

Oxford Nanopore Technologies Limited
Annual report and financial statements
for the year ended 31 December 2012

Registered number 05386273



OXFORD NANOPORE TECHNOLOGIES LIMITED

CONTENTS

Company information	3
Directors' report	4
Directors' responsibilities statement	8
Independent Auditor's report	9
Consolidated statement of comprehensive income	11
Consolidated balance sheet	12
Company balance sheet	13
Statements of changes in equity	14
Consolidated statement of cash flows	15
Company statement of cash flows	16
Notes to the consolidated financial statements	17

OXFORD NANOPORE TECHNOLOGIES LIMITED

COMPANY INFORMATION

Directors

JHP Bayley
PV Allen
G Sanghera
JP Willcocks
A Aubrey
JA McDonald
TJ Nicholls (resigned 31 May 2012)

Company secretary

Aldwych Secretaries

Registered office

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

Company number

05386273

Auditor

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 2012

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 is in late stage development of these products and has established early collaborations with partners in the life science and related areas. Applications in development include the analysis of DNA, proteins and miRNA. 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. The Company has started to establish a commercial division in order to sell products directly to customers.

Business review and future developments

Fundraisings

On 3 May 2012, Oxford Nanopore raised an additional £31.5 million (\$50.8 million) in new funding via a private placement of ordinary shares in the Company. The funds, nearly all of which come from existing investors, were raised to support a range of corporate development activities including the development of commercial infrastructure, expansion of our manufacturing capability and further R&D for DNA/RNA sequencing and protein/miRNA analysis applications.

Previously on 26 April 2011, Oxford Nanopore raised £25 million (\$41 million) in new funding via a private placement of ordinary shares in the Company.

Business review

In 2012, 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 to the customer community in January 2011 and was well received by the Company's future customers, enabling the Company to establish collaborative relationships with the leading researchers in the field. 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.

The smaller MinION device was subsequently disclosed at the Advances in Genome Biology and Technology (AGBT) conference in February 2012, where the Company also showed DNA 'strand sequencing' data, and presented an abstract showing developments in protein analysis technology.

In November 2012, at the American Society of Human Genetics meeting (ASHG) in San Francisco, the company displayed its MinION and GridION systems and started direct dialogue with customers attending the conference about the design and potential applications of the systems.

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. The company continues to work with Accelrys on its Pipeline Pilot product as well as developing its own user interface software.

During the year, the company continued to expand its international operations and added further headcount outside the R&D function in Production, Business and Customer development roles, further expanding its presence and establishing research and commercial operations in the USA.

Illumina

In January 2009, Oxford Nanopore completed a £13.9 million private fundraising and also announced a strategic alliance with the leading US genetic analysis company, Illumina. This alliance consisted of a commercialisation agreement and an investment of £11.9 million in return for a minority stake in Oxford Nanopore.

Under the terms of the commercialisation agreement, it was agreed that Illumina would 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. BASE Technology was subsequently known as "exonuclease sequencing", a separate method from "strand sequencing" presented by Oxford Nanopore at the AGBT conference in February 2012. Under the terms of the commercialisation agreement, Illumina has the following contractual rights of negotiation:

- In the event Oxford Nanopore desires to commercialise Strand Sequencing Technology through a relationship with an entity that is not an Affiliate of Oxford Nanopore, Oxford Nanopore will first attempt to negotiate such commercialisation agreement with Illumina,
- In the event that Oxford Nanopore desires to accept an offer by any Third Party to purchase or exclusively license all of Oxford Nanopore's assets related to the Strand Sequencing Technology or purchase substantially all of the assets of Oxford Nanopore, then Illumina would have the option to complete such transaction on the same terms and subject to the same conditions within a specified number of days (together, the "Rights of Negotiation").

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 to resolve the dispute. In April 2013, Illumina and Oxford Nanopore mutually agreed to dismiss the arbitration and agreed an amendment to the commercialisation agreement which resolved the dispute. Pursuant to this amendment, the parties agreed that the commercialisation agreement will terminate on 30 June 2016 and that Oxford Nanopore is not obligated to expend any further time or resources to develop BASE (exonuclease sequencing) technology. Illumina will retain its Rights of Negotiation, however, Oxford Nanopore has no current intention to commercialise its Strand Sequencing Technology through a relationship with an entity that is not an Affiliate of Oxford Nanopore nor to sell or exclusively licence to a third party all of its assets related to Strand Sequencing Technology. In any event, Illumina's Rights of Negotiation will cease to exist no later than 31 December 2016.

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.

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' REPORT (CONTINUED)

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.

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 2012, the Group's net loss of £19.2 million (2011: £13.7 million) was in line with budgets approved by the Board. Net cashflows for the year ended 31 December 2012 were £10.1 million (2011: £11.5 million) and, as at 31 December 2012, the Group's balance of cash, cash equivalents and other financial assets of £45.0 million (2011: £34.8 million) are 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 £19.2 million (2011: £13.7 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.

Future Developments

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. During 2012 the company completed a series of agreements with leading academic institutions including University of Illinois, Brown University, Stanford University, Boston University, University of Cambridge and University of Southampton. These collaborations add to the company's existing intellectual property positions spanning current and future generations of nanopore technology.

OXFORD NANOPORE TECHNOLOGIES LIMITED

DIRECTORS' REPORT (CONTINUED)

Results and dividends

The consolidated statement of comprehensive income is set out on page 11. The directors do not recommend the payment of a dividend (2011: nil).

Directors

The directors of the company during the period, and up to the date of signing the financial statements were as follows:

JHP Bayley
TJ Nicholls (Chairman - resigned 31 May 2012)
G Sanghera
JP Willcocks
A Aubrey (acting Chair)
JA McDonald
PV Allen

Donations

The company made charitable contributions during the period of £nil (2011: £512).

Auditor

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 auditor is 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 auditor is 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 auditor. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

On behalf of the board



G Sanghera, Director
15th May 2013

OXFORD NANOPORE TECHNOLOGIES LIMITED

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.

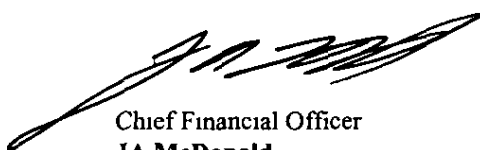
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



Chief Executive Officer
G Sanghera

15th May 2013



Chief Financial Officer
JA McDonald

15th May 2013

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 2012 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 2012 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, ACA (Senior statutory auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Reading, United Kingdom

15th May 2013

OXFORD NANOPORE TECHNOLOGIES LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

		Year ended 31 December 2012 £	Year ended 31 December 2011 £
Revenue			
Other income		149,491	90,328
Operating expenses			
Direct research & development expenses		(17,568,681)	(11,745,971)
General & administrative expenses		(4,172,269)	(2,894,899)
Facilities and infrastructure expenses		(977,272)	(759,468)
Depreciation and amortisation expense		(892,988)	(768,066)
Other expenses		-	(294,588)
Total operating expenses	4	(23,611,210)	(16,462,992)
Loss from operations	4	(23,461,719)	(16,372,664)
Finance costs, net of exchange (loss)/gain	8	(8,430)	130,018
Finance income	8	665,991	508,884
Loss before tax	-	(22,804,158)	(15,733,762)
R&D tax credits, net of tax paid	9	3,644,663	1,992,495
Accumulated loss for the period		(19,159,495)	(13,741,267)
The group made no acquisitions and had no discontinued operations			
		Year ended 31 December 2012 £	Year ended 31 December 2011 £
Attributable to Equity shareholders of the parent			
Other Comprehensive Income			
Loss for the year		(19,159,495)	(13,741,267)
Exchange differences on translation of foreign operations		(6,973)	-
Total Comprehensive Income		(19,166,468)	(13,741,267)

OXFORD NANOPORE TECHNOLOGIES LIMITED

CONSOLIDATED BALANCE SHEET as at 31 December 2012

	Note	2012 £	2011 £
Non-current assets			
Property, plant and equipment	10	1,577,481	1,601,142
		<u>1,577,481</u>	<u>1,601,142</u>
Current assets			
Trade and other receivables	12	1,759,783	1,038,968
R&D tax credit recoverable		3,644,949	1,992,495
Other financial assets	13	23,047,630	28,119,847
Cash and cash equivalents	16	21,916,358	6,734,112
		<u>50,368,720</u>	<u>37,885,422</u>
Total assets		<u>51,946,201</u>	<u>39,486,564</u>
Current liabilities			
Trade and other payables	13, 14	(2,007,863)	(2,226,545)
Total liabilities		<u>(2,007,863)</u>	<u>(2,226,545)</u>
Net assets		<u>49,938,338</u>	<u>37,260,019</u>
Equity			
Share capital	15	23,221	21,162
Share premium reserve		106,134,459	74,474,978
Retained earnings		(56,212,369)	(37,236,121)
Translation Reserve		(6,973)	-
Total equity		<u>49,938,338</u>	<u>37,260,019</u>

The financial statements of Oxford Nanopore Technologies Limited (Registered number 05386273) were approved by the board of directors and authorised for issue on 15th May 2013. They were signed on its behalf by



G Sanghera

Director

OXFORD NANOPORE TECHNOLOGIES LIMITED

COMPANY BALANCE SHEET for the year ended 31 December 2012

	Note	2012 £	2011 £
Non-current assets			
Property, plant and equipment	10	1,562,550	1,586,516
Investment in subsidiary undertakings	11	258,286	111,701
		<u>1,820,836</u>	<u>1,698,217</u>
Current assets			
Trade and other receivables	12	1,733,311	1,004,139
R&D tax credit recoverable		3,644,949	1,992,495
Other financial assets	13	23,047,630	28,119,847
Cash and cash equivalents	16	21,634,627	6,666,475
		<u>50,060,517</u>	<u>37,782,956</u>
Total assets		<u>51,881,353</u>	<u>39,479,451</u>
Current liabilities			
Trade and other payables	13, 14	(1,948,818)	(2,222,820)
Total liabilities		<u>(1,948,818)</u>	<u>(2,222,820)</u>
Net assets		<u>49,932,535</u>	<u>37,258,353</u>
Equity			
Share capital	15	23,221	21,162
Share premium reserve		106,134,459	74,474,978
Retained earnings		(56,225,145)	(37,237,787)
Total equity		<u>49,932,535</u>	<u>37,258,353</u>

The financial statements of Oxford Nanopore Technologies Limited (Registered number 05386273) were approved by the board of directors and authorised for issue on 15th May 2013. They were signed on its behalf by



G Sanghera

Director

OXFORD NANOPORE TECHNOLOGIES LIMITED

STATEMENTS OF CHANGES IN EQUITY for the year ended 31 December 2012

Group

	Share Capital	Share Premium Account	Retained Earnings	Translation Reserve	Total
	£	£	£	£	£
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 1 January 2012	21,162	74,474,978	(37,236,121)	-	37,260,019
Total recognised income and expense	-	-	(19,159,495)	-	(19,159,495)
Exchange loss on Translation of subsidiary	-	-	-	(6,973)	(6,973)
Issue of share capital	2,059	31,714,569	-	-	31,716,628
Cost of share issue	-	(55,088)	-	-	(55,088)
Employee share benefit	-	-	183,247	-	183,247
Balance at 31 December 2012	23,221	106,134,459	(56,212,369)	6,973	49,938,338

Company

	Share Capital	Share Premium Account	Retained Earnings	Total
	£	£	£	£
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 1 January 2012	21,162	74,474,978	(37,237,787)	37,258,353
Total recognised income and expense	-	-	(19,170,605)	(19,170,605)
Issue of share capital	2,059	31,714,569	-	31,716,628
Cost of share issue	-	(55,088)	-	(55,088)
Employee share benefit	-	-	183,247	183,247
Balance at 31 December 2012	23,221	106,134,459	(56,225,145)	49,932,535

OXFORD NANOPORE TECHNOLOGIES LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31 December 2012

		Year ended 31 December 2012 £	Year ended 31 December 2011 £
Net cash outflow from operating activities	Note 16	(21,274,143)	(12,825,106)
Investing activities			
Purchases of property, plant and equipment		(869,835)	(1,150,731)
Amounts transferred from / (to) other financial assets		5,072,217	(20,997,454)
Finance costs net of exchange (loss) / gain		(8,430)	130,018
Interest received		608,600	432,511
Net cash from / (used in) investing activities		4,802,552	(21,585,656)
Financing activities			
Proceeds from issue of shares		31,716,628	25,096,302
Costs of share issue		(55,088)	(152,497)
Net cash from financing activities		31,661,540	24,943,805
Net increase / (decrease) in cash and cash equivalents before foreign exchange movements		15,189,949	(9,466,957)
Foreign Exchange loss		(7,703)	-
Cash and cash equivalents at beginning of period		6,734,112	16,201,069
Cash and cash equivalents at end of period		21,916,358	6,734,112

OXFORD NANOPORE TECHNOLOGIES LIMITED

COMPANY STATEMENT OF CASH FLOWS for the year ended 31 December 2012

		Year ended 31 December 2012 £	Year ended 31 December 2011 £
Net cash outflow from operating activities	Note 16	(21,366,844)	(12,796,276)
Investing activities			
Purchases of property, plant and equipment		(852,330)	(1,135,612)
Loans to subsidiary undertakings		(146,584)	(111,702)
Amounts transferred from / (to) other financial assets		5,072,216	(20,997,454)
Finance costs net of exchange (loss) / gain		(8,415)	130,140
Interest received		608,569	432,505
Net cash from / (used in) investing activities		4,673,456	(21,682,123)
Financing activities			
Proceeds from issue of shares		31,716,628	25,096,302
Costs of share issue		(55,088)	(152,497)
Net cash from financing activities		31,661,540	24,943,805
Net increase / (decrease) in cash and cash equivalents		14,968,152	(9,534,594)
Cash and cash equivalents at beginning of period		6,666,475	16,201,069
Cash and cash equivalents at end of period		21,634,627	6,666,475

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL INFORMATION

Oxford Nanopore Technologies Limited is a company incorporated in the United Kingdom under the Companies Act 2006. 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):

- IFRS 9 'Financial Instruments', IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of Interests in Other Entities', IFRS 13 'Fair Value Measurement', and
- Various amendments to IAS 1 'Presentation of Financial Statements', IAS 19 'Employee Benefits', IAS 27 (2011) 'Separate Financial Statements', IAS 28 (2011) 'Investments in Associates and Joint Ventures' and IAS 32 'Offsetting Financial Assets and Liabilities'.

The Directors anticipate that the adoption of these standards in future periods is not expected to have a material impact on the financial statements of the Group.

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.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) **For the year ended 31 December 2012**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 £19.2 million (2011: £13.7 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.

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.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 on-going 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.

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 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.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2012

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 IAS 38 "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.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2012

4. LOSS FROM OPERATIONS

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
<i>This is after charging/(crediting)</i>		
Government grants received	(149,941)	(90,328)
Staff costs	7,570,522	6,007,029
Depreciation	892,988	768,065
Direct non-staff research and development costs	12,997,415	7,148,303
Payments under operating leases - property	358,046	263,474
Net foreign exchange loss/(gain)	8,133	(146,424)

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. AUDITOR'S REMUNERATION

The analysis of auditors' remuneration is as follows

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Fees payable to the Group's auditor for the audit of the Group's annual accounts	21,294	11,035
Grant related audits	-	3,500
Group structure	-	3,100
Employee incentives	-	5,400
Taxation	40,417	21,450
Total non-audit fees	40,417	33,450
Total fees payable to group's auditor	61,711	44,485

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2012

6. STAFF COSTS

Staff costs, including directors, consist of

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Wages and salaries	6,569,013	5,101,449
Employee Benefits	66,725	49,177
Social security costs	751,536	608,179
Share based payments	183,248	248,224
	<u>7,570,522</u>	<u>6,007,029</u>

The average monthly number of employees, including directors, during the year was 127 (2011 95). This included 3 executive directors (2011 3), 4 non-executive directors (2011 4), 109 direct research and development staff (2011 82) and 12 administration staff (2011 6).

7. DIRECTORS' EMOLUMENTS

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
<i>Directors' emoluments consist of</i>		
Remuneration for management services	693,068	588,211
Amount paid as directors' fees	140,667	222,218
	<u>833,735</u>	<u>810,428</u>
<i>Highest paid director</i>		
Remuneration for directors fees and management services	295,000	245,935
	<u>295,000</u>	<u>245,935</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 £1,806 (2011 £2,562), for executive directors £1,501 (2011 £1,723) and for a non-executive director £304 (2011 £839).

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 £34,081 (2011 £8,774).

During the year, J McDonald exercised 6,250 options at a price of £13.35 a share, and T Nicholls exercised 4,000 options at £7.00 a share.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) **For the year ended 31 December 2012**

8. FINANCE INCOME AND EXPENSE

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Finance income		
Bank interest receivable	665,991	508,884
Finance expense		
Bank interest payable and charges	(298)	(16,406)
Exchange gains and losses	(8,132)	146,424
	<u>(8,430)</u>	<u>130,018</u>

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Current tax		
R&D tax credit for the period	(3,644,949)	(1,992,495)
Tax payable on foreign subsidiary	286	-
Total current tax	<u>(3,644,663)</u>	<u>(1,992,495)</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 £6,370,385 (2011: £4,408,980) 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 of £6,205,572 (2011: £4,596,699) and short term timing differences of £291,383 (2011: £47,909), offset by accelerated capital allowances £126,570 (2011: £235,628).

The differences between the small profits rate of corporate tax in the UK of 20% (2011: 21%) and the tax charge for the year are explained below.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) **For the year ended 31 December 2012**

9. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

	Year Ended 31 December 2012 £	Year ended 31 December 2011 £
Loss before taxation	(22,804,158)	(15,733,762)
Standard tax rate for period as a percentage of losses at 20% (2011 21%)	(4,560,832)	(3,304,090)
Effects of		
R&D tax relief	(706,278)	(925,005)
Expenses not deductible	2,083	56,679
Origination of unrecognised tax losses	1,597,926	2,037,041
Short term and fixed asset timing differences not recognised	22,438	142,881
	(3,644,663)	(1,992,495)

10. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold Improvements £	Plant and Machinery £	Office Equipment £	Total £
Cost				
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 1 January 2012	805,028	2,130,140	819,500	3,754,668
Additions	8,362	371,332	490,571	870,265
Disposals	-	(37,627)	(12,387)	(50,014)
Exchange	-	(645)	(180)	(825)
At 31 December 2012	813,390	2,463,200	1,297,504	4,574,094
Accumulated depreciation				
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 1 January 2012	(332,495)	(1,395,774)	(425,257)	(2,153,526)
Charge for the year	(155,164)	(456,886)	(280,938)	(892,988)
Eliminated on disposals	-	37,627	12,010	49,637
Exchange	-	245	19	264
At 31 December 2012	(487,659)	(1,814,788)	(694,166)	(2,996,613)
Carrying amount				
At 31 December 2011	472,533	734,366	394,243	1,601,142
At 31 December 2012	325,731	648,412	603,338	1,577,481

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2012

10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company	Leasehold Improvements £	Plant and Machinery £	Office Equipment £	Total £
Cost				
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 1 January 2012	805,028	2,116,323	818,199	3,739,550
Additions	8,362	362,513	481,455	852,330
Disposals	-	(37,627)	(12,387)	(50,014)
At 31 December 2012	813,390	2,441,209	1,287,267	4,541,866
Accumulated depreciation				
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 1 January 2012	(332,495)	(1,395,390)	(425,149)	(2,153,034)
Charge for the year	(155,164)	(440,829)	(279,926)	(875,919)
Eliminated on disposals	-	37,627	12,010	49,637
At 31 December 2012	(487,659)	(1,798,592)	(693,065)	(2,979,316)
Carrying amount				
At 31 December 2011	472,533	720,933	393,052	1,586,516
At 31 December 2012	325,731	642,616	594,203	1,562,550

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 2012	31 December 2011
Oxford Nanopore Technologies, Inc	USA	100%	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 (CONTINUED)

For the year ended 31 December 2012

11. INVESTMENT IN SUBSIDIARIES (CONTINUED)

The Company's investment in subsidiary undertakings, comprised of loans, is summarised as

	2012 £	2011 £
At 1 January	111,701	-
Movement	146,585	111,701
At 31 December	<u>258,286</u>	<u>111,701</u>

12. TRADE AND OTHER RECEIVABLES

	Group		Company	
	Year ended 31 December 2012 £	Year ended 31 December 2011 £	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Other debtors	103,942	10,776	88,035	9,361
Accrued interest income	312,107	254,716	312,107	254,716
Other taxes	498,474	416,009	498,474	382,595
Accrued income	78,511	-	78,511	-
Prepayments	766,749	357,467	756,184	357,467
	<u>1,759,783</u>	<u>1,038,968</u>	<u>1,733,311</u>	<u>1,004,139</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 with credit ratings assessed 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 (CONTINUED)

For the year ended 31 December 2012

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, or hold deposits of the currency in cash. To date no such forward contracts have been entered into, but significant amounts of dollars were held during the year. In the year ended 31 December 2012 approximately 17% (2011: 8%) of the Group's annual expenditures was denominated in US dollars. In addition, for 2012 10% of the company's expenditure was denominated in Euros.

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:

	<u>Assets</u>		<u>Liabilities</u>	
	Year ended 31 December 2012 £	Year ended 31 December 2011 £	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Financial assets and liabilities	3,430,984	3,258,351	(648,161)	560,660

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 2012 £	Year ended 31 December 2011 £
Increase in loss for the period	118,651	148,114
Decrease in equity	118,651	148,114

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2012

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 2012, the short-term deposits returned an average of 2.13% (2011: 1.73%). The Group's exposure to interest rate risk on Other financial assets, 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 short-term deposit balance of £29,135,315 (2011: £33,809,192).

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Increase in loss for the period	291,592	338,091
Decrease in equity	<u>291,592</u>	<u>338,091</u>

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 £78,511 (2011: £nil) and amounts held with financial institutions of £45.0 million (2011: £34.9 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 (CONTINUED)

For the year ended 31 December 2012

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 2012		
Loans and receivables		
Other financial asset	23,047,630	23,047,630
Cash and cash equivalents	21,916,358	21,916,358
Trade and other receivables	5,404,732	5,404,732
Other financial liabilities		
Trade and other payables	<u>(2,007,863)</u>	<u>(2,007,863)</u>
31 December 2011		
Loans and receivables		
Other financial assets	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>

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 2012 £	Year ended 31 December 2011 £
Floating rate assets	21,916,358	6,734,112
Fixed rate assets	<u>23,047,630</u>	<u>28,119,847</u>
	<u>44,963,988</u>	<u>34,853,959</u>

The weighted average interest rate on the fixed term deposits was 2.47% (2011: 1.67%). The weighted average term of fixed interest rate deposits was 7 months (2011: 10.2 months)

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2012

14. CURRENT TRADE AND OTHER PAYABLES

	Group		Company	
	Year ended 31 December 2012 £	Year ended 31 December 2011 £	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Trade payables	1,005,067	900,126	984,848	899,956
Taxation and social security	195,759	160,452	167,515	160,452
Other creditors	19,559	2,086	19,559	2,087
Accruals and deferred income	787,478	1,163,881	776,897	1,160,325
	<u>2,007,863</u>	<u>2,226,545</u>	<u>1,948,819</u>	<u>2,222,820</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 (2011: 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 2012 £	Year ended 31 December 2011 £
Issued and fully paid		
Opening - 1,711,231 ordinary shares of £0.01 each	17,112	14,254
Opening Issued - 81,000 A shares of £0.05 each (2011: 81,000)	4,050	4,050
	<u>21,162</u>	<u>18,304</u>
Issued - 205,903 ordinary shares of £0.01 each (2011: 285,802)	2,059	2,858
	<u>2,059</u>	<u>2,858</u>
Closing - 1,917,134 ordinary shares of £0.01 each	19,171	17,112
Closing - 81,000 A shares of £0.05 each	4,050	4,050
Total Issued Share Capital	<u>23,221</u>	<u>21,162</u>

On 3 May 2012, Oxford Nanopore raised £31.5 million through the issuance of 192,646 ordinary shares at £163.85.

During the year, 13,257 ordinary shares (2011: 12,249) were issued as a result of share options exercised.

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.

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.

Transaction costs for the issue of shares are offset against the Share Premium Reserve.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) For the year ended 31 December 2012

15. SHARE CAPITAL (CONTINUED)

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

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 2012	Year ended 31 December 2011	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Loss before tax	(22,804,158)	(15,733,762)	(22,815,556)	(15,735,427)
Adjustments for				
Depreciation	892,988	768,065	875,919	767,573
Loss on disposal of property, plant and equipment	377	-	377	-
Bank charges and exchange gain, net	8,430	(130,018)	8,415	(130,140)
Interest income	(665,991)	(508,884)	(665,960)	(508,878)
Employee share benefit costs	183,248	248,223	183,248	248,224
Operating cash flows before movements in working capital	(22,385,106)	(15,356,376)	(22,413,557)	(15,358,648)
Increase in receivables	(664,123)	(36,996)	(671,781)	(2,168)
(Decrease)/increase in payables	(217,409)	473,003	(274,001)	469,277
Cash absorbed by operations	(23,266,638)	(14,920,369)	(23,359,339)	(14,891,539)
Income taxes – R&D tax credit received	1,992,495	2,095,263	1,992,495	2,095,263
Net cash from operating activities	(21,274,143)	(12,825,106)	(21,366,844)	(12,796,276)
Cash and cash equivalents				
	Group		Company	
	Year ended 31 December 2012 £	Year ended 31 December 2011 £	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Cash and bank balances	21,916,358	6,734,112	21,634,62	6,666,475

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

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2012

17. COMMITMENTS

As at 31 December 2012, 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 £831,178 (2011- £836,550)

Operating lease arrangements

The Group as lessee

	Year ended 31 December 2012 £	Year ended 31 December 2011 £
Minimum lease payments under operating leases recognised as an expense in the year	358,047	263,474

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 2012 £	Year ended 31 December 2011 £
Within one year	431,887	351,965
In the second to fifth years inclusive	399,291	484,585
	831,178	836,550

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 2012, 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 2012 £	Year ended 31 December 2011 £
Not later than one year	833,768	330,918
Later than one year and not later than five years	666,367	-
	1,499,135	330,918

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2012

18. SHARE BASED PAYMENTS

Equity-settled share option scheme

The company operates 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 2012, on 1 February, 1 November and 3rd December, the Company granted options under the share option scheme over, respectively, 4,450, 12,125, and 1,500 ordinary shares of £0.01 nominal value, exercisable at a prices of £13.35, £26 and £26 per share.

	Year ended 31 December 2012		Year ended 31 December 2011	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of period	142,925	11.66	112,200	10.57
Granted during the period	18,075	22.89	44,275	13.35
Forfeited during the period	(3,618)	13.35	(1,301)	10.91
Exercised during the period	(14,507)	11.60	(12,249)	7.71
Outstanding at the end of the period	142,875	13.04	142,925	11.66
Exercisable at the end of the period	98,109	11.15	83,757	10.49

The weighted average share price at the date of exercise for share options exercised during the period was £11.60 (2011 £7.71). The options outstanding at 31 December 2011 had a weighted average exercise price of £13.04 (2011 £11.66), and a weighted average remaining contractual life of 7.1 years (2011 7.7 years). The aggregate of the estimated fair values of the options granted on those dates is £238,106. In 2011, options were granted on 23 March, 5 May, 20 June and 2 December. The aggregate of the estimated fair values of the options granted on those dates was £347,242. The inputs into the Binomial model are as follows:

	2012	2011
Weighted average share price	£22.89	£13.35
Weighted average exercise price	£22.89	£13.35
Expected volatility	50%	50%
Expected life	10 years	10 years
Risk-free rate	0.79-1.03%	1.01-2.37%
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 £183,248 and £248,223 related to equity-settled share-based payment transactions in 2012 and 2011 respectively.

OXFORD NANOPORE TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2012

19. RETIREMENT BENEFITS

The Group runs a defined contribution scheme for its employees. The scheme is open to all employees at their own discretion.

20. RELATED PARTY TRANSACTIONS

Details of directors' remuneration are given in note 7.

At the end of the period, there were 16,350 (2011: 20,850) 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 £49,752 and payments to IP Group, totalling £69 for directors' expenses.

In January 2009, Oxford Nanopore completed a £13.9 million private fundraising and also announced a strategic alliance with the leading US genetic analysis company, Illumina. This alliance consisted of a commercialisation agreement and an investment of £11.9 million in return for a minority stake in Oxford Nanopore.

Under the terms of the commercialisation agreement, it was agreed that Illumina would 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. BASE Technology was subsequently known as "exonuclease sequencing", a separate method from "strand sequencing" presented by Oxford Nanopore at the AGBT conference in February 2012. Under the terms of the commercialisation agreement, Illumina has the following contractual rights of negotiation:

- In the event Oxford Nanopore desires to commercialize Strand Sequencing Technology through a relationship with an entity that is not an Affiliate of Oxford Nanopore, Oxford Nanopore will first attempt to negotiate such commercialisation agreement with Illumina,
- In the event that Oxford Nanopore desires to accept an offer by any Third Party to purchase or exclusively license all of Oxford Nanopore's assets related to the Strand Sequencing Technology or purchase substantially all of the assets of Oxford Nanopore, then Illumina would have the option to complete such transaction on the same terms and subject to the same conditions within a specified number of days (together, the "Rights of Negotiation").

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 to resolve the dispute. In April 2013, Illumina and Oxford Nanopore mutually agreed to dismiss the arbitration and agreed an amendment to the commercialisation agreement which resolved the dispute. Pursuant to this amendment, the parties agreed that the commercialisation agreement will terminate on 30 June 2016 and that Oxford Nanopore is not obligated to expend any further time or resources to develop BASE (exonuclease sequencing) technology. Illumina will retain its Rights of Negotiation, however, Oxford Nanopore has no current intention to commercialise its Strand Sequencing Technology through a relationship with an entity that is not an Affiliate of Oxford Nanopore nor to sell or exclusively license to a third party all of its assets related to Strand Sequencing Technology. In any event, Illumina's Rights of Negotiation will cease to exist no later than 31 December 2016.

The company continued to fund its US subsidiary, Oxford Nanopore Technologies Inc (ONT Inc). During the year, the company paid ONT Inc £518,775 for the R&D and other services provided to it. In addition, at the year end, the company owed ONT Inc £258,286, and interest payable of £20,170 has been accrued on this balance in the year.

21. ULTIMATE CONTROLLING PARTY

The Group is owned by a number of investors, none of whom is deemed to have overall control.