

NovaBiotics Limited

Financial statements
Registered number SC272344
Year ended 31 August 2012

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COMPANY INFORMATION

Directors	B Bodek, Chairman D O'Neil J Pool A Porter I Townsend
Secretary	Margaret Scott Cruickshank Building, Craibstone, Aberdeen, AB21 9TR
Company number	SC272344
Registered office	Cruickshank Building, Craibstone, Aberdeen, AB21 9TR
Business address	Cruickshank Building, Craibstone, Aberdeen, AB21 9TR
Auditors	PricewaterhouseCoopers LLP Erskine House, 68 – 73 Queens Street, Edinburgh, EH2 4NH
Bankers	Royal Bank of Scotland Burnside Road, Dyce, Aberdeen, AB21 0HZ

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2012

The directors present their report and audited financial statements for the year ended 31 August 2012.

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Principal activities and business review

Anti-infective drug design, discovery and development remained the principal activities of the business during the year.

Novexatin®

In this latest period, key technical and commercial milestones were achieved for the company's lead compound, Novexatin®, which remained the primary research and development focus for the Company. Novexatin® is a first-in-class, novel treatment for fungal nail infections, proven as being safe and very well tolerated in addition to providing first indications of efficacy in the two clinical studies that have been conducted thus far.

The company has generated further key in vitro and ex vivo data from proprietary nail infection models; in particular as regards Novexatin's superiority over competitor products and its ability to remain active within the nail (following only 28 days of application) for more than 12 months post-treatment.

The company has had continued interactions with the US regulatory authorities to progress the plans to undertake a phase 2b clinical study in the US. There have been updates to the filing of the investigational new drug ("IND") application with the Food and Drug Administration (FDA).

Key patent grants secured in this period protect the Novexatin® platform worldwide until at least 2026.

Commercialisation activities for this product candidate which have advanced further than any previous discussions/negotiations with potential licensees, are ongoing and remain positive.

The Company's robust pipeline of earlier stage antibacterial and antifungal drug candidates for economically and clinically unmet diseases has also developed during the last period.

Lynovex® (NM001)

The Company has continued to develop NM001, a novel mucolytic agent that disrupts the slimy biofilm produced by chronic infections to protect the microbes within against the body's defences and antibiotic drugs. Not only does this mean that the activity of poorly effective antibiotics in biofilm infections can be improved by NM001, but NM001 itself demonstrates a degree of antibacterial activity which broadens its utility as an antibiotic therapy. NM001 is already approved for therapeutic use in other disease states and so has a proven history of safety and tolerability which will facilitate fast-tracking through clinical development.

On 9 December 2011 the Company was granted Orphan Drug Designation (ODD) for cysteamine (Lynovex®) for the treatment of cystic fibrosis (CF) by the European Medicine Agency (EMA) of the European Commission. An application has been made for ODD with the FDA in the US.

The Company continues to generate clinically relevant data demonstrating Lynovex's potential utility in CF (e.g. reversal of antibiotic resistance in clinical isolates of bacteria from CF patients), as partnered with leading adult and paediatric clinicians for further access to patient samples and eventual clinical study work and intends to file a clinical trial application for the first tolerability / efficacy study in patients with the EMA (MHRA) in early 2012. This will be following any required preclinical toxicology / safety studies which are to be confirmed by the regulatory authorities.

Lynovex® has potential in other indications such as chronic and acute bacterial and polymicrobial infections where biofilms and / or antibiotic resistance remain the greatest clinical challenge.

The Lynovex® patent has matured positively in this latest period; PCT and national phases worldwide. Although at a relatively early stage in the development cycle, commercial interest in these assets has already been secured from a number of parties; orphan drug status being a major incentive.

Novamycin®

Successful development of Novamycin® continued during this latest period. Novamycin® is a fast-acting, potent antifungal peptide designed to combat potentially life-threatening blood stream and deep tissue yeast and mould infections.

The Company has moved this programme forward with early stage development of Novamycin® for economically significant *Candida* spp infections, namely, oral-pharyngeal and vulvo-vaginal infections. The Company has demonstrated that Novamycin® is rapidly fungicidal, does not lead to resistance in target pathogens and is well tolerated and efficacious in clinically-relevant *in vivo* models of all of the *Candida* spp infections it is targeting. Proof of efficacy in these models is a significant technical milestone and in addition for oral-pharyngeal and vulvo-vaginal infections it means that marketsat can be accessed more quickly for revenue generation than those for life threatening infections with a more complex clinical development path. Novamycin® development has advanced to the preclinical safety and toxicity profiling stage and the drug candidate is expected to be in phase I clinical trials for its first indication in 2013.

Formulation modifications to enhance the half-life, thereby improving efficacy / reducing dosing frequency, of Novamycin® have been successfully undertaken in this latest period. Furthermore, 'second generation' Novamycin® derivatives have been identified that are potently active against clinically relevant and harder to treat non-*Candida* strains such as *Aspergillus* spp.

Recent patent grants secured in Europe, the US, Asia and elsewhere secure the Novamycin® family until at least 2025.

Novarifyn®

In the latest period the company has secured further key *in vitro* efficacy and safety data on the potential of its family of novel antibacterial peptides (Novarifyn®) to tackle clinically and economically significant multi-drug resistance bacterial infections. Progress on identifying their mechanism of action has been made. It is expected that these peptides will enter *in vivo* tests in 2013 to confirm their clinical potential in a more complex biological system. The Novarifyn® family offers a potential solution for a much needed resistance-free new class of antibiotics for the future; for a range of topical, mucosal and systemic 'difficult to treat' bacterial infections.

Although at a relatively early stage in the development cycle, commercial interest in these assets has already been secured from a number of parties.

The Company's earlier-stage pipeline of products and programs entails other antifungal and antimicrobial peptides for dermal, respirator and systemic infections. In addition, a number of anti-infective peptides and several botanically derived anti-infective compounds that could be incorporated into consumer healthcare and cosmetic products has been developed.

Luminaderm®

NovaBiotics has applied its drug discovery expertise to identify and validate peptides and coumarin botanicals for a range of cosmetic or consumer health care dermatological applications. The Luminaderm® range comprises active molecules that provide the first line of antimicrobial defence against bacteria, yeast and fungi. Luminaderm® molecules have the added benefit of being known skin protectants, natural UV filters with anti-aging effects and various other health benefits.

During the period, developments have been made on the specific application of this technology in a number of animal health, hair and skin care, in particular dandruff and acne products. Experiments are being conducted for a leading animal health entity which has the potential to deliver revenue in 2013.

IP and Trademarks

Investment in the Company's intellectual property has continued during the course of the latest period. The patent portfolio has matured and expanded with new grants for various patents covering Novexatin®, Lynovex®, Luminaderm® and Novamycin® worldwide. This progress de-risks the Company's technology assets and in so doing increases revenue potential from commercialisation with licensing or trade sale partners.

Other

Income streams have continued to be secured from fee-for-service contract research by application of the company's technological and intellectual assets to determine the antimicrobial capacity of early stage compounds.

Result for the year

There was a loss for the financial year amounting to £1,595,711 (2011: £1,210,815)

The directors do not recommend payment of a dividend (2011: Nil).

During the year, the company incurred research and development expenditure amounting to £763,307 (2011: £520,522).

Having performed projections on the cash flows and along with shareholder support, the directors determine that the Company is a going concern (Note 1.2).

Directors

The following directors who have held office since 1 September 2011 and up to the date of this report are:

B Bodek, Chairman
D O'Neil
J Pool
A Porter
I Townsend – appointed 2 August 2012

Independent Auditors

PricewaterhouseCoopers LLP were reappointed as auditors on 1 August 2012.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 AUGUST 2012 (CONTINUED)

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

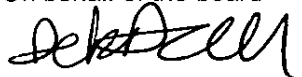
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In accordance with Section 418, directors' reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that:

- (a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware; and
- (b) 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 the company's auditors are aware of that information.

On behalf of the board



Dr D O'Neil
Director

9th November 2012

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NOVABIOTICS LIMITED

We have audited the financial statements of NovaBiotics Limited for the year ended 31 August 2012 which comprise the Profit and Loss Account, the Balance Sheet, the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (Effective April 2008) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 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. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 August 2012 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of Matter—going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Company's ability to continue as a going concern. The company incurred a financial loss of £1,595,711 for the year ended 31 August 2012, has net liabilities of £2,470,617 and is continuing its negotiations to raise additional finance for the forthcoming clinical trials. These circumstances indicate the existence of significant uncertainties which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NOVABIOTICS LIMITED
(CONTINUED)**

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies exemption in preparing the Directors Report.

M. Cowie

Martin Cowie (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh

9 November 2012

Profit and loss account
for the year ended 31 August 2012

	<i>Note</i>	2012 £	2011 £
Turnover	1	19,955	15,547
Administrative expenses		(1,641,271)	(1,326,029)
Other operating income		80,733	62,364
Operating loss	2	(1,540,583)	(1,248,118)
Other interest receivable and similar income		456	4,456
Interest payable and similar charges		(238,402)	(78,135)
Loss on ordinary activities before taxation		(1,778,529)	(1,321,797)
Tax on loss on ordinary activities	3	182,818	110,982
Loss for the financial year	12	(1,595,711)	(1,210,815)

There are no material differences between the loss on ordinary activities before taxation and the retained loss for the years presented and their historical cost equivalents.

All items dealt with in the profit and loss account relate to continuing operations.

There have been no recognised gains or losses other than the loss for the financial years reported above. Accordingly a Statement of Total Recognised Gains and Losses is not presented.

The notes on pages 9 to 16 are an integral part of the financial statements

Balance sheet
as at 31 August 2012

	Note	2012	2011
		£	£
Fixed assets			
Intangible assets	4	1,468,657	1,300,010
Tangible assets	5	28,123	53,887
		<u>1,496,780</u>	<u>1,353,897</u>
Current assets			
Debtors	6	275,635	156,910
Cash at bank and in hand		-	143,164
		<u>275,635</u>	<u>300,074</u>
Creditors: amounts falling due within one year	7	<u>(3,001,414)</u>	<u>(2,213,877)</u>
Net current liabilities		<u>(2,725,779)</u>	<u>(1,913,803)</u>
Total assets less current liabilities		<u>(1,228,999)</u>	<u>(559,906)</u>
Creditors: amounts falling due after one year	8	(1,231,618)	(305,000)
Accruals and deferred income	9	(10,000)	(10,000)
Net liabilities		<u>(2,470,617)</u>	<u>(874,906)</u>
Capital and reserves			
Called up share capital	11	1,053,172	1,053,172
Share premium account	12	6,485,342	6,485,342
Other reserves	12	157,068	157,068
Profit and loss account	12	(10,166,199)	(8,570,488)
Equity shareholders' deficit		<u>(2,470,617)</u>	<u>(874,906)</u>

These financial statements have been prepared in accordance with the special provisions for small companies under part 15 of the Companies Act 2006 and with the Financial Reporting Standard for Smaller Entities (effective April 2008).

The notes on pages 9 to 16 are an integral part of the financial statements.

These financial statements were approved by the directors and authorised for issue on 9th November 2012, and are signed on their behalf by:



Dr D O'Neill
Director

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2012

1 Accounting policies

1.1 Accounting convention

These financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008). The principal accounting policies are set out below.

1.2 Basis of accounting

Going concern

The Company had net current liabilities at the balance sheet date of £2,725,779 (2011: Liabilities £1,913,803) largely reflecting convertible loans £2,285,332 (2011: £2,101,636). The company had net liabilities at the balance sheet date of £2,470,617 (2011: £874,906).

At the present time the company does not have sufficient confirmed financial resources to continue trading for the following twelve months. However, as outlined in the business review on page 2, Novexatin[®], NovaBiotics' lead product, is set to enter a large phase 2b clinical study in the US. This major development in the product candidate's life cycle has added further value to the asset.

In addition to technical and commercial progress, the continued support of the existing shareholders has been demonstrated by expressions of support by certain shareholders to continue to fund working capital requirements of the company for the foreseeable future and general shareholder support in the recent fundraising round (Notes 8 and 16).

As such, after reviewing cash flow forecasts, the directors have formed a judgment at the time of approving the financial statements that the company has access to adequate resources to continue in operational existence for the foreseeable future.

For this reason, the Directors believe it remains appropriate to continue to prepare the financial statements on a going concern basis.

If for any reason these assumptions proved to be invalid, the going concern basis may no longer be applicable and adjustments to the Company profit and loss account and Company balance sheet would be required to record additional liabilities and write down assets to their recoverable amounts.

1.3 Turnover

Turnover represents amounts receivable for services net of VAT in respect of contract research services provided and is recognised when the contract is complete or where individually recognisable elements of a contract are complete. £17,500 of the revenue arose in Scotland and £2,455 in France.

1.4 Government grants

Grants are credited to accruals and deferred income. Grants towards capital expenditure are released to the profit and loss account over the expected useful life of the assets. Grants towards revenue expenditure are released to the profit and loss account as the related expenditure is incurred.

1.5 Research and development

Research and development expenditure is written off to the profit and loss account in the year in which it is incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 Accounting policies (continued)

1.6 Leasing

Rental income generated from sub-leasing part of the premises is accounted for on a straight line basis and is disclosed within other operating income.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

1.7 Pensions

The company operates a defined contribution scheme for the benefit of its directors and employees. Contributions payable are charged to the profit and loss account in the year they are payable.

1.8 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates 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 profit and loss account.

1.9 Intangible fixed assets and amortisation

Intangible assets are valued at cost less accumulated amortisation. Amortisation is calculated to write off the cost, from entry-into-market of the related products, in equal annual instalments over their estimated useful lives of 20 years.

1.10 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Laboratory equipment	33 1/3% straight line
Fixtures and fittings	20% straight line
Computer equipment	33 1/3% straight line

1.11 Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of the financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities and are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited directly to equity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Operating loss

	2012	2011
	£	£
Operating loss is stated after charging:		
Amortisation of intangible assets	48,960	48,824
Depreciation		
• owned fixed assets	25,993	47,038
Services provided by the company's auditor		
• auditors' remuneration	12,000	11,000
• Other services	3,000	3,200
Directors' emoluments	154,955	164,187
and after crediting:		
Grants received	(50,369)	(29,354)
	<u>(50,369)</u>	<u>(29,354)</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 1 (2011: 1).

3 Taxation

	2012	2011
	£	£
UK corporation tax on losses of the year	(182,818)	(120,411)
Adjustments in respect of prior years	-	9,429
Total current tax credit	<u>(182,818)</u>	<u>(110,982)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 Taxation (continued)

The tax credit for the year is lower (2011: lower) than the standard rate applying in the UK of 20.00% (2011: 20.58%).
The difference is explained below:

	2012 £	2011 £
Reconciliation of effective tax rate		
Loss before income tax	(1,778,529)	(1,321,797)
Corporation tax credit at the standard rate of 20.00% in the UK	<u>(355,706)</u>	<u>(272,026)</u>
Permanent differences	163,986	104,529
Prior year adjustment	-	9,429
Accelerated capital allowances and other timing differences	191,720	167,497
R & D tax repayable tax credit	<u>(182,818)</u>	<u>(120,411)</u>
	<u>182,818</u>	<u>110,982</u>

4 Intangible fixed assets

	Patents and Trademarks £	Licences £	Total £
Cost			
At 1 September 2011	626,655	976,472	1,603,127
Additions	217,607	-	217,607
As at 31 August 2012	<u>844,262</u>	<u>976,472</u>	<u>1,820,734</u>
Amortisation			
At 1 September 2011	-	303,117	303,117
Charge for the year	-	48,960	48,960
At 31 August 2012	<u>-</u>	<u>352,077</u>	<u>352,077</u>
Net book Value			
At 31 August 2012	<u>844,262</u>	<u>624,395</u>	<u>1,468,657</u>
At 31 August 2011	<u>626,655</u>	<u>673,355</u>	<u>1,300,010</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 Tangible fixed assets

	Laboratory Equipment	Fixtures & Fittings	Computer Equipment	Total
	£	£	£	£
Cost				
At 1 September 2011	217,339	214,872	36,164	468,375
Additions	-	229	-	229
At 31 August 2012	217,339	215,101	36,164	468,604
Depreciation				
At 1 September 2011	173,827	212,460	28,201	414,488
Charge for the year	19,301	2,641	4,051	25,993
At 31 August 2012	193,128	215,101	32,252	440,481
Net book Value				
At 31 August 2012	24,211	-	3,912	28,123
At 31 August 2011	43,512	2,412	7,963	53,887

6 Debtors

	2012	2011
	£	£
Trade Debtors	8,789	10,401
VAT recoverable	6,169	6,760
Corporation tax	182,818	120,410
Other debtors	77,859	19,339
	275,635	156,910

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Creditors: amounts falling due within one year

	2012	2011
	£	£
Bank Overdraft	106,960	-
Trade creditors	487,156	65,484
Convertible loans	2,285,332	2,101,636
Other taxation and social security	4,291	11,774
Other creditors	117,675	34,983
	<u>3,001,414</u>	<u>2,213,877</u>

The Company has £2,030,940 worth of convertible loan stock falling due within one year. Including accrued interest, this amounts to £2,285,332 as disclosed above.

Until such time as they are redeemed or converted to shares, £993,239 loan incurs interest at a fixed rate of 5.5%; £45,535 at a fixed rate of 3.5%, £839,699 at a fixed rate 7.5% and £152,467 at a fixed rate of 9.66%.

The loans can be redeemed by the Company by giving not less than 28 days notice at or immediately prior to a funding round, sale or listing subject to the stockholders electing to convert all or part of the loans within the notice period. Stockholders are entitled at any time before a funding round, sale or listing to request the Company to allot and issue fully paid ordinary shares in accordance with the terms of the relevant loan issue.

On 2 October 2012 the longstop date for repayment of £993,239 of the convertible loans was extended to 31 December 2013.

The Company had a bank overdraft facility of £200,000, secured by a bond and floating charge over the whole assets of the company, including share capital, and personal guarantees granted by two of the directors, Dr D O' Neil and Prof. J Pool for £65,000 (2011: £65,000) and £305,000 (2011: £305,000) respectively.

8 Creditors: amounts falling due after one year

	2012	2011
	£	£
Convertible loans	1,231,618	305,000

Until such time as they are redeemed or converted to shares, £639,000 loan incurs interest at a fixed rate of 6.0%.

As at 31 August 2012, the Company had received £592,618 subscriptions to a new loan stock redeemable on 31 December 2013 convertible to shares at a conversion price of £3.37. On 2 October 2012 an additional £252,000 was subscribed and loan notes were issued. A further £230,000 will be subscribed in November 2012. This £1,074,618 subscription in total could result in an issue of 318,877 ordinary shares with a nominal value of £0.10 per share and will earn interest at a fixed rate of 8% pa.

The loans can be redeemed by the Company by giving not less than 28 days notice at or immediately prior to a funding round, sale or listing subject to the stockholders electing to convert all or part of the loans within the notice period. Stockholders are entitled at any time before a funding round, sale or listing to request the Company to allot and issue fully paid ordinary shares in accordance with the terms of the relevant loan issue.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 Accruals and deferred income

	2012	2011
	£	£
Accruals and deferred income	10,000	10,000

10 Pension costs

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £5,564 (2011: £5,588).

Contributions totalling £10,197 (2011: £1,621) were payable to the fund at the year end.

11 Share capital

Allotted, called up and fully paid

	2012	2012	2011	2011
	Number of shares	£	Number of shares	£
Ordinary shares of 10p each	9,218,915	921,892	9,218,915	921,892
A Ordinary shares of 10p each	1,312,802	131,280	1,312,802	131,280
	<u>10,531,717</u>	<u>1,053,172</u>	<u>10,531,717</u>	<u>1,053,172</u>

At 31 August 2012, the company had unexercised share options relating to an unapproved scheme of 625,195 ordinary shares. 100,000 are exercisable at a price of £0.01 per share, 482,439 at £0.10 per share and 42,756 at £1.45 per share. The company also had unexercised share options under an EMI scheme of 230,644 shares. These shares are exercisable at a price of £1.45 per share

12 Statement of movements on reserves

	Share premium account	Share scheme reserve	Profit and loss account
	£	£	£
Balance as at 1 September 2011	6,485,342	157,068	(8,570,488)
Loss for the financial year	-	-	(1,595,711)
Balance as at 31 August 2012	<u>6,485,342</u>	<u>157,068</u>	<u>(10,166,199)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 Financial commitments

At 31 August 2012 the company had aggregate annual commitments under non-cancellable operating leases as set out below:

	2012	2011
	£	£
Operating leases which expire:		
Within 1 year	70,500	17,625
Within 2 to 5 years	88,125	-
	158,625	17,625

14 Related party transactions

14.1 Fees

Non Executive Director, John Pool, consultancy fees charged from Wellbeach Associates, during the year amounted to £10,002 (2011: £16,670) The amount outstanding as at year end was £8,002 (2011: £856).

Non Executive Director, Andrew Porter, charged consultancy fees from Grampian BioPartners Consultancy, during the year which amounted to £36,000 (2011: £28,000) plus an investment fee of £1,540 (2011: £2,254). The amount outstanding as at year end was £24,000 (2011: £3,000).

Company Secretary, Margaret Scott, accountancy and financial services during the year amounted to £36,575 (2011: £33,600). The amount outstanding as at year end was £19,257 (2011: £2,100).

14.2 Convertible Loans

Non Executive director, Ian Townsend, holds £30,493 of the £152,467 convertible loans (2011: £30,493) (Note 7), £156,744 of the £839,699 convertible loans (2011: £156,744)(Note 7), £216,997 of the £993,239 convertible loans (2011: £216,997) (Note 7) and £65,000 of the £1,074,618 convertible loans (2011:Nil)(Note 8)

Company Secretary, Margaret Scott, holds £108,498 of the £993,239 convertible loans (2011: £108,498) (Note 7) and £15,000 of the £1,074,618 convertible loans (2011: Nil) (Note 8).

Non Executive Chairman, Bryan Bodek, holds £15,000 of the £1,074,618 convertible loans (2011; Nil) (Note 8).

Non Executive Director, Andrew Porter, holds £10,000 of the £1,074,618 convertible loans (2011: Nil) (Note 8).

14.3 Bank Overdraft

The Bank overdraft is secured by personal guarantees granted by two of the directors, Deborah O'Neil and John Pool, for £65,000 (2011: £65,000) and £305,000 (2011: £305,000) respectively.

15 Ultimate parent undertaking

There was no ultimate controlling party during the current and previous year.

16 Post balance sheet events

Additional subscriptions of £252,000 were received for the new loan stock on 2 October 2012. A further £230,000 will be subscribed in November 2012 making for a total of £1,074,618 in this 2012 funding round. On 2 October 2012 the longstop date for repayment of £993,239 of the convertible loans was extended to 31 December 2013 (Note 7).