

# **VERONA PHARMA PLC**

(“Verona Pharma” or the “Company”)

## **PRELIMINARY UNAUDITED RESULTS**

for the 12 months ended 31 December 2010

Verona Pharma plc is a biotechnology company dedicated to discovering new drugs for the treatment of chronic respiratory diseases, such as asthma, allergic rhinitis (hay fever), chronic obstructive pulmonary disease (COPD) and cough. Today, the Company announces its unaudited preliminary results for the 12 months ended 31 December 2010.

### **2010 OPERATIONAL HIGHLIGHTS**

- January - Filed four new patents related to novel compounds discovered under the Company’s Novel Anti-Inflammatory Polysaccharides (“NAIPs”) project.
- January - Received the final quality assured study report from the Centre for Human Drug Research (“CHDR”) at Leiden University for the Phase I/IIa trial of Verona’s lead product, RPL554, which confirmed the quality of the clinical trial and its associated analyses.
- October - Initiated the clinical trial of VRP700 in chronic cough patients at the University of Florence, Italy.
- November - Completed proof of concept experimental studies showing that RPL554 can be delivered via each of the main types of devices commonly available for inhalation therapy.
- November - Initiated the clinical trial of RPL554 at CHDR at Leiden University to evaluate the safety and bronchodilator effectiveness of higher doses of RPL554 in patients with mild asthma.

### **2010 FINANCIAL HIGHLIGHTS**

- Loss after tax of £1.89 million or 0.79 pence per ordinary share.
- Low cash burn rate during the year and as at 31 December 2010 the Company had cash and cash equivalents of £2.00 million.

### **SUBSEQUENT EVENT HIGHLIGHTS**

- January 2011 - Applied to the Medicines and Healthcare Products Regulatory Agency (“MHRA”) for approval to conduct further clinical development of RPL554 in the UK.
- February 2011 – Successfully completed the clinical trial at CHDR at Leiden University of higher doses of RPL554 in patients with mild asthma.
- February 2011 - Received ethics approval from the Policlinico Tor Vergata, University of Rome, Italy to proceed with an exploratory Phase II trial of RPL554 in COPD patients.

# **VERONA PHARMA PLC**

## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S JOINT STATEMENT**

### **INTRODUCTION**

2010 has been another busy year for Verona Pharma. The Company continues to vigorously pursue the licensing of its lead project, RPL554, to an appropriate pharmaceutical partner, as well as to achieve progress with its other programmes – VRP700 for the treatment of cough and NAIPs. The Company also continues to review potential new projects for inclusion in its pipeline in the future. The Board continues to maintain a firm control on the Company's finances and the Company operates a proven financial model which enables it to apply its resources to maximum effect.

### **RPL554**

Discussions are ongoing for licensing out the Company's lead project, RPL554, a novel inhaled PDE3/4 inhibitor as a treatment for inflammatory diseases of the respiratory tract, including asthma, COPD and allergic rhinitis (hay fever). As the Company has stated previously, it is seeking the most compatible and appropriate licensing partner to develop RPL554 into a marketed medicine.

During 2010, the Company initiated further clinical trials in order to provide useful clinical data to add further value to the overall RPL554 package. The first clinical trial started in November and took place in Leiden, The Netherlands, at CHDR. The purpose of the trial was to evaluate the safety and bronchodilator effectiveness of higher doses of RPL554 in patients with mild asthma. Other objectives for this trial were to establish an appropriate dose for patients with respect to both effectiveness as a bronchodilator, and its safety. The trial was successfully completed in December 2010 and there were no withdrawals due to adverse effects. Both doses of RPL554 resulted in positive bronchodilation as assessed by the standard measure of FEV1 (Forced Expiratory Volume in 1 sec). Of particular note was the absence of any gastrointestinal symptoms related to the administration of the drug, since this is a limiting side effect for many PDE4 (phosphodiesterase type 4) inhibitors. At the highest dose given, limited cardiovascular effects were encountered. The results from this trial will allow the Company to be able to set appropriate doses for future studies. Additionally, the outcome of the trial provided further support for RPL554 as a novel treatment for patients with respiratory diseases and further strengthened the Company's data package for discussions with potential licensees.

The second clinical trial received approval from the appropriate ethical authority in Italy in January 2011 to proceed with an exploratory Phase II trial at the Policlinico Tor Vergata in Rome. This clinical trial has been designed to test the bronchodilator effects as well as safety of RPL554 in patients with established mild to moderate COPD. The incidence of COPD globally continues to grow and it is a disease which currently has significant unmet treatment needs. The Company currently believes that RPL554 will if successful be of significant clinical value in the treatment of this debilitating condition.

In January 2011, the Company applied to the MHRA, the governmental agency in the UK with responsibility for standards of safety, quality and performance of new drug treatments, to conduct a third clinical trial in the UK. This trial will examine the safety, duration and maintenance of bronchodilator action of RPL554 when it is given at repeated doses over several days. In addition there will be exploratory observations related to possible anti-inflammatory actions of RPL554.

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The Company has also been evaluating the various methods by which RPL554 can be administered to patients by oral inhalation using appropriate oral inhaler devices. Normally asthma and COPD drugs are delivered from a dry powder inhaler ("DPI") or a pressurized metered dose inhaler ("pMDI"), although nebulizers are used in a substantial number of patients. In both the currently planned and completed trials, RPL554 has been delivered using a nebulizer. In November, the Company completed a proof of concept experimental study that showed RPL554 can be delivered via a DPI as well as by a pMDI. These experiments will assist potential licensees in deciding the most suitable administration route and type of device for the commercialisation of RPL554. Such studies will obviously add value and strengthen the Company's position with respect to ongoing licensing discussions.

#### **VRP700**

During 2010, the Company received the necessary regulatory and ethical approvals for a clinical trial of VRP700 in patients who have an intractable cough due to underlying severe lung disease. The study was initiated in late October 2010 and is currently still going at the University of Florence, Italy. The trial has been specifically designed to demonstrate the anti-tussive (cough-suppressive) effects of VRP700 by inhalation. Progress of the trial is limited due to an unavoidable slow rate of patient recruitment. The Company currently hopes that the trial will be able to be completed in the second quarter of 2011.

#### **NAIPs**

Verona Pharma's NAIPs project has progressed to the point that the Company has submitted four new 'composition of matter' patents for fractions that have been discovered as a result of the collaboration with Glycomar Ltd. These novel fractions have been identified from a number of marine sources and have shown anti-inflammatory actions that are of potential clinical value in a range of inflammatory diseases. The Company continues to seek other novel NAIPs from other sources via its collaboration with Glycores SpA.

#### **FINANCIALS**

The loss for the current year increased by 18% or £0.29m to £1.89m (2009: £1.60m).

Total research and development expenditure, which was expensed as incurred, was £1.15m (2009: £0.94m). The increase in research and development expenditure was primarily due to an increase in expenditures for the RPL554 programme by £0.12m to £0.94m (2009: £0.82m) and an increase in expenditure on the cough programme by £0.07m to £0.11m (2009: £0.04m). These increases were offset by a decrease in expenditure in the NAIPs programme by £0.01m to £0.07m (2009: £0.08m).

The increase in expenditure on the RPL554 programme was primarily due to costs incurred in connection with continuing to develop the RPL554 series and the experimental studies of various inhaler devices for administering RPL554. The increase in expenditure in the cough programme was due to the progression from the clinical trial planning phase in 2009 to the clinical trial implementation phase in 2010.

Administrative expenses for the year were £0.75m (2009: £0.66m). The increase of £0.09m over the previous period was primarily due to an increase in investor relations activities and costs involved with the licensing efforts for RPL554.

**VERONA PHARMA PLC**  
**CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S JOINT STATEMENT**

The income tax expense of £10,000 was capital gains tax paid by Rhinopharma Limited, during the year.

As at 31 December 2010, the Company had approximately £2 million in cash and cash equivalents.

**OUTLOOK**

All current evidence indicates that RPL554 has the potential to be a significant new respiratory drug that could capture a significant market share. Verona Pharma is optimistic that it will find a suitable partner to assist it in taking the drug to market. In the meantime, the higher dose trial which was successfully completed in December 2010, and the other two trials which are expected to be underway shortly, are designed to take the drug through to the next development stage and add value to our licensing package.

Progress with the VRP700 project clinical trial has been slower than hoped due to delays in patient recruitment, however, the Company expects that the trial will be completed in the second quarter of 2011.

Verona Pharma is pleased to report that it has continued to maintain a low cash burn rate. Furthermore, the Company is very positive about its progress to date and looks forward to updating the market on further developments in due course.

Professor Clive P. Page  
Chairman

Professor Michael J. A. Walker  
Chief Executive Officer

**VERONA PHARMA PLC**  
**GROUP STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

|  | Notes | Year ended 31<br>December 2010<br>£ | Year ended 31<br>December 2009<br>£ |
|--|-------|-------------------------------------|-------------------------------------|
| Revenue                                      |       | -                                   | -                                   |
| Cost of sales                                |       | -                                   | -                                   |
| <b>Gross profit</b>                          |       | -                                   | -                                   |
| Research and development                     |       | (1,150,904)                         | (944,903)                           |
| Administration expenses                      | 7     | (745,256)                           | (660,872)                           |
| <b>Operating loss</b>                        |       | (1,896,160)                         | (1,605,775)                         |
| Finance revenue                              |       | 7,898                               | 7,243                               |
| <b>Loss before taxation</b>                  |       | (1,888,262)                         | (1,598,532)                         |
| Taxation                                     | 4     | (4,532)                             | -                                   |
| <b>Loss for the year</b>                     |       | (1,892,794)                         | (1,598,532)                         |
| Other comprehensive income                   |       | -                                   | -                                   |
| <b>Total comprehensive loss for the year</b> |       | (1,892,794)                         | (1,598,532)                         |
| Loss per ordinary share – basic and diluted  | 2     | (0.79)p                             | (0.74)p                             |

There are no recognised gains or losses other than those passing through the profit and loss account.

**VERONA PHARMA PLC**  
**GROUP STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2010**

|  | Notes | 31 December<br>2010<br>£ | 31 December<br>2009<br>£ |
|--|-------|--------------------------|--------------------------|
| <b>ASSETS</b>  |       |                          |                          |
| <b>Non current assets</b>                                  |       |                          |                          |
| Tangible assets  |       | 15,513                   | 18,004                   |
| Intangible assets  |       | 100,452                  | 70,570                   |
| Goodwill   | 9     | 1,469,112                | 1,469,112                |
|  |       | <u>1,585,077</u>         | <u>1,557,686</u>         |
| <b>Current assets</b>                                      |       |                          |                          |
| Trade and other receivables                                |       | 68,808                   | 381,259                  |
| Cash and cash equivalents                                  | 6     | 2,003,012                | 2,829,981                |
|  |       | <u>2,071,820</u>         | <u>3,211,240</u>         |
| <b>Total assets</b>  |       | <u>3,656,897</u>         | <u>4,768,926</u>         |
| <b>EQUITY AND LIABILITIES</b>                              |       |                          |                          |
| <b>Capital and reserves attributable to equity holders</b> |       |                          |                          |
| Called up share capital                                    |       | 239,906                  | 232,378                  |
| Option reserves  |       | 359,008                  | 356,210                  |
| Share premium account                                      |       | 9,373,526                | 8,561,493                |
| Retained losses  |       | (6,521,891)              | (4,668,057)              |
| <b>Total equity</b>  |       | <u>3,450,549</u>         | <u>4,482,024</u>         |
| <b>Current liabilities</b>                                 |       |                          |                          |
| Trade and other payables                                   |       | 206,348                  | 286,902                  |
| <b>Total liabilities</b>                                   |       | <u>206,348</u>           | <u>286,902</u>           |
| <b>Total equity and liabilities</b>                        |       | <u>3,656,897</u>         | <u>4,768,926</u>         |

The financial statements were approved by the Board on 22 March 2011.

**Stuart Bottomley**  
**Director**

**VERONA PHARMA PLC**  
**GROUP STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

|   | Notes | Year ended 31<br>December 2010<br>£ | Year ended 31<br>December 2009<br>£ |
|---|-------|-------------------------------------|-------------------------------------|
| <b>Net cash outflow from operating activities</b>             |       | (1,655,540)                         | (1,620,382)                         |
| <b>Cash outflow from taxation</b>                             |       | (4,532)                             | -                                   |
| <b>Cash flow from investing activities</b>                    |       |                                     |                                     |
| Interest received   |       | 7,898                               | 9,879                               |
| Purchase of tangible assets                                   |       | (7,081)                             | (16,593)                            |
| Purchase of intangible assets                                 |       | (41,640)                            | (8,070)                             |
| <b>Net cash (outflow) / inflow from investing activities</b>  |       | (40,823)                            | (14,784)                            |
| <b>Cash flow from financing activities</b>                    |       |                                     |                                     |
| Deferred financing cost                                       |       | 54,365                              | (54,365)                            |
| Net proceeds from issue of shares                             |       | 819,561                             | 2,064,630                           |
| <b>Net cash inflow from financing activities</b>              |       | 873,926                             | 2,010,265                           |
| <b>Net (decrease) / increase in cash and cash equivalents</b> |       | (826,969)                           | 375,099                             |
| Cash and cash equivalents at the beginning of the year        |       | 2,829,981                           | 2,454,882                           |
| <b>Cash and cash equivalents at the end of the year</b>       | 6     | 2,003,012                           | 2,829,981                           |

**VERONA PHARMA PLC**  
**GROUP STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

|   | Share<br>capital<br>£ | Share<br>premium<br>£ | Option<br>reserve<br>£ | Retained<br>earnings<br>£ | Total<br>£       |
|---|-----------------------|-----------------------|------------------------|---------------------------|------------------|
| <b>Balance at 1 January 2009</b>  | 215,258               | 6,504,783             | 343,001                | (3,069,525)               | 3,993,517        |
| Loss for the year   | -                     | -                     | -                      | (1,598,532)               | (1,598,532)      |
| Other comprehensive income  | -                     | -                     | -                      | -                         | -                |
| Total comprehensive loss for the year   | -                     | -                     | -                      | (1,598,532)               | (1,598,532)      |
| Issue of shares   | 17,120                | 2,188,680             | -                      | -                         | 2,205,800        |
| Issue costs   | -                     | (131,970)             | -                      | -                         | (131,970)        |
| Share based payment   | -                     | -                     | 13,209                 | -                         | 13,209           |
| <b>Balance at 31 December 2009</b>  | <b>232,378</b>        | <b>8,561,493</b>      | <b>356,210</b>         | <b>(4,668,057)</b>        | <b>4,482,024</b> |
| <b>Balance at 1 January 2010</b>  | 232,378               | 8,561,493             | 356,210                | (4,668,057)               | 4,482,024        |
| Loss for the year   | -                     | -                     | -                      | (1,892,794)               | (1,892,794)      |
| Other comprehensive income  | -                     | -                     | -                      | -                         | -                |
| Total comprehensive loss for the year   | -                     | -                     | -                      | (1,892,794)               | (1,892,794)      |
| Issue of shares   | 7,528                 | 866,798               | -                      | -                         | 874,326          |
| Issue costs   | -                     | (54,765)              | -                      | -                         | (54,765)         |
| Share based payment   | -                     | -                     | 41,758                 | -                         | 41,758           |
| Transfer of previously expensed share based payment charge upon exercise of options | -                     | -                     | (38,960)               | 38,960                    | -                |
| <b>Balance at 31 December 2010</b>  | <b>239,906</b>        | <b>9,373,526</b>      | <b>359,008</b>         | <b>(6,521,891)</b>        | <b>3,450,549</b> |



**VERONA PHARMA PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2010**

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**1. Accounting policies**

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

**1.1. Basis of preparation**

The financial statements have been prepared using the historical cost convention. In addition, the financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

**1.2. Going concern**

During the year ended 31 December 2010 the Group made a loss of £1,892,794 (2009: a loss of £1,598,532). At the balance sheet date the Group had net assets of £3,450,549 (2009: £4,482,024) of which £2,003,012 was cash at bank. The operation of the Group is currently being financed from funds which the Company raised from private and public placings.

The Group's capital management policy is to raise only sufficient funding to finance the Group's near term research objectives. Upon completion of objectives, or identification of new projects, the Directors will seek new funding to finance the next stage of the research programme or the new projects. The Directors believe that the Group has sufficient funds for it to comply with its foreseeable commitments and, accordingly, are satisfied that the going concern basis remains appropriate for the preparation of these financial statements. The Group will need additional funding to support the next stage of its research programme.

**1.3. Basis of consolidation**

These group financial statements include the accounts of Verona Pharma plc (the “Company” or the “Parent”) and its wholly-owned subsidiary Rhinopharma Limited. The Parent and Rhinopharma Limited are collectively referred to as the “Group”. The purchase method of accounting is used to account for the acquisition of Rhinopharma Limited.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising on acquisitions is capitalised and subject to an impairment review, both annually and when there are indications that the carrying value may not be recoverable.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated.

Rhinopharma Limited adopts the same accounting policies as the Company.

#### **1.4. Cash and cash equivalents**

The Company considers all highly liquid investments, with a maturity of 90 days or less to be cash equivalents, carried at the lower of cost or market value.

#### **1.5. Critical accounting judgements and estimates**

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. IFRSs also require management to exercise its judgement in the process of applying the Group's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

##### **(a) Impairment of intangible assets**

Determining whether an intangible asset is impaired requires an estimation of whether there are any indications that its carrying value is not recoverable.

At each reporting date, the Company reviews the carrying value of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

##### **(b) Valuation of goodwill**

Management values goodwill after taking into account the results of research efforts and estimated future sales and costs. If the assumed factors vary from actual occurrence, this will impact on the amount of the asset which should be carried on the balance sheet.

##### **(c) Share based payments**

The Group records charges for share based payments. For option based share based payments, management estimate certain factors used in the option pricing model, including volatility, exercise date of options and number of options likely to be exercised. If these estimates vary from actual occurrence, this will impact on the value of the equity carried in the reserves.

#### **1.6. New standards and interpretations**

The following new standards and amendments to standards are mandatory for the first time for the financials periods commencing on or after 1 January 2010:

##### **Amendments to IFRS 2 – Share-based Payment**

The amendments clarify the scope of IFRS 2, as well as the accounting for Group cash-settled share-based payment transactions in the separate financial statements of an entity receiving the goods or services when another Group entity or shareholder has the obligation to settle the award. This standard does not have any impact on the results or net assets of the Group.

#### Amendments to IAS 7 – Statement of Cash Flows

The amendments to IAS 7 resulted from the Improvements to IFRSs issued in 2009 and specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. This amendment has not affected the presentation of cash outflows in the Group or Company statement of cash flows.

#### Amendments to IFRS 8 – Operating Segments

IFRS 8 has been amended as part of the Improvement to IFRSs issued in 2009 with regard to disclosures of segment assets. This amendment has not impacted on the information disclosed in note 3 to these financial statements.

#### Amendments to IAS 36 – Impairment of Assets

As part of the Improvement to IFRSs issued in 2009, IAS 36 has been amended in related to units of accounting for goodwill impairment testing using segments under IFRS 8 before aggregation. The amendment to this standard does not have any impact on the Group's approach to its impairment review of goodwill or the results or net assets of the Group.

### **New standards and interpretations not applied during the year**

During the year, the IASB and IFRIC have issued new standards, amendments and interpretations with an effective date after the date of these financial statements. Of these, only the following are expected to be relevant to the Group:

| <b>Standard</b> | <b>Subject</b>   | <b>Effective from</b> |
|-----------------|--|-----------------------|
| IFRS 9          | Financial Instruments – Classification and Measurement   | 1 January 2013        |
| IAS 1           | Presentation of Financial Statements – Amendments resulting from April 2010 Annual Improvements to IFRSs | 1 January 2011        |
| IAS 24          | Related Party Disclosures – Revised definition of related parties  | 1 January 2011        |
| IAS 32          | Financial Instruments: Presentation – Amendments relating to the classification of rights issues         | 1 February 2010       |
| IFRIC19         | Extinguishing Financial Liabilities with Equity Instruments  | 1 July 2010           |

The Directors do not anticipate that the adoption of these standards will have a material impact on the Group's financial statements in the period of initial application.

## **2. Earnings per share**

Basic loss per share of 0.79p (2009: loss of 0.74p) for the Group is calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue of 238,761,092 (2009: 215,540,798).

Diluted loss per share for the current period has not been presented since the Company's stock options are anti-dilutive.

## **3. Segmental information**

The Group has determined that its operating segments be reported on a product pipeline basis as this best reflects the Group's activity cycle. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors.

The Group's product pipeline is dedicated to the research, discovery and development of new therapeutic drugs for the treatment of chronic respiratory diseases. At present there are three products: RPL554, NAIP and Cough. RPL554 is in the clinical phase, having successfully completed a Phase I and IIa trial, NAIPs and Cough are in the basic research phase.

**Segment information by operating segment is as follows:**

|                                     | <b>Clinical<br/>2010<br/>£</b> | <b>Clinical<br/>2009<br/>£</b> | <b>Basic<br/>research<br/>2010<br/>£</b> | <b>Basic<br/>research<br/>2009<br/>£</b> |
|-------------------------------------|--------------------------------|--------------------------------|--|--|
| <b>Income statement information</b> |                                |                                |  |  |
| Research and development            | (962,453)                      | (817,815)                      | (188,452)                                | (127,088)                                |
| Amortisation of patent              | (8,848)                        | (7,311)                        | (2,909)                                  | (2,186)                                  |
| Segment loss                        | <u>(971,301)</u>               | <u>(825,126)</u>               | <u>(191,361)</u>                         | <u>(129,274)</u>                         |
| <b>Balance sheet information</b>    |                                |                                |  |  |
| Patents                             | 70,609                         | 51,843                         | 29,843                                   | 18,727                                   |
| Goodwill                            | 1,469,112                      | 1,469,112                      | -  | -  |
| Segment assets                      | <u>1,539,721</u>               | <u>1,520,955</u>               | <u>29,843</u>                            | <u>18,727</u>                            |

|   | <b>2010<br/>£</b>  | <b>2009<br/>£</b>  |
|---|--------------------|--------------------|
| <b>Reconciliation of segment result</b> |                    |                    |
| Loss per reportable segment – Clinical  | (971,301)          | (825,126)          |
| Loss per segment – Basic research       | <u>(191,361)</u>   | <u>(129,274)</u>   |
| Total loss for reportable segments      | <u>(1,162,662)</u> | <u>(954,400)</u>   |
| Amortisation of non-segment assets      | (9,572)            | (12,677)           |
| Unallocated administration expense      | <u>(723,926)</u>   | <u>(638,698)</u>   |
| Group operating loss                    | <u>(1,896,160)</u> | <u>(1,605,775)</u> |

At the end of the financial year, the Group was still in early development stage and therefore had no turnover in either 2009 or 2010.

|  | <b>2010<br/>£</b> | <b>2009<br/>£</b> |
|--|-------------------|-------------------|
| <b>Reconciliation of segment assets</b>        |                   |                   |
| Assets per reportable segment – Clinical       | 1,539,721         | 1,520,955         |
| Assets per reportable segment – Basic research | <u>29,843</u>     | <u>18,727</u>     |
| Total assets for reportable segments           | <u>1,569,564</u>  | <u>1,539,682</u>  |
| Unallocated non-current assets                 | 15,513            | 72,369            |
| Unallocated current assets                     | <u>2,071,820</u>  | <u>3,156,875</u>  |
| Group total assets                             | <u>3,656,897</u>  | <u>4,768,926</u>  |

Segment information by geographical segment for 2010 is as follows:

| Geographical segment        | United Kingdom<br>£ | Canada<br>£ | Total<br>£  |
|-----------------------------|---------------------|-------------|-------------|
| Research and development    | (1,131,349)         | (19,555)    | (1,150,904) |
| Administration expenses     | (730,352)           | (14,904)    | (745,256)   |
| Finance revenue             | 7,898               | -           | 7,898       |
| Loss before taxation        | (1,853,803)         | (34,459)    | (1,888,262) |
| Tangible assets             | 15,513              | -           | 15,513      |
| Intangible assets           | 100,452             | -           | 100,452     |
| Trade and other receivables | 67,730              | 1,078       | 68,808      |
| Cash and cash equivalents   | 1,995,538           | 7,474       | 2,003,012   |
| Goodwill                    | 1,469,112           | -           | 1,469,112   |
| Trade and other payables    | (206,105)           | (243)       | (206,348)   |
| Net assets                  | 3,442,240           | 8,309       | 3,450,549   |

At the end of the financial year, the Group was still in early development stage and therefore had no turnover in the year.

#### 4. Taxation

|   | 2010<br>£   | 2009<br>£   |
|---|-------------|-------------|
| <b>Analysis of tax charge for the year</b>                        |             |             |
| Current tax:  |             |             |
| UK corporation tax at 28% (2009: 28%)                             | -           | -           |
| Foreign taxation  | 4,532       | -           |
| <b>Current tax charge</b>   | 4,532       | -           |
| <b>Factors affecting the tax charge for the year</b>              |             |             |
| Loss on ordinary activities before taxation                       | (1,888,262) | (1,598,532) |
| Multiplied by standard rate of corporation tax of 28.00% (28.00%) | (528,713)   | (447,589)   |
| Effects of:   |             |             |
| Non deductible expenses   | 11,692      | 3,779       |
| Timing differences not recognised                                 | -           | (102)       |
| Tax losses carried forward  | 517,021     | 443,912     |
| Prior year adjustment   | 4,532       | -           |
| <b>Current tax charge</b>   | 4,532       | -           |

## Factors that may affect future tax charges

At the balance sheet date, the Group has unused United Kingdom tax losses available for offset against suitable future profits in the United Kingdom. A deferred tax asset has not been recognised in respect of such losses due to uncertainty of future profit streams. The contingent deferred tax asset at 27% is estimated to be £1,833,000.

## 5. Subsidiary entities

The Company currently has one wholly owned subsidiary, Rhinopharma Limited. Rhinopharma Limited is incorporated under the laws of the Province of British Columbia, Canada. Rhinopharma Limited was a drug discovery and development company focused on developing proprietary drug to treat allergic rhinitis and other respiratory diseases prior to its acquisition by the Company on 18 September 2006.

| 6. Cash and cash equivalents | 2010<br>£       | 2009<br>£       |
|------------------------------|-----------------|-----------------|
| Cash at bank and in hand     | 2,003,012       | 2,829,981       |
| Cash equivalents             | -               | -               |
|                              | <hr/> 2,003,012 | <hr/> 2,829,981 |

## 7. Cost of issuing share options

Included within administration expenses is a charge for issuing share options. The Company granted 850,000 (2009: 1,200,000) share options during the current year with fair value using the Black-Scholes option-pricing model of £41,758 (2009: £13,209).

Of the 850,000 share options granted in the year, all were granted to employees. The employees' options are exercisable at 9 pence per option and the expiry date of these share options is 15 June 2015.

The following assumptions were used for the Black-Scholes valuation of share options granted in the current year:

| Year                     | Issued in 2010 | Issued in 2009 |             |
|--------------------------|----------------|----------------|-------------|
| Type                     | Employees      | Employees      | Consultants |
| Options granted          | 850,000        | 1,000,000      | 200,000     |
| Risk-free interest rate  | 2.75%          | 5.0%           | 4.75%       |
| Expected life of options | 5 years        | 5 years        | 5 years     |
| Annualised volatility    | 37.35%         | 75.02%         | 155.20%     |
| Dividend rate            | 0.00%          | 0.00%          | 0.00%       |

## 8. Related parties transactions

The Company was charged £41,307 (2009: £41,562) by Magic Bullets Enterprises Limited, a company of which Prof. Michael Walker is a director. At the year end the company owed £Nil (2009: £Nil) to the related party.

The Company was charged £27,000 (2009: £27,000) by Gryon Consulting Limited, a company of which Prof. Clive Page is a Director. At the year end the Company owed £Nil (2009: £Nil) to the related party.

## 9. Goodwill

|          | 2010<br>£ | 2009<br>£ |
|----------|-----------|-----------|
| Goodwill | 1,469,112 | 1,469,112 |

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in connection with the acquisition of Rhinopharma Limited in September 2006. Goodwill is capitalised and allocated to appropriate research projects, in Verona Pharma's case RPL554. They are deemed to have indefinite useful life and so are not amortised. Annual impairment test of the research projects ('RPs') is performed by comparing the expected recoverable amount of the RPs to the carrying amount of the RPs.

The recoverable amount of the RPs is based on value in use calculations. The use of this method requires the estimation of risk-adjusted future cash flows discounted using suitable pre-tax discount rate, and a pre-tax discount rate of 4.0% has been used. The key assumptions on which the cash flow projections were based include market size, market penetration, pre-tax discount rate, probability, estimated revenue and royalties. Sources of information for these key assumptions have been determined by using a combination of external market information, industry forecasts and management's expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Management has performed sensitivity analysis on the key assumptions including doubling the discount rate to 8% and reducing the other key assumptions by 50% to 75%. However, the changes would not cause the carrying amount to exceed their recoverable amount. Hence, the Company concluded that no impairment was required as at 31 December 2010.

## 10. Financial instruments

### (a) Fair values

The carrying amounts of cash and cash equivalents, short-term investments, receivables, and accounts payable and accrued liabilities, approximate to fair value due to their short-term nature.

### (b) Credit risk

Credit risk reflects the risk that the Group may be unable to recover contractual receivables. The Group is still in the development stage; therefore, no policies are required at this time to mitigate this risk.

### (c) Currency risk

Foreign currency risk reflects the risk that the Group's net assets will be negatively impacted due to fluctuations in exchange rates. The Group has not entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations. At 31 December 2010, cash and cash equivalents include Euro €91,773, and accounts payable and accrued liabilities include balances of CAD\$20,003, Euro €107,112, and USD\$15,225.

(d) Financial risk management

The Directors recognise that this is an area in which they may need to develop specific policies should the Group become exposed to further financial risks as the business develops.

(e) Management of capital

The Group considers capital to be its equity reserves. At the current stage of the Group's life cycle the Group's objective in managing its capital is to ensure funds raised meet the research and operating requirements until the next development stage of the Group's suite of projects.

The Group ensures it is meeting its objectives by reviewing its Key Performance Indicators ("KPIs") to ensure its research activities are progressing in line with expectations, controlling costs and placing unused funds on deposit to conserve resources and increase returns on surplus cash held.

(f) Interest rate risk

At 31 December 2010, the Group had cash deposits of £2,003,012 (2009: £2,829,981). The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates on classes of financial assets and financial liabilities, was as follows:

| Financial Asset | Floating<br>interest rate<br>2010<br>£ | Non-interest<br>bearing<br>2010<br>£ | Floating<br>interest rate<br>2009<br>£ | Non-interest<br>bearing<br>2009<br>£ |
|-----------------|--|--------------------------------------|--|--------------------------------------|
| Cash deposits   | 2,003,012                              | -                                    | 2,829,981                              | -                                    |

## 11. Financial information

The financial information set out in this announcement is unaudited and does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2010 will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the Registrar of Companies.

## 12. Directors' report and accounts

Copies of the full report and accounts will be posted to shareholders on or around **23 April 2011**. A copy will be made available on the Company's website ([www.veronapharma.com](http://www.veronapharma.com)) at the same time.

## 13. Annual General Meeting

The Company intends to convene an annual general meeting of shareholders on or around **3 June 2011 at 11:30am** at One America Square, Crosswall, London EC3N 2SG. A notice to convene the AGM will be dispatched to shareholders at the same time the full report and accounts are dispatched.

**ENDS**

For further information please visit [www.veronapharma.com](http://www.veronapharma.com) or contact:



|  |               |
|--|---------------|
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