Company Number 05375156

VERONA PHARMA PLC

REPORT AND ACCOUNTS

YEAR ENDED 31 DECEMBER 2011

VERONA PHARMA PLC
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VERONA PHARMA PLC
DIRECTORS, SECRETARY AND ADVISERS

Directors	Michael Walker Clive Page Claire Poll Trevor Jones Stuart Bottomley Patrick Humphrey
Company Secretary	John Bottomley
Registered Office	One America Square Crosswall London EC3N 2SG
Company Number	05375156
Auditors	UHY Hacker Young Quadrant House 4 Thomas More Square London E1W 1YW
Nominated Adviser and Broker	WH Ireland Group plc 37a Waterloo Street Birmingham B2 5TJ
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 2011

Verona Pharma plc is a biotechnology company dedicated to discovering new drugs for the treatment of chronic respiratory diseases, such as chronic obstructive pulmonary disease (COPD), asthma, allergic rhinitis (hay fever), and cough. Today, the Company announces its audited results for the 12 months ended 31 December 2011.

2011 OPERATIONAL HIGHLIGHTS

- Completed a Phase II clinical trial of RPL554 at the Centre for Human Drug Research ("CHDR") in The Netherlands to further demonstrate the safety and bronchodilator effectiveness of two higher doses of RPL554.

- Demonstrated in a further Phase II clinical trial in patients with mild asthma that the bronchodilator actions of a daily dose of RPL554 were maintained over a period of 6 days with once daily treatment.

- Completed a small Phase II clinical trial of the Company's first-in-class novel drug for the treatment of persistent cough, VRP700, at the University of Florence, Italy. VRP700 significantly reduced coughing in patients with chronic intractable cough (up to 60-80 times an hour) due to underlying severe lung disease.

- Successfully demonstrated in a pilot Phase IIa clinical trial of RPL554 at the University of Tor Vergata in Rome, Italy the bronchodilator effectiveness of RPL554 in patients with mild to moderate COPD. Results showed significant improvement in lung function of the drug compared to placebo.

2011 FINANCIAL HIGHLIGHTS

- Loss after tax of £1.72 million (2010: £1.89 million) or 0.71 pence (2010: 0.79 pence) per ordinary share.

- Completed the first tranche of a placing by issuing 43.6 million shares at 5p per share to raise total gross proceeds of £2.18 million. The Company intends to use the proceeds of the placing to finance the clinical development of the RPL554 and VRP700 programmes and for general corporate purposes.

- Low cash burn rate maintained during the year due to the virtual business model, with cash and cash equivalents as at 31 December 2011 of £2.53 million (2010: £2.00 million).

SUBSEQUENT EVENT HIGHLIGHTS

- In January, completed the second tranche and balance of the above placing by issuing a further 21.3 million shares at 5p per share to raise total gross proceeds of £1.07 million.

- In April, appointed Dr. Jan-Anders Karlsson as the Company's chief executive officer as successor to Prof. Michael Walker.

VERONA PHARMA PLC
CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S JOINT STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

INTRODUCTION

2011 has been another important and busy year for Verona Pharma. The Company made further good progress with its lead drug project, RPL554, and demonstrated clinical efficacy with its second project, the novel anti-cough drug, VRP700. Progress was also made with its NAIPs (novel anti-inflammatory polysaccharides) programme. The Company continued to pursue every opportunity to license out RPL554 to an appropriate pharmaceutical partner. The Board continued to maintain a firm control over the Company's finances and ensure the operation of a proven financial model for drug discovery that enables resources to be applied to maximum effect for the discovery and development of new drugs.

RPL554

During 2011, the Company continued to add valuable clinical data to its lead project, RPL554, which is being developed for the treatment of COPD, asthma and other diseases of the respiratory tract.

RPL554, belongs to a class of drugs known as a dual phosphodiesterase (PDE) 3/4 inhibitor. It is unique in that it could provide combined prolonged bronchodilation and anti-inflammatory effects in one molecule. Both effects are essential for sufferers of respiratory diseases, and there is currently no other drug that provides both effects in a single molecule. In addition, none of the existing asthma drug therapies are ideal as many have limitations with respect to their effectiveness, dose-limiting side effects and, in some cases, concerns over long term use. In terms of current drugs for COPD, there is room for substantial improvement and a drug with combined bronchodilator and anti-inflammatory actions would be a significant step forward in the treatment of this progressive and pernicious disease.

The Company successfully completed three further clinical trials with RPL554 during the year, demonstrating the effectiveness of this drug as a bronchodilator in both patients with asthma, and in those with mild to moderate COPD. One of the trials in subjects with mild to moderate asthma also demonstrated that the bronchodilator effect obtained with RPL554 was maintained over a 6 day treatment period with once daily dosing. In that trial, and other trials, RPL554 continues to provide excellent bronchodilator activity in mild asthmatics without any major untoward side effects, including gastrointestinal disturbances which are commonly encountered with other PDE4 inhibitors. The clinical trials in mild asthmatics were conducted in Leiden, The Netherlands, at the Centre for Human Drug Research (CHDR). The trial in patients with COPD was conducted at the University Tor Vergata in Rome, Italy. These further positive clinical trials strengthen the RPL554 clinical data package.

VRP700

During 2011, the Company successfully completed a first clinical proof of concept study at the University of Florence, Italy for its cough drug, VRP700. VRP700 is a potential first-in-class drug which suppresses the cough initiating signals in nerve endings located in the air passages and lungs. Currently, the treatment of cough is directed at the underlying illness e.g. a cold, sinusitis. Many patients self-medicate with over-the-counter cough and cold medicines and only receive mild relief. However, for more severe cases, where patients may cough up to 60-80 times an hour, there are no truly safe (non-morphine-based) or effective treatments.

The small clinical study completed at the University of Florence produced exciting results in that VRP700 markedly reduced coughing in a group of patients with severe, persistent cough. When administered by nebuliser, the drug was highly effective without any untoward side effects.

NAIPs

The Company has continued to obtain and evaluate NAIPs from various sources with the intent of identifying potential clinical candidates for development as an anti-inflammatory drug. The NAIPs programme was derived from studies of heparin, which has been shown to be an anti-inflammatory drug in a range of diseases, but cannot be widely used since its anti-coagulant effect is an unwanted side effect. Through its collaborations with Glycores SpA and Glycomar Ltd, the Company has access to a range of NAIPs without anti-coagulant effects that it is evaluating as potential drug treatments for common chronic inflammatory conditions such as asthma and hay fever. Progress of the NAIPs programme has been limited as the Company has focused its resources on advancing the RPL554 and VRP700 programmes.

FINANCIALS

The loss for the current year decreased by 9% or £0.17m to £1.72m (2010: £1.89m).

Total research and development expenditure, which was expensed as incurred, was £0.94m (2010: £1.15m). The decrease in research and development expenditure was due to a decrease in expenditures for the RPL554 programme by £0.22m to £0.75m (2010: £0.97m). The decrease in expenditures for the RPL554 programme is primarily due to: (a) a reduction in the scope of development of the RPL554 series during 2011; and (b) certain clinical trial related costs such as manufacture of drug batch and clinical trial protocol design were incurred in 2010, but the trials were actually carried out in 2011. The Company also received a research and development tax credit of £0.12m in the year which is included under taxation.

The main area of expenditure in 2011 has been on the Phase II trial to test the duration of bronchodilator action with daily doses of RPL554, given over a period of 6 days, in patients with mild asthma. The Phase I/II clinical trial of RPL554 to evaluate the safety and bronchodilator effectiveness of higher doses of RPL554 in patients with mild asthma was commenced in 2010 and completed in February 2011. A majority of the cost (approximately 80%) was incurred in 2010 with the balance being incurred in 2011.

Administrative expenses for the year were £0.90m (2010: £0.75m). The increase of £0.15m over the previous period was primarily due to an increase in share based payment charge of £0.14m as a result of extending the expiry date of 10 million directors' options.

As at 31 December 2011, the Company had approximately £2.5 million in cash and cash equivalents.

OUTLOOK

All current evidence indicates that RPL554 has the potential to be an important new respiratory drug that could capture a significant market share in terms of utility in the treatment of asthma and COPD. The Company recently announced that it has contracted the Medicines Evaluation Unit (MEU) of the University of Manchester, UK to carry out a trial to demonstrate anti-inflammatory effects of RPL554 relevant to the treatment of COPD. This trial is expected to complete the profile of RPL554 as a new class of drug with dual bronchodilator and anti-inflammatory actions in a single molecule – a first-in-class in the treatment of respiratory disease, and a major boost for patients. The trial is planned to commence shortly and the preliminary results from the trial are expected in Q4 2012. In the meantime, Verona Pharma continues to seek the most appropriate partner to develop RPL554 into a marketed medicine. Whilst the global economic conditions and the state of flux of the pharmaceutical industry are impacting the licensing market, the Company is optimistic that it will find a suitable partner to ensure that RPL554 takes its rightful place in the treatment of one or more of the most common chronic respiratory diseases. The notable success of the clinical demonstration of VRP700 in the treatment of severe, intractable cough provides another significant opportunity for the Company. In the first place we plan to expand on our original clinical observations so as

to define the drug's utility and at the same time fully explore these unique actions so as to ensure the fullest commercial protection. A larger multi-centre trial has been planned for VRP700 in patients with intractable cough in 2012 which will enable the Company to enhance the value of this project.

While our current focus is on RPL554 and VRP700, we continue to explore other areas for potential new drugs in the area of respiratory medicine. Thus we plan to further develop our NAIPs project and keep a 'weather eye' open for new and unique opportunities for potential drugs for use in the respiratory field.

Verona Pharma will continue to maintain a low cash burn rate, which is possible due to its minimized cost base. The Company is very positive about its progress to date and looks forward to updating the market on further developments in due course.

We would like to thank our staff, consultants, advisors and collaborators for all of their dedicated effort in the past year and for sharing our mission to research, discover and develop drugs of benefit to those millions of sufferers from asthma, allergic rhinitis and other respiratory diseases. We also wish to express the most sincere gratitude to our shareholders for their continuing support of our endeavours.

PERSONAL NOTE FROM MICHAEL WALKER

On a personal footnote, it is time for me to hand over the leadership of Verona Pharma. After a thorough search and careful consideration, the Board has appointed Dr. Jan-Anders Karlsson as the Company's new CEO, with effect from 1st of June 2012. Dr Karlsson has considerable scientific and commercial experience in the pharmaceutical and biotechnology sector and has participated in the journey of a number of drug projects from discovery through to clinical development and commercialisation. He has held senior positions within both big and small pharma, and until recently was the CEO at S*Bio, a Singapore and US based biotechnology company focused on the discovery and development of novel small molecule anti-cancer drugs. It is a pleasure to welcome Dr Karlsson. I am confident that I am leaving the Company in very capable hands.

I am proud of what Verona Pharma has achieved during my time as CEO. It has been very exciting and very successful in terms of the drug discoveries we have been able to make. There are not many small biotech companies who have spent so little, and achieved so much in terms of successful clinical trials. I wish to thank every shareholder, plus all others associated with Verona Pharma, whether as employee, consultant, advisor or collaborator, for all of their effort and support in helping the Company get this far. I sincerely believe that Verona Pharma will receive the rewards that it richly deserves.

Professor Clive P. Page
Chairman

Professor Michael J. A. Walker
Chief Executive Officer

The Directors present their annual report together with the audited financial statements and auditors' report for the year ended 31 December 2011.

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 research and development of new drugs for the treatment of chronic respiratory diseases, such as asthma, allergic rhinitis (hay fever), chronic obstructive pulmonary disease (COPD) 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.

Results and dividends

The Group results for the year are set out on page 15. There was a loss for the year after taxation amounting to £1.72 million (2010: loss of £1.89 million). In view of the loss, the Directors cannot recommend the payment of a dividend.

Key performance indicators ("KPIs")

The key performance indicators for the Group are as follows:

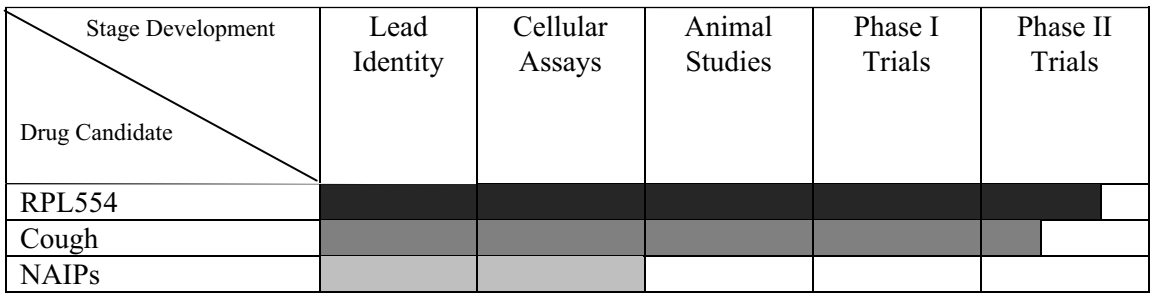
1. Development milestones – This operational KPI is used by the Board to monitor the performance of the Group's drug candidates through the planned clinical studies. Key development milestones achieved in 2011 include:

    - Completed a small Phase II clinical trial of VRP700 at the University of Florence, Italy. VRP700 significantly reduced coughing in patients with chronic intractable cough due to underlying lung disease.

    - Completed three Phase II clinical trials of RPL554. The trials were to (a) further demonstrate the safety and bronchodilator effectiveness of two higher doses of RPL554 in patients with mild asthma, (b) demonstrate that the bronchodilator actions of a daily dose of RPL554 were maintained over a period of 6 days with once daily treatment in patients with mild asthma, and (c) demonstrate the bronchodilator effectiveness of RPL554 in patients with mild to moderate COPD. Results showed significant improvement in lung function in patients administered RPL554 compared to placebo.

2. Cash life – 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 2011 was £131,000 and the net cash position at 31 December 2011 was £2.5 million. Estimated cash life was greater than 16 months as at 31 December 2011 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 2011:



The Group's strategy is to 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. The timeline for entering into such 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 I and IIa and further Phase II human clinical trials. The Cough programme has completed a proof of concept clinical trial in 2011. The NAIPs programme is at the research and development stage, and this drug's 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.

The following Directors held office during the year:
Michael Walker
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 2011**	**Held at 31 December 2010**
Stuart Bottomley	10,700,000	10,700,000
Clive Page	5,773,928	5,773,928
Michael Walker*	6,555,691	6,055,691
Claire Poll	3,500,000	3,500,000
Trevor Jones	38,461	38,461
Patrick Humphrey	Nil	Nil

* includes 850,000 ordinary shares held by Magic Bullets Enterprises Limited, a company controlled by Mr. Walker.

Share options

Share options held by directors at 31 December 2011 were as follows:

	At beginning of period	Granted/ exercised or expired in Period	At end of period	Exercise price (£)	Exercisable at end of period
M Walker*	2,000,000	Nil	2,000,000	0.05	2,000,000
C Page*	2,000,000	Nil	2,000,000	0.05	2,000,000
C Poll*	2,000,000	Nil	2,000,000	0.05	2,000,000
T Jones*	2,000,000	Nil	2,000,000	0.05	2,000,000
S Bottomley*	2,000,000	Nil	2,000,000	0.05	2,000,000
P Humphrey	1,000,000	Nil	1,000,000	0.175	666,667
P Humphrey	500,000	Nil	500,000	0.09	166,667

*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. Michael Walker, Prof. Clive Page and Claire Poll. The contract for the provision of the services of Michael Walker is with Magic Bullets Enterprises Limited and the contract for the provision of the services of Clive Page is with Gryon Consulting Limited. Both of these contracts specify 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. Details of the Directors' emoluments for the year for director and consulting services are as follows:

	Fees/basic salary	Employer's NI	Share based payment	2011 Total	2010 Total
Executive	**£**	**£**	**£**	**£**	**£**
Michael Walker	60,500	274	27,071	87,845	60,650
Claire Poll	35,500	-	27,072	62,572	35,292
Non-Executive					
Clive Page	40,500	853	27,072	68,425	41,262
Trevor Jones	13,500	853	27,072	41,425	14,262
Stuart Bottomley	13,500	853	27,072	41,425	14,262
Patrick Humphrey	13,500	853	41,309	55,662	53,844
	177,000	3,686	176,668	357,354	219,572

Pensions

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

Substantial share holders
The Company has been notified, in accordance with Chapter 5 of the FSA's Disclosure and Transparency Rules, of the under noted interests in its ordinary shares as at 31 March 2012 of 3% shareholders and above:

	Number of Ordinary shares	% of Share Capital
Williams de Broe	30,811,440	10.03
Henderson Global Investors	28,722,150	9.35
Fidelity Investments	18,383,179	5.98
WH Ireland	16,254,550	5.29
Craig Burton	15,250,000	4.96
Barclays Stockbrokers Limited	13,454,027	4.38
TD Direct Investing	12,415,887	4.04
Stuart Bottomley	10,700,000	3.48
Halifax Share Dealing	9,611,304	3.13

Supplier payment policy

The Company's policy is that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, providing that all trading terms and conditions have been complied with.

Political and charitable contributions

There were no political or charitable contributions made by the Company during the year ended 31 December 2011.

Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report 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 11:30 am on 1 June 2012 at One America Square, Crosswall, London EC3N 2SG.

By order of the Board.

Prof. Clive Page
Chairman

Dated 01 May 2012

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 Prof. Michael Walker 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 Prof. Michael Walker (CEO), Danny Lowe (CFO) and Dr. Lui Franciosi (COO). 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 2011

We have audited the financial statements of Verona Pharma plc for the year ended 31 December 2011 which 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 pages 10 – 11, 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 2011 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 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.

Guy Swarbreck (Senior Statutory Auditor)
for and on behalf of UHY Hacker Young, Statutory Auditor

01 May 2012

Quadrant House
4 Thomas More Square
London E1W 1YW

VERONA PHARMA PLC
GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Research and development		(943,478)	(1,150,904)
Administration expenses	18	(904,194)	(745,256)
Operating loss	4	(1,847,672)	(1,896,160)
Finance revenue	6	3,478	7,898
Loss before taxation		(1,844,194)	(1,888,262)
Taxation	7	124,407	(4,532)
Loss for the year		(1,719,787)	(1,892,794)
Other comprehensive income		-	-
Total comprehensive loss for the year		(1,719,787)	(1,892,794)
Loss per ordinary share – basic and diluted	2	(0.71)p	(0.79)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 2011

	Notes	31 December 2011 £	31 December 2010 £
ASSETS			
Non current assets			
Tangible assets	12	6,021	15,513
Intangible assets	13	114,569	100,452
Goodwill	14	1,469,112	1,469,112
		1,589,702	1,585,077
Current assets			
Trade and other receivables	9	90,858	68,808
Cash and cash equivalents	10	2,526,195	2,003,012
		2,617,053	2,071,820
Total assets		4,206,755	3,656,897
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders			
Called up share capital	15	285,844	239,906
Option reserves		510,499	359,008
Share premium account		11,466,229	9,373,526
Retained losses		(8,211,826)	(6,521,891)
Total equity		4,050,746	3,450,549
Current liabilities			
Trade and other payables	11	156,009	206,348
Total liabilities		156,009	206,348
Total equity and liabilities		4,206,755	3,656,897

The financial statements were approved by the Board on 01 May 2012.

Prof. Clive Page
Chairman

Company Number: 05375156

VERONA PHARMA PLC
COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Notes	31 December 2011 £	31 December 2010 £
ASSETS			
Non current assets			
Tangible assets	12	6,021	15,513
Intangible assets	13	114,569	100,452
Goodwill	14	1,453,569	1,453,569
Investment	8	1	1
		1,574,160	1,569,535
Current assets			
Trade and other receivables	9	89,810	193,103
Cash and cash equivalents	10	2,519,642	1,995,538
		2,609,452	2,188,641
Total assets		4,183,612	3,758,176
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders			
Called up share capital	15	285,844	239,906
Option reserves		510,499	359,008
Share premium account		11,466,229	9,373,526
Retained losses		(8,234,710)	(6,420,369)
Total equity		4,027,862	3,552,071
Current liabilities			
Trade and other payables	11	155,750	206,105
Total liabilities		155,750	206,105
Total equity and liabilities		4,183,612	3,758,176

The financial statements were approved by the Board on 01 May 2012.

Prof. Clive Page
Chairman

Company Number: 05375156

VERONA PHARMA PLC
GROUP STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Net cash outflow from operating activities	16	(1,698,220)	(1,655,540)
Cash inflow / (outflow) from taxation		124,407	(4,532)
Cash flow from investing activities			
Interest received		3,451	7,898
Purchase of tangible assets		-	(7,081)
Purchase of intangible assets		(28,022)	(41,640)
Net cash outflow from investing activities		(24,571)	(40,823)
Cash flow from financing activities			
(Prepaid) / Deferred financing cost		(17,074)	54,365
Net proceeds from issue of shares		2,138,641	819,561
Net cash inflow from financing activities		2,121,567	873,926
Net increase / (decrease) in cash and cash equivalents		523,183	(826,969)
Cash and cash equivalents at the beginning of the year		2,003,012	2,829,981
Cash and cash equivalents at the end of the year	10	2,526,195	2,003,012

VERONA PHARMA PLC
COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Net cash outflow from operating activities	16	(1,686,056)	(1,620,814)
Cash inflow from taxation		124,407	-
Cash flow from investing activities			
Interest received		3,451	7,898
Purchase of tangible assets		-	(7,081)
Purchase of intangible assets		(28,022)	(41,640)
Advance to subsidiary		(11,243)	(43,620)
Net cash outflow from investing activities		(35,814)	(84,443)
Cash flow from financing activities			
(Prepaid) / Deferred financing cost		(17,074)	54,365
Net proceeds from issue of shares		2,138,641	819,561
Net cash inflow from financing activities		2,121,567	873,926
Net increase / (decrease) in cash and cash equivalents		524,104	(831,331)
Cash and cash equivalents at the beginning of the year		1,995,538	2,826,869
Cash and cash equivalents at the end of the year	10	2,519,642	1,995,538

VERONA PHARMA PLC
GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital £	Share premium £	Option reserve £	Retained earnings £	Total £
Balance at 1 January 2010	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	-
Balance at 31 December 2010	239,906	9,373,526	359,008	(6,521,891)	3,450,549
Balance at 1 January 2011	239,906	9,373,526	359,008	(6,521,891)	3,450,549
Loss for the year	-	-	-	(1,719,787)	(1,719,787)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(1,719,787)	(1,719,787)
Issue of shares	45,938	2,263,756	-	-	2,309,694
Issue costs	-	(171,053)	-	-	(171,053)
Share based payment	-	-	181,343	-	181,343
Transfer of previously expensed share based payment charge upon exercise of options	-	-	(29,852)	29,852	-
Balance at 31 December 2011	285,844	11,466,229	510,499	(8,211,826)	4,050,746

VERONA PHARMA PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Share capital	Share premium	Option reserve	Retained earnings	Total
	£	£	£	£	£
Balance at 1 January 2010	232,378	8,561,493	356,210	(4,605,526)	4,544,555
Loss for the year	-	-	-	(1,853,803)	(1,853,803)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(1,853,803)	(1,853,803)
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	-
Balance at 31 December 2010	239,906	9,373,526	359,008	(6,420,369)	3,552,071
Balance at 1 January 2011	239,906	9,373,526	359,008	(6,420,369)	3,552,071
Loss for the year	-	-	-	(1,844,193)	(1,844,193)
Other comprehensive income	-	-	-	-	-
Comprehensive loss for the year	-	-	-	(1,844,193)	(1,844,193)
Issue of shares	45,938	2,263,756	-	-	2,309,694
Issue costs	-	(171,053)	-	-	(171,053)
Share based payment	-	-	181,343	-	181,343
Transfer of previously expensed share based payment charge upon exercise of options	-	-	(29,852)	29,852	-
Balance at 31 December 2011	285,844	11,466,229	510,499	(8,234,710)	4,027,862

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 2011 the Group made a loss of £1,719,787 (2010: a loss of £1,892,794). At the balance sheet date the Group had net assets of £4,050,746 (2010: £3,450,549) of which £2,526,195 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 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 net of grants received 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 2011 no development costs have been capitalised.

1.8. Tangible assets

Tangible assets 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 which should be carried on the balance sheet. 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 to standards are mandatory for the first time for financial periods commencing on or after 1 January 2011:

Amendments to IFRS7 – Financial Instruments: Disclosures

Amendments add certain new disclosures about financial instruments to those currently required by IAS 32; replaces the disclosures previously required by IAS 30; and puts all of those financial instruments disclosures together in a new standard on Financial Instruments.

Amendments to IAS 24 – Related Party Disclosures–Revised definition of related parties

The revised version of the standard reduces disclosure requirements for entities that are related only because they are state-controlled or significantly influenced by the state, and amends the definition of related party to clarify the intended meaning and remove inconsistencies.

These new standards have been applied in the preparation of the financial statements for the current period. As the changes are limited to disclosure requirements only, 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 and 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 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 – Classification and Measurement	1 January 2015
IFRS10	Consolidated Financial Statements	1 January 2013
IFRS12	Disclosure of Interests in Other Entities	1 January 2013
IAS1	Presentation of Financial Statements— Amendments to revise the way other comprehensive income is presented	1 July 2012
IAS12	Income Taxes— Limited scope amendment (recovery of underlying assets)	1 January 2012
IAS27	Consolidated and Separate Financial Statements— Reissued as IAS 27 *Separate Financial Statements*	1 January 2013
IAS32	Financial Instruments: Presentation— Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
IFRS 7	Financial Instruments: Disclosures — Amendments enhancing disclosures about transfers of financial assets	1 July 2011
IFRS 7	Financial Instruments: Disclosures — Amendments enhancing disclosures about offsetting of financial assets and financial liabilities	1 January 2013

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 (0.71p) (2010: loss of 0.79p) for the Group is calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue of 243,445,223 (2010: 238,761,092).

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 chronic respiratory diseases. At present there are three products: RPL554, VRP700 and NAIPs. RPL554 is in the clinical phase, having successfully completed Phase I and II trials, VRP700 is in the clinical phase having successfully completed a Phase II trial, and NAIPs is in the basic research phase.

Segment information by operating segment is as follows:

	Clinical 2011 £	Clinical 2010 £	Basic research 2011 £	Basic research 2010 £
Income statement information				
Research and development	(854,654)	(962,453)	(88,824)	(188,452)
Amortisation of patent	(10,228)	(8,848)	(3,675)	(2,909)
Segment loss	(864,882)	(971,301)	(92,499)	(191,361)
Balance sheet information				
Patents	88,322	70,609	26,247	29,843
Goodwill	1,469,112	1,469,112	-	-
Segment assets	1,557,434	1,539,721	26,247	29,843

3. Segmental information (continued)

	2011 £	2010 £
Reconciliation of segment result		
Loss per reportable segment – Clinical	(864,882)	(971,301)
Loss per segment – Basic research	(92,499)	(191,361)
Total loss for reportable segments	(957,381)	(1,162,662)
Amortisation of non-segment assets	(9,493)	(9,572)
Unallocated administration expense	(880,798)	(723,926)
Group operating loss	(1,847,672)	(1,896,160)

At the end of the financial year, the Group was still in the early development stage and therefore had no turnover in either 2010 or 2011.

Reconciliation of segment assets		
Assets per reportable segment – Clinical	1,557,434	1,539,721
Assets per reportable segment – Basic research	26,247	29,843
Total assets for reportable segments	1,583,681	1,569,564
Unallocated non-current assets	6,021	15,513
Unallocated current assets	2,617,053	2,071,820
Group total assets	4,206,755	3,656,897

Segment information by geographical segment for 2011 is as follows:

Geographical segment (Group)	**United Kingdom** **£**	**Canada** **£**	**Total** **£**
Research and development	(943,478)	-	(943,478)
Administration expenses	(891,984)	(12,210)	(904,194)
Finance revenue	3,478	-	3,478
Loss before taxation	(1,831,984)	(12,210)	(1,844,194)
Tangible assets	6,021	-	6,021
Intangible assets	114,569	-	114,569
Trade and other receivables	89,810	1,048	90,858
Cash and cash equivalents	2,519,642	6,553	2,526,195
Goodwill	1,469,112	-	1,469,112
Trade and other payables	(155,750)	(259)	(156,009)
Net assets	4,043,404	7,342	4,050,746

3. Segmental information (continued)

Segment information by geographical segment for 2010 is as follows:

Geographical segment (Group)	United Kingdom	Canada	Total
	£	£	£
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

4. Operating loss

	2011	2010
	£	£
Group		
This is stated after charging:		
Foreign exchange loss	7,714	13,586
Auditors' remuneration for audit services		
- Group and Company audit	17,250	15,000
Auditors' remuneration for non audit services		
- Taxation consultancy	4,000	3,400
Total auditors' remuneration	21,250	18,400

5. Employee costs	2011 £	2010 £
Group		
Wages and salaries	200,530	199,010
Social security costs	11,793	12,551
	212,323	211,561

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

	2011 Number	2010 Number
Group		
The average number of employees including directors during the year was:	12	15

6. Finance revenue	2011 £	2010 £
Group		
Bank interest	3,478	7,898

7. Taxation

Analysis of tax charge for the year		
Current tax:		
UK corporation tax at 26% (2010: 28%)	-	-
Prior year adjustment	(124,407)	-
Foreign taxation	-	4,532
Current tax charge	(124,407)	4,532
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	(1,844,194)	(1,888,262)
Multiplied by standard rate of corporation tax of 26.00% (28.00%)	(479,490)	(528,713)
Effects of:		
Non deductible expenses	47,149	11,692
Timing differences not recognised	-	-
Tax losses carried forward	432,341	517,021
Prior year adjustment	(124,407)	4,532
Current tax charge	(124,407)	4,532

The prior year adjustment of £124,407 is a research and development tax credit received in the year (2010: £Nil). The tax credit is a cash refundable tax credit for the PAYE and National Insurance contributions paid by the Company in fiscal years 2009 and 2010.

7. Taxation (continued)

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 25% is estimated to be £2,106,000.

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

	2011 £	2010 £
Group		
Other receivables	29,013	27,967
Deferred financing costs	17,074	-
Prepayments and accrued income	44,771	40,841
	90,858	68,808
Company		
Other receivables	28,773	27,712
Deferred financing costs	17,074	-
Prepayments and accrued income	43,963	40,018
Amounts due from subsidiary company	-	125,373
	89,810	193,103

10. Cash and cash equivalents

Group		
Cash at bank and in hand	2,526,195	2,003,012
Cash equivalents	-	-
	2,526,195	2,003,012
Company		
Cash at bank and in hand	2,519,642	1,995,538
Cash equivalents	-	-
	2,519,642	1,995,538

11. Trade and other payables

	2011	2010
	£	£
Group		
Trade payables	89,009	141,553
Other payables	6,078	6,376
Accruals	60,922	58,419
	156,009	206,348
Company		
Trade payables	88,750	141,310
Other payables	6,078	6,376
Accruals	60,922	58,419
	155,750	206,105

12. Tangible assets

Group and Company	Computer hardware	Computer software	Office equipment	Total
	£	£	£	£
Cost				
At 31 December 2009	35,080	12,163	1,341	48,584
Additions	5,639	1,442	-	7,081
At 31 December 2010	40,719	13,605	1,341	55,665
Depreciation				
At 31 December 2009	22,401	7,472	707	30,580
Charge for the year	6,947	2,357	268	9,572
At 31 December 2010	29,348	9,829	975	40,152
Net book value				
At 31 December 2010	11,371	3,776	366	15,513
Net book value				
At 31 December 2009	12,679	4,691	634	18,004

12. Tangible assets (continued)

Group and Company	Computer hardware £	Computer software £	Office equipment £	Total £
Cost				
At 31 December 2010	40,719	13,605	1,341	55,665
Additions	-	-	-	-
At 31 December 2011	40,719	13,605	1,341	55,665
Depreciation				
At 31 December 2010	29,348	9,829	975	40,152
Charge for the year	5,758	3,511	223	9,492
At 31 December 2011	35,106	13,340	1,198	49,644
Net book value				
At 31 December 2011	5,613	265	143	6,021
Net book value				
At 31 December 2010	11,371	3,776	366	15,513

13. Intangible assets

Group and Company	Patents £
Cost	
At 31 December 2009	96,692
Additions	41,640
At 31 December 2010	138,332
Amortisation	
At 31 December 2009	26,122
Charge for the year	11,758
Impairment during the year	-
At 31 December 2010	37,880
Net book value	
At 31 December 2010	100,452
Net book value	
At 31 December 2009	70,570

13. Intangible assets (continued)

Group and Company	Patents £
Cost	
At 31 December 2010	138,332
Additions	28,021
At 31 December 2011	166,353
Amortisation	
At 31 December 2010	37,880
Charge for the year	13,904
Impairment during the year	-
At 31 December 2011	51,784
Net book value	
At 31 December 2011	114,569
Net book value	
At 31 December 2010	100,452

14. Goodwill

	2011 £	2010 £
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 10.0% 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.

14. Goodwill (continued)

Management has performed sensitivity analysis on the key assumptions including doubling the pre-tax discount rate to 20% 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 2011.

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 2010	232,378,278	232,378
Ordinary shares issued during the year	6,368,761	6,369
Ordinary shares issued from exercise of options	1,159,666	1,159
As at 31 December 2010	239,906,705	239,906
Ordinary shares issued from share placement	43,660,800	43,661
Ordinary shares issued from exercise of options	2,277,570	2,277
As at 31 December 2011	285,845,075	285,844

The following issues of new shares took place during the year ended 31 December 2011:

As part of a share placement on 8 December 2011 43,660,800 new Ordinary shares of 0.1p each in the Company were issued fully paid for 5 pence per share.

As part of an exercise of share options on 16 September 2011 1,277,570 new ordinary shares of 0.1p each in the Company were issued fully paid for 6 pence per share and 1,000,000 new ordinary shares of 0.1p each in the Company were issued fully paid for 5 pence per share.

16. Net cash outflow from operating activities

	2011 £	2010 £
Group		
Operating loss	(1,847,672)	(1,896,160)
Cost of issuing share options	181,343	41,758
(Increase)/ decrease in trade and other receivables	(4,948)	258,086
(Decrease)/ increase in trade and other payables	(50,339)	(80,554)
Depreciation of tangible assets	9,493	9,572
Amortisation of intangible assets	13,903	11,758
Net cash outflow from operating activities	(1,698,220)	(1,655,540)
Company		
Operating loss	(1,972,078)	(1,861,701)
Cost of issuing share options	181,343	41,758
(Increase)/ decrease in trade and other receivables	(4,978)	258,376
(Decrease)/ increase in trade and other payables	(50,355)	(80,577)
Provision for amounts advanced to subsidiary	136,616	-
Depreciation of tangible assets	9,493	9,572
Amortisation of intangible assets	13,903	11,758
Net cash outflow from operating activities	(1,686,056)	(1,620,814)

17. Related parties transactions

The Company was charged £41,125 (2010: £41,307) by Magic Bullets Enterprises Limited, a company of which Prof. Michael Walker is a Director. At the year end the Company owed £Nil (2010: £Nil) to the related party.

The Company was charged £27,000 (2010: £27,000) by Gryon Consulting Limited, a company of which Prof. Clive Page is a Director. At the year end the Company owed £Nil (2010: £Nil) to the related party.

18. Cost of issuing share options

Included within administration expenses is a charge of £181,343 (£2010: £41,758) for issuing share options. The share based payment charge represents the current year's allocation of the expense for relevant share options issued in 2011, 2010, and 2009, and expense related to the extension of the expiry date for the 10 million directors' options by five years to 18 September 2016. All options issued prior to 2009 were fully expensed prior to 2009.

The Company granted nil (2010: 850,000) share options during the current year with fair values estimated using the Black-Scholes option-pricing model of £Nil (2010: £25,353).

The following assumptions were used for the Black-Scholes valuation of share options granted in 2010 and 2009.

	Issued in 2010	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%

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

		Number of options					
Year of issue	**Exercise price (pence)**	**At 1 January 2011**	**Options granted**	**Options exercised**	**Options lapsed**	**At 31 December 2011**	**Expiry date**
2006	5	11,000,000	-	(1,000,000)	-	10,000,000	18 September 2016*
2006	6	2,885,500	-	(1,277,570)	(1,607,930)	-	19 September 2011
2007	4	1,280,000	-	-	-	1,280,000	4 July 2012
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	-	-	-	850,000	15 June 2015
Total		17,215,500	-	(2,277,570)	(1,607,930)	13,330,000	

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

18. Cost of issuing share options (continued)

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

	Number of options	Weighted average exercise price (pence)
As at 1 January 2010	17,525,166	5.7
Options granted in the year:		
Employees and consultants	350,000	9.0
Directors	500,000	9.0
Options exercised in the year	(1,159,666)	4.0
As at 31 December 2010	17,215,500	6.0
Options exercised in the year	(2,277,570)	5.6
Options lapsed in the year	(1,607,930)	6.0
As at 31 December 2011	13,330,000	6.1
Exercisable at 31 December 2011	12,363,333	5.7

19. Profit of the parent company

The Parent has taken advantage of the exemption permitted by Section 408 of the Companies Act 2006 not to present a profit and loss account for the year. The Parent's loss for the year was £1,844,193 (2010: loss of £1,853,803).

20. Control

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

21. Financial commitments

As at 31 December 2011 the Group and Company were committed to making the following payments under non-cancellable operating leases in the year to 31 December 2011.

	Land and Buildings	
	2011	2010
	£	£
Operating leases which expire:		
Within one year	53,219	47,720

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 2011, cash and cash equivalents include Euro €15,602, and accounts payable and accrued liabilities include balances of CAD$12,365, Euro €5,237, USD$40,262 and AUD$650.

(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 2011, the Group had cash deposits of £2,526,195 (2010: £2,003,012). 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 2011**	**Non-interest bearing 2011**	**Floating interest rate 2010**	**Non-interest bearing 2010**
	£	**£**	**£**	**£**
Cash deposits	2,526,195	-	2,003,012	-