

TMO Renewables Limited

**Directors' report and financial
statements**

Registered number 4405622

Year Ended 31 December 2010

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Directors' report

The directors present their directors' report and consolidated financial statements for the year ended 31 December 2010.

Principal activities

The company's principal activity is to identify, develop and exploit the properties of thermophilic micro-organisms for the production of chemicals and liquid fuels from biomass.

Our business and its markets

Founded in 2002, TMO Renewables Ltd has developed and engineered a proprietary process for the production of cellulosic Bioethanol utilising a thermophilic organism, which can produce ethanol from a wide range of cellulosic feedstocks.

The Ethanol Market

The opportunities in the ethanol market are diverse and are driven by a number of factors including security of energy supply, rising oil prices and increasing environmental concerns. The three largest markets comprise the United States, Brazil and China with the most developed market at the present date being the United States, which produced 51 billion litres of ethanol in 2010. The United States ethanol industry enjoys significant government support and their market is underpinned by the mandate set with the passing of the revised Energy Independence and Security Act of 2007.

This Bill requires the fuel industry to include increasingly larger volumes of ethanol in the fuel mix, rising from around 42 billion litres in 2008 to 136 billion litres by 2022. The existing corn ethanol industry is limited to producing no more than 57 billion litres from the existing technology, the remaining 80 billion litres must be delivered from technologies such as TMO's and utilising non-starch based feedstocks (i.e. "biomass").

In addition to the prescriptive terms obliging ethanol use in the Energy bill, the US Government has passed a number of Capital and Fiscal incentives. This provides for loan guarantees for cellulosic ethanol projects (up to 80% of CAPEX) and for State and Federal grants (up to 30% of CAPEX). The fiscal incentives include \$0.12 per litre tax credit for gasoline blenders, a \$0.14 per litre tariff on imports, a \$0.27 per litre credit to cellulosic ethanol producers and a \$0.026 per litre small-producer tax credit for ethanol.

Whilst the United States leads the way, Brazil's ethanol industry is already well established producing over 26.5 billion litres of ethanol in 2010. China is seeking to expand on its production of 2.7 billion litres that it produced in 2010, driven by the fact that it has the fastest growing fuel demand in the world. The Company, through its Chinese clean tech investor and partner, Diverso are making significant strides in establishing itself there. Diverso have significant knowledge and expertise in the field of cleantech and biomass in China and are proving to be a valuable partner with some introductions to large Chinese businesses within the energy industry.

Outside of these three markets, there are other significant opportunities for the TMO process. The EU biofuels policy is maturing leading to a target of a blend of 10 per cent biofuels in gasoline by 2020. In addition Russia has an emerging biofuels industry seeking to capitalise on the growing demand for biofuels from Europe.

Business review

TMO entered into 2010 with high expectations despite the global economic uncertainty. This optimism proved well founded as the business signed its first commercial contract in the final quarter of 2010. This is an exclusive contract with Fiberright LLC for municipal solid waste (MSW) in the United States, which anticipates the delivery of 17 projects over the next five years. Fiberright provide expertise in the waste management industry. TMO expects to invoice its first revenue from this contract in 2011.

Our research and development efforts have continued to make good progress, in particular the continued enhancement of the projected operating costs for the TMO process. The scientific and engineering teams continue to grow to keep pace with the achievements being made in current and potential customer feedstocks.

The board believe that TMO progressed well in a difficult year and believes that the business is well positioned to make the most of the opportunities that will arise in 2011.

Directors' report *(continued)*

Going Concern

The financial statements are prepared on a going concern basis, notwithstanding a net loss of £3.5 million during the year ended 31 December 2010, net current assets of £5.6 million and the Company's deficit in the Retained Earnings of £19.0 million at that date.

During the year TMO entered into its first commercial contract which anticipates the delivery of 17 projects over the next five years. Whilst this contract highlights the revenue potential of the technology further cash resources are required to fund the continued development work.

Despite the volatile economic situation TMO raised £4.2 million of capital at the end of 2010 to strengthen the Statement of Financial Position to fund the continued development of the technology and in preparation for further commercial discussions with potential customers. The Directors have prepared cash flow forecasts which indicate that, notwithstanding the capital raised during 2010, TMO will need to raise additional capital towards the end of 2011. The Directors are evaluating a number of alternatives for raising capital. Historically the directors have been successful in fundraising from their existing shareholders and as the development of the technology is proceeding in line with expectations the directors have no reason to believe that further funds will not be secured, although they recognise this represents a material uncertainty that casts significant doubt upon the group and parent company's ability to continue as a going concern. As a result the group and the parent company may be unable to continue realising their assets and discharging their liabilities in the normal course of business.

Nevertheless, after making enquiries and considering the uncertainties described above, the directors have a reasonable expectation that the group and the parent company will raise adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual financial statements.

Key Performance Indicators

Health and Safety

Number of days of work lost to Health and Safety incidents:

2009: 0

2010: 0

Principal risks and uncertainties

Risk is an inherent part of doing business. The company has a process for identifying, evaluating and managing the risks faced by the business and the directors have identified and formalised the following factors as principal risks to the successful operation of the business.

Staff engagement and retention

Staff are key to the success of the business. Good working relations and investing in their training and development are essential to the sustainability of the company's operations. The company's employment policies, remuneration, including a recent issue of share options to key employees as part of a long term incentive plan and benefits packages are designed to be competitive as well as providing employees with fulfilling career opportunities. The success of these policies is reflected in our very low staff turnover.

Access to Capital

A risk in our market at the present date given the state of the global economy is the availability of credit to fund capital programmes such as required for TMO's customers. However, the United States government has realised that this is a barrier to success and has established the loan guarantee scheme.

Directors' report *(continued)*

Working Capital

TMO is a pre revenue business working on developing technology that will convert biomass into cellulosic ethanol. There is a risk that TMO will require further working capital in the future before sufficient revenues are generated. The company has a good track record of raising funds since its inception and believe that they would be able to do so again if the need arose.

Process Risks

The Board recognise that there are a number of process risks within the business namely, the ability to deliver sufficient fermentable sugars on feedstocks at a commercial cost, the ability to meet its commercial target on ethanol production and the ability to scale up the technology to commercial scale. These risks are well understood in this new industry and TMO is making every effort to overcome them.

Research and development

The company has continued to carry out research and development into the use of properties of extremophiles and thermophiles to produce chemicals and liquid fuels from biomass incurring costs during the year of £5,148,000 (2009: £4,647,000). £2,917,000 of these costs have been capitalised in accordance with IAS 38 with the remainder written off to the profit and loss account.

Financial instruments

The Company's financial risk management objective is broadly to seek to make neither profit nor loss from exposure to currency or interest rate risks. Its policy is to finance its development activities through share issues and grants, the funds from which are placed on bank deposits at prevailing rates of interest until used.

The directors do not consider any other risks attaching to the use of financial statements to be material to an assessment of its financial position or its loss for the year.

Proposed dividend

The directors do not recommend the payment of a dividend (2009: nil)

Policy and practice on payment of creditors

The policy of the Company is to agree terms of payment prior to commencing trade with a supplier and to abide by those terms on the timely submission of satisfactory invoices.

At the year end there were 72 days (2009: 69 days) purchases in trade payables.

Directors

The directors who held office during the year were as follows:

H. Curran

J.C. Miller

A. Atkinson (Deceased 19 June 2011)

P.N. Rodgers

R. Parker

S. Martin

T. Yeo (Appointed 24th November 2010)

The following director was appointed after the year end:

P. Allen (Appointed 9th June 2011)

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' report *(continued)*

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board


R. Parker
Director

40 ALAN TURING ROAD, THE SURREY RESEARCH PARK,
GUILDFORD, SURREY GU2 7YF

Statement of Directors' Responsibilities in Respect of the Directors' Report and the Financial Statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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 parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



KPMG LLP

Dukes Keep
Marsh Lane
Southampton
SO14 3EX
United Kingdom

Independent Auditor's Report to the members of TMO Renewables Limited

We have audited the financial statements of TMO Renewables Limited for the year ended 31 December 2010 set out on pages 8 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU 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 set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2010 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 EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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.

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the group's and company's ability to continue as a going concern. The group has net current assets of £5.6 million, incurred a net loss of £3.5 million during the year ended 31 December 2010 and requires further funds to continue the development of the technology. This condition, along with the other matters explained in note 1 to the financial statements, indicates the existence of a material uncertainty which may cast significant doubt on the group and the parent company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and the parent company were unable to continue as a going concern.

Independent Auditor's Report to the members of TMO Renewables Limited *(continued)*

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.

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.

W. Smith

W Smith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Dukes Keep
Marsh Lane
Southampton
SO14 3EX

1st September 2011

Consolidated Statement of Comprehensive Income

for year ended 31 December 2010

	Note	2010 £000	2009 £000
Administrative expenses	2	(2,077)	(1,726)
Direct scientific costs	2	(2,231)	(2,360)
		<hr/>	<hr/>
Operating loss	1,3,4	(4,308)	(4,086)
Finance income	5	22	31
Finance costs	5	(5)	(16)
		<hr/>	<hr/>
Net finance cost		17	15
		<hr/>	<hr/>
Loss before tax		(4,291)	(4,071)
Taxation	6	784	635
		<hr/>	<hr/>
Loss for the year		(3,507)	(3,436)
Gain on sale of own shares		-	58
Net change in fair value of available for sale financial assets		-	(273)
Tax on other comprehensive income		-	(10)
		<hr/>	<hr/>
Other comprehensive (loss)/ income for the period, net of tax		-	(225)
		<hr/>	<hr/>
Total comprehensive loss for the period		(3,507)	(3,661)
		<hr/>	<hr/>

Group Statement of Financial Position
at 31 December 2010

	<i>Note</i>	2010 £000	2009 £000
<i>Non-current assets</i>			
Property, plant and equipment	7	6,863	7,377
Intangible assets	8	6,223	3,306
		13,086	10,683
<i>Current assets</i>			
Available for sale asset	10	-	60
Tax receivable		750	673
Trade and other receivables	9	1,266	630
Cash and cash equivalents	11	4,913	7,060
		6,929	8,423
<i>Total assets</i>		20,015	19,106
<i>Current liabilities</i>			
Trade and other payables	12	(874)	(841)
Tax payable		(384)	(303)
Other financial liabilities	13	(22)	(7)
		(1,280)	(1,151)
<i>Non-current liabilities</i>			
Other financial liabilities	13	(300)	(300)
		(300)	(300)
<i>Total liabilities (excluding equity)</i>		(1,580)	(1,451)
<i>Net assets</i>		18,435	17,655
<i>Equity</i>			
Share capital		1,254	1,126
Share premium		36,182	32,049
Own shares		(156)	(156)
Fair value reserve		(273)	(273)
Retained earnings		(18,572)	(15,091)
<i>Total equity</i>		18,435	17,655

These financial statements were approved by the board of directors on 31 August 2011 and were signed on its behalf by:



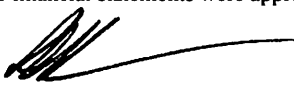
R. Parker
Director

Company registered number: 4405622

Company Statement of Financial Position
at 31 December 2010

	<i>Note</i>	2010 £000	2009 £000
<i>Non-current assets</i>			
Property, plant and equipment	7	6,863	7,377
Intangible assets	8	6,223	3,306
		13,086	10,683
<i>Current assets</i>			
Tax receivable	6	750	673
Trade and other receivables	9	1,266	630
Cash and cash equivalents	11	4,910	7,059
		6,926	8,362
<i>Total assets</i>		20,012	19,045
<i>Current liabilities</i>			
Trade and other payables	12	(874)	(841)
Tax payable		(384)	(245)
Other financial liabilities	13	(22)	(7)
		(1,280)	(1,093)
<i>Non-current liabilities</i>			
Other financial liabilities	13	(300)	(300)
		(300)	(300)
<i>Total liabilities (excluding equity)</i>		(1,580)	(1,393)
<i>Net assets</i>		18,432	17,652
<i>Equity</i>			
Share capital	15	1,254	1,126
Share premium		36,182	32,049
Retained earnings	15	(19,004)	(15,523)
<i>Total equity</i>		18,432	17,652

These financial statements were approved by the board of directors on 31 August 2011 and were signed on its behalf by:


R. Parker
Director

Company registered number: 4405622

Group Statement of Changes in Equity

	Share capital £000	Share premium £000	Own Shares £000	Fair value Reserve £000s	Retained Earnings £000	Total equity £000
Balance at 1 January 2009	673	21,653	(144)	-	(11,411)	10,771
Total comprehensive income for the period						
Loss for the period	-	-	-	-	(3,436)	(3,436)
Other comprehensive income for the period, net of tax	-	-	-	(273)	48	(225)
Total comprehensive income for the period	-	-	-	(273)	(3,388)	(3,661)
Transaction with owners, recorded directly in equity						
Shares issued for cash	435	10,436	-	-	-	10,871
Shares issued in respect of goods and services	4	106	-	-	-	110
Financing costs	-	(477)	-	-	-	(477)
Shares issued to the Employee Benefit Trust	14	331	(14)	-	(331)	-
Shares sold by the Employee Benefit Trust	-	-	2	-	-	2
Share based payment credit	-	-	-	-	39	39
Total contributions by and distributions to owners	453	10,396	(12)	-	(292)	10,545
Balance at 31 December 2009	1,126	32,049	(156)	(273)	(15,091)	17,655
	Share capital £000	Share premium £000	Own Shares £000	Fair value Reserve £000s	Retained earnings £000	Total Equity £000
Balance at 1 January 2010	1,126	32,049	(156)	(273)	(15,091)	17,655
Total comprehensive income for the period						
Loss for the period	-	-	-	-	(3,507)	(3,507)
Other comprehensive income for the period, net of tax	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	(3,507)	(3,507)
Transactions with owners, recorded directly in equity						
Shares issued for cash	126	4,278	-	-	-	4,404
Shares issued in respect of goods and services	2	58	-	-	-	60
Financing costs	-	(203)	-	-	-	(203)
Share based payment credit	-	-	-	-	26	26
Total contributions by and distributions to owners	128	4,133	-	-	26	4,287
Balance at 31 December 2010	1,254	36,182	(156)	(273)	(18,572)	18,435

Company Statement of Changes in Equity

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 January 2009	673	21,653	(11,781)	10,545
Total comprehensive income for the period				
Loss for the period	-	-	(3,436)	(3,436)
Total comprehensive income for the period	-	-	(3,436)	(3,436)
Transaction with owners, recorded directly in equity				
Shares issued for cash	435	10,436	-	10,871
Shares issued in respect of goods and services	4	106	-	110
Financing costs	-	(477)	-	(477)
Shares issued to the Employee Benefit Trust	14	331	(345)	-
Share based payment credit	-	-	39	39
Total contributions by and distributions to owners	453	10,396	(306)	10,543
Balance at 31 December 2009	1,126	32,049	(15,523)	17,652
	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 January 2010	1,126	32,049	(15,523)	17,652
Total comprehensive income for the period				
Loss for the period	-	-	(3,507)	(3,507)
Total comprehensive income for the period	-	-	(3,507)	(3,507)
Transactions with owners, recorded directly in equity				
Shares issued for cash	126	4,278	-	4,404
Shares issued in respect of goods and services	2	58	-	60
Financing costs	-	(203)	-	(203)
Shares issued to the Employee Benefit Trust	-	-	-	-
Share based payment credit	-	-	26	26
Total contributions by and distributions to owners	128	4,133	26	4,287
Balance at 31 December 2010	1,254	36,182	(19,004)	18,432

Group Statement of Cash Flows
for year ended 31 December 2010

	<i>Note</i>	2010	2009
		£000	£000
Cash flows from operating activities			
Loss for the year		(3,507)	(3,661)
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment		870	860
Change in value of available for sale investment		-	273
Gain on sale of EBT shares recorded through OCI net of tax		-	(48)
Shares and options issued for services received		60	110
Share based payment credit		26	39
Finance income		(22)	(31)
Finance costs		5	16
Taxation		(784)	(635)
		<hr/>	<hr/>
		(3,352)	(3,077)
(Increase)/decrease in trade and other receivables		98	254
(Decrease)/increase in trade and other payables		187	(591)
		<hr/>	<hr/>
		(3,067)	(3,414)
Cash outflow from operating activities			
Interest received		17	15
Tax received		707	412
Capital Gains Tax paid by EBT		(58)	-
		<hr/>	<hr/>
Net cash outflow from operating activities		(2,401)	(2,987)
		<hr/>	<hr/>
Cash outflows from investing activities			
Acquisition of property, plant and equipment	7	(356)	(132)
Capitalised development expenditure	8	(2,917)	(2,287)
Acquisition of investment		-	(333)
		<hr/>	<hr/>
Net cash outflow from investing activities		(3,273)	(2,752)
		<hr/>	<hr/>
Cash inflows from financing activities			
Proceeds from the issue of share capital		3,467	10,394
Proceeds from the issue of loan notes	13	-	300
Proceeds from sale of shares held by EBT		-	60
Proceeds from sale of investment		60	-
Payment of finance lease liabilities		-	(10)
		<hr/>	<hr/>
Net cash inflows from financing activities		3,527	10,744
		<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents		(2,147)	5,005
Cash and cash equivalents at 1 January		7,060	2,055
		<hr/>	<hr/>
Cash and cash equivalents at 31 December	11	4,913	7,060
		<hr/> <hr/>	<hr/> <hr/>

Company Statement of Cash Flows
for year ended 31 December 2010

	<i>Note</i>	2010 £000	2009 £000
Cash flows from operating activities			
Loss for the year		(3,507)	(3,436)
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment	7	870	860
Shares and options issued for services received	15	60	110
Share based payment credit	14	26	39
Finance income	5	(22)	(31)
Finance costs	5	5	16
Taxation	6	(784)	(635)
		<hr/>	<hr/>
		(3,352)	(3,077)
(Increase)/decrease in trade and other receivables		98	(19)
(Decrease)/increase in trade and other payables		187	(591)
		<hr/>	<hr/>
		(3,067)	(3,687)
Cash outflow from operating activities			
Interest received	5	17	15
Tax received	6	707	412
		<hr/>	<hr/>
Net cash from operating activities		(2,343)	(3,260)
		<hr/>	<hr/>
Cash flows from investing activities			
Acquisition of property, plant and equipment	7	(356)	(132)
Capitalised development expenditure	8	(2,917)	(2,287)
		<hr/>	<hr/>
Net cash from investing activities		(3,273)	(2,419)
		<hr/>	<hr/>
Cash flows from financing activities			
Proceeds from the issue of share capital	15	3,467	10,394
Proceeds from the issue of loan notes	13	-	300
Payment of finance lease liabilities		-	(10)
		<hr/>	<hr/>
Net cash from financing activities		3,467	10,684
		<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents		(2,149)	5,005
Cash and cash equivalents at 1 January	11	7,059	2,054
		<hr/>	<hr/>
Cash and cash equivalents at 31 December	11	4,910	7,059
		<hr/> <hr/>	<hr/> <hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

TMO Renewables Ltd (the "Company") is a company incorporated and domiciled in the UK. The Company's functional currency is Sterling.

These financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis.

Basis of consolidation

In accordance with IAS27 ("Consolidated and Separate Financial Statements") and SIC 12 ("Consolidation – special purpose entities") the Trust is presented as a consolidated subsidiary of the Company.

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. A special purpose entity ("SPE") is consolidated if, based on an evaluation of the risks and rewards, the Group concludes that it controls the SPE.

Going concern

The financial statements are prepared on a going concern basis, notwithstanding a net loss of £3.5 million during the year ended 31 December 2010, net current assets of £5.6 million and the Company's deficit in the Retained Earnings of £19.0 million at that date.

During the year TMO entered into its first commercial contract which anticipates the delivery of 17 projects over the next five years. Whilst this contract highlights the revenue potential of the technology further cash resources are required to fund the continued development work.

Despite the volatile economic situation TMO raised £4.2 million of capital at the end of 2010 to strengthen the Statement of Financial Position to fund the continued development of the technology and in preparation for further commercial discussions with potential customers. The Directors have prepared cash flow forecasts which indicate that, notwithstanding the capital raised during 2010, TMO will need to raise additional capital towards the end of 2011. The Directors are evaluating a number of alternatives for raising capital. Historically the directors have been successful in fundraising from their existing shareholders and as the development of the technology is proceeding in line with expectations the directors have no reason to believe that further funds will not be secured, although they recognise this represents a material uncertainty that casts significant doubt upon the group and parent company's ability to continue as a going concern. As a result the group and the parent company may be unable to continue realising their assets and discharging their liabilities in the normal course of business.

Nevertheless, after making enquiries and considering the uncertainties described above, the directors have a reasonable expectation that the group and the parent company will raise adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual financial statements.

Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Notes (continued)

1 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make some judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes:

Intangible fixed assets - note 8

Share based payments – note 14

Grant income

Grants receivable in respect of research expenditure are matched against the relevant expenditure on an accruals basis with any excess being carried forward as deferred income. Grants receivable which are subject to the achievement of specific milestones are not recognised in the profit and loss account until the conditions for their receipt have been complied with and there is reasonable assurance that the grant will be received.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is so as to write off the cost of fixed assets, less their estimated residual value, over the expected useful economic lives of the assets. The principal rates for this purpose are:

Leasehold Improvements	10% (reducing balance)
Plant and Machinery	10% (reducing balance)
Fixtures and Fittings	33% (reducing balance)
Computer Equipment	33% (reducing balance)
Land and buildings	10% (straight line)

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Intangible assets

Research and development

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on development activities has been capitalised where the Company believes that the expenditure has helped its process to be technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred.

Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Notes (continued)

1 Accounting policies (continued)

Amortisation

Amortisation will commence once the Company begins revenue generating activities from the intangible asset.

Amortisation will be charged to the income statement on a straight-line basis over the estimated useful life of the intangible asset.

Available for sale investments

Available for sale financial assets are non-derivative financial assets that are designated as available for sale. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss

Employee benefits

Defined contribution plans

The company operates a defined contribution plan, being a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees

Share based payments

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Employee Benefit Trust

The assets and liabilities of the Employee Benefit Trust ("EBT") have been included in the consolidated financial statements, with the Company's own shares held by the EBT being presented within a Treasury Share reserve which is a deduction against consolidated equity. Any assets held by the EBT cease to be recognised on the consolidated statement of financial position when the assets vest unconditionally in identified beneficiaries. The proceeds from the sale of own shares previously issued to, and held by, the EBT is recorded as a component of Other Comprehensive Income.

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Financing income and expenses

Interest income and interest payable is recognised in the income statement as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Notes (continued)

1 Accounting policies (continued)

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended 31 December 2010. These have not been applied in preparing these financial statements and none of these are expected to have a material impact on the financial statements when applied.

2 Expenses and auditors' remuneration – Group

Included in the loss are the following:

	2010 £000	2009 £000
Research and development expensed as incurred	2,231	2,360
Finance lease costs	-	13
Depreciation	870	860
	2,101	2,233

Expenses arise wholly within the UK and within a single segment of operations.

Auditors' remuneration:

	2010 £000	2009 £000
Audit of these financial statements	22	22
Amounts receivable by the auditors and their associates in respect of: Other services relating to taxation	10	1
	32	23

Notes (continued)

3 Staff numbers and costs – Group

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2010	2009
Administration and management	7	6
Engineering	18	14
Research	29	22
	54	42

The aggregate payroll costs of these persons were as follows:

	2010	2009
	£000	£000
Wages and salaries	2,611	1,970
Social security costs	295	223
Contributions to defined contribution plans	198	154
	3,104	2,347

Of this total payroll expense £2,132,252 (2009: £1,424,000) was capitalised under IAS38 (see note 8).

4 Directors' remuneration – Group

	2010	2009
	£000	£000
Directors' emoluments	1,067	856
Company contributions to money purchase pension plans	42	34
	1,109	890

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £364,000 (2009: £302,000), and company pension contributions of £16,000 (2009: £16,000) were made to a money purchase scheme on his behalf.

Directors' rights to subscribe for shares in or debentures of the company and its subsidiaries are indicated below:

	Number of options		Exercise price
	At start of year	At end of year	
Hamish Curran	2,850,000	2,850,000	1
Robert Parker	2,042,381	2,042,381	1
Steve Martin	1,432,125	1,432,125	1

Notes *(continued)*

5 Finance income and cost – Group

Recognised in income statement

Group	2010	2009
	£000	£000
<i>Finance income</i>		
Interest income on unimpaired financial assets	22	31
	<hr/>	<hr/>
Total finance income	22	31
	<hr/> <hr/>	<hr/> <hr/>

	2010	2009
	£000	£000
<i>Finance cost</i>		
Interest expense on financial liabilities measured at amortised cost	5	16
	<hr/>	<hr/>
Total finance expense	5	16
	<hr/> <hr/>	<hr/> <hr/>

6 Taxation

Recognised in the income statement

	2010	2009
	£000	£000
<i>Current tax credit</i>		
Current year	(750)	(673)
Adjustments for prior years	(34)	38
	<hr/>	<hr/>
Current tax credit	(784)	(635)
Deferred tax	-	-
	<hr/>	<hr/>
Total tax credit	(784)	(635)
	<hr/> <hr/>	<hr/> <hr/>

Recognised in other comprehensive income

Tax payable on chargeable gains	-	10
	<hr/>	<hr/>

Notes (continued)

6 Taxation (continued)

Reconciliation of effective tax rate

	2010 £000	2009 £000
Loss for the year	(4,291)	(4,071)
Total tax credit	(784)	(635)
	<hr/>	<hr/>
Loss excluding taxation	(3,507)	(3,436)
	<hr/>	<hr/>
Tax using the UK corporation tax rate of 28 % (2009: 28%)	(1,201)	(1,140)
Expenditure not deductible for tax purposes	15	16
Enhanced research and development tax relief	(675)	(582)
Losses surrendered for research and development tax credits	1,574	1,358
Research and development tax credits claimed in respect of current year	(750)	(673)
Research and development tax credits claimed in respect of prior year	(34)	(38)
Move in unprovided deferred tax	287	348
	<hr/>	<hr/>
Total tax credit	(784)	(635)
	<hr/>	<hr/>

The company has losses available to be carried forward for offset against future taxable profits amounting to approximately £18,445,000 (2009: £10,216,000). These losses will reduce the tax charge of future years until they are utilised. No deferred tax asset in respect of these losses and other timing differences, which would amount to approximately £2,899,000, calculated at 28% (2009: £2,928,000), has been recognised as there is currently insufficient certainty as to the timing of when the asset would be recovered.

Capital gains tax at 18% has been recognised on the gain on sale of own shares in 2009 recorded in other comprehensive income.

Reconciliation of deferred tax

	Not recognised		Recognised	
	Assets 2010 £000	Assets 2009 £000	Liabilities 2010 £000	Liabilities 2009 £000
Intangible assets	-	-	(1,743)	(285)
Property, plant and equipment	-	90	(523)	-
Provisions and employee benefits	-	31	-	-
Tax losses	2,899	2,575	2,266	285
	<hr/>	<hr/>	<hr/>	<hr/>
Tax assets/(liabilities)	2,899	2,696	Nil	Nil
	<hr/>	<hr/>	<hr/>	<hr/>

There is no deferred tax impact of transactions recorded directly in equity or in other comprehensive income.

Notes (continued)

7 Property, plant and equipment – Group and Company

	Land and buildings £000	Plant and equipment £000	Fixtures & fittings £000	Under construction £000	Total £000
Cost					
Balance at 1 January 2009	39	8,301	287	-	8,627
Additions	-	115	17	-	132
Balance at 31 December 2009	39	8,416	304	-	8,759
Balance at 1 January 2010	39	8,416	304	-	8,759
Additions	-	334	22	-	356
Balance at 31 December 2010	39	8,750	326	-	9,115
Depreciation and impairment					
Balance at 1 January 2009	1	482	39	-	522
Depreciation charge for the year	4	828	28	-	860
Balance at 31 2009	5	1,310	67	-	1,382
Balance at 1 January 2010	5	1,310	67	-	1,382
Depreciation charge for the year	4	837	29	-	870
Balance at 31 2010	9	2,147	96	-	2,252
Net book value					
At 31 December 2009 and 1 January 2010	34	7,106	237	-	7,377
At 31 December 2010	30	6,603	230	-	6,863

Leased plant and machinery

At 31 December 2010 the net carrying amount of leased plant and machinery was Nil (2009: Nil). The leased equipment is provided as security over the lease obligations.

Notes *(continued)*

8 Intangible assets – Group and Company

	Development costs £000	Total £000
<i>Cost</i>		
Balance at 1 January 2009	1,019	1,019
Internally developed	2,287	2,287
	<hr/>	<hr/>
Balance at 31 December 2009	3,306	3,306
	<hr/> <hr/>	<hr/> <hr/>
Balance at 1 January 2010	3,306	3,306
Internally developed	2,917	2,917
	<hr/>	<hr/>
Balance at 31 December 2010	6,223	6,223
	<hr/> <hr/>	<hr/> <hr/>
Amortisation and impairment		
Balance at 1 January 2009	-	-
Amortisation for the year	-	-
	<hr/>	<hr/>
Balance at 31 December 2009	-	-
	<hr/> <hr/>	<hr/> <hr/>
Balance at 1 January 2010	-	-
Amortisation for the year	-	-
	<hr/>	<hr/>
Balance at 31 December 2010	-	-
	<hr/> <hr/>	<hr/> <hr/>
Net book value		
At 31 December 2009 and 1 January 2010	3,306	3,306
	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2010	6,223	6,223
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

8 Intangible assets (continued)

Capitalised development costs are not treated as a realised loss for the purpose of determining the Company's distributable profits as the costs meet the conditions requiring them to be treated as an asset in accordance with IAS 38.

In accordance with IAS 38, the company has capitalised those direct scientific costs that meet the recognition criteria as set out by IAS 38. The company is able to identify and measure reliably the appropriate scientific costs and believe that there is a probable expectation that future economic benefits will flow to the company as a result of this expenditure.

Only those scientific costs that meet the recognition criteria have been capitalised and all other scientific expenditure that the company has undertaken has been recognised as an expense in the income statement as it has been incurred in accordance with IAS 38.

Amortisation has not been charged in the income statement for the year ended 31 December 2010, as the appropriate development expenditure continues to be capitalised in accordance with IAS 38 and will only be amortised when the Company generates revenues as a result of the development expenditure.

Impairment testing

The intangible assets have been tested for impairment at 31 December 2010. The Company is considered to be a single cash generating unit, and based on forecasts of future cashflows arising from the developed technology showing future positive cash flows, no impairment is considered necessary.

The company does have separate elements to its scientific expenditure incorporating fermentation, molecular and analytical teams among others but all these units work closely together and are inextricably linked to providing the successful technology. These units are not on their own able to deliver any future economic cashflows, and as such the company as a whole is treated as a single cash generating unit.

Management have used an approved forecast period of five years with key assumptions as follows:

- Growth Rate: 3%
- WACC: 15%

The Directors have considered the sensitivity of the impairment test to reasonably foreseeable changes in these assumptions, and are satisfied that no significant difference in result would arise which may cause the impairment of the intangible assets.

9 Trade and other receivables

	Group		Company	
	2010	2009	2010 £000	2009 £000
<i>Current</i>				
Other Tax Receivable	153	143	153	143
Deposits	192	189	192	189
Prepayments	183	298	183	298
Called up share capital not paid	734	-	734	-
Other Debtors	4	-	4	-
	1,266	630	1,266	630
	1,266	630	1,266	630

Included within trade and other receivables is £192,000 (2009: £189,000) expected to be recovered in more than 12 months.

Notes *(continued)*

10 Investment – Group only

<i>Current</i>	2010 £'000	2009 £'000
Available for sale financial assets	-	60
	<u> </u>	<u> </u>

Available for sale financial assets comprises ownership by the EBT of 1.9% of the share capital of Morvus Technology Ltd, with whom TMO Renewables shares a non-executive director.

11 Cash and cash equivalents – Group and Company

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Cash and cash equivalents per statement of financial position	4,913	7,060	4,910	7,059
Finance leases	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents per cash flow statements	<u>4,913</u>	<u>7,060</u>	<u>4,910</u>	<u>7,059</u>

12 Trade and other payables – Group and Company

	2010 £000	2009 £000
<i>Current</i>		
Trade payables	607	681
Non-trade payables and accrued expenses	267	160
	<u> </u>	<u> </u>
	<u>874</u>	<u>841</u>

13 Other financial liabilities – Group and Company

	2010 £000	2009 £000
<i>Non-current</i>		
<i>Other financial liabilities measured at amortised cost (loan notes)</i>	300	300
	<u> </u>	<u> </u>
	<u>300</u>	<u>300</u>
<i>Current</i>		
<i>Other financial liabilities</i>	22	7
<i>Finance lease</i>	-	-
	<u> </u>	<u> </u>
	<u>22</u>	<u>7</u>

Other non-current financial liabilities represents loan notes issued on 19 May 2009 which are payable on 30 May 2014. The loan notes are non-interest bearing until the point at which the company declares a dividend or a firm offer is made, or agreement entered into, to acquire the majority of the voting rights attaching to the issued share capital of the company, following which the bond bears interest at 1% above Bank of England base rate. The loan notes may be converted to equity and warrants to acquire equity at the holder's request.

Notes (continued)

14 Employee benefits – Group and Company

Defined contribution pension plans

The Company operates a number of defined contribution pension plans.

The total expense relating to these plans in the current year was £198,000 (2009: £154,000) of which £161,000 (2009: £120,000) was capitalised in accordance with IAS38.

Share-based payments

TMO has the following arrangements which fall to be accounted as share based payments:

- Share Options (unapproved scheme)
- Share Options (EMI approve scheme)
- Shares held in an Employee Benefit Trust

The overall number and weighted average exercise prices of share options is as follows:

Share Options (unapproved schemes)

At 31 December 2010, the company had in issue the following options through which holders of such options may acquire ordinary shares of £0.01 each:

No's of options	Exercise price £	Period options exercisable
100,000	0.1950	25 March 2005 – 23 March 2015
20,000	0.1950	21 April 2005 – 20 April 2015
150,000	0.1950	25 April 2005 – 24 April 2015
1,100,000	0.0100	20 May 2005 – 19 May 2015
51,300	0.3000	12 February 2007 – 11 February 2012

Notes (continued)

14 Employee benefits – Group and Company (continued)

During 2010, options totalling 10,500 shares were exercised at an exercise price of £0.238 and 172,600 shares at £0.30.

The options outstanding at the year-end have an exercise price in the range of 0.01 to 0.3 and a weighted average contractual life of 4.25 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. Management have modelled the fair value of employee share options taking into account the terms and conditions upon which the awards were granted. Measurement inputs and assumptions are as follows:

TMO have assumed that a rational investor in a small, risky business would seek to multiply their original investment by 5 times.

As part of the fair value process, TMO has had to consider a discount percentage to apply to the value given to take account of the following:

- (a) TMO is not listed and therefore the potential pool of other shareholders to buy these future shares is narrowed – they are much more illiquid than they would be had TMO been listed on a stock exchange.
- (b) Investing in R&D companies carries a significant risk in that the science may ultimately not work or that the business runs out of cash before it reaches a viable commercial product.
- (c) The options would entitle the shareholder to a very insignificant minority holding with no influence over the business.

TMO has sought to recognise the progress of the science at the time the options were issued in determining the risk factor discount. The less developed the science in the earlier issues, the higher the risk discount factor applied to reflect the higher risk posed to the shareholder at the time of issue. The discount factors range from 50% to 90%

The annual cost of these options has been estimated at £26,000 which has been recorded as a charge to the income statement with a corresponding increase in equity. The total charge over the life of these options is £278,000.

Share Options (EMI approved Scheme)

On 25 November 2009, options were granted to employees under an approved EMI scheme. Under the terms of the options employees are entitled to subscribe for A Ordinary Shares at an option price of 1p, provided the Company's ordinary shares exceed a threshold price of 40p and will only share in any future benefit in the business above the threshold price of 40p.

No's of options	Exercise price	Period options exercisable
9,065,949	1p	75% exercisable on 3 rd anniversary of grant 25% exercisable on 4 th anniversary of grant
A ordinary shares		OR on the sale or listing of the Company

The A ordinary shares rank parri passu with ordinary shares, save for certain restrictions on sale or transfer of such shares and the proportion of consideration an A ordinary shareholder will receive on sale or listing of the Company.

A Ordinary shareholders receive a proportion of the consideration arising in the event the Ordinary shares price exceeds a predetermined threshold on listing or sale of the business. This anticipation of value indicates the options over such shares should be accounted for in accordance with IFRS2 "Share Based Payments".

The Directors have valued these options taking into account the threshold set out above and the inherent uncertainty around the timing of any sale or listing. The fair value of these options is estimated to be nil.

Notes (continued)

14 Employee benefits – Group and Company (continued)

Shares held in an Employee Benefit Trust

On 20 August 2002 the company formed the TMO Biotec Limited Discretionary Employee Benefit Trust (“the Trust”) with a view to benefitting the company’s existing and past employees. At 31 December 2010 the Trust held 15,646,689 (2009: 16,122,192) ordinary shares. There are no current arrangements for distributing the shares and options to beneficiaries. These shares have, therefore, not vested conditionally or unconditionally to any beneficiaries. The Directors consider that should arrangements be established for distributing these shares and options, such a distribution would result in the issue of the equity held by the Trust to the relevant beneficiaries. As there is no common understanding of the terms of issuance of these shares to beneficiaries it is considered that the grant date has not occurred. Accordingly no share based payment charge has been recognised in these financial statements in respect of the shares held by the EBT.

In accordance with IAS27 (“Consolidated and Separate Financial Statements”) and SIC 12 (“Consolidation – special purpose entities”) the Trust is presented as a consolidated subsidiary of the Company.

On 3 November 2009, 20 January 2010, and 19 February 2010 the Trust permitted the sale through an independent broker of 165,296, 259,207, and 51,000 shares to existing shareholders for a total of £333,000, being an average share price of 70p. On the same day 1.9% of the share capital of Morvus Technology Ltd, with whom TMO Renewables shares one non-executive director, was purchased for cash consideration of £330,000 by the Trust. The resulting investment, held by the Trust as available for sale, has been valued at nil at 31 December 2010. As this transaction was with existing shareholders rather than employees, it falls outside the scope of IFRS2 and hence no share based payment charge has been recognised.

15 Capital and reserves

The Company’s objective when managing its capital structure is to minimise the cost of capital while maintaining adequate capital to protect against volatility in earnings and net asset values. The strategy is designed to maximise shareholder return over the long term.

Share capital

	<i>Ordinary shares</i>	
	<i>2010</i>	<i>2009</i>
In millions of shares		
On issue at 1 January	112.6	67.3
Issued for cash	12.6	43.5
Issued to Employee Benefit Trust	-	1.4
Issued in respect of goods and services	0.2	0.4
	<hr/>	<hr/>
On issue at 31 December – fully paid	125.4	112.6
	<hr/> <hr/>	<hr/> <hr/>
	2010	2009
	£000	£000
Authorised		
Ordinary shares of £0.01 each	2,000	2,000
A Ordinary shares of £0.01 each	500	500
	<hr/>	<hr/>
	2,500	2,500
	<hr/> <hr/>	<hr/> <hr/>
Allotted, called up and partly paid		
Ordinary shares of £0.01 each	1,254	1,126
	<hr/> <hr/>	<hr/> <hr/>
Shares classified in shareholders funds	1,254	1,126
	<hr/>	<hr/>

Notes *(continued)*

15 Capital and reserves *(continued)*

Warrants

At 31 December 2010 the company had 23,029,313 (2009: 21,043,969) warrants in issue. In 2004 1,434,900 warrants were issued entitling the holder to subscribe for one ordinary share of £0.01 each in the company at any time between 30 June 2007 and 29 June 2009 at an exercise price of £0.238. These warrants expire on 29 June 2009 or on a listing of the company, whichever is the later date.

On 20 May 2009, 19,109,069 warrants were issued entitling the holder to subscribe for one ordinary share of £0.01 each in the company at any time up to the fifth anniversary date of issue of such warrant, or the completion of an exit event, whichever is the sooner, at an exercise price of £0.25. An exit event is defined as the earlier occurrence of the sale of the company or a listing of the company. If a Down Round Event occurred the subscription price for the warrant issue shall be reduced to a price per warrant share equal to the Down Round price. A Down Round Event is defined as a future fundraising event at less than the exercise price of £0.25.

On 31 December 2010, 2,485,343 warrants were issued under the same terms as the 2009 issue, except that the exercise price was £0.35.

The aggregate subscription price payable upon exercise of each outstanding warrant shall be as near as possible the same as the aggregate subscription price payable on exercise of such outstanding warrant would have been had the Down Round Event not occurred. If the subscription price is reduced the warrant shares shall be increased to the aggregate subscription price.

There is no difference in terms for warrants issued to shareholders who are also employees.

Included within the allotted, called up and partly paid share capital balance is £734,000 which relates to shares that were allotted before the year-end but the funds to purchase these shares were not received until after the year-end.

Reserves

Included within retained earnings is a cumulative amount of £587,000 which is not distributable.

	2010 £000	2009 £000
Retained earnings comprises:		
Profit and loss account	(18,417)	(14,936)
Shares held by Employee Benefit Trust	(587)	(587)
	(19,004)	(15,523)
Company retained earnings	(19,004)	(15,523)

Notes (continued)

16 Financial instruments

16 (a) Fair values of financial instruments

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

Interest-bearing borrowings

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

	<i>Carrying amount 2010 £000</i>	<i>Fair value 2010 £000</i>	<i>Carrying amount 2009 £000</i>	<i>Fair value 2009 £000</i>
IAS 39 categories of financial instruments				
Loans and receivables				
Cash and cash equivalents (note 11)	4,913	4,913	7,059	7,059
Other loans and receivables (note 9)	1,266	1,266	630	630
Tax Receivable (statement of financial position)	750	750	673	673
	<hr/>	<hr/>	<hr/>	<hr/>
Total loans and receivables	6,929	6,929	8,362	8,362
	<hr/>	<hr/>	<hr/>	<hr/>
	<i>Carrying amount 2010 £000</i>	<i>Fair value 2010 £000</i>	<i>Carrying amount 2009 £000</i>	<i>Fair value 2009 £000</i>
Financial liabilities measured at amortised cost				
Trade and other payables (note 12)	874	874	841	841
Other financial liabilities measured at amortised cost (note 13)	300	300	300	300
Other financial liabilities (note 13)	22	22	7	7
Tax payable	384	384	245	245
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial liabilities measured at amortised cost	1,580	1,580	1,393	1,393
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial liabilities	1,580	1,580	1,393	1,393
	<hr/>	<hr/>	<hr/>	<hr/>

The Directors consider the fair value of the loan notes to be equivalent to their face value of £300,000 as the impact of any discounting from the 30 May 2014 maturity would be immaterial.

There are no items carried at fair value rather than historic cost.

Notes (continued)

16 Financial instruments (continued)

16 (b) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

The company did not have any sales in the year ended 31 December 2010 so its credit risk from customers not meeting their contractual obligations is nil. The company operates a prudent approach with its cash management so as to limit its credit risk. The company's cash is invested in UK financial institutions only.

16 (c) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The company reviews its financial obligations on a monthly basis as part of its management reporting. The company presently has a large cash balance with no short term debt and is able to meet its financial obligations as they fall due. The company constantly reviews its cash position and projects its financial obligations ahead to ensure that steps are taken to meet its future financial obligations.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

	2010					Carrying amount £000	2009					Carrying amount
	Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000		Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	
Non-derivative financial liabilities												
Loan Notes	300	-	-	300	-	300	-	-	-	300	-	-
Finance lease liabilities	-	-	-	-	-	-	-	-	-	-	-	9
Trade and other payables	874	874	-	-	-	841	841	841	-	-	-	960
	<u>1,174</u>	<u>874</u>	<u>-</u>	<u>300</u>		<u>1,141</u>	<u>841</u>	<u>-</u>	<u>-</u>	<u>300</u>		<u>969</u>

Notes (continued)

16 Financial instruments (continued)

16 (d) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. Given the current position of the company in its growth phase there is no significant exposure to market risk as the Company currently operates principally within the UK, has no significant borrowings, and does not hold financial instruments.

Sensitivity Analysis

There would be no material impact on the Company's financial position of a change in either foreign exchange rates or interest rates.

16 (e) Capital management

The Company's objective when managing its capital structure is to minimise the cost of capital while maintaining adequate capital to protect against volatility in earnings and net asset values. The strategy is designed to maximise shareholder return over the long term.

17 Operating leases – Group and Company

Non-cancellable operating lease rentals are payable as follows:

	<i>2010</i>	<i>2009</i>
	£000	£000
<i>Not later than one year</i>	365	365
<i>Between one and five years</i>	893	1,055
<i>Greater than five years</i>	406	609
	1,664	2,039

18 Other Commitments – Group and Company

The company is, under the terms of various agreements, committed to make payments amounting to £493,000 (2009: £690,000) over a period of the next four years in respect of research and bursaries.

19 Related parties – Group and Company

During the year the following directors charged the amounts shown below for consultancy services:

	Charged to the company		Amounts owed by the company at	
	Year ended 31 December 2010 - £'s	Year ended 31 December 2009 - £'s	31 December 2010 - £'s	31 December 2009 - £'s
A Atkinson	58,195	71,738	4,201	23,597
PN Rodgers	53,473	12,418	1,808	941
T Yeo	4,988	-	4,988	-

The terms and conditions of the transactions with directors were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-related parties on an arm's length basis.

20 Ultimate Parent Company

The company is privately owned and has no controlling shareholder.