

TMO Renewables Limited

Directors' report and financial
statements

Registered number 4405622

Year Ended 31 December 2009

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Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2009.

Principal activities

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

Our business and its markets

Founded in 2002, TMO Renewables Ltd has developed a technology which converts biomass into alternative fuels and biochemicals. At the core of TMO's offering is TMO's patented ethanolgen, developed in their laboratories. Now operational in TMO's Process Demonstration Unit ("PDU"), located in Surrey, the technology makes cellulosic ethanol from waste and biomass feedstocks.

The Ethanol Market

The opportunities in the ethanol market are diverse but the most developed market at the present date is in the United States and their market is mandated under the terms of the Energy Independence and Security Act 2007 (EISA). This bill requires the fuel industry to include increasingly larger volumes of ethanol in the fuel mix, rising from around 11 billion gallons in 2008 to 36 billion gallons by 2022. The existing corn ethanol industry is limited to producing no more than 15 billion gallons from the existing technology, the remaining 21 billion gallons must be delivered from technologies such as TMO's and utilising non-starch based feedstocks (i.e. "biomass").

In addition to the prescriptive terms obliging ethanol use in the Energy bill, the US Government has passed a number of Capital and Fiscal incentives. This provides for loan guarantees for cellulosic ethanol projects (up to 80% of CAPEX) and for State and Federal grants (up to 30% of CAPEX). The Bills also give producers tax credits of \$0.56 per gallon of cellulosic ethanol produced. This tax credit is a tradable instrument and can be sold down the value chain if the producer has no tax liability. Crucially these incentives are only available for second generation cellulosic ethanol with which TMO's process qualifies.

China, the world's third largest ethanol producer promises to be a large ethanol market in the coming years and the company is making significant strides towards establishing itself there. During the year the company signed an exclusive distribution agreement with Diverso, the company's Chinese clean tech investor and partner who has significant knowledge and expertise in the field of cleantech and biomass in China. The company has seen strong appetite at Governmental level for technology such as TMO's and a desire on their part to support potential customer relationships.

Business review

The year to December 2009 saw significant progress within TMO's business. The Process Demonstration Unit ("PDU") was running (and continues to run) for the whole year 24 hours per day, 7 days per week and was processing a number of potential client feedstocks with encouraging results.

The US ethanol industry went through a tough year in 2009, but margins started to recover in the last quarter. This was against a backdrop of economic uncertainty in the global economy that stalled investment.

Despite the global recession, TMO managed to raise significant capital to strengthen the Statement of Financial Position in preparation for commercial discussions with potential clients. In the process, TMO gained three new significant shareholders who bring with them industry knowledge that could lead to potential clients and markets.

Our research and development efforts have continued to make good progress, in particular the continued enhancement of the projected operating costs for the TMO process. This results from significant reductions (by a factor of ten) in the consumption of enzymes in the process. We believe that excessive enzyme cost continues to be one of the limiting factors for competing technologies.

Directors' report *(continued)*

The board believe that TMO progressed well in a difficult year and believes that the business is well positioned to make the most of the opportunities that will arise in 2010.

Key Performance Indicators

Health and Safety

Number of days of work lost to Health and Safety incidents:

2007: 0

2008: 0

2009: 0

Principal risks and uncertainties

Risk is an inherent part of doing business. The company has a process for identifying, evaluating and managing the risks faced by the business and the directors have identified the following factors as principal risks to the successful operation of the business.

Staff engagement and retention

Staff are key to the success of the business. Good working relations and investing in their training and development are essential to the sustainability of the company's operations. The company's employment policies, remuneration, including a recent issue of share options to key employees as part of a long term incentive plan and benefits packages are designed to be competitive as well as providing employees with fulfilling career opportunities. The success of these policies is reflected in our very low staff turnover.

Access to Capital

A risk in our market at the present date given the state of the global economy is the availability of credit to fund capital programmes such as required for TMO's customers. However, the United States government has realised that this is a barrier to success and has established the loan guarantee scheme.

Working Capital

TMO is a pre revenue business working on developing technology that will convert biomass into cellulosic ethanol. There is a risk that TMO will require further working capital in the future before sufficient revenues are generated. The company has a good track record of raising funds since its inception and believe that they would be able to do so again if the need arose.

Patent infringement litigation

The Company's patents, in common with all patents, can be challenged at any time. If TMO is not successful in defending an attack on its patents, then the company's future financial results may be adversely affected. The company is working with expert patent lawyers to mitigate this risk.

Research and development

The company has continued to carry out research into the use of properties of extremophiles and thermophiles to produce chemicals and liquid fuels from biomass incurring costs during the year of £4,647,000 (2008: £3,695,000). £2,287,000 of these costs have been capitalised in accordance with IAS 38 with the remainder written off to the profit and loss account.

Notes (continued)

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 statements to be material to an assessment of its financial position or its loss for the year.

Proposed dividend

The directors do not recommend the payment of a dividend (2008: nil)

Policy and practice on payment of creditors

The policy of the Company is to agree terms of payment prior to commencing trade with a supplier and to abide by those terms on the timely submission of satisfactory invoices.

At the year end there were 69 days (2008: 38 days) purchases in trade payables.

During the year contracts with external research universities were renegotiated in line with accepted commercial practices rather than paying them 12 months in advance.

Transition to IFRS

The directors have elected to prepare these financial statements under International Financial Reporting Standards "IFRS". These are the Company's first IFRS financial statements, with comparative periods for the years to 31 December 2007 and 2008 being restated in accordance with EU adopted IFRSs. For these restated years, a reconciliation between UK GAAP and IFRS is provided in note 20.

Directors

The directors who held office during the year were as follows:

H. Curran
J.C. Miller
A. Atkinson
P.N. Rodgers
R. Parker
S. Martin

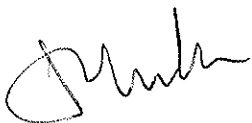
Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



J.C. Miller
Director

40 ALAN TURING ROAD, THE SURREY RESEARCH PARK,
GUILDFORD, SURREY GU2 7YF
10 May 2010

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 IFRSs as adopted by the EU 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 judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; 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 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 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



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 2009 set out on pages 7 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditors

As 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

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 December 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditors' Report to the members of TMO Renewables Limited
(continued)

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.

W. Smith

W Smith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Dukes Keep
Marsh Lane
Southampton
Hampshire

SO14 3EX

14th May 2010

Statement of Comprehensive Income

for year ended 31 December 2009

	<i>Note</i>	2009	<i>restated</i> 2008
		£000	£000
Administrative expenses	2	(1,726)	(1,566)
Direct scientific costs	2	(2,360)	(2,676)
Operating loss	1,3,4	(4,086)	(4,242)
Finance income	5	31	196
Finance costs	5	(16)	(13)
Net finance cost		15	183
Loss before tax		(4,071)	(4,059)
Taxation	6	635	514
Loss for the year		(3,436)	(3,545)
Other comprehensive income for the period, net of income tax		-	-
Total comprehensive loss for the period		(3,436)	(3,545)

These financial statements were approved by the board of directors on 10 May 2010 and were signed on its behalf by:



J.C. Miller

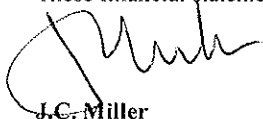
Director

Company registered number: 4405622

Statement of Financial Position
at 31 December 2009

	<i>Note</i>	2009	<i>restated</i> 2008
		£000	£000
<i>Non-current assets</i>			
Property, plant and equipment	7	7,377	8,105
Intangible assets	8	3,306	1,019
		<u>10,683</u>	<u>9,124</u>
<i>Current assets</i>			
Tax receivable		673	450
Trade and other receivables	9	630	609
Cash and cash equivalents	10	7,059	2,063
		<u>8,362</u>	<u>3,122</u>
<i>Total assets</i>		<u>19,045</u>	<u>12,246</u>
<i>Current liabilities</i>			
Trade and other payables	11	(841)	(960)
Tax payable		(245)	(99)
Other financial liabilities	12	(7)	(642)
		<u>(1,093)</u>	<u>(1,701)</u>
<i>Non-current liabilities</i>			
Other financial liabilities	12	(300)	-
		<u>(300)</u>	<u>-</u>
<i>Total liabilities (excluding equity)</i>		<u>(1,393)</u>	<u>(1,701)</u>
<i>Net assets</i>		<u>17,652</u>	<u>10,545</u>
<i>Equity</i>			
Share capital	14	1,126	673
Share premium	14	32,049	21,653
Retained earnings	14	(15,523)	(11,781)
<i>Total equity</i>		<u>17,652</u>	<u>10,545</u>

These financial statements were approved by the board of directors on 10 May 2010 and were signed on its behalf by:



J.C. Miller
 Director

Company registered number: 4405622

Statement of Changes in Equity

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 January 2008	670	21,455	(8,180)	13,945
Total comprehensive income for the period				
Loss for the period	-	-	(3,545)	(3,545)
Total comprehensive income for the period	-	-	(3,545)	(3,545)
Transaction with owners, recorded directly in equity				
Shares issued in respect of goods and services	2	123	-	125
Financing costs	-	(20)	-	(20)
Shares issued to the Employee Benefit Trust	1	95	(96)	-
Share based payment charge	-	-	40	40
Total contributions by and distributions to owners	3	198	(56)	145
Balance at 31 December 2008	673	21,653	(11,781)	10,545
	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 January 2009	673	21,653	(11,781)	10,545
Total comprehensive income for the period				
Loss for the period	-	-	(3,436)	(3,436)
Total comprehensive income for the period	-	-	(3,436)	(3,436)
Transactions with owners, recorded directly in equity				
Shares issued for cash	435	10,436	-	10,871
Shares issued in respect of goods and services	4	106	-	110
Financing costs	-	(477)	-	(477)
Shares issued to the Employee Benefit Trust	14	331	(345)	-
Share based payment credit	-	-	39	39
Total contributions by and distributions to owners	453	10,396	(306)	10,543
Balance at 31 December 2009	1,126	32,049	(15,523)	17,652

Statement of Cash Flows

for year ended 31 December 2009

	<i>Note</i>	2009	2008
		£000	£000
Cash flows from operating activities			
Loss for the year		(3,436)	(3,545)
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment		860	363
Shares and options issued for services received		110	104
Share based payment credit		39	40
Finance income		(31)	(196)
Finance costs		16	13
Taxation		(635)	(514)
		<hr/>	<hr/>
		(3,077)	(3,735)
(Increase)/decrease in trade and other receivables		(19)	129
(Decrease)/increase in trade and other payables		(591)	(1,025)
		<hr/>	<hr/>
		(3,687)	(4,631)
Cash outflow from operating activities			
Interest received		15	184
Tax received		412	556
		<hr/>	<hr/>
Net cash from operating activities		(3,260)	(3,891)
		<hr/>	<hr/>
Cash flows from investing activities			
Acquisition of property, plant and equipment	7	(132)	(2,208)
Capitalised development expenditure	8	(2,287)	(1,019)
		<hr/>	<hr/>
Net cash from investing activities		(2,419)	(3,227)
		<hr/>	<hr/>
Cash flows from financing activities			
Proceeds from the issue of share capital		10,394	-
Proceeds from the issue of loan notes	12	300	-
Payment of finance lease liabilities		(10)	(38)
		<hr/>	<hr/>
Net cash from financing activities		10,684	(38)
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		5,005	(7,156)
Cash and cash equivalents at 1 January		2,054	9,210
		<hr/>	<hr/>
Cash and cash equivalents at 31 December	10	7,059	2,054
		<hr/> <hr/>	<hr/> <hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

TMO Renewables Ltd (the "Company") is a company incorporated and domiciled in the UK. The Company's functional currency is Sterling.

These financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

The Company is preparing these financial statements in accordance with Adopted IFRS for the first time and consequently has applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 20.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2007 for the purposes of the transition to Adopted IFRSs.

The Company is exempt by virtue of the small companies regime of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Measurement convention

The financial statements are prepared on the historical cost basis.

Going concern

The financial statements are prepared on a going concern basis, notwithstanding a net loss of £3.4 million during the year ended 31 December 2009 and the Company's deficit in the Retained Earnings of £15.5 million at that date.

At the date of signature of these financial statements the Company has cash on deposit of £4.9 million. The Directors have reviewed the Company's cash projections and believe that there is sufficient cash resources to meet the capital and operating requirements of the business. As with any other business, there is an element of inherent uncertainty when carrying out forecasting, particularly the further the forecast flows are projected. TMO's key variable is the timing of the customer acquisitions.

TMO was successful in raising significant funds during the year in a difficult economic climate from discerning investors who believe in the strength of the scientific developments progressing within TMO. The directors are therefore confident in the future prospects of the business and in securing future customers. The directors conclude that there are no material uncertainties that may cast significant doubt about the company's ability to continue as a going concern.

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Notes (continued)

1 Accounting policies (continued)

Accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make some judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes:

Intangible fixed assets - note 8

Share based payments – note 13

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.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

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

Land and buildings	10%
Leasehold Improvements	10%
Plant and Machinery	10%
Fixtures and Fittings	33%
Computer Equipment	33%

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Intangible assets

Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on development activities has been capitalised where the Company believes that the expenditure has helped its process to be technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred.

Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation will commence once the Company begins revenue generating activities from the intangible asset.

Amortisation will be charged to the income statement on a straight-line basis over the estimated useful life of the intangible asset.

Notes (continued)

1 Accounting policies (continued)

Employee benefits

Defined contribution plans

The company operates a defined contribution plan, being a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees

Share based payments

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Financing income and expenses

Interest income and interest payable is recognised in the income statement as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended 31 December 2009. These have not been applied in preparing these financial statements and none of these are expected to have a material impact on the financial statements when applied.

Notes *(continued)*

2 Expenses and auditors' remuneration

Included in the loss are the following:

	2009 £000	2008 £000	2007 £000
Research and development expensed as incurred	2,360	2,677	3,151
Finance lease costs	13	9	8
Depreciation	860	363	82
	2,360	2,677	3,151

Expenses arise wholly within the UK and within a single segment of operations.

Auditors' remuneration:

	2009 £000	2008 £000	2007 £000
Audit of these financial statements	22	17	24
Amounts receivable by the auditors and their associates in respect of: Other services relating to taxation	1	5	11
	23	22	35

3 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees		
	2009	2008	2007
Administration and management	6	5	5
Engineering	14	11	2
Research	22	18	14
	42	34	21

The aggregate payroll costs of these persons were as follows:

	2009 £000	2008 £000	2007 £000
Wages and salaries	1,970	1,670	1,244
Social security costs	223	188	136
Contributions to defined contribution plans	154	132	71
	2,347	1,990	1,451

Of this total payroll expense £1,424,000 (2008: £468,000, 2007: £Nil) was capitalised under IAS38 (see note 8).

Notes (continued)

4 Directors' remuneration

	2009 £000	2008 £000	2007 £000
Directors' emoluments	856	774	585
Company contributions to money purchase pension plans	34	27	20
	856	774	585

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £302,000 (2008: £304,000, 2007: £250,000), and company pension contributions of £16,000 (2008: £16,000, 2007: £20,000) were made to a money purchase scheme on his behalf.

Directors' rights to subscribe for shares in or debentures of the company and its subsidiaries are indicated below:

	Number of options		Exercise price p
	At start of year	At end of year	
Hamish Curran	-	2,850,000	1
Robert Parker	-	2,042,381	1
Steve Martin	-	1,432,125	1

5 Finance income and cost

Recognised in income statement

	2009 £000	2008 £000	2007 £000
<i>Finance income</i>			
Interest income on unimpaired financial assets	31	196	479
Total finance income	31	196	479

	2009 £000	2008 £000	2007 £000
<i>Finance cost</i>			
Interest expense on financial liabilities measured at amortised cost	16	13	13
Total finance expense	16	13	13

Notes (continued)

6 Taxation

Recognised in the income statement

	2009 £000	2008 £000	2007 £000
<i>Current tax credit</i>			
Current year	(673)	(450)	(450)
Adjustments for prior years	38	(64)	(292)
Current tax credit	(635)	(514)	(742)
Deferred tax	-	-	-
Total tax credit	(635)	(514)	(742)

Reconciliation of effective tax rate

	2009 £000	2008 £000	2007 £000
Loss for the year	(4,071)	(4,059)	(3,924)
Total tax credit	(635)	(514)	(742)
Loss excluding taxation	(3,436)	(3,545)	(3,182)
Tax using the UK corporation tax rate of 28 % (2008: 28.5%, 2007: 30%)	(1,140)	(1,136)	(1,165)
Expenditure not deductible for tax purposes	16	12	6
Enhanced research and development tax relief	(582)	(413)	(300)
Losses surrendered for research and development tax credits	1,358	760	900
Research and development tax credits claimed in respect of current year	(673)	(450)	(450)
Research and development tax credits claimed in respect of prior year	38	(64)	(292)
Movement in unprovided deferred tax	348	777	559
Total tax credit	(635)	(514)	(742)

The company has losses available to be carried forward for offset against future taxable profits amounting to approximately £10,216,000 (2008: £9,574,000, 2007: £5,920,000). 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 £2,928,000, calculated at 28% (2008: £2,295,000, calculated at 28%, 2007: £1,714,000 calculated at 28%), has been recognised as there is currently insufficient certainty as to the timing of when the asset would be recovered.

Reconciliation of deferred tax

	Not recognised		Recognised	
	Assets 2009 £000	Assets 2008 £000	Liabilities 2009 £000	Liabilities 2008 £000
Intangible assets			285	285
Property, plant and equipment	90			101
Provisions and employee benefits	31			
Tax losses	2,575	2,295	(285)	(386)
Tax (assets) / liabilities	2,696	2,295	Nil	Nil
Net of tax (assets)				

There is no tax impact of transactions recorded directly in equity or in other comprehensive income.

Notes (continued)

7 Property, plant and equipment

	Land and buildings £000	Plant and equipment £000	Fixtures & fittings £000	Under construction £000	Total £000
Cost					
Balance at 1 January 2007	-	605	13	-	618
Additions	-	293	232	5,276	5,801
Balance at 31 December 2007	-	898	245	5,276	6,419
Balance at 1 January 2008	-	898	245	5,276	6,419
Transfer between categories	-	5,276	-	(5,276)	-
Additions	39	2,127	42	-	2,208
Balance at 31 December 2008	39	8,301	287	-	8,627
Balance at 1 January 2009	39	8,301	287	-	8,627
Additions	-	115	17	-	132
Balance at 31 December 2009	39	8,416	304	-	8,759
Depreciation and impairment					
Balance at 1 January 2007	-	69	7	-	76
Depreciation charge for the year	-	76	7	-	83
Balance at 31 December 2007	-	145	14	-	159
Balance at 1 January 2008	-	145	14	-	159
Depreciation charge for the year	1	337	25	-	363
Balance at 31 December 2008	1	482	39	-	522
Balance at 1 January 2009	1	482	39	-	522
Depreciation charge for the year	4	828	28	-	860
Balance at 31 2009	5	1,310	67	-	1,382
Net book value					
At 31 December 2007 and 1 January 2008	-	753	231	5,276	6,260
At 31 December 2008 and 1 January 2009	38	7,819	248	-	8,105
At 31 December 2009	34	7,106	237	-	7,377

Leased plant and machinery

At 31 December 2009 the net carrying amount of leased plant and machinery was Nil (2008: £141,430, 2007 £157,144). The leased equipment is provided as security over the lease obligations.

Notes *(continued)*

8 Intangible assets

	Development costs £000	Total £000
<i>Cost</i>		
Balance at 1 January 2007	-	-
Internally developed	-	-
	<hr/>	<hr/>
Balance at 31 December 2007	-	-
	<hr/>	<hr/>
Balance at 1 January 2008	-	-
Internally developed	1,019	1,019
	<hr/>	<hr/>
Balance at 31 December 2008	1,019	1,019
	<hr/>	<hr/>
Balance at 1 January 2009	1,019	1,019
Internally developed	2,287	2,287
	<hr/>	<hr/>
Balance at 31 December 2009	3,306	3,306
	<hr/>	<hr/>
Amortisation and impairment		
Balance at 1 January 2007	-	-
Amortisation for the year	-	-
	<hr/>	<hr/>
Balance at 31 December 2007	-	-
	<hr/>	<hr/>
Balance at 1 January 2008	-	-
Amortisation for the year	-	-
	<hr/>	<hr/>
Balance at 31 December 2008	-	-
	<hr/>	<hr/>
Balance at 1 January 2009	-	-
Amortisation for the year	-	-
	<hr/>	<hr/>
Balance at 31 December 2009	-	-
	<hr/>	<hr/>
Net book value		
At 1 January 2008	-	-
	<hr/>	<hr/>
At 31 December 2008 and 1 January 2009	1,019	1,019
	<hr/>	<hr/>
At 31 December 2009	3,306	3,306
	<hr/>	<hr/>

Notes (continued)

8 Intangible assets (continued)

Capitalised development costs are not treated as a realised loss for the purpose of determining the Company's distributable profits as the costs meet the conditions requiring them to be treated as an asset in accordance with IAS 38.

In accordance with IAS 38, the company has capitalised those direct scientific costs that meet the recognition criteria as set out by IAS 38. The company is able to identify and measure reliably the appropriate scientific costs and believe that there is a probable expectation that future economic benefits will flow to the company as a result of this expenditure.

Only those scientific costs that meet the recognition criteria have been capitalised and all other scientific expenditure that the company has undertaken has been recognised as an expense in the income statement as it has been incurred in accordance with IAS 38.

Amortisation has not been charged in the income statement for the year ended 31 December 2009, as the appropriate development expenditure continues to be capitalised in accordance with IAS 38 and will only be amortised when the Company generates revenues as a result of the development expenditure.

Impairment testing

The intangible assets have been tested for impairment at 31 December 2009. The Company is considered to be a single cash generating unit, and based on forecasts of future cashflows arising from the developed technology showing future positive cash flows, no impairment is considered necessary.

The company does have separate elements to its scientific expenditure incorporating fermentation, molecular and analytical teams among others but all these units work closely together and are inextricably linked to providing the successful technology. These units are not on their own able to deliver any future economic cashflows, and as such the company as a whole is treated as a single cash generating unit.

Management have used an approved forecast period of five years with key assumptions as follows:

- Growth Rate: 2%
- WACC: 25%

The Directors have considered the sensitivity of the impairment test to reasonably foreseeable changes in these assumptions, and are satisfied that no significant difference in result would arise which may cause the impairment of the intangible assets.

9 Trade and other receivables

	2009	2008	2007
	£000	£000	£000
<i>Current</i>			
Other Tax Receivable	143	185	-
Deposits	189	189	641
Prepayments	298	235	97
	630	609	738
	630	609	738

Included within trade and other receivables is £189,000 (2008: £189,000) expected to be recovered in more than 12 months.

Notes *(continued)*

10 Cash and cash equivalents/ bank overdrafts

	2009 £000	2008 £000	2007 £000
Cash and cash equivalents per statement of financial position	7,059	2,063	9,219
Finance leases	-	(9)	(47)
	7,059	2,054	9,172
	7,059	2,054	9,172

11 Trade and other payables

	2009 £000	2008 £000	2007 £000
Current			
Trade payables	681	513	2,270
Non-trade payables and accrued expenses	160	447	231
	841	960	2,501
	841	960	2,501

12 Other financial liabilities

	2009 £000	2008 £000	2007 £000
Non-current			
<i>Other financial liabilities measured at amortised cost (loan notes)</i>	300	-	-
<i>Finance lease</i>	-	-	10
	300	-	10
	300	-	10
Current			
<i>Other financial liabilities</i>	7	633	-
<i>Finance lease</i>	-	9	37
	7	642	37
	7	642	37

Other financial liabilities represents loan notes issued on 19 May 2009 which are payable on 30 May 2014. The bond is non-interest bearing until the point at which a firm offer for the sale or listing of the Company occurs, following which the bond bears interest at 1% above Bank of England base rate. The loan notes may be converted to equity at the holder's request.

Notes (continued)

13 Employee benefits

Defined contribution pension plans

The Company operates a number of defined contribution pension plans.

The total expense relating to these plans in the current year was £154,000 (2008: £132,000) of which £120,000 (2008: £37,000) was capitalised in accordance with IAS38.

Share-based payments

TMO has the following arrangements which fall to be accounted as share based payments:

- Share Options (unapproved scheme)
- Share Options (EMI approve scheme)
- Shares held in an Employee Benefit Trust

Share Options (unapproved schemes)

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
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 2009, options totalling 129,900 shares were exercised at an exercise price of £0.238.

The options outstanding at the year-end have an exercise price in the range of 0.01 to 0.3 and a weighted average contractual life of 3.52 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. Management have modelled the fair value of employee share options taking into account the terms and conditions upon which the awards were granted. Measurement inputs and assumptions are as follows:

TMO have assumed that a rational investor in a small, risky business would seek to multiply their original investment by 5 times.

As part of the fair value process, TMO has had to consider a discount percentage to apply to the value given to take account of the following:

- (a) TMO is not listed and therefore the potential pool of other shareholders to buy these future shares is narrowed – they are much more illiquid than they would be had TMO been listed on a stock exchange.
- (b) Investing in R&D companies carries a significant risk in that the science may ultimately not work or that the business runs out of cash before it reaches a viable commercial product.
- (c) The options would entitle the shareholder to a very insignificant minority holding with no influence over the business.

TMO has sought to recognise the progress of the science at the time the options were issued in determining the risk factor discount. The less developed the science in the earlier issues, the higher the risk discount factor applied to reflect the higher risk posed to the shareholder at the time of issue. The discount factors range from 50% to 90%

The annual cost of these options has been estimated at £40,000 which has been recorded as a charge to the income statement with a corresponding increase in equity. The total charge over the life of these options is £278,000.

Notes (continued)

13 Employee Benefits (continued)

Share Options (EMI approved Scheme)

On 25 November 2009, options were granted to employees under an approved EMI scheme. Under the terms of the options employees are entitled to subscribe for A Ordinary Shares at an option price of 1p, provided the Company's ordinary shares exceed a threshold price of 40p and will only share in any future benefit in the business above the threshold price of 40p.

No's of options	Exercise price	Period options exercisable
9,093,449	1p	75% exercisable on 3 rd anniversary of grant 25% exercisable on 4 th anniversary of grant
A ordinary shares		OR on the sale or listing of the Company

The A ordinary shares rank parri passu with ordinary shares, save for certain restrictions on sale or transfer of such shares and the proportion of consideration an A ordinary shareholder will receive on sale or listing of the Company.

A Ordinary shareholders receive a proportion of the consideration arising in the event the Ordinary shares price exceeds a predetermined threshold on listing or sale of the business. This anticipation of value indicates the options over such shares should be accounted for in accordance with IFRS2 "Share Based Payments".

The Directors have valued these options taking into account the threshold set out above and the inherent uncertainty around the timing of any sale or listing. The fair value of these options is estimated to be nil.

Shares held in an Employee Benefit Trust

On 20 August 2002 the company formed the TMO Biotec Limited Discretionary Employee Benefit Trust ("the Trust") with a view to benefitting the company's existing and past employees. At 31 December 2009 the Trust held 16,122,192 (2008: 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 Trust to the relevant employees. As there is no common understanding of the terms of issuance of these shares to employees it is considered that the grant date has not occurred. Accordingly no charge has been recognised in these financial statements.

Under the Trust Deed the Company retains the power to change the trustees. In accordance with IAS27 ("Consolidated and Separate Financial Statements") and SIC 12 ("Consolidation – special purpose entities") the Trust should be consolidated as a subsidiary of the Company. However, as set out in note 1, the Company is exempt by virtue of the small companies regime of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements do not therefore include any adjustments which would result from the consolidation of the Trust.

Notes (continued)

14 Capital and reserves

The Company's objective when managing its capital structure is to minimise the cost of capital while maintaining adequate capital to protect against volatility in earnings and net asset values. The strategy is designed to maximise shareholder return over the long term.

Share capital

In millions of shares	<i>2009</i>	<i>Ordinary shares</i> <i>2008</i>	<i>2007</i>
On issue at 1 January	67.3	67.0	39.2
Issued for cash	43.5	-	27.8
Issued to Employee Benefit Trust	1.4	0.1	-
Issued in respect of goods and services	0.4	0.2	-
	<hr/>	<hr/>	<hr/>
On issue at 31 December – fully paid	112.6	67.3	67.0
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	2009	2008	2007
	£000	£000	£000
Authorised			
Ordinary shares of £0.01 each	2,000	1,500	1,000
A Ordinary shares of £0.01 each	500	-	-
	<hr/>	<hr/>	<hr/>
	2,500	1,500	1,000
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Allotted, called up and fully paid			
Ordinary shares of £0.01 each	1,126	673	670
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Shares classified in shareholders funds	1,126	673	670
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Warrants

At 31 December 2009 the company had 21,043,969 (2008: 1,434,900, 2007: 1,434,900) warrants in issue. In 2004 1,434,900 warrants were issued entitling 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 expired on 29 June 2009 or on a listing of the company, whichever is the later date.

On 20 May 2009, 19,109,069 warrants were issued entitling the holder to subscribe for one ordinary share of £0.01 each in the company at any time up to the fifth anniversary date of issue of such warrant, or the completion of an exit event, whichever is the sooner, at an exercise price of £0.25. An exit event is defined as the earlier occurrence of the sale of the company or a listing of the company. If a Down Round Event occurred the subscription price for the warrant issue shall be reduced to a price per warrant share equal to the Down Round price. A Down Round Event is defined as a future fundraising event at less than the exercise price of £0.25.

The aggregate subscription price payable upon exercise of each outstanding warrant shall be as near as possible the same as the aggregate subscription price payable on exercise of such outstanding warrant would have been had the Down Round Event not occurred. If the subscription price is reduced the warrant shares shall be increased to the aggregate subscription price.

There is no difference in terms for warrants issued to shareholders who are also employees.

Notes (continued)

14 Capital and reserves (continued)

Reserves

	Share capital £000	Share premium account £000	Retained Earnings £000	2009 Total £000	2008 Total £000	2007 Total £000
At 1 January 2009	673	21,653	(11,781)	10,545	13,945	741
Loss for the financial year	-	-	(3,436)	(3,436)	(3,545)	(3,142)
Shares issued for cash	435	10,436	-	10,871	-	16,850
Shares issued in respect of goods and services	4	106	-	110	125	230
Financing costs	-	(477)	-	(477)	(20)	(734)
Share issued to the Employee Benefit Trust	14	331	(345)	-	-	-
Equity share based payment credit			39	39	40	-
At 31 December 2009	1,126	32,049	(15,523)	17,652	10,545	13,945

Included within retained earnings is a cumulative amount of £587,000 which is not distributable.

	2009 £000	2008 £000	2007 £000
Retained earnings comprises:			
Distributable profit and loss account	(14,936)	(11,539)	(8,034)
Shares held by Employee Benefit Trust	(587)	(242)	(146)
Company retained earnings	(15,523)	(11,781)	(8,180)

15 Financial instruments

15 (a) Fair values of financial instruments

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

Notes (continued)

15 Financial instruments (continued)

15 (a) Fair values of financial instruments

Interest-bearing borrowings

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

	<i>Carrying amount 2009 £000</i>	<i>Fair value 2009 £000</i>	<i>Carrying amount 2008 £000</i>	<i>Fair value 2008 £000</i>	<i>Carrying Amount 2007 £000</i>	<i>Fair value 2007 £000</i>
IAS 39 categories of financial instruments						
Loans and receivables						
Cash and cash equivalents (note 10)	7,059	7,059	2,063	2,063	9,219	9,219
Other loans and receivables (note 9)	630	630	609	609	738	738
Tax Receivable (statement of financial position)	673	673	450	450	491	491
Total loans and receivables	8,362	8,362	3,122	3,122	10,448	10,448
	<i>Carrying amount 2009 £000</i>	<i>Fair value 2009 £000</i>	<i>Carrying amount 2008 £000</i>	<i>Fair value 2008 £000</i>	<i>Carrying Amount 2007 £000</i>	<i>Fair value 2007 £000</i>
Financial liabilities measured at amortised cost						
Trade and other payables (note 11)	841	841	960	960	2,501	2,501
Other financial liabilities measured at amortised cost (note 12)	300	300	-	-	10	10
Other financial liabilities (note 12)	7	7	642	642	37	37
Tax payable	245	245	99	99	215	215
Total financial liabilities measured at amortised cost	1,393	1,393	1,701	1,701	2,763	2,763
Total financial liabilities	1,393	1,393	1,701	1,701	2,763	2,763

The Directors consider the fair value of the loan notes to be equivalent to their face value of £300,000 as the impact of any discounting from the 30 May 2014 maturity would be immaterial.

There are no items carried at fair value rather than historic cost.

Notes (continued)

15 Financial instruments (continued)

15 (b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

The company did not have any sales in the year ended 31 December 2009 so its credit risk from customers not meeting their contractual obligations is nil. The company operates a prudent approach with its cash management so as to limit its credit risk. The company's cash is invested in UK financial institutions only.

15 (c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The company reviews its financial obligations on a monthly basis as part of its management reporting. The company presently has a large cash balance with no short term debt and is able to meet its financial obligations as they fall due. The company constantly reviews its cash position and projects its financial obligations ahead to ensure that steps are taken to meet its future financial obligations.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	2009					2008					2007							
	Carrying amount £000	Contractual cash flows £000	1 year or less £000	<2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £000	Contractual cash flows £000	1 year or less £000	<2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount	Contractual cash flows	1 year or less	<2 years	2 to <5 years	5 years and over
Non-derivative financial liabilities																		
Loan Notes	300	300	-	-	-	300	-	-	-	-	-	-	-	-	-	-	-	-
Finance lease liabilities	-	-	-	-	-	-	9	9	9	-	-	-	58	47	11	-	-	-
Trade and other payables	841	841	841	-	-	-	960	960	960	-	-	-	2,501	2,501	-	-	-	-
	1,141	1,141	841	-	-	300	969	969	969	-	-	-	2,559	2,548	11	-	-	-

Notes (continued)

15 Financial instruments (continued)

15 (d) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. Given the current position of the company in its growth phase there is no significant exposure to market risk as the Company currently operates principally within the UK, has no significant borrowings, and does not hold financial instruments.

Sensitivity Analysis

There would be no material impact on the Company's financial position of a change in either foreign exchange rates or interest rates.

15 (e) Capital management

The Company's objective when managing its capital structure is to minimise the cost of capital while maintaining adequate capital to protect against volatility in earnings and net asset values. The strategy is designed to maximise shareholder return over the long term.

16 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2009	2008	2007
	£000	£000	£000
<i>Not later than one year</i>	365	365	365
<i>Between one and five years</i>	1,055	1,217	364
<i>Greater than five years</i>	609	812	-
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

17 Other Commitments

The company is, under the terms of various agreements, committed to make payments amounting to £690,000 (2008: £467,000) over a period of the next four years in respect of research and bursaries.

18 Related parties

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

	Charged to the company			Amounts owed by the company at		
	Year ended 31 December 2009	Year ended 31 December 2008	Year ended 31 December 2007	31 December 2009	31 December 2008	31 December 2007
A Atkinson	71,738	76,426	39,651	23,597	4,999	504
N Rodgers	12,418	7,248	7,522	941	1,450	425

19 Ultimate Parent Company

The company is privately owned and has no controlling shareholder

Notes (continued)

20 Explanation of transition to Adopted IFRSs

As stated in note 1, these are the Company's first financial statements prepared in accordance with Adopted IFRSs.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2009, the comparative information presented in these financial statements for the years ended 31 December 2008 and 31 December 2007 and in the preparation of an opening IFRS balance sheet at 1 January 2007 (the Company's date of transition).

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

The company prepared cash flow statements under UK GAAP and now under IFRS. However, there are no material differences between UK GAAP and IFRS in the cash flow statement and as such the company has not prepared transitional cash flow statements.

Explanatory notes of IFRS transition adjustments

Note a) Equity settled share options expensed under IFRS2 'Share Based Payments'.

Under UK GAAP the Company had previously applied the provisions of the Financial Reporting Standard for Smaller Entities ("The FRSSE") which did not require a charge to be recorded in respect of equity settled share options. This adjustment reflects the share based payment charge which would have been recorded had IFRS2 been applied in the year ended 31 December 2007. Further detail of this share based payment charge is provided in note 13.

Note b) Previously expensed development costs capitalised under IAS38

In accordance with IAS 38, the company has capitalised those direct scientific costs that meet the recognition criteria as set out by IAS 38. The company is able to identify and measure reliably the appropriate scientific costs and believe that there is a probable expectation that future economic benefits will flow to the company as a result of this expenditure.

Only those scientific costs that meet the recognition criteria have been capitalised and all other scientific expenditure that the company has undertaken has been recognised as an expense in the income statement as it has been incurred in accordance with IAS 38.

The effect of this adjustment is to recognise an intangible asset of £1,019,000 in the year ended 31 December 2008. There is no impact on earlier periods.

Notes (continued)

20 Explanation of transition to Adopted IFRSs (continued)

Reconciliation of equity

	Note	1 January 2007		31 December 2007		31 December 2008			
		UK GAAP £000	Adopted IFRSs £000	UK GAAP £000	Effect of transition to adopted IFRSs £000	Adopted IFRSs £000	UK GAAP £000	Effect of transition to adopted IFRSs £000	Adopted IFRSs £000
Non-current assets									
Property, plant and equipment		542	542	6,260	-	6,260	8,105	-	8,105
Intangible Assets	(b)	35	35	-	-	-	-	1,019	1,019
		577	577	6,260	-	6,260	8,105	1,019	9,124
Current assets									
Trade and other receivables		286	286	1,229	-	1,229	1,059	-	1,059
Cash and cash equivalents		474	474	9,219	-	9,219	2,063	-	2,063
		760	760	10,448	-	10,448	3,122	-	3,122
		1,337	1,337	16,708	-	16,708	11,227	1,019	12,246
Total assets									
		(551)	(551)	(2,753)	-	(2,753)	(1,701)	-	(1,701)
Current liabilities									
Trade and other payables		(45)	(45)	(10)	-	(10)	-	-	-
Non-current liabilities									
Other financial liabilities		(596)	(596)	(2,763)	-	(2,763)	(1,701)	-	(1,701)
Total liabilities									
		741	741	13,945	-	13,945	9,526	1,019	10,545
Net assets									
		392	392	670	-	670	673	-	673
Share capital		5,358	5,358	21,455	-	21,455	21,653	-	21,653
Share premium		(5,009)	(5,009)	(8,180)	-	(8,180)	(12,860)	1,019	(11,781)
Retained losses		741	741	13,945	-	13,945	9,526	1,019	10,545
Total equity									

Notes (continued)

20 Explanation of transition to Adopted IFRSs (continued)

Reconciliation of loss for the year ended 31 December 2007

	Note	UK GAAP £000	2007 Effect of transition to Adopted IFRSs £000	Adopted IFRSs £000
Revenue		49	-	49
Cost of sales		(3,143)	-	(3,143)
Gross loss		(3,094)	-	(3,094)
Administrative expenses	(a)	(1,256)	(40)	(1,296)
Operating profit before net financing costs		(4,350)	(40)	(4,390)
Financial income		479	-	479
Financial expenses		(13)	-	(13)
Net financing expense		466	-	466
Loss before tax		(3,884)	(40)	(3,924)
Taxation		742	-	742
Loss for the year		(3,142)	(40)	(3,182)

Reconciliation of loss for the year ended 31 December 2008

	Note	UK GAAP £000	2008 Effect of transition to Adopted IFRSs £000	Adopted IFRSs £000
Revenue		-	-	-
Cost of sales	(b)	(3,695)	1,019	(2,676)
Gross loss		(3,695)	1,019	(2,676)
Administrative expenses	(a)	(1,526)	(40)	(1,566)
Operating profit before net financing costs		(5,221)	979	(4,242)
Financial income		196	-	196
Financial expenses		(13)	-	(13)
Net financing expense		183	-	183
Loss before tax		(5,038)	979	(4,059)
Taxation		514	-	514
Loss for the year		(4,524)	979	(3,545)