Oxford Nanopore Technologies Limited

Directors' report and financial statements

For the 6 Month Period Ended 31 December 2009

Registered number 05386273

Contents

Company information

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

Directors' report

The directors present their report and the audited financial statements for the period ended 31 December 2009

Research and Development

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

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

Business Review

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

In January 2009 Oxford Nanopore completed a £13 9 million private fundraising and also announced a landmark collaboration with the leading US genetic analysis company, Illumina This consisted of a commercialisation agreement and strategic investment

Under the terms of the commercialisation agreement, Illumina will exclusively market, sell, distribute, and service BASE Technology® products developed by Oxford Nanopore for DNA sequencing into the research and diagnostic markets on a worldwide basis Illumina also made an investment of £11 9 million ($18 million) in return for a minority stake in Oxford Nanopore

During the period, the Company made substantial progress in the development of its nanopore technology platform Following the fundraising in January of the previous financial year, the Company was well positioned to expand its staff to more than 70 We now have well staffed, high quality teams in chemistry, engineering and informatics, all integral to the development of a disruptive technology

Change of Accounting Reference Date

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

Post Statement of Financial Position Events and Future Developments

In January 2010, Oxford Nanopore completed an additional £17 4 million fund raising In addition to the development of the core platform technology, funding will be directed to the Company's lead project in DNA sequencing and to start early work in protein analysis Both projects utilise common elements of the same proprietary modular platform

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

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

Financial Instruments

The Company s 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 10

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 period ended 31 December 2009, the Company's net loss of £4 1 million (2009- £6 2 million) was in line with budgets approved by the Board and, as at 31 December 2009, the company's balance of cash, cash equivalents and other financial assets of £16 1 million (2009- £20 3 million) is considered adequate to fund the Company's operations

Results and dividends

The income statement is set out on page 7 The directors do not recommend the payment of a dividend

Directors' report (continued)

Directors

The directors of the company during the period were as follows
JHP Bayley
TJ Nicholls (Chairman)
R Pigliucci
G Sanghera
JP Willcocks
A Aubrey

Donations

The company made no political or charitable contributions during the period

Auditors

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

On behalf of the board

G Sanghera
Director

17 March 2010

Directors' responsibilities

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

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

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

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

We have audited the financial statements of Oxford Nanopore Technologies Limited for the 6 months ended 31 December 2009 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the 6 months 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 6 months for which the financial statements are prepared is consistent with the financial statements

Independent Auditor's Report (continued)

Matters on which we are required to report by exception

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

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

BDO LLP

Mr Paul Anthony (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Southampton
United Kingdom
Date 26 March 2010

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Statement of Comprehensive Income
for the 6 month period ended 31 December 2009

	Note	6 month period ended 31 December 2009 £	Year ended 30 June 2009 £
Revenue			
Other income		**125,123**	**361,215**
Direct research & development expenses		**(3,287,884)**	**(4,998,527)**
General & administrative expenses		**(980,980)**	**(1,826,491)**
Facilities and infrastructure expenses		**(310,649)**	**(326,008)**
Depreciation and amortisation expense		**(277,250)**	**(434,888)**
Other expenses		**(89,590)**	**(454,419)**
Total expenses		**(4,946,353)**	**(8,040,333)**
Loss from operations	*2*	**(4,821,230)**	**(7,679,118)**
Finance costs	*5*	**(4,044)**	**(38,577)**
Finance income	*5*	**134,598**	**610,203**
Loss before tax		**(4,690,676)**	**(7,107,492)**
Tax credit	*6*	**638,309**	**927,140**
Accumulated loss for the period and total comprehensive expense for the period, attributable to the equity holders of the Parent		**(4,052,367)**	**(6,180,352)**

The company made no acquisitions and had no discontinued operations

Statement of Changes in Equity
for the 6 month period ended 31 December 2009

	Share Capital (i) £	Share Premium (ii) £	Retained Earnings (iii) £	Total £
Balance as 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 expense	-	-	73,312	73,312
Balance as at 31 December 2009	**11,866**	**32,209,722**	**(14,037,882)**	**18,183,706**

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

The notes on pages 10 to 26 form part of these financial statements.

Statement of Financial Position
as at 31 December 2009

Company number 05386273

	Note	£	6 month period to 31 December 2009 £	£	Year ended 30 June 2009 £
Assets					
Non current assets					
Property, plant and equipment	*7*		**1,331,218**		1,331,480
Current assets					
Trade and other receivables	*9*	**481,410**		678,292	
R&D tax credit recoverable		**1,561,100**		922,791	
Other financial assets	*10*	**9,000,000**			
Cash and cash equivalents	*10*	**7,094,840**		20,288 081	
Total current assets			**18,137,350**		21,889,164
Total assets			**19,468,568**		23,220,644
Liabilities					
Current liabilities					
Trade and other payables	*11*		**(1,284,862)**		(1,057,883)
Total current liabilities			**(1,284,862)**		(1,057,883)
Total net assets			**18,183,706**		22,162,761
Capital and reserves attributable to equity holders of the parent					
Share capital	*12*		**11,866**		11,866
Share premium reserve			**32,209,722**		32,209,722
Retained earnings			**(14,037,882)**		(10,058,827)
Total equity			**18,183,706**		22,162,761

The financial statements on pages 7 to 26 were approved by the Board of Directors and authorised for issue on 17 March 2010 and were signed on its behalf by

G Sanghera
Director

The notes on pages 10 to 26 form part of these financial statements

Statement of Cash Flows
for the 6 month period ended 31 December 2009

	Note	6 month period to 31 December 2009 £	Year ended 30 June 2009 £
Operating activities			
Loss before tax		**(4,690,676)**	(7,107,492)
Adjustments for			
Depreciation	*7*	**277,250**	434,892
Loss on disposal of property, plant and equipment		**110**	-
Distribution in liquidation of STS Diagnostics Gmbh	*8*	**(7,752)**	-
Interest expense and bank charges	*5*	**4,044**	38,577
Interest income	*5*	**(134,598)**	(610,203)
Employee share benefit costs	*15*	**73,312**	136,884
Operating loss before changes in working capital and provisions		**(4,478,310)**	(7,107 342)
Decrease/(Increase) in trade and other receivables		**196,882**	(280,920)
Increase in trade and other payables		**226,979**	156,047
Cash absorbed by operations		**(4,054,449)**	(7,232,215)
Income taxes – R&D tax credit received		**-**	367,981
Cash flows from operating activities		**(4,054,449)**	(6,864,234)
Investing activities			
Purchases of PPE		**(277,098)**	(1,327,864)
Distribution in liquidation of STS Diagnostics Gmbh		**7,752**	-
Amounts transferred to other financial assets		**(9,000,000)**	-
Interest and bank charges paid		**(4,044)**	(38,577)
Interest received		**134,598**	610,203
Cash flows from investing activities		**(9,138,792)**	(756,238)
Financing activities			
Issue of ordinary shares		**-**	13,974,131
Costs of share issue		**-**	(62,969)
Cash flows from financing activities			13,911,162
(Decrease)/Increase in cash and cash equivalents		**(13,193,241)**	6 290 690
Cash and cash equivalents at start of period		**20,288,081**	13,997 391
Cash and cash equivalents at end of period		**7,094,840**	20 288 081

Notes *(forming part of the financial statements)*

1 Accounting policies

Basis of preparation

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

The 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 and IFRIC interpretations) as adopted by the European Union ("Adopted IFRSs"), and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under IFRS

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

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

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

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

Share-based payments

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

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

Leased assets

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

Deferred taxation

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

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

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

Deferred tax balances are not discounted

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

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

Government grants

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

Critical Accounting Estimates and Judgements

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

Judgements

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

Management have considered the requirements of IAS 38 "Intangible Assets" in respect of the accounting treatment of these agreements It is our opinion that whilst the value of the licences can be reliably measured, it is as yet uncertain that any future economic benefit will be derived from the licences and flow to the Company As a result of this conclusion, all amounts in relation to these agreements have been recognised within research and development expenses in the income statement during the period

2) Research and Development Costs

The Company regularly reviews its spend in the area of research and development against the criteria for capitalisation of such costs as laid out in IAS38 "Intangible Assets" It is our opinion that at the Company's current stage of research, whilst the value of all such costs can be reliably measured, it is as yet uncertain that any future economic benefit will be derived from the costs and flow to the Company As a result of this conclusion, all amounts in relation to research have been recognised within research and development expenses in the income statement during the period

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

Standards Not yet Effective

New standards, amendments to standards or interpretations effective in the period

During the period ended 31 December 2009 the following new standards amendments to standards or interpretations became effective for the first time The adoption of these interpretations, standards or amendment to standards were either not relevant for the Company or have not led to any significant impact on the Company's financial statements

IFRIC 11 - IFRS 2 Group treasury share transactions

IFRIC 12 Service concession arrangements

IFRIC 13 Customer loyalty programmes

IFRIC 14 The limit on a defined benefit asset, minimum funding requirements and their interaction

IFRIC 15 Agreements for the construction of Real Estate

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IAS 23 (amendments) Borrowing Costs

IAS 27 and IFRS 1 Cost of an Investment in a subsidiary, jointly-controlled entity or associate

IAS 32 and IAS 1 Puttable Financial Instruments and Obligations arising on Liquidation

IAS 32 (amendments) Financial Instruments Presentation

IAS 39 (amendment) Financial instruments recognition and measurement

IFRS 1 (revised) First-time adoption of international Financial Reporting standards

IFRS 2 (amendment) Share Based Payment Vesting Conditions and Cancellations

IFRS 7 (amendments) Improving Disclosures about Financial Instruments*

IFRS 8 Operating segments

The following standards which became effective in the period have had an impact on the financial statements

IAS 1 (Revised) Presentation of Financial Statements

IAS 1(Revised) has led to changes in the format of the primary statements The 'Statement of Income and Expense' is now shown as a 'Statement of Comprehensive Income and the 'Balance Sheet' is now shown as the 'Statement of Financial Position' The Company has adopted a '1' statement approach to reporting the total comprehensive income of the Company

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

New standards, amendments to standards or interpretations not yet applied

The IASB and IFRIC have issued the following standards and interpretations with an effective date falling after the date of these financial statements

International Accounting Standards (IAS/IFRS/IFRIC)	Effective date for periods commencing
IFRS 1 (amendments) Additional Exemptions for First-time Adopters *	1 January 2010
IFRS 2 (amendment) Group Cash-settled Share-based Payment Transactions	1 July 2009
IFRS 3 (revised) Business Combinations	1 July 2009
IFRS 9 Financial Instruments *	1 January 2013
IAS 24 (revised) Related Party Disclosure *	1 January 2011
IAS 27 (amendments) Consolidated and Separate Financial Statements	1 July 2009
IAS 32 (amendment) Classification of Rights Issues *	1 February 2010
IAS 39 (amendment) Financial Instruments Recognition and Measurement	1 July 2009
IFRIC 9 and IAS 39 (amendment) Embedded derivatives *	30 June 2009
IFRIC 14 and IAS 19 Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction *	1 January 2011
IFRIC 17 Distributions of non-cash assets to owners	1 July 2009
IFRIC 18 Transfer of Assets from Customers *	1 July 2009
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments *	1 April 2010

* Not yet adopted for use in the European Union

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

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

2 Loss from operations

	6 month period to 31 December 2009 £	Year ended 30 June 2009 £
This is after charging/(crediting)		
Government grants received	**(117,081)**	(361,215)
Staff costs	**2,037,844**	3,120,063
Depreciation	**277,250**	434,892
Direct non staff research and development costs	**1,948,661**	2,836,117
Payments under operating leases - property	**119,808**	244,072
Net foreign exchange losses	**353**	29 154
Auditors' remuneration	**9,750**	9,500
Fees to auditors for non audit services	**3,850**	3,000

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

3 Staff costs

	6 month period to 31 December 2009 £	Year ended 30 June 2009 £
Staff costs, including directors, consist of		
Wages and salaries	**1,752,071**	2,677,040
Employee benefits	**11,567**	17,380
Employer's national insurance contributions and similar taxes	**200,894**	288 759
Share based payments	**73,312**	136,884
	2,037,844	3,120,063

The average monthly number of employees, including directors, during the 6 month period was 70 (30 June 2009 56) This included 2 executive directors (30 June 2009 3), 4 non executive directors (30 June 2009 4), 58 direct research and development staff (30 June 2009 46) and 6 administration staff (30 June 2009 3)

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

4 Directors' emoluments

	6 month period to 31 December 2009 £	Year ended 30 June 2009 £
Directors' emoluments consist of		
Remuneration for management services	**140,389**	550,337
Amount paid as directors fees	**60,340**	123,789
Loss of office	-	185,000
	200,729	859,126
Highest paid director		
Remuneration for Directors fees services	**80,227**	93,685
Loss of office	-	185,000
	80,227	278,685

Mr R Pigliucci provided services to the Company under separate contract in his capacity as a consultant These services were over and above those necessary to fulfil his role as a director During the 6 months to 31 December 2009 the Company has charged £nil (30 June 2009 £12,904) to its income statement with respect to those services

Similarly Mr TJ Nicholls provides services to the Company under separate contract in his capacity as a consultant These services are over and above those necessary to fulfil his role as a director During the 6 months to 31 December 2009 the Company has charged £nil (30 June 2009 £5,000) to its income statement with respect to those services

Professor H Bayley provides services to the Company under separate contract in his capacity as a consultant through Oxford University Consulting These services are over and above those necessary to fulfil his role as a director During the 6 month period to 31 December 2009 the Company has charged £8,311 (30 June 2009 £39,612) to its income statement with respect to those services

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 for the 6 months to 31 December 2009 amounted to £729 (30 June 2009 £2,085) for executive directors £389 (30 June 2009 £1,600) for a non-executive director £340 (30 June 2009 £485)

All the emoluments relate to short-term employee benefits No director received any post employment benefit, other long-term benefit or termination benefit Charges to the profit and loss account relating to share based payments relating to options held by directors amounted to £2,179 36 (30 June 2009 £9 406)

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

5 Finance Income and expense

	6 month period to 31 December 2009 £	Year ended 30 June 2009 £
Finance income		
Bank interest receivable	**134,598**	610,203
Finance expense		
Bank interest payable and charges	**4,044**	38,577

6 Tax credit

	6 month period to 31 December 2009 £	Year ended 30 June 2009 £
Current tax credit		
Research and development tax credit for the period	**638,309**	922 791
Adjustment for under provision of research and development tax credit in prior period	**-**	4,349
Total current tax credit	**638,309**	927,140
Deferred tax expense		
Reversal of timing differences	**-**	-
Tax credit on loss on ordinary activities	**638,309**	927,140

The directors believe that the Company is eligible to claim a Research and Development tax credit and intend to make such a claim An initial calculation indicates that this claim will be for £638,309 (30 June 2009 £922,791) This claim will be subject to HM Revenue and Customs review and approval, the result of which will not be known until a future date Credit has been taken to the Income Statement with respect to this claim due to the Company's history of successful claims

There is a deferred tax asset of £80,752 (30 June 2009 £21,944) in respect of the share based payment charge This has not been recognised due to the uncertainty that the asset will reverse in the foreseeable future as the company has yet to obtain significant sources of income

Deferred tax losses have been recognised to the extent that they offset the deferred tax liability arising through accelerated capital allowances The remainder of the deferred tax asset of £1,557,604 (30 June 2009 £1,132,061) has not been recognised due to the uncertainty that the asset will reverse in the foreseeable future as the company has yet to obtain significant sources of income

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

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

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

	6 month period to 31 December 2009 £	Year ended 30 June 2009 £
Loss on ordinary activities before taxation	**(4,690,676)**	(7,107,492)
Loss on ordinary activities multiplied by expected rate of corporation tax at 21% (30 June 2009 21%)	**(985,042)**	(1,492,573)
Effects of		
Expenses not deductible for tax purposes	**10,790**	10,480
Origination of temporary timing differences	**25,877**	(104,860)
Origination of unrecognised tax losses	**408,056**	816,602
R&D tax relief	**(97,990)**	(152,440)
Under provision for tax recoverable in prior period	**-**	(4,349)
	638,309	927,140

(c) Factors that may affect future tax charges

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

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

7 Property, Plant and Equipment

	Leasehold improvements £	Plant and machinery £	Office equipment £	Construction In Progress £	Total £
At 30 June 2009					
Cost	139,384	1,075 816	276,944	565,746	2,057,890
Accumulated depreciation	(139,384)	(480,301)	(106 725)	-	(726,410)
Net book value	-	**595,515**	**170,219**	**565,746**	**1,331,480**
At 31 December 2009					
Cost	628,265	1,170 703	355 080	-	2,154,048
Accumulated depreciation	(61,912)	(621,254)	(139,664)	-	(822,830)
Net book value	**566,353**	**549,449**	**215,416**	-	**1,331,218**
Year ended 30 June 2009					
Opening net book value	57,933	298,113	82 462	-	438,508
Additions	30,660	563,908	167,550	565,746	1,327,864
Disposals					
Depreciation charge for the period	(88 593)	(266 506)	(79 793)	-	(434,892)
At 30 June 2009	-	595,515	170 219	565,746	1,331,480
30 June 2009					
Opening net book value	-	**595,515**	**170,219**	**565,746**	**1,331,480**
Additions	16,913	115,952	54 038	90,195	277,098
Disposals	-	-	(110)	-	(110)
CIP Transfers	611,352	-	44,589	(655,941)	-
Depreciation charge for the period	(61,912)	(162,018)	(53 320)	-	(277,250)
6 month period ended 31 December 2009	**566,353**	**549,449**	**215,416**	-	**1,331,218**

8 Subsidiaries

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

Name	Country of Incorporation	Proportion of ownership interest	
		31 December 2009	30 June 2009
STS Diagnostics Gmbh	Germany	100%	100%
Oxford Nanolabs Limited	England and Wales	100%	100%

Both STS Diagnostics Gmbh and Oxford Nanolabs Limited are dormant companies

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 current period

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

9 Trade and other receivables - current

	6 month period to 31 December 2009	Year ended 30 June 2009
	£	£
Other debtors	**77,451**	74,162
Accrued income	**114,010**	188,247
Other taxes	**132,889**	172,782
Prepayments	**157,060**	243,101
	481,410	678,292

10 Financial instruments – risk management

Financial risk management objectives and policies

Overview

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

Credit risk

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

Liquidity risk

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

It is currently Company policy that the majority of external monetary deposits are made on a fixed interest basis over terms varying from one to twelve months depending upon the rate available Maturities are staggered whenever possible to spread exposure to interest rate movement Although the board accepts that this policy neither protects the 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

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

Notes *(forming part of the financial statements) 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 6 months ended 31st December 2009 approximately 10% (30 June 2009- 15%) of the Company's annual expenditures were denominated in US dollars

Sensitivity analysis

A 5% weakening of the US$ at 31 December 2009 would have resulted in changes to equity and profit or loss by the amounts shown below

	6 month period to 31 December 2009 £ 000's	Year ended 30 June 2009 £ 000's
Increase in loss for the period	**30**	60
Decrease in equity	**30**	60

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 2009, the short-term deposits returned an average of 1 52%% (30 June 2009 3 64%) 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 £17,735,924 (30 June 2009 £16,445,753)

	6 month period to 31 December 2009 £ 000's	Year ended 30 June 2009 £ 000's
Increase in loss for the period	**89**	164
Decrease in equity	**89**	164

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

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

Capital management (continued)

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

	6 month period to 31 December 2009	Year ended 30 June 2009
	£	£
Total equity – capital and reserves	**18,183,706**	22,162,761
Total assets	**19,468,568**	23,220,644
Equity ratio	**93.4%**	95 4%

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 £59,928 and amounts held with financial institutions of £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 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	-	-	(1,284,862)	(1,284,862)
30 June 2009				
Loans and Receivables				
Other financial assets*	-	-	-	-
Cash and cash equivalents	-	-	20,288,081	20,288,081
Trade and other receivables	-	-	1,601,083	1,601,083
Other financial liabilities				
Trade and other payables	-	-	(1,057,883)	(1,057,883)

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

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

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

Financial assets – numerical information

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

	6 month period to 31 December 2009 £	Year ended 30 June 2009 £
Floating rate assets	**2,594,840**	596,985
Fixed rate assets	**13,500,000**	19,691,096
	16,094,840	20,288 081

The weighted average interest rate on the fixed term deposits was 1 48% (30 June 2009 3 64%) The weighted average term of fixed interest rate deposits was 9 5 months (30 June 2009 5 1 months)

11 Trade and other payables - current

	6 month period to 31 December 2009 £	Year ended 30 June 2009 £
Trade payables	**437,149**	498,322
Taxation and social security	**103,315**	94,496
Other creditors	**3,700**	-
Accruals and deferred income	**740,698**	465,065
	1,284,862	1,057,883

12 Share capital

	6 month period to 31 December 2009 £	Year ended 30 June 2009 £
Authorised		
1,415,000 (30 June 2009- 1,415,000) ordinary shares of £0 01 each	**14,150**	14,150
Allotted called up and fully paid		
At 30 June 2009	**11,866**	9,728
NIL ordinary shares (30 June 2009 213,809) of £0 01 issued during the period	-	2,138
At 31 December 2009	**11,866**	11,866

13 Commitments

As at 31 December 2009, 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 5 years of £953,400 The lease contains a break clause after two and a half years upon six months written notice

Commitments under operating leases	**6 month period to 31 December 2009**	Year ended 30 June 2009
	£	£
The total of future minimum non-cancellable lease payments due for each of the following periods are		
Not later than one year	**226,700**	161,052
Later than one year and not later than five years	**212,622**	326,196
	439,322	487,248

As at 31 December 2009, the company had the following non-cancellable commitments under research agreements

Commitments under research agreements	**6 month period to 31 December 2009**	Year ended 30 June 2009
	£	£
The total of future minimum non-cancellable lease payments due for each of the following periods are		
Not later than one year	569,349	161,052
Later than one year and not later than five years	216,718	326,196
	786,067	487,248

14 Retirement benefits

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

15 Share based payment

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

On 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

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

15 Share based payment (continued)

	6 months to 31 December 2009 Weighted average exercise price	Number	Year ended 30 June 2009 Weighted average exercise price	Number
Outstanding at the beginning of the period	**£8 61**	**81,050**	£7 00	73,478
Granted during the period	**£13.35**	**31,350**	£11 50	29,300
Exercised during the period		**nil**	£7 04	(5,050)
Lapsed during the period	**£8.08**	**(12,500)**	£7 07	(16,678)
Outstanding at the end of the period	**£10.55**	**99,900**	£8 61	81,050

The exercise price of all options outstanding at the end of the period was between £7 00 and £13 35 per share (30 June 2009 £7 00 and £11 50 per share) and their weighted average contractual life was 8 5 years (30 June 2009 8 5 years)

All options outstanding at period end vest equally over the first three years in half yearly instalments Of the total number of options outstanding at the end of the period, 69,592 (30 June 2009 24,785) had vested and were exercisable

The weighted average share price (at the date of exercise) of options exercised during the period was £nil (30 June 2009- £7 04)

The weighted average fair value of each option granted during the period was £7 64 (30 June 2009 £7 36)

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

	6 month period to 31 December 2009	Year ended 30 June 2009
Option pricing model used	**Binomial**	Binomial
Weighted average share price at grant date	£13 35	£11 50
Exercise price	£13 35	£11 50
Volatility	50%	60%
Risk free interest rate	2 74%-3 13%	4 5%-4 55%
Dividend yield	Nil	Nil
Weighted average contractual life	10 yrs	10 yrs

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

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

16 Related party transactions

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

Related party relationship	Type of transaction	Transaction amount		Balance owed	
		6 months to 31 December 2009	Year ended 30 June 2009	6 months to 31 December 2009	Year ended 30 June 2009
		£	£	£	£
Organisation for which a director is a director and shareholder	Charge for executive services	-	110,875	-	-

At the end of the period, there were 14,250 (2009- 14,500) 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 a 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

17 Post Statement of Financial Position Events

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 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") The Company issued and allotted 81,000 A shares

18 Ultimate Controlling Party

There is no overall controlling party of the company