

**TMO Renewables Limited**

**Directors' report and financial  
statements**

**Registered number 4405622  
Year Ended 31 December 2008**

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## Directors' report

The directors present their directors' report and financial statements for the year ended 31<sup>st</sup> December 2008.

### Principal activities

The company's principal activity is to identify, develop and exploit the properties of thermophilic micro-organisms for the production of chemicals and liquid fuels from biomass.

### Business review

The year to December 2008 saw substantial progress of TMO's business. The Process Demonstration Unit ("PDU") was mechanically completed in May and has been operational since early June. The PDU is running 24 hours per day, 7 days per week and is processing a number of potential client feedstocks.

In our principal market, the United States, there have been continuing legislative developments during 2008 which underline the US Government's support for the ethanol industry. In March 2008, Congress passed the Farm Bill which provides substantial monetary and fiscal support for next generation ethanol technology in the shape of Government backed loan guarantees, grants and tax credits for every gallon of ethanol produced. The new administration has continued this support and has provided additional impetus to cellulosic ethanol. The American Recovery and Reinvestment Act (or "Stimulus Bill") was passed by Congress in February 2009 and includes provision for \$47 billion for spending on renewable energy and increases in tax credits for investments in alternative fuel infrastructure.

Our research and development efforts are focussed on the optimisation of the process performance of our micro organism TM242 and the industrial application of the TMO Process. This is the continuation of our activity designed to offer future performance upgrades to our clients. The continuous operation of the PDU enables our research and development to progress at a faster pace.

We are an early stage company developing new technologies, making significant research and development investment, including intensive testing and analytical work to demonstrate commercialisation. The Company has cash on deposit and irrevocable commitments to subscribe for new Ordinary Shares from existing and new shareholders that will give sufficient funds to meet our capital and operating requirements for at least the next twelve months from the date of signature of these financial statements.

### Results and dividends

The loss for the financial year was £4,524,000 (2007: £3,142,000). The directors do not recommend the payment of a dividend.

### Financial instruments

The company's financial risk management objective is broadly to seek to make neither profit nor loss from exposure to currency or interest rate risks. Its policy is to finance its development activities through share issues and grants, the funds from which are placed on bank deposits at prevailing rates of interest until used.

The directors do not consider any other risks attaching to the use of financial instruments to be material to an assessment of its financial position or its loss for the year.

## **Directors' report** *(continued)*

### **Directors**

The directors who served during the year were as follows:

H. Curran

J.C. Miller

A. Atkinson

P. N. Rodgers

R. Parker

S. Martin (Appointed 5 November 2008)

### **Information given to the auditors**

Each of the directors has confirmed that so far as he is aware, there is no relevant audit information of which the company's auditors are unaware, and that he has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

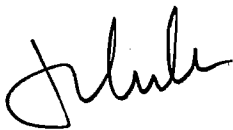
### **Research and development**

The company has continued to carry our research into the use of the properties of extremophiles and thermophiles to produce chemicals and liquid fuels from biomass incurring costs during the year of £3,695,000 (2007: £3,143,000) which have been written off to the profit and loss account.

### **Auditors**

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



**J. C. Miller**  
*Director*

40 ALAN TURING ROAD, THE SURREY RESEARCH PARK,  
GUILDFORD, SURREY GU2 7YF

## **Statement of directors' responsibilities in respect of the Directors' Report and the financial statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



## KPMG LLP

Dukes Keep  
Marsh Lane  
Southampton  
SO14 3EX  
United Kingdom

### **Independent auditors' report to the members of TMO Renewables Limited**

We have audited the financial statements of TMO Renewables Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein and the requirements of the Financial Reporting Standard for Smaller Entities (Effective January 2007).

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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

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

#### **Basis of audit opinion**

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

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

## **Independent auditors' report to the members of TMO Renewables Limited (*continued*)**

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice applicable to Smaller Entities, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

*KPMG LLP*  
**KPMG LLP**  
*Chartered Accountants*  
*Registered Auditor*

21st May 2009

**Profit and Loss Account**  
*for the year ended 31 December 2008*

	<i>Note</i>	<b>2008</b> <b>£000</b>	2007 £000
Direct scientific costs		(3,695)	(3,143)
Other Income		-	49
		<hr/>	<hr/>
<b>Gross loss</b>		<b>(3,695)</b>	<b>(3,094)</b>
Administrative expenses		(1,526)	(1,256)
		<hr/>	<hr/>
<b>Operating loss</b>	2	<b>(5,221)</b>	<b>(4,350)</b>
Interest receivable and similar income	4	196	479
Interest payable and similar charges	5	(13)	(13)
		<hr/>	<hr/>
<b>Loss on ordinary activities before taxation</b>		<b>(5,038)</b>	<b>(3,884)</b>
Tax on loss on ordinary activities	6	514	742
		<hr/>	<hr/>
<b>Loss for the financial year</b>	15	<b>(4,524)</b>	<b>(3,142)</b>
		<hr/> <hr/>	<hr/> <hr/>

There were no recognised gains and losses other than the loss for the year. All amounts relate to continuing activities.

There is no difference between the retained loss for this year and the historical cost equivalent, accordingly no statement of historical cost profit and losses has been prepared.

**Balance Sheet**  
*at 31 December 2008*

	Note	2008	2007
		£000	£000
<b>Fixed assets</b>			
Tangible assets	9	8,105	6,260
<b>Current assets</b>			
Debtors	10	1,059	1,229
Cash at bank and in hand		2,063	9,219
		<u>3,122</u>	<u>10,448</u>
<b>Creditors: amounts falling due within one year</b>	11	<u>(1,701)</u>	<u>(2,753)</u>
<b>Net current assets</b>		<b>1,421</b>	<b>7,695</b>
<b>Creditors: amounts falling due after more than one year</b>	12	-	(10)
<b>Net assets</b>		<b>9,526</b>	<b>13,945</b>
<b>Capital and reserves</b>			
Called up share capital	13	673	670
Share premium account	15	21,653	21,455
Profit and loss account	15	(12,800)	(8,180)
<b>Equity Shareholders' funds</b>	15	<b>9,526</b>	<b>13,945</b>

These financial statements were approved by the board of directors on 15 May 2009 and were signed on its behalf by:



**J. C. Miller**  
 Director

**Cash Flow Statement**  
*for the year ended 31 December 2008*

	<i>Note</i>	<b>2008</b> <b>£000</b>	2007 £000
<b>Cash flow from operating activities</b>	16	<b>(5,649)</b>	(2,340)
<b>Returns on investments and servicing of finance</b>	17	<b>183</b>	466
<b>Taxation</b>		<b>556</b>	340
<b>Capital expenditure and financial investment</b>	17	<b>(2,208)</b>	(5,801)
Cash outflow before management of liquid resources and financing		<u><b>(7,118)</b></u>	<u>(7,335)</u>
<b>Financing</b>	17	<b>(38)</b>	16,080
<b>(Decrease)/Increase in cash in the year</b>	18	<u><b>(7,156)</b></u>	<u>8,745</u>
 <b>Reconciliation of net cash flow to movement in net funds (note 18)</b>			
<b>(Decrease)/Increase in cash in the year</b>		<b>(7,156)</b>	8,745
Cash outflow from decrease in hire purchase and lease financing		<u><b>38</b></u>	<u>37</u>
<b>Movement in net funds in the year</b>		<b>(7,118)</b>	8,782
<b>Net funds at 1 January 2008</b>		<u><b>9,172</b></u>	<u>390</u>
<b>Net funds at 31 December 2008</b>	18	<u><b>2,054</b></u>	<u>9,172</u>

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

#### *Basis of preparation*

The financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (Effective January 2007), applicable accounting standards as defined below, and under the historical cost accounting rules.

The financial statements are prepared on a going concern basis, notwithstanding a net loss of £4.5 million during the year ended 31 December 2008 and the Company's deficit in the Profit and Loss account of £12.8 million at that date, which the directors believe to be appropriate for the reasons set out below.

At the date of signature of these financial statements the Company has cash on deposit of £1.93 million and share placement commitments totalling £6 million to subscribe for new Ordinary Shares from existing and new shareholders. Prior to signature of these financial statements, an EGM was convened which approved the issue of the shares offered (see note 21), and committed for subscription by investors through the share placement process. The terms of the share placement commitments are such that the investors are required to make the agreed subscription for ordinary share capital by 15 May plus 8 days. The Directors consider the £6m to be committed and the irrevocable agreements to support this have been executed. These financial statements do not include any adjustments that might result should this investment not occur.

The Directors have reviewed the Company's cash projections for the next 12 months alongside the funding described above, and have concluded that together they provide an appropriate basis for the Directors to present financial statements of the Company on a going concern basis.

#### *Tangible fixed assets*

Tangible assets are recorded at cost less accumulated depreciation. Depreciation is calculated, on a reducing balance basis, so as to write off the cost of fixed assets, less their estimated residual values, over the expected useful economic lives of the assets. The principal rates used for this purpose are:

Plant and machinery	10%
Leasehold improvements	10%
Fixtures and fittings	33%
Computer equipment	33%
Land and Buildings	10% (straight line)

#### *Grant income*

Grants receivable in respect of research expenditure are matched against the relevant expenditure on an accruals basis with any excess being carried forward as deferred income. Grants receivable which are subject to the achievement of specific milestones are not recognised in the profit and loss account until the conditions for their receipt have been complied with and there is reasonable assurance that the grant will be received.

#### *Foreign currencies*

Transactions denominated in foreign currencies are translated into sterling at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Exchange gains or losses arising on these transactions are included in the profit and loss account.

**Notes** *(continued)*

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

**Deferred taxation**

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in tax computations in period different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

**Research and development**

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

**Liquid resources**

Liquid resources comprise deposits at banks which are not repayable on demand without notice and without penalty.

**Pensions**

Contributions to employees' personal pension schemes are charged to the profit and loss account in the year to which they relate.

**Finance leases**

Assets acquired under finance leases or hire purchase contracts are treated as tangible fixed assets and depreciation is provided accordingly. The present value of future rentals is shown as a liability and the interest element of rental obligations is charged to the profit and loss account over the period of the lease in proportion to the capital balance outstanding.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

**Employee share schemes**

As required by the FRSSE (effective January 2007), details of the share based payment scheme are provided in a note to the financial statements.

**2 Operating loss**

The operating loss is stated after charging/(crediting):

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Depreciation of tangible fixed assets		
- owned by the company	<b>347</b>	65
- held under finance leases and hire purchase contracts	<b>16</b>	17
Operating lease rentals:		
- other (rent)	<b>331</b>	84
Research and development expenditure	<b>3,695</b>	3,151
Gain on foreign exchange	<b>(3)</b>	-
Impairment on investments	-	35
Grant income	-	(49)
	<hr style="border-top: 3px double #000;"/>	<hr style="border-top: 3px double #000;"/>

**Notes (continued)**

**3 Auditors Remuneration**

	2008 £000	2007 £000
Fees payable to the company's auditors		
-Audit fee – former auditors	-	8
-Audit fee – current auditors	17	16
-Non audit fee	5	11
	22	35
	22	35

**4 Interest receivable and similar income**

	2008 £000	2007 £000
Bank interest receivable	196	479
	196	479
	196	479

**5 Interest payable and similar charges**

	2008 £000	2007 £000
Interest on finance lease and hire purchase contracts	9	8
Bank interest payable	4	5
	13	13
	13	13

**6 Taxation**

*(a) Analysis of credit for the year*

	2008 £000	2007 £000
R&D tax credits claimed in respect of current year	(450)	(450)
R&D tax credits claimed in respect of prior years	(64)	(292)
	(514)	(742)
	(514)	(742)

**Notes** *(continued)*

**6 Taxation** *(continued)*

*(b) Factors affecting the credit for the year*

The tax assessed for the year is different from that calculated at the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2008 £000	2007 £000
Loss on ordinary activities before tax	(5,038)	(3,885)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2007: 30%)	(1,410)	(1,165)
Effects of:		
Expenditure not deductible for tax purposes	12	6
Depreciation (less than)/in excess of capital allowances in year	28	(82)
Losses carried forward to future years	1,370	1,241
Research and development tax credits claimed in respect of current year	(450)	(450)
Research and development tax credits claimed in respect of prior year	(64)	(292)
Total UK corporation tax	(514)	(742)

The company has losses available to be carried forward for offset against future taxable profits amounting to approximately £10,814,000 (2007: £6,307,000). These losses will reduce the tax charge of future years until they are utilised. No deferred tax asset in respect of these losses and other timing differences, which would amount to approximately £3,027,000 calculated at 28% (2007: £1,765,000, calculated at 28%), has been recognised as there is currently insufficient certainty as to the timing of when such an asset would be recovered.

**7 Directors' remuneration**

	2008 £000	2007 £000
Aggregate emoluments	740	585
Company contribution to money purchase pension scheme	27	20

The aggregate of emoluments of the highest paid director was £270,000 (2007: £250,000), and company pension contributions of £27,000 (2007: £20,000) were made to a money purchase scheme on his behalf.

**Notes** (continued)

**8 Employee information**

The average number of employees during the year, including executive directors was:

	2008 Number	2007 Number
Administration and management	5	5
Engineering	11	2
Research	18	14
	<u>34</u>	<u>21</u>

The employment costs of all employees included above were:

	£000	£000
Wages and salaries	1,670	1,244
Social security contributions	188	136
Pension contributions	132	71
	<u>1,990</u>	<u>1,451</u>

**9 Tangible fixed assets**

	Leasehold improvements £000	Computer equipment £000	Fixtures and fittings £000	Plant and machinery £000	Land and Buildings £000	Total £000
<i>Cost</i>						
At 1 January 2008	99	79	245	720	5,276	6,419
Additions	-	27	42	124	2,015	2,208
	<u>99</u>	<u>106</u>	<u>287</u>	<u>844</u>	<u>7,291</u>	<u>8,627</u>
<i>Depreciation</i>						
At 1 January 2008	17	35	14	93	-	159
Charge for year	8	19	25	69	242	363
	<u>25</u>	<u>54</u>	<u>39</u>	<u>162</u>	<u>242</u>	<u>522</u>
<i>Net book value</i>						
At 31 December 2008	<u>74</u>	<u>52</u>	<u>248</u>	<u>682</u>	<u>7,049</u>	<u>8,105</u>
At 31 December 2007	<u>82</u>	<u>44</u>	<u>231</u>	<u>627</u>	<u>5,276</u>	<u>6,260</u>

**Notes** *(continued)*

The net book value of assets and the depreciation charged in the year held under finance lease or hire purchase contract included above was:

	2008 £000	2007 £000
Plant and machinery- Net book value	141	157
Plant and machinery- Depreciation charged	16	17

**10 Debtors**

	2008 £000	2007 £000
Corporation tax receivable	450	491
Other debtors	375	641
Prepayments and accrued income	234	97
	1,059	1,229

**11 Creditors: amounts falling due within one year**

	2008 £000	2007 £000
Trade creditors	513	2,270
Other taxation and social security	99	215
Other creditors	633	-
Accruals and deferred income	447	231
Finance lease creditor	9	37
	1,701	2,753

**Notes** *(continued)*

**12 Creditors: amounts falling due after more than one year**

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Net obligations under finance lease and hire purchase contracts	-	10
<hr/>		
Net obligation under finance lease and hire purchase contracts fall due as follows:		
	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Gross obligations due within one year	11	47
Gross obligations due after one year	-	11
	<hr/>	<hr/>
Interest charges allocated to future periods	11 (2)	58 (11)
	<hr/>	<hr/>
Due within one year	9 (9)	47 (37)
	<hr/>	<hr/>
Due after one year	-	10
	<hr/>	<hr/>

**13 Called up share capital**

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
<i>Authorised</i>		
150,000,000 Ordinary shares of £0.01 each	1,500	1,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
67,305,219 Ordinary shares of £0.01 each	673	670
	<hr/>	<hr/>

**Share issue**

The company made the following issues of shares during the year:

<i>Date</i>	<i>Class</i>	<i>No. issued</i>	<i>Consideration</i>	<i>Share Capital</i>	<i>Share Premium</i>
				£	£
Feb 2008	£0.01	281,961	£0.6948 each	2,820	193,087
April 2008	£0.01	16,000	£1.25 each	160	19,840
April 2008	£0.01	50,900	£0.1075 each	509	4,963
				<hr/>	<hr/>
				3,489	217,890
				<hr/>	<hr/>

## Notes (continued)

### 14 Share based payments

#### *Share options and warrants*

At 31 December 2008 the company had 1,434,900 (2007: 1,434,900) warrants in issue. The warrants entitle the holder to subscribe for one ordinary share of £0.01 each in the company at any time between 30 June 2007 and 29 June 2009 at an exercise price of £0.238. These warrants expire on 29 June 2009 or on a listing of the company, whichever is the later date.

At 31 December 2008, the company had in issue the following options through which holders of such options may acquire ordinary shares of £0.01 each:

No's of options	Exercise price £	Period options exercisable
129,900	0.2380	26 October 2004 – 25 October 2009
5,500	0.2380	25 October 2004 – 24 October 2009
100,000	0.1950	25 March 2005 – 23 March 2015
10,500	0.2380	11 April 2005 – 10 April 2010
20,000	0.1950	21 April 2005 – 20 April 2015
150,000	0.1950	25 April 2005 – 24 April 2015
1,100,000	0.0100	20 May 2005 – 19 May 2015
18,600	0.3000	25 November 2005 – 24 November 2010
172,600	0.3000	29 November 2005 – 28 November 2010
51,300	0.3000	12 February 2007 – 11 February 2012

During the year, options totalling 50,900 shares were exercised at an exercise price of £0.1075. No new share options or warrants were issued during the year.

Share options and warrants vested unconditionally on grant. The Directors consider the share options and warrants will be settled through issue of the relevant equity. As permitted by the Financial Reporting Standard for Smaller Entities ("FRSSE") the Directors have not recognised any accounting entries in relation to these options and warrants.

#### *Employee benefit trust*

On 20 August 2002 the company formed the TMO Biotec Limited Discretionary Employee Benefit Trust with a view to encouraging, motivating and retaining the company's employees. At 31 December 2008 the Trust held 14,744,835 (2007: 14,606,800) ordinary shares. There are no current arrangements for distributing the shares and options to employees. Any such arrangements would be made at the sole discretion of the trustees and as such are outside of the Company or management of the Company. These shares have, therefore, not vested conditionally or unconditionally to any employees. The Directors consider that should arrangements be established for distributing these shares and options, such a distribution would result in the issue of the equity held by the EBT to the relevant employees. As permitted by the FRSSE the Directors have not recognised any accounting entries in relation to these options.

**Notes** (continued)

**15 Reserves**

	Share capital £000	Share premium account £000	Profit and loss account £000	2008 Total £000	2007 Total £000
<b>At 1 January 2008</b>	<b>670</b>	<b>21,455</b>	<b>(8,180)</b>	<b>13,945</b>	741
Loss for the financial year	-	-	(4,524)	(4,524)	(3,142)
Shares issued in for cash consideration	-	-	-	-	16,850
Shares issued in respect of goods and services	2	123	-	125	230
Financing costs	-	(20)	-	(20)	(734)
Share issued to the Employee Benefit Trust	1	95	(96)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 December 2008</b>	<b>673</b>	<b>21,653</b>	<b>(12,800)</b>	<b>9,526</b>	13,945
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Included within the profit and loss account is an amount of £242,000 which is not distributable.

	2008 £000	2007 £000
The profit and loss account comprises:		
Distributable profit and loss account	(12,558)	(8,034)
Shares held by Employee Benefit Trust	(242)	(146)
	<hr/>	<hr/>
Company profit and loss account	<b>(12,800)</b>	<b>(8,180)</b>
	<hr/> <hr/>	<hr/> <hr/>

**16 Reconciliation of operating loss to net cash outflow from operating activities**

	2008 £000	2007 £000
Operating loss	(5,221)	(4,351)
Depreciation of tangible fixed assets	363	83
Impairment of intangible assets	-	35
Shares and options issued for services received	104	230
Increase/(Decrease) in debtors	129	(541)
(Increase)/Decrease in creditors	(1,024)	2,204
	<hr/>	<hr/>
Net cash outflow from operating activities	<b>(5,649)</b>	<b>(2,340)</b>
	<hr/> <hr/>	<hr/> <hr/>

**Notes** (continued)

**17 Gross cash flows**

	2008 £000	2007 £000
<b>Returns on investments and servicing of finance</b>		
Interest received	196	479
Interest paid	(4)	(5)
Interest element of finance lease and hire purchase contracts	(9)	(8)
	183	466
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(2,208)	(5,801)
<b>Financing</b>		
Proceeds from the issue of shares	-	16,851
Share issue expenses	-	(734)
Capital element of finance lease rentals	(38)	(37)
	(38)	(16,080)

**18 Analysis of changes in net funds**

	At 1 January 2008 £000	Cash flows £000	At 31 December 2008 £000
Cash at bank and in hand	9,219	(7,156)	2,063
Finance leases (shown with creditors due within 1 year)	(47)	38	(9)
	9,172	(7,118)	2,054

**19 Financial commitments**

(a) The company is, under the terms of various agreements, committed to make payments amounting to £466,772 (2007: £993,693) over a period of the next three years in respect of research and bursaries.

(b) Annual commitments under non- cancellable operating leases are as follows

	Land and buildings	
	2008 £000	2007 £000
Expiring between two and five years	365	103
	365	103

(c) Commitments at 31 December 2008 to purchase tangible fixed assets totalled £nil (2007: £3,916,216)

**Notes** *(continued)*

**20 Related party transactions**

During the year the following directors charged the company the amounts shown below for consultancy services:

	<b>Charged to the company</b>		<b>Amounts owed by the company at</b>	
	<b>Year ended 31 December 2008</b>	<b>Year ended 31 December 2007</b>	<b>31 December 2008</b>	<b>31 December 2007</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
A Atkinson	76,426	39,651	4,499	504
N Rodgers	7,248	7,522	1,450	425

**21 Post Balance Sheet Events**

On Friday 15<sup>th</sup> May 2009, the company held an EGM which approved the increase in authorised share capital by 50,000,000 new ordinary shares of £0.01 each ranking pari passu for all purposes with the existing ordinary shares of £0.01 each.

**22 Ultimate parent company**

The company is privately owned and has no controlling shareholder.