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Proximagen Group plc Annual Report & Accounts 2010

CLOSE UP

Who we are

Proximagen is a company focused on the development and commercialisation of novel therapeutics for diseases of the central nervous system.

We are inspired by the difference that we can make to the quality of life of patients through the innovative medicines that we discover and develop.

Contents

Objectives and strategy

Proximagen's objective is to become one of Europe's leading companies developing therapeutics for patients suffering from diseases of the central nervous system ("CNS").

We believe that to achieve success we need to build a pipeline containing drug candidates spanning all phases of the development cycle, as well as developing our ability to market select drug programmes in specific key territories.

In order to achieve our objectives, we have developed the following five strategic priorities

1. Expand our pipeline through selective acquisition, in-licensing and partnering, thus building quality and critical mass in research and development
2. Structure innovative deals
3. With respect to our pipeline, either
   - invest in programmes where the value inflection point is identifiable (such as establishing clinical proof of concept) and where the risk profile of such investment is acceptable, and then out-license the programme with the retention of rights in certain territories, or
   - out-license programmes prior to significant investment when it is commercially desirable to do so
4. Reduce duplicated costs through consolidation and integration
5. Build closer relationships with Big Pharma in specialist therapeutic areas

Therapeutic areas

Our commitment to science is fundamental. We look for programmes that represent true scientific innovation and which break new ground in treatment. Using this standard as a development benchmark makes our job more challenging, but demonstrates our commitment to pursuing only those opportunities that improve upon current therapies in meaningful ways and represent the best chance of generating significant commercial value.

Our primary focus has been, and remains, diseases of the CNS, such as Parkinson's disease and epilepsy (our Priority Indications) where we endeavour to retain rights to market these drug programmes in Europe.

However, our pipeline now contains a number of non-CNS programmes addressing diseases such as inflammation and oncology. We recognise the large commercial potential of these indications but also our limitations to commercialise these large market drug programmes adequately. Therefore, we aim to invest in our non-CNS franchise to the point of value inflection before seeking earlier-stage partnerships.

PRIORITY INDICATIONS

Parkinson's disease

Parkinson's disease is a progressive and degenerative neurological condition which impairs patients' everyday movement and speech It occurs as a result of loss of nerve cells in the substantia nigra, the area of the brain responsible for producing dopamine Dopamine is a chemical that is critical for co-ordinating and determining movement and when dopamine-producing cells are depleted, parts of the brain are unable to function normally, thus leading to movement and speech impairment

Epilepsy

Epilepsy is a chronic neurological disorder characterised by a tendency of patients to have recurrent seizures A seizure is caused by a sudden burst of excess electrical activity in the brain, causing a temporary disruption in the communication between brain cells This disruption results in severely abnormal brain function and consequent physical manifestations It is the most common serious neurological condition in the UK

Alzheimer's disease

Alzheimer's disease, the most common form of dementia, is a progressive condition During the course of the disease, the function of brain cells and neurotransmitters is increasingly impaired, while plaques and tangles develop in the brain These plaques and tangles in turn destroy more connections between the brain cells, which aggravates the condition Consequently, there is a gradual deterioration in elements of memory, attention and information processing The complex changes that occur in the areas of the brain responsible for these faculties make Alzheimer's disease a challenging illness to treat

NON-CNS INDICATIONS

Inflammation

Inflammation is the response by the body to noxious stimuli that is critical to removing the stimuli and starting the healing process It is a necessary and complicated response involving the immune system and other cells However inflammation, particularly chronic inflammation, can result in damage to tissues Resolution of inflammation is key to reducing longer-term tissue damage

Oncology

The incidence of cancer will continue to rise with the ageing population There are currently over 3 5 million cancer sufferers in the seven major markets and in many cases the cancers are poorly treated, resulting in low survival rates Every two minutes someone in the UK is diagnosed with cancer and more than one in three people will develop some form of cancer during their lifetime There remains a clear medical need for cancer therapies including cancer in the brain that target the fundamental processes involved in tumour growth and proliferation

Neuropathic pain

Neuropathic pain is a group of disparate disorders of the nervous system which give rise to the sensation of pain, usually in the absence of an external stimulus It is caused by damage to the nervous system, for example by high glucose levels in the blood (diabetic neuropathic pain), virus induced damage (post-herpetic neuralgia, HIV pain), chemotherapy, cancer, or physical trauma (e g in phantom limb pain) Neuropathic pain is a chronic state which may result in a group of symptoms including 'pins and needles', extreme sensitivity or complete lack of sensation

Programme portfolio

We are proud to present a selection of our development pipeline. Our diverse pipeline is a testament to the dedication, inspiration and hard work of our scientists and commercial team. Our R&D activities are focused on applying excellent science to discover and develop potential new medicines with the goal of delivering first-in-class or best-in-class therapeutics. Our pipeline development strategy reflects one of our key commercial objectives, namely to retain marketing rights to certain programmes in key territories. We therefore take a flexible approach to how far we develop our programmes and aim to share the development cost and risk with pharmaceutical partners where appropriate.

Our pre-clinical programmes
Proximagen is dedicated to balancing basic science and translational research to discover medicines that treat people with serious medical conditions

α7 (PAM)	Cognition in Alzheimer's disease
D1 (PAM)	Cognition in Alzheimer's disease
5HT6 antagonist	Cognition in Alzheimer's disease
PRX1	Parkinson's disease
D1 (PAM)	Parkinson's disease
VAP-1	Rheumatoid arthritis
PAR-2	Ulcerative colitis
GPCR antagonist	Renal inflammation
PAR-2 (derm)	Atopic dermatitis
TrkA	Inflammatory pain
CXCR4	Glioblastoma multiforme
SSAO inhibitor	Cancer progression

Our clinical programmes
Strong scientific rationale and medical need determine which projects move from discovery research into clinical development Rigorous clinical trials are designed to demonstrate safety and efficacy for patients

Tonabersat	Epilepsy in refractory patients
Naluzotan	Epilepsy in refractory patients
Sabcomeline	Cognition in depressive patients
Naluzotan	L-DOPA induced dyskinesia
PRX00933	CNS mediated obesity

Chairman's statement

2010 was a year of continued good progress for Proximagen The Company's growth strategy is beginning to bear fruit and Proximagen now has 15 programmes in development, a number of valued partnerships underway, more than £48 million of cash at the year-end and a strong scientific and commercial team in place With considerable external interest and excitement in its pipeline, Proximagen is moving closer to becoming a sustainable European biotechnology company.

One of the highlights of the year was the acquisition of Minster Pharmaceuticals plc ("Minster") in early 2010 and the subsequent out-licensing of certain rights to Minster's two programmes (tonabersat and sabcomeline) which involved four separate transactions and was carried out within the space of six months. It is a good example of the management's focus on execution, its strong due diligence processes which unearthed the potential value of tonabersat in epilepsy, and its ability to structure innovative transactions.

The Company executed four further transactions during the year including entering into a Co-operative Research and Development Agreement with the National Institute of Neurological Disorders and Stroke at the National Institutes of Health, and renegotiating terms with Ligand Pharmaceuticals Inc. for the CXCR4 programme This good progress has carried on into the current year with the acquisition of two programmes from GlaxoSmithKline A key characteristic of these transactions is that Proximagen is retaining marketing rights to major markets in all indications including in its core area of neurology, thus paving the way for the Company either to market its own products or to out-license at a later stage of development for enhanced royalty rates and milestones

Chairman's statement *continued*

"The Company is set up for an exciting future and we look forward to 2011 being another very productive year."

I am impressed by the quality of work undertaken at all levels in the Company. During the year Proximagen has continued to attract to the Company high calibre people who complement the existing staff, all of whom make an important contribution to the business I would like to take this opportunity, on behalf of the Board and the Group's shareholders, to thank the staff for all of their unstinting hard work

I believe the prospects for the Company are very promising, something also recognised by the Company's shareholders who continue to be supportive of the Company and its management.

The Company is set up for an exciting future and we look forward to 2011 being another very productive year. The Company has a broad pipeline of potentially valuable drug development programmes and we believe that they will prove attractive to partners and collaborators Furthermore the Company remains very well funded and has the resources to develop its existing pipeline as well as to bring in additional high quality programmes. We look forward to updating investors during the coming year as the Company continues to grow

Peter Allen
Non-executive Chairman
30 March 2011

Chief Executive Officer's review

"Seeing opportunities where others do not is an important element of our business strategy."

Becoming a leading European biotechnology company
At Proximagen our aspiration is simple We strive to be a leading European biotechnology company The pharmaceutical industry is undergoing one of the most significant periods of change in its history, and is increasingly looking to biotechnology companies such as Proximagen for research partnerships and collaborations New models of development will shape our industry over the next decade, and we believe Proximagen has the strategy in place to be a leader in this new world

Our strategy is not something new, it has been in place from our early days Firstly, we take a rigorous approach to the scientific evaluation of our own programmes and those we are considering acquiring We ensure that investments are made in only those programmes with the greatest chance of clinical and commercial success, where tough decisions as to whether to progress or not are taken early Secondly, we operate a risk-mitigated approach to drug development, aiming to share cost and risk with our partners, thereby providing lower risk for our shareholders And thirdly, we aim to retain European marketing rights to our partnered programmes, giving us the option either to build our own recurring revenue by taking drugs to market ourselves or out-licensing at a later stage of development

Proximagen remains one of the best-funded companies in the European biotechnology sector which will continue to fuel our acquisition strategy and fund important development efforts

Key highlights of the year – solid foundations for future growth
One of the particular highlights of the year was our acquisition of tonabersat, a drug candidate that is in development for the treatment of epilepsy The acquisition of this programme plays to a number of our strengths It leverages our expertise in diseases of the central nervous system, exemplified by the work our scientific team completed prior to acquisition to suggest that there was a strong scientific foundation for the clinical potential for tonabersat in epilepsy Seeing opportunities where others do not is an important element of our business strategy We were very pleased to note that the National Institutes of Health subsequently published a prestigious Red Book report confirming tonabersat's potential after a year-long series of studies in various non-clinical models of epilepsy

Within three months of the acquisition, management successfully renegotiated the tonabersat head licence with GlaxoSmithKline ("GSK") and sub-licensed the programme Sub-licensing the programme illustrates the scientific strength of the programme as well as our ability to partner programmes with innovative agreements, in this case with Upsher-Smith Laboratories Inc ("Upsher-Smith"), who signed a development and sub-licence agreement in relation to tonabersat in April 2010 Under the terms of the agreement, Upsher-Smith will undertake and pay for the clinical development, regulatory filing and commercialisation of tonabersat for epilepsy in North America and Proximagen will be entitled to

Chief Executive Officer's review *continued*

FOCUS ON TONABERSAT

Summary

Mode of action putative gap junction blocker

Indications epilepsy, pain

Market size epilepsy – $3 5 billion (2009) with forecast sales of $4 9 billion by 2019

Partner status Partnered with Upsher-Smith Laboratories

Proximagen rights EU and 50% of the Rest of the World

Key features

Tonabersat belongs to an exciting new class of drug candidates that block gap junctions thereby reducing cortical spreading depression, a phenomenon underpinning certain epilepsy and migraine states

Tonabersat has previously shown efficacy in migraine with aura and in addition was shown to be safe and well-tolerated in over 1,600 subjects

Efficacy has also been demonstrated in non-clinical models of epilepsy during a year-long study run by the NIH The resulting Red Book report concluded that at doses devoid of toxicities, tonabersat demonstrated an anti-convulsant profile in models predictive of efficacy in patients experiencing tonic-clonic seizures

The commercial opportunity

Proximagen plans to use the efficacy data from the clinical development work being undertaken by Upsher-Smith to support its EU filing

Chief Executive Officer's review *continued*

FOCUS ON NALUZOTAN

Summary

Mode of action 5-HT1a agonist

Indications temporal lobe epilepsy (TLE), Levodopa-induced dyskinesia (LID) and pain

Market size
TLE – $3 5 billion (2009) with forecast sales of $4 9 billion by 2019
LID – $750 million (2009)

Partner status NIH funding clinical proof-of-concept study

Proximagen rights Worldwide

Key features

Naluzotan is a 5-HT1a receptor agonist that is known to be safe and well-tolerated 5-HT receptor loss has been implicated in epilepsy and the hippocampal atrophy that occurs in epileptic patients with depression It is also thought that 5-HT1a receptor stimulation may be useful as an adjunct to existing Parkinson's disease monotherapy in treating dyskinesias, an indication for which there is currently very limited treatment

A clinical proof of concept study fully funded by the NINDS has been initiated The study will assess the ability of naluzotan to reduce seizure incidence and other secondary measures in patients suffering from epilepsy

The commercial opportunity

Following the reporting of the data from the ongoing clinical study at the NIH, Proximagen will assess its options in relation to the programme and will most likely expect to partner the programme for further clinical development in certain territories

Chief Executive Officer's review *continued*

"The successful clinical trials of tonabersat and naluzotan could represent major breakthroughs for sufferers of epilepsy, a disease affecting approximately 50 million people worldwide."

royalty-free use of Upsher-Smith's arising clinical data package when developing tonabersat for Europe, a market to which Proximagen is retaining full rights, thereby creating value in the programme for Proximagen's shareholders while balancing risks and costs

Also within our epilepsy franchise, in July 2010, Proximagen announced that it had signed a Co-operative Research and Development Agreement ("CRADA") with the National Institute of Neurological Disorders and Stroke ("NINDS") at the National Institutes of Health ("NIH") Naluzotan is a selective 5-HT1a agonist for epilepsy in refractive patients Under the terms of the CRADA, NINDS will fully fund and carry out a double blind, crossover, placebo-controlled Phase II clinical trial in patients with epilepsy, a trial that commenced in January 2011 Proximagen, which owns the full commercial worldwide rights to naluzotan, will use the data from this clinical trial to support the further development and commercialisation of the programme

The successful clinical trials of tonabersat and naluzotan could represent major breakthroughs for sufferers of epilepsy, a disease affecting approximately 50 million people worldwide The strength of the scientific data of both drug candidates has enabled Proximagen to fund the clinical development of these programmes using two third parties' resources, with little or no further risk to be taken by Proximagen's shareholders for these indications

At Proximagen we recognise that our research and development efforts represent only a small percentage of the ongoing research and development ("R&D") occurring across the pharmaceutical and biotechnology industries Our ability to build our pipeline depends, in part, on a thorough approach to assessing a programme's scientific quality and likelihood of commercial success Our strong cash position puts Proximagen in a unique and privileged position, allowing us to actively pursue business development opportunities at a time of significant challenges facing our industry By the end of 2010, we had evaluated over 160 different programme or company acquisition opportunities, executing on a very select few that successfully passed our high scientific standards Furthermore, we believe that our team's growing reputation for scientific excellence and our ability to identify quality external opportunities and execute deals affords us the credibility of being a valued partner for other companies and collaborators This is particularly important at a time when larger pharmaceutical companies are actively looking to the biotechnology sector for partnering and collaboration opportunities

Chief Executive Officer's review *continued*

"Over the past year, Proximagen's pipeline has tripled in size with multiple programmes either in or about to enter Phase II studies."

Our pipeline

Over the past year, we have transformed our pipeline to create a much broader and more balanced portfolio featuring a variety of attractive compounds that provide the potential for multiple pathways for growth and multiple potential revenue streams Our primary focus remains neurological diseases, markets which are key opinion leader-driven and require a relatively small sales force yet offer large commercial opportunities Executing our strategy of building a strong commercial pipeline is our number one focus and priority as a company

Over the past year, Proximagen's pipeline has tripled in size with multiple programmes either in or about to enter Phase II studies, reflecting the Company's ability to pursue clinical and pre-clinical opportunities in various indications As of the end of February 2011, we had seven new molecules in our early development pipeline We also had three programmes enter pre-clinical development during the period and we are hopeful that these programmes will reach the clinic within the next twelve months Four programmes are in clinical development Our pipeline of drug development candidates is designed to contain a balance of both novel and validated mechanisms and all of our drug candidates are based on promising biology and could represent significant treatment advances Over the next few years, we look forward to generating clinical data with new molecules and building our late-stage pipeline through advancement of these molecules

Operational review

During 2010, we strengthened our leadership team with the appointments of Dr Stevo Knezevic and Dr Jackie Hunter Dr Knezevic joined as Head of Development having been Chief Medical Officer for EMEA at Wyeth Dr Hunter, who held a number of senior roles at GSK including Senior Vice President and Head of Science Environment Development and Senior Vice President and Head of the Neurology CEDD, joined us as a non-executive director We are proud to have a highly productive workforce of more than 40 people who all share a desire to improve the lives of patients suffering from unmet medical needs

We maintain a small research facility and laboratories in King's College London, but the majority of our research and development activities are performed out of our facilities on the Babraham Research Campus near Cambridge, an 8,000 square feet facility that was acquired as part of the Cambridge Biotechnology Limited ("CBT") acquisition in 2009

We are very pleased to report that all acquisitions have been fully integrated and there were no significant or unexpected issues arising or expense incurred

Chief Executive Officer's review *continued*

FOCUS ON VAP-1

Summary

Mode of action Vascular adhesion protein 1 (VAP-1) inhibition

Indications rheumatoid arthritis (RA), psoriasis, COPD and liver fibrosis

Market size RA $8 2 billion (2009) and forecast to grow to $13 billion by 2019

Partner status Partner to be sought after Phase II PoC

Proximagen rights Worldwide

Key features

Vascular adhesion protein (VAP-1), is responsible for extravasation of key inflammatory mediators such as leukocytes and also the metabolism of endogenous amines It is up-regulated at sites of inflammation VAP-1 inhibition is a new therapeutic approach for combating inflammatory conditions

Proximagen is developing small molecule VAP-1 inhibitors to treat inflammation in rheumatoid arthritis and psoriasis and, if successful, this drug will offer an oral alternative to existing injectable therapies In addition the excellent safety profile of VAP-1 inhibitors is anticipated to provide differentiation from other small molecule anti-inflammatory compounds in development

The commercial opportunity

Proximagen anticipates partnering this programme on achieving clinical proof-of-concept in a disease such as rheumatoid arthritis

Chief Executive Officer's review *continued*

FOCUS ON PAR-2

Summary

Mode of action Protease activated receptor 2 (PAR-2) antagonist

Indications Inflammatory bowel diseases (IBD) including colitis, atopic dermatitis and general inflammation

Market size IBD $3 5 billion (2009) forecast to be $5 6 billion in 2019

Partner status Partner to be sought for clinical development

Proximagen rights Worldwide

Key features

PAR-2 is one of a group of protease activated receptors and is involved in the mediation of inflammatory pain This target has proven challenging to many companies so the development of small molecule antagonists such as Proximagen is developing will represent a significant breakthrough

Proximagen has synthesised potent and selective small molecule, non-peptidic PAR-2 antagonists for the treatment of inflammatory disease Good efficacy has been demonstrated in models of ulcerative colitis, atopic dermatitis and general inflammation

The commercial opportunity

Proximagen anticipates partnering this programme prior to clinical development commencing

Chief Executive Officer's review *continued*

"We expect our pipeline will offer very attractive partnering and collaboration opportunities for larger pharmaceutical companies."

Looking ahead
We enter 2011 with a diversified and attractive portfolio of promising drug candidates coupled with a strong cash position, and will seek to maintain our strong forward momentum by continuing to

- invest wisely and appropriately in acquisitions,
- advance our pipeline with the right partners,
- retain a lean, flexible cost structure, and
- ensure that we have the right people and culture in place to help Proximagen excel

We are excited about the prospects for Proximagen We believe that our strategy will enable us to benefit from the significant trends seen lately in the pharmaceutical sector wherein a number of large companies are reducing investment in internal R&D and looking to acquire programmes that have been developed externally Consequently, we expect our pipeline will offer very attractive partnering and collaboration opportunities for larger pharmaceutical companies We have an experienced team of dedicated employees and are grateful for their continued contribution Their knowledge and expertise is important but it is their passion to make a difference to the lives of people with illness that really counts Our thanks also go to our business partners for the confidence they have shown in us and for their continuous support, as well as to the Board of Directors for their healthy challenge and support

Importantly, we would like again to thank our investors for their trust and for sharing our enthusiasm to build a better Proximagen

Kenneth Mulvany
Chief Executive Officer
30 March 2011

Financial review

Introduction
This financial review should be read in conjunction with the consolidated financial statements and notes on pages 28 to 52 of this Annual Report

The Balance Sheet has been redesignated as the Statement of Financial Position, following the adoption by the Company of IAS 1 (Presentation of Financial Statements) Revised

The Group's financial position remains robust with £48 2 million of cash at the year-end and with the development of a number of our programmes being funded by our partners

Statement of Comprehensive Income
As expected, our R&D expenditure increased significantly during the year Total expenditure on R&D more than doubled from 2009 levels, totalling £6 1 million (2009 £2 8 million) This increase reflects the significant escalation in the number of programmes the Group is funding, following the acquisitions of CBT in November 2009 and Minster in early 2010 The R&D tax credit increased commensurately to £0 9 million (2009 £0 5 million)

Administrative expenses totalled £2 8 million compared to £2 1 million in 2009 The increase is, to a large extent, accounted for by an increase in the number of staff as we strengthened our commercial team and in the costs of supporting our growing patent estate, which now contains nearly 300 national or international patent applications of which 147 are granted or allowed

Following the business combination of CBT we have undertaken a full fair valuation of the business's balance sheet on acquisition as required under IFRS 3 "Business Combinations", and we are reporting a gain on business combination arising from the recognition of negative goodwill of £0 4 million which is recorded in the 2009 results (see Note 1 for further details)

Finance income totalled £0 55 million compared with £0 37 million in 2009, with lower average interest rates outweighed by higher average cash balances during the period

The loss after tax was £6 4 million (2009 restated loss of £2 9 million) and the loss per share was 11 2p (2009 restated loss of 7 7p)

Financial review *continued*

"Total expenditure on R&D more than doubled from 2009 levels, totalling £6.1 million."

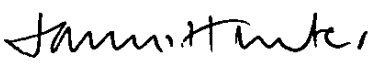
Statement of Financial Position
Cash resources at the year end totalled £48 2 million (2009 £55 6 million) We take a conservative approach to managing our cash resources and we have actively moved to shorten deposit terms over the last two years given the economic conditions prevailing in Europe

Net assets at the year end totalled £48 3 million (2009 restated £54 6 million) and the principal movements in the Statement of Financial Position during the year were

- a reduction of £7 4 million in cash resources accounted for as follows
  - cash used in operations of £8 0 million,
  - R&D tax credits received of £0 5 million, and
  - foreign exchange gain of £0 1 million
- a reduction in trade and other receivables of £1 6 million,
- a reduction in trade and other payables of £1 8 million, and
- an increase in intangible assets of £0 9 million

The consolidated financial statements have been prepared for the year to 30 November 2010 and the 2009 comparative figures have been restated under IFRS 3 62 to reflect final adjustments made to provisional fair values determined for CBT which was acquired shortly before the end of the 2009 financial year

Group reorganisation
During the year we took steps to simplify the Group structure which had grown with the acquisitions of CBT and Minster The business and assets of CBT and Minster Research Limited have now been transferred to Proximagen Limited, the Group's main operating subsidiary, together with their respective tax losses



James Hunter
Finance Director
30 March 2011

Directors

Peter Allen
Non-executive Chairman
Peter joined Proximagen as Chairman in February 2009 and brings a wealth of experience to the role Peter has held a number of senior roles in the biotechnology industry having been Chief Financial Officer of Celltech Group plc between 1992 and 2004 Peter was also Chief Financial Officer of Abacus Group plc from 2005 until 2009 He is currently the Chairman and acting Chief Executive of ProStrakan Group plc and the non-executive Chairman of Chroma Therapeutics Limited Peter is a chartered accountant and his early career included financial controller roles at Associated British Ports and L'Oreal (UK)

Kenneth Mulvany
Chief Executive Officer
Kenneth joined Proximagen in April 2004 as Chief Executive Officer and since then, under his leadership, Proximagen has grown from a small privately held company to one of the best-funded biotechnology companies in Europe 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 16 years of technology and business expertise to the Group

James Hunter
Finance Director and Company Secretary
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 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 SkyePharma plc as CEO Michael is also a non-executive director of Hikma Pharmaceuticals plc and Transition Therapeutics Inc

Jackie Hunter
Non-executive Director
Jackie joined the Board in January 2010 She was previously the Senior Vice President and Head of Science Environment Development at GSK, and prior to that she was the Senior Vice President and Head of the Neurology & GI Centre of Excellence for Drug Discovery ("CEDD") at GSK, during which time the CEDD delivered over 15 clinical proofs of concept studies with a number of transitions into late-phase development

Jackie is a director of OI Pharma Partners Ltd and is an internationally recognised expert in neuroscience R&D She is a Trustee of the charity, Age Care and a member of the Science Advisory Board of the Motor Neurone Disease Association Most recently she was appointed a lay member of the Governing Council of Royal Holloway College, University of London

Advisers

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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 2010

Principal activities
The principal activity of Proximagen Group plc and its subsidiaries is the discovery and development of therapeutic treatments for disorders of the central nervous system, inflammation and oncology

Business review
A detailed review of the business, its results and future direction is included in the Chairman's Statement and the Chief Executive Officer's Review

Principal risks and uncertainties
The principal risks and uncertainties that could have an adverse impact on the performance of the Group are detailed below

Clinical and regulatory risk
The safety and efficacy of Proximagen's drug development programmes will need to be demonstrated in clinical trials in order to meet the requirements of the appropriate regulatory bodies There can be no guarantee that the clinical trials will be successful or that they will not be delayed or extended Therefore there can be no guarantee that the Group will be able to obtain or maintain the necessary regulatory approvals for its drug development programmes The Group seeks to reduce this risk through thorough pre-clinical assessment of its drug candidates, by close consultation with key opinion leaders and regulatory advisers and by holding consultations with the appropriate regulatory bodies

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 United Kingdom 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 Details relating to exposure to financial instrument risks are provided in note 18

Key performance indicators
The directors consider the principal non-financial performance indicators of the Group to be a) the progress of the Group's drug development programmes against their planned development timelines and budgets, and b) the achievement of licensing and collaboration agreements The key financial performance indicator is the cash balance of the Group
These three elements are discussed within the Chairman's Statement, the Chief Executive Officer's Review and the Financial Review

Research and development
A summary of the Group's research and development programmes can be found on page 3

Charitable and political donations
The Group made no charitable or political donations in the year under review (2009 £nil)

Dividends
The directors are unable to recommend the payment of a dividend (2009 £nil)

Directors
The following directors held office during the year
Peter Allen
Michael Ashton
Peter Jenner (resigned 29 January 2010)
Bruce Campbell (resigned 29 January 2010)
Jackie Hunter (appointed 29 January 2010)
Kenneth Mulvany
James Hunter

Michael Ashton and Kenneth Mulvany retire by rotation and being eligible offer themselves for re-election at the Annual General Meeting

Qualifying third-party indemnity provision is in place for the benefit of all directors of the Company

Directors' report *continued*

External directorships
It is the Group's policy that its directors may take up other directorships provided that such appointments do not conflict with their employment with the Group Individuals may retain any remuneration received from such services External directorships held by the directors who are in office as at the date of this report are detailed below

Peter Allen is the acting Chief Executive and non-executive Chairman of ProStrakan Group plc and non-executive Chairman of Chroma Therapeutics Limited Michael Ashton is a non-executive director of Transition Therapeutics Inc and Hikma Pharmaceuticals plc Jackie Hunter is a director of OI Pharma Partners Limited and a non-executive director of Neurosymptomatix Limited

Directors' interests (other than options) in the Company's share capital
The interests of directors in the Company's Ordinary 1p shares who were in office at 30 November 2010 are as follows

	30 November 2010	30 November 2009*
Kenneth Mulvany	**798,568**	783,568
Michael Ashton	**41,384**	26,384
James Hunter	**20,000**	5,000
Peter Allen	**20,000**	–
Jackie Hunter	**6,305**	–

* or date of appointment if later

Since the year end, Michael Ashton has purchased a further 15,000 shares, taking his shareholding to 56,384 shares

Details of directors' interests in share options are disclosed in the Directors' Remuneration Report

Share capital
As at 30 November 2010, 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	57,368,001	573,680

The average market price of the Company's Ordinary shares at close of business on 30 November 2010 was 154p

The maximum share price during the period was 154 7p (17 November 2010) and the minimum price was 60 0p per share (13 July 2010)

Substantial share interests
At 30 March 2011, the Company had been advised or is aware of the following interests of 3% or more in the Company's issued share capital

	Number of shares	Percentage of issued share capital
Invesco Asset Management	17,156,326	29 90
Lansdowne Partners	14,849,580	25 88
BlackRock Investment Management	5,773,834	10 06
IP Group plc	4,704,000	8 20
Upsher-Smith Laboratories Inc	4,365,700	7 61
King's College London	2,204,324	3 84

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 Group trade creditors as at 30 November 2010 represented 57 days of purchases (2009 28 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

Directors' report *continued*

Statement as to disclosure of information to the auditor
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 auditor is 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

General Meeting
The 2011 Annual General Meeting ("AGM") will be held on 17 May 2011, the business of which is set out in the Notice of Annual General Meeting at the end of this report

On behalf of the Board,
Kenneth Mulvany
Director
30 March 2011

Corporate governance

Proximagen Group plc fully supports the principles of the Combined Code on Corporate Governance ("the Code") As an AIM-listed company, it is not required to comply in full with the Code but it is the objective of the Board to maintain high standards of corporate governance This report sets out how the principles in the Code are applied by the Group

The Board
The Board of Proximagen Group plc comprises of two executive directors and three non-executive directors, one of whom is the Chairman The roles of Chairman and Chief Executive Officer are distinct and are held by different people to ensure a clear division of responsibility The role of the non-executive directors is to bring valuable judgement 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

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 regular reports detailing the progress of the Group's drug development programmes, the Group's financial position and projections, as well as business development activities and operational issues, together with any other material deemed necessary for the Board to discharge its duties The Chairman is primarily responsible for the effective operation and chairing of the Board and for ensuring that it receives appropriate information to make informed judgements

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 and operations, 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 22-23

Attendance at Board meetings and committees
The directors attended the following Board meetings and Committee meetings during the year

Director	Board	Audit	Remuneration	Nomination
Peter Allen	7	2	2	1
Michael Ashton	7	2	2	1
Kenneth Mulvany	7	–	–	–
James Hunter	7	–	–	–
Peter Jenner	2	–	–	–
Bruce Campbell	2	–	1	–
Jackie Hunter	4	–	1	–
Total meetings held in the year	7	2	2	1

Under the Articles of Association all directors must offer themselves for re-election at least once every three years One third of the directors retires by rotation at every AGM and is eligible for re-appointment

Internal control and risk management
The Board has ultimate responsibility for the systems of risk management and 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 the business

The Group does not consider it necessary to have an internal audit function due to the small size of the administrative function Instead there is detailed director review and authorisation of agreements and transactions The annual audit by the Group's auditor, which tests a sample of transactions, did not highlight any significant system improvements that needed to be introduced in order to reduce risks

Corporate governance *continued*

A comprehensive budgeting process is completed once a year and is reviewed and approved by the Board The Group's results, compared with the budget, are reported to the Board on a regular basis and discussed in detail The Group maintains appropriate insurance cover in respect of actions taken against the directors because of their roles, as well as against material loss or claims against the Group The insured values and type of cover are comprehensively reviewed on a periodic basis

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 ongoing 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 as a whole By this approach we aim to help investors understand the Group's strategic objectives, its activities and the progress it makes

Shareholders are welcome to attend the Group's AGM, where they have the opportunity to meet the Board All shareholders will have at least 21 days' notice of the AGM at which the directors will be available to discuss aspects of the Group's performance and answer questions from shareholders The Company also meets with its institutional shareholders and analysts as appropriate and uses the AGM to further encourage communication with shareholders In addition, the Company uses the Annual Report and Accounts, Interim Statement and website to disseminate information to shareholders The Company uses the services of M Communications to assist in the communication with shareholders

Audit Committee

The Audit Committee comprises two non-executive directors Michael Ashton, who chairs the Committee, and Peter Allen Bruce Campbell was also a member of the Audit Committee until his resignation from the Board on 29 January 2010

The external auditors, Chief Executive Officer and Finance Director may be invited to attend Committee meetings and, following each meeting, the Committee and external auditors have the opportunity to meet with no executive directors 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 All scheduled Committee meetings were quorate and the conclusions from those meetings were presented to the full Board The Audit Committee reviews on an annual basis the need for an internal audit function In 2010, in common with other companies of its size and complexity of operation, the Group did not operate an internal audit function

In certain circumstances it is permitted by the Board for the auditor to supply non-audit services (for example in the provision of tax advice) The Committee has approved and monitored the application of this policy in order to safeguard auditor objectivity and independence The overall fees paid to the auditor are not deemed significant enough to them so as potentially to impair their independence The auditor is awarded assignments on a competitive basis and the Audit Committee pre-approves all permitted non-audit expenditure incurred and during the year reviews the cost-effectiveness, independence and objectivity of the external auditor A formal Statement of Independence is received from the external auditor each year

At the beginning of 2010, the Committee recommended to the Board that a review of the current audit arrangements be undertaken On approval of this by the Board, a review process was implemented, overseen by the Committee and supported by management, whereby four audit firms, including Baker Tilly, the Group's former auditor, presented their proposals to the Audit Committee for the 2010 audit Following the competitive tender, the Audit Committee recommended to the Board, and the Board approved, that a resolution be put to members at the 2010 General Meeting to appoint Ernst & Young LLP as the Group's auditors from 2010 The resolution was duly carried

Corporate governance *continued*

Nomination Committee
The Nomination Committee consists of Peter Allen, who chairs the Committee, Michael Ashton and Jackie Hunter, who joined following her appointment on 29 January 2010 Bruce Campbell was also a member of the Nomination Committee until his resignation from the Board on 29 January 2010 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 The Committee met once during the year

Remuneration Committee
Michael Ashton chairs this Committee with Peter Allen and Jackie Hunter, who joined following her appointment on 29 January 2010, as members Bruce Campbell was a member and chairman of the Remuneration Committee until his resignation from the Board on 29 January 2010 The Committee is responsible for considering directors' remuneration packages and makes its recommendations to the Board The Committee met twice 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

Further details of directors' remuneration are disclosed in the Directors' Remuneration Report

Going concern
The directors have prepared and reviewed financial forecasts After due consideration of these forecasts and current cash resources, the directors consider that the Company and the Group have adequate financial resources to continue in operation for the foreseeable future (being a period of at least twelve months from the date of this report) The directors have therefore prepared the financial statements on a going concern basis

Directors' remuneration report

This report sets out the remuneration policy operated by the Group in respect of the executive directors Details of the members and meetings of the Remuneration Committee are disclosed in the Corporate Governance Report

Remuneration policy overview
It is the aim of the Remuneration Committee to encourage and reward superior performance by executives with that performance being measured against achieving corporate goals, strong financial performance and the delivery of value to shareholders Following the decision in 2009 to bring the base salaries of the executive directors more into line with the industry averages and to reduce the bonus potential to reflect this, the current remuneration policy benchmarks main elements of the remuneration package against a sub-set of companies in the UK biotechnology sector, as detailed below

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

The Remuneration Committee believes that this policy enables the Group to retain and motivate the executive directors appropriately while still maintaining 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 agreements
Kenneth Mulvany has an executive service agreement with Proximagen Limited dated 1 November 2008, 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 Proximagen Limited dated 1 November 2008, 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 Non-executive directors do not participate in the Group's pension or bonus schemes in their capacity as non-executive directors 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 basic salary or will make direct contributions under a 'salary sacrifice' arrangement The scheme is open to executive directors and employees

Directors' remuneration
At present, the executive directors, Kenneth Mulvany and James Hunter, are entitled to receive salary, medical insurance, pension contributions, share options and a discretionary performance-related bonus

Salary
Basic salaries are reviewed annually and revised salaries take effect from the start of the financial year The review process is managed by the Remuneration Committee which each year is provided with a benchmarking study prepared by Hewitt New Bridge Street Consultants, an independent remuneration, performance evaluation and share scheme consultancy The 2010 benchmarking study provided remuneration data on senior executives of 13 listed companies within the UK biotechnology sector ("Comparator Group") and excludes participation by large multinational pharmaceutical companies

This benchmarking study is also used when determining salary levels for all staff within the Group

The Committee assesses the market competitiveness of pay primarily in terms of total remuneration, with less emphasis on base salary

In 2010 the base salary of Kenneth Mulvany was 5% above the average base salary and 9% below the upper quartile base salary of chief executive officers in the Comparator Group and his total remuneration was 0 5% below the average total remuneration and 40% below the upper quartile total remuneration of chief executive officers in the Comparator Group

In 2010 the base salary of James Hunter was 5% below the average base salary of executive directors in the Comparator Group and his total remuneration was 11% below the average total remuneration of executive directors in the Comparator Group

Directors' remuneration report *continued*

Bonuses
The timing and amount of bonuses are decided by the Remuneration Committee with reference to the individual's performance and contribution to the Group and benchmarked against those offered by the Comparator Group The maximum bonus that can be earned by an executive director is targeted to be 25% of base salary, with exceptional performance being rewarded by a bonus payment above 25% of base salary

Share options
The Company issues share options to directors and staff to reward performance, to encourage loyalty and to enable valued employees to share in the success of the Company

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

All employees are generally offered share options under the Company's Unapproved share option scheme after three months' service Option awards for employees are recommended by the executive directors and approved by the Remuneration Committee

Pensions
As with all employees, the directors are entitled to a matched contribution from the Company of up to 5% of salary or to direct contributions under a 'salary sacrifice' arrangement

Mr Mulvany has foregone his entitlement to the Company's contribution to his pension of £14,000 (2009 £11,293) for the period under review and all prior periods

Full details of the directors' remuneration can be found in Note 7 on page 40

Directors' share options

	Options as at 30 November 2009	Number of options granted/(forfeited) during the year	**Options as at 30 November 2010**	Date from which exercisable	Expiry date	Exercise price
Michael Ashton	45,455	–	**45,455**	28 June 2006	27 June 2016	136p
Kenneth Mulvany	–	1,720,000	**1,720,000**	24 June 2012	30 March 2020	140p
James Hunter	60,000	–	**60,000**	17 January 2008	16 January 2012	83 33p
James Hunter	39,999	–	**39,999**	25 October 2008	1 December 2012*	130p
James Hunter	150,267	–	**150,267**	27 March 2006	26 February 2016*	135p
James Hunter	115,036	(1,928)	**113,108**	1 December 2008	14 October 2018	127 5p
James Hunter	–	680,000	**680,000**	24 June 2012	30 March 2020	140p

* The expiry date for these options has been extended with Board approval to 1 December 2012 from 24 October 2010 and to 26 February 2016 from 26 February 2011

The options granted to Kenneth Mulvany and James Hunter on 30 March 2010 were granted with an exercise price of 140p, being the price at which the Company raised £50 million in June 2009 The options vest according to the share price performance of the Company Vesting of the share options is fully contingent on the performance of the Group's share price and full vesting will require the Group's share price to appreciate from 140p at a rate equivalent to 18% per annum until at least 24 June 2012

No directors exercised any options during the year

On behalf of the Board
Michael Ashton
Chairman of the Remuneration Committee
30 March 2011

Directors' responsibilities statement

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

UK Company law requires the directors to prepare Group and Company financial statements for each financial year The directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law)

The Group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Group, the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company

In preparing each of the Group and Company 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) for the Group financial statements, state whether they have been prepared in accordance with IFRS adopted by the EU, and for the Company financial statements state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements, and
d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business

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

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

Independent auditor's report

to the members of Proximagen Group plc

We have audited the Group and Parent Company financial statements ("the financial statements") for the year ended 30 November 2010, which comprise, for the Group, the Group Statement of Financial Position, the Group Statement of Comprehensive Income, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related notes 1 to 23, and for the Company, the Statement of Financial Position and the related notes 1 to 11 The financial reporting framework that has been applied in preparing the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union The financial reporting framework that has been applied in the preparation of the parent financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors
As more fully explained in the Directors' Responsibilities Statement set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on the financial statements
In our opinion

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 November 2010 and of the Group's loss for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Ernst & Young LLP

Dave Hales (Senior statutory auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
Reading
30 March 2011

Consolidated statement of comprehensive income

For the year ended 30 November 2010

	Note	2010 £'000	(Restated – Note 1) 2009 £'000
Revenue	4	**1,027**	945
Cost of sales		**(27)**	(59)
Operating costs			
Research and development		**(6,144)**	(2,818)
Administrative expenses		**(2,814)**	(2,070)
Total operating costs		**(8,958)**	(4,888)
Operating loss		**(7,958)**	(4,002)
Finance income	5	**545**	372
Gain on business combination	17(b)	**–**	354
Loss before tax	6	**(7,413)**	(3,276)
Income tax credit	8	**924**	518
Loss for the financial year		**(6,489)**	(2,758)
Other comprehensive income/(expense)			
Foreign currency exchange differences		**63**	(100)
Total comprehensive expense for the year		**(6,426)**	(2,858)

All of the loss and the total comprehensive loss for the year is attributable to equity holders of the parent

Loss per share			
Basic and diluted loss per share (pence)	9	**(11.2)**	(7 7)

Consolidated statement of financial position

At 30 November 2010
Company No. 05333020

	Note	2010 £'000	(Restated – Note 1) 2009 £'000
Non-current assets			
Intangible assets	11	**858**	–
Property, plant and equipment	12	**222**	336
		1,080	336
Current assets			
Trade and other receivables	13	**831**	2,093
Current tax receivable		**933**	518
Other financial assets	14	**10,000**	10,000
Cash and cash equivalents	15	**38,170**	45,577
Total current assets		**49,934**	58,188
Current liabilities			
Trade and other payables	16	**(2,701)**	(3,922)
Net current assets		**47,233**	54,266
Net assets		**48,313**	54,602
Equity			
Ordinary shares	19	**574**	573
Share premium	20	**63,235**	63,228
Merger reserve		**299**	299
Share-based payment reserve		**429**	300
Retained losses		**(16,224)**	(9,798)
Total equity attributable to equity holders of the parent		**48,313**	54,602

Approved and authorised for issue by the Board on 30 March 2011 and signed on its behalf by

Kenneth Mulvany
James Hunter
Directors

Consolidated statement of changes in equity

For the year ended 30 November 2010

Attributable to equity holders of the parent

	Ordinary shares £'000	Share premium £'000	Merger reserve £'000	Share-based payment reserve £'000	(Restated – Note 1) Retained earnings £'000	(Restated – Note 1) Total £'000
Balance at 1 December 2008	216	14,527	299	199	(6,940)	**8,301**
Loss for the year (restated)	–	–	–	–	(2,858)	**(2,858)**
Total comprehensive expense for the year (restated)	–	–	–	–	(2,858)	**(2,858)**
Share-based payments	–	–	–	101	–	**101**
Issue of share capital	357	48,701	–	–	–	**49,058**
Balance at 30 November 2009 (restated)	573	63,228	299	300	(9,798)	**54,602**
Loss for the year	–	–	–	–	(6,426)	**(6,426)**
Total comprehensive expense for the year	–	–	–	–	(6,426)	**(6,426)**
Share-based payments	–	–	–	129	–	**129**
Issue of share capital (net of expenses)	1	7	–	–	–	**8**
Balance at 30 November 2010	**574**	**63,235**	**299**	**429**	**(16,224)**	**48,313**

Consolidated statement of cash flows

For the year ended 30 November 2010

	Note	2010 £'000	(Restated – Note 1) 2009 £'000
Cash flow from operating activities			
Loss before tax		**(7,413)**	(3,276)
Adjustments for			
Depreciation	12	**196**	95
Gain on business combination	17	**–**	(354)
Gain on sale of assets		**(151)**	–
Net finance income	5	**(545)**	(372)
Share-based payment	21	**129**	101
Cash flow from operations before changes in working capital		**(7,784)**	(3,806)
Changes in working capital			
Decrease/(increase) in trade and other receivables		**1,596**	(37)
Decrease in trade and other payables		**(1,806)**	(344)
Cash used in operations		**(7,994)**	(4,187)
Income taxes received		**509**	268
Net cash used in operating activities		**(7,485)**	(3,919)
Cash flow from investing activities			
Acquisition of subsidiaries – net cash (paid)/acquired	17	**(583)**	22
Financial assets acquired		**–**	(8,800)
Interest received		**496**	317
Intellectual property disposed of		**166**	–
Purchase of property, plant and equipment	12	**(103)**	(14)
Proceeds from sale of property, plant and equipment		**31**	–
Net cash generated from/(used in) investing activities		**7**	(8,475)
Cash flows from financing activities			
Net proceeds from the issue of ordinary shares		**8**	49,058
Net cash generated from financing activities		**8**	49,058
Foreign exchange gain/(loss)		**63**	(100)
Net (decrease)/increase in cash and cash equivalents		**(7,407)**	36,564
Cash and cash equivalents at the beginning of the year	15	**45,577**	9,013
Cash and cash equivalents at the end of the year	15	**38,170**	45,577

Notes to the consolidated financial statements

For the year ended 30 November 2010

1. GENERAL INFORMATION

Proximagen Group plc ("the Company") and its four subsidiaries (together "the Group") develop therapies to address the needs of patients with neurological and inflammatory disorders The Company is a public limited company incorporated and domiciled in England with registered number 05333020 and its shares are listed on the London Stock Exchange's AIM market (PRX)

Prior period adjustment

The 2009 comparative figures for the consolidated accounts have been restated to include the final fair values of the net assets of Cambridge Biotechnology Limited ("CBT") at the time of its acquisition by the Company on 23 November 2009 Further details of the acquisition of CBT are disclosed in Note 17

The fair values in the 2009 Annual Report were based on provisional assessments pending final determination because the acquisition of CBT took place shortly before the year-end

The 2009 comparative amounts for the Group have been restated because the final fair values assigned on acquisition resulted in negative goodwill In accordance with IFRS 3 "Business Combinations", negative goodwill is recognised immediately and classified as a gain on business combination in the 2009 Consolidated Statement of Comprehensive Income This led to the following adjustments

- The loss for the year to 30 November 2009 has decreased from £3,212,000 to £2,858,000
- Retained losses reduced from a loss of £10,152,000 to a loss of £9,798,000

This prior period adjustment had no impact on the opening balances at 1 December 2008

2. ACCOUNTING POLICIES AND BASIS OF PREPARATION

These financial statements have been prepared in accordance with the accounting policies set out below which are based on the recognition and measurement principles of International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and as applied in accordance with provisions of the Companies Act 2006

The financial statements have been prepared under the historical cost convention The principal accounting policies are set out below

a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Proximagen Group plc and its subsidiaries drawn up to 30 November each year The results of CBT were incorporated in the consolidated financial statements from 23 November 2009, while the results of the Minster Pharmaceuticals plc group were incorporated from 16 February 2010

All intra-group transactions and balances are eliminated on consolidation

Amounts reported in the financial statements of the subsidiary have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group

b) Going concern

As at 30 November 2010 the Group had cash at bank (including fixed rate deposits) in excess of £48 million The directors, after considering the Group's cash flow requirements, have concluded that both the Company and the Group will have adequate financial resources to continue in operation for the foreseeable future The directors have therefore prepared the financial statements on a going concern basis

c) Business combinations completed prior to date of transition to IFRS

i) Acquisitions completed prior to date of transition to IFRS

The Group elected not to apply IFRS 3 "Business Combinations" retrospectively to business combinations prior to the date of transition at 1 December 2006 Accordingly the classification of the combination (acquisition) remains unchanged from that used under UK GAAP

ii) Acquisitions completed after 30 November 2009

IFRS 3 (Revised 2009) sets out the accounting for business combinations completed by the Group after 30 November 2009, as summarised below

Business combinations are accounted for using the acquisition method The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets Acquisition costs incurred are expensed and included in administrative expenses

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date This includes the separation of embedded derivatives in host contracts by the acquiree

Notes to the consolidated financial statements *continued*

2. ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised immediately in profit or loss

After initial recognition, goodwill is measured at cost less any accumulated impairment losses For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained There were no acquisitions accounted for under IFRS 3 (Revised 2009) in the year ended 30 November 2010

iii) Acquisitions completed between the date of IFRS transition (1 December 2006) and 30 November 2009 Acquisition accounting for CBT has been finalised in accordance with IFRS 3 (revised in 2008)

In comparison to the above-mentioned requirements for acquisitions after 30 November 2009, the following differences applied

Business combinations were accounted for using the purchase method Transaction costs directly attributable to the acquisition formed part of the acquisition costs The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets

Business combinations achieved in stages were accounted for as separate steps Any additional acquired share of interest did not affect previously recognised goodwill

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable Subsequent adjustments to the contingent consideration were recognised as part of goodwill

d) Significant accounting judgements, estimates and assumptions

In preparing the financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period These estimates are based on management's best knowledge of the amount, event or actions, but actual results may ultimately differ from those estimates

The areas that require management to exercise a higher degree of judgement or that involve particular complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are as follows

i) Research and development

The criteria for internal development costs to be recognised as an asset, as set out in IAS 38 "Intangible Assets", are not met until a product has received regulatory approval and it is probable that future economic benefit will flow to the Group The Group has not yet received regulatory approval for any of its programmes and therefore it currently has no such qualifying expenditure

Expenditure on pure and applied research is charged to the statement of comprehensive income in the period in which it is incurred

Acquired in-process research and development is recognised at fair value on acquisition as described below

Notes to the consolidated financial statements continued

2. ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

ii) Share-based payments
In accordance with IFRS 2 "Share-based Payments", the Group measures the fair value of equity settled transactions with employees at the grant date of the equity instruments The fair value is calculated using an appropriate valuation model and requires assumptions regarding dividend yields, risk-free interest rates, share price volatility and expected life of an employee share option, plus the likelihood of meeting other performance-related vesting objectives where applicable further details can be found in Note 21 The arising expense is charged to the Statement of Comprehensive Income on a straight-line basis over the expected vesting period At each Statement of Financial Position date, for options with non market-based performance vesting objectives, the Group revises its estimate of the number of options that are expected to become exercisable and adjusts the expenses accordingly

iii) Fair values on acquisition
When acquiring a business, the directors have to make judgements and best estimates about the fair value of the assets, liabilities and contingent liabilities acquired These are estimated regardless of whether or not they were recognised in the financial statements of the subsidiary prior to acquisition The valuation of externally acquired in-process R&D requires judgements regarding the estimated future cashflows required to complete development and the cash inflows expected to arise from a marketed product, discounted at a suitable rate reflecting the time value of money and the risks inherent in drug development

vi) Asset acquisition
The acquisition of Minster Pharmaceuticals plc ("Minster") has been treated as an asset acquisition in accordance with IAS 38, owing to the nature of the Minster business and operations at the time of the acquisition The cost of acquisition includes acquisition expenses and has been allocated to the individual assets on the basis of their relative fair values at the date of purchase

vii) Impairment
Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount The recoverable amount is the higher of an asset's fair value less costs to sell and value in use Any impairment loss is charged to the Statement of Comprehensive Income in the year concerned For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units)

The expected cash flows generated by the assets are discounted using asset specific discount rates which reflect the risks associated with the groups of assets

e) Revenue recognition
i) Services rendered
Revenue represents the value of services provided to third parties before charging Value Added Tax Revenue is derived from a 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 three to six months

Revenue 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 Statement of Comprehensive Income by recording revenue and related costs as contract activity progresses Revenue 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 revenue exceeds payments on account is included in trade and other receivables, to the extent that payments on account exceed relevant revenue, the excess is included as deferred income Provisions for estimated losses, if any, on uncompleted contracts are recognised in the period in which the likelihood of such losses is determined

ii) Licence revenues
Product licence transactions typically have an initial upfront payment, and the potential for further payments conditional on achieving specific milestones, plus royalties on product sales Where the initial fee paid is received in connection with product licensing agreements, even where such fees are non-refundable and not creditable against future royalty payments, such fees are deferred and recognised as income either by reference to the progress of the programme or to actual expenditure where development costs are incurred in developing the programme towards the next milestone

When the Group receives milestones payments for achieving pre-defined targets during pre-clinical and clinical development, these milestones are recognised when receivable (i e on achievement of the pre-defined target) except where the milestone or a proportion of the milestone is to be applied to the development of the programme which is the subject of the licensing

Notes to the consolidated financial statements continued

2. ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

agreement In such circumstances, the income is deferred and recognised as income by reference to the progress of the programme or to actual expenditure where development costs are incurred in developing the programme towards the next milestone

iii) Grant income
Grant income is recognised when there is reasonable assurance that the conditions attaching to the grant have been met and that the grant will be received

f) Intangible assets
Intellectual property comprises in-process research and development acquired as a result of a business combination Amounts are recorded at their fair value at the acquisition date and are amortised on a straight-line basis over their estimated useful economic lives from the time they are available for use, typically from product launch, as disclosed in Note 11 Intangible Assets

g) Property, plant and equipment
All property, plant and equipment are stated at cost, less any accumulated depreciation and any accumulated impairment losses Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost of property, plant and equipment less its estimated residual value over its expected useful life, as follows

Laboratory equipment over £500	10%-25% straight line
Computer and office equipment over £500	20%-33% straight line

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Statement of Comprehensive Income

h) Financial instruments
Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument

i) Financial assets
Financial assets are divided into the following categories trade and other receivables, other financial assets and cash and cash equivalents

Trade and other receivables
Trade receivables are measured at fair value on initial recognition and then subsequently at amortised cost, less provision for impairment Any change in their value through impairment or reversal of impairment is recognised in the Statement of Comprehensive Income Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivable The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows

Other financial assets
Other financial assets comprise short-term deposits not meeting the IAS 7 definition of cash and cash equivalents, which are treated as loans and receivables and are measured at amortised cost

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and deposits with maturity of 90 days or less from the date of issue, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value

ii) Trade and other payables
The Group classifies its financial liabilities as trade and other payables, being balances arising in the course of normal business with suppliers, contractors and other service providers These liabilities are initially recorded at fair value, and thereafter at amortised cost, if the timing difference is deemed to impact the fair value of the liability

i) Foreign currency
The Group's consolidated financial statements are presented in sterling, which is also the Parent Company's functional currency Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the statement of financial position date All differences are taken to the Statement of Comprehensive Income

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial transactions Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined

Notes to the consolidated financial statements continued

2. ACCOUNTING POLICIES AND BASIS OF PREPARATION CONTINUED

j) Taxation

Income tax is recognised or provided at amounts expected to be recovered or to be paid using the tax rates and tax laws that have been enacted or substantively enacted at the Statement of Financial Position date R&D tax credits are recognised on an accruals basis and are included as an income tax credit in the Statement of Comprehensive Income and a current asset in the Statement of Financial Position

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the Statement of Financial Position date Deferred tax is charged or credited in the Statement of Comprehensive Income, except when it relates to items credited or charged directly to reserves, in which case the deferred tax is also dealt with in the Consolidated Statement of Changes in Equity

k) Employee benefits

All employee benefit costs, notably holiday pay, bonuses and contributions to personal defined contribution pension schemes are charged to the Consolidated Statement of Comprehensive Income on an accruals basis

l) Pension contributions

The Group contributes to the personal pension plans of certain employees Contributions are charged to the Statement of Comprehensive Income as they become payable in accordance with the rules of the scheme

m)Operating loss

Operating loss is stated before finance income, finance costs and tax

n) Merger reserve

The merger reserve represents the reserve arising on the acquisition of Proximagen Limited on 9 March 2005 by way of a share-for-share exchange accounted for as a Group reconstruction

Notes to the consolidated financial statements continued

3. CHANGES TO ACCOUNTING POLICIES

At the date of authorisation of this report the following standards and interpretations which have not been applied in these consolidated financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU)

Effective on or after 1 January 2010

- IFRS 2 (amended) – Share-based Payment Group cash-settled share-based payment transactions
- IFRS 3 (revised) – Business combination and IAS 27 (amended) – Consolidated and separate financial statements
- IAS 32 – Financial instrument presentation – Classification of rights issues
- IAS 39 – Financial instruments recognition and measurement – Eligible hedged items
- IFRIC 17 – Distributions of Non-cash Assets to Owners
- IFRIC 18 – Transfer of assets from customers
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments
- Improvements to IFRS (issued 2009)

Effective on or after 1 January 2011

- IAS 24 (amended) – Related party disclosures
- IAS 32 (amended) – Financial instruments classification of rights issues
- IFRS 9 – Financial instruments Classification and Measurement
- IFRIC 14 (amended) – Prepayments of minimum funding requirement
- IFRIC 19 – Extinguishing financial liabilities with equity instruments
- Improvements to IFRS (issued in May 2010)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group

4. REVENUE

Further detail on the Group's revenue recognition policy can be found in Note 2(e)

An analysis of the Group's revenue is as follows	2010 £'000	2009 £'000
Services rendered	**83**	118
Licence revenues	**944**	772
Grant income	**–**	55
Total	**1,027**	945

Revenue by destination of customer is presented below	2010 £'000	2009 £'000
United Kingdom	**–**	–
Rest of Europe	**20**	118
United States of America	**1,007**	827
Total	**1,027**	945

One customer (2009 one customer) generated revenue individually of over 10% of total Group revenues

The Group's operations are all based in the United Kingdom and there is only one business segment Consequently no further segmental disclosures are provided

Notes to the consolidated financial statements continued

5. FINANCE INCOME

	2010 £'000	2009 £'000
Finance income		
Bank interest receivable	**218**	247
Interest receivable from short-term deposits	**327**	125
	545	372

6. OPERATING LOSS

	2010 £'000	(Restated) 2009 £'000
Operating loss is stated after charging/(crediting)		
Depreciation charged for the year on property, plant and equipment	**196**	95
Research and development costs	**6,144**	2,818
Transaction costs	**128**	153
Auditor's remuneration for audit services	**35**	35
Grant income	**–**	(55)
Gain on business combination	**–**	(354)
Gain on sale of assets	**(151)**	–
Foreign exchange (gains)/losses	**(63)**	100
Share-based payments	**129**	101

The amounts payable to Ernst and Young LLP (2009 Baker Tilly LLP) and its related entities are set out below		
Fees payable to the auditor for the audit of Parent Company and consolidated financial statements	**15**	15
Fees payable to the auditor and its related entities for other services		
Audit of the Company's subsidiaries	**20**	20
Taxation services	**17**	–
Other services	**–**	12
	52	47

Notes to the consolidated financial statements continued

7. EMPLOYEES

The average monthly number of persons (including directors) employed by the Group during the year was

	2010 Number	2009 Number
Research and development	**30**	18
Administrative	**8**	4
	38	22

Staff costs (including key management personnel)	2010 £'000	2009 £'000
Wages and salaries	**2,229**	1,339
Social security costs	**234**	141
Pension costs	**108**	33
Total of cash-settled remuneration	**2,571**	1,513
Accrued holiday pay	**41**	6
Share-based payments	**129**	101
Total remuneration	**2,741**	1,620

Key management personnel remuneration	2010 £'000	2009 £'000
Salaries and short-term employee benefits	**847**	699
Employer's NI	**87**	62
Pension costs	**39**	16
Share-based payments	**86**	31
Total remuneration	**1,059**	808

The Group's key management personnel during the year comprised the two executive directors, the Chief Scientific Officer, Peter Jenner, the Head of Development, Stevo Knezevic and the Head of Non-clinical Development, Bruce Campbell

Peter Jenner resigned as Chief Scientific Officer on 29 January 2010 and Stevo Knezevic was appointed as Head of Development on 7 April 2010 Bruce Campbell resigned as a director of the Company on 29 January 2010 but continued his role as Head of Non-clinical Development

The Group's key management personnel during 2009 comprised the two executive directors, the Chief Scientific Officer, Peter Jenner and the Head of Non-clinical Development, Bruce Campbell

Notes to the consolidated financial statements continued

7 EMPLOYEES CONTINUED

Directors' remuneration 2010

	Directors' emoluments £	Other remuneration £	Total salary and fees £	Bonus £	Benefits £	Total £	Pension contributions £	Total £
Executive directors								
Kenneth Mulvany	280,000	–	280,000	70,000	1,406	351,406	–	**351,406**
James Hunter	161,500	–	161,500	38,250	1,728	201,478	18,088	**219,566**
Non-executive directors								
Peter Allen	45,000	–	45,000	–	–	45,000	–	**45,000**
Bruce Campbell (a)	4,167	19,305	23,472	–	–	23,472	–	**23,472**
Peter Jenner (b)	4,167	12,000	16,167	–	–	16,167	–	**16,167**
Michael Ashton	27,250	–	27,250	–	–	27,250	–	**27,250**
Jackie Hunter	20,929	–	20,929	–	–	20,929	–	**20,929**
Total	**543,013**	**31,305**	**574,318**	**108,250**	**3,134**	**685,702**	**18,088**	**703,790**

Bruce Campbell and Peter Jenner resigned on 29 January 2010 Jackie Hunter was appointed on 29 January 2010

Directors' remuneration 2009

	Directors' emoluments £	Other remuneration £	Total salary and fees £	Bonus £	Benefits £	Total £	Pension contributions £	Total £
Executive directors								
Kenneth Mulvany	225,851	–	225,851	72,000	1,334	299,185	–	299,185
James Hunter	141,250	–	141,250	41,500	1,668	184,418	15,956	200,374
Non-executive directors								
Peter Allen	37,500	–	37,500	–	–	37,500	–	37,500
Bruce Campbell (a)	23,750	95,304	119,054	–	–	119,054	–	119,054
Peter Jenner (b)	23,750	72,000	95,750	–	–	95,750	–	95,750
Michael Ashton	23,750	–	23,750	–	–	23,750	–	23,750
Nigel Whittle	5,000	–	5,000	–	–	5,000	–	5,000
Total	480,851	167,304	648,155	113,500	3,002	764,657	15,956	780,613

a) For the period until Bruce Campbell resigned on 29 January 2010 as a director, the Group was charged £19,305 (year ended 30 November 2009 £95,304) by Iceblack Limited, a company controlled by Bruce Campbell for the provision of his consulting services on the Group's R&D programmes

b) For the period until Peter Jenner resigned on 29 January 2010, the Group was charged £12,363 (year ended 30 November 2009 £73,199) by Primagen Limited, a company owned by Peter Jenner for the provision of his consulting services on the Group's R&D programmes Of these amounts £12,000 (year ended 30 November 2009 £72,000) related to consultancy and £363 (year ended 30 November 2009 £1,199) to out-of-pocket expenses

Notes to the consolidated financial statements continued

8 TAXATION

	2010 £'000	(Restated) 2009 £'000
Current tax		
United Kingdom corporation tax credit on loss for the year	**(933)**	(518)
Adjustments in respect of previous periods	**9**	–
Tax credit for the year	**(924)**	(518)
Deferred tax		
Origination and reversal of temporary differences	**–**	–
Effect of rate change on opening balances	**–**	–
Total tax credit for the year	**(924)**	(518)

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
The difference is explained below

Loss before tax	**(7,413)**	(3,376)
Loss before tax multiplied by the standard rate of corporation tax in the United Kingdom of 28% (2009 28%)	**(2,076)**	(945)
Effects of		
Expenses not deductible for tax purposes	**114**	46
Additional deduction for R&D	**(932)**	(75)
Surrendered for R&D tax credit	**933**	518
Unrelieved tax losses	**1,028**	342
Adjustment for pre-acquisition expenditure	**–**	(305)
Income not taxable for tax purposes	**–**	(99)
Adjustment to tax charge in respect of previous periods	**9**	–
Total tax credit for the year	**(924)**	(518)

The UK corporation tax credit for the year arose in respect of enhanced R&D tax relief in relation to work undertaken during the year

Unrecognised deferred tax assets/(liabilities)

	2010 £'000	2009 £'000
Trade losses	**8,516**	4,246
Property, plant and equipment	**(30)**	(41)
Provision	**1**	–
Share-based payments	**116**	81

A deferred tax asset has not been recognised due to the uncertainty of its recoverability

The Finance Bill 2010 which included a reduction in the UK corporation tax rate to 27% was substantially enacted on 21 July 2010 Therefore deferred tax assets and liabilities as at 30 November 2010 have been calculated at this rate

In the Budget of 23 March 2011, the Chancellor of the Exchequer announced Budget tax changes which, if enacted in the proposed manner, will have an effect on the Company's future tax position The Budget proposed a decrease in the rate of UK corporation tax from 27% to 26% on 1 April 2011 and by a further 1% each year for the three years from April 2012 This reduction will affect both the future and current tax charge of the Company The effect of the reduction in the tax rate to 23% would be to reduce the value of the unrecognised deferred tax asset to £7,254,000

The effect on the Company of these proposed changes to the UK tax system will be reflected in the Company's financial statements in future years, as appropriate, once the proposals have been substantially enacted

The tax losses from Minster Research Limited and CBT were transferred to Proximagen Limited in the year

Notes to the consolidated financial statements continued

9. BASIC AND DILUTED LOSS PER ORDINARY SHARE

The calculation of loss per share for the year ended 30 November 2010 is based upon the loss after tax for the period of £6,426,000 (2009 Restated £2,858,000) divided by the weighted average number of 57,310,549 shares in issue during the year to 30 November 2010 (2009 37,139,445) The loss attributable to ordinary shareholders and weighted average number of ordinary shares for the purpose of calculating the diluted loss per ordinary share are identical to those used for basic loss per share This is because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of IAS 33

10. INVESTMENT IN SUBSIDIARY UNDERTAKING

Proximagen Group plc has four subsidiary undertakings Proximagen Limited (Company number 04977050), Cambridge Biotechnology Limited (Company number 04221335), Minster Pharmaceuticals plc (Company number 00481650) and Minster Research Limited (Company number 04136733) which are all incorporated in England and Wales and whose details are summarised below

Name of subsidiary	Class of holding	Proportion held directly	Nature of business
Proximagen Limited	Ordinary	100%	CNS research and development
Cambridge Biotechnology Limited	Ordinary	100%	CNS research and development
Minster Pharmaceuticals plc	Ordinary	100%	Holding company
Minster Research Limited	Ordinary	0%	CNS research and development

Minster Research Limited is wholly owned by Minster Pharmaceuticals plc

Notes to the consolidated financial statements continued

11 INTANGIBLE ASSETS

	In-process research and development £'000	Total £'000
Cost		
At 1 December 2009	–	–
Additions – Minster acquisition (Note 17)	877	877
Disposals	(19)	(19)
At 30 November 2010	**858**	**858**
Accumulated amortisation		
At 1 December 2008, 1 December 2009 and 30 November 2010	–	–
Net book value		
At 30 November 2010	**858**	**858**
At 30 November 2009	–	–

There are no intangible assets with indefinite useful life

All of the in-process research and development acquired are assets which are not used in launched products These assets have not yet begun to be amortised but have been tested for impairment by assessing their value-in-use Value-in-use calculations are generally utilised to calculate the recoverable amount Key assumptions for the value-in-use calculations are as follows

- Launch dates of products employing these technologies – Launch dates reflect management's most recent information on the expected date of launching products
- Development costs to obtain regulatory approval – costs are estimated net of any contributions expected from collaborative arrangements with existing or future partners
- Sales projections – These are based on management's projections using external market data
- Discount rates – The discount rate is estimated based on the Capital Asset Pricing Model, giving a rate of 15% This rate is adjusted to reflect the specific risk associated with the relevant product
- Cash flow projections – Cash flow projections are made usually to the expiry of the patent, which is usually greater than five years A terminal value is applied where appropriate

In-process R&D assets were tested for impairment at 30 November 2010

Notes to the consolidated financial statements continued

12. PROPERTY, PLANT AND EQUIPMENT

	Laboratory equipment £'000	Computer equipment £ 000	Office equipment £'000	Total £'000
Cost				
At 1 December 2008	434	23	1	458
Additions	11	3	–	14
Additions from acquisitions	149	3	3	155
Disposals	(1)	–	–	(1)
At 30 November 2009	593	29	4	626
Additions	4	26	73	103
Additions from acquisitions	–	–	6	6
Disposals	(139)	(8)	–	(147)
At 30 November 2010	**458**	**47**	**83**	**588**
Depreciation				
At 1 December 2008	178	17	1	196
Charged in the year	90	5	–	95
Depreciation on disposal	(1)	–	–	(1)
At 30 November 2009	267	22	1	290
Charged in the year	172	8	16	196
Depreciation on disposal	(113)	(7)	–	(120)
At 30 November 2010	**326**	**23**	**17**	**366**
Net book value				
At 30 November 2010	**132**	**24**	**66**	**222**
At 30 November 2009	326	7	3	336
At 30 November 2008	256	6	–	262

Notes to the consolidated financial statements continued

13 TRADE AND OTHER RECEIVABLES

	2010 £'000	(Restated) 2009 £'000
Due within one year		
Trade receivables	**40**	12
Other receivables	**260**	1,671
Prepayments and accrued income	**531**	410
	831	2,093

The directors consider that the carrying amount of trade and other receivables approximates to their fair value

14 OTHER FINANCIAL ASSETS

	2010 £'000	2009 £'000
Sterling fixed rate deposits of greater than three months' maturity	**10,000**	10,000

The directors consider that the carrying amount of other financial assets approximates to their fair value

15. CASH AND CASH EQUIVALENTS

	2010 £'000	2009 £'000
Cash at bank	**38,170**	35,577
Sterling fixed rate deposits of less than three months' maturity	**–**	10,000
	38,170	45,577

The directors consider that the carrying amount of cash and cash equivalents approximates to their fair value

Cash at bank includes £454,000 (2009 £1,967,000) of a milestone payment received under a licensing agreement which is to be applied to the development of the programme subject to the licensing agreement

16 TRADE AND OTHER PAYABLES

	2010 £'000	2009 £'000
Amounts falling due within one year		
Trade payables	**1,328**	430
Other taxation and social security costs	**79**	79
Other creditors	**4**	–
Accruals and deferred income	**1,290**	3,413
	2,701	3,922

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs The creditor days at 30 November 2010 were 57 days (2009 28 days)

The 2009 accruals and deferred income balance principally comprises of redundancy and restructuring costs that arose in CBT when the company was acquired by the Company and against which the Group was indemnified by the vendor, and deferred income in relation to out-licensing agreements

The directors consider that the carrying amount of trade and other payables approximates to their fair value

Notes to the consolidated financial statements continued

17. ACQUISITION OF SUBSIDIARIES

a) Acquisition of Minster Pharmaceuticals plc

On 16 February 2010, the Company gained control of Minster The transaction has been accounted for as an asset acquisition in accordance with IAS 38

The allocation of cost to the acquired assets and liabilities is set out in the table below

	Carrying values at acquisition £'000	Adjustments £'000	Cost allocation £'000
Intellectual property	–	877	877
Equipment	6	–	6
Trade and other receivables	337	(51)	286
Cash and cash equivalents	4,036	–	4,036
Trade and other payables	(586)	–	(586)
Net assets acquired	3,793	826	4,619
Consideration satisfied by			
Cash paid			4,308
Transaction costs			311
			4,619

b) Acquisition of Cambridge Biotechnology Limited

On 23 November 2009, the Company acquired 100% of the issued share capital of CBT Due to the proximity of the acquisition to the Group's financial year-end the fair values of net assets acquired were based on provisional assessments in the 2009 Annual Report, reflecting the carrying values in the CBT ledgers The final fair value determination of the assets and liabilities acquired is set out in the table below

	Book and provisional values pre-acquisition £'000	(Restated) Final fair value adjustments £'000	(Restated) Final fair value £'000
Equipment	155	–	155
Trade and other receivables	127	–	127
Cash and cash equivalents	22	–	22
Trade and other payables	(1,366)	–	(1,366)
Amounts due from parent	4,161	(4,161)	–
Net assets/(liabilities) acquired	3,099	(4,161)	(1,062)
Negative goodwill			(354)
			(1,416)
Consideration satisfied by			
Cash receivable from vendor	(1,221)	(354)	(1,575)
Amounts owed to acquired subsidiary	4,161	(4,161)	–
Acquisition costs	159	–	159
Deferred contingent consideration	–	–	–
	3,099	–	(1,416)

Notes to the consolidated financial statements continued

17. ACQUISITION OF SUBSIDIARIES CONTINUED

Cash receivable from vendor

Cash receivable from vendor comprises £1,578,000 due from the vendor under an indemnity clause in the Sale and Purchase Agreement less £3,000 payable to the vendor based on completion accounts The indemnity clause commits the vendor to indemnify the Company for certain employment and property costs The liabilities for these employment costs are recognised as liabilities in the books of CBT in accordance with normal accounting practice The receivable from the vendor has been adjusted based on the final agreed indemnified costs

Intangible assets acquired and deferred contingent consideration

On 23 November 2009 the Group acquired intangible assets from Biovitrum AB, the parent company of CBT for an initial consideration equal to the inter-company debt in CBT at the date of completion

The intercompany debt with Biovitrum AB in CBT was transferred to the Company at completion to settle the initial consideration for the intangible assets acquired by Proximagen Limited The presentation of the acquired assets and related consideration for the CBT company and certain intangible assets in the above table has been adjusted to reflect the combined transactions for consolidated accounts purposes

During the year the Group finalised the fair value assessment of the intangible assets acquired from Biovitrum AB, represented by seven in-process R&D programmes Owing to the early stage of development of the programmes and the inherent risks involved in drug development the directors made the judgement not to attribute value to these assets

Deferred contingent consideration comprises a percentage of any future receipts generated from the acquired drug development programmes No deferred contingent consideration has been recognised on acquisition as the programmes are yet to receive regulatory approval

Negative goodwill

Negative goodwill arising on consolidation has been credited to the statement of comprehensive income during the acquisition period to 30 November 2009 It is classified as "Gain on business combination"

18. FINANCIAL INSTRUMENTS

The main risks arising from the Group's financial instruments are interest rate risk, currency 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

There is no material difference between the book value and the fair value of financial assets and liabilities

The Group's Financial assets and liabilities are summarised below

	Note	30 November 2010 £'000	(Restated) 30 November 2009 £'000
Financial assets			
Loans and receivables			
Trade and other receivables	(18a)	**1,420**	2,306
Other financial assets (maturity less than one year)	14	**10,000**	10,000
Cash and cash equivalents	15	**38,170**	45,577
Total financial assets		**49,590**	57,883
Financial liabilities			
Other financial liabilities			
Trade and other payables	(18b)	**1,981**	2,720
Total financial liabilities		**1,981**	2,720

Notes to the consolidated financial statements continued

18. FINANCIAL INSTRUMENTS CONTINUED

a) Trade and other receivables shown above excludes prepayments, which are not a contractual obligation to receive cash, amounting to £344,000 (2009 £305,000)

b) Trade and other payables shown above excludes amounts due in respect of deferred income which is not a contractual obligation to pay cash, amounting to £720,000 (2009 £1,202,000) All amounts are due within one year

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 main principles governing the Group's investment criteria are the security and liquidity of its investments before yield, although the yield (or return) is also a consideration The Group will also ensure

a) that it has sufficient liquidity in its investments For this purpose it will use its cash flow forecasts for determining the maximum periods for which funds may prudently be committed, and

b) that it maintains a policy covering both the categories of investment types in which it will invest, and the criteria for choosing investment counterparties

The interest rate risk profile of the Group's financial assets, excluding other receivables, as at 30 November 2010 was

	Fixed rate		Floating rate		Total	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000
Sterling	**10,000**	30,000	**38,112**	24,307	**48,112**	54,307
US dollars	**–**	–	**58**	1,270	**58**	1,270
Total	**10,000**	30,000	**38,170**	25,577	**48,170**	55,577

Floating rate deposits in sterling earn interest at prevailing bank rates

It is estimated that an increase or decrease of 1% in average interest rates would have resulted in the following differences to the Group's reported finance income during the year

Year ended 30 November 2010	**1%**	**Actual**	**+1%**
Interest rate	**0.11%**	**1.11%**	**2.11%**
Finance income (£'000)	**53**	**545**	**1,037**
Net assets (£'000)	**47,821**	**48,313**	**48,805**

Year ended 30 November 2009	-1%	Actual	+1%
Interest rate	0 26%	1 26%	2 26%
Finance income (£'000)	78	372	666
Net assets (£'000)	54,308	54,602	54,896

Liquidity risk

It is the Group's policy to ultimately finance its business by means of internally generated funds, while the Group's product development portfolio is progressing towards ultimate approval, the Group's funding requirements are supported by the issuance of share capital

Notes to the consolidated financial statements continued

18. FINANCIAL INSTRUMENTS CONTINUED

Currency risk

Foreign currency risk refers to the risk that the value of a financial commitment or recognised asset or liability will fluctuate due to changes in foreign currency rates The Group's net income and financial position, as expressed in pounds sterling, are exposed to movements in foreign exchange rates against the US dollar and the euro The main trading currencies of the Group are pounds sterling, the US dollar, and the euro The Group is exposed to foreign currency risk as a result of trading transactions and the translation of foreign bank accounts

The Group is exposed to euro and US dollar currency exchange rate fluctuations as some of its costs are denominated in these currencies The amounts involved are not significant and the Group does not routinely hedge against these currency exposures At 30 November 2010, the amount of the Group's trade and other payables denominated in euros totalled €15,000 (2009 €30,000) and the amount of the Group's trade and other payables denominated in US dollars totalled $95,000 (2009 $88,000)

Foreign exchange sensitivity analysis

The Group has estimated that if sterling had been 10% weaker than actual against the US dollar and the euro throughout the year, the Group's loss before tax would have increased by £80,000 Conversely if sterling had been 10% stronger than actual against the US dollar and the euro throughout the year, the Group's loss would have decreased by £80,000

Credit risk

The Group's customers and collaboration partners are predominantly large pharmaceutical companies and with customers typically having significant cash resources the risk of customers defaulting on debts with the Group is considered to be low The Group also applies credit evaluation and control procedures The trade receivables at 30 November 2010 were £40,000 (2009 £12,120)

Capital risk

The Group places its cash deposits with a number of reputable financial institutions

Recent events in the banking industry have led the Group to use shorter term deposits and the weighted average period for which fixed rate sterling deposits were placed in 2010 was 2 1 days, compared with 1 4 days in 2009

Capital risk management

The Group's principal objective when managing its capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders whilst maintaining an optimum capital structure to reduce the cost of capital

The Group plans its capital requirements regularly The requirement for capital is satisfied by the issue of shares

The Group has no short-term borrowings

The Group is under no obligation to meet any externally imposed capital requirements

Banking facility

The Group does not currently have an overdraft facility

Notes to the consolidated financial statements continued

19. CALLED UP SHARE CAPITAL

	1p Ordinary share capital Number	£'000
Authorised		
At 30 November 2008	500,000,000	5,000
At 30 November 2009	500,000,000	5,000
At 30 November 2010	**500,000,000**	**5,000**
Allotted, issued and fully paid		
At 1 December 2008	21,581,715	216
Increase in the year	35,714,286	357
At 30 November 2009	57,296,001	573
At 1 December 2009	57,296,001	573
Increase in the year	72,000	1
At 30 November 2010	**57,368,001**	**574**

Share capital represents the nominal value of shares issued

72,000 new shares (2009 No new shares) were issued for cash in the year in respect of the exercise of options by certain members of staff

On 24 June 2009, the Company issued 35,714,286 new Ordinary shares of 1p each, representing 62 3% of the Company's enlarged issued share capital This issue of new equity was made to new and existing shareholders at a price of £1 40 per share, raising £50 million of new funds, before expenses

20 SHARE PREMIUM

	£'000
At 1 December 2008	14,527
New share capital issued	48,701
At 30 November 2009	63,228
New share capital issued	7
At 30 November 2010	**63,235**

Share premium represents amounts subscribed for share capital in excess of nominal value less the related costs of share issues

The net proceeds received in 2009 of £49,058,458 (after deducting share issue costs of £941,542) from the issue of new shares in the year have been accounted for as Equity, with £357,143 accounted for as Ordinary shares and £48,701,315 as share premium

Notes to the consolidated financial statements continued

21. SHARE-BASED PAYMENTS

The IFRS 2 share option charge for the year was £129,000 (2009 £101,000)

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the year

	2010 Number	2010 WAEP (£)	2009 Number	2009 WAEP (£)
Total outstanding at 30 November 2009	**1,820,927**	**0.74**	2,069,072	0 80
Granted during the year	**5,180,848**	**1.30**	66,500	1 35
Exercised	**(72,000)**	**0.10**	–	–
Forfeited	**(282,400)**	**1.18**	(314,645)	1 27
Total outstanding at 30 November 2010	**6,647,375**	**1.16**	1,820,927	0 74
Exercisable at 30 November	**1,239,384**	**0.56**	1,351,692	0 54

At 30 November 2010, the weighted average remaining contractual life of options exercisable is 4 5 years (2009 5 2 years)

The weighted average fair value of options granted in the year is 20 1p (2009 37 9p)

The non-market performance conditions for all share options outstanding at 30 November 2010 and with a vesting date of 30 November 2010 or before have been achieved

The share-based payment charge has been calculated using the Black-Scholes model to calculate the fair value of the share options that vest according to non-market performance conditions An appropriate valuation model has been used to calculate the fair value of share options with market performance-related vesting Disclosure of those valuation assumptions is not made on the basis that the related charge is not material

The inputs into the Black-Scholes model are as follows	2010	2009
Weighted average share price (pence)	**99.7**	135 0
Weighted average exercise price (pence)	**129.9**	135 0
Weighted expected volatility	**35%**	35%
Weighted expected life (years)	**4.32**	5 0
Weighted risk free rate	**2.36%**	2 81%
Expected dividends	**0%**	0%

a) The risk-free rate is based on the UK Gilt rate as at the grant date with a period to maturity commensurate with the expected term of the relevant option tranche
b) The fair value charge is spread evenly over the period between the grant of the option and the earliest exercise date
c) The expected volatility is based on the historic volatility of the share price

Notes to the consolidated financial statements continued

22 LEASING COMMITMENTS

The Group's total commitments under non-cancellable operating leases are as follows

	Land and buildings	
	2010 £'000	2009 £'000
Within one year	**368**	407
In two to five years	**625**	103
	993	510

23. EVENTS AFTER THE BALANCE SHEET DATE

On 21 December 2010, the Company signed an exclusive agreement with GlaxoSmithKline to acquire the global rights to two drug development programmes

Parent Company balance sheet

At 30 November 2010
Company No. 05333020

	Note	30 November 2010 £'000	(Restated) 30 November 2009 £'000
Fixed assets			
Investments	5	**24,047**	15,492
Current assets			
Debtors Amounts due within one year	6	**337**	1,732
Other financial assets	7	**10,000**	20,000
Cash at bank and in hand		**36,975**	33,499
		47,312	55,231
Creditors Amounts falling due within one year	8	**(4,794)**	(4,680)
Net current assets		**42,518**	50,551
Net assets		**66,565**	66,043
Capital and reserves			
Called up share capital	9,10	**574**	573
Share premium account	10	**63,235**	63,228
Share-based payment reserve	10	**429**	300
Profit and loss account	10	**2,327**	1,942
Shareholders' funds	10	**66,565**	66,043

Approved and authorised for issue by the Board on 30 March 2011 and signed on its behalf by

Kenneth Mulvany
James Hunter
Directors

Notes to the Parent Company financial statements

For the year ended 30 November 2010

1. BASIS OF PREPARATION

The Company Balance Sheet has been prepared under the historical cost convention and in accordance with the Companies Act 2006 and United Kingdom Generally Accepted Accounting Practice ("UK GAAP")

As permitted by s408 of the Companies Act 2006, the profit and loss account of the Company is not presented in this Annual Report As permitted by FRS 1 "Cash Flow Statements", no cash flow statement for the Company has been included on the grounds that the Group includes the Company in its own published consolidated financial statements The Company has taken advantage of the exemption in FRS 8 "Related Party Disclosures" not to disclose related party transactions with other wholly-owned members of the Group

2. ACCOUNTING POLICIES

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

a) Investment in subsidiary undertakings

Investments in subsidiary undertakings where the Company has control are stated at cost less any provision for impairment Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities

b) Share-based payments

In accordance with UITF 44, when the Company grants options over equity instruments directly to the employees of a subsidiary undertaking, the effect of the share-based payment, as calculated in accordance with FRS 20, is capitalised as part of the investment in the subsidiary as a capital contribution, with a corresponding increase in equity

c) Taxation

Corporation taxes are recorded on taxable profits at the current rate Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 "Deferred Tax". In accordance with FRS 19, deferred tax assets are recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted

d) 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

e) Pension contributions

The Company contributes to the personal pension plans of those directors who are members of the Company's Group personal pension scheme Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme

f) Fixed asset and investments impairment policy

Investments in subsidiary undertakings held as fixed assets are stated at cost less any provisions for impairment Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount Recoverable amount is the higher of its net realisable value and its value in use

g) Leases and hire purchase commitments

Rentals paid under operating leases are charged to income on a straight line basis over the lease term

3. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

As permitted by s408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements The profit dealt with in the financial statements of the Parent Company was £385,000 (2009 £70,000)

The auditors' remuneration in respect of audit services provided to the Company are disclosed in Note 6 of the Notes to the Consolidated Financial Statements

4 DIRECTORS' REMUNERATION

Details of directors' remuneration are disclosed in Note 7 of the Notes to the Consolidated Financial Statements

Notes to the Parent Company financial statements *continued*

5. INVESTMENTS

	Investment in subsidiary undertakings Shares £'000	Loan £'000	Capital contributions from share-based payments £'000	Total £'000
Cost at 1 December 2009 (restated)	2,847	12,401	244	15,492
On acquisition	4,619	–	–	4,619
Additions	–	3,807	129	3,936
Cost at 30 November 2010	**7,466**	**16,208**	**373**	**24,047**

Proximagen Group plc has four subsidiary undertakings Proximagen Limited (Company number 04977050), Cambridge Biotechnology Limited (Company number 04221335), Minster Pharmaceuticals plc (Company number 00481650) and Minster Research Limited (Company number 04136733) which are all incorporated in England and Wales and whose details are summarised below

Name of subsidiary	Class of holding	Proportion held directly	Nature of business
Proximagen Limited	Ordinary	100%	CNS research and development
Cambridge Biotechnology Limited	Ordinary	100%	CNS research and development
Minster Pharmaceuticals plc	Ordinary	100%	Holding company
Minster Research Limited	Ordinary	0%	CNS research and development

Minster Research Limited is wholly-owned by Minster Pharmaceuticals plc

On 16 February 2010, the Company announced the cash offer for the entire issued and to be issued share capital of Minster had become unconditional as to acceptances On 5 March 2010, the Company announced that it had valid acceptances over 90% and had commenced the compulsory acquisition procedure The acquisition cost of £4,619,000 has been included in "Shares in subsidiary undertakings"

6. DEBTORS

Due within one year	2010 £'000	(Restated) 2009 £'000
Trade debtors	**20**	–
Other debtors	**81**	1,605
Prepayments and accrued income	**236**	127
Balance	**337**	1,732

7. OTHER FINANCIAL ASSETS

	2010 £'000	2009 £'000
Sterling fixed rate deposits	**10,000**	20,000

The directors consider that the carrying amount of other financial assets approximates to their fair value

8. CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £'000	2009 £'000
Trade creditors	**169**	107
Other taxation and social security costs	**3**	4
Amounts due to subsidiary undertaking	**4,491**	4,161
Accruals and deferred income	**131**	408
	4,794	4,680

Notes to the Parent Company financial statements *continued*

9. SHARE CAPITAL

	2010 £'000	2009 £'000
Authorised		
500,000,000 Ordinary shares of 1p each	**5,000**	5,000
Allotted, issued and fully paid		
57,368,001 (2009 57,296,001) Ordinary shares of 1p each	**574**	573

72,000 new shares (2009 No new shares) were issued for cash in the year in respect of the exercise of share options by certain members of staff

On 24 June 2009, the Company issued 35,714,286 new ordinary shares of 1p each, representing 62 3% of the Company's enlarged issued share capital This issue of new equity was made to new and existing shareholders at a price of £1 40 per share, raising £50 million of new funds, before expenses

Details of the Company's share option schemes can be found in the Directors' Remuneration Report and Note 21 to the Consolidated Financial Statements

10. RECONCILIATION OF MOVEMENT IN RESERVES AND SHAREHOLDERS' FUNDS

	Ordinary shares £'000	Share premium £'000	Share-based payment reserve £'000	Retained earnings £'000	**Total shareholders' funds £'000**
Balance at 1 December 2008	216	14,527	199	1,872	**16,814**
Profit for the year	–	–	–	70	**70**
Share-based payments charge	–	–	101	–	**101**
Issue of share capital	357	48,701	–	–	**49,058**
Balance at 1 December 2009	573	63,228	300	1,942	**66,043**
Profit for the year	–	–	–	385	**385**
Share-based payments charge	–	–	129	–	**129**
Issue of share capital	1	7	–	–	**8**
Balance at 30 November 2010	**574**	**63,235**	**429**	**2,327**	**66,565**

11. LEASING COMMITMENTS

The Company's annual commitments under non-cancellable operating leases are as follows	Land and buildings 2010 £'000	2009 £'000
Lease expiry		
Within one year	–	–
In two to five years	**67**	–
	67	–

12. EVENTS AFTER THE BALANCE SHEET DATE

On 21 December 2010, the Company signed an exclusive agreement with GlaxoSmithKline to acquire the global rights to two drug development programmes

Notice of meeting

To the members of Proximagen Group plc
Incorporated in England and Wales with registered number 05333020

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 2011 Annual General Meeting ("the Meeting") of Proximagen Group plc ("the Company") will be held at the offices of M Communications, 1 Ropemaker Street, 34th Floor, CityPoint, London EC2Y 9AW, at 11 30am on Tuesday 17 May 2011 for the purpose of considering and, if thought fit, passing the following resolutions of which numbers 1 to 5 will be proposed as Ordinary Resolutions and numbers 6 and 7 will be proposed as Special Resolutions

ORDINARY RESOLUTIONS

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 2010

2 To re-elect as a director, Michael Ashton, who retires by rotation in accordance with article 117 of the Articles of Association of the Company

3 To re-elect as a director, Kenneth Mulvany, who retires by rotation in accordance with article 117 of the Articles of Association of the Company

4 To re-appoint Ernst & Young LLP as the auditor of the Company until the conclusion of the next general meeting of the Company and to authorise the directors to fix the remuneration of Ernst & Young LLP as the auditor of the Company

5 THAT the directors be and they are hereby generally and unconditionally authorised to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company
   a) up to an aggregate nominal amount of £191,271, and
   b) comprising equity securities up to an aggregate nominal amount of £382,542 (including within such limit any shares and rights to subscribe for or convert any security into shares allotted under paragraph (a) above) in connection with an offer by way of a rights issue
      i) to ordinary shareholders in proportion (as nearly as may be practicable) to their existing holding, and
      ii) to holders of other equity securities as required by the rights of those securities or as the directors otherwise consider necessary,

   and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, or legal, regulatory or practical problems in, or under the laws of any territory or the requirements of any regulatory body or stock exchange or any other matter, provided that these authorities shall expire on the earlier of the conclusion of the next annual general meeting of the Company and the close of business on 17 August 2012 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 equity securities to be allotted after 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

This Resolution revokes and replaces all unexercised authorities previously granted to the directors to allot equity securities but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities References in this Resolution 5 and in Resolution 6 to equity securities shall have the same meaning as in the Companies Act 2006, as amended ("the Act")

Notice of meeting *continued*

SPECIAL RESOLUTIONS

6 THAT if Resolution 5 is passed, that the directors be and they are hereby empowered to allot equity securities (as defined in the Act) for cash pursuant to the authority conferred by Resolution 5 above and/or where the allotment is treated as an allotment of equity securities under Section 560 (2) (b) of the Act, free of the restriction in section 561 (1) of the Act, provided that this power shall be limited to

a) the allotment of equity securities in connection with an offer of equity securities (but in the case of the authority granted under paragraph (b) of Resolution 5, by way of a rights issue only)
   i) to ordinary shareholders in proportion (as nearly as may be) to their existing holding, and
   ii) to holders of other equity securities, as required by the rights of those securities, or as the directors otherwise consider necessary

   but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with treasury shares, fractional entitlements record dates, or legal, regulatory or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange or any other matter,

b) the allotment of equity securities in connection with the Company's share option schemes, and

c) the allotment (other than pursuant to sub-paragraphs (a) and (b) above) of equity securities up to an aggregate nominal amount of £57,381, and this authority shall expire on the earlier of the conclusion of the next annual general meeting of the Company and the close of business on 17 August 2012 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 equity securities to be allotted after 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

7 The Company be and is hereby generally and unconditionally authorised for the purposes of Section 701 of the Act to make one or more market purchases (within the meaning of Section 693(4) of the Act) of ordinary shares of 1p each in the capital of the Company ("Ordinary shares") provided that

i) the Company does not purchase under this authority more than 5,737,500 Ordinary Shares,
ii) the Company does not pay for each such Ordinary share less than the nominal amount of such Ordinary share at the time of purchase, and
iii) the Company does not pay for each such Ordinary share more than 105% of the average closing mid-market prices of the Ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date on which the Company agrees to buy the share concerned,

and this authority shall expire on the earlier of the conclusion of the next annual general meeting of the Company and the close of business on 17 August 2012 save that if the Company has agreed, before this authority expires, to purchase Ordinary shares where the purchase will or may be executed after this authority expires (either wholly or in part), the Company may complete such purchase as if this authority had not expired This Resolution revokes and replaces all unexercised authorities previously granted to the directors to purchase Ordinary shares but without prejudice to any agreement to purchase Ordinary shares already made, offered or agreed to be made pursuant to such authorities

By order of the Board
James Hunter
Company Secretary

30 March 2011

Registered office
Proximagen Group plc
3rd Floor
91-93 Farringdon Road
London EC1M 3LN

Notice of meeting *continued*

NOTES

Entitlement to attend and vote

1 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members registered on the Company's register of members at 6 00pm on 15 May 2011 or, if this Meeting is adjourned, at 6 00pm on the day two days prior to the adjourned meeting, shall be entitled to attend and vote at the Meeting

Appointment of proxies

2 If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this Notice of Meeting You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form

3 If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this "Appointment of proxies" section Please read the section "Nominated persons" below

4 A proxy does not need to be a member of the Company but must attend the Meeting to represent you Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them

5 You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares You may not appoint more than one proxy to exercise rights attached to any one share To appoint more than one proxy, it will be necessary to notify the registrar in accordance with Note 7 below

6 A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting

Appointment of proxy using hard copy proxy form

7 The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote To appoint a proxy using the proxy form, the form must be

- completed and signed,
- sent or delivered to Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, and
- received by Capita Registrars no later than 11 30am on 15 May 2011

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form

Appointment of proxy by joint members

8 In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior)

Changing proxy instructions

9 To change your proxy instructions simply submit a new proxy appointment using the methods set out above Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions, any amended proxy appointment received after the relevant cut-off time will be disregarded Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Registrars If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence

Notice of meeting *continued*

NOTES CONTINUED

Termination of proxy appointments

10 In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice The revocation notice must be received by Capita Registrars no later than 11 30am on 15 May 2011 If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid Appointment of a proxy does not preclude you from attending the Meeting and voting in person If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated

Issued shares and total voting rights

11 As at 5 00pm on 29 March 2011, the Company's issued share capital comprised 57,381,501 Ordinary Shares of 1p each Each Ordinary Share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 5 00pm on 29 March 2011 is 57,381,501

Nominated persons

12 If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights ("Nominated Person")

- You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights ("Relevant Member") to be appointed or to have someone else appointed as a proxy for the Meeting
- If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights
- Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters) The only exception to this is where the Company expressly requests a response from you

Documents on display

13 Copies of the following documents will be available for at least 15 minutes prior to the Meeting and during the Meeting

- Letter of appointment of Mr Michael Ashton, dated 15 December 2005
- Service agreements of Mr Kenneth Mulvany, dated 1 November 2008
- Letter of appointment of Mr Peter Allen, dated 2 February 2009
- Service agreements of Mr James Hunter, dated 1 November 2008
- Letter of appointment of Ms Jackie Hunter, dated 29 January 2010

Communication

14 Except as provided above, members who have general queries about the Meeting should call the Capita shareholder helpline on 0871 664 0300 (calls to this number cost 10p per minute plus any network extras, lines are open 8 30am-5 30pm Monday-Friday) (or from outside the UK +44 (0)20 8639 3399) No other methods of communication will be accepted

You may not use any electronic address provided either in this notice of general meeting or any related documents (including the 2010 Annual Report and proxy form) to communicate with the Company for any purposes other than those expressly stated

Shareholder information

Company contact details
Proximagen Group plc
3rd Floor
91-93 Farringdon Road
London EC1M 3LN

Tel +44 (0)20 7400 7700
Fax +44 (0)20 7831 5387

Company Secretary
James Hunter

Registered office
3rd Floor
91-93 Farringdon Road
London EC1M 3LN

Incorporated and registered in England and Wales with No 05333020

Website
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 Registrars
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 7400 7700 Alternatively, they can e-mail their enquiry to ir@proximagen com

Copies of this report are being sent to all shareholders Copies are also available at the registered office of the Company
3rd Floor
91-93 Farringdon Road
London EC1M 3LN

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