

Oxford Nanopore Technologies Limited
Annual report and financial statements
for the year ended 31 December 2010

Registered number 05386273



Oxford Nanopore Technologies Limited

Contents

Company information	3
Directors' report	4
Directors' responsibilities	7
Independent Auditor's report	8
Statement of comprehensive income	10
Balance sheet	11
Statement of changes in equity	12
Statement of cash flows	13
Notes to the financial statements	14

Oxford Nanopore Technologies Limited

Company information

Directors	JHP Bayley TJ Nicholls R Pighucci G Sanghera JP Willcocks A Aubrey JA McDonald (appointed 19 May 2010)
Company secretary	Aldwych Secretaries
Registered office	Edmund Cartwright House 4 Robert Robinson Avenue Oxford Science Park Oxford OX4 4GA United Kingdom
Company number	05386273
Auditors	Deloitte LLP Reading United Kingdom

Oxford Nanopore Technologies Limited

Directors' Report

The directors present their report and the audited financial statements for the period ended 31 December 2010

Principal activities

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

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

Business review and Future Developments

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

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

In January 2010, Oxford Nanopore completed an additional £17.4 million fund raising. In addition to the development of the core platform technology, the funding is being directed to the Company's lead project in DNA sequencing and to start work in protein analysis and other single molecule applications.

All applications utilise common elements of the same proprietary modular platform. In 2010, the Company made significant progress with the research and development of platform technology for the direct analysis of single molecules. The Company is developing a range of methods of nanopore sensing for different applications, all of which are compatible with a proprietary, novel electronics platform: the GridION system.

The novel GridION design was disclosed in January 2011 and was well received by the customer community. The GridION system comprises a consumable single-use cartridge and a scalable reader instrument. It is designed to meet the needs of a spectrum of users from benchtop scientists to large scientific installations by a single scalable unit design.

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Company concern whether the Company will be successful in fully developing its technology and whether the technology will be commercially successful. The company's processes to manage their principal risks are outlined in note 13.

Financial Instruments

The Company has a policy to pay creditors within 30 days of receipt of invoice. Further information on the Company'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 company are controlling overall spend in line with budgets approved by the Board and ensuring that the company has adequate cashflows to fund operations. For the year ended 31 December 2010, the Company's net loss of £9.9 million (2009 6 months: £4.1 million) was in line with budgets approved by the Board. Net cashflows for the year ended 31 December 2010 were £7.2 million (2009 6 months: (£4.2) million) and, as at 31 December 2010, the company's balance of cash,

Oxford Nanopore Technologies Limited

Directors' Report

Key Performance Indicators (continued)

cash equivalents and other financial assets of £23.3 million (2009 £16.1 million) is considered adequate to fund the Company'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 company'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 company's assessment of risks and its policies and processes for managing those risks

The directors note that the company is consistently loss making at present due to the research and development activity which it undertakes. The loss for the current period is £9.9 million (2009, 6 months £4.1 million). However, the company 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 company is well placed to manage its business risks successfully despite the current uncertain economic outlook

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

Results and dividends

The income statement is set out on page 10. The directors do not recommend the payment of a dividend (2009 nil)

Change of Accounting Reference Date

Last year the Directors elected to change their accounting reference date to 31 December so that it coincided with the calendar year-end. As the comparative period to 31 December 2009 is a 6 month period, the amounts shown in these financial statements for the period ending 31 December 2010 are not necessarily comparable to those shown for the previous year

Directors

The directors of the company during the period were as follows

JHP Bayley

TJ Nicholls (Chairman)

R Pigiucci

G Sanghera

JP Willcocks

A Aubrey

JA McDonald (appointed 19 May 2010)

Donations

The company made charitable contributions during the period of £725 (2009 nil)

Oxford Nanopore Technologies Limited

Directors' Report

Auditors

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

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

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

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

On behalf of the board



G Sanghera, Director
17 March 2011

Oxford Nanopore Technologies Limited

Directors' Responsibilities

Directors' responsibilities statement

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

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

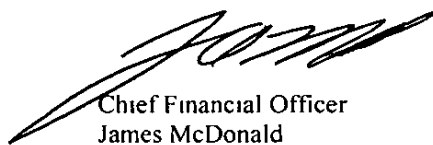
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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
Gordon Sanghera
17 March 2011



Chief Financial Officer
James McDonald
17 March 2011

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 2010 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows, 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.

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 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 company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditor's report to the members of Oxford Nanopore Technologies Limited

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Gregory Culshaw (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Reading, United Kingdom

18 March 2011

Oxford Nanopore Technologies Limited
Statement of Comprehensive Income
For the year ended 31 December 2010

	Note	Year ended 31 December 2010 £	Six Months Ended 31 December 2009 £
Revenue			
Other Income	18	167,858	125,123
		<u> </u>	<u> </u>
Operating expenses			
Direct research & development expenses		(8,584,629)	(3,287,884)
General & administrative expenses		(2,035,001)	(980,980)
Facilities and infrastructure expenses		(582,625)	(310,649)
Depreciation and amortisation expense		(652,019)	(277,250)
Other expenses		(178,695)	(89,590)
		<u> </u>	<u> </u>
Total operating expenses	4	(12,032,969)	(4,946,353)
		<u> </u>	<u> </u>
Loss from operations		(11,865,111)	(4,821,230)
Finance costs, net of exchange gain	8	47,965	(4,044)
Finance income	8	396,772	134,598
		<u> </u>	<u> </u>
Loss before tax		(11,420,374)	(4,690,676)
Tax credit	9	1,538,946	638,309
		<u> </u>	<u> </u>
Accumulated loss for the period and total comprehensive income		<u>(9,881,428)</u>	<u>(4,052,367)</u>

The company made no acquisitions and had no discontinued operations

Oxford Nanopore Technologies Limited
Balance sheet
as at 31 December 2010

	Note	2010 £	2009 £
Non-current assets			
Property, plant and equipment	10	1,218,477	1,331,218
		<u>1,218,477</u>	<u>1,331,218</u>
Current assets			
Trade and other receivables	12	925,598	481,410
R&D tax credit recoverable		2,095,264	1,561,100
Other financial assets	13	7,122,393	9,000,000
Cash and cash equivalents	16	16,201,069	7,094,840
		<u>26,344,324</u>	<u>18,137,350</u>
Total assets		<u>27,562,801</u>	<u>19,468,568</u>
Current liabilities			
Trade and other payables	13, 14	(1,753,544)	(1,284,862)
Total liabilities		<u>(1,753,544)</u>	<u>(1,284,862)</u>
Net assets		<u>25,809,257</u>	<u>18,183,706</u>
Equity			
Share capital	15	18,304	11,866
Share premium reserve		49,534,030	32,209,722
Retained earnings		(23,743,077)	(14,037,882)
Total equity		<u>25,809,257</u>	<u>18,183,706</u>

The financial statements were approved by the board of directors and authorised for issue on 17 March 2011. They were signed on its behalf by



Gordon Sanghera
 Director

Oxford Nanopore Technologies Limited
Statement of changes in equity

Equity attributable to equity holders of the Company

	Share Capital	Share Premium	Retained	Total
	£	Account	Earnings	£
	£	£	£	£
Balance at 1 July 2009	11,866	32,209,722	(10,058,827)	22,162,761
Total recognised income and expense			(4,052,367)	(4,052,367)
Employee share benefit			73,312	73,312
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 1 January 2010	11,866	32,209,722	(14,037,882)	18,183,706
Total recognised income and expense	-		(9,881,428)	(9,881,428)
Issue of share capital	6,438	17,391,713	-	17,398,151
Cost of share issue		(67,405)		(67,405)
Employee share benefit	-		176,233	176,233
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2010	18,304	49,534,030	(23,743,077)	25,809,257
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Oxford Nanopore Technologies Limited
Statement of cash flows
for the year ended 31 December 2010

	Note	Year ended 31 December 2010 £	Six Months Ended 31 December 2009 £
Net cash outflow from operating activities	16	(10,009,925)	(4,054,449)
Investing activities			
Purchases of property, plant and equipment		(545,574)	(277,098)
Distribution in liquidation of STS Diagnostics GmbH		-	7,752
Insurance proceeds received		8,639	-
Amounts transferred from / (to) other financial assets		1,877,607	(9,000,000)
Bank charges and exchange gain / (loss), net		47,964	(4,044)
Interest received		396,772	134,598
Net cash from / (used in) investing activities		<u>1,785,408</u>	<u>(9,138,792)</u>
Financing activities			
Proceeds from issue of shares		17,398,151	-
Costs of share issue		(67,405)	-
Net cash from financing activities		<u>17,330,746</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents		9,106,229	(13,193,241)
Cash and cash equivalents at beginning of period		<u>7,094,840</u>	<u>20,288,081</u>
Cash and cash equivalents at end of period		<u><u>16,201,069</u></u>	<u><u>7,094,840</u></u>

Oxford Nanopore Technologies Limited

Notes to the financial statements

For the year ended 31 December 2010

1. General information

Oxford Nanopore Technologies Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 3. The nature of the company'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 company operates.

2. Adoption of new and revised standards

A summary of the Company'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"

IAS 24 (revised) "Related Party Disclosure"

IAS 32 (amended) "Classification of Rights Issue"

IFRIC 14 (amended) "Prepayments of a Minimum Funding Requirement"

IFRIC 17 "Distributions of Non-cash Assets to Owners" (endorsed in 2009)

IFRIC 18 "Transfer of Assets from Customers" (endorsed in 2009)

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

Improvements to IFRSs 2010 (May 2010) and 2009 (April 2009)

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

3. Significant accounting policies

Basis of preparation

These financial statements relate solely to the activities of Oxford Nanopore Technologies Limited.

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.

Oxford Nanopore Technologies Limited
Notes to the financial statements
For the year ended 31 December 2010

3. Significant accounting policies (continued)

Going concern

The company'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 company's assessment of risks and its policies and processes for managing those risks.

The directors note that the company is consistently loss making at present due to the research and development activity which it undertakes. The loss for the current period is £9.9 million (2009 6 months £4.1 million). However, the company 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 company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have a reasonable expectation that the company 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

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

Financial assets

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

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.

Loans and receivables

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

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

Financial liabilities

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

Oxford Nanopore Technologies Limited
Notes to the financial statements
For the year ended 31 December 2010

3. Significant accounting policies (continued)

Research and development

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

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 Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

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

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

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

Oxford Nanopore Technologies Limited
Notes to the financial statements
For the year ended 31 December 2010

3. Significant accounting policies (continued)

Taxation (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company 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.

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

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

Government grants

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

Critical Accounting Estimates and Judgements

In the application of the Company's accounting policies, which are described in note 3, 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 company's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

Oxford Nanopore Technologies Limited
Notes to the financial statements
For the year ended 31 December 2010

3. Significant accounting policies (continued)

Critical judgements in applying the company's accounting policies (continued)

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 IAS38 "Intangible Assets", in particular whether any future economic benefit will be derived from the costs and flow to the Company. The directors believe that the criteria for capitalisation are not met and accordingly all amounts in relation to research and development have been recognised within research and development expenses in the income statement during the period.

4. Loss from operations

	Year ended 31 December 2010 £	6 month period to 31 December 2009 £
<i>This is after charging/(crediting)</i>		
Government grants received	(167,858)	(125,123)
Staff costs	4,596,106	2,037,844
Depreciation	652,019	277,250
Direct non staff research and development costs	5,420,388	1,948,661
Payments under operating leases - property	290,017	119,808
Net foreign exchange (profits) / losses	(59,207)	353

Taxation

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

Oxford Nanopore Technologies Limited
Notes to the financial statements
For the year ended 31 December 2010

5. Auditors' remuneration

The analysis of auditors' remuneration is as follows

	Year ended 31 December 2010 £	6 month period to 31 December 2009 £
Fees payable to the company's auditors for the audit of the company's annual accounts	9,500	9,750
Restructure R&D advice	14,600	
Employee incentives	29,400	
Taxation	5,800	3,850
Total non-audit fees	49,800	3,850

6. Staff costs

Staff costs, including directors, consist of

	Year Ended 31 December 2010 £	6 month period to 31 De £
Wages and salaries	3,952,538	1,752,071
Employee Benefits	28,208	11,567
Social security costs	439,126	200,894
Share based payments	176,234	73,312
	4,596,106	2,037,844

The average monthly number of employees, including directors, during the period was 81 (2009 70) This included 3 executive directors (2009 2), 4 non executive directors (2009 4), 67 direct research and development staff (2009 58) and 7 administration staff (2009 6)

Oxford Nanopore Technologies Limited
Notes to the financial statements
For the year ended 31 December 2010

7. Directors' emoluments

	Year ended 31 December 2010 £	6 month period to 31 December 2009 £
<i>Directors' emoluments consist of</i>		
Remuneration for management services	441,904	140,389
Amount paid as directors fees	120,720	60,340
	<u>562,624</u>	<u>200,729</u>
<i>Highest paid director</i>		
Remuneration for Directors fees services	210,000	80,227
	<u>210,000</u>	<u>80,227</u>

Executive and a non-executive director receive medical insurance for themselves and immediate family as a non-monetary benefit. Total premiums in respect of this cover amounted to £2,038 (2009 £729), for executive directors £1,318 (2009 £389) and for a non-executive director £720 (2009 £340).

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 £16,641 (2009 £2,179).

8. Finance Income and Expense

	Year ended 31 December 2010 £	6 month period to 31 December 2009 £
Finance income		
Bank interest receivable	396,772	134,598
	<u>396,772</u>	<u>134,598</u>
Finance expense		
Bank interest payable and charges	(10,609)	(3,691)
Exchange gains and losses	59,206	(353)
	<u>47,965</u>	<u>(4,004)</u>

Oxford Nanopore Technologies Limited
Notes to the financial statements
For the year ended 31 December 2010

9. Tax on Profit on Ordinary Activities

	Year ended 31 December 2010 £	6 month period to 31 December 2009 £
Current tax		
R&D tax credit for the period	(1,487,150)	(638,309)
Adjustment for under provision of R&D tax credit in prior period	(51,796)	-
Total current tax	(1,538,946)	(638,309)

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 £2,686,158 (2009 £1,638,356) has not been recognised due to uncertainty that the asset will reverse in the foreseeable future as the company has yet to obtain significant sources of income. The unrecognised deferred tax asset relates to tax losses (£2,568,397) and share based payments (£117,761).

The differences between the standard rate of corporate tax in the UK of 21% (2009 21%) and the tax charge for the year are explained below

	Year Ended 31 December 2010 £	6 month period to 31 December 2009 £
Loss before taxation	(11,420,374)	(4,690,676)
Standard tax rate for period as a percentage of losses at 21%	(2,398,279)	(985,042)
Effects of		
R&D tax relief	(363,494)	(97,990)
Prior period adjustment	(51,786)	-
Expenses not deductible	43,303	10,790
Origination of unrecognised tax losses	1,102,356	408,056
Short term and fixed asset timing differences not recognised	128,954	25,877
	(1,538,946)	(638,309)

Oxford Nanopore Technologies Limited
Notes to the financial statements
For the year ended 31 December 2010

10. Property, plant and equipment

	Leasehold Improvements £	Plant and Machinery £	Office Equipment £	Construction in Progress £	Total £
Cost					
At 1 July 2009	139,384	1,075,816	276,944	565,746	2,057,890
Additions	16,913	115,952	54,038	90,195	277,098
Disposals	(139,384)	(21,065)	(20,491)	-	(180,940)
CIP Transfers	611,352	-	44,589	(655,941)	-
At 1 January 2010	628,265	1,170,703	355,080	-	2,154,048
Additions	25,515	372,574	147,485	-	545,574
Disposals	-	(46,272)	(44,225)	-	(90,497)
CIP Transfers					
At 31 December 2010	653,780	1,497,005	458,340	-	2,609,125
Accumulated depreciation					
At 1 July 2009	(139,384)	(480,301)	(106,725)	-	(726,410)
Charge for the year	(61,912)	(162,018)	(53,320)	-	(277,250)
Eliminated on disposals	139,384	21,065	20,381	-	180,830
At 1 January 2010	(61,912)	(621,254)	(139,664)	-	(822,830)
Charge for the year	(129,503)	(378,833)	(143,683)	-	(652,019)
Eliminated on disposals	-	41,692	42,509	-	84,201
At 31 December 2010	(191,415)	(958,395)	(240,838)	-	(1,390,648)
Carrying amount					
At 31 December 2009	566,353	549,449	215,416	-	1,331,218
At 31 December 2010	462,365	538,610	217,502	-	1,218,477

11. Subsidiaries

The principal subsidiaries of Oxford Nanopore Technologies Limited, all of which have been excluded in these financial statements on the grounds of materiality, are as follows

Name	Country of Incorporation	Proportion of ownership interest	
		31 December 2010	31 December 2009
STS Diagnostics Gmbh	Germany	see note below	100%
Oxford Nanolabs Limited	England and Wales	100%	100%

Oxford Nanolabs Limited has never traded and is a dormant company

On 25 January 2010, STS Diagnostics Gmbh was liquidated. In July 2009, Oxford Nanopore received a final distribution from STS Diagnostics Gmbh in the amount of £7,752. As the directors had previously considered the value of the investment in STS Diagnostics Gmbh to be £nil and had written down the investment accordingly, the distribution was recognised as miscellaneous income in the period ending 31 December 2009.

Oxford Nanopore Technologies Limited
Notes to the financial statements
For the year ended 31 December 2010

12. Trade and other receivables

	Year ended 31 December 2010 £	6 month period to 31 December 2009 £
Other Debtors	79,242	77,451
Accrued interest income	178,343	114,010
Other taxes	207,290	132,889
Prepayments	460,723	157,060
	<u>925,598</u>	<u>481,410</u>

13. Financial instruments – risk management

Financial risk management objectives and policies

Overview

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

Credit risk

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

Liquidity risk

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

It is currently Company policy that the majority of external monetary deposits are made on a fixed interest basis over terms varying from one to twelve months depending upon the rate available. Maturities are staggered whenever possible to spread exposure to interest rate movement. Although the board accepts that this policy neither protects the company 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 Company'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 Company's costs of research and development or the value of its holdings in financial instruments. The Company has little exposure to interest rate risk other than that returns on short-term fixed interest deposits will vary with movements in underlying bank interest rates. The Company's principal market risk exposure is to movements in foreign exchange rates.

Oxford Nanopore Technologies Limited
Notes to the financial statements
For the year ended 31 December 2010

13. Financial instruments – risk management (continued)

Foreign currency risk

Foreign exchange risk arises because the Company from time to time enters into transactions denominated in a currency other than Sterling. Where it is considered that the risk to the Company is significant, it will enter into a matching forward contract with a reputable bank. To date no such forward contracts have been entered into. In the year ended 31 December 2010 approximately 12% (2009 10%) of the Company's annual expenditures were denominated in US dollars.

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

	Liabilities		Assets	
	Year ended 31 December 2010 £	6 month period to 31 December 2009 £	Year ended 31 December 2010 £	6 month period to 31 December 2009 £
Financial assets and liabilities	551,635	337,848	205,521	534,674

Sensitivity analysis

A 5% strengthening of the US\$ at 31 December 2010 would have resulted in changes to equity and profit or loss by the amounts shown below:

	Year ended 31 December 2010 £	6 month period to 31 December 2009 £
Increase in loss for the period	78,000	30,000
Decrease in equity	78,000	30,000

The interest rate for short-term deposits is variable dependent on the rates offered by the Company's bankers. During the period ended 31 December 2010, the short-term deposits returned an average of 1.63% (2009 1.52%). The Company's exposure to interest rate risk on cash and cash equivalents, is illustrated below with regard to the average cash balance and the difference a decrease of 1% in interest rates would have made based on the average cash balance of £23,838,678 (2009 £17,735,924).

	Year ended 31 December 2010 £	6 month period to 31 December 2009 £
Increase in loss for the period	238,000	89,000
Decrease in equity	238,000	89,000

Oxford Nanopore Technologies Limited
Notes to the financial statements
For the year ended 31 December 2010

13. Financial instruments – risk management (continued)

Capital management

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

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

The Company has no debt and accordingly the gearing ratio is zero.

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

Financial instruments

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

The company's maximum credit risk at the period end is those amounts due from grant providers of £76,589 (2009 59,928) and amounts held with financial institutions of £23.3 million (2009 £16.1 million). The Company places its deposits with reputable financial institutions to minimise its credit risk.

Fair values

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

	Designated At fair value £	Amortised cost £	Total carrying Value £	Fair Value £
31 December 2010				
Loans and Receivables				
Other financial assets*	-	-	7,122,393	7,122,393
Cash and cash equivalents	-	-	16,201,069	16,201,069
Trade and other receivables	-	-	3,020,862	3,020,862
Other financial liabilities				
Trade and other payables	-	-	<u>(1,753,544)</u>	<u>(1,753,544)</u>
31 December 2009				
Loans and Receivables				
Other financial assets*	-	-	9,000,000	9,000,000
Cash and cash equivalents	-	-	7,094,840	7,094,840
Trade and other receivables	-	-	2,042,510	2,042,510
Other financial liabilities				
Trade and other payables	-	-	<u>(1,284,862)</u>	<u>(1,284,862)</u>

* - other financial assets represent sterling fixed rate deposits of greater than three months maturity at the balance sheet date.

Oxford Nanopore Technologies Limited

Notes to the financial statements

For the year ended 31 December 2010

13. Financial instruments – risk management (continued)

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 fair approximation of fair value

Financial assets – numerical information

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

	Year ended 31 December 2010 £	6 month period to 31 December 2009 £
Floating rate assets	6,201,069	2,594,840
Fixed rate assets	17,122,393	13,500,000
	<u>23,323,462</u>	<u>16,094,840</u>

The weighted average interest rate on the fixed term deposits was 1.78% (2009 1.48%) The weighted average term of fixed interest rate deposits was 9.5 months (2009 9.5 months)

14. Trade and other payables - current

	Year ended 31 December 2010 £	Six month period to 31 December 2009 £
Trade Payables	554,859	437,149
Taxation and Social Security	111,056	103,315
Other Creditors	4,594	3,700
Accruals and deferred income	1,083,035	740,698
	<u>1,753,544</u>	<u>1,284,862</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days (2009 31). The Company 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.

Oxford Nanopore Technologies Limited
Notes to the financial statements
For the year ended 31 December 2010

15. Share capital

	Year ended 31 December 2010 £	Six month period to 31 December 2009 £
Issued and fully paid		
Opening- 1,186,597 ordinary shares of £0.01 each	11,866	11,866
Issued- 238,832 ordinary shares of £0.01 each (2009 nil)	2,388	-
	<hr/>	<hr/>
Closing- 1,425,429 ordinary shares of £0.01 each (2009 1,186,597)	14,254	11,866
Issued and closing- 81,000 A shares of £0.05 each	4,050	-
	<hr/>	<hr/>
Total issued share capital	18,304	11,866
	<hr/> <hr/>	<hr/> <hr/>

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

During the year, 433 ordinary shares were issued as a result of share options exercised.

The Company issued and allotted 81,000 A shares.

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

Oxford Nanopore Technologies Limited
Notes to the financial statements
For the year ended 31 December 2010

16. Notes to the cash flow statement

	Year ended 31 December 2010 £	6 month Period ended 31 December 2009 £
Loss before tax	<u>(11,420,374)</u>	<u>(4,690,676)</u>
Adjustments for		
Depreciation	652,019	277,250
Loss on disposal of property, plant and equipment	(2,343)	110
Distribution in liquidation of STS Diagnostics GmbH	-	(7,752)
Bank charges and exchange (gain) / loss, net	(47,965)	4,044
Interest income	(396,772)	(134,598)
Employee share benefit costs	176,234	73,312
Operating cash flows before movements in working capital	<u>(11,039,201)</u>	<u>(4,478,310)</u>
Decrease/(increase) in receivables	(444,188)	196,882
Increase in payables	468,682	226,979
Cash absorbed by operations	<u>(11,014,707)</u>	<u>(4,054,449)</u>
Income taxes – R&D tax credit received	1,004,782	-
Net cash from operating activities	<u>(10,009,925)</u>	<u>(4,054,449)</u>

Cash and cash equivalents

	Year ended 31 December 2010 £	6 month Period ended 31 December 2009 £
Cash and bank balances	16,201,069	7,094,840

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

Oxford Nanopore Technologies Limited
Notes to the financial statements
For the year ended 31 December 2010

17. Commitments

As at 31 December 2010, the company had a commitment to make payments under a five year operating lease for laboratory and office space with a total commitment over the next 5 years of £650,753 (2009- £953,400)

Operating lease arrangements

The company as lessee

	Year ended 31 December 2010 £	Six month period to 31 December 2009 £
Minimum lease payments under operating leases recognised as an expense in the year	<u>191,394</u>	<u>119,808</u>

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

	Year ended 31 December 2010 £	Six month period to 31 December 2009 £
Within one year	189,279	226,700
In the second to fifth years inclusive	461,474	212,622
	<u>650,753</u>	<u>439,322</u>

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

As at 31 December 2010, the company 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 2010 £	Six month period to 31 December 2009 £
Not later than one year	901,918	569,349
Later than one year and not later than five years	330,442	216,718
	<u>1,232,360</u>	<u>786,067</u>

Oxford Nanopore Technologies Limited
Notes to the financial statements
For the year ended 31 December 2010

18. Share based payments

Equity-settled share option scheme

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

On 7 August and 21 December 2009, the Company granted options under the Enterprise Management Incentive Scheme over, respectively, 25,450 and 5,900 ordinary shares of £0.01 nominal value exercisable at a price of £13.35 per share

	Year ended 31 December 2010		Six month period to 31 December 2009	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of period	99,900	10.55	81,050	8.61
Granted during the period	19,250	13.35	31,350	13.35
Forfeited during the period	(6,517)	13.35	(12,500)	8.08
Exercised during the period	(433)	-	-	-
Expired during the period				
Outstanding at the end of the period	<u>112,200</u>	<u>10.57</u>	<u>99,900</u>	<u>10.55</u>
Exercisable at the end of the period	<u>63,192</u>	<u>9.0</u>	<u>69,592</u>	<u>8.02</u>

The weighted average share price at the date of exercise for share options exercised during the period was £13.35 (2009 nil). The options outstanding at 31 December 2010 had a weighted average exercise price of £10.57 (2009 £10.55), and a weighted average remaining contractual life of 7.8 years (2009 8.5 years). In 2010, options were granted on 5 February, 13 August and 23 September. The aggregate of the estimated fair values of the options granted on those dates is £146,526. In 2009, options were granted on 7 August and 21 December. The aggregate of the estimated fair values of the options granted on those dates is £239,725. The inputs into the Black-Scholes model are as follows:

	2010	2009
Weighted average share price	£13.3	£13.3
Weighted average exercise price	£13.3	£13.3
Expected volatility	50%	50%
Expected life	10 y	10 y
Risk-free rate	1.7	2.7
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 £176,234 and £73,312 related to equity-settled share-based payment transactions in 2010 and 2009 respectively.

Oxford Nanopore Technologies Limited
Notes to the financial statements
For the year ended 31 December 2010

19. Retirement benefits

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

20. Related party transactions

Details of directors' remuneration are given in note 7.

At the end of the period, there were 18,350 (2009: 14,250) unapproved options issued to non-employees including non-executive directors and consultants.

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

Illumina made an investment of £11.9 million in return for a minority stake in Oxford Nanopore. Dependent upon the company achieving certain technical milestones, Illumina also agreed to subscribe to additional shares up to an amount whereby its total investment would represent no more than 19.99% of the outstanding share capital of the company. The company is required to keep available a sufficient number of authorised, but unissued shares, to meet this commitment.

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

21. Ultimate Controlling Party

There is no overall controlling party of the company.