

**VERONA PHARMA PLC**  
**REPORT AND ACCOUNTS**  
**YEAR ENDED 31 DECEMBER 2008**

## CONTENTS

---

	<b>Page</b>
Contents	1
Directors, secretary and advisers	2
Corporate statement	3
Chairman and Chief Executive Officer's joint statement	4-5
Directors' report	6-10
Corporate governance report	11
Independent auditors' report	12-13
Group income statement	14
Group and Company balance sheets	15-16
Group and Company cash flow statements	17-18
Group and Company statements of changes in equity	19-20
Notes to the financial statements	21-33

## DIRECTORS, SECRETARY AND ADVISERS

---

Directors	Michael Walker Clive Page Claire Poll Trevor Jones Stuart Bottomley
Company Secretary	John Bottomley
Registered Office	One America Square Crosswall London EC3N 2SG
Company Number	05375156
Auditors	UHY Hacker Young LLP Quadrant House Thomas More Square 17 Thomas More Street London E1W 1YW
Nominated Adviser and Broker	WH Ireland Limited 11 St. James' Square Manchester M2 6WH
Solicitors	Taylor Wessing LLP (Appointed 22 September 2008) 5 New Street Square London EC4A 3TW
Principal Banker	Royal Bank of Scotland 1 <sup>st</sup> Floor Argyll House 246 Regent Street London W1B 3PB
Registrars	Computershare Investor Services plc PO Box 82, The Pavilions Bridgewater Road Bristol BS99 7NH

## **CORPORATE STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008**

---

Verona Pharma is a life sciences company dedicated to the research, discovery and development of new therapeutic drugs for the treatment of allergic rhinitis (hay fever) and other chronic respiratory diseases such as asthma and chronic obstructive pulmonary disease (“COPD”), as well as chronic inflammatory diseases.

### **2008 OPERATIONAL HIGHLIGHTS**

- 8 January 2008            Raised £2,319,333, before expenses, by way of a placing of 57,983,325 new ordinary shares in the Company at 4 pence per share.
- 19 May 2008            RPL554 passed pivotal safety and toxicology tests establishing that it can be given to humans in clinical trials.
- Progressed document preparation and negotiations with clinical trial site to conduct a combined Phase I/IIa trial of RPL554.
- 18 June 2008            Signed a new collaboration agreement with GlycoMar Limited to advance work on its Novel Anti-Inflammatory Polysaccharides programme towards identifying a suitable candidate for clinical proof of concept studies in humans.
- 9 September 2008       Signed a contract with the Centre for Human Drug Research of The Netherlands to begin Phase I/IIa clinical trial of RPL554 in humans.

### **2008 FINANCIAL HIGHLIGHTS**

- Financial                Loss after tax of £1.37 million or 0.66 pence per ordinary share, which includes a non-cash charge of £0.04 million for the cost of issuing share options.
- Cash and cash equivalents at 31 December 2008 of £2.5 million.

### **SUBSEQUENT EVENT HIGHLIGHTS**

- 28 January 2009        Received approval from the regulatory authority in The Netherlands to commence Phase I/IIa clinical trial of RPL554. The trial commenced shortly thereafter.

## **CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S JOINT STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008**

---

We are pleased to announce good progress by Verona Pharma over the last year. We successfully completed safety and toxicology studies of our novel inhaled PDE3/4 inhibitor RPL554 and have since begun a Phase I/IIa trial of the drug at the Centre for Human Drug Research at Leiden in The Netherlands. The trial is designed as a preliminary assessment of safety and at the same time provide indications of RPL554's potential therapeutic actions. Thus, in addition to assessing safety in normal and asthmatic subjects, we will determine the possibility of whether RPL554 provides protection against an agent that causes bronchoconstriction (narrowing of airways) as well as directly producing bronchodilation (opening of airways) in a group of 10 asthmatic patients. As a final objective, we wish to determine whether RPL554 reduces the number of inflammatory cells produced in the nose of allergic rhinitis patients when they are challenged with an allergen to which they are sensitive. To date, the trial has proceeded to the satisfaction of the Company. Successful completion of the trial is expected to pave the way for further clinical development of RPL554.

This major clinical step forward by Verona Pharma in 2008 was accompanied by a successful equity raising of £2.3m in January of that year and advances in other projects. In addition, we demonstrated our ability to run a largely virtual company with very low overheads and a tightly controlled spend-rate. Thus the relatively sound financial status of Verona Pharma ensures that the RPL554 Phase I/IIa clinical trial will be completed, while work continues on other drug discovery projects. If the RPL554 trial is successful, the Company expects to maintain its financial position by raising further funding through either licensing or equity financing.

In view of the well-known high attrition rate for drug discovery projects, Verona Pharma has a clear strategy of nurturing more than one project at a time, while being prepared to take on other project opportunities as they arise, always being cautious to fund each project at a level commensurate with its development stage. This strategy requires careful project management and proportioning of time and resources.

Using the above approach we have been able to make progress with our second project, NAIPS, short for 'Novel Anti-Inflammatory Polysaccharides'. This project involves searching amongst a wide variety of sources for novel polysaccharides with anti-inflammatory actions greater than those seen with the naturally occurring compound, heparin, whose use as an anti-inflammatory drug is limited by its anti-coagulant activity. To date, through carrying out cellular and related in vitro assays, and investigating substances isolated from a wide variety of organisms, we have been successful in identifying various compounds that may have potential as anti-inflammatory drugs. Some of these compounds have been shown to have anti-inflammatory action in whole animals (in vivo), providing encouragement for the development of more potent, higher efficacy and low molecular weight compounds as clinical candidate molecules for development as an anti-inflammatory drug.

Our other project has as a target indication the condition of intractable cough, which continues to be a major clinical problem. We have two approaches to this condition. One involves validating work previously done with respect to a different target indication. We will seek to demonstrate in the clinic the anti-tussive (anti-coughing) actions of an existing drug so as to provide validity to our use of a large database of technical and experimental information as a potential route to a new inhaled drug for the treatment of cough. We are currently synthesizing and testing chemical compounds in animals in order to proceed further with this project. Running in parallel with this, we are also conducting animal studies with molecules obtained from a collaborating company to assess the molecules' potential anti-tussive usefulness. Success in this area will provide further strength to our cough project as well as provide a potential partnership. This latter study provides an example of how Verona Pharma continues to actively seek out new drug project opportunities that fit into its research focus, namely inflammation-related diseases of the respiratory tract such as asthma, rhinitis and COPD. In addition, we continue to evaluate other IP opportunities for our next project.

In conclusion, Verona Pharma continues to move through its clinical trial of RPL554, maintain its pace with existing projects, and identify new projects of interest. The Company's financial situation is sufficiently

strong to reach beyond the current clinical trial of RPL554 and its potential for partnering. The Company recognises the difficulties of raising finance in the current economic climate and takes great care in harvesting its resources while running as lean and mean and virtual as possible.

Professor Clive P. Page  
Chairman

Professor Michael J. A. Walker  
Chief Executive Officer

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2008**

---

The Directors present their annual report together with the audited financial statements and auditors' report for the year ended 31 December 2008.

### **Principal activity**

The Company was incorporated on 24 February 2005. On 18 September 2006 the Company successfully acquired all the shares of Rhinopharma Limited, a private company incorporated in Canada, and changed its name to Verona Pharma plc (the "Company" or the "Parent"). The Parent and Rhinopharma Limited are collectively referred to as the "Group".

The principal activity of the Group is research and development of drugs for the treatment of allergic rhinitis (hay fever) and other chronic respiratory diseases such as asthma and chronic obstructive pulmonary disease (COPD) as well as chronic inflammatory diseases.

### **Review of the business and future prospects**

The Chairman and Chief Executive Officer's joint statement describes the Group's activities and future prospects.

### **Results and dividends**

The Group results for the year are set out on page 14. There was a loss for the year after taxation amounting to £1.37 million (2007: loss of £1.2 million). In view of the loss, the Directors cannot recommend the payment of a dividend.

### **Key performance indicators ("KPIs")**

The key performance indicators for the Group are as follows:

- Development milestones – This operational KPI is used by the Board to monitor the performance of the Group's drug candidates through the planned preclinical and clinical studies. Key development milestones achieved in 2008 include RPL554 passing preclinical toxicology studies in the second quarter of 2008, and initiating clinical trials in humans for the RPL554 programme in the third quarter of 2008.
- Cash life – This financial KPI is used by the Board to monitor the Group's burn rate and the timing and requirement for future funding. The average monthly operating cash outflow in 2008 was £113,000 and the net cash position at 31 December 2008 was £2.4 million. Estimated cash life was 18 months as at 31 December 2008 assuming no acquisition of new intellectual properties and based on current cost expectations and level of operations.

### **Principal risks and uncertainties**

There is a high level of risk in drug development. The Group's current drug development programmes are at an early stage and the drugs' safety and effectiveness have not yet been established. The RPL554 programme is entering human clinical trials and the NAIPs programme is at the research and development stage. In addition, there are numerous regulatory approvals that must be obtained to test, manufacture and commercialise the proposed drug treatments. Even if such approvals are obtained, there is no certainty that the Group will be able to commercialise the drug treatments on commercially acceptable terms.

**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2008**

---

**Directors**

The following Directors held office during the year:

Michael Walker  
Clive Page  
Trevor Jones  
Claire Poll  
Stuart Bottomley

**Directors' interests**

The beneficial and non-beneficial interests in the Company's shares of the Directors and their families were as follows:

<b>Name</b>	<b>Held at 31 December 2008</b>	<b>Held at 31 December 2007</b>
Stuart Bottomley	10,700,000	8,450,000
Clive Page	5,773,928	5,773,928
Michael Walker	5,705,691	5,705,691
Claire Poll	3,500,000	3,000,000
Trevor Jones	Nil	Nil

**Share options**

Share options held by directors at 31 December 2008 were as follows:

	<b>At beginning of period</b>	<b>Granted/ exercised or expired in Period</b>	<b>At end of period</b>	<b>Exercise price (£)</b>	<b>Exercisable at end of period</b>
M Walker	2,000,000	Nil	2,000,000	0.05	1,500,000
C Page	2,000,000	Nil	2,000,000	0.05	1,500,000
C Poll	2,000,000	Nil	2,000,000	0.05	1,500,000
T Jones	2,000,000	Nil	2,000,000	0.05	1,500,000
S Bottomley	2,000,000	Nil	2,000,000	0.05	1,500,000
S Bottomley	1,250,000	1,250,000	-	0.02	-

**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2008**

**Report on Directors' remuneration and service contracts**

The Remuneration Committee, consisting of two Non-Executive Directors, and chaired by Prof. Trevor Jones, meets at least once a year (or more frequently as required). The Committee is responsible for the remuneration of the Executive Directors, including their benefits in kind, terms of employment and share options. The Executive Directors also consult the Committee in relation to the remuneration of senior employees and staff share option schemes. The Committee takes account of remuneration paid by other companies of a similar size and comparable industry sector in the UK. The remuneration of the Non-Executive Directors is determined by the Board as a whole, based on a review of current practices in other companies. The service contracts of the Directors for director services are subject to a three month termination period. There are separate contracts in place for the provision of consulting services by Prof. Michael Walker, Prof. Clive Page and Claire Poll. The contract for the provision of the services of Michael Walker is with Magic Bullets Enterprises Limited and the contract for the provision of the services of Clive Page is with Gryon Consulting Limited. Both of these contracts specify a termination period of twelve months. The consulting contract with Claire Poll is in her own name and specifies a termination period of three months. Details of the Directors' emoluments for the year for director and consulting services are as follows:

	<b>Fees/basic Salary £</b>	<b>Employers NI £</b>	<b>2008 Total £</b>
<b>Executive</b>			
Michael Walker	65,000	474	65,474
Claire Poll	35,000	267	35,267
<b>Non-Executive</b>			
Clive Page	40,000	702	40,702
Trevor Jones	13,000	976	13,976
Stuart Bottomley	28,000	2,888	30,888
	181,000	5,307	186,307

**Pensions**

The Group does not operate a money purchase/defined benefit pension scheme for Directors or employees.

**Substantial share holders**

The Company has been notified, in accordance with Chapter 5 of the FSA's Disclosure and Transparency Rules, of the under noted interests in its ordinary shares as at 31 December 2008 of 3% shareholders and above:

	<b>Number of Ordinary shares</b>	<b>% of Share Capital</b>
Worldwide Nominee Limited	6,650,000	3.09%
Security Services Nominees Limited	10,076,529	4.68%
Stuart Bottomley	10,700,000	4.97%
Pershing Keen Nominees Limited	11,208,333	5.21%
Credit Suisse Client Nominees (UK) Limited	12,287,500	5.71%
Goldman Sachs Securities Nominees Limited	12,500,000	5.81%
Craig Ian Burton	13,250,000	6.16%
Fidelity International Small Cap Fund	18,514,225	8.60%

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2008**

---

### **Supplier payment policy**

The Company's policy is that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, providing that all trading terms and conditions have been complied with.

### **Political and charitable contributions**

There were no political or charitable contributions made by the Company during the year ended 31 December 2008.

### **Statement of Directors' responsibilities**

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs").

Company law requires the Directors to prepare financial statements for each financial year which 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 estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, 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 proper accounting records that 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 1985. 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.

So far as the Directors are aware:

1. there is no relevant audit information of which the Company's auditors are unaware; and
2. the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

### **Auditors**

In accordance with Section 489 of the Companies Act 2006, a resolution proposing that UHY Hacker Young LLP be re-appointed as auditors of the Company and that the Directors be authorised to fix their remuneration will be proposed at the Annual General Meeting.

**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2008**

---

**Annual General Meeting**

Accompanying this report is the notice of Annual General Meeting of the Company which sets out the resolutions relating to the business which the Company proposes to conduct at the meeting. The meeting will be held at 11:30 a.m. on 22 May 2009 at One America Square, Crosswall, London EC3N 2SG.

By order of the Board.

**Stuart Bottomley  
Director**

**Dated 16 April 2009**

## **CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 DECEMBER 2008**

---

### **Board of Directors**

The Board meets at regular intervals, normally no less than four times a year. The Board is responsible for approving company policy and strategy. The Board consists of five members, with Prof. Michael Walker and Claire Poll as executive directors and Prof. Clive Page, Prof. Trevor Jones and Stuart Bottomley as non-executive directors. The Chairman of the Board is Prof. Clive Page and the Company's business is run by Prof. Michael Walker (CEO), Danny Lowe (CFO) and Dr. Lui Franciosi (COO). Prof. Trevor Jones, Stuart Bottomley and Claire Poll are members of the Audit Committee. Prof. Clive Page, Prof. Trevor Jones and Stuart Bottomley are members of the Remuneration Committee and the Nomination and Corporate Governance Committee.

### **Internal Control**

The Board is responsible for maintaining a strong system of internal control to safeguard shareholders' investment and the Group's assets and to review its effectiveness. The system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to mitigate operational risks.

An Audit Committee has been established, chaired by Stuart Bottomley, which will meet at least twice a year and is responsible for ensuring that the financial performance of the Group is properly monitored and reported on, as well as meeting the auditors and reviewing any reports prepared by auditors.

At the present time, given the size of the Group, it does not justify to have an internal audit function. The key features of the Group's system of internal control are as follows:

- the Company is headed by an effective Board, which leads and controls the Group;
- there is a clear division of responsibilities in running the Board and running the Group's business;
- the Board includes a balance of executive and non-executive directors; and
- the Board receives and reviews on a timely basis financial and operating information appropriate to being able to discharge its duties.

The Company has also established a Remuneration Committee, established by Prof. Jones, and a Nomination and Corporate Governance Committee, chaired by Prof. Clive Page. Both of these Committees meet at least once a year. The Nomination and Corporate Governance Committee is responsible for overseeing the Company's corporate governance capability, including evaluating the structure, size and composition of the Board and succession planning of Board members and senior management.

### **Going Concern**

The Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Board will continue to monitor the progress of the development of its programmes and the financial position in order to ensure that the Group continues to have sufficient funding to continue in business. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

### **Communication with shareholders**

The Board has a strong commitment to the maintenance of good investor relations with its shareholders, and the Directors will make themselves available to answer questions at the Annual General Meeting. Shareholders are encouraged to contact the Company via email or telephone if they have any questions.

**INDEPENDENT AUDITORS' REPORT  
TO THE SHAREHOLDERS OF VERONA PHARMA PLC  
FOR THE YEAR ENDED 31 DECEMBER 2008**

---

We have audited the Group and Parent Company financial statements (the "financial statements") of Verona Pharma plc for the year ended 31 December 2008 which comprise the Group income statement, the Group and Parent Company balance sheets, the Group and Parent Company cash flow statements, the Group and Parent Company statement of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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**

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises the Corporate Statement, the Chairman and CEO's Statement, the Directors' Report and the Corporate Governance Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**INDEPENDENT AUDITORS' REPORT  
TO THE SHAREHOLDERS OF VERONA PHARMA PLC  
FOR THE YEAR ENDED 31 DECEMBER 2008**

---

**Opinion**

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- the information given in the Directors' Report is consistent with the financial statements.

**UHY Hacker Young LLP**

**Dated 16 April 2009**

Chartered Accountants  
**Registered Auditors**  
Quadrant House  
Thomas More Square  
17 Thomas More Street  
London E1W 1YW

**GROUP INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Notes	Year ended 31 December 2008 £	Year ended 31 December 2007 £
Revenue		-	-
Cost of sales		-	-
<b>Gross profit</b>		-	-
Research and development		(878,094)	(755,789)
Administration expenses	18	(603,519)	(558,318)
<b>Operating loss</b>	4	(1,481,613)	(1,314,107)
Finance revenue	6	138,380	96,844
<b>Loss before taxation</b>		(1,343,233)	(1,217,263)
Taxation	7	(27,877)	-
<b>Loss for the period</b>		(1,371,110)	(1,217,263)
Loss per ordinary share – basic and diluted	2	(0.66)p	(0.84)p

There are no recognised gains or losses other than those passing through the profit and loss account.

**GROUP BALANCE SHEET  
AS AT 31 DECEMBER 2008**

	Notes	31 December 2008 £	31 December 2007 £
<b>ASSETS</b>			
<b>Non current assets</b>			
Tangible assets	12	14,088	16,058
Intangible assets	13	71,996	66,626
Goodwill	14	1,469,112	1,469,112
		<u>1,555,196</u>	<u>1,551,796</u>
<b>Current assets</b>			
Trade and other receivables	9	67,632	241,575
Cash and cash equivalents	10	2,454,882	1,252,063
		<u>2,522,514</u>	<u>1,493,638</u>
<b>Total assets</b>		<u>4,077,710</u>	<u>3,045,434</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves attributable to equity holders</b>			
Called up share capital	15	215,258	146,775
Option reserves		343,001	405,313
Share premium account		6,606,055	4,135,756
Retained losses		(3,170,797)	(1,799,687)
<b>Total equity</b>		<u>3,993,517</u>	<u>2,888,157</u>
<b>Current liabilities</b>			
Trade and other payables	11	84,193	157,277
<b>Total liabilities</b>		<u>84,193</u>	<u>157,277</u>
<b>Total equity and liabilities</b>		<u>4,077,710</u>	<u>3,045,434</u>

The financial statements were approved by the Board on 16 April 2009.

**Stuart Bottomley**  
**Director**

**COMPANY BALANCE SHEET  
AS AT 31 DECEMBER 2008**

	Notes	31 December 2008 £	31 December 2007 £
<b>ASSETS</b>			
<b>Non current assets</b>			
Tangible assets	12	14,088	16,058
Intangible assets	13	71,996	66,626
Goodwill	14	1,453,570	1,453,570
		<u>1,539,654</u>	<u>1,536,254</u>
<b>Current assets</b>			
Trade and other receivables	9	159,266	321,710
Cash and cash equivalents	10	2,432,049	1,250,276
		<u>2,591,315</u>	<u>1,571,986</u>
<b>Total assets</b>		<u>4,130,969</u>	<u>3,108,240</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves attributable to equity holders</b>			
Called up share capital	15	215,258	146,775
Option reserves		343,001	405,313
Share premium account		6,606,055	4,135,756
Retained losses		(3,117,379)	(1,736,881)
<b>Total equity</b>		<u>4,046,935</u>	<u>2,950,963</u>
<b>Current liabilities</b>			
Trade and other payables	11	84,034	157,277
<b>Total liabilities</b>		<u>84,034</u>	<u>157,277</u>
<b>Total equity and liabilities</b>		<u>4,130,969</u>	<u>3,108,240</u>

The financial statements were approved by the Board on 16 April 2009.

**Stuart Bottomley**  
**Director**

**GROUP CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Notes	Year ended 31 December 2008 £	Year ended 31 December 2007 £
<b>Net cash outflow from operating activities</b>	16	(1,322,442)	(1,204,740)
<b>Cash outflow from taxation</b>		(27,877)	-
<b>Cash flow from investing activities</b>			
Interest received		137,657	110,758
Sale of short-term investment		-	1,300,000
Purchase of tangible assets		(8,588)	(5,291)
Purchase of intangible assets		(13,441)	(11,913)
<b>Net cash inflow from investing activities</b>		115,628	1,393,554
<b>Cash flow from financing activities</b>			
Proceeds from issue of shares		2,437,510	-
<b>Net cash inflow from financing activities</b>		2,437,510	-
<b>Net increase in cash and cash equivalents</b>		1,202,819	188,814
Cash and cash equivalents at the beginning of the year		1,252,063	1,063,249
<b>Cash and cash equivalents at the end of the year</b>	10	2,454,882	1,252,063

**COMPANY CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Notes	Year ended 31 December 2008 £	Year ended 31 December 2007 £
<b>Net cash outflow from operating activities</b>	16	(1,335,692)	(1,170,783)
<b>Cash outflow from taxation</b>		(27,877)	-
<b>Cash flow from investing activities</b>			
Interest received		137,547	110,756
Sale of short-term investment		-	1,300,000
Purchase of tangible assets		(8,588)	(5,291)
Purchase of intangible assets		(13,441)	(11,913)
Advance to subsidiary		(7,686)	(33,529)
<b>Net cash inflow from investing activities</b>		107,832	1,360,023
<b>Cash flow from financing activities</b>			
Proceeds from issue of shares		2,437,510	-
<b>Net cash inflow from financing activities</b>		2,437,510	-
<b>Net increase in cash and cash equivalents</b>		1,181,773	189,240
Cash and cash equivalents at the beginning of the year		1,250,276	1,061,036
<b>Cash and cash equivalents at the end of the year</b>	10	2,432,049	1,250,276

**GROUP STATEMENT OF CHANGES IN NET EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2008**

	Share capital £	Share premium £	Option reserve £	Retained earnings £	Total £
<b>Balance at 1 January 2007</b>	144,275	4,038,256	298,056	(582,424)	3,898,163
Issue of shares	2,500	97,500	-	-	100,000
Share option charge	-	-	107,257	-	107,257
Net loss for the year	-	-	-	(1,217,263)	(1,217,263)
<b>Balance at 31 December 2007</b>	146,775	4,135,756	405,313	(1,799,687)	2,888,157
Issue of shares	68,483	2,465,850	-	-	2,534,333
Issue costs	-	(96,823)	-	-	(96,823)
Share option charge	-	-	38,960	-	38,960
Exercise of options	-	101,272	(101,272)	-	-
Net loss for the year	-	-	-	(1,371,110)	(1,371,110)
<b>Balance at 31 December 2008</b>	215,258	6,606,055	343,001	(3,170,797)	3,993,517

**COMPANY STATEMENT OF CHANGES IN NET EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2008**

	<b>Share capital £</b>	<b>Share premium £</b>	<b>Option reserve £</b>	<b>Retained earnings £</b>	<b>Total £</b>
<b>Balance at 1 January 2007</b>	144,275	4,038,256	298,056	(529,480)	3,951,107
Issue of shares	2,500	97,500	-	-	100,000
Share option charge	-	-	107,257	-	107,257
Net loss for the year	-	-	-	(1,207,401)	(1,207,401)
<b>Balance at 31 December 2007</b>	<b>146,775</b>	<b>4,135,756</b>	<b>405,313</b>	<b>(1,736,881)</b>	<b>2,950,963</b>
Issue of shares	68,483	2,465,850	-	-	2,534,333
Issue costs	-	(96,823)	-	-	(96,823)
Share option charge	-	-	38,960	-	38,960
Exercise of options	-	101,272	(101,272)	-	-
Net loss for the year	-	-	-	(1,380,498)	(1,380,498)
<b>Balance at 31 December 2008</b>	<b>215,258</b>	<b>6,606,055</b>	<b>343,001</b>	<b>(3,117,379)</b>	<b>4,046,935</b>

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008**

---

### **1. Accounting policies**

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

#### **1.1. Basis of preparation**

The financial statements have been prepared using the historical cost convention. In addition, the financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”).

#### **1.2. Basis of consolidation**

These group financial statements include the accounts of Verona Pharma plc and its wholly-owned subsidiary Rhinopharma Limited. The purchase method of accounting is used to account for the acquisition of Rhinopharma Limited.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising on acquisitions is capitalised and subject to an impairment review, both annually and when there are indications that the carrying value may not be recoverable.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated.

Rhinopharma Limited adopts the same accounting policies as the Company.

#### **1.3. Foreign currency translation**

Transactions in foreign currencies are translated into Sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. The resulting exchange gain or loss is dealt with in the income statement.

#### **1.4. Cash and cash equivalents**

The Company considers all highly liquid investments, with a maturity of 90 days or less to be cash equivalents, carried at the lower of cost or market value.

#### **1.5. Deferred taxation**

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and expected to apply when the related deferred tax is realised or the deferred liability is settled.

Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available against which the temporary differences can be utilised.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

---

### 1.6. Research and development costs

Research costs net of grants received are charged as an expense in the period in which they are incurred. Development costs are charged as an expense in the period incurred unless the Company believes a development project meets generally accepted accounting criteria for deferral and amortisation. At 31 December 2008 no development costs have been deferred.

### 1.7. Tangible assets

Tangible assets are recorded at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the expected useful lives as follows:

Computer hardware	3 years
Computer software	2 years
Office furniture and equipment	5 years

### 1.8. Intangible assets

Patent costs associated with the preparation, filing, and obtaining of patents are capitalised and amortised on a straight-line basis over the estimated useful lives of the patents of ten years.

### 1.9. Impairment of intellectual properties

The carrying value of patents and goodwill do not necessarily reflect present or future values and the ultimate amount recoverable will be dependent upon the successful development and commercialisation of products based on these intellectual properties. Management reviews the intellectual properties for impairment whenever events or changes in circumstances indicate that full recoverability is questionable, and such review is performed on at least an annual basis. Management measures any potential impairment by comparing the carrying value to the discounted amounts of expected future cash flows.

### 1.10. Financial instruments

#### (a) Fair values

The carrying amounts of cash and cash equivalents, short-term investments, receivables, and accounts payable and accrued liabilities, approximate to fair value due to their short-term nature.

#### (b) Credit risk

Credit risk reflects the risk that the Group may be unable to recover contractual receivables. The Group is still in the development stage; therefore, no policies are required at this time to mitigate this risk.

#### (c) Currency risk

Foreign currency risk reflects the risk that the Group's net assets will be negatively impacted due to fluctuations in exchange rates. The Group has not entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations. At 31 December 2008, cash and cash equivalents include Euro €53,052, and accounts payable and accrued liabilities include balances of CAD\$33,253, Euro €21,869, and AUD\$4,400.

#### (d) Financial risk management

The Directors recognise that this is an area in which they may need to develop specific policies should the Group become exposed to further financial risks as the business develops.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008**

---

### **1.11. Share based payments**

The Company made share-based payments to certain directors and advisers by way of issue of share options. The fair value of these payments is calculated by the Company using the Black-Scholes option pricing model. The expense is recognised on a straight line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of shares that will eventually vest.

### **1.12. Critical accounting judgements and estimates**

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. IFRSs also require management to exercise its judgement in the process of applying the Group's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

#### **(a) Impairment of intangible assets**

Determining whether an intangible asset is impaired requires an estimation of whether there are any indications that its carrying value is not recoverable.

At each reporting date, the Company reviews the carrying value of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

#### **(b) Valuation of goodwill**

Management values goodwill after taking into account the results of research efforts and estimated future sales and costs. If the assumed factors vary from actual occurrence, this will impact on the amount of the asset which should be carried on the balance sheet.

#### **(c) Share based payments**

The Group records charges for share based payments. For option based share based payments management estimate certain factors used in the option pricing model, including volatility, exercise date of options and number of options likely to be exercised. If these estimates vary from actual occurrence, this will impact on the value of the equity carried in the reserves.

### **1.13. Management of capital**

The Group considers capital to be its equity reserves. At the current stage of the Group's life cycle the Group's objective in managing its capital is to ensure funds raised meet the research and operating requirements until the next development stage of the Group's suite of projects.

The Group ensures it is meeting its objectives by reviewing its Key Performance Indicators ("KPIs") to ensure its research activities are progressing in line with expectations, controlling costs and placing unused funds on deposit to conserve resources and increase returns on surplus cash held.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008**

**1.14. New standards and interpretations not applied**

During the year, the IASB and IFRIC have issued new standards, amendments and interpretations with an effective date after the date of these financial statements. Of these, only the following are expected to be relevant to the Group:

IFRS 8	Operating segments	1 January 2009
IFRS 2	Share based payments- amendments to vesting conditions and cancellations	1 January 2009
IAS 27	Consolidated and separate financial statements	1 July 2009

The Directors do not anticipate that the adoption of these standards will have a material impact on the Group's financial statements in the period of initial application.

**2. Earnings per share**

Basic loss per share of (0.66p) (2007: loss of 0.84p) for the Group is calculated by dividing the loss for the period by the weighted average number of ordinary shares in issue of 209,100,584 (2007: 144,405,137).

Diluted loss per share for the current period has not been presented since the Company's stock options are anti-dilutive.

**3. Segmental information**

The primary segmental reporting is determined to be by geographical segment according to the location of the assets. The Directors do not believe that there is a secondary segment that could be reported.

There are two geographical reporting segments.

<b>Geographical segment (Group)</b>	<b>United Kingdom</b>	<b>Canada</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Research and development	(893,338)	15,244	(878,094)
Administration expenses	(597,553)	(5,966)	(603,519)
Finance revenue	138,270	110	138,380
Loss before taxation	(1,352,621)	9,388	(1,343,233)
Tangible assets	14,088	-	14,088
Intangible assets	71,996	-	71,996
Trade and other receivables	66,787	845	67,632
Cash and cash equivalents	2,432,049	22,833	2,454,882
Goodwill	1,469,112	-	1,469,112
Trade and other payables	(84,034)	(159)	(84,193)
Net assets	3,969,998	23,519	3,993,517

At the end of the financial year, the Group was still in early development stage and therefore had no turnover in the year.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008**

	<b>2008</b>	<b>2007</b>
	<b>£</b>	<b>£</b>
<b>4. Operating loss</b>		
<b>Group</b>		
This is stated after charging:		
Foreign exchange loss (gain)	(2,771)	8,430
Auditors' remuneration for audit services		
- Group and Company audit	15,000	14,000
Auditors' remuneration for non audit services		
- Taxation consultancy	2,939	10,993
Total auditors' remuneration	17,939	24,993

**5. Employee costs**

<b>Group</b>		
Wages and salaries	129,052	87,853
Social security costs	10,366	7,000
	139,418	94,853

Remuneration of Directors is disclosed in the Report on Directors' remuneration.

	<b>2008</b>	<b>2007</b>
	<b>Number</b>	<b>Number</b>
<b>Group</b>		
The average number of employees during the year was:	5	4

	<b>2008</b>	<b>2007</b>
	<b>£</b>	<b>£</b>
<b>6. Finance revenue</b>		
<b>Group</b>		
Bank interest	138,380	96,844

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008**

	<b>2008</b>	<b>2007</b>
	<b>£</b>	<b>£</b>
<b>7. Taxation</b>		
<b>Factors affecting the tax charge for the year</b>		
Loss on ordinary activities before taxation	(1,343,233)	(1,217,263)
Multiplied by standard rate of corporation tax of 28.00% (30.00%)	(376,105)	(365,179)
Effects of:		
Non deductible expenses	10,909	33,362
Depreciation and amortisation	5,216	4,070
Capital allowances	(8,443)	(7,394)
Other tax adjustments	-	-
Tax losses carried forward	396,300	335,141
<b>Current tax charge</b>	<b>27,877</b>	<b>-</b>

**Factors that may affect future tax charges**

At the balance sheet date, the Group has unused United Kingdom tax losses available for offset against suitable future profits in the United Kingdom. A deferred tax asset has not been recognised in respect of such losses due to uncertainty of future profit streams. The contingent deferred tax asset is estimated to be £2,900,000.

**8. Subsidiary entities**

The Company currently has one wholly owned subsidiary, Rhinopharma Limited. Rhinopharma Limited is incorporated under the laws of the Province of British Columbia, Canada. Rhinopharma Limited was a drug discovery and development company focused on developing proprietary drug to treat allergic rhinitis and other respiratory diseases prior to its acquisition by the Company on 18 September 2006.

**9. Trade and other receivables**

**Group**

Other receivables	27,870	196,737
Prepayments and accrued income	39,762	44,838
	<b>67,632</b>	<b>241,575</b>

**Company**

Other receivables	27,675	193,195
Prepayments and accrued income	39,112	43,722
Amounts due from subsidiary company	92,479	84,793
	<b>159,266</b>	<b>321,710</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008**

---

	<b>2008</b>	<b>2007</b>
	<b>£</b>	<b>£</b>
<b>10. Cash and cash equivalents</b>		
<b>Group</b>		
Cash at bank and in hand	223,784	152,063
Cash equivalents	2,231,098	1,100,000
	<u>2,454,882</u>	<u>1,252,063</u>
<b>Company</b>		
Cash at bank and in hand	200,951	150,276
Cash equivalents	2,231,098	1,100,000
	<u>2,432,049</u>	<u>1,250,276</u>
<b>11. Trade and other payables</b>		
<b>Group</b>		
Trade payables	48,731	98,214
Other payables	555	30,770
Accruals	34,907	28,293
	<u>84,193</u>	<u>157,277</u>
<b>Company</b>		
Trade payables	48,572	98,214
Other payables	555	30,770
Accruals	34,907	28,293
	<u>84,034</u>	<u>157,277</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008**

**12. Tangible assets**

<b>Group and Company</b>	<b>Computer hardware</b>	<b>Computer software</b>	<b>Office equipment</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Cost</b>				
At 31 December 2006	14,133	3,068	911	18,112
Additions	4,471	820	-	5,291
At 31 December 2007	<u>18,604</u>	<u>3,888</u>	<u>911</u>	<u>23,403</u>

**Depreciation**

At 31 December 2006	645	59	46	750
Charge for the year	4,824	1,589	182	6,595
At 31 December 2007	<u>5,469</u>	<u>1,648</u>	<u>228</u>	<u>7,345</u>

**Net book value**

At 31 December 2007	<u>13,135</u>	<u>2,240</u>	<u>683</u>	<u>16,058</u>
---------------------	---------------	--------------	------------	---------------

**Net book value**

At 31 December 2006	<u>13,488</u>	<u>3,009</u>	<u>865</u>	<u>17,362</u>
---------------------	---------------	--------------	------------	---------------

**Group and Company**

	<b>Computer hardware</b>	<b>Computer software</b>	<b>Office equipment</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Cost</b>				
At 31 December 2007	18,604	3,888	911	23,403
Additions	6,758	1,400	430	8,588
At 31 December 2008	<u>25,362</u>	<u>5,288</u>	<u>1,341</u>	<u>31,991</u>

**Depreciation**

At 31 December 2007	5,469	1,648	228	7,345
Charge for the year	7,815	2,532	211	10,558
At 31 December 2008	<u>13,284</u>	<u>4,180</u>	<u>439</u>	<u>17,903</u>

**Net book value**

At 31 December 2008	<u>12,078</u>	<u>1,108</u>	<u>902</u>	<u>14,088</u>
---------------------	---------------	--------------	------------	---------------

**Net book value**

At 31 December 2007	<u>13,135</u>	<u>2,240</u>	<u>683</u>	<u>16,058</u>
---------------------	---------------	--------------	------------	---------------

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008**

**13. Intangible assets**

<b>Group and Company</b>	<b>Patents £</b>
<b>Cost</b>	
At 31 December 2006	63,267
Additions	11,913
At 31 December 2007	<u>75,180</u>
<b>Amortisation</b>	
At 31 December 2006	1,581
Charge for the year	6,973
Impairment during the year	-
At 31 December 2007	<u>8,554</u>
<b>Net book value</b>	
At 31 December 2007	<u>66,626</u>
<b>Net book value</b>	
At 31 December 2006	<u>61,686</u>
<b>Group and Company</b>	<b>Patents £</b>
<b>Cost</b>	
At 31 December 2007	75,180
Additions	13,441
At 31 December 2008	<u>88,621</u>
<b>Amortisation</b>	
At 31 December 2007	8,554
Charge for the year	8,071
Impairment during the year	-
At 31 December 2008	<u>16,625</u>
<b>Net book value</b>	
At 31 December 2008	<u>71,996</u>
<b>Net book value</b>	
At 31 December 2007	<u>66,626</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008**

	<b>2008</b>	<b>2007</b>
	<b>£</b>	<b>£</b>
<b>14. Goodwill</b>		
<b>Group</b>		
Goodwill	<u>1,469,112</u>	<u>1,469,112</u>
<b>Company</b>		
Goodwill	<u>1,453,570</u>	<u>1,453,570</u>

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in connection with the acquisition of Rhinopharma Limited in September 2006. The Company has elected to test goodwill for impairment as of 31 December of each year. Based on the evaluation performed as of 31 December 2008 the Company concluded that no impairment was required.

**15. Called up share capital**

The movements in the share capital are summarised below:

	<b>Number of shares</b>	<b>£</b>
Authorised:		
10,000,000,000 ordinary shares of 0.1p each	<u>10,000,000,000</u>	<u>10,000,000</u>
Allotted, called up and fully paid		
Shares as at 1 January 2007	144,275,000	144,275
Shares issued during the year	<u>2,500,000</u>	<u>2,500</u>
<b>As at 31 December 2007</b>	146,775,000	146,775
Shares issued during the year	<u>68,483,325</u>	<u>68,483</u>
<b>As at 31 December 2008</b>	<u>215,258,325</u>	<u>215,258</u>

The following issues of new shares took place during the year ended 31 December 2008:

As part of a share placement on 8 January 2008 57,983,325 0.1 pence ordinary shares were issued fully paid for 4 pence per share.

In the period between 8 April and 7 July 2008 9,500,000 0.1 pence ordinary shares were issued fully paid for 2 pence per share, and 1,000,000 0.1 pence ordinary shares were issued fully paid for 2.5 pence per share, on exercise of share options.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008**

---

**16. Net cash outflow from operating activities**

	<b>2008</b>	<b>2007</b>
	<b>£</b>	<b>£</b>
<b>Group</b>		
Operating loss	(1,481,613)	(1,314,107)
Cost of issuing share options	38,960	107,257
Decrease/ (increase) in trade and other receivables	174,666	(102,806)
(Decrease)/ increase in trade and other payables	(73,084)	91,348
Depreciation of tangible assets	10,558	6,595
Amortisation of intangible assets	8,071	6,973
	<hr/>	<hr/>
Net cash outflow from operating activities	(1,322,442)	(1,204,740)

<b>Company</b>		
Operating loss	(1,490,891)	(1,304,242)
Cost of issuing share options	38,960	107,257
Decrease/ (increase) in trade and other receivables	170,853	(102,141)
(Decrease)/ increase in trade and other payables	(73,243)	114,775
Depreciation of tangible assets	10,558	6,595
Amortisation of intangible assets	8,071	6,973
	<hr/>	<hr/>
Net cash outflow from operating activities	(1,335,692)	(1,170,783)

**17. Related parties transactions**

The Company was charged £45,026 (2007: £41,562) by Magic Bullets Enterprises Limited, a company of which Prof. Michael Walker is a Director. At the year end the Company owed £Nil (2007: £Nil) to the related party.

The Company was charged £27,000 (2007: £22,500) by Gryon Consulting Limited, a company of which Prof. Clive Page is a Director. At the year end the Company owed £Nil (2007: £Nil) to the related party.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008**

**18. Cost of issuing share options**

Included within administration expenses is a charge for issuing share options. The Company granted 1,159,666 (2007: 1,280,000) stock options during the current year with fair value using the Black-Scholes option-pricing model of £38,960 (2007: £107,257).

The 1,159,666 stock options granted in the current year are exercisable at 4 pence per option and the expiry date of these stock options is 8 July 2011.

The following assumptions were used for the Black-Scholes valuation of stock options granted in the current year:

<b>Year/Type</b>	<b>2008</b>
Options granted	1,159,666
Risk-free interest rate	4.60%
Expected life of options	3 years
Annualised volatility	87.48%
Dividend rate	0.00%

The Company had the following share options movements in the year:

<b>Year of issue</b>	<b>Exercise price (pence)</b>	<b>Number of options</b>					<b>At 31 December 2008</b>	<b>Expiry date</b>
		<b>At 1 January 2008</b>	<b>Options granted</b>	<b>Options exercised</b>	<b>Options lapsed</b>			
2005	2	9,800,000	-	9,500,000	300,000	-		
2005	2.5	1,000,000	-	1,000,000	-	-		
2006	5	11,000,000	-	-	-	11,000,000	18 September 2011	
2006	6	2,885,500	-	-	-	2,885,500	19 September 2011	
2007	4	1,280,000	-	-	-	1,280,000	4 July 2012	
2008	4	-	1,159,666	-	-	1,159,666	8 January 2011	
<b>Total</b>		<b>25,965,500</b>	<b>1,159,666</b>	<b>10,500,000</b>	<b>300,000</b>	<b>16,325,166</b>		

**19. Profit of the parent company**

The Parent has taken advantage of the exemption permitted by Section 230 of the Companies Act 1985 not to present a profit and loss account for the year. The Parent's loss before tax for the year was £1,343,233 (2007: loss of £1,207,401).

**20. Control**

The Company is not under the control of any individual or group of connected parties.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008**

---

**21. Financial commitments**

As at 31 December 2008 the Group and Company were committed to making the following payments under non-cancellable operating leases in the year to 31 December 2009.

	<b>Land and Buildings</b>	
	<b>2008</b>	<b>2007</b>
Operating leases which expire:		
Within one year	44,160	22,540

**22. Financial instruments**

**Interest rate risk**

At 31 December 2008, the Group had cash deposits of £2,358,597 (2007: £1,250,275). The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates on classes of financial assets and financial liabilities, was as follows:

<b>Financial Asset</b>	<b>Floating interest rate 2008</b>	<b>Non-interest bearing 2008</b>	<b>Floating interest rate 2007</b>	<b>Non-interest bearing 2007</b>
Cash deposits	2,358,597	-	1,250,275	-



**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

If you are in doubt about the contents of this document or about the action you should take you should immediately consult your stockbroker, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your ordinary shares in Verona Pharma plc (the “**Company**”), please send this document, together with the accompanying form of proxy, to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.

---

# **VERONA PHARMA PLC**

*(Incorporated in England and Wales under the Companies Act 1985 with Registered Number 5375156)*

## **Notice of Annual General Meeting**

---

A notice of an annual general meeting of the Company to be held at the offices of Sprecher Grier Halberstam LLP, 5<sup>th</sup> Floor, One America Square, Crosswall, London EC3N 2SG on Friday 22<sup>nd</sup> May 2009 at 11.30 am is set out at the end of this document.

Holders of ordinary shares in the Company (“**Shareholders**”) are requested to complete and return the enclosed form of proxy to the company secretary, Verona Pharma plc, One America Square, Crosswall, London EC3N 2SG by 11.30 am on Wednesday 20<sup>th</sup> May 2009.

Copies of this document will be available on the Company’s website ([www.veronapharma.com](http://www.veronapharma.com)) and free of charge during normal business hours on weekdays (excluding public holidays) from the date hereof until 22<sup>nd</sup> May 2009 from the Company’s registered office.

## LETTER FROM THE CHAIRMAN

### VERONA PHARMA PLC

*(Incorporated in England and Wales under the Companies Act 1985 with Registered Number 5375156)*

*Directors:*

Professor Clive Page – Chairman  
Professor Michael Walker – Chief Executive Officer  
Claire Poll – Corporate Director  
Professor Trevor Jones – Non-Executive Director  
Stuart Bottomley – Non-Executive Director

*Registered Office:*

One America Square  
Crosswall  
London  
EC3N 2SG

28 April 2009

*To the Shareholders of the Company*

### NOTICE OF ANNUAL GENERAL MEETING

Dear Shareholder

#### 1. INTRODUCTION

I am writing to you with details of the annual general meeting which we propose to hold at the offices of Sprecher Grier Halberstam LLP, 5<sup>th</sup> Floor, One America Square, Crosswall, London EC3N 2SG on Friday 22<sup>nd</sup> May 2009 at 11.30 am (the **AGM**). The formal notice of meeting is set out on page 5 of this document.

The purpose of the meeting is to:

- To receive and adopt the report of the directors and the financial statements for the year ended 31 December 2008 and the report of the auditors thereon.
- To approve the Directors' Remuneration Report for the year ended 31 December 2008.
- To re-appoint Claire Poll as a director of the Company.
- To re-appoint UHY Hacker Young LLP as auditors.
- To renew the Board's authority to allot relevant securities:
  - (a) for the purposes of Section 80 of the Companies Act 1985, up to an aggregate nominal amount of £71,681.02; and
  - (b) as if statutory pre-emption rights did not apply to any such allotment up to an aggregate nominal amount of £10,762.92,

to provide the Company with sufficient capacity to allot further shares over the coming year to, inter alia, raise further finances for the Company if the Directors consider this appropriate and in the best interests of the Company.

- To adopt new articles of association of the Company.

#### 2. AUTHORITY TO ALLOT SHARE CAPITAL AND WAIVER OF PRE-EMPTION RIGHTS

It is necessary to renew the Board's authority to allot the Company's share capital, and to waive pre-emption rights in relation thereto, to enable the allotment of further shares in connection with, inter alia, to raise funds to accelerate development of the Company's assets and to meet general working capital requirements. The Directors have no intention, at present, of exercising the full extent of this authority. The authority would only be exercised if the Directors believe that to do so would be in the best interests of the Company and its shareholders generally.

### 3. AMENDMENT OF ARTICLES OF ASSOCIATION

The provisions of the Companies Act 2006 (the "2006 Act") are in the process of being brought into force, with all provisions expected to be in force by 1 October 2009. The Company therefore proposes to amend its articles of association to incorporate some of the key changes (including procedural changes) introduced by the 2006 Act which are currently in force and to reflect other recent changes in the law.

The material differences between the existing articles of association (the "**Existing Articles**") and the new articles of association are summarised below. Changes of a minor, conforming or purely technical nature have not been mentioned specifically.

- (a) Enabling the Company to communicate with Shareholders by electronic and/or website communications.

The 2006 Act contains provisions relating to electronic communications between companies and their shareholders. The key change enables companies to use electronic communications with shareholders as the default position by placing documents on a website unless shareholders specifically elect to receive hard copies. Shareholders may elect for all or any communications to be sent to them via email rather than receiving documents in hard copy form and shareholders may communicate with the Company by electronic means where the company has given an electronic address in a notice calling a meeting or in an instrument of proxy. Whilst the Company obtained shareholder approval on 4<sup>th</sup> July 2007 to use electronic communications with shareholders changes are required to be made to the Existing Articles.

- (b) Removing the chairman's casting vote in the case of an equality of votes at a meeting of the Shareholders (as this is incompatible with the relevant provisions of the 2006 Act).

- (c) Reducing the notice period for calling an extraordinary general meeting from 21 clear days to 14 clear days (the 2006 Act permits a company to call an extraordinary general meeting on 14 clear days notice unless required otherwise by its articles of association).

- (d) Enabling proxies to vote on a show of hands, as well as on a poll as currently provided for and to allow multiple proxies to be appointed (provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder).

- (e) Removing the obligation to notify the age of a director aged 70 or more in any notice regarding such a director's re-appointment.

- (f) Allowing the directors to authorise conflicts or potential conflicts of interest, where appropriate.

The 2006 Act sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The 2006 Act also allows the articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The new articles of association will give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards that will apply when directors decide whether to authorise a conflict or potential conflict.

First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is the board's intention to report annually on the Company's procedures for ensuring that the board's powers of authorisation of conflicts are operated effectively and that the required procedures have been followed.

(g) Disclosing of interests in shares

The provisions relating to the disclosure of interests in shares contained in the Companies Act 1985, including Section 212 on company investigation powers, were repealed in January 2007. Section 793 and related sections in Part 22 of the 2006 Act, which contain the corresponding company investigation powers previously contained in Section 212, have been brought into force and accordingly the Existing Articles are to be amended to reflect these changes.

#### **4. INSPECTION OF DOCUMENTS**

Copies of the Existing Articles and the new articles of association are available for inspection during normal business hours at the registered office of the Company until the date of the AGM or upon request of the company secretary. Copies will also be available at the AGM from at least 15 minutes prior to the meeting until its conclusion.

#### **5. RESOLUTION**

The resolutions to be proposed at the AGM are set out in full in the notice of meeting on page 6 of this document.

#### **6. ACTION TO BE TAKEN**

A form of proxy is enclosed for use by Shareholders at the AGM. If you are a Shareholder, you are requested to complete, sign and return the form of proxy, whether or not you intend to be present at the meeting, and return it to the company secretary, Verona Pharma plc, One America Square, Crosswall, London EC3N 2SG by hand or post, or by fax to +44 (0)20 7264 4440 or by email to [ben.harber@sghcosec.com](mailto:ben.harber@sghcosec.com). The completion and return of a form of proxy will not prevent you from attending the meeting and voting in person should you subsequently wish to do so.

#### **7. RECOMMENDATION**

The directors consider that the proposed resolutions are in the best interests of the Company and its Shareholders as a whole.

Accordingly, the directors unanimously recommend that you vote in favour of the resolutions being proposed at the AGM, as they intend to do or procure to be done in respect of their own and their connected persons' beneficial holdings.

Yours faithfully

Clive Page  
Chairman

# VERONA PHARMA PLC

## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Verona Pharma plc (the "Company") will be held at the offices of Sprecher Grier Halberstam LLP, 5<sup>th</sup> Floor, One America Square, Crosswall, London EC3N 2SG on Friday 22<sup>nd</sup> May 2009 at 11.30 am for the following purposes:

### Ordinary Business

1. To receive and adopt the report of the directors and the financial statements for the year ended 31 December 2008 and the report of the auditors thereon.
2. To approve the Directors' Remuneration Report for the year ended 31 December 2008.
3. To re-appoint, as a director of the Company, Claire Poll, who retires in accordance with Article 25.3 of the Company's Articles of Association and offers herself for re-election.
4. To re-appoint UHY Hacker Young LLP as auditors to hold office from the conclusion of the Annual General Meeting until the conclusion of the next general meeting of the Company at which the accounts are laid before members and to authorise the directors to determine their remuneration.

### Special Business

To consider, and if thought fit, to pass the following resolutions, of which resolution 5 will be proposed as an ordinary resolution and resolutions 6 and 7 will be proposed as special resolutions:

5. THAT the Directors be and they are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 ("the Act"), in substitution for all previous powers granted to them, to exercise all the powers of the Company to allot and make offers to allot relevant securities (within the meaning of Section 80(2) of the Act) up to an aggregate nominal amount of £71,681.02 such authority shall, unless previously revoked or varied by the Company in general meeting, expire on the conclusion of the Annual General Meeting of the Company to be held in 2010 provided that the Company may, at any time before such expiry, make an offer or enter into an agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement as if the authority conferred hereby had not expired.
6. THAT the Directors be and they are hereby empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94(2) of the Act) pursuant to the authority conferred by Resolution 5 above as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be in substitution for any previous powers conferred on the Directors pursuant to the said Section 95 and shall be limited to:
  - (a) the allotment of equity securities in connection with an issue in favour of shareholders where the equity securities respectively attributable to the interests of all such shareholders are proportionate (or as nearly as may be practicable) to the respective number of Ordinary Shares in the capital of the Company held by them on the record date for such allotment, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any recognised regulatory body or any stock exchange, in any territory; and
  - (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) of further equity securities up to an aggregate nominal amount of £10,762.92,

provided that the power in this Resolution 6 shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2010 save that the Company may make an offer or agreement before the expiry of this power which would or might require equity securities to be allotted otherwise than in accordance with Section 89 of the said Act after such expiry and the Directors may allot equity securities pursuant thereto as if the power conferred hereby had not expired.

7. THAT the draft regulations produced to the meeting and initialled by the Chairman of the Company be and they are approved and adopted as the new articles of association of the Company in substitution for and to the exclusion of the existing articles of association of the Company.

BY ORDER OF THE BOARD

J M Bottomley  
Company Secretary  
28 April 2009

One America Square  
Crosswall  
London EC3N 2SG

## Notes

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A proxy need not be a shareholder of the Company. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Should you wish to appoint more than one proxy please return the form of proxy and attach to it a schedule detailing the names of the proxies you wish to appoint, the number of shares each proxy will represent and the way in which you wish them to vote on the resolutions that are to be proposed. **To be valid, the form of proxy and the power of attorney or other authority (if any) under which it is signed or a certified copy of such power or authority must be lodged at the Registered Office of the Company, One America Square, Crosswall, London EC3N 2SG by hand or by post, or by fax to +44 (0)20 7264 4440, or by email to ben.harber@sghcosec.com, so as to be received not less than 48 hours before the time fixed for the holding of the meeting or any adjournment thereof (as the case may be).**
2. The completion and return of a form of proxy will not preclude a member from attending in person at the meeting and voting should he wish to do so.
3. In accordance with Section 325 of the 2006 Act, the right to appoint proxies does not apply to persons nominated to receive information rights under Section 146 of the 2006 Act. Persons nominated to receive information rights under Section 146 of the 2006 Act who have been sent a copy of this notice of meeting are hereby informed, in accordance with Section 149(2) of the 2006 Act, that they may have a right under an agreement with the registered member by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.
4. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those members entered on the register of members at 6pm on 20<sup>th</sup> May 2009 shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares of £0.001 each in the capital of the Company held in their name at that time. Changes to the register after 6pm on 20<sup>th</sup> May 2009 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
5. **Resolution 3** – Article 25.3 of the Company's Articles of Association require that one third of the directors of the Company who have held office since the last Annual General Meeting, must retire and, if they are eligible, may offer themselves for re-appointment.
6. **Resolution 5** – As required by the Companies Act 1985, this resolution, to be proposed as an Ordinary Resolution, relates to the grant to the Directors of authority to allot unissued Ordinary Shares until the conclusion of the Annual General Meeting to be held in 2010, unless the authority is renewed or revoked prior to such time. In accordance with best practice, and if approved, this authority is limited to a maximum of 71,681,020 Ordinary Shares, which is equivalent to 33.3% of the issued share capital of the Company as at the date of this Notice. This authority replaces the existing authority granted at the Annual General Meeting held on 23<sup>rd</sup> May 2008.
7. Resolution 6 – Section 89(1) of the Companies Act 1985 requires that if the Directors decide to allot unissued Ordinary Shares in the Company the shares proposed to be issued be first offered to existing shareholders in proportion to their existing holdings. This is known as shareholders' pre-emption rights. However, to act in the best interests of the Company the Directors may require flexibility to allot shares for cash without regard to the provisions of Section 89(1). Therefore this resolution, to be proposed as a Special Resolution, and in accordance with institutional shareholder voting guidelines, seeks authority to enable the Directors to allot equity securities up to a maximum of 10,762,920 Ordinary Shares, being equal to 5% of the Company's issued share capital, as at the date of this Notice. This authority replaces the existing authority granted at the Annual General Meeting held on 23<sup>rd</sup> May 2008 and expires at the conclusion of the Annual General Meeting to be held in 2010.

