Company Number 05375156

VERONA PHARMA PLC

ANNUAL REPORT AND ACCOUNTS

YEAR ENDED 31 DECEMBER 2013

VERONA PHARMA PLC
CONTENTS

VERONA PHARMA PLC
DIRECTORS, SECRETARY AND ADVISERS

Directors	Jan-Anders Karlsson (Chief Executive Officer) Clive Page (Non-Executive Chairman) Claire Poll Trevor Jones Stuart Bottomley Patrick Humphrey
Company Secretary	Ben Harber
Registered Office	Bradley Court Park Place Cardiff CF10 3DR
Company Number	05375156
Auditors	UHY Hacker Young Quadrant House 4 Thomas More Square London E1W 1YW
Nominated Adviser and Broker	WH Ireland Group plc 24 Martin Lane London EC4R 0DR
Solicitors	Taylor Wessing LLP 5 New Street Square London EC4A 3TW
Principal Banker	Royal Bank of Scotland 130 Jermyn Street London SW1Y 4UR
Registrars	Computershare Investor Services plc PO Box 82, The Pavilions Bridgewater Road Bristol BS99 7NH

VERONA PHARMA PLC
CORPORATE STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

2013 OPERATIONAL HIGHLIGHTS

- Lead molecule, RPL554 - a first-in-class, inhaled, PDE3/4 inhibitor - demonstrates anti-inflammatory effects in man, confirming the drug's potential as a dual bronchodilator and anti-inflammatory treatment for respiratory disease.

- Development of novel commercial formulation of RPL554 for inhalation by nebulisation.

- Enhanced strategy for faster route to market by developing RPL554 initially as a nebulised bronchodilator for treatment of patients with severe COPD in the hospital setting.

- VRP700 Phase 2 clinical trial started in patients with Idiopathic Pulmonary Fibrosis to further evaluate efficacy of the drug as a treatment for chronic severe cough: data expected in the first half of 2014.

- Filing of multiple patents on RPL554 and VRP700 to extend IP coverage.

- Peer-reviewed papers in *The Lancet Respiratory Medicine* and the *Journal of Pharmacology and Experimental Therapeutics* highlight clinical efficacy of RPL554 in COPD and asthma patients, and the potential for synergy when combining RPL554 with muscarinic receptor antagonists and beta2 agonists as drugs for the treatment of COPD and asthma.

- Formation of a Clinical and Scientific Advisory Board (CSAB) to support the development of RPL554.

- Closed operations in Vancouver and moved all activities to the UK.

2013 FINANCIAL HIGHLIGHTS

- Completed a placing in February 2013 raising gross proceeds of £1.16 million and a further placing in October 2013 raising gross proceeds of £0.8 million.

- Loss after tax of £2.52 million (2012: £2.52 million) equivalent to 0.74 pence (2012: 0.82 pence) per ordinary share.

- Net cash outflows from operating activities during the year of £2.34m (2012: £2.57m), with cash and cash equivalents as at 31 December 2013 of £0.60m (2012: £0.96m).

POST PERIOD HIGHLIGHTS

- Completed a share placing, subscription and open offer in March 2014 raising gross proceeds of £14.0m.

VERONA PHARMA PLC
CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S JOINT STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

INTRODUCTION

Verona Pharma is a biopharmaceutical company focused on the development of high value, first-in-class drugs for patients with chronic, debilitating respiratory diseases. The Company continued to implement the refined strategy to accelerate shareholder value creation, which was announced at the end of last year. Further steps have been taken to focus the initial development of the lead programme RPL554, an innovative inhaled, dual phosphodiesterase (PDE) 3 and 4 inhibitor, as a nebulised treatment for patients in hospital with acute exacerbation of COPD. Many of these patients become hospitalised as a result of an acute worsening of their disease that cannot be prevented by their current medications and are in need of more intensive care and treatment. The bronchodilator and anti-inflammatory properties of RPL554 should be beneficial to these patients. The second programme, VRP700, is an innovative inhaled product for suppressing intractable, chronic cough in patients with underlying severe lung disease.

Both drugs address specific patient medical needs that currently are not optimally treated. There is limited competition in the form of novel types of bronchodilators or anti-cough drugs in clinical development for these patient groups and the Board believes that these could become very attractive commercial markets for Verona Pharma. In addition, both compounds have great potential as chronic maintenance treatments of out-patients with respiratory diseases and thus provide attractive and flexible partnering opportunities.

During 2013, the Company completed an anti-inflammatory study with RPL554 and reported the first headline data. It also developed a novel formulation for RPL554 for use in a nebuliser, which will be used in clinical testing starting in 2014.

For the VRP700 project, a second Phase 2 study was commenced in patients with chronic, severe cough, which is expected to be completed and reported in the first half of 2014.

Additionally, new patents were filed on both RPL554 and VRP700 in order to further strengthen the patent portfolio around the two compounds.

The Company published its first paper on clinical trial data with RPL554 in the prestigious, peer-reviewed journal, *The Lancet Respiratory Medicine*, in October 2013 and the paper was accompanied by a positive commentary in the same issue of the journal. Further scientific and clinical data on the bronchodilator effects of RPL554 in patients with asthma and COPD were presented at the American Thoracic Society's annual conference in Philadelphia in May, and data on the anti-inflammatory effects of the drug were presented at the European Respiratory Society meeting in Barcelona in September, further enhancing the profile of these innovative agents. The Company also streamlined operations by closing its office in Vancouver, Canada.

RPL554

RPL554 is a novel inhaled dual PDE 3 and 4 inhibitor that was selected for clinical development following pre-clinical studies that demonstrated both potent bronchodilator and anti-inflammatory properties. RPL554 is currently being developed as a potential first-in-class treatment for patients with chronic respiratory diseases such as COPD and asthma.

RPL554 has successfully completed a number of early clinical Phase 1 and 2 clinical studies. These single and multiple dose studies suggest that RPL554, when inhaled across a range of doses, is an effective bronchodilator in patients with COPD or asthma and is an excellent candidate for further development as a new class of bronchodilator.

Importantly for the positioning of RPL554 as a novel inhaled treatment for patients with COPD, in an experimental clinical trial at the Tor Vergata Clinic at the University of Rome, the magnitude of the bronchodilator response produced by the drug showed a statistically significant difference to placebo and was at least equivalent to that produced by a standard dose of the reference bronchodilator beta2-agonist salbutamol in these patients. Importantly, no safety issues were observed.

A randomised, double blind, placebo-controlled clinical trial to examine the potential anti-inflammatory effects of RPL554 was completed at MEU in Manchester and reported in March 2013. The trial was conducted in healthy subjects, treated once daily for 6 consecutive days with either inhaled RPL554 or inhaled placebo before being challenged on the last day by an irritant agent that provokes a COPD-like inflammatory response in their airways.

RPL554 significantly reduced the number of neutrophils (an inflammatory cell type recognised for its central role in COPD or severe asthma) in the sputum. There was a highly significant reduction in the numbers of inflammatory cells, with no clinically significant adverse events reported. These data indicate that RPL554 has anti-inflammatory properties, most likely due to inhibition of PDE4 (or perhaps the combined inhibition of PDE3 and 4), and it is believed that this adds to the direct bronchodilator effect of the drug and contributes to the improvement of symptoms of COPD.

The Company is strongly encouraged by recent data showing a synergistic effect between RPL554 and anti-muscarinic drugs (an important drug class currently used in the treatment of patients with COPD) on human airway smooth muscle, published in the peer-reviewed scientific journal, the Journal of Pharmacology and Experimental Therapeutics. These data suggest that RPL554 can be both a stand-alone treatment as well as a very attractive combination partner to existing treatments for COPD and asthma.

In October 2013, a paper entitled "Efficacy and safety of RPL554, a dual PDE3 and PDE4 inhibitor, in healthy volunteers and in patients with asthma or chronic obstructive pulmonary disease: findings from four clinical trials" was published in the prestigious journal The Lancet Respiratory Medicine. This peer-reviewed paper highlighted the potential of RPL554 to reverse the narrowing and reduce the inflammation of airways and provide a novel treatment for patients not adequately treated with currently available treatments. Further abstracts and papers were published during the year to increase the awareness of RPL554 in the medical and pharmaceutical business community.

A novel nebulised formulation of RPL554 has been developed and will be used in the further clinical development of the compound. It is expected that this formulation will be of a quality suitable for commercialization. In addition, further work has been performed to extend and prolong patent protection of RPL554.

VRP700

Cough is the most common symptom of many lung diseases and can be very troublesome in some patients. Chronic cough of more than eight weeks duration can be a symptom of severe lung diseases such as interstitial lung disease, including idiopathic pulmonary fibrosis (IPF), lung cancer, cystic fibrosis, asthma and COPD.

Currently available cough remedies are widely considered to be relatively ineffective against chronic cough and are commonly associated with significant side effects. To the best of the Company's knowledge, there are no novel and effective inhaled therapies for treating the severe, intractable cough associated with these lung diseases currently in clinical development. The Company is initially evaluating VRP700 as a potential "first-in-class" treatment in patients with chronic cough due to severe lung disease.

An exploratory clinical trial of VRP700 at the University of Florence, Italy, showed a very effective reduction of coughing in a small group of patients with various forms of severe lung disease. A follow-on study in patients with IPF was commenced at the Respiratory and Allergy Centre at the University of Manchester, UK, during the reporting period. In this randomised, double-blind, placebo-controlled clinical study with inhaled VRP700, IPF patients are treated with a single dose of either VRP700 or placebo and the effect on cough and other symptoms are recorded. The study is expected to be completed in the first half of 2014.

NAIPs

The Company has conducted limited work in the NAIPs program, as this is a longer term research opportunity at this point in time.

FINANCIALS

The loss from operations for the year ended 31 December 2013 was £2.52m (2012: £2.52m). Research and development expenditure amounted to £1.66m (2012: £1.67m) and reflected a decrease in expenditures on the RPL554 programme by £0.21m to £1.10m (2012: £1.31m) offset by an increase in expenditure on the VRP700 programme by £0.20m to £0.55m (2012: £0.35m). The decrease in expenditure on the RPL554 programme was primarily due to the majority of costs for the anti-inflammatory study being incurred in 2012 with no new clinical studies initiated in 2013, partly offset by costs of developing the new nebulised formulation. The increase in expenditure on the VRP700 programme predominately arose from the study in IPF patients being conducted at the University of Manchester, which commenced in 2013 and is due to complete in the first half of 2014.

Administrative expenses for the year were £1.16m (2012: £0.91m). The increase of £0.27m arose mainly from an increase in the share-based payments charge and from cash bonus payments made during 2013, as detailed in the Directors' Report.

As at 31 December 2013, the Group had approximately £0.60 million in cash and cash equivalents.

On 24 March 2014 the Company announced that it had raised £14 million in gross proceeds from a placing, subscription and open offer. These funds will be used primarily to support the development of RPL554 in severe COPD and VRP700 in chronic cough as well as corporate and general administrative expenditures.

MANAGEMENT AND STAFF

In September 2013, the Company appointed Richard Bungay as Chief Financial Officer. Richard has close to 20 years' experience in corporate and senior finance roles within R&D-based companies within the biotechnology and pharmaceutical sector. He was also Director of Corporate Communications and Strategic Planning at Celltech Group plc until its acquisition by UCB in 2004. Richard qualified as a Chartered Accountant with Deloitte. His experience will be invaluable as the key clinical programmes move forward and the Company grows.

OUTLOOK

During the reporting period, Verona Pharma continued to implement the refined strategy of creating a biopharmaceutical company focused on the development of high value, first-in-class drugs for chronic, debilitating specialist-treated respiratory diseases. The initial focus of the lead pipeline drug, RPL554, is to develop a nebulised treatment for hospitalised patients with acute exacerbations of COPD, and the initial focus for VRP700 is to develop a novel inhaled treatment for patients with intractable, chronic cough due to severe lung disease. The Board believes that both drugs address specific patient groups that are currently under-treated, that there is limited competition in both segments, and that both drugs therefore present very attractive commercial opportunities for generating significant value for shareholders.

Over the next 24 months the significant funds raised in March 2014 will enable RPL554 to be advanced in a series of further clinical and supplementary pre-clinical studies that should position the drug for a subsequent Phase 2b study. The Company continues to anticipate data from the VRP700 proof of concept trial in the first half of 2014. If successful, additional pre-clinical and clinical work is planned to further evaluate its properties as a potential new inhaled anti-tussive drug. This continued clinical work will support the optimised development and commercial strategy. Importantly, strengthening the IP coverage around both projects has provided longer patent protection and adds very significant value to both programmes.

In addition, the Company believes that RPL554, with its unique bronchodilator and anti-inflammatory properties, ultimately has the potential to benefit a much wider group of patients and to be used either alone or in combination with existing medicines. RPL554 could become a particularly attractive combination partner to currently used anti-muscarinic drugs, the mainstay treatment for COPD patients, as the Company has demonstrated a synergistic effect when these two drugs are used in combination.

The Company recognises that an experienced and resourceful commercial partner could bring significant value to the development of RPL554 for chronic maintenance treatment in COPD and perhaps asthma and therefore continues to be involved in business development discussions around the RPL554 programme. However, the Company intends to partner its drug candidates only when it can extract a commercially attractive return for the Company and its Shareholders.

The Company will continue to operate with a strong focus and financial discipline, and remains very positive about its progress to date and the opportunities for its two lead drug development programmes.

Professor Clive P. Page
Chairman

Dr. Jan-Anders Karlsson
Chief Executive Officer

25 April 2014

The Directors present their strategic report together with the audited financial statements and auditors' report for the year ended 31 December 2013.

Principal activity

The Company was incorporated on 24 February 2005. On 18 September 2006 the Company successfully acquired all the shares of Rhinopharma Limited, a private company incorporated in Canada, and changed its name to Verona Pharma plc (the "Company" or the "Parent"). The Parent and Rhinopharma Limited are collectively referred to as the "Group".

The principal activity of the Group is the development of novel, "first-in-class" drugs for the treatment of chronic respiratory diseases, such as chronic obstructive pulmonary disease (COPD), asthma and cough.

Review of the business and future prospects

The Chairman and Chief Executive Officer's joint statement describes the Group's activities and future prospects.

Key performance indicators ("KPIs")

The key performance indicators for the Group are as follows:

1. Development milestones – This operational KPI is used by the Board to monitor the performance of the Group's drug candidates through the planned clinical studies. Key development milestones achieved in 2013 include:

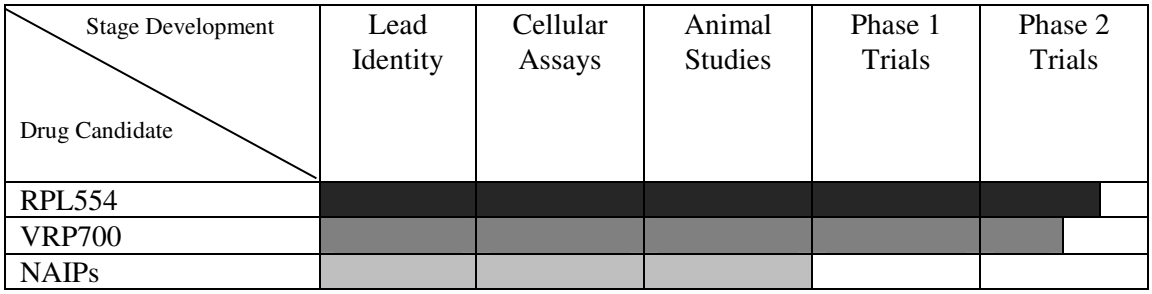
    - Clinical trial demonstrated anti-inflammatory effect of RPL554

    - Clinical trial initiated to confirm the anti-tussive activity of the Company's cough drug, VRP700, in patients with chronic, severe cough. The study is expected to conclude in the first half of 2014.

    - New, nebulised formulation of RPL554 successfully developed for use in subsequent clinical trials and ultimately for commercialisation.

2. Cash flow – This financial KPI is used by the Board to monitor the Group's burn rate and the timing and requirement for future funding. The average monthly operating cash outflow in 2013 was £195,000 (2012: £214,000) and the net cash position at 31 December 2013 was £0.60 million. After taking into consideration the placing, subscription and open offer of £14 million completed in March 2014, it is estimated that the Group has funds allowing it to operate for more than 12 months as at the date of approval of this report assuming no acquisition of new intellectual properties and based on current cost expectations and level of operations.

Following is a clinical development chart showing the stage of development of the Group's drug candidates as at 31 December 2013:



The Group's strategy is to either enter into a licensing or partnership arrangement for the further development and commercialisation of its drug candidates at the end of clinical proof of concept and/or to develop drug candidates in-house for smaller, specialised disease indications. The timeline for entering into licensing arrangements is uncertain and depends on the Group's ability to find a suitable partner and successfully complete the due diligence and negotiation process.

Principal risks and uncertainties

There is a high level of risk in drug development. The Group's current drug development programmes are at an early stage. The RPL554 programme has completed Phase 1 and 2a and further Phase 2 human clinical trials. The Cough programme completed a proof of concept clinical trial in 2011 and a further, larger proof of concept trial is scheduled to complete in 2014. The NAIPs programme is an early stage research project, and its safety and effectiveness have not yet been established. In addition, there are numerous regulatory approvals that must be obtained to test, manufacture and commercialise the proposed drug treatments. Even if such approvals are obtained, there is no certainty that the Group will be able to commercialise the drug treatments on commercially acceptable terms. The Group may require access to additional funding in the future. If it fails to obtain such funding the Group may need to delay or scale back some of its research and development programmes.

By order of the Board

Dr. Jan-Anders Karlsson
Chief Executive

25 April 2014

Results and dividends

The Group results for the year are set out on page 17. There was a loss for the year after taxation amounting to £2.52 million (2012: loss of £2.52 million). Research and development expenditure amounted to £1.66m (2012: £1.67m). In view of the loss, the Directors cannot recommend the payment of a dividend.

Directors

The following Directors held office during the year:
Jan-Anders Karlsson
Clive Page
Trevor Jones
Claire Poll
Stuart Bottomley
Patrick Humphrey

Directors' interests

The beneficial and non-beneficial interests in the Company's shares of the Directors and their families were as follows:

Name	Held at 31 December 2013	Held at 31 December 2012
Stuart Bottomley	17,972,727	10,700,000
Clive Page	5,773,928	5,773,928
Jan-Anders Karlsson	1,709,091	150,000
Claire Poll	4,750,000	3,500,000
Trevor Jones	63,461	38,461
Patrick Humphrey	Nil	Nil

Share options

Share options held by directors at 31 December 2013 were as follows:

	At beginning of period	Granted/ exercised or expired in period	At end of period	Exercise price (£)	Exercisable at end of period
J-A Karlsson	5,000,000	-	5,000,000	0.05 - 0.15	1,666,665
J-A Karlsson	-	5,000,000	5,000,000	0.04	-
C Page*	2,000,000	-	2,000,000	0.05	2,000,000
C Page	-	2,500,000	2,500,000	0.04	-
C Poll*	2,000,000	-	2,000,000	0.05	2,000,000
C Poll	-	2,500,000	2,500,000	0.04	-
T Jones*	2,000,000		2,000,000	0.05	2,000,000
T Jones	-	1,000,000	1,000,000	0.04	-
S Bottomley*	2,000,000	-	2,000,000	0.05	2,000,000
S Bottomley	-	1,000,000	1,000,000	0.04	-
P Humphrey	1,000,000	-	1,000,000	0.175	1,000,000
P Humphrey	500,000	-	500,000	0.09	333,333
P Humphrey	-	1,000,000	1,000,000	0.04	-

*On 7 June 2011, the Company extended the expiry date of these options by five years to 18 September 2016.

Report on Directors' remuneration and service contracts

The Remuneration Committee, consisting of two Non-Executive Directors, and Chaired by Prof. Trevor Jones, meets at least once a year (or more frequently as required). The Committee is responsible for the remuneration of the Executive Directors, including their benefits in kind, terms of employment and share options. The Executive Directors also consult the Committee in relation to the remuneration of senior employees and staff share option schemes. The Committee takes account of remuneration paid by other companies of a similar size and comparable industry sector in the UK. The remuneration of the Non-Executive Directors is determined by the Board as a whole, based on a review of current practices in other companies. The service contracts of the Directors for Director services are subject to a three-month termination period. There are separate contracts in place for the provision of consulting services by Prof. Clive Page and Claire Poll. The contract for the provision of the services of Clive Page is with Gryon Consulting Limited, the contract specifies a termination period of twelve months. The consulting contract with Claire Poll is in her own name and specifies a termination period of three months. The employment contract with Dr. Jan-Anders Karlsson is in his own name and the contract specifies a termination period of twelve months. Details of the Directors' emoluments for the year for director and consulting services are as follows:

	Fees/basic Salary	Bonus	Employer's NI/benefit*	Share based payment	2013 Total	2012 Total
Executive	**£**	**£**	**£**	**£**	**£**	**£**
Jan-Anders Karlsson	160,417	170,000	72,495	44,171	447,083	130,635
Michael Walker	-	-	-	-	-	25,416
Claire Poll	42,000	-	-	8,172	50,172	56,387
Non-Executive						
Clive Page	47,000	-	1,698	8,172	56,870	41,328
Trevor Jones	20,000	-	1,698	4,241	25,939	14,328
Stuart Bottomley	20,000	-	1,698	4,241	25,939	14,328
Patrick Humphrey	20,000	-	1,698	6,727	28,425	43,524
	309,417	170,000	79,287	75,724	634,428	325,946

*Included in £72,495 for Dr. Karlsson is £24,569 in Expacare benefit.

Pensions

The Group does not operate a money purchase/defined benefit pension scheme for Directors or employees.

Political and charitable contributions

There were no political or charitable contributions made by the Company during the year ended 31 December 2013.

Subsequent events

On 24 March 2014 the Company announced that it had raised £14 million in gross proceeds from a placing, subscription and open offer. These funds will be used primarily to support the development of RPL554 in severe COPD and VRP700 in chronic cough as well as corporate and general administrative expenditures.

Substantial share holders

The Company has been notified, in accordance with Chapter 5 of the FCA's Disclosure and Transparency Rules, of the under noted interests in its ordinary shares as at 8 April 2014 of 3% shareholders and above:

	Number of Ordinary shares	% of Share Capital
The Wales Life Sciences Investment Fund LP	210,000,000	20.8
Aviva	182,250,000	18.1
Investec	101,965,455	10.1
Vivo Capital	80,481,480	8.0
Fidelity	76,394,918	7.6

Statement of Directors' responsibilities

The Directors are responsible for preparing their annual reports and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs").

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the Directors are aware:

1. there is no relevant audit information of which the Company's auditors are unaware; and
2. the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution proposing that UHY Hacker Young be re-appointed as auditors of the Company and that the Directors be authorised to fix their remuneration will be proposed at the Annual General Meeting.

Annual General Meeting

Accompanying this report is the notice of Annual General Meeting of the Company which sets out the resolutions relating to the business which the Company proposes to conduct at the meeting. The meeting will be held at 10.00 am on 12 June 2014 at One America Square, Crosswall, London EC3N 2SG.

By order of the Board.

Dr. Jan-Anders Karlsson
Chief Executive

25 April 2014

Board of Directors

The Board meets at regular intervals, normally no less than four times a year. The Board is responsible for approving company policy and strategy. The Board consists of six members, with Dr. Jan-Anders Karlsson and Claire Poll as executive directors and Prof. Clive Page, Prof. Trevor Jones, Stuart Bottomley and Prof. Patrick Humphrey as non-executive directors The Chairman of the Board is Prof. Clive Page and the Company's business is run by Dr. Jan-Anders Karlsson (CEO), Richard Bungay (CFO) and Claire Poll (Executive Director). Prof. Trevor Jones, Stuart Bottomley and Claire Poll are members of the Audit Committee, Prof. Clive Page, Prof. Trevor Jones and Stuart Bottomley are members of the Nomination and Corporate Governance Committee and Prof. Trevor Jones and Stuart Bottomley are members of the Remuneration Committee.

Internal control

The Board is responsible for maintaining a strong system of internal control to safeguard shareholders' investment and the Group's assets and to review its effectiveness. The system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to mitigate operational risks.

An Audit Committee has been established, chaired by Stuart Bottomley, which will meet at least twice a year and is responsible for ensuring that the financial performance of the Group is properly monitored and reported on, as well as meeting the auditors and reviewing any reports prepared by auditors.

At the present time, the size of the Group does not justify an internal audit function. The key features of the Group's system of internal control are as follows:

- the Company is headed by an effective Board, which leads and controls the Group;
- there is a clear division of responsibilities in running the Board and running the Group's business;
- the Board includes a balance of executive and non-executive directors; and
- the Board receives and reviews on a timely basis financial and operating information appropriate to being able to discharge its duties.

The Company has also established a Remuneration Committee, chaired by Prof. Trevor Jones, and a Nomination and Corporate Governance Committee, chaired by Prof. Clive Page. Both of these Committees meet at least once a year. The Nomination and Corporate Governance Committee is responsible for overseeing the Company's corporate governance capability, including evaluating the structure, size and composition of the Board and succession planning of Board members and senior management.

Going concern

The Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Board will continue to monitor the progress of the development of its programmes and the financial position in order to ensure that the Group continues to have sufficient funding to continue in business. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

Communication with shareholders

The Board has a strong commitment to the maintenance of good investor relations with its shareholders, and the Directors will make themselves available to answer questions at the Annual General Meeting. Shareholders are encouraged to contact the Company via email or telephone if they have any questions.

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF VERONA PHARMA PLC
FOR THE YEAR ENDED 31 DECEMBER 2013

We have audited the financial statements of Verona Pharma plc for the year ended 31 December 2013 that comprise the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Cash Flows, the Group and Parent Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 Statement of Directors' Responsibility set out on page 12, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (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 website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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.

Colin Wright
Senior Statutory Auditor

for and on behalf of
UHY Hacker Young

Chartered Accountants
Statutory Auditors

Quadrant House
4 Thomas More Square
London E1W 1YW

25 April 2014

VERONA PHARMA PLC
GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Continuing operations			
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Research and development		(1,656,490)	(1,674,977)
Administration expenses		(1,160,294)	(910,372)
Operating loss	4	(2,816,784)	(2,585,349)
Finance revenue	6	2,632	20,177
Loss before taxation		(2,814,152)	(2,565,172)
Taxation – credit	7	289,400	48,069
Loss for the year		(2,524,752)	(2,517,103)
Other comprehensive income		-	-
Total comprehensive loss for the year		(2,524,752)	(2,517,103)
Loss per ordinary share – basic and diluted (pence)	2	(0.74)p	(0.82)p

The results shown above relate entirely to continuing operations and are attributable to equity holders of the Company.

VERONA PHARMA PLC
GROUP STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Notes	31 December 2013 £	31 December 2012 £
ASSETS			
Non-current assets			
Plant and equipment	12	27,647	39,484
Intangible assets – patents	13	207,144	125,280
Goodwill	14	1,469,112	1,469,112
		1,703,903	1,633,876
Current assets			
Trade and other receivables	9	249,639	208,051
Cash and cash equivalents	10	603,791	960,870
		853,430	1,168,921
Total assets		2,557,333	2,802,797
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders			
Share capital	15	372,598	307,203
Share premium		14,184,412	12,447,364
Share-based payment reserve		640,579	470,577
Retained losses		(13,129,576)	(10,621,672)
Total equity		2,068,013	2,603,472
Current liabilities			
Trade and other payables	11	489,320	199,325
Total liabilities		489,320	199,325
Total equity and liabilities		2,557,333	2,802,797

The financial statements were approved by the Board of Directors on 25 April 2014 and signed on its behalf by:

Dr. Jan-Anders Karlsson
Chief Executive

Company Number: 05375156

VERONA PHARMA PLC
COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Notes	31 December 2013 £	31 December 2012 £
ASSETS			
Non current assets			
Plant and equipment	12	27,647	39,484
Intangible assets – patents	13	207,144	125,280
Goodwill	14	1,453,569	1,453,569
Investment	8	1	1
		1,688,361	1,618,334
Current assets			
Trade and other receivables	9	248,917	207,025
Cash and cash equivalents	10	602,503	957,155
		851,420	1,164,180
Total assets		2,539,781	2,782,514
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders			
Called up share capital	15	372,598	307,203
Share premium account		14,184,412	12,447,364
Share-based payment reserve		640,579	470,577
Retained losses		(13,147,128)	(10,641,741)
Total equity		2,050,461	2,583,403
Current liabilities			
Trade and other payables	11	489,320	199,111
Total liabilities		489,320	199,111
Total equity and liabilities		2,539,781	2,782,514

The financial statements were approved by the Board of Directors on 25 April 2014 and approved on its behalf by:

Dr. Jan-Anders Karlsson
Chief Executive

Company Number: 05375156

VERONA PHARMA PLC
GROUP STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Net cash outflow from operating activities	16	(2,343,944)	(2,573,609)
Cash inflow from taxation		289,400	48,069
Cash flow from investing activities			
Interest received		2,642	20,194
Purchase of plant and equipment		(2,033)	(46,594)
Payment for patents		(105,587)	(27,953)
Net cash outflow from investing activities		(104,978)	(54,353)
Cash flow from financing activities			
Financing costs		-	12,074
Net proceeds from issue of shares		1,802,443	1,002,494
Net cash inflow from financing activities		1,802,443	1,014,568
Decrease in cash and cash equivalents		(357,079)	(1,565,325)
Cash and cash equivalents at the beginning of the year		960,870	2,526,195
Cash and cash equivalents at the end of the year	10	603,791	960,870

VERONA PHARMA PLC
COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	Year ended 31 December 2013 £	Year ended 31 December 2012 £
Net cash outflow from operating activities	16	(2,332,329)	(2,561,282)
Cash inflow from taxation		289,400	48,069
Cash flow from investing activities			
Interest received		2,642	20,194
Purchase of plant and equipment		(2,033)	(46,594)
Payments for patents		(105,587)	(27,953)
Advance to subsidiary		(9,188)	(9,489)
Net cash outflow from investing activities		(114,166)	(63,842)
Cash flow from financing activities			
Financing cost		-	12,074
Net proceeds from issue of shares		1,802,443	1,002,494
Net cash inflow from financing activities		1,802,443	1,014,568
Decrease in cash and cash equivalents		(354,652)	(1,562,487)
Cash and cash equivalents at the beginning of the year		957,155	2,519,642
Cash and cash equivalents at the end of the year	10	602,503	957,155

VERONA PHARMA PLC
GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital £	Share premium £	Option reserve £	Retained earnings £	Total £
Balance at 1 January 2012	285,844	11,466,229	510,499	(8,211,826)	4,050,746
Loss for the year	-	-	-	(2,517,103)	(2,517,103)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(2,517,103)	(2,517,103)
Issue of shares	21,359	1,046,607	-	-	1,067,966
Share issue costs	-	(65,472)	-	-	(65,472)
Share-based payments	-	-	67,335	-	67,335
Transfer of previously expensed share based payment charge upon exercise of options	-	-	(107,257)	107,257	-
Balance at 31 December 2012	307,203	12,447,364	470,577	(10,621,672)	2,603,472
Balance at 1 January 2013	307,203	12,447,364	470,577	(10,621,672)	2,603,472
Loss for the year	-	-	-	(2,524,752)	(2,524,752)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(2,524,752)	(2,524,752)
Issue of shares	65,395	1,894,767	-	-	1,960,162
Share issue costs	-	(157,719)	-	-	(157,719)
Share-based payments	-	-	186,850	-	186,850
Transfer of previously expensed share based payment charge upon lapse of options	-	-	(16,848)	16,848	-
Balance at 31 December 2013	372,598	14,184,412	640,579	(13,129,576)	2,068,013

VERONA PHARMA PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital £	Share premium £	Option reserve £	Retained earnings £	Total £
Balance at 1 January 2012	285,844	11,466,229	510,499	(8,234,710)	4,027,862
Loss for the year	-	-	-	(2,514,288)	(2,514,288)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(2,514,288)	(2,514,288)
Issue of shares	21,359	1,046,607	-	-	1,067,966
Share issue costs	-	(65,472)	-	-	(65,472)
Share-based payments	-	-	67,335	-	67,335
Transfer of previously expensed share based payment charge upon exercise of options	-	-	(107,257)	107,257	-
Balance at 31 December 2012	307,203	12,447,364	470,577	(10,641,741)	2,583,403
Balance at 1 January 2013	307,203	12,447,364	470,577	(10,641,741)	2,583,403
Loss for the year	-	-	-	(2,522,235)	(2,522,235)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(2,522,235)	(2,522,235)
Issue of shares	65,395	1,894,767	-	-	1,960,162
Share issue costs	-	(157,719)	-	-	(157,719)
Share-based payments	-	-	186,850	-	186,850
Transfer of previously expensed share based payment charge upon lapse of options	-	-	(16,848)	16,848	-
Balance at 31 December 2013	372,598	14,184,412	640,579	(13,147,128)	2,050,461

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 2013 the Group made a loss of £2,524,752 (2012: a loss of £2,517,103). At the year-end date the Group had net assets of £2,068,013 (2012: £2,603,472) of which £603,791 was cash and cash equivalents. The operation of the Group is currently being financed from funds that the Company raised from private and public share placings. On 24 March 2014 the Company announced that it had raised £14 million in gross proceeds from a placing, subscription and open offer. These funds will be used primarily to support the development of RPL554 in severe COPD and VRP700 in chronic cough as well as corporate and general administrative expenditures.

The Group's capital management policy is to only raise 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.

1.3. Basis of consolidation

These group financial statements include the accounts of Verona Pharma plc and its wholly-owned subsidiary Rhinopharma Limited. 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. Foreign currency translation

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The financial statements are presented in pounds sterling ("£"), which is the functional and presentational currency of the Company and the presentational currency of the Group.

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the original transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The assets and liabilities of foreign operations are translated into sterling at the rate of exchange ruling at the balance sheet date. Income and expenses are translated at weighted average exchange rates for the period. The resulting exchange differences are recognised in other comprehensive income.

1.5. 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.

1.6. Deferred taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and expected to apply when the related deferred tax is realised or the deferred liability is settled.

Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised.

1.7. Research and development costs

Research costs are charged as an expense in the period in which they are incurred. Development costs are charged as an expense in the period incurred unless the Company believes a development project meets generally accepted accounting criteria for capitalisation and amortisation. At 31 December 2013 no development costs have been capitalised.

1.8. Plant and equipment

Plant and equipment are recorded at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the expected useful lives as follows:

Computer hardware	3 years
Computer software	2 years
Office furniture and equipment	5 years

1.9. Intangible assets

Patent costs associated with the preparation, filing, and obtaining of patents are capitalised and amortised on a straight-line basis over the estimated useful lives of the patents of ten years.

1.10. Impairment of intellectual properties

The carrying value of patents and goodwill do not necessarily reflect present or future values and the ultimate amount recoverable will be dependent upon the successful development and commercialisation of products based on these intellectual properties. Management reviews the intellectual properties for impairment whenever events or changes in circumstances indicate that full recoverability is questionable, and such review is performed on at least an annual basis. Management measures any potential impairment by comparing the carrying value to the discounted amounts of expected future cash flows.

1.11. Share based payments

The Company made share-based payments to certain directors and advisers by way of issue of share options. The fair value of these payments is calculated by the Company using the Black-Scholes option pricing model. The expense is recognised on a straight line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of shares that will eventually vest.

1.12. 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 that should be carried in the statement of financial position. Further details of the Group's assessment of the carrying value of goodwill are disclosed in note 14.

(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, vesting date of options and number of options likely to vest. If these estimates vary from actual occurrence, this will impact on the value of the equity carried in the reserves. Further details of the Group's estimation of share based payments are disclosed in note 18.

1.13. New standards and interpretations

The following new standards and amendments are mandatory for the first time for financial periods commencing on or after 1 January 2013:

IFRS 13 – Fair Value Measurement

The standard applies to IFRSs that require or permit fair value measurements or disclosures and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. The Standard defines fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market- based, rather than entity-specific, measurement.

Amendments to IAS 1 – Presentation of Financial Statements

The amendments require entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss.

These standards and amendments to standards have been applied in the preparation of the financial statements for the current period. They have not had any impact on the comprehensive loss or the value of either the Group or Company assets or liabilities for the current or comparative periods.

1.14. 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 in the EU after the date of these financial statements. Of these, only the following are expected to be relevant to the Group:

Standard	**Subject**	**Effective from**
IFRS 9	Financial Instruments	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014
IAS 27	Separate Financial Statements (2011)	1 January 2014
IAS 28	Investments in Associates and Joint Ventures (2011)	1 January 2014
Amendment to IAS 32	Financial Instruments Presentation	1 January 2014
Amendment to IAS 36	Impairment of Assets	1 January 2014

2. Earnings per share

Basic loss per share of 0.74p (2012: loss of 0.82p) for the Group is calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue of 341,564,623 (2012: 306,620,807).

Diluted loss per share for the current period has not been presented since the Company's share 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 acute and chronic respiratory diseases. At present there are three products: RPL554, VRP700 and NAIPs. RPL554 and VRP700 are in the clinical phase, RPL554 having successfully completed Phase 1 and 2 trials, VRP700 having successfully completed a Phase 2 trial, and NAIPs are in the basic research phase.

Segment information by operating segment is as follows:

	Clinical 2013 £	**Clinical 2012 £**	**Basic research 2013 £**	**Basic research 2012 £**
Income statement information				
Research and development	(1,648,083)	(1,656,444)	(8,407)	(18,533)
Amortisation of patent	(19,951)	(13,567)	(3,772)	(3,676)
Segment loss	(1,668,034)	(1,670,011)	(12,179)	(22,209)
Assets information				
Patent	187,379	101,743	19,765	23,537
Goodwill	1,469,112	1,469,112	-	-
Segment assets	1,656,491	1,570,855	19,765	23,537

3. Segmental information (continued)

	2013 £	2012 £
Reconciliation of segment result		
Loss per reportable segment – Clinical	(1,668,034)	(1,670,011)
Loss per segment – Basic research	(12,179)	(22,209)
Total loss for reportable segments	(1,680,213)	(1,692,220)
Amortisation of non-segment assets	(13,870)	(13,131)
Unallocated administration expense	(1,122,701)	(879,998)
Group operating loss	(2,816,784)	(2,585,349)

At the end of the financial year, the Group was still in the early development stage and therefore had no turnover in either 2012 or 2013.

Reconciliation of segment assets		
Assets per reportable segment – Clinical	1,656,491	1,570,855
Assets per reportable segment – Basic research	19,765	23,537
Total assets for reportable segments	1,676,256	1,594,392
Unallocated non-current assets	27,647	39,485
Unallocated current assets	853,430	1,168,920
Group total assets	2,557,333	2,802,797

Segment information by geographical segment for 2013 is as follows:

Geographical segment (Group)	**United Kingdom** **£**	**Canada** **£**	**Total** **£**
Research and development	(1,656,490)	-	(1,656,490)
Administration expenses	(1,148,589)	(11,705)	(1,160,294)
Finance revenue	2,632	-	2,632
Loss before taxation	(2,802,447)	(11,705)	(2,814,152)
Tangible assets	27,647	-	27,647
Intangible assets	207,144	-	207,144
Trade and other receivables	248,917	722	249,639
Cash and cash equivalents	602,503	1,288	603,791
Goodwill	1,469,112	-	1,469,112
Trade and other payables	(489,320)	-	(489,320)
Net assets	2,066,003	2,010	2,068,013

3. Segmental information (continued)

Segment information by geographical segment for 2012 is as follows:

Geographical segment (Group)	**United Kingdom**	**Canada**	**Total**
	£	**£**	**£**
Research and development	(1,674,977)	-	(1,674,977)
Administration expenses	(907,557)	(2,815)	(910,372)
Finance revenue	20,177	-	20,177
Loss before taxation	(2,562,357)	(2,815)	(2,565,172)
Tangible assets	39,484	-	39,484
Intangible assets	125,280	-	125,280
Trade and other receivables	207,025	1,026	208,051
Cash and cash equivalents	957,155	3,715	960,870
Goodwill	1,469,112	-	1,469,112
Trade and other payables	(199,111)	(214)	(199,325)
Net assets	2,598,945	4,527	2,603,472

4. Operating loss

	2013	**2012**
	£	**£**
Group		
This is stated after charging/(crediting):		
Foreign exchange loss	4,746	10,909
Profit on disposal of fixed assets	(3,632)	-
Research and development costs	1,656,490	1,674,977
Share-based payments	186,850	67,335
Auditors' remuneration for audit services		
- Group and Company audit	18,750	18,750
Auditors' remuneration for non audit services		
- Taxation consultancy	3,250	3,230
Total auditors' remuneration	22,000	21,980

5. Employee costs

	2013 £	2012 £
Group		
Wages and salaries	147,296	173,444
Social security costs	9,854	9,690
	157,150	183,134

Remuneration of Directors is separately disclosed in the Report on Directors' remuneration.

	2013 Number	2012 Number
Group		
The average number of employees including directors during the year was:	10	12

6. Finance revenue

	2013 £	2012 £
Group		
Bank interest	2,631	20,177

7. Taxation

	2013 £	2012 £
Analysis of tax credit for the year		
Current tax:		
UK corporation tax at 23.25% (2012: 24%)	-	-
Prior year adjustment	(289,400)	(48,069)
Foreign taxation	-	-
Current tax credit	(289,400)	(48,069)
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	(2,814,152)	(2,565,172)
Multiplied by standard rate of corporation tax of 23.25% (2012: 24%)	(654,290)	(615,641)
Effects of:		
Non deductible expenses	46,430	25,314
Timing differences not recognised	3,225	-
Tax losses carried forward	604,635	590,327
Prior year adjustment	(289,400)	(48,069)
Current tax credit	(289,400)	(48,069)

The prior year adjustment of £289,400 is a research and development tax credit received in the year (2012: £48,069). The tax credit is a cash refundable tax credit for qualifying research and development activities undertaken by the Company.

7. Taxation (continued)

Factors that may affect future tax charges

At the year-end 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 20% (2012: 23%) is estimated to be £2,748,000 (2012: £2,234,000).

8. 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 drugs to treat allergic rhinitis and other respiratory diseases prior to its acquisition by the Company on 18 September 2006.

9. Trade and other receivables

	2013 £	2012 £
Group		
Other receivables	107,235	107,549
Deferred financing costs	-	5,000
Prepayments and accrued income	142,404	95,502
	249,639	208,051
Company		
Other receivables	107,235	107,314
Deferred financing costs	-	5,000
Prepayments and accrued income	141,682	94,711
	248,917	207,025

10. Cash and cash equivalents

	2013 £	2012 £
Group		
Cash at bank and in hand	603,791	960,870
Cash equivalents	-	-
	603,791	960,870
Company		
Cash at bank and in hand	602,503	957,155
Cash equivalents	-	-
	602,503	957,155

11. Trade and other payables

	2013	2012
	£	£
Group		
Trade payables	329,757	135,629
Other payables	18,800	10,918
Accruals	140,763	52,778
	489,320	199,325
Company		
Trade payables	329,757	135,415
Other payables	18,800	10,918
Accruals	140,763	52,778
	489,320	199,111

12. Plant and equipment

Group and Company	Computer hardware	Computer software	Office equipment	Total
	£	£	£	£
Cost				
At 1 January 2012	40,719	13,605	1,341	55,665
Additions in 2012	1,395	10,079	35,120	46,594
At 31 December 2012	42,114	23,684	36,461	102,259
Depreciation				
At 1 January 2012	35,106	13,340	1,198	49,644
Charge for 2012	4,866	3,353	4,912	13,131
At 31 December 2012	39,972	16,693	6,110	62,775
Net book value				
At 31 December 2012	2,142	6,991	30,351	39,484
Net book value				
At 31 December 2011	5,613	265	143	6,021

12. Plant and equipment (continued)

Group and Company	Computer hardware	Computer software	Office equipment	Total
	£	£	£	£
Cost				
At 1January 2013	42,114	23,684	36,461	102,259
Additions in 2013	2,033	-	-	2,033
Disposals in 2013	(7,477)	-	-	(7,477)
At 31 December 2013	36,670	23,684	36,461	96,815
Depreciation				
At 1 January 2013	39,972	16,693	6,110	62,775
Charge for 2013	1,750	5,039	7,081	13,870
Disposals in 2013	(7,477)	-	-	(7,477)
At 31 December 2013	34,245	21,732	13,191	69,168
Net book value				
At 31 December 2013	2,425	1,952	23,270	27,647
Net book value				
At 31 December 2012	2,142	6,991	30,351	39,484

13. Intangible assets

Group and Company	Patents
	£
Cost	
At 1 January 2012	166,353
Additions in 2012	27,953
At 31 December 2012	194,306
Amortisation	
At 1 January 2012	51,784
Charge for 2012	17,242
Impairment during 2012	-
At 31 December 2012	69,026
Net book value	
At 31 December 2012	125,280
Net book value	
At 31 December 2011	114,569

13. Intangible assets (continued)

Group and Company	Patents £
Cost	
At 1 January 2013	194,306
Additions in 2013	105,587
At 31 December 2013	299,893
Amortisation	
At 1January 2013	69,026
Charge for 2013	23,723
Impairment during 2013	-
At 31 December 2013	92,749
Net book value	
At 31 December 2013	207,144
Net book value	
At 31 December 2012	125,280

14. Goodwill

	2013 £	2012 £
Group		
Goodwill	1,469,112	1,469,112
Company		
Goodwill	1,453,569	1,453,569

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'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 10% 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.

14. Goodwill (continued)

Management has performed sensitivity analysis on the key assumptions including reducing the estimated revenue and probability by 50%. 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 2013.

15. Called up share capital

The movements in the share capital are summarised below:

	Number of shares	£
Authorised:		
10,000,000,000 Ordinary shares of 0.1p each	10,000,000,000	10,000,000
Allotted, called up and fully paid:		
Ordinary shares as at 1 January 2012	285,845,075	285,844
Ordinary shares issued from share placement	21,359,320	21,359
As at 31 December 2012	307,204,395	307,203
Ordinary shares issued from share placement	65,394,255	65,395
As at 31 December 2013	372,598,650	372,598

The following issues of new shares took place during the year ended 31 December 2013:

As part of a share placement on 14 February 2013 28,971,528 new Ordinary shares of 0.1p each in the Company were issued fully paid for 4 pence per share.

As part of a share placement on 25 October 2013 36,422,727 new Ordinary shares of 0.1p each in the Company were issued fully paid for 2.2 pence per share.

16. Net cash outflow from operating activities

	2013 £	2012 £
Group		
Operating loss	(2,816,784)	(2,585,349)
Cost of issuing share options	186,850	67,335
Increase in trade and other receivables	(41,598)	(129,284)
Increase in trade and other payables	289,995	43,316
Depreciation of plant and equipment	13,870	13,131
Amortisation of intangible assets	23,723	17,242
Net cash outflow from operating activities	(2,343,944)	(2,573,609)
Company		
Operating loss	(2,814,267)	(2,582,534)
Cost of issuing share options	186,850	67,335
Increase in trade and other receivables	(41,902)	(129,306)
Increase in trade and other payables	290,209	43,361
Provision for amounts advanced to subsidiary	9,188	9,489
Depreciation of plant and equipment	13,870	13,131
Amortisation of intangible assets	23,723	17,242
Net cash outflow from operating activities	(2,332,329)	(2,561,282)

17. Related parties transactions

The Company was charged £27,000 (2012: £27,000) by Gryon Consulting Limited, a company of which Prof. Clive Page is a Director. At the year end the Company owed £Nil (2012: £Nil) to the related party.

18. Share-based payments charge

Included within administration expenses is a charge of £186,850 (2012: £67,335) for issuing share options. The share based payment charge represents the current year's allocation of the expense for relevant share options between 2009 and 2013. All options issued prior to 2009 are fully expensed. The Company grants share options under an unapproved share option plan (the 'Unapproved Plan') and under tax efficient Enterprise Management Incentive arrangements (the 'EMI Plan'). Under the Unapproved Plan, options are granted to employees, directors and consultants to acquire shares at a price to be determined by the Board. In general, options vest after three years and are exercisable during a period ending ten years after the date of grant. Options are also issued to advisors under the Unapproved Plan: such options generally vest immediately and are exercisable between one and two years after grant. Under the EMI Plan, options are granted to employees and directors who are contracted to work at least 25 hours a week for the Company or for at least 75% of their working time. The options granted under the EMI Plan will be exercisable at a price and in accordance with a vesting schedule determined by the Board at the time of grant and will have an exercise period of 10 years from the date of grant.

The Company granted 2,500,000 (2012: 5,000,000) share options under the EMI Plan and 18,655,717 (2012: 600,000) share options under the Unapproved Plan during the current year with total fair values estimated using the Black-Scholes option-pricing model of £352,616 (2012: £110,680). The cost is amortised over the vesting period of the options on a straight-line basis and £145,647 is included in the charge to administration expenses noted above. The following assumptions were used for the Black-Scholes valuation of share options granted in 2013, 2012, 2010, and 2009.

	EMI Plan Issued in 2013	**Unapproved Plan Issued in 2013**	
Year/Type	**Employees**	**Employees**	**Advisors**
Options granted	2,500,000	13,000,000	5,655,717
Risk-free interest rate	2.0-2.8%	1.7-2.3%	0.4-0.5%
Expected life of options	5 years	5 years	2 -3years
Annualised volatility	53.3-72.4%	80.0-81.9%	70.5-122.1%
Dividend rate	0.00%	0.00%	0.00%

	EMI Plan Issued in 2012	**Unapproved Plan Issued in 2012**	
Year/Type	**Employees**	**Employees**	**Consultants**
Options granted	5,000,000	300,000	300,000
Risk-free interest rate	0.97%	0.97%	0.97%
Expected life of options	5 years	5 years	5 years
Annualised volatility	75.56%	82.36%	82.36%
Dividend rate	0.00%	0.00%	0.00%

	Unapproved Plan Issued in 2010	**Unapproved Plan Issued in 2009**	
Year/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%

18. Share-based payments charge (continued)

The Company had the following share options movements in the year:

		Number of options					
Year of issue	**Exercise price (pence)**	**At 1 January 2013**	**Options granted**	**Options exercised**	**Options lapsed**	**At 31 December 2013**	**Expiry date**
2006	5	10,000,000	-	-	-	10,000,000	18 September 2016*
2009	4	200,000	-	-	-	200,000	8 January 2014
2009	17.5	1,000,000	-	-	-	1,000,000	11 September 2014
2010	9	850,000	-	-	(50,000)	800,000	15 June 2015
2012	5	1,950,604	-	-	(1,950,604)	-	7 December 2013**
2012	5-15	5,000,000	-	-	-	5,000,000	1 June 2022***
2012	5	600,000	-	-	-	600,000	23 October 2022
2013	4.8	-	5,000,000	-	-	5,000,000	31 January 2016**
2013	4	-	655,717	-	-	655,717	31 January 2015**
2013	4	-	5,000,000	-	-	5,000,000	15 April 2023
2013	4	-	1,000,000	-	-	1,000,000	1 June 2023***
2013	4	-	8,000,000	-	-	8,000,000	29 July 2023
2013	4	-	500,000	-	-	500,000	21 August 2023***
2013	4	-	1,000,000	-	-	1,000,000	1 September 2023***
Total		19,600,604	21,155,717	-	(2,000,604)	38,755,717	

*10,000,000 directors' options with expiry date on 18 September 2011 were extended for five years to 18 September 2016.

**options granted to agents upon closing of a Placing or financing facility.

***options granted under the EMI Plan.

18. Share-based payments charge (continued)

Outstanding and exercisable share options by Plans at 31 December 2013:

Plan	Outstanding	Exercisable	WAEP (pence)
Unapproved	31,255,717	17,855,717	5.0
EMI	7,500,000	1,666,665	9.4
Total	38,755,717	19,522,382	5.5

The weighted average exercise price (WAEP) of options at the year end is as follows:

	Number of options	Weighted average exercise price (pence)
As at 1 January 2012	13,330,000	6.0
Options granted in 2012:		
Employees and consultants	600,000	5.0
Directors	5,000,000	9.4
Placing agent	1,950,604	5.0
Options lapsed in the year	(1,280,000)	4.0
As at 31 December 2012	19,600,604	6.9
Options granted in 2013:		
Employees and consultants	2,500,000	4.0
Directors	13,000,000	4.0
Placing agent	5,655,717	4.7
Options lapsed in the year	(2,000,604)	4.0
As at 31 December 2013	38,755,717	5.5
Exercisable at 31 December 2013	19,522,382	6.1

19. Loss of the parent company

The Parent has taken advantage of the exemption permitted by Section 408 of the Companies Act 2006 not to present an income statement for the year. The Parent Company's loss for the year was £2,522,235 (2012: loss of £2,514,288), which has been included in the Group's income statement.

20. Control

The Company is not under the control of any individual or group of connected parties.

21. Financial commitments

As at 31 December 2013 the Group and Company were committed to making the following payments under non-cancellable operating leases in the year to 31 December 2013.

	Land and Buildings	
	2013	2012
Operating leases which expire:	£	£
Within one year	22,640	55,921

22. 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 2013, cash and cash equivalents include €16,319 and CAD$2,271, and accounts payable and accrued liabilities include balances of CAD$7,535 and €6,825.

(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 2013, the Group had cash deposits of £603,791 (2012: £960,870). The Group'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 interest rate 2013**	**Fixed Interest rate 2013**	**Floating interest rate 2012**	**Fixed interest rate 2012**
	£	**£**	**£**	**£**
Cash deposits	603,791	-	960,870	-

23. Subsequent events

On 24 March 2014 the Company announced that it had raised £14 million in gross proceeds from a placing, subscription and open offer. These funds will be used primarily to support the development of RPL554 in severe COPD and VRP700 in chronic cough as well as corporate and general administrative expenditures.