Executive directors						
Kenneth Mulvany	66,667	–	193	66,860	–	66,860
Non-executive directors						
Bruce Campbell	24,000	–	–	24,000	–	24,000
Peter Jenner	44,125	–	–	44,125	–	44,125
Nigel Whittle	667	–	–	667	–	667
George Murlewski	667	–	–	667	–	667
Total	**136,126**	**–**	**193**	**136,319**	**–**	**136,319**

† Directors' remuneration in 2005 relates to the period from 31 March 2005 to 30 November 2005

5 Taxation	2006 £	2005 £
Current tax		
United Kingdom corporation tax credit on loss for the year	**(32,361)**	(75,650)
Adjustments in respect of previous periods	**–**	(7,947)
Total current tax credit	**(32,361)**	(83,597)
Deferred tax		
Origination and reversal of timing differences	**–**	–
Total deferred tax	**–**	–
Tax credit on loss on ordinary activities	**(32,361)**	(83,597)

Factors affecting tax credit for the year

The tax assessed for the period is higher than the standard rate of corporation tax in the United Kingdom (30%) The difference is explained below

Loss on ordinary activities before tax	**(1,636,157)**	(78,985)
Loss on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 30%	**(490,847)**	(23,695)
Effects of:		
Expenses not deductible for tax purposes	**5,765**	12,961
Schedule 23 relief	**–**	(299,173)
Capital allowances for period in excess of depreciation	**(11,399)**	(9,333)
Tax losses not utilised	**725,975**	254,829
Research and development enhanced relief	**(290,171)**	(11,239)
Adjustment to the tax charge in respect of previous periods	**28,316**	(7,947)
Current tax credit for the year	**(32,361)**	(83,597)

A potential deferred tax asset of £961,431 (2005 £246,855) has not been recognised due to the uncertainty of its recoverability

6 Basic and diluted earnings per ordinary share	2006 £	2005 £
The calculations of basic and diluted earnings per ordinary share are based on the following results and numbers of shares		
(Loss)/profit for the year	**(1,603,796)**	4,612

	2006 Number of shares	2005 Number of shares
Weighted average number of shares		
For basic earnings per share	**20,035,622**	16,790,695
Dilutive effect of share options	**n/a**	833,718
For diluted earnings per share	**20,035,622**	17,624,413

In 2006 the number of shares used in the calculation of diluted loss per share was the same as that used in the calculation of basic loss per share as the Group incurred a loss

7 Investment in subsidiary undertaking	£
Company	
Cost	
1 December 2005	102,000
Additions in the year	–
30 November 2006	**102,000**

Name of subsidiary	Class of holding	Proportion held directly	Nature of business
Proximagen Limited	Ordinary	100%	Neuroscience research

The above subsidiary is incorporated in England and Wales (Company number 4977050)

8 Tangible fixed assets	Laboratory equipment £	Computer equipment £	Office equipment £	Total £
Group				
Cost				
1 December 2005	84,049	9,829	–	93,878
Additions	167,275	12,063	1,492	180,830
30 November 2006	**251,324**	**21,892**	**1,492**	**274,708**
Depreciation				
1 December 2005	5,009	1,432	–	6,441
Charged in the year	32,073	4,363	288	36,724
30 November 2006	**37,082**	**5,795**	**288**	**43,165**
Net book value				
30 November 2006	**214,242**	**16,097**	**1,204**	**231,543**
30 November 2005	79,040	8,397	–	87,437

9 Debtors	2006 £	2005 £
Group		
Due within one year		
Trade debtors	**110,628**	294,140
Other debtors	**169,524**	178,112
Prepayments and accrued income	**246,782**	206,278
Balance	**526,934**	678,530
Company		
Due within one year		
Other debtors	**6,195**	50,962
Prepayments and accrued income	**158,149**	169,186
Balance	**164,344**	220,148
Due after one year		
Amounts owed by Group undertakings	**2,742,194**	230,319
Balance	**2,742,194**	230,319

10 Creditors	2006 £	2005 £
Group		
Amounts falling due within one year		
Trade creditors	**449,292**	386,763
Other taxation and social security costs	**22,385**	18,069
Accruals and deferred income	**201,380**	213,308
Balance	**673,057**	618,140
Company		
Amounts falling due within one year		
Trade creditors	**50,505**	19,219
Other taxation and social security costs	**7,489**	6,592
Accruals and deferred income	**132,214**	26,730
Balance	**190,208**	52,541

11 Financial instruments

The Group's financial instruments comprise cash and short-term deposits The Group has various other financial instruments, such as trade debtors and trade creditors, that arise directly from its operations and which have not been included in the following disclosures

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk The policies for managing these risks are regularly reviewed and agreed by the Board It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken

The Group operates in the United Kingdom and as such substantially all of the Group's financial assets and liabilities are denominated in sterling and there is very limited exposure to exchange rate risks

Interest rate risk

The Group's policy on managing its exposure to interest rate changes is agreed at Board level and reviewed on an ongoing basis

The interest rate risk profile of the Group's financial assets as at 30 November 2006 was

	Fixed rate £	Floating rate £	**2006 total £**	2005 total £
Sterling	11,000,000	469,041	**11,469,041**	12,976,751
US Dollars	–	44	**44**	50,948
Euro	–	17,225	**17,225**	–
	11,000,000	486,310	**11,486,310**	13,027,699
Of which				
Cash at bank and in hand	11,000,000	486,310	**11,486,310**	13,027,699

The weighted average interest rate earned on fixed deposits during the year was 4 69% The weighted average period for which fixed rate sterling deposits were placed was 133 days

Floating rate deposits in sterling earn interest at prevailing bank rates

Liquidity risk

It is the Group's policy to finance its business by means of internally generated funds, supported by external share capital

Banking facility

The Group does not currently have an overdraft facility

Fair value

There is no material difference between the fair value of borrowings and other financial interests and their book value at the balance sheet date

12 Share capital

Group and Company	2006 £	2005 £
Authorised		
500,000,000 Ordinary shares of 1p each	**5,000,000**	5,000,000
Allotted, issued and fully paid		
20,035,622 Ordinary shares of 1p each	**200,356**	200,356

Share options	At 30 November 2006 Number of shares	At 30 November 2005 Number of shares	Exercise price per 1p Ordinary share Pence
EMI scheme			
Exercise date			
September 2004 – September 2014	**600,000**	600,000	8 33
October 2004 – October 2011	**66,000**	66,000	10 42
October 2004 – October 2009	**23,625**	28,500	10 42
January 2005 – January 2012	**60,000**	60,000	83 33
October 2008 – October 2013	**117,598**	142,103	130
November 2008 – November 2013	**9,621**	9,621	135
November 2008 – November 2013	**64,159**	–	130
Unapproved scheme			
Exercise date			
October 2004 – October 2011	**24,000**	24,000	10 42
October 2004 – October 2009	**21,000**	21,000	10 42
October 2004 – October 2007	**102,000**	102,000	17 08
March 2005 – March 2010	**12,000**	12,000	100
February 2006 – February 2011	**150,267**	–	135
November 2006 – November 2008	**22,773**	–	130
June 2006 – June 2016	**45,455**	–	136
Total	**1,318,498**	1,065,224	

A total of 29,380 share options lapsed in the year to 30 November 2006

13 Reserves	Share premium £	Merger reserve £	Profit and loss account £	Total £
Group				
At 1 December 2005	12,659,223	298,900	17,047	12,975,170
Loss for year	–	–	(1,603,796)	(1,603,796)
30 November 2006	**12,659,223**	**298,900**	**(1,586,749)**	**11,371,374**
Company				
At 1 December 2005	12,659,223	–	404,195	13,063,418
Profit for year	–	–	573,007	573,007
30 November 2006	**12,659,223**	**–**	**977,202**	**13,636,425**

The merger reserve represents the excess of the nominal value of the shares issued by Proximagen Neuroscience plc over the nominal value of the share capital and share premium of Proximagen Limited which was acquired on 9 March 2005

14 Reconciliation of movement in shareholders' funds	2006 £	2005 £
Group		
Opening shareholders' funds	**13,175,526**	413,335
Shares issued during the year	**–**	98,356
Premium on shares issued during the year (net of expenses)	**–**	12,659,223
(Loss)/profit for the year	**(1,603,796)**	4,612
Closing shareholders' funds	**11,571,730**	13,175,526
Company		
Opening shareholders' funds	**13,263,774**	–
Shares issued during the year	**–**	200,356
Premium on shares issued during the year (net of expenses)	**–**	12,659,223
Profit for the year	**573,007**	404,195
Closing shareholders' funds	**13,836,781**	13,263,774

15 Notes to the Cash Flow Statement

a Reconciliation of operating profit to operational cash flow	Year ended 30 November 2006 £	Year ended 30 November 2005 £
Operating loss	**(2,200,190)**	(489,417)
Depreciation	**36,724**	6,441
Decrease in debtors	**167,366**	114,663
Increase in creditors	**54,917**	172,438
Net cash outflow from operating activities	**(1,941,183)**	(195,875)

b Analysis of cash flows		
Returns on investment		
Interest paid	**(61)**	–
Interest received	**580,685**	244,707
Net cash inflow from returns on investments and servicing of finance	**580,624**	244,707
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(180,830)**	(93,877)
Net cash outflow from capital expenditure and financial investment	**(180,830)**	(93,877)
Management of liquid resources		
Cash placed on term deposits	**–**	(12,600,000)
Cash withdrawn from term deposits	**1,600,000**	–
Net cash inflow/(outflow) from investments	**1,600,000**	(12,600,000)
Financing		
Issue of ordinary share capital	**–**	13,559,478
Share issue costs	**–**	(801,898)
Net cash inflow from financing	**–**	12,757,580
Increase in cash in the period	**58,611**	112,535

15 Notes to the Cash Flow Statement continued

c Analysis of funds	At 1 December 2005 £	Cash flow £	At 30 November 2006 £
Cash at bank and in hand	427,699	58,611	486,310
Short-term deposits*	12,600,000	(1,600,000)	11,000,000
Net funds	**13,027,699**	**(1,541,389)**	**(11,486,310)**

* Short-term deposits are included within cash at bank and in hand in the balance sheet

16 Contingent liabilities

The Company acts as guarantor to its bankers, Barclays Bank PLC, in respect of any amount due by itself and its subsidiary The directors are of the opinion that the likelihood of default by itself or its subsidiary is remote and as such there is no requirement for any provision to be made in the financial statements

The Company also acts as guarantor to Her Majesty's Revenue & Customs in respect of any Value Added Tax ("VAT") amount due by its subsidiary The directors are of the opinion that the likelihood of default by its subsidiary is remote and as such there is no requirement for any provision to be made in the financial statements

17 Related party transactions

a) The Group entered into an agreement on 22 March 2005 with King's College London, a shareholder of the Company The agreement is an amendment to the previous agreement dated 2 March 2004 and the agreement that is currently in place covers the provision and costs of supply of property and office and laboratory services by King's College London to Proximagen Limited

   £462,491 (2005 £368,318) was charged in the year under the previous and the current agreement

   The agreement can be terminated by either party by twelve months' written notice

   The Group owed £215,540 (inclusive of VAT) to King's College London at the year-end in respect of this agreement (2005 £283,835 inclusive of VAT)

b) The Group had a consultancy agreement (dated 29 April 2004) with IP2IPO Limited, a wholly-owned subsidiary of the Company's largest shareholder, to provide consultancy services No consultancy services were charged in the year (2005 £25,000)

Copies of this report are being sent to all shareholders Copies are also available at the registered office of the Company, Hodgkin Building, Guy's Campus, King's College, London SE1 1UL

Notice of Annual General Meeting

Notice is hereby given that the 2007 Annual General Meeting of Proximagen Neuroscience plc (the "Company") will be held at the offices of Buchanan Communications Limited, 45 Moorfields, London EC2Y 9AE on 17 April 2007 at 11 00am to transact the following business

To consider and, if thought fit, to pass the following resolutions, of which numbers 1 to 9 will be proposed as ordinary resolutions and 10 as special resolution

1 To receive and adopt the reports of the directors and auditors and the audited accounts of the Company for the year ended 30 November 2006

2 To re-elect as a Director, Bruce Campbell, who retires by rotation in accordance with the Articles of Association of the Company

3 To re-elect as a Director, Peter Jenner, who retires by rotation in accordance with the Articles of Association of the Company

4 To re-elect as a Director, Nigel Whittle, who retires by rotation in accordance with the Articles of Association of the Company

5 To re-elect as a Director, Kenneth Mulvany, who retires by rotation in accordance with the Articles of Association of the Company

6 To re-elect as a Director, Michael Ashton, who retires by rotation in accordance with the Articles of Association of the Company

7 To re-elect as a Director, James Hunter, who retires by rotation in accordance with the Articles of Association of the Company

8 To reappoint Baker Tilly Chartered Accountants as auditors of the Company until the conclusion of the next Annual General Meeting of the Company and to authorise the Directors to determine the remuneration of Baker Tilly Chartered Accountants

9 THAT the Directors be and they are hereby generally and unconditionally authorised to allot relevant securities (within the meaning of section 80 of the Companies Act 1985) (the "Act") up to an aggregate nominal amount of £66,117 provided that this authority shall expire on the earlier of the conclusion of the annual general meeting of the Company to be held in 2008 or the expiry of 15 months from the date of the passing of this Resolution 9 (whichever is earlier) and, unless and to the extent that such authority is renewed or extended prior to such date, that the Company may before such expiry make an offer or agreement which would, or might, require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby has not expired

10 THAT the Directors be and they are hereby empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94 of the Act) for cash pursuant to the authority conferred by Resolution 9 above as if section 89(1) of the Act did not apply to such allotment provided that this power shall be limited to

a) the allotment of equity where the equity securities respectively attributable to the interests of all shareholders are proportionate (as nearly as may be) to the number of Ordinary Shares held by them but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with legal or practical problems in respect of overseas holders, fractional entitlements or otherwise,

b) the allotment of equity securities of up to an aggregate nominal amount of £10,017 in connection with the issue of Ordinary Shares by the Company pursuant to the exercise of options proposed to be granted by the Company,

c) the allotment (other than pursuant to sub-paragraphs (a) and (b) above) of equity securities up to an aggregate nominal amount of £10,017

and shall expire on the earlier of the conclusion of the Annual General Meeting of the Company to be held in 2008 or the expiry of 15 months from the date of the passing of this Resolution 10 (whichever is earlier) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted before such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired

By order of the Board
June Mary Paddock
Company Secretary

Registered Office
Hodgkin Building, Guy's Campus,
King's College, London SE1 1UL

27 February 2007

Notes

1 Any member of the Company entitled to attend and vote at the meeting convened by the above notice may appoint one or more proxies to attend and, on a poll, to vote instead of him A proxy need not be a member of the Company Appointment of a proxy will not preclude a member from attending and voting at the meeting in person instead of by proxy

2 The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of authority must be deposited at the office of the Company's Registrars, Capita IRG at Proxy Processing Centre, Telford Road, Bicester, OX26 4LD not later than 48 hours before the time appointed for the Annual General Meeting A form of proxy is enclosed

3 Copies of all the directors' service contracts and the register of interests of the directors and their families in the share capital of the Company will be made available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the Annual General Meeting and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting

4 The Company, pursuant to Regulation 41(1) of the Uncertificated Securities Regulations 2001, specifies that only those shareholders entered on the register of members of the Company at 11 00am on 13 April 2007 shall be entitled to vote at the meeting in respect of shares registered in their names at that time Changes to entries on the relevant register of members after 11 00am on 13 April 2007 shall be disregarded in determining the rights of any person to attend or vote at the meeting

Explanation of resolutions

Resolutions 2-7 – election of directors

In accordance with the Company's Articles of Association each director shall hold office only until the next Annual General Meeting following appointment and shall then be eligible for re-election and at every Annual General Meeting, one third of the directors in office shall retire in rotation and may offer themselves for re-election The Company did not include these resolutions in the notice for the 2006 Annual General Meeting and is therefore including these resolutions in this notice for the 2007 Annual General Meeting

Shareholder information

Group information
Further information on the Group can be found on our website at www.proximagen.com

Share price information
The latest Proximagen share price can be obtained via a number of financial information websites Proximagen's London stock exchange code is PRX

Shareholder enquiries
Enquiries concerning shareholdings, change of address or other particulars, should be directed in the first instance to the Company's registrars·
Capita IRG Plc
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone 0870 162 3100

Investor relations
Any shareholders with enquiries regarding the Group are welcome to contact Kenneth Mulvany on +44 (0)20 7848 6938 Alternatively, they can e-mail their enquiry to ir@proximagen com

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Discoveries for Life

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