

Oxford Nanopore Technologies Limited
Annual report and financial statements
for the year ended 31 December 2011

Registered number 05386273



OXFORD NANOPORE TECHNOLOGIES LIMITED

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OXFORD NANOPORE TECHNOLOGIES LIMITED

COMPANY INFORMATION

Directors

JHP Bayley
TJ Nicholls (resigned 31 May 2012)
PV Allen (appointed 18 April 2011)
G Sanghera
JP Willcocks
A Aubrey
JA McDonald
R Pigliucci (resigned 15 June 2011)

Company secretary

Aldwych Secretaries

Registered office

Edmund Cartwright House
4 Robert Robinson Avenue
Oxford Science Park
Oxford
OX4 4GA
United Kingdom

Company number

05386273

Auditors

Deloitte LLP
Reading
United Kingdom

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' REPORT (CONTINUED)

The directors are pleased to present their annual report on the affairs of Oxford Nanopore Technologies Limited and its subsidiaries (the Group) and the audited financial statements for the period ended 31 December 2011

Principal activities

The principal activity of the Group is the research and development of a technology platform based on nanopores for the direct analysis of individual molecules. The instruments developed by the Company - GridION and MinION - are designed to address a wide range of customers and applications, and are compatible with nanopores that have been adapted for the analysis of DNA, RNA, proteins and a range of other target molecules.

The Company intends to begin commercialisation through early access of its DNA strand sequencing technology in the second half of 2012. Additional applications in development include the analysis of proteins, for which the Company has shown early data and is developing further. The system is also capable of the analysis of ionic species or a range of other single molecules that may be of use in scientific research, security & defence, environmental monitoring and much more.

Oxford Nanopore Technologies Limited ('Oxford Nanopore') is focused on the provision of disruptive products that are designed to be highly competitive in existing markets, and expand the user base and applications to create new markets.

Business review and future developments

Fundraisings

On 26 April 2011, Oxford Nanopore raised £25 million (\$41 million) in new funding via a private placement of ordinary shares in the Company. The funds were raised to support further development of the company's product portfolio and to support the transition into a phase of external technology validation by Oxford Nanopore customers including production capabilities. The round was funded by existing and new institutional and individual investors from the US and UK, including Lansdowne Partners, IP Group, Invesco Perpetual, Redmile Group, Illumina and other undisclosed investors.

Previously, in January 2010, Oxford Nanopore completed an additional £17.4 million fund raising.

Subsequent to the year-end, on 3 May 2012, Oxford Nanopore raised an additional £31.4 million (\$50.8 million) in new funding via a private placement of ordinary shares in the Company. The funds, nearly all of which comes from existing investors, was raised to support a range of corporate development activities including the development of our commercial infrastructure, expansion of our manufacturing function and further R&D for our DNA/RNA sequencing and protein/miRNA analysis applications.

Business review

In 2011, the Company made significant progress with the research and development of platform technology for the direct analysis of single molecules.

The novel design of the GridION system was disclosed in January 2011 and was well received by the customer community. The GridION system comprises a consumable single-use cartridge and a scalable reader instrument. It is designed to meet the needs of a spectrum of users from benchtop scientists to large scientific installations by a single scalable unit design. Further development throughout 2011 allowed Oxford Nanopore to submit two abstracts in late 2011 to the Advances in Genome Biology and Technology conference ('AGBT'), which took place in February 2012. At the AGBT 2012, the Company unveiled its sequencing products, showed DNA 'strand sequencing' data, and presented an abstract showing developments in protein analysis technology.

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' REPORT (CONTINUED)

Oxford Nanopore is developing an end-to-end product solution that includes simple sample preparation methods and data analysis/software functions designed to enable a broader range of users to have access to the Company's DNA Sequencing technology. In March 2011, Oxford Nanopore announced an agreement with the software company Accelrys to develop the Pipeline Pilot Next Generation Sequencing Collection ("PP NGS") software to be compatible with Oxford Nanopore technology, and for the PP NGS products to be offered as a preferred and supported solution for secondary and higher level data analyses with Oxford Nanopore systems.

Oxford Nanopore has always viewed intellectual property and a long term product pipeline as central to the long term growth and protection of the Company. Oxford Nanopore works on biological nanopores and also has collaborations for future generation of solid-state nanopores. In 2011 the Company extended the scope of work in solid-state nanopores to include an agreement with Harvard University for the development of graphene for DNA sequencing.

During the year, the company started to expand its international operations and add further headcount outside the R&D function in Business and Customer development roles. As part of this expansion Oxford Nanopore set up a wholly owned operating subsidiary in the USA called Oxford Nanopore Technologies, Inc. The Company also welcomed Peter Allen ACA as a non executive director.

Illumina

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 a strategic investment of £11.9 million (\$18 million) in return for a minority stake in Oxford Nanopore.

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.

During 2011 a dispute arose between Illumina and Oxford Nanopore concerning the terms of the commercialisation agreement, and Illumina filed an arbitration demand in the state of New York. While the results of these proceedings are uncertain, management have received third party legal advice on the matter and do not believe the ultimate resolution of the arbitration proceedings is likely to have a material adverse effect on our financial position or results of operation. Accordingly no provision has been made in relation to this dispute.

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Group concern whether the group will be successful in fully developing its technology and whether the technology will be commercially successful. As a disruptive technology, it would be expected to create new markets as well as penetrate existing ones. The ability to fulfil the full market potential of the technology may be considered a risk. The Group's processes to manage their principal risks are outlined in note 13.

Financial Instruments

The Group has a policy to pay creditors within 30 days of receipt of invoice. Further information on the Group's financial risk management objectives, including those relating to risk on price, credit, liquidity and cash flow is provided in note 13.

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' REPORT (CONTINUED)

Key Performance Indicators

The principal financial key performance indicators for the Group are controlling overall spend in line with budgets approved by the Board and ensuring that the Group has adequate cashflows to fund operations. For the year ended 31 December 2011, the Group's net loss of £13.7 million (2010: £9.9 million) was in line with budgets approved by the Board. Net cashflows for the year ended 31 December 2011 were £11.5 million (2010: £7.2 million) and, as at 31 December 2011, the Group's balance of cash, cash equivalents and other financial assets of £34.8 million (2010: £23.3 million) is considered adequate to fund the Group's operations. These financial targets are supported by non-financial targets which are based on technical progress made in research and development.

Going Concern

The Group's financial position together with the factors likely to affect its future development, performance and position are set out in the Business Review on page 4. Note 13 to the financial statements includes the Group's assessment of risks and its policies and processes for managing those risks.

The directors note that the Group is consistently loss making at present due to the research and development activity which it undertakes. The loss for the current period is £13.7 million (2010: £9.9 million). However, the Group has sufficient financial resources in the form of cash, cash equivalents and other current financial assets which management forecast will be sufficient to enable the business to remain in operation for a period of not less than twelve months from the date of approving these financial statements.

In order to implement early access the company will require additional funding, however, management have the ability to control the extent of this discretionary spend depending on the availability of funding. Given the technical progress made and the outlook for the technology, management have a reasonable expectation that they will be able to generate further investment. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Results and dividends

The income statement is set out on page 10. The directors do not recommend the payment of a dividend (2010: nil).

Directors

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

JHP Bayley
TJ Nicholls (Chairman - resigned 31 May 2012)
R Pigliucci (resigned 15 June 2011)
G Sanghera
JP Willcocks
A Aubrey
JA McDonald
PV Allen (appointed 18 April 2011)

Donations

The company made charitable contributions during the period of £512 (2010: £725).

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' REPORT (CONTINUED)

Auditors

Each of the persons who is a director at the date of approval of this annual report confirms that

- so far as the director is aware, there is no relevant audit information of which the Group's auditors are unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP have expressed their willingness to continue in office as auditors. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

On behalf of the board



G Sanghera, Director

26 September 2012

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' RESPONSIBILITIES

Directors' responsibilities statement

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 Group and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the Group's ability to continue as a going concern

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

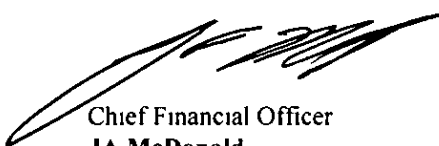
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



Chief Executive Officer
G Sanghera

26 September 2012



Chief Financial Officer
JA McDonald

26 September 2012

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

We have audited the financial statements of Oxford Nanopore Technologies Limited for the year ended 31 December 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Statements of Changes in Equity the Consolidated and Parent Company Cash Flow Statements and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's 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 group's and the parent 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

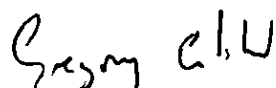
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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



Gregory Culshaw, FCA (Senior statutory auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Reading, United Kingdom

27 September 2012

OXFORD NANOPORE TECHNOLOGIES LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

		Year ended 31 December 2011 £	Year ended 31 December 2010 £
Revenue			
Other income		90,328	167,858
Operating expenses			
Direct research & development expenses		(11,745,971)	(8,584,629)
General & administrative expenses		(2,894,899)	(2,035,001)
Facilities and infrastructure expenses		(759,468)	(582,625)
Depreciation and amortisation expense		(768,066)	(652,019)
Other expenses		(294,588)	(178,695)
Total operating expenses	4	(16,462,992)	(12,032,969)
Loss from operations		(16,372,664)	(11,865,111)
Finance costs, net of exchange gain	8	130,018	47,965
Finance income	8	508,884	396,772
Loss before tax		(15,733,762)	(11,420,374)
Tax credit	9	1,992,495	1,538,946
Accumulated loss for the period and total comprehensive income		(13,741,267)	(9,881,428)

The company made no acquisitions and had no discontinued operations

OXFORD NANOPORE TECHNOLOGIES LIMITED

CONSOLIDATED BALANCE SHEET

as at 31 December 2011

	Note	2011 £	2010 £
Non-current assets			
Property, plant and equipment	10	1,601,142	1,218,477
		<u>1,601,142</u>	<u>1,218,477</u>
Current assets			
Trade and other receivables	12	1,038,968	925,598
R&D tax credit recoverable		1,992,495	2,095,264
Other financial assets	13	28,119,847	7,122,393
Cash and cash equivalents	16	6,734,112	16,201,069
		<u>37,885,422</u>	<u>26,344,324</u>
Total assets		<u>39,486,564</u>	<u>27,562,801</u>
Current liabilities			
Trade and other payables	13, 14	(2,226,545)	(1,753,544)
Total liabilities		<u>(2,226,545)</u>	<u>(1,753,544)</u>
Net assets		<u>37,260,019</u>	<u>25,809,257</u>
Equity			
Share capital	15	21,162	18,304
Share premium reserve		74,474,978	49,534,030
Retained earnings		(37,236,121)	(23,743,077)
Total equity		<u>37,260,019</u>	<u>25,809,257</u>

The financial statements of Oxford Nanopore Technologies Limited (Registered number 05386273) were approved by the board of directors and authorised for issue on 19 September 2012. They were signed on its behalf by



G Sanghera

Director

OXFORD NANOPORE TECHNOLOGIES LIMITED

COMPANY BALANCE SHEET for the year ended 31 December 2011

	Note	2011 £	2010 £
Non-current assets			
Property, plant and equipment	10	1,586,516	1,218,477
Investment in subsidiary undertakings	11	111,701	-
		<u>1,698,217</u>	<u>1,218,477</u>
Current assets			
Trade and other receivables	12	1,004,139	925,598
R&D tax credit recoverable		1,992,495	2,095,264
Other financial assets	13	28,119,847	7,122,393
Cash and cash equivalents	16	6,666,475	16,201,069
		<u>37,782,956</u>	<u>26,344,324</u>
Total assets		<u>39,479,451</u>	<u>27,562,801</u>
Current liabilities			
Trade and other payables	13, 14	(2,222,820)	(1,753,544)
Total liabilities		<u>(2,222,820)</u>	<u>(1,753,544)</u>
Net assets		<u>37,258,353</u>	<u>25,809,257</u>
Equity			
Share capital	15	21,162	18,304
Share premium reserve		74,474,978	49,534,030
Retained earnings		(37,237,787)	(23,743,077)
Total equity		<u>37,258,353</u>	<u>25,809,257</u>

The financial statements of Oxford Nanopore Technologies Limited (Registered number 05386273) were approved by the board of directors and authorised for issue on 19 September 2012. They were signed on its behalf by



G Sanghera

Director

OXFORD NANOPORE TECHNOLOGIES LIMITED

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2011

Group

	Share Capital £	Share Premium Account £	Retained Earnings £	Total £
Balance at 1 January 2010	11,866	32,209,722	(14,037,882)	18,183,706
Total recognised income and expense	-	-	(9,881,428)	(9,881,428)
Issue of share capital	6,438	17,391,713	-	17,398,151
Cost of share issue	-	(67,405)	-	(67,405)
Employee share benefit	-	-	176,233	176,233
Balance at 1 January 2011	18,304	49,534,030	(23,743,077)	25,809,257
Total recognised income and expense	-	-	(13,741,267)	(13,741,267)
Issue of share capital	2,858	25,093,445	-	25,096,303
Cost of share issue	-	(152,497)	-	(152,497)
Employee share benefit	-	-	248,223	248,223
Balance at 31 December 2011	21,162	74,474,978	(37,236,121)	37,260,019

Company

	Share Capital £	Share Premium Account £	Retained Earnings £	Total £
Balance at 1 January 2010	11,866	32,209,722	(14,037,882)	18,183,706
Total recognised income and expense	-	-	(9,881,428)	(9,881,428)
Issue of share capital	6,438	17,391,713	-	17,398,151
Cost of share issue	-	(67,405)	-	(67,405)
Employee share benefit	-	-	176,233	176,233
Balance at 1 January 2011	18,304	49,534,030	(23,743,077)	25,809,257
Total recognised income and expense	-	-	(13,742,933)	(13,742,933)
Issue of share capital	2,858	25,093,445	-	25,096,303
Cost of share issue	-	(152,497)	-	(152,497)
Employee share benefit	-	-	248,223	248,223
Balance at 31 December 2011	21,162	74,474,978	(37,237,787)	37,258,353

OXFORD NANOPORE TECHNOLOGIES LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31 December 2011

		Year ended 31 December 2011 £	Year ended 31 December 2010 £
Net cash outflow from operating activities	Note 16	(12,825,106)	(10,009,925)
Investing activities			
Purchases of property, plant and equipment		(1,150,731)	(545,574)
Insurance proceeds received		-	8,639
Amounts transferred to other financial assets		(20,997,454)	1,877,607
Bank charges and exchange gain, net		130,018	47,964
Interest received		432,511	396,772
Net cash (used in) / from investing activities		(21,585,656)	1,785,408
Financing activities			
Proceeds from issue of shares		25,096,302	17,398,151
Costs of share issue		(152,497)	(67,405)
Net cash from financing activities		24,943,805	17,330,746
Net (decrease) / increase in cash and cash equivalents		(9,466,957)	9,106,229
Cash and cash equivalents at beginning of period		16,201,069	7,094,840
Cash and cash equivalents at end of period		6,734,112	16,201,069

OXFORD NANOPORE TECHNOLOGIES LIMITED

COMPANY STATEMENT OF CASH FLOWS for the year ended 31 December 2011

		Year ended 31 December 2011 £	Year ended 31 December 2010 £
Net cash outflow from operating activities	Note 16	(12,796,276)	(10,009,925)
Investing activities			
Purchases of property, plant and equipment		(1,135,612)	(545,574)
Loans to subsidiary undertakings		(111,702)	-
Insurance proceeds received		-	8,639
Amounts transferred to other financial assets		(20,997,454)	1,877,607
Bank charges and exchange gain, net		130,140	47,964
Interest received		432,505	396,772
Net cash (used in) / from investing activities		(21,682,123)	1,785,408
Financing activities			
Proceeds from issue of shares		25,096,302	17,398,151
Costs of share issue		(152,497)	(67,405)
Net cash from financing activities		24,943,805	17,330,746
Net (decrease) / increase in cash and cash equivalents		(9,534,594)	9,106,229
Cash and cash equivalents at beginning of period		16,201,069	7,094,840
Cash and cash equivalents at end of period		6,666,475	16,201,069

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. GENERAL INFORMATION

Oxford Nanopore Technologies Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 3. The nature of the Group's operations and its principal activities are set out in the business review on page 4.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

2 ADOPTION OF NEW AND REVISED STANDARDS

A summary of the Group's principal accounting policies, all of which have been applied consistently throughout the current and preceding year, is set out below.

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs').

The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore comply with Article 4 of the EU IAS regulations.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IAS 24 (amended) 'Related Party Disclosures'
- IAS 32 (amended) "Classification of Rights Issues"
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'
- IFRIC 14 (amended) "Prepayments of a Minimum Funding Requirement"
- IFRS 7 (amended) 'Derecognition disclosures'

Improvement to IFRSs (May 2010)

At the date of authorisation of these financial statements, the following standards and relevant interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and some of which were pending endorsement by the EU):

The adoption of the following standards in future periods is not expected to have a material impact on the financial statements of the Group:

- IAS 19 (revised) "Employee benefits" – effective for accounting periods beginning on or after 1 January 2013
- IFRS 9 "Financial Instruments: Classification and measurement" – effective for accounting periods beginning on or after 1 January 2015
- IAS 12 "Income Taxes – Limited Scope Amendment"
- IFRS 10 "Consolidated Financial Statements"
- IFRS 11 'Joint Arrangements'
- IAS 27 (amended) "Separate Financial Statements"
- IAS 28 (amended) "Investments in Associates and Joint Ventures"
- IFRS 12 "Disclosure of Interest in Other Entities"
- IAS 1 (amended) "Presentation of Items in Other Comprehensive Income"

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements relate solely to the activities of Oxford Nanopore Technologies Limited and its subsidiaries

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

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union ("IFRSs"), and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under IFRS. The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual statements of comprehensive income and related notes.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity. So as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Going concern

The Group's financial position together with the factors likely to affect its future development, performance and position are set out in the Business Review on page 4. Note 13 to the financial statements includes the Group's assessment of risks and its policies and processes for managing those risks.

The directors note that the Group is consistently loss making at present due to the research and development activity which it undertakes. The loss for the current period is £13.7 million (2010: £9.9 million). However, the Group has sufficient financial resources in the form of cash, cash equivalents and other current financial assets, which management forecast will be sufficient to enable the business to remain in operation for a period of not less than twelve months from the date of approving these financial statements.

In order to implement early access the Group will require additional funding, however, management have the ability to control the extent of this discretionary spend depending on the availability of funding. Given the technical progress made and the outlook for the technology, management have a reasonable expectation that they will be able to generate further investment. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purposes of the consolidated financial statements, the results and financial position of each group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies 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.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case exchange rates at the date of transactions are used. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

Financial assets

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

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits held at call with banks and other short-term highly liquid investments with a maturity of three months or less at the date of acquisition.

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.

Other financial assets comprise longer-term deposits held with banks that do not meet the IAS 7 definition of a cash equivalent. Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term bank deposits with a maturity period of three months or less from the date of initial deposit.

Financial liabilities

The Group 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.

Research and development

All ongoing research expenditure is currently expensed in the period in which it is incurred. Due to the regulatory and other uncertainties inherent in the development of the Group's products, the criteria for development costs to be recognised as an asset, as set out in IAS 38 "Intangible Assets", are not met until it is probable that future economic benefit will flow to the Group. The Group currently has no such qualifying expenditure.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (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 Group (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.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis

Deferred tax balances are not discounted

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 less any recognised impairment losses.

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:

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

Government grants

The only revenue recognised by the Group 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 the application of the Group's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

1) Intellectual Property Agreements

The Company has 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.

Critical judgements are required in determining the accounting treatment of these agreements under IAS 38 "Intangible Assets". The directors believe 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. Accordingly, all amounts in relation to these agreements have been recognised within research and development expenses in the income statement during the period.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2) Research and Development Costs

Critical judgements are required in determining whether development spend meets the criteria for capitalisation of such costs as laid out in IAS38 "Intangible Assets", in particular whether any future economic benefit will be derived from the costs and flow to the Group. The directors believe that the criteria for capitalisation were not met during the year and accordingly all amounts in relation to research and development have been recognised within research and development expenses in the income statement during the period.

4. LOSS FROM OPERATIONS

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
<i>This is after charging/(crediting)</i>		
Government grants received	(90,328)	(167,858)
Staff costs	6,007,029	4,596,106
Depreciation	768,065	652,019
Direct non staff research and development costs	7,148,303	5,420,388
Payments under operating leases - property	263,474	290,017
Net foreign exchange profits	(146,424)	(59,207)

Taxation

During the period grants were received from the European Union, in respect of the Seventh Framework Programme (FP7), as well 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. All income is deemed to occur in one geographical and operating segment, therefore, no further analysis is presented in these financial statements. All amounts relate to continuing operations.

5. AUDITORS' REMUNERATION

The analysis of auditors' remuneration is as follows

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Fees payable to the Group's auditors for the audit of the Group's annual accounts	11,035	9,500
Grant related audits	3,500	-
Group structure	3,100	-
Restructure R&D advice	-	14,600
Employee incentives	5,400	29,400
Taxation	21,450	5,800
Total non-audit fees	33,450	49,800

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For the year ended 31 December 2011

6. STAFF COSTS

Staff costs, including directors, consist of

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Wages and salaries	5,101,449	3,952,538
Employee Benefits	49,177	28,208
Social security costs	608,179	439,126
Share based payments	248,224	176,234
	<u>6,007,029</u>	<u>4,596,106</u>

The average monthly number of employees, including directors, during the period was 95 (2010 81) This included 3 executive directors (2010 3), 4 non-executive directors (2010 4), 82 direct research and development staff (2010 67) and 6 administration staff (2010 7)

7. DIRECTORS' EMOLUMENTS

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
<i>Directors' emoluments consist of</i>		
Remuneration for management services	588,211	441,904
Amount paid as directors fees	222,218	120,720
	<u>810,428</u>	<u>562,624</u>
<i>Highest paid director</i>		
Remuneration for directors fees and management services	245,935	210,000
	<u>245,935</u>	<u>210,000</u>

Executive directors and a non-executive director receive medical insurance for themselves as a non-monetary benefit Total premiums in respect of this cover amounted to £2,562 (2010 £2,038), for executive directors £1,723 (2010 £1,318) and for a non-executive director £839 (2010 £720)

All the emoluments relate to short-term employee benefits No director received any post-employment benefit, other long-term benefit or termination benefit In addition to the above charges to the profit and loss account relating to share based payments relating to options held by directors amounted to £8,774 (2010 £16,641)

During the year, J McDonald exercised 1,250 options at a price of £13.35 a share, and R Piglucci exercised 7,000 options at £7.00 a share

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

8. FINANCE INCOME AND EXPENSE

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Finance income		
Bank interest receivable	508,884	396,772
	<u>508,884</u>	<u>396,772</u>
Finance expense		
Bank interest payable and charges	(16,406)	(11,241)
Exchange gains and losses	146,424	59,206
	<u>130,018</u>	<u>47,965</u>

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Current tax		
R&D tax credit for the period	(1,992,495)	(1,487,150)
Adjustment for under provision of R&D tax credit in prior period	-	(51,796)
	<u>(1,992,495)</u>	<u>(1,538,946)</u>

Deferred tax assets 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 £4,408,980 (2010 £2,686,158) has not been recognised due to uncertainty that the asset will reverse in the foreseeable future as the Group has yet to obtain significant sources of income. The unrecognised deferred tax asset relates to tax losses (£4,596,699) and share based payments (£47,909), offset by accelerated capital allowances (£235,628).

The differences between the standard rate of corporate tax in the UK of 21% (2010 21%) and the tax charge for the year are explained below

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

9. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

	Year Ended 31 December 2011 £	Year ended 31 December 2010 £
Loss before taxation	(15,733,762)	(11,420,374)
Standard tax rate for period as a percentage of losses at 21%	(3,304,090)	(2,398,279)
Effects of		
R&D tax relief	(925,005)	(363,494)
Prior period adjustment	-	(51,786)
Expenses not deductible	56,679	43,303
Origination of unrecognised tax losses	2,037,041	1,102,356
Short term and fixed asset timing differences not recognised	142,881	128,954
	<u>(1,992,495)</u>	<u>(1,538,946)</u>

10. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold Improvements £	Plant and Machinery £	Office Equipment £	Total £
Cost				
At 1 January 2010	628,265	1,170,703	355,080	2,154,048
Additions	25,515	372,574	147,485	545,574
Disposals	-	(46,272)	(44,225)	(90,497)
At 1 January 2011	653,780	1,497,005	458,340	2,609,125
Additions	151,248	633,135	366,347	1,150,730
Disposals	-	-	(5,187)	(5,187)
At 31 December 2011	<u>805,028</u>	<u>2,130,140</u>	<u>819,500</u>	<u>3,754,668</u>
Accumulated depreciation				
At 1 January 2010	(61,912)	(621,254)	(139,664)	(822,830)
Charge for the year	(129,503)	(378,833)	(143,683)	(652,019)
Eliminated on disposals	-	41,692	42,509	84,201
At 1 January 2011	(191,415)	(958,395)	(240,838)	(1,390,648)
Charge for the year	(141,080)	(437,379)	(189,606)	(768,065)
Eliminated on disposals	-	-	5,187	5,187
At 31 December 2011	<u>(332,495)</u>	<u>(1,395,774)</u>	<u>(425,257)</u>	<u>(2,153,526)</u>
Carrying amount				
At 31 December 2010	<u>462,365</u>	<u>538,610</u>	<u>217,502</u>	<u>1,218,477</u>
At 31 December 2011	<u>472,533</u>	<u>734,366</u>	<u>394,243</u>	<u>1,601,142</u>

OXFORD NANOPORE TECHNOLOGIES LIMITED

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For the year ended 31 December 2011

10 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	Leasehold Improvements £	Plant and Machinery £	Office Equipment £	Total £
Cost				
At 1 January 2010	628,265	1,170,703	355,080	2,154,048
Additions	25,515	372,574	147,485	545,574
Disposals	-	(46,272)	(44,225)	(90,497)
At 1 January 2011	653,780	1,497,005	458,340	2,609,125
Additions	151,248	619,318	365,046	1,135,612
Disposals	-	-	(5,187)	(5,187)
At 31 December 2011	805,028	2,116,323	818,199	3,739,550
Accumulated depreciation				
At 1 January 2010	(61,912)	(621,254)	(139,664)	(822,830)
Charge for the year	(129,503)	(378,833)	(143,683)	(652,019)
Eliminated on disposals	-	41,692	42,509	84,201
At 1 January 2011	(191,415)	(958,395)	(240,838)	(1,390,648)
Charge for the year	(141,080)	(436,995)	(189,498)	(767,573)
Eliminated on disposals	-	-	5,187	5,187
At 31 December 2011	(332,495)	(1,395,390)	(425,149)	(2,153,034)
Carrying amount				
At 31 December 2010	462,365	538,610	217,502	1,218,477
At 31 December 2011	472,533	720,933	393,052	1,586,516

11. INVESTMENT IN SUBSIDIARIES

The principal subsidiaries of Oxford Nanopore Technologies Limited, are as follows

Name	Country of Incorporation	Proportion of ownership interest	
		31 December 2011	31 December 2010
STS Diagnostics GmbH	Germany	n/a	Liquidated in 2010
Oxford Nanopore Technologies, Inc	USA	100%	-
Oxford Nanolabs Limited	England and Wales	100%	100%

Oxford Nanolabs Limited has never traded and is a dormant company

Oxford Nanopore Technologies Inc was set up on 29 September 2011 to provide sub-contracted R&D and other services in the USA to Oxford Nanopore Technologies Limited

All of the Company's subsidiary undertakings have been consolidated in the Group financial statements

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

11. INVESTMENT IN SUBSIDIARIES (CONTINUED)

The Company's investment in subsidiary undertakings are summarised as

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
At 1 January	-	-
Acquisition	111,701	-
At 31 December	<u>111,701</u>	<u>-</u>

12. TRADE AND OTHER RECEIVABLES

	Group		Company	
	Year ended 31 December 2011 £	Year ended 31 December 2010 £	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Other debtors	10,776	79,242	9,361	79,242
Accrued interest income	254,716	178,343	254,716	178,343
Other taxes	416,009	207,290	382,595	207,290
Prepayments	<u>357,467</u>	<u>460,723</u>	<u>357,467</u>	<u>460,723</u>
	<u>1,038,968</u>	<u>925,598</u>	<u>1,004,139</u>	<u>925,598</u>

13. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

Financial risk management objectives and policies

Overview

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

Credit risk

Credit risk is the risk of financial loss to the Group if a grant provider fails to meet its contractual obligations or if a deposit taker should fail. Since almost all of the Group's current income is derived from grant and interest income from reputable sources as opposed to trade debtors the Group's exposure to credit risk is considered to be inherently low. In order to manage Counterparty risk, Term deposits are with institutions rated as A or better by both Moody's and Standard & Poor's.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group'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 Group's reputation. The Group has no debt facilities and a substantial cash balance to fund its operations.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

13. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

It is currently Group 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

The Directors consider that all of the Group's financial liabilities at the year end and prior year end have maturity dates of less than 12 months from the balance sheet date

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 Group's costs of research and development or the value of its holdings in financial instruments. The Group 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 Group from time to time enters into transactions denominated in a currency other than Sterling. Where it is considered that the risk to the Group 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 31 December 2011 approximately 8% (2010: 12%) of the Group's annual expenditures were denominated in US dollars

Exchange rate exposures are managed within approved policy parameters. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows

	Assets		Liabilities	
	Year ended 31 December 2011 £	Year ended 31 December 2010 £	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Financial assets and liabilities	3,258,351	337,848	560,660	551,635

Sensitivity analysis

A 5% strengthening of the US\$ at 31 December 2011 would have resulted in changes to equity and profit or loss by the amounts shown below

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Increase in loss for the period	148,114	78,000
Decrease in equity	148,114	78,000

OXFORD NANOPORE TECHNOLOGIES LIMITED

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For the year ended 31 December 2011

13. FINANCIAL INSTRUMENTS – RISK MANAGEMENT (CONTINUED)

The interest rate for short-term deposits is variable dependent on the rates offered by the Group's bankers. During the period ended 31 December 2011, the short-term deposits returned an average of 1.73 % (2010: 1.63%). The Group'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 £33,809,192 (2010: £23,838,678).

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Increase in loss for the period	338,091	238,000
Decrease in equity	338,091	238,000

Capital management

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

- To safeguard the Group'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 Group 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 Group has no debt and accordingly the gearing ratio is zero.

The Group 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.

The Group's maximum credit risk at the period end is those amounts due from grant providers of £Nil (2010: £76,589) and amounts held with financial institutions of £34.9 million (2010: £23.3 million). The Group places its deposits with several reputable financial institutions to minimise its credit risk.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13 FINANCIAL INSTRUMENTS – RISK MANAGEMENT (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

	Total Carrying Value £	Fair Value £
31 December 2011		
Loans and receivables		
Other financial asset	28,119,847	28,119,847
Cash and cash equivalents	6,734,112	6,734,112
Trade and other receivables	3,031,463	3,038,968
Other financial liabilities		
Trade and other payables	<u>(2,226,545)</u>	<u>(2,226,546)</u>
31 December 2010		
Loans and receivables		
Other financial assets	7,122,393	7,122,393
Cash and cash equivalents	16,201,069	16,201,069
Trade and other receivables	3,020,862	3,020,862
Other financial liabilities		
Trade and other payables	<u>(1,753,544)</u>	<u>(1,753,544)</u>

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

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 reasonable approximation of fair value

Financial assets – numerical information

As at the 31 December, the Group had the following treasury deposits

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Floating rate assets	6,734,112	6,201,069
Fixed rate assets	<u>28,119,847</u>	<u>17,122,393</u>
	<u>34,853,959</u>	<u>23,323,462</u>

The weighted average interest rate on the fixed term deposits was 1.67% (2010: 1.78%). The weighted average term of fixed interest rate deposits was 10.2 months (2010: 9.5 months)

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

14. TRADE AND OTHER PAYABLES – CURRENT

	Group		Company	
	Year ended 31 December 2011 £	Year ended 31 December 2010 £	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Trade payables	900,126	554,859	899,956	554,859
Taxation and social security	160,452	111,056	160,452	111,056
Other creditors	2,086	4,594	2,087	4,594
Accruals and deferred income	<u>1,163,881</u>	<u>1,083,035</u>	<u>1,160,325</u>	<u>1,083,035</u>
	<u>2,226,545</u>	<u>1,753,544</u>	<u>2,222,820</u>	<u>1,753,544</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases by the Company and Group is 30 days (2010 30). The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The directors consider that the carrying amount of trade payables approximates to their fair value.

15. SHARE CAPITAL

Group and Company

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Issued and fully paid		
Opening- 1,425,429 ordinary shares of £0.01 each	14,254	11,866
Opening Issued- 81,000 A shares of £0.05 each (2010 Nil)	<u>4,050</u>	<u>-</u>
	18,304	11,866
Issued – 285,802 ordinary shares of £0.01 each (2010 238,832)	2,858	2,388
Issued – Nil A shares of £0.05 each (2010 81,000)	<u>-</u>	<u>4,050</u>
	2,858	6,438
Closing - 1,711,231 ordinary shares of £0.01 each	17,112	14,254
Closing - 81,000 A shares of £0.05 each	<u>4,050</u>	<u>4,050</u>
Total Issued Share Capital	<u>21,162</u>	<u>18,304</u>

On 26 April 2011, Oxford Nanopore raised £25 million (\$41 million) through the issuance of 273,553 ordinary shares at a share price of £91.39 per share.

During the year, 12,249 ordinary shares (2010 433) were issued as a result of share options exercised.

On 29 January 2010, the Company raised £17.4 million through the issuance of 238,399 ordinary shares. In addition, the shareholders approved the creation of a new class of shares ('A shares') at a subscription price of £0.05 per share. The A Shares are structured so that their holders will be able to benefit from a proportion of the future increase in the value of the Company above a threshold value on an official listing of the Company's shares, a sale of a majority of the Company's issued ordinary share capital, a sale of the trade and assets of the Company or any other return of capital (collectively known as "Exit Events") provided that one of these Exit Events has occurred by 29 January 2015.

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In 2010, the Company issued and allotted 81,000 A shares

Neither the ordinary shares nor the A shares carry any right to fixed income

16. NOTES TO THE CASH FLOW STATEMENT

Group	Group		Company	
	Year ended 31 December 2011	Year ended 31 December 2010	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Loss before tax	(15,733,762)	(11,420,374)	(15,735,427)	(11,420,374)
Adjustments for				
Depreciation	768,065	652,019	767,573	652,019
Loss on disposal of property, plant and equipment	-	(2,343)	-	(2,343)
Bank charges and exchange gain, net	(130,018)	(47,965)	(130,140)	(47,965)
Interest income	(508,884)	(396,772)	(508,878)	(396,772)
Employee share benefit costs	248,223	176,234	248,224	176,234
Operating cash flows before movements in working capital	(15,356,376)	(11,039,201)	(15,358,648)	(11,039,201)
Increase in receivables	(36,996)	(444,188)	(2,168)	(444,188)
Increase in payables	473,003	468,682	469,277	468,682
Cash absorbed by operations	(14,920,369)	(11,014,707)	(14,891,539)	(11,014,707)
Income taxes – R&D tax credit received	2,095,263	1,004,782	2,095,263	1,004,782
Net cash from operating activities	(12,825,106)	(10,009,925)	(12,796,276)	(10,009,925)

Cash and cash equivalents

	Group		Company	
	Year ended 31 December 2011 £	Year ended 31 December 2010 £	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Cash and bank balances	6,734,112	16,201,069	6,666,475	16,201,069

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

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For the year ended 31 December 2011

17. COMMITMENTS

As at 31 December 2011, the Group had a commitment to make payments under several operating lease for laboratory and office space with a total commitment over the next 5 years of £836,550 (2010- £650,753)

Operating lease arrangements

The Group as lessee

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Minimum lease payments under operating leases recognised as an expense in the year	263,474	191,394

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Within one year	351,965	189,279
In the second to fifth years inclusive	484,585	461,474
	836,550	650,753

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are usually negotiated for an average term of five years.

As at 31 December 2011, the Group had the following non-cancellable commitments under research agreements

The total of future minimum non-cancellable payments due for each of the following periods are

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Not later than one year	330,918	901,918
Later than one year and not later than five years	-	330,442
	330,918	1,232,360

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18. SHARE BASED PAYMENTS

Equity-settled share option scheme

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, subject to the Group meeting the qualifying tests at the point of Grant. All options have a life of ten years from date of grant.

In 2011, on 23 March, 5 May, 20 June, 21 October and 2 December, the Company granted options under the share option scheme over, respectively, 4,150, 7,825, 5,000, 24,800, and 4,150 ordinary shares of £0.01 nominal value, exercisable at a price of £13.35 per share.

	Year ended 31 December 2011		Year ended 31 December 2010	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of period	112,200	10.57	99,900	10.55
Granted during the period	44,275	13.35	19,250	13.35
Forfeited during the period	(1,301)	10.91	(6,517)	13.35
Exercised during the period	(12,249)	7.71	(433)	13.35
Outstanding at the end of the period	142,925	11.66	112,200	10.57
Exercisable at the end of the period	83,757	10.49	63,192	9.07

The weighted average share price at the date of exercise for share options exercised during the period was £7.71 (2010 £13.35). The options outstanding at 31 December 2011 had a weighted average exercise price of £11.66 (2010 £10.57), and a weighted average remaining contractual life of 7.7 years (2010 7.8 years). The aggregate of the estimated fair values of the options granted on those dates is £347,242. In 2010, options were granted on 5 February, 13 August and 23 September. The aggregate of the estimated fair values of the options granted on those dates was £146,256. The inputs into the Binomial model are as follows:

	2011	2010
Weighted average share price	£13.35	£13.35
Weighted average exercise price	£13.35	£13.35
Expected volatility	50%	50%
Expected life	10 years	10 years
Risk-free rate	1.01-2.37%	1.71-2.92%
Expected dividend yields	Nil	Nil

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.

The group recognised total expenses of £248,223 and £176,234 related to equity-settled share-based payment transactions in 2011 and 2010 respectively.

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19. RETIREMENT BENEFITS

The Group runs a defined contribution scheme for its employees. The scheme is open to all employees at their own discretion. During the year the Group started to make contribution to pension benefits for some of its employees.

20. RELATED PARTY TRANSACTIONS

Details of directors' remuneration are given in note 7.

At the end of the period, there were 20,850 (2010: 18,350) unapproved options issued to non-employees including non-executive directors and consultants.

During the year the company made purchases from certain shareholders. Purchases from Illumina, totalling £252,707 and payments to IP Group, totalling £9,000 for goods and services.

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 a strategic investment of £11.9 million (\$18 million) in return for a minority stake in Oxford Nanopore. 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.

During 2011 a dispute arose between Illumina and Oxford Nanopore concerning the terms of the commercialisation agreement, and Illumina filed an arbitration demand in the state of New York. While the results of these proceedings are uncertain, management have received third party legal advice on the matter and do not believe the ultimate resolution of the arbitration proceedings is likely to have a material adverse effect on our financial position or results of operation. Accordingly no provision has been made in relation to this dispute.

21. ULTIMATE CONTROLLING PARTY

There is no overall controlling party of the Group.