Company Number 05375156

VERONA PHARMA PLC

REPORT AND ACCOUNTS

YEAR ENDED 31 DECEMBER 2009

CONTENTS

DIRECTORS, SECRETARY AND ADVISERS

Directors	Michael Walker Clive Page Claire Poll Trevor Jones Stuart Bottomley Patrick Humphrey (appointed 11 September 2009)
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	Evolution Securities Limited 100 Wood Street London EC2V 7AN
Solicitors	Taylor Wessing LLP 5 New Street Square London EC4A 3TW
Principal Banker	Royal Bank of Scotland 1st Floor Argyll House 246 Regent Street London W1B 3PB
Registrars	Computershare Investor Services plc PO Box 82, The Pavilions Bridgewater Road Bristol BS99 7NH

Verona Pharma is a life sciences company dedicated to the research, discovery and development of new therapeutic drugs for the treatment of allergic rhinitis (hay fever) and other chronic respiratory diseases such as asthma and chronic obstructive pulmonary disease ("COPD"), as well as chronic inflammatory diseases.

2009 OPERATIONAL HIGHLIGHTS

- 28 January - Approval from the regulatory authority in The Netherlands to commence its Phase I/IIa clinical trial of RPL554
- 20 May - First two stages of a three stage Phase I/IIa clinical trial of RPL554 successfully completed at the Center for Human Drug Research, The Netherlands
- 11 September - Final results of the Phase I/IIa trial showed RPL554 has clear clinical benefits in patients with asthma and allergic rhinitis and a good safety profile
- 11 September - Dr. Patrick Humphrey, a leading drug researcher, appointed to the Board of Directors
- 8 December - Announced proposal to raise approximately £3.0 million, before expenses, at a price of 13 pence per share, via a placing arranged on the Company's behalf by Evolution Securities Limited
- 29 December - Completed first of two tranches of placing, raising £2.2 million before expenses

2009 FINANCIAL HIGHLIGHTS

- Loss after tax of £1.6 million or 0.74 pence per share, which includes a non-cash charge of £0.01 million for the cost of issuing share options
- Cash and cash equivalents at 31 December 2009 of £2.8 million

SUBSEQUENT EVENT HIGHLIGHTS

- 8 January 2010 - Completed the second tranche of placing, raising an additional £0.8 million before expenses for a total of £3.0 million
- Opened discussions with various potential licensees for RPL554
- Four new patents related to novel compounds discovered under the Company's NAIPs project have been filed
- Regulatory documents for the proposed clinical trial of the cough treatment, VRP700, have been prepared and will be submitted to the appropriate authorities as soon as possible
- The Company continues to look for additional opportunities to enhance its Intellectual Property portfolio

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RPL554

Verona Pharma has made excellent progress during the last year. Our primary drug, RPL554, a treatment for inflammatory diseases of the respiratory tract, including asthma, allergic rhinitis (hay fever) and Chronic Obstructive Pulmonary Disease ("COPD"), successfully completed its Phase I/IIa clinical proof of concept trial in November 2009, leading to the issue of the quality assured report by the Centre for Human Drug Research ("CHDR") on 8 January 2010. The trial demonstrated that RPL554 produces clear clinical benefits in patients with asthma and allergic rhinitis and has a good safety profile. The official completed report from the CHDR is an important element in the data package that forms the essentials of the Company's ongoing licensing efforts.

The Company is seeking the most compatible and appropriate licensing partner to develop RPL554. It is of fundamental importance that the ultimate licensing partner possess a high level of expertise in the respiratory area, a good inhalation device and leading formulation skills. While the licensing activities are underway, the Company continues to add strength and value to the RPL554 project by conducting a variety of further development studies. Successful licensing of RPL554 is expected to provide a source of funds that will provide a bright financial future for your Company.

RPL554 continues to be the major component in Verona's portfolio of projects and the area in which the majority of the Company's attention and support is dedicated.

VRP700

In order to progress Verona Pharma's cough project, VRP700, the Company has prepared regulatory documents that will be submitted to the EU regulatory agencies, including Italy, to obtain the necessary ethical and regulatory approvals for the up-coming clinical trial. If the outcome of this trial is successful, Verona will immediately initiate a sustained programme designed to further advance the clinical value of VRP700. The project will also enable studies in the cough project designed to identify a generation of compounds with a similar mechanism of action.

The mechanism of action of VRP700 is presumed to involve the suppression of cough initiating signals originating at cough sensory nerve endings located in the lungs. Cough is one of the most irritating, common medical complaints that can be extremely debilitating - especially in patients with respiratory problems such as asthma, COPD and lung cancer.

NAIPS

Verona Pharma's Novel Anti-Inflammatory Polysaccharides ("NAIPS") project has progressed to the point that the Company has filed four new composition of matter patents for products that have been discovered as a result of the collaboration with Glycomar Ltd. These novel products have been identified from a number of marine sources and have shown anti-inflammatory activity with clinical potential. This is a significant step forward for the project.

FINANCIALS

The Company successfully raised approximately £3.0 million (before expenses of £0.2 million) via a placing of 23,265,684 New Ordinary shares at 13 pence per share at the end of 2009, providing the Company with a strong financial position.

The loss for the current year increased by 17% or £227,422 to £1,598,532 (2008: £1,371,110). Research and development expenditure for the year amounted to £944,903 (2008: £878,094). The main area of expenditure has continued to be the RPL554 programme at £817,815 in 2009 (2008: £788,096). Administrative expenses for the year were £660,872 (2008: £603,519), the increase of £57,353 being primarily due to increase in corporate activities. Finance revenue decreased by £131,137 to £7,243 as a result of lower interest rates.

OUTLOOK

There have been significant changes over the past year within the pharmaceutical industry. Many large pharmaceutical companies are undergoing significant restructuring programs that are resulting in some profound changes in strategy. The Board believes that Verona Pharma is well positioned to take advantage of these changes, especially as a number of large pharmaceutical companies have indicated their intentions to scale down their own research and development operations while increasing out-sourcing of such activities.

We would like to thank our staff, consultants, advisers 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.

Professor Clive P. Page	**Professor Michael J. A. Walker**
Chairman	Chief Executive Officer

The Directors present their annual report together with the audited financial statements and auditors' report for the year ended 31 December 2009.

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 drugs for the treatment of allergic rhinitis (hay fever) and other chronic respiratory diseases such as asthma and chronic obstructive pulmonary disease (COPD) as well as chronic inflammatory diseases.

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 14. There was a loss for the year after taxation amounting to £1.6 million (2008: loss of £1.37 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:

- 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 2009 include:

    1. RPL554 successfully completing the clinical phase I/IIa trial. with RPL554 showing clear benefits in patients with asthma and allergic rhinitis and a good safety profile.

    2. Regulatory documents for the proposed clinical trial of its cough treatment, VRP700, have been prepared and are in the process of submission to the appropriate authorities. The trial is expected to commence in first quarter 2010.

- 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 2009 was £135,000 and the net cash position at 31 December 2009 was £2.8 million. Estimated cash life was 18 months as at 31 December 2009 assuming no acquisition of new intellectual properties and based on current cost expectations and level of operations.

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 human clinical trials. The NAIPs and Cough programmes are at the research and development stage and the drugs' 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.

Directors

The following Directors held office during the year:

Michael Walker
Clive Page
Trevor Jones
Claire Poll
Stuart Bottomley
Patrick Humphrey (appointed 11 September 2009)

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 2009	Held at 31 December 2008
Stuart Bottomley	10,700,000	10,700,000
Clive Page	5,773,928	5,773,928
Michael Walker	5,705,691	5,705,691
Claire Poll	3,500,000	3,500,000
Trevor Jones	Nil	Nil
Patrick Humphrey	Nil	Nil

Share options

Share options held by directors at 31 December 2009 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	Nil	1,000,000	1,000,000	0.175	Nil

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	Taxable Benefits[1]	2009 Total	2008 Total
Executive	**£**	**£**	**£**	**£**	**£**
Michael Walker	60,000	346	-	60,346	65,474
Claire Poll	35,000	-	-	35,000	35,267
Non-Executive					
Clive Page	40,000	932	-	40,932	40,702
Trevor Jones	13,000	1,147	-	14,147	13,976
Stuart Bottomley	23,000	5,612	26,563	55,175	30,888
Patrick Humphrey	5,258	86	-	5,344	-
	176,258	8,123	26,563	210,944	186,307

1 Share option benefit.

Pensions

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

Substantial shareholders

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 December 2009 of 3% shareholders and above:

	Number of Ordinary shares	% of Share Capital
Pershing Keen Nominees Limited	23,686,903	10.19%
Henderson Global Investors Limited	13,033,037	5.61%
Goldman Sachs Securities (Nominees Limited)	11,604,237	4.99%
Stuart Bottomley	10,700,000	4.60%
TD Waterhouse Nominees (Europe) Limited	10,145,030	4.37%
Barclayshare Nominees Limited	8,462,064	3.64%

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 2009.

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 a.m. on 3 June 2010 at One America Square, Crosswall, London EC3N 2SG.

By order of the Board.

Stuart Bottomley
Director

Dated 9 April 2010

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 Remuneration Committee and the Nomination and Corporate Governance 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 the auditors.

At the present time, given the size of the Group, it does not justify to have 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, established by Prof. 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 2009

We have audited the financial statements of Verona Pharma plc for the year ended 31 December 2009 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 Statement 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 (IFRS) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with section 495 and 496 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 9, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2009 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- 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.

Michael Egan (Senior statutory auditor)
for and on behalf of UHY Hacker Young, Statutory Auditor

9 April 2010

Quadrant House
4 Thomas More Square
London E1W 1YW

GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	Year ended 31 December 2009 £	Year ended 31 December 2008 £
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Research and development		(944,903)	(878,094)
Administration expenses	18	(660,872)	(603,519)
Operating loss	4	(1,605,775)	(1,481,613)
Finance revenue	6	7,243	138,380
Loss before taxation		(1,598,532)	(1,343,233)
Taxation	7	-	(27,877)
Loss and comprehensive loss for the period		(1,598,532)	(1,371,110)
Loss per ordinary share – basic and diluted	2	(0.74)p	(0.66)p

GROUP STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009

	Notes	31 December 2009 £	31 December 2008 Restated £
ASSETS			
Non current assets			
Tangible assets	12	18,004	14,088
Intangible assets	13	70,570	71,996
Goodwill	14	1,469,112	1,469,112
		1,557,686	1,555,196
Current assets			
Trade and other receivables	9	381,259	67,632
Cash and cash equivalents	10	2,829,981	2,454,882
		3,211,240	2,522,514
Total assets		4,768,926	4,077,710
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders			
Called up share capital	15	232,378	215,258
Option reserves		356,210	343,001
Share premium account		8,561,493	6,504,783
Retained losses		(4,668,057)	(3,069,525)
Total equity		4,482,024	3,993,517
Current liabilities			
Trade and other payables	11	286,902	84,193
Total liabilities		286,902	84,193
Total equity and liabilities		4,768,926	4,077,710

The financial statements were approved by the Board on 9 April 2010.

Stuart Bottomley
Director

Company Number: 05375156

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009

	Notes	31 December 2009 £	31 December 2008 Restated £
ASSETS			
Non current assets			
Tangible assets	12	18,004	14,088
Intangible assets	13	70,570	71,996
Goodwill	14	1,453,570	1,453,570
		1,542,144	1,539,654
Current assets			
Trade and other receivables	9	462,224	159,266
Cash and cash equivalents	10	2,826,869	2,432,049
		3,289,093	2,591,315
Total assets		4,831,237	4,130,969
EQUITY AND LIABILITIES			
Capital and reserves attributable to equity holders			
Called up share capital	15	232,378	215,258
Option reserves		356,210	343,001
Share premium account		8,561,493	6,504,783
Retained losses		(4,605,526)	(3,016,107)
Total equity		4,544,555	4,046,935
Current liabilities			
Trade and other payables	11	286,682	84,034
Total liabilities		286,682	84,034
Total equity and liabilities		4,831,237	4,130,969

The financial statements were approved by the Board on 9 April 2010.

Stuart Bottomley
Director

Company Number: 05375156

GROUP STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	Year ended 31 December 2009 £	Year ended 31 December 2008 £
Net cash outflow from operating activities	16	(1,620,382)	(1,322,442)
Cash outflow from taxation		-	(27,877)
Cash flow from investing activities			
Interest received		9,879	137,657
Purchase of tangible assets		(16,593)	(8,588)
Purchase of intangible assets		(8,070)	(13,441)
Net cash (outflow) / inflow from investing activities		(14,784)	115,628
Cash flow from financing activities			
Deferred financing cost		(54,365)	-
Net proceeds from issue of shares		2,064,630	2,437,510
Net cash inflow from financing activities		2,010,265	2,437,510
Net increase in cash and cash equivalents		375,099	1,202,819
Cash and cash equivalents at the beginning of the year		2,454,882	1,252,063
Cash and cash equivalents at the end of the year	10	2,829,981	2,454,882

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	Year ended 31 December 2009 £	Year ended 31 December 2008 £
Net cash outflow from operating activities	16	(1,611,387)	(1,335,692)
Cash outflow from taxation		-	(27,877)
Cash flow from investing activities			
Interest received		9,879	137,547
Purchase of tangible assets		(16,593)	(8,588)
Purchase of intangible assets		(8,070)	(13,441)
Advance to subsidiary		10,726	(7,686)
Net cash (outflow) / inflow from investing activities		(4,058)	107,832
Cash flow from financing activities			
Deferred financing cost		(54,365)	-
Net proceeds from issue of shares		2,064,630	2,437,510
Net cash inflow from financing activities		2,010,265	2,437,510
Net increase in cash and cash equivalents		394,820	1,181,773
Cash and cash equivalents at the beginning of the year		2,432,049	1,250,276
Cash and cash equivalents at the end of the year	10	2,826,869	2,432,049

GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital £	Share premium Restated £	Option reserve Restated £	Retained earnings Restated £	Total 2009 £
Balance at 1 January 2008	146,775	4,135,756	405,313	(1,799,687)	2,888,157
Total comprehensive loss for the year	-	-	-	(1,371,110)	(1,371,110)
Issue of shares	68,483	2,465,850	-	-	2,534,333
Issue cost	-	(96,823)	-	-	(96,823)
Share based payment	-	-	38,960	-	38,960
Transfer of previously expensed share based payment charge upon exercise of options	-	101,272	(101,272)	-	-
As previously stated Balance at 31 December 2008	215,258	6,606,055	343,001	(3,170,797)	3,993,517
Restatement	-	(101,272)	-	101,272	-
As restated Balance at 31 December 2008	215,258	6,504,783	343,001	(3,069,525)	3,993,517
Balance at 1 January 2009	215,258	6,504,783	343,001	(3,069,525)	3,993,517
Total comprehensive loss for the year	-	-	-	(1,598,532)	(1,598,532)
Issue of shares	17,120	2,188,680	-	-	2,205,800
Issue costs	-	(131,970)	-	-	(131,970)
Share based payment	-	-	13,209	-	13,209
Balance at 31 December 2009	232,378	8,561,493	356,210	(4,668,057)	4,482,024

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital	Share premium Restated	Option reserve Restated	Retained earnings Restated	Total
	£	£	£	£	£
Balance at 1 January 2008	146,775	4,135,756	405,313	(1,736,881)	2,950,963
Total comprehensive loss for the year	-	-	-	(1,380,498)	(1,380,498)
Issue of shares	68,483	2,465,850	-	-	2,534,333
Issue costs	-	(96,823)	-	-	(96,823)
Share based payment	-	-	38,960	-	38,960
Transfer of previously expensed share based payment charge upon exercise of options	-	101,272	(101,272)	-	-
As previously stated Balance at 31 December 2008	215,258	6,606,055	343,001	(3,117,379)	-
Restatement	-	(101,272)	-	101,272	-
As restated Balance at 31 December 2008	215,258	6,504,783	343,001	(3,016,107)	4,046,935
Balance at 1 January 2009	215,258	6,504,783	343,001	(3,016,107)	4,046,935
Total comprehensive loss for the year	-	-	-	(1,589,419)	(1,589,419)
Issue of shares	17,120	2,188,680	-	-	2,205,800
Issue costs	-	(131,970)	-	-	(131,970)
Share based payment	-	-	13,209	-	13,209
Balance at 31 December 2009	232,378	8,561,493	356,210	(4,605,526)	4,544,555

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. Restatement of prior year's results

On exercise of share options in the year to 31 December 2008 the previously recognised share based payment charge, of £101,272, was transferred between equity reserves from the Option Reserve to the Share Premium Reserve. The directors have reconsidered their policy of retaining the balance within equity and reclassified the balance from the Share Premium Reserve to the Retained Earnings Reserve.

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

Transactions in foreign currencies are translated into Sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. The resulting exchange gain or loss is dealt with in the income statement.

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 2009 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.

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

1.13. New standards and interpretations

The following new standards and amendments to standards are mandatory for the first time for the financials periods commencing on or after 1 January 2009:

IAS1 (revised) Presentation of financial statements includes the requirement to present a Statement of Changes in Equity as a primary statement and introduces the possibility of either a single Statement of Comprehensive Income (combining the Income Statement and a Statement of Comprehensive Income) or to retain the Income Statement with a supplementary Statement of Comprehensive Income. The Directors have chosen the first option. As this standard is concerned with presentation only it does not have any impact on the results or net assets of the Group.

IFRS8 Operating segments replaces IAS14 Segment reporting. IFRS8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, being the Board of Directors, to allocate resources to the segments and to assess their performance. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The predecessor Standard (IAS 14 Segment Reporting) required the Group to identify two sets of segments (business and geographical), using a risks and rewards approach, with the Group's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, following the adoption of IFRS8, the identification of the Group's reportable segments has changed; details of the changes are disclosed in note 3.

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:

IAS 27	Consolidated and separate financial statements	1 July 2009
	Share-based Payment — Amendments relating to group cash-settled share-based payment transactions	1 January 2010
IFRS 3	Business Combinations — Comprehensive revision on applying the acquisition method	1 July 2009
IFRS 8	Operating Segments — Amendments resulting from April 2009 Annual Improvements to IFRSs	1 January 2010
IAS 1	Presentation of Financial Statements — Amendments resulting from April 2009 Annual Improvements to IFRSs	1 January 2010
IAS 7	Statement of Cash Flows — Amendments resulting from April 2009 Annual Improvements to IFRSs	1 January 2010
IAS 38	Intangible Assets — Amendments resulting from April 2009 Annual Improvements to IFRSs	1 July 2009

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 (0.74p) (2008: loss of 0.66p) for the Group is calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue of 215,540,798 (2008: 209,100,584).

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

3. Segmental information

The Group has adopted IFRS8 Operating Segments with effect from 1 January, 2009. Following a review of the Group's internal management information, the Group has determined that its operating segments be reported on a product pipeline basis as this best reflects the Group's activity cycle. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors.

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

Segment information by operating segment is as follows:

	Clinical 2009 £	Clinical 2008 £	Basic Research 2009 £	Basic Research 2008 £
Income statement information				
Research and development	(817,815)	(788,096)	(127,088)	(89,998)
Amortisation of patent	(7,311)	(6,949)	(2,186)	(1,122)
Segment loss	(825,126)	(795,045)	(129,274)	(91,120)
Balance sheet information				
Patents	51,843	57,360	18,727	14,636
Goodwill	1,469,112	1,469,112	-	-
Segment assets	1,520,955	1,526,472	18,727	14,636

	2009 £	2008 £
Reconciliation of segment result		
Loss per reportable segment- Clinical	(825,126)	(795,045)
Loss per segment- Basic Research	(129,274)	(91,120)
Total loss for reportable segments	(954,400)	(886,165)
Amortisation of non-segment assets	(12,677)	(10,559)
Unallocated administration expense	(638,698)	(584,889)
Group operating loss	(1,605,775)	(1,481,613)
Reconciliation of segment assets		
Assets per reportable segment- Clinical	1,520,955	1,526,472
Assets per reportable segment- Basic Research	18,727	14,636
Total assets for reportable segments	1,539,682	1,541,108
Unallocated non-current assets	72,369	14,088
Unallocated current assets	3,156,875	2,522,514
Group total assets	4,768,926	4,077,710

3. Segmental information (continued)

Segment information by geographical segment for 2009 is as follows:

Geographical segment (Group)	United Kingdom	Canada	Total
	£	£	£
Research and development	(944,903)	-	(944,903)
Administration expenses	(651,759)	(9,113)	(660,872)
Finance revenue	7,243	-	7,243
Loss before taxation	(1,589,419)	(9,113)	(1,598,532)
Tangible assets	18,004	-	18,004
Intangible assets	70,570	-	70,570
Trade and other receivables	380,471	788	381,259
Cash and cash equivalents	2,826,869	3,112	2,829,981
Goodwill	1,469,112	-	1,469,112
Trade and other payables	(286,682)	(220)	(286,902)
Net assets	4,478,344	3,680	4,482,024

Segment information by geographical segment for 2008 is as follows:

Geographical segment (Group)	United Kingdom	Canada	Total
	£	£	£
Research and development	(893,338)	15,244	(878,094)
Administration expenses	(597,553)	(5,966)	(603,519)
Finance revenue	138,270	110	138,380
Loss before taxation	(1,352,621)	9,388	(1,343,233)
Tangible assets	14,088	-	14,088
Intangible assets	71,996	-	71,996
Trade and other receivables	66,787	845	67,632
Cash and cash equivalents	2,432,049	22,833	2,454,882
Deferred financing cost	1,469,112	-	1,469,112
Goodwill	(84,034)	(159)	(84,193)
Net assets	3,969,998	23,519	3,993,517

At the end of the financial year, the Group was still in early development stage and therefore had no turnover in either 2008 or 2009.

	2009 £	2008 £
4. Operating loss		
Group		
This is stated after charging:		
Foreign exchange loss (gain)	6,258	(2,771)
Auditors' remuneration for audit services		
- Group and Company audit	15,000	15,000
Auditors' remuneration for non audit services		
- Taxation consultancy	3,000	2,939
Total auditors' remuneration	18,000	17,939

5. Employee costs

Group		
Wages and salaries	181,878	129,052
Social security costs	22,854	10,366
	204,732	139,418

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

	2009 Number	2008 Number
Group		
The average number of employees including directors during the year was:	16	12

	2009 £	2008 £
6. Finance revenue		
Group		
Bank interest	7,243	138,380

	2009 £	2008 £
7. Taxation		
Analysis of tax charge for the year		
Current tax:		
UK corporation tax at 28% (2008: 30%)	-	-
Foreign taxation	-	27,877
Current tax charge	-	27,877
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	(1,598,532)	(1,343,233)
Multiplied by standard rate of corporation tax of 28.00% (30.00%)	(447,589)	(376,105)
Effects of:		
Non deductible expenses	3,779	10,909
Timing differences not recognised	(102)	(3,227)
Tax losses carried forward	443,912	396,300
Current tax charge	-	27,877

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 is estimated to be £1,400,000.

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

9. Trade and other receivables

	2009 £	2008 £
Group		
Other receivables	27,082	27,870
Deferred financing costs	54,365	-
Share subscription receivable	243,750	-
Prepayments and accrued income	56,062	39,762
	381,259	67,632

9. Trade and other receivables (continued)

	2009	2008
	£	£
Company		
Other receivables	26,982	27,675
Deferred financing costs	54,365	-
Share subscription receivable	243,750	-
Prepayments and accrued income	55,374	39,112
Amounts due from subsidiary company	81,753	92,479
	462,224	159,266

10. Cash and cash equivalents

Group		
Cash at bank and in hand	2,829,981	223,784
Cash equivalents	-	2,231,098
	2,829,981	2,454,882
Company		
Cash at bank and in hand	2,826,869	200,951
Cash equivalents	-	2,231,098
	2,826,869	2,432,049

11. Trade and other payables

Group		
Trade payables	117,363	48,731
Other payables	2,446	555
Share subscription received	105,100	-
Accruals	61,993	34,907
	286,902	84,193
Company		
Trade payables	117,143	48,572
Other payables	2,446	555
Share subscription received	105,100	-
Accruals	61,993	34,907
	286,682	84,034

12. Tangible assets

Group and Company	Computer hardware £	Computer software £	Office equipment £	Total £
Cost				
At 31 December 2007	18,604	3,888	911	23,403
Additions	6,758	1,400	430	8,588
At 31 December 2008	25,362	5,288	1,341	31,991
Depreciation				
At 31 December 2007	5,469	1,648	228	7,345
Charge for the year	7,815	2,532	211	10,558
At 31 December 2008	13,284	4,180	439	17,903
Net book value				
At 31 December 2008	12,078	1,108	902	14,088
Net book value				
At 31 December 2007	13,135	2,240	683	16,058

Group and Company	Computer hardware £	Computer software £	Office equipment £	Total £
Cost				
At 31 December 2008	25,362	5,288	1,341	31,991
Additions	9,718	6,875	-	16,593
At 31 December 2009	35,080	12,163	1,341	48,584
Depreciation				
At 31 December 2008	13,284	4,180	439	17,903
Charge for the year	9,117	3,292	268	12,677
At 31 December 2009	22,401	7,472	707	30,580
Net book value				
At 31 December 2009	12,679	4,691	634	18,004
Net book value				
At 31 December 2008	12,078	1,108	902	14,088

13. Intangible assets

Group and Company	Patents £
Cost	
At 31 December 2007	75,180
Additions	13,441
At 31 December 2008	88,621
Amortisation	
At 31 December 2007	8,554
Charge for the year	8,071
Impairment during the year	-
At 31 December 2008	16,625
Net book value	
At 31 December 2008	71,996
Net book value	
At 31 December 2007	66,626

Group and Company	Patents £
Cost	
At 31 December 2008	88,621
Additions	8,071
At 31 December 2009	96,692
Amortisation	
At 31 December 2008	16,625
Charge for the year	9,497
Impairment during the year	-
At 31 December 2009	26,122
Net book value	
At 31 December 2009	70,570
Net book value	
At 31 December 2008	71,996

	2009	2008
	£	£
14. Goodwill		
Group		
Goodwill	1,469,112	1,469,112
Company		
Goodwill	1,453,570	1,453,570

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. The Company has elected to test goodwill for impairment as of 31 December of each year. Based on the evaluation performed as of 31 December 2009 the Company concluded that no impairment was required.

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		
Shares as at 1 January 2008	146,775,000	146,775
Shares issued during the year	68,483,325	68,483
As at 31 December 2008	215,258,325	215,258
Shares issued during the year	17,119,953	17,120
As at 31 December 2009	232,378,278	232,378

The following issues of new shares took place during the year ended 31 December 2009:

An issue of 223,030 new ordinary shares of 0.1p each in the Company at 4.125p per share as consideration for public relations services provided to the Company. Total consideration was £9,200 which includes VAT of £1,200.

As part of a share placement on 29 December 2009 16,896,923 0.1 pence ordinary shares were issued fully paid for 13 pence per share.

16. Net cash outflow from operating activities

	2009	2008
	£	£
Group		
Operating loss	(1,605,775)	(1,481,613)
Cost of issuing share options	13,209	38,960
Decrease/ (increase) in trade and other receivables	(258,698)	174,666
(Decrease)/ increase in trade and other payables	202,709	(73,084)
Non-cash expense	6,000	-
Depreciation of tangible assets	12,676	10,558
Amortisation of intangible assets	9,497	8,071
Net cash outflow from operating activities	(1,620,382)	(1,322,442)

	2009	2008
Company		
Operating loss	(1,596,662)	(1,490,891)
Cost of issuing share options	13,209	38,960
Decrease/ (increase) in trade and other receivables	(258,755)	170,853
(Decrease)/ increase in trade and other payables	202,648	(73,243)
Non-cash expense	6,000	-
Depreciation of tangible assets	12,676	10,558
Amortisation of intangible assets	9,497	8,071
Net cash outflow from operating activities	(1,611,387)	(1,335,692)

17. Related parties transactions

The Company was charged £41,562 (2008: £45,026) by Magic Bullets Enterprises Limited, a company controlled by Prof. Michael Walker. At the year end the Company does not have any outstanding debt owing (2008: £Nil) to the related party.

The Company was charged £27,000 (2008: £27,000) by Gryon Consulting Limited, a company of which Prof. Clive Page is a Director. At the year end the Company does not have any outstanding debt owing (2008: £Nil) to the related party.

18. Cost of issuing share options

Included within administration expenses is a charge for issuing share options. The Company granted 1,200,000 (2008: 1,159,666) stock options during the current year with fair value estimated using the Black-Scholes option-pricing model of £112,600. The cost of issuing share options recognised during the current year is £13,209 (2008: £38,960) and the balance in unamortised share options issuing cost of £99,391 will be amortised over the period of 2010 to 2012.

Of the 1,200,000 stock options granted in the year, 200,000 stock options were granted to consultants ("consultants") and 1,000,000 stock options were granted to an employee ("employee"). The consultants' options are exercisable at 4 pence per option and the expiry date of these stock options is 8 January 2014. The employee's options are exercisable at 17.5 pence per option and the expiry date of these stock options is 11 September 2014.

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

Year/Type	**2009/Employee**	**2009/Consultants**
Options granted	1,000,000	200,000
Risk-free interest rate	5.0%	4.75%
Expected life of options	5 years	5 years
Annualised volatility	75.02%	155.20%
Dividend rate	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 2009**	**Options granted**	**Options exercised**	**Options lapsed**	**At 31 December 2009**	**Expiry date**
2006	5	11,000,000	-	-	-	11,000,000	18 September 2011
2006	6	2,885,500	-	-	-	2,885,500	19 September 2011
2007	4	1,280,000	-	-	-	1,280,000	4 July 2012
2008	4	1,159,666	-	-	-	1,159,666	8 January 2011
2009	4	-	200,000	-	-	200,000	8 January 2014
2009	17.5	-	1,000,000	-	-	1,000,000	11 September 2014
Total		16,325,166	1,200,000	-	-	17,525,166	

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 before tax for the year was £1,589,419 (2008: loss of £1,352,621).

20. Control

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

21. Financial commitments

As at 31 December 2009 the Group and Company were committed to making the following payments under non-cancellable operating leases in the year to 31 December 2010.

	Land and Buildings	
	2009	**2008**
	£	**£**
Operating leases which expire:		
Within one year	44,020	44,160

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 2009, cash and cash equivalents include Euro €61,819, and accounts payable and accrued liabilities include balances of CAD$32,680, Euro €22,076, AUD$8,704 and CNY$2,500.

(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.

22. Financial instruments (continued)

(f) Interest rate risk

At 31 December 2009, the Group had cash deposits of £2,829,981 (2008: £2,454,882). The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates on classes of financial assets and financial liabilities, was as follows:

Financial Asset	**Floating interest rate 2009**	**Non-interest bearing 2009**	**Floating interest rate 2008**	**Non-interest bearing 2008**
	£	**£**	**£**	**£**
Cash deposits	2,829,981	-	2,454,882	-

23. Subsequent events

Subsequent to 31 December 2009, the Company completed second tranche of a placing, raising £827,939 before expenses, by issuing 6,368,761 new ordinary shares at 13 pence per share.