

**TMO Renewables Limited**

**Directors' report and financial  
statements**

**Registered number 4405622**

**Year Ended 31 December 2007**

## Contents

Directors' report	1
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	3
Independent auditors' report to the members of TMO Renewables Limited	4
Profit and Loss Account	6
Balance Sheet	7
Cash Flow Statement	8
Notes	9

## Directors' report

The directors present their directors' report and financial statements for the year ended 31<sup>st</sup> December 2007.

### 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 2007 saw continued progress of TMO's business. The fundraising activities of the first quarter yielded £17 million, with all funds received by August. The engineering design of the Process Demonstration Unit ("PDU") was completed during the first quarter and fabrication of the process system commenced at Burton-on-Trent in May. Planning permission for the construction of the building to house the PDU was granted on 27<sup>th</sup> June 2007 and civil works commenced at the site at the end of August. At the end of the year the building was largely complete and the process vessels installed. Hook-up of the pre-fabricated process elements and installation of the pipe-work continued into the New Year and commissioning work is well advanced. We expect the PDU to be fully operational and processing potential client feedstock during June 2008.

In our principal market, the United States, the government continues to provide substantial support to the ethanol industry. In December 2007 an Energy Bill was passed into US law requiring at least 36 billion gallons per annum to be included in the nation's gasoline. This Bill also limited the amount that can be produced from corn to a maximum of 15 billion gallons per annum, meaning that 21 billion gallons per annum must be delivered by technologies such as TMO's.

Our research and development efforts continue to be focussed on improvements in process performance of our micro organism TM242 on future feedstocks and industrial application. This is the beginning of our activity designed to offer future performance upgrades to our clients. In addition, we continue to conduct strategic research targeted to deliver a pipeline of future applications and processes.

We are an early stage company developing new technologies, we are making significant development and investment, including intensive testing and analytical work to demonstrate its commercialisation. We currently anticipate that our available cash resources will be sufficient to meet our capital and operating requirements for at least the next twelve months. We are in the process of raising further funds with a view to strengthen our balance sheet and Hoare Govett have been appointed as brokers and financial advisers to co-ordinate this fund raising. Initial signs from our discussions are that our investors remain supportive.

### Results and dividends

The loss for the financial year after an exceptional item of £nil (2006: £265,022) was £3,142,367(2006: £2,910,533). 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. Some of its debtors, in respect of grants receivable, are denominated in euros and are translated into sterling at the prevailing rate of exchange at the year end and are not hedged.

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 Miller

A Atkinson

P N Rodgers

R Parker (appointed to the board 23<sup>rd</sup> May 2007)

### 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 £3,150,784 (2006: £1,922,527) 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 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 2007 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 2007 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

*KPMG LLP*

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

*29th April 2008*

**Profit and Loss Account**  
*for the year ended 31 December 2007*

	<i>Note</i>	<b>2007</b>		<b>2006</b>	
		£	£	£	£
Direct scientific costs			(3,142,682)		(1,922,527)
Other Income			49,114		23,380
			<hr/>		<hr/>
<b>Gross loss</b>			<b>(3,093,568)</b>		<b>(1,899,147)</b>
Administrative expenses					
Exceptional item	2	-		(265,022)	
Other		(1,256,503)		(822,924)	
			<hr/>		<hr/>
			<b>(1,256,503)</b>		<b>(1,087,946)</b>
			<hr/>		<hr/>
<b>Operating loss</b>	3		<b>(4,350,071)</b>		<b>(2,987,093)</b>
Interest receivable and similar income	5		479,001		83,536
Interest payable and similar charges	6		(13,577)		(6,976)
			<hr/>		<hr/>
<b>Loss on ordinary activities before taxation</b>			<b>(3,884,647)</b>		<b>(2,910,533)</b>
Tax on loss on ordinary activities	7		742,280		-
			<hr/>		<hr/>
<b>Loss for the financial year</b>	17		<b>(3,142,367)</b>		<b>(2,910,533)</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 profit 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 2007*

	<i>Note</i>	2007		2006	
		£	£	£	£
<b>Fixed assets</b>					
Tangible assets	<i>10</i>		6,260,167		541,655
Investments	<i>11</i>		-		35,103
<b>Current assets</b>					
Debtors	<i>12</i>	1,228,696		286,566	
Cash at bank and in hand		9,219,441		474,409	
		<u>10,448,137</u>		<u>760,975</u>	
<b>Creditors: amounts falling due within one year</b>	<i>13</i>		<b>(2,752,670)</b>		<b>(551,042)</b>
			<u>7,695,467</u>		<u>209,933</u>
<b>Net current assets</b>			<b>7,695,467</b>		<b>209,933</b>
<b>Creditors: amounts falling due after more than one year</b>	<i>14</i>		<b>(10,424)</b>		<b>(45,353)</b>
			<u>13,945,210</u>		<u>741,338</u>
<b>Net assets</b>			<b>13,945,210</b>		<b>741,338</b>
<b>Capital and reserves</b>					
Called up share capital	<i>15</i>		669,567		391,531
Share premium account	<i>17</i>		21,456,077		5,358,487
Profit and loss account	<i>17</i>		(8,180,434)		(5,008,680)
			<u>13,945,210</u>		<u>741,338</u>
<b>Shareholders' funds</b>	<i>17</i>		<b>13,945,210</b>		<b>741,338</b>

These financial statements were approved by the board of directors on 23 April 2008 and were signed on its behalf by:

  
**J Miller**  
*Director*

**Cash Flow Statement**  
*for the year ended 31 December 2007*

	<i>Note</i>	<b>2007</b> £	2006 £
<b>Cash flow from operating activities</b>	<i>18</i>	(2,339,775)	(2,572,172)
<b>Returns on investments and servicing of finance</b>	<i>19</i>	465,424	76,560
<b>Taxation</b>		341,134	-
<b>Capital expenditure and financial investment</b>	<i>19</i>	(5,801,196)	(394,887)
Cash outflow before management of liquid resources and financing		<u>(7,334,413)</u>	<u>(2,890,499)</u>
<b>Management of liquid resources</b>	<i>19</i>	-	3,339,641
<b>Financing</b>	<i>19</i>	16,079,445	(105,287)
<b>Increase/(decrease) in cash in the year</b>	<i>20</i>	<u>8,745,032</u>	<u>343,855</u>
<b>Reconciliation of net cash flow to movement in net funds (note 20)</b>			
<b>Increase/(decrease) in cash in the year</b>		8,745,032	343,855
Cash outflow from decrease in hire purchase and lease financing		36,798	105,287
Cash (inflow)/outflow used to (decrease)/increase liquid resources		-	(3,339,641)
<b>Change in net debt resulting from cash flows</b>		<u>8,781,830</u>	<u>(2,890,499)</u>
New finance leases		-	(189,585)
<b>Movement in net funds in the year</b>		<u>8,781,830</u>	<u>(3,080,084)</u>
<b>Net funds at 1 January 2007</b>		<u>390,111</u>	<u>3,470,195</u>
<b>Net funds at 31 December 2007</b>		<u><u>9,171,941</u></u>	<u><u>390,111</u></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 which the directors believe to be appropriate for the following reasons. The Company is in its early stages developing new technologies, which requires significant development and investment, including intensive testing and analytical work to demonstrate its commercialisation. The Directors have prepared projected cash flow information which indicates that the available cash resources will be sufficient to meet the capital and operating requirements for at least twelve months from the signature of these financial statements.

The Company is in the process of raising further funds with a view to strengthening the balance sheet and Hoare Govett have been appointed as brokers and financial advisers to co-ordinate this fund raising. Initial signs from discussions are that potential investors remain supportive.

#### *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%

Assets under construction are recorded at cost and no depreciation is provided.

#### *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)**

***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 FRSSSE (effective January 2007), details of the share based payment scheme are provided in a note to the financial statements.

**2 Exceptional Item**

The exceptional item in 2006 of £265,022 represents the costs arising from the termination of the employment of two directors.

**3 Operating loss**

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

	2007	2006
	£	£
Depreciation of tangible fixed assets		
- owned by the company	65,223	40,223
- held under finance leases and hire purchase contracts	17,461	14,980
Operating lease rentals:		
- other (rent)	84,452	87,383
Research and development expenditure	3,150,784	1,922,527
Impairment on investments	35,103	-
Grant income	(49,114)	(23,380)
	=	=

**Notes (continued)**

**4 Auditors Remuneration**

	2007 £	2006 £
Fees payable to the company's auditors		
-Audit fee – former auditors	7,725	5,900
-Audit fee – current auditors	16,000	-
-Non audit fee	11,550	14,200
	35,275	20,100
	35,275	20,100

**5 Interest receivable and similar income**

	2007 £	2006 £
Bank interest receivable	479,001	83,536
	479,001	83,536

**6 Interest payable and similar charges**

	2007 £	2006 £
Interest on finance lease and hire purchase contracts	8,143	6,976
Bank interest payable	5,434	-
	13,577	6,976
	13,577	6,976

**7 Taxation**

*(a) Analysis of credit for the year*

	2007 £	2006 £
R&D tax credits claimed in respect of current year	(450,000)	-
R&D tax credits claimed in respect of prior years	(292,280)	-
	(742,280)	-
	(742,280)	-

**Notes (continued)**

**7 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:

	2007 £	2006 £
Loss on ordinary activities before tax	(3,884,647)	(2,910,533)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2006: 30%)	(1,165,394)	(873,160)
Effects of:		
Expenditure not deductible for tax purposes	6,737	12,440
Depreciation (less than)/in excess of capital allowances in year	(82,000)	(59,195)
Losses carried forward to future years	1,240,657	919,915
Research and development tax credits claimed in respect of current year	(450,000)	-
Research and development tax credits claimed in respect of prior year	(292,280)	-
Total UK corporation tax	(742,280)	-

The company has losses available to be carried forward for offset against future taxable profits amounting to approximately £6,307,000 (2006: £5,067,000). 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 £1,765,000, calculated at 28% (2006: £1,460,000, calculated at 30%) has been recognised as there is currently insufficient certainty as to the timing of when the asset would be recovered.

**8 Directors' remuneration**

	2007 £	2006 £
Aggregate emoluments	585,191	133,006
Compensation for loss of office	-	168,797
Company contribution to money purchase pension scheme	19,800	2,774

**9 Employee information**

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

	2007 Number	2006 Number
Administration and management	5	
Engineering	2	
Research	14	
	21	17

## Notes (continued)

### 9 Employee information (continued)

The employment costs of all employees included above were:

	£	£
Wages and salaries	1,243,776	723,166
Social security contributions	136,128	82,660
Pension contributions	70,830	23,158
	1,450,734	828,984
	1,450,734	828,984

The aggregate of emoluments of the highest paid director was £250,500 (2006: £108,948), and company pension contributions of £15,000 (2006: £2,774) were made to a money purchase scheme on his behalf.

### 10 Tangible fixed assets

	Leasehold improvements £	Computer equipment £	Fixtures and fittings £	Plant and machinery £	Assets under construction £	Total £
<b>Cost</b>						
At 1 January 2007	98,544	48,020	12,716	458,280	-	617,560
Additions	-	31,293	231,955	261,769	5,276,179	5,801,196
	98,544	79,313	244,671	720,049	5,276,179	6,418,756
	98,544	79,313	244,671	720,049	5,276,179	6,418,756
<b>Depreciation</b>						
At 1 January 2007	7,775	22,512	7,316	38,302	-	75,905
Charge for year	9,077	12,398	6,772	54,437	-	82,684
	16,852	34,910	14,088	92,739	-	158,589
	16,852	34,910	14,088	92,739	-	158,589
<b>Net book value</b>						
At 31 December 2007	81,692	44,403	230,583	627,310	5,276,176	6,260,167
	81,692	44,403	230,583	627,310	5,276,176	6,260,167
	81,692	44,403	230,583	627,310	5,276,176	6,260,167
At 31 December 2006	90,769	25,508	5,400	419,978	-	541,655
	90,769	25,508	5,400	419,978	-	541,655
	90,769	25,508	5,400	419,978	-	541,655

Assets under construction comprise the Process Demonstration Unit which is being constructed for operation from early 2008, accordingly this asset has not been depreciated during 2007.

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

	2007 £	2006 £
Plant and machinery- Net book value	157,144	174,605
	157,144	174,605
Plant and machinery- Depreciation charged	17,461	14,980
	17,461	14,980
	17,461	14,980

**Notes (continued)**

**11 Fixed asset investments**

At cost:

<b>At 1 January 2007</b>	35,103
Additions	
<b>At 31 December 2007</b>	<b>35,103</b>
<hr/>	
<i>Impairment</i>	
At 1 January 2007	-
Charge for year	35,103
<b>At 31 December 2007</b>	<b>35,103</b>
<hr/>	
<i>Net book value</i>	
<b>At 31 December 2007</b>	-
<hr/>	
At 31 December 2006	35,103
<hr/>	

**12 Debtors**

	2007	2006
	£	£
Other debtors	1,131,786	239,870
Prepayments and accrued income	96,910	46,696
	<hr/>	<hr/>
	<b>1,228,696</b>	<b>286,566</b>
	<hr/>	<hr/>

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

	2007	2006
	£	£
Trade creditors	2,270,416	276,481
Other taxation and social security	215,362	91,492
Other creditors	-	98,194
Accruals and deferred income	229,815	45,930
Finance lease creditor	37,077	38,945
	<hr/>	<hr/>
	<b>2,752,670</b>	<b>551,042</b>
	<hr/>	<hr/>

**Notes (continued)**

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

	2007	2006
	£	£
Net obligations under finance lease and hire purchase contracts	<b>10,424</b>	45,353
<hr/>		
Net obligation under finance lease and hire purchase contracts fall due as follows:		
	2007	2006
	£	£
Gross obligations due within one year	47,369	47,369
Gross obligations due after one year	10,423	55,363
<hr/>		
Interest charges allocated to future periods	57,792 (10,291)	102,732 (18,434)
<hr/>		
Due within one year	47,501 (37,077)	84,298 (38,945)
<hr/>		
Due after one year	<b>10,424</b>	45,353
<hr/>		

**15 Called up share capital**

	2007	2006
	£	£
<i>Authorised</i>		
100,000,000 Ordinary shares of £0.01 each	<b>1,000,000</b>	1,000,000
<hr/>		
<i>Allotted, called up and fully paid</i>		
66,956,796 Ordinary shares of £0.01 each	<b>669,568</b>	391,531
<hr/>		

**Share subdivision**

On 26 February 2007, the issued and unissued ordinary shares of £1 each were sub-divided into 100 ordinary shares of 1p each.

**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>
7 to 15 January 2007	£1	127,757	£69.48 each
28 March 2007 to 2 October 2007	£0.01	13,713,196	£0.6948 each
1 August 2007	£0.01	1,314,800	£0.01 each

**Notes (continued)**

**16 Share based payments**

***Share options and warrants***

At 31 December 2007 the company had 1,434,900 (2006: 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.

At 31 December 2007, 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
50,900	0.1075	14 May 2003 – 13 May 2008
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 1,314,800 shares were exercised the exercise price of £0.01 which is equivalent to the face value of the share.

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 2007 the Trust held 14,606,800 (2006: 11,668,200) 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 the Trust and Trustees to be independent of the company. In the event that arrangements were established by the Trustees to distribute shares to employees and ex-employees there would be an issue of the equity held by the EBT and no liability on the company. As permitted by the FRSSE the Directors have not recognised any accounting entries in relation to these shares.

**Notes (continued)**

**17 Reserves**

	Share capital £	Share premium account £	Profit and loss account £	2007 Total £	2006 Total £
<b>At 1 January</b>	391,531	5,358,487	(5,008,680)	741,338	3,651,871
Loss for the financial year	-	-	(3,142,367)	(3,142,367)	(2,910,533)
Shares issued in the year	248,649	-	-	248,649	
Financing costs	-	(733,650)	-	(733,650)	
Premium on share issue	-	16,831,240	-	16,831,240	
Share issued to the Employee Benefit Trust	29,387	-	(29,387)	-	
	<u>669,567</u>	<u>21,456,077</u>	<u>(8,180,434)</u>	<u>13,945,210</u>	<u>741,338</u>
<b>At 31 December</b>					

Included within the profit and loss account is an amount of £146,069 which is not distributable.

	2007 £	2006 £
The profit and loss account comprises:		
Company profit and loss account	(8,034,365)	(4,891,998)
Shares held by Employee Benefit Trust	(146,069)	(116,682)
	<u>(8,180,434)</u>	<u>(5,008,680)</u>

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

	2007 £	2006 £
Operating loss	(4,350,071)	(2,987,093)
Depreciation of tangible fixed assets	82,684	55,203
Impairment of intangible assets	35,103	-
Shares and options issued for services received	229,997	-
Decrease/(increase) in debtors	(540,984)	3,431
Increase/(decrease) in creditors	2,203,496	356,287
	<u>(2,339,775)</u>	<u>(2,572,172)</u>
Net cash outflow from operating activities		

**Notes (continued)**

**19 Gross cash flows**

	2007 £	2006 £
<b>Returns on investments and servicing of finance</b>		
Interest received	479,001	83,536
Interest paid	(5,434)	-
Interest element of finance lease and hire purchase payments	(8,143)	(6,976)
	465,424	76,560
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(5,801,196)	(359,784)
Purchase of fixed asset investments	-	(35,103)
	(5,801,196)	(394,887)
<b>Management of liquid resources</b>		
Cash withdrawn from deposit	-	3,339,641
<b>Financing</b>		
Proceeds from the issue of shares	16,849,894	-
Share issue expenses	(733,650)	-
Capital element of finance lease rentals	(36,799)	(105,287)
	16,079,445	(105,287)

**20 Analysis of changes in net funds**

	At 1 January 2007 £	Cash flows £	At 31 December 2007 £
Cash at bank and in hand	367,636	8,598,899	8,966,535
Cash on deposit at bank	106,773	146,133	252,906
	474,409	8,745,032	9,219,441
Finance leases	(84,298)	36,798	(47,500)
	390,111	8,781,830	9,171,941

**Notes (continued)**

**21 Financial commitments**

(a) The company is, under the terms of various agreements, committed to make payments amounting to £993,693 (2006: 15,000) over a period of 2 to 5 years in respect of research and bursaries.

(b) Fixed capital commitments at the end of the financial year for which no provision has been made are as follows

	2007 £	2006 £
Contracted	3,916,216	-
	<u>                    </u>	<u>                    </u>

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

	Land and buildings	
	2007	2006
Expiring within one year	-	39,950
Expiring between two and five years	103,413	-
	<u>                    </u>	<u>                    </u>

**22 Related party transactions**

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

	Charged to the company		Amounts owed by the company at	
	Year ended 31 December 2007	Year ended 31 December 2006	31 December 2007	31 December 2006
A Atkinson	39,651	34,630	504	7,020
P N Rodgers	7,522	14,875	425	450

The company paid Morvus £120,000 in cash and 187,104 Ordinary shares to gain access to their technology for a specific project. Both Anthony Atkinson and Nick Rodgers are Directors of Morvus.

**23 Ultimate parent company**

The company is privately owned and has no controlling shareholder.