Oxford Nanopore Technologies Limited

Directors' report and financial statements

Registered number 05386273

Year ended 30 June 2009

Contents

Company information

Directors	JHP Bayley TJ Nicholls R Pigliucci G Sanghera JP Willcocks A Aubrey
Company secretary	Aldwych Secretaries
Registered office	Edmund Cartwright House 4 Robert Robinson Avenue Oxford Science Park Oxford OX4 4GA
Company number	05386273
Auditors	BDO Stoy Hayward LLP Arcadia House Maritime Walk Southampton SO14 3TL

Directors' report

The directors present their report and the audited financial statements for the year ended 30 June 2009.

Principal Activities – Research and Development

The principal activity of the company is the research and development of a technology platform based on nanopores for the direct analysis of individual molecules. Our lead development project is DNA sequencing. Additional applications may include the analysis of proteins, ionic species, or a range of other single molecules that may be of use in scientific research, security & defence, environmental monitoring and much more.

Nanopore technology allows direct, electrical identification of molecules, obviating the traditional fluorescent / optical processes that dominate today's life science market. As such the technology promises greater power, cost, versatility and utility over existing products in these growing markets.

The principal risks and uncertainties facing the Company concern whether the Company will be successful in fully developing its technology and whether the technology will be commercially successful.

Business review

During the year the Company made substantial progress in the development of its nanopore technology platform. Following the fundraising in March of the previous financial year, the Company was well positioned to expand from 35 people to more than 60. We now have well staffed, high quality teams in chemistry, engineering and informatics, all integral to the development of a disruptive technology.

In the autumn of 2008, Oxford Nanopore announced a series of Intellectual Property collaborations with world-leading institutions that included Harvard and University of California, Santa Cruz. These partnerships will enable Oxford Nanopore to take a long term leadership position in nanopore-based technology products.

In January 2009 Oxford Nanopore completed a £13.9 million private fundraising and also announced a landmark collaboration with the leading US genetic analysis company, Illumina. This consisted of a commercialisation agreement and strategic investment.

Under the terms of the commercialisation agreement, Illumina will exclusively market, sell, distribute, and service BASE Technology® products developed by Oxford Nanopore for DNA sequencing into the research and diagnostic markets on a worldwide basis. Illumina also made an investment of £11.9 million ($18 million) in return for a minority stake in Oxford Nanopore.

More information about the company can be found at www.nanoporetech.com.

Results and dividends

The income statement is set out on page 7.

The directors do not recommend the payment of a dividend.

Directors

The directors of the company during the year were as follows:

DR Norwood (Chairman)	Resigned 31 December 2008
JHP Bayley	
TJ Nicholls (Chairman from 31 December 2008)	
R Pigliucci	
G Sanghera	
CP Triniman	Resigned 14 March 2009
JP Willcocks	
A Aubrey	Appointed 3 March 2009

Directors' report (continued)

Financial Instruments

Disclosure of the company's financial instruments policies are shown in Note 10.

Donations

The company made no political or charitable contributions during the year.

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of BDO Stoy Hayward LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

G Sanghera
Chief Executive Officer

16 September 2009

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OXFORD NANOPORE TECHNOLOGIES LIMITED

We have audited the financial statements of Oxford Nanopore Technologies Limited for the year ended 30 June 2009 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement, 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.

This report is made solely to the company's members, as a body, in accordance with sections 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 auditor's 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' responsibilities, 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2009 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Auditor's report (continued)

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements and the directors' report in accordance with the small companies' regime.

[Signature] BDO Stoy Hayward LLP
Mr Paul Anthony (senior statutory auditor)
For and on behalf of BDO Stoy Hayward LLP, statutory auditor
Southampton
Date 22 September 2009

Income statement
for the year ended 30 June 2009

	Note	Year ended 30 June 2009 £	Year ended 30 June 2008 £
Revenue			
Other income		**361,215**	158,549
Direct research & development expenses		**(4,998,527)**	(1,942,177)
General & administrative expenses		**(1,826,491)**	(751,896)
Facilities and infrastructure expenses		**(326,008)**	(146,612)
Depreciation and amortisation expense		**(434,888)**	(182,041)
Other expenses		**(454,419)**	(539,212)
Total expenses		**(8,040,333)**	(3,561,938)
Loss from operations	2	**(7,679,118)**	(3,403,389)
Finance costs	5	**(38,577)**	(72)
Finance income	5	**610,203**	444,525
Loss before tax		**(7,107,492)**	(2,958,936)
Tax credit	6	**927,140**	363,632
Accumulated loss for the year attributable to the equity holders of the Company		**(6,180,352)**	(2,595,304)

The company made no acquisitions and had no discontinued operations.

Statement of changes in equity
for the year to 30 June 2009

	Share Capital (i) £	Share Premium (ii) £	Retained Earnings (iii) £	Total £
Balance as at 1 July 2008	9,728	18,300,698	(4,015,359)	14,295,067
Total recognised income and expense	-	-	(6,180,352)	(6,180,352)
Issue of share capital	2,138	13,971,993	-	13,974,131
Costs of share issue	-	(62,969)	-	(62,969)
Employee share benefit expense	-	-	136,884	136,884
Balance as at 30 June 2009	**11,866**	**32,209,722**	**(10,058,827)**	**22,162,761**

(i) Share Capital: the aggregate nominal value of all shares in issue
(ii) Share Premium: amount subscribed for share capital in excess of nominal value
(iii) Retained earnings: cumulative net gains and losses recognised in the Income Statement

The notes on pages 9 to 22 form part of these financial statements.

Balance sheet
as at 30 June 2009

	Note		2009		2008
		£	£	£	£
Assets					
Non current assets					
Property, plant and equipment	*7*		**1,331,480**		438,508
Current assets					
Trade and other receivables	*9*	**678,292**		397,372	
R&D tax credit recoverable	*6*	**922,791**		363,632	
Cash and cash equivalents	*10*	**20,288,081**		13,997,391	
Total current assets			**21,889,164**		14,758,395
Total assets			**23,220,644**		15,196,903
Liabilities					
Current liabilities					
Trade and other payables	*11*		**(1,057,883)**		(901,836)
Total current liabilities			**(1,057,883)**		(901,836)
Total net assets			22,162,761		14,295,067
Capital and reserves attributable to equity holders of the company					
Share capital	*12*		**11,866**		9,728
Share premium reserve			32,209,722		18,300,698
Retained earnings			**(10,058,827)**		(4,015,359)
Total equity			22,162,761		14,295,067

The financial statements on pages 7 to 23 were approved by the Board of Directors and authorised for issue on 16 September 2009 and were signed on its behalf by:

G Sanghera
Chief Executive Officer

The notes on pages 9 to 22 form part of these financial statements

Cash flow statement
for the year ended 30 June 2009

	Note	2009 £	2008 £
Operating activities			
Loss before tax		(7,107,492)	(2,958,936)
Adjustments for:			
Depreciation	7	434,892	182,041
Loss on disposal of property, plant and equipment			-
Interest expense and bank charges	5	38,577	72
Interest income	5	(610,203)	(444,525)
Employee share benefit costs	15	136,884	76,104
Operating loss before changes in working capital and provisions		(7,107,342)	(3,145,244)
Increase in trade and other receivables		(280,920)	(136,465)
Increase in trade and other payables		156,047	642,787
Cash absorbed by operations		(7,232,215)	(2,638,922)
Income taxes – R&D tax credit received		367,981	161,418
Cash flows from operating activities		(6,864,234)	(2,477,504)
Investing activities			
Purchases of PPE		(1,327,864)	(258,046)
Interest and bank charges paid		(38,577)	(72)
Interest received		610,203	334,819
Cash flows from investing activities		(756,238)	76,701
Financing activities			
Issue of ordinary shares		13,974,131	10,100,364
Costs of share issue		(62,969)	(100,403)
Cash flows from financing activities		13,911,162	9,999,961
Increase in cash and cash equivalents		6,290,690	7,599,158
Cash and cash equivalents at start of year		13,997,391	6,398,233
Cash and cash equivalents at end of year		20,288,081	13,997,391

Notes *(forming part of the financial statements)*

1 Accounting policies

Basis of preparation

These financial statements relate solely to the activities of Oxford Nanopore Technologies Limited, the parent entity and ultimate holding company of the group. The group, which is small as defined by the Companies Act 2006, is therefore exempt from preparing consolidated financial statements. Prior to the current period the investment in STS Diagnostics GmbH, a wholly owned subsidiary registered in Germany, was written off and charged to the Income Statement as the directors considered the fair value of the asset to be nil.

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied throughout the year.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB) and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under IFRS.

Foreign currency

Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement.

Impairment of non-financial assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (ie the higher of value in use and fair value less costs to sell), the asset is written down accordingly. Impairment charges are included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognised in the statement of recognised income and expense.

Financial assets

The company classifies its financial assets depending on the purpose for which the asset was acquired. The company's accounting policy for each identified category is as follows:

Loans and receivables:

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. They are carried at cost less any provision for impairment.

Financial liabilities

The company classifies its financial liabilities depending on the purpose for which the asset was acquired. Other financial liabilities, which include trade payables and other short-term monetary liabilities, are recognised at amortised cost.

Notes *(forming part of the financial statements) continued*

Share-based payments

Where share options and other equity instruments are awarded to employees, the fair value of the instrument at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of instruments that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition. Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor. Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term. The land and buildings elements of property leases are considered separately for the purposes of lease classification.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax balances are not discounted.

Investments

Investments held as fixed assets are stated at fair value less any provision for any impairment in value.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future costs of dismantling and removing items. Any corresponding liability is recognised within provisions.

All items of property, plant and equipment are carried at depreciated cost.

Depreciation is provided on all items of property, plant and equipment so as to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

Plant and machinery	- 33% per annum straight line
Fixtures and fittings	- over the duration of the lease straight line
Leasehold improvements	- over the duration of the lease straight line
Office equipment	- 33% per annum straight line

Notes *(forming part of the financial statements) continued*

Government grants

The only revenue recognised by the Company are monies received under government grants. Government grants received are recognised as other income. Where retention of a government grant is dependent on the satisfaction of certain criteria, it is initially recognised as deferred income. When the criteria for retention have been satisfied, the deferred income balance is released to the income statement.

Critical Accounting Estimates and Judgements

In preparing these financial statements, estimates and assumptions have been made for certain items that have an impact on the recognition and measurement of the assets, liabilities, income and expenditure reported. Actual amounts may differ from these estimates. Management set out below those areas in which they believe critical accounting estimates and judgements have been made in the preparation of these financial statements.

Judgements

Intellectual Property Agreements

During the year, the Company entered into a small number of intellectual property licence agreements with academic institutions. These agreements contract the Company to make material payments in respect of licence issuance and maintenance fees over the term of the agreements.

Management have considered the requirements of IAS 38 "Intangible Assets" in respect of the accounting treatment of these agreements. It is our opinion that whilst the value of the licences can be reliably measured, it is as yet uncertain that any future economic benefit will be derived from the licences and flow to the Company.

As a result of this conclusion, all amounts in relation to these agreements have been recognised within research and development expenses in the income statement during the period.

Standards Not yet Effective

International Accounting Standards (IAS/IFRS)		**Effective date for periods commencing**
IFRS 1	Revised IFRS 1 First-time Adoption of International Financial Reporting Standards*	1 January 2009
IFRS 2	Amendment to IFRS 2 Share Based Payment: Vesting Conditions and Cancellations; Financial Statements: A Revised Presentation*	1 January 2009
IFRS 3	Revised IFRS 3 Business Combinations	1 July 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Amendment to IAS 1: Presentation of Financial Statements: A Revised Presentation	1 January 2009
	Amendments to IAS 32 and IAS 1: Puttable Financial Instruments and Obligations arising on Liquidation	1 January 2009
	Amendments to IFRS 1 and IAS27: Cost of an Investment In a subsidiary, jointly-controlled entity associate	1 January 2009
	Improving Disclosures about Financial Instruments (Amendments to IFRS 7)*	1 January 2009
	Improvements to IFRSs (2009)	1 January 2009

Notes *(forming part of the financial statements) continued*

IAS 23	Amendments to IAS 23 Borrowing Costs	1 January 2009
	Embedded Derivatives (Amendments to IFRIC 9 and IAS 39)*	30 June 2009
IFRS 3	Revised IFRS 3 Business Combinations	1 July 2009
IAS 27	Amendments to IAS 27 Consolidated and Separate Financial Statements	1 July 2009
IAS 39	Amendment to IAS 39 Financial Instruments: Recognition and measurement: Eligible Hedged Items*	1 July 2009
	Improvements to IFRSs (2010)*	Generally 1 January 2010
IFRS 1	Amendments to IFRS 1: Additional Exemptions for First-time Adopters*	1 January 2010
IFRS 2	Group Cash-settled Share-based Payment Transactions (Amendments to IFRS2)*	1 January 2010

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRIC 15	Agreements for the Construction of Real Estate	1 January 2009
IFRIC 17	Distributions of Non-cash assets to Owners*	1 July 2009
IFRIC 18	Transfer of Assets from Customers*	Transfers of assets from customers Received on or after 1 July 2009

* Not yet adopted for use in the European Union

The above standards and interpretations will be adopted in accordance with their effective dates and have not been adopted in these financial statements. The Directors do not anticipate that the adoption of the above Standards and Interpretations will have a material impact on the financial statements of the Group in the period of initial application.

Notes ***(forming part of the financial statements) continued***

2 Loss from operations

	Year to 30 June 2009 £	Year to 30 June 2008 £
This is after charging/(crediting):		
Government grants received	**(361,215)**	(158,549)
Staff costs	**3,120,063**	1,322,796
Depreciation	**434,892**	182,041
Direct non staff research and development costs	**2,836,117**	1,043,214
Payments under operating leases - property	**244,072**	125,604
Net foreign exchange losses	**29,154**	-
Auditors' remuneration	**9,500**	9,150
Fees to auditors for non audit services (taxation and grant applications)	**3,000**	3,445

During the year grants were received from the Department of Trade & Industry and from the Biotechnology and Biological Sciences Research Council for research projects lead by the Company. The amounts shown reflect only those sums attributable to and receivable by the Company.

3 Staff costs

	Year to 30 June 2009 £	Year to 30 June 2008 £
Staff costs, including directors, consist of:		
Wages and salaries	**2,677,040**	1,120,451
Employee benefits	**17,380**	13,902
Employer's national insurance contributions and similar taxes	**288,759**	112,339
Share based payments	**136,884**	76,104
	3,120,063	1,322,796

The average monthly number of employees, including directors, during the year was 56 (2008: 28). These included 3 executive directors (2008: 3), 4 non executive directors (2008: 4), 46 direct research and development staff (2008: 20) and 3 administration staff (2008: 1).

Notes *(forming part of the financial statements) continued*

4 Directors' emoluments

	Year to 30 June 2009 £	Year to 30 June 2008 £
Directors' emoluments consist of:		
Remuneration for management services	**550,337**	286,700
Amount paid as directors fees	**123,789**	70,240
Loss of office	**185,000**	-
	859,126	356,940
Highest paid director:		
Remuneration for management services	**93,685**	111,009
Loss of office	**185,000**	-
	278,685	111,009

In the year ended 30 June 2009, the highest paid director exercised approved options over 5,000 shares at an exercise price of £7 per share. In the year ended 30 June 2008, the same director exercised an unapproved option over 3,572 shares at an exercise price of £7 per share. No other directors have exercised any options in 2008 or 2009.

Mr R Pigliucci provided services to the Company under separate contract in his capacity as a consultant. These services are over and above those necessary to fulfil his role as a director. During the year the Company has charged £12,904 (2008: £31,422) to its income statement with respect to those services.

Similarly Mr TJ Nicholls provided services to the Company under separate contract in his capacity as a consultant. These services are over and above those necessary to fulfil his role as a director. During the year the Company has charged £5,000 (2008: £12,000) to its income statement with respect to those services.

Professor H Bayley provides services to the Company under separate contract in his capacity as a consultant through Oxford University Consulting. These services are over and above those necessary to fulfil his role as a director. During the year the Company has charged £39,612 (2008: £27,150) to its income statement with respect to those services.

Mr DR Norwood was a director and A. Aubrey is a director of IP Group plc, a significant shareholder. The Company also entered into activities with IP Group plc for which it was charged £nil (2008: £110,875). These charges have been satisfied in full. Mr Norwood is also a director of Ora Capital Partners plc which also holds shares in the Company.

Executive directors receive medical insurance for themselves and immediate family as a non-monetary benefit. Total premiums in respect of this cover for the year amounted to £2,085 (2008: £1,701)

All the emoluments relate to short-term employee benefits. No director received any post employment benefit, other long-term benefit or termination benefit. Charges to the profit and loss account relating to share based payments relating to options held by directors amounted to £9,406 (2008: £26,882)

5 Finance Income and expense

	Year to 30 June 2009 £	Year to 30 June 2008 £
Finance income		
Bank interest receivable	**610,203**	444,525
Finance expense		
Bank interest payable and charges	**38,577**	72

Notes *(forming part of the financial statements) continued*

6 Tax credit

	Year to 30 June 2009	Year to 30 June 2008
	£	£
Current tax credit:		
Research and development tax credit for the year	**922,791**	363,632
Adjustment for under provision of research and development tax credit in prior period	**4,349**	-
Total current tax credit	**927,140**	363,632
Deferred tax expense:		
Reversal of timing differences	-	-
Tax credit on loss on ordinary activities	**927,140**	363,632

The directors believe that the Company is eligible to claim a Research and Development tax credit and intend to make such a claim. An initial calculation indicates that this claim will be for £922,791 (2008: £363,632). This claim will be subject to HM Revenue and Customs review and approval, the result of which will not be known until a future date. Credit has been taken to the Income Statement with respect to this claim due to the Company's history of successful claims.

There is a deferred tax asset of £21,944 (2008: £278,818) in respect of the share based payment charge. This has not been recognised due to the uncertainty that the asset will reverse in the foreseeable future as the company has yet to obtain significant sources of income.
Deferred tax losses have been recognised to the extent that they offset the deferred tax liability arising through accelerated capital allowances. The remainder of the deferred tax asset of £1,132,061 (2008: £452,184) has not been recognised due to the uncertainty that the asset will reverse in the foreseeable future as the company has yet to obtain significant sources of income.

(b) Factors affecting the tax charge for the current year

The current tax credit for the year is lower than the standard rate of corporation tax in the UK for small companies. The differences are explained below:

	Year to 30 June 2009	Year to 30 June 2008
	£	£
Loss on ordinary activities before taxation	**(7,107,492)**	(2,958,936)
Loss on ordinary activities multiplied by expected rate of corporation tax at 21% (2008: 20.25%)	**(1,492,573)**	(599,185)
Effects of:		
Expenses not deductible for tax purposes	**10,480**	753
Origination of temporary timing differences	**(104,860)**	(9,486)
Origination of unrecognised tax losses	**816,602**	310,711
R&D tax relief	**(152,440)**	(66,425)
Under provision for tax recoverable in prior period	**(4,349)**	-
	927,140	363,632

(c) Factors that may affect future tax charges

The company plans to continue to invest in research and development for which substantial tax relief can be obtained.

Notes *(forming part of the financial statements) continued*

7 Property, Plant and Equipment

	Leasehold improvements £	Plant and machinery £	Office equipment £	Construction In Progress £	Total £
At 30 June 2008					
Cost:	108,724	511,908	109,394	-	730,026
Accumulated depreciation	(50,791)	(213,795)	(26,932)	-	(291,518)
Net book value:	57,933	298,113	82,462	-	438,508
At 30 June 2009					
Cost:	139,384	1,075,816	276,944	565,746	2,057,890
Accumulated depreciation	(139,384)	(480,301)	(106,725)	-	(726,410)
Net book value:	-	**595,515**	**170,219**	**565,746**	**1,331,480**
Year ended 30 June 2008					
Opening net book value	51,271	231,935	29,255	-	312,461
Additions	40,365	198,668	69,055	-	308,088
Disposals	-	-	-	-	-
Depreciation charge for the year	(33,703)	(132,490)	(15,848)	-	(182,041)
At 30 June 2008	57,933	298,113	82,462	-	438,508
Year ended 30 June 2009					
Opening net book value	57,933	298,113	82,462	-	438,508
Additions	30,660	563,908	167,550	565,746	1,327,864
Depreciation charge for the year	(88,593)	(266,506)	(79,793)	-	(434,892)
At 30 June 2009	-	**595,515**	**170,219**	**565,746**	**1,331,480**

8 Investment

Investment in group undertakings:	**Company £**
Investment in STS Diagnostics GmbH	39,188
Fair value adjustment	(39,188)
Balance as at 30 June 2008 and 2009	-

This represents the investment made by the Company to acquire 100% of STS Diagnostics GmbH ('STS') a company incorporated in Germany. This acquisition facilitated the establishment of the Company and helped form a small part of the patent portfolio established since inception. The directors are in the process of liquidating STS in the near future. The directors have considered the fair value of the assets of STS as at 30 June 2009 and believe them to be valueless having net assets broadly in line with the anticipated costs of liquidation.

Notes *(forming part of the financial statements) continued*

9 Trade and other receivables - current

	30 June 09	30 June 08
	£	£
Other debtors	**74,162**	80,150
Accrued income	**188,247**	114,403
Other taxes	**172,782**	148,253
Prepayments	**243,101**	54,566
	678,292	397,372

10 Financial instruments – risk management

Financial risk management objectives and policies

Overview

The Company has exposure to credit, liquidity and market risks from its use of financial instruments. This note sets out the Company's key policies and processes for managing these risks.

Credit risk

Credit risk is the risk of financial loss to the Company if a grant provider fails to meet its contractual obligations or if a deposit taker should fail. Since almost all of the Company's current income is derived from grant and interest income sources the Company's exposure to credit risk is considered to be inherently low.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company has no debt facilities and a substantial cash balance to fund its operations.

It is currently Company policy that the majority of external monetary deposits are made on a fixed interest basis over terms varying from one to twelve months depending upon the rate available. Maturities are staggered whenever possible to spread exposure to interest rate movement. Although the board accepts that this policy neither protects the group from the risk of receiving rates below the current market rates nor eliminates fully cash flow risk associated with interest receipts, it considers that it achieves an appropriate balance of exposure to these risks. Term deposits are denominated in UK sterling with institutions rated as A or better by both Moody's and Standard & Poor's.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's costs of research and development or the value of its holdings in financial instruments. The Company has little exposure to interest rate risk other than that returns on short-term fixed interest deposits will vary with movements in underlying bank interest rates. The Group's principal market risk exposure is to movements in foreign exchange rates.

Foreign currency risk

Foreign exchange risk arises because the Company from time to time enters into transactions denominated in a currency other than Sterling. Where it is considered that the risk to the Company is significant, it will enter into a matching forward contract with a reputable bank. To date no such forward contracts have been entered into. In the year ended 30th June 2009 approximately 15% (2008- 10%) of the Company's annual expenditures were denominated in US dollars as some significant non recurring expenditures were made.

Notes ***(forming part of the financial statements) continued***

Sensitivity analysis

A 5% weakening of the US$ at 30 June 2009 would have resulted in changes to equity and profit or loss by the amounts shown below:

	30 June 09	30 June 08
	£ 000's	£ 000's
Increase in loss for the year	60	10
Decrease in equity	60	10

The interest rate for short-term deposits is variable dependent on the rates offered by the Company's bankers. During the year ended 30 June 2009, the short-term deposits returned an average of 3.64% (2008: 5.3911%). The Company's exposure to interest rate risk on cash and cash equivalents, is illustrated below with regard to the average cash balance and the difference a decrease of 1% in interest rates would have made based on the average cash balance of £16,445,753 (2008: £10,197,812):

	30 June 09	30 June 08
	£ 000's	£ 000's
Increase in loss for the year	164	102
Decrease in equity	164	102

Capital management

The Company defines the capital that it manages as the Company's total equity. The Company's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can continue to strive to provide returns to investors.
- To provide an adequate return to investors based on the level of risk undertaken.
- To have available the necessary financial resources to allow the Company to invest in areas that may deliver future benefits for inventive sources and returns to investors.
- To maintain sufficient financial resources to mitigate against risks and unforeseen events.

The Company's capital and equity ratio are shown in the table below.

	30 June 09	30 June 08
	£	£
Total equity – capital and reserves	22,162,761	14,295,067
Total assets	23,220,644	15,196,903
Equity ratio	95.4%	94.0%

The Company is not subject to regulatory capital adequacy requirements as known in the financial services industry.

Financial instruments

The Group's financial instruments comprise cash, short-term deposits and various items such as trade debtors and creditors which arise directly from operations.

Notes *(forming part of the financial statements) continued*

Fair values

The fair values of the Group's financial assets and liabilities, together with the carrying values shown in the balance sheet, are as follows:

	Designated At fair value	Amortised cost	Total carrying Value	Fair Value
	£	£	£	£
30 June 2009				
Loans and Receivables				
Cash and cash equivalents	-	-	20,288,081	20,288,081
Other investments	-	-	-	-
Trade and other receivables	-	-	1,601,083	1,601,083
Other financial liabilities				
Trade and other payables	-	-	(1,057,883)	(1,057,883)
30 June 2008				
Loans and Receivables				
Cash and cash equivalents	-	-	13,997,391	13,997,391
Other investments	-	-	-	-
Trade and other receivables	-	-	761,004	761,004
Other financial liabilities				
Trade and other payables	-	-	(901,836)	(901,836)

The following summarises the methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Other investments

These comprise the investment in STS Diagnostics GmbH, a wholly owned subsidiary. The figure recorded in the balance sheet is the best estimate of fair value.

Trade receivables, trade payables and cash and cash equivalents

Trade payables and receivables generally have a remaining life of less than one year so their value recorded in the balance sheet is considered to be a fair approximation of fair value.

Financial assets – numerical information

As at the 30 June the Company had the following Sterling treasury deposits.

	30 June 09	**30 June 08**
	£	**£**
Floating rate assets	**596,985**	647,391
Fixed rate assets	**19,691,096**	13,350,000
	20,288,081	13,997,391

The weighted average interest rate on the fixed term deposits was 3.64% (2008: 5.3911%). The weighted average term of fixed interest rate deposits was 5.1 months (2008: 1.7 months).

Notes *(forming part of the financial statements) continued*

11 Trade and other payables - current

	30 June 09 £	30 June 08 £
Trade payables	**498,322**	511,201
Taxation and social security	**94,496**	51,562
Other creditors	-	24,190
Accruals and deferred income	**465,065**	314,883
	1,057,883	901,836

12 Share capital

	30 June 09 £	30 June 08 £
Authorised:		
1,415,000 (2008: 1,089,000) ordinary shares of £0.01 each	**14,150**	10,890
Allotted, called up and fully paid:		
At 1 July	**9,728**	7,970
213.809 ordinary shares (2008: 175,842) of £0.01 issued during the year	**2,138**	1,758
At 30 June	**11,866**	9,728

13 Commitments under operating leases

As at 30 June 2009 the company had a commitment to make payments under eight separate operating leases for laboratory and office space of £25,032 (2008: £158,266). These leases were all due to expire between 31 May 2009 and 23 July 2009 and have been terminated in accordance with their terms effective 31 August 2009. Under the leases, the company has an obligation to restore the premises back to their original condition at an estimated cost of £20,000 and provision for this expenditure has been made within the accruals.

On 9 April 2009, the company entered into a new five year operating lease for laboratory and office space with a total commitment over the 5 years of £953,400. The lease contains a break clause after two and a half years upon six months written notice.

	30 June 08 £	30 June 08 £
The total of future minimum non-cancellable lease payments due for each of the following periods are:		
Not later than one year	**161,052**	800
Later than one year and not later than five years	**326,196**	61,048
	487,248	61,848

14 Retirement benefits

The Company runs a defined contribution scheme for its employees. The scheme is open to all employees at their own discretion. The Company makes no contribution to pension benefits for any of its employees.

Notes ***(forming part of the financial statements) continued***

15 Share based payment

The company operates only one equity-settled share based remuneration scheme for employees: the Oxford Nanopore Technologies Share Option Scheme. The Scheme allows the Company to award both HM Revenue & Customs approved Executive Management Incentive (EMI) share options to qualifying individuals and unapproved share options. All options may be subject to performance criteria and vesting schedules set at the Board's discretion. All UK resident employees working 25 hours a week, or if less, 75% of their working time are eligible to be awarded EMI share options. All options have a life of ten years from date of grant.

On 15 August and 24 October 2008, the Company granted options under the Enterprise Management Incentive Scheme over, respectively, 19,700 and 9,600 ordinary shares of £0.01 nominal value exercisable at a price of £11.50 per share. On 2 January 2008 the Company granted options under the Enterprise Management Incentive Scheme over 19,100 ordinary shares of £0.01 nominal value exercisable at a price of £7 per share. Unapproved options over 6,000 ordinary shares of £0.01 nominal value were granted on the same date and at the same price. Unapproved options over a further 4,750 ordinary shares of £0.01 nominal value also with an exercise price of £7 per share were issued on 7 January 2008. On 24 February 2008 options over 4,000 ordinary shares of £0.01 nominal value under the Enterprise Management Incentive Scheme were granted, again exercisable at a price of £7 per share.

	2009		2008	
	Weighted average exercise price	Number	Weighted average exercise price	Number
Outstanding at the beginning of the year	**£7.00**	**73,478**	£7.00	39,628
Granted during the year	**£11.50**	**29,300**	£7.00	33,850
Exercised during the year	**£7.04**	**(5,050)**	-	-
Lapsed during the year	**£7.07**	**(16,678)**	-	-
Outstanding at the end of the year	**£8.61**	**81,050**	£7.00	73,478

The exercise price of all options outstanding at the end of the year was between £7.00 and £11.50 per share (2008: £7.00) and their weighted average contractual life was 8.5 years (2008: 8.89 years).

All options outstanding at year end vest equally over their lifetime in half yearly instalments. Of the total number of options outstanding at the end of the year, 24,785 (2008: 15,764) had vested and were exercisable.

The weighted average share price (at the date of exercise) of options exercised during 2008 was £7.04.

The weighted average fair value of each option granted during the year was £7.36 (2008: £3.00).

The following information is relevant in the determination of the fair value of options granted during the year under the equity share based remuneration schemes operated by the Company.

	30 June 09	30 June 08
Option pricing model used	**Binomial**	Binomial
Weighted average share price at grant date	£11.50	£7.00
Exercise price	£11.50	£7.00
Volatility	60%	60%
Risk free interest rate	4.5%-4.55%	4.35% - 4.45%
Dividend yield	Nil	Nil
Weighted average contractual life	10 yrs	10 yrs

Notes ***(forming part of the financial statements) continued***

The volatility assumption, measured at the standard deviation of expected share price returns, is based on a statistical analysis of daily share prices of comparable companies over various periods of no less than one year. The risk free interest rate used reflects the UK Government 5 year Gilt rate as reported by the Bank of England.

16 Related party transactions

Details of directors' remuneration are given in note 4. Other related party transactions were as follows:

Related party relationship	**Type of transaction**	**Transaction amount**		**Balance owed**	
		2009	2008	**2009**	2008
		£	£	**£**	£
Organisation for which a director is a director and shareholder	Charge for executive services	-	110,875	-	-

At the end of the year, there were 14,500 (2008- 14,500) unapproved options issued to non-employees including non-executive directors and consultants.

In January 2009, the Company entered into a collaboration with the leading US genetic analysis company, Illumina, consisting of a investment by Illumina in the share capital of the company and a commercialisation agreement.

Illumina made an investment of $18 million in return for a minority stake in Oxford Nanopore. Dependent upon the company achieving certain technical milestones, Illumina also agreed to subscribe to additional shares up to an amount whereby its total investment would represent no more than 19.99% of the outstanding share capital of the company. The company is required to keep available a sufficient number of authorised, but unissued shares, to meet this commitment.

Under the terms of the commercialisation agreement, Illumina will exclusively market, sell, distribute, and service BASE Technology® products developed by Oxford Nanopore for DNA sequencing into the research and diagnostic markets on a worldwide basis. The company will retain responsibility for ongoing research, development and manufacture of the products.

17 Ultimate Controlling Party

There is no overall controlling party of the company.