Sareum

Specialists in Cancer Drug Discovery

SAREUM HOLDINGS PLC
ANNUAL REPORT AND ACCOUNTS 2012

About us

Building value through drug discovery and licensing

Sareum is a specialist drug discovery company.

Based in Cambridge, and accessing a worldwide network of contract research providers, Sareum produces targeted small molecule therapeutics to treat cancer and auto-immune diseases.

Sareum has a highly experienced management team with a track record of delivering quality drug candidates to pharmaceutical and biotechnology companies.

Visit us online www.sareum.co.uk

Our website provides comprehensive information about our business including the latest news on our drug discovery programmes and investor information.

Contents

Our year

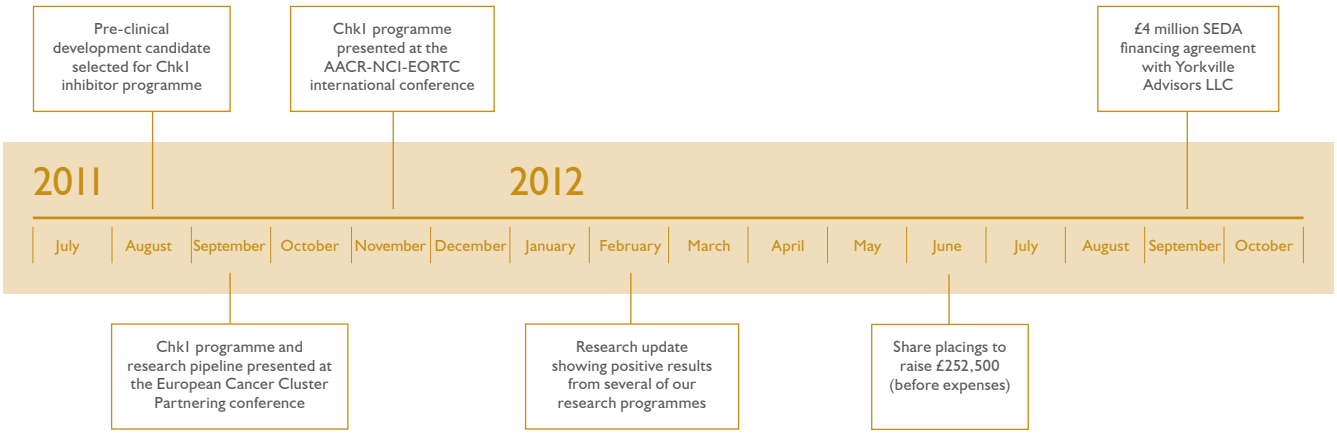
Our Chk1 and Aurora+FLT3 kinase programmes are developing to produce high quality drug candidates for partnering. New data from our TYK2 programme is generating strong interest from potential collaborators.

Operational highlights

- Significant progress on its drug research programmes including:
  - nomination of a pre-clinical development candidate from its Chk1 programme
  - positive *in vivo* results from its TYK2 programme
- Presentations of research data at high profile international scientific and business conferences

Financial highlights

- £252,500 (before expenses) raised through two share placings
- Cash at bank and in hand of £511,000 (2011: £871,000)
- Loss on ordinary activities (after taxation) of £651,000 (2011: £568,000 loss) in line with expectations and reflecting planned increase in R&D spend
- Since the year end, agreement on a £4.0 million SEDA financing facility from Yorkville Advisors (announced 10 September 2012)

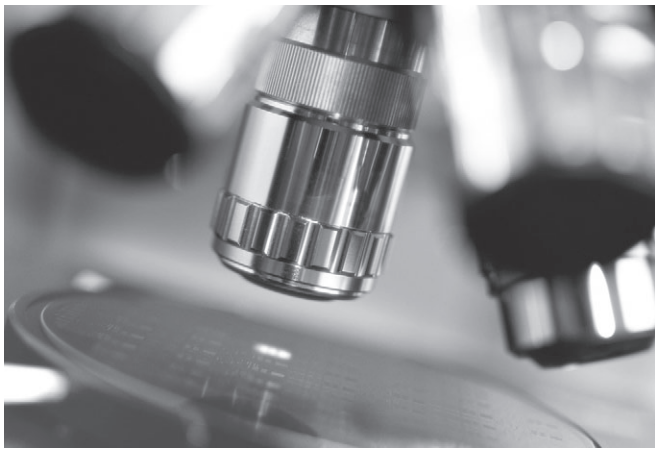


Our strategy

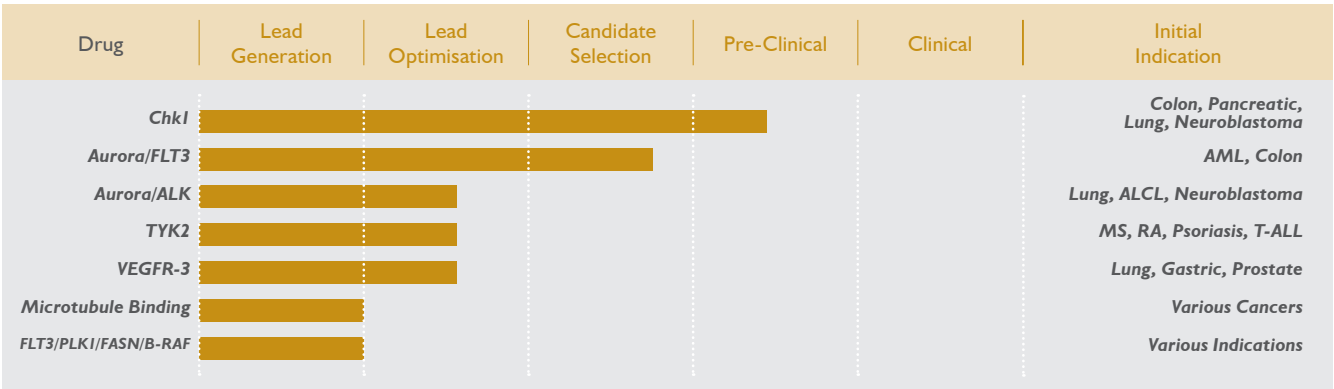
Focused on developing best in class therapies

Our strategy is to focus on developing best in class therapies for cancer and auto-immune diseases. We utilise a worldwide network of contract research organisations to provide chemistry and biology services to make and characterise our novel small molecule drug candidates. We aim to licence our research programmes to larger pharmaceutical companies at the pre-clinical or early clinical trials stages.

Our Sareum Kinase Inhibitor Library (SKIL®) technology platform comprises the chemistry and expertise to generate quality kinase inhibitors with strong IP protection.



Drug Research Pipeline



Our business model

Sareum's pipeline is built on the expertise of its founders in pre-clinical drug discovery, particularly in the field of cancer.

Sareum operates as a so-called "virtual" research organisation meaning all our research is carried out in the laboratories of third-party providers. This enables us to access drug discovery expertise throughout the world with a very flexible cost base.

Our process starts by identifying initial inhibitors of a kinase target we are interested in. Most often these are identified by cross screening SKIL® compounds, generated in existing programmes, against a wide panel of kinase enzymes. Once compounds with suitable inhibitory activity and selectivity are identified, the design-synthesis-test cycles of drug discovery begin.

1. Design

To design new SKIL® molecules with improved potency and selectivity, we use a combination of structure-activity relationship analysis, structure-based design and our own experience with this class of enzyme target. Structure-activity relationship analysis (or SAR, from which the Company name is derived) is the study of how changes to the chemical structure of the inhibitor molecules relate to changes in biological activity. Structure-based design is the study of how the inhibitor molecules fit into the binding site of the enzyme target. As well as considering the potency and selectivity of a new molecule, our experience in medicinal chemistry and drug discovery includes considerations of potential toxicity and reactivity, ease of chemical synthesis and the way a new molecule will be distributed in cells and tissues. This design work is carried out in-house.

2. Synthesis

This is where samples of purified chemical material are generated from our designed chemical structures. This work is carried out by one of our network of research providers, after discussion with us on how the molecule will be synthesised, to what amount and purity and at what price. The samples and analytical data confirming the structure and purity are shipped to us.

3. Test

We use our expertise and drug discovery experience to design a screening cascade that identifies the best of our molecules to be advanced into further, more expensive and time consuming analysis. Typically we would test our molecules on isolated kinase enzymes before advancing into studies on cancer cells. We also test for stability and distribution into cells, before carefully selecting a subset to test for distribution and efficacy in *in vivo* models. Again, these testing activities are carried out by our research provider partners, with the decisions on what molecule to be analysed in which test being taken in-house. The information from each series of tests is used to assist in the design of new molecules which should show improved properties.

4. Candidate molecule

At the start of a programme, we draw out a specification of a candidate molecule: its properties and required test results specification. Once a molecule has reached this specification we can declare it as a candidate for formal pre-clinical development. Ideally, more than one molecule per programme should reach this specification, so that we have a backup in case of any unforeseen problems in later development.

5. Commercialisation

Simultaneously, an active campaign continues to draw these results to the attention of companies seeking to acquire programmes such as these. In particular, the results of our research are presented at important conferences and seminars that focus on cancer and cancer drugs. Commercial deals may take the form of a licence, co-development or sponsored research. A mix of up-front, research, success milestone and royalty payments are key to these deals.

Drug Development

The lead compounds from our Chk1 and Aurora+FLT3 programmes are novel, small molecule chemical entities. They have both demonstrated *in vivo* efficacy in model systems. We have nominated a pre-clinical development candidate from the Chk1 programme and are in the process of doing this for the Aurora+FLT3 programme.

Chk1

Our Chk1 programme is a joint collaboration with the Institute of Cancer Research and Cancer Research Technology Ltd. The most promising lead molecule from this programme was declared a candidate for pre-clinical development in August 2011, representing a significant milestone in the programme's progress.

Pre-clinical model studies carried out at the Institute of Cancer Research into cancers of the colon and lung showed significant reductions in tumour growth rates when advanced programme compounds, dosed via the oral route, were combined with treatment with the chemotherapeutics gemcitabine or irinotecan, compared to the same dose of the chemotherapeutics alone. The oral dosing of our inhibitors offers an advantage over competitor programmes that can only be administered intravenously.

Additionally, some types of cancer are believed to be dependent on Chk1 for survival and thus should be susceptible to treatment with a Chk1 inhibitor in the absence of any chemotherapeutic. This was demonstrated in a model study into one such cancer, neuroblastoma.

Data on the discovery of programme inhibitors and the performance of an advanced lead in model systems was published in poster presentations in November 2011 at the AACR-NCI-EORTC conference in the US and have been recently published in the peer-reviewed journals, Clinical Cancer Research and Journal of Medicinal Chemistry.

We have continued to add more data on the performance and safety of our lead compound to build the dossier used to brief potential partners.

Aurora+FLT3

Inhibitors developed in programmes target two enzyme types: Aurora kinases are required during the mitosis stage of cell division and are over expressed in many cancer types. FLT3 kinase over activation is one of the most common mutations found in Acute Myeloid Leukaemia (AML) patients.

Lead compounds from our Aurora+FLT3 kinase programme have demonstrated excellent results in model studies to treat AML. Studies are ongoing to determine which of two programme lead compounds is most suitable for declaration as candidate for pre-clinical development.

One model study showed that the leukaemia regressed to such an extent that no detectable cancer could be found in any of the ten examples treated with the Sareum compound. The study also showed that in the six weeks following treatment, no detectable cancer could be found in two of the ten examples and in the remaining eight, the average time for the leukaemia to increase five-fold was six weeks, compared to two weeks in the untreated examples.

We are discussing opportunities regarding the co-development of the programme to prepare for clinical studies. Work also continues to optimise a second series of molecules with demonstrated oral bioavailability.

TYK2

Tyrosine kinase 2 (TYK2) controls a biochemical pathway which is over stimulated in many auto-immune disorders. Inhibition of TYK2 has potential for treating diseases such as multiple sclerosis, rheumatoid arthritis, psoriasis and Crohn's disease. An initial *in vivo* study into the effectiveness of a programme lead compound in a model of multiple sclerosis was encouraging, giving a statistically significant reduction in disease severity, across a range of criteria, in a dose-dependent manner when dosed orally on a twice daily schedule. Similarly, in a model of arthritis, twice-daily oral dosing of the same lead compound had significant beneficial effects on disease severity.

These important proof-of-concept experiments have encouraged us to continue optimisation of programme compounds. In the meantime, we continue to discuss co-development opportunities.

Microtubule Binding Agents

This is a new programme arising from the continued screening of our SKIL library compounds. Lead compounds act in a similar manner to the billion-dollar selling taxane drugs, by altering the dynamics of tubulin polymerisation, and therefore affecting the ability of a cell to divide. However, in contrast to taxanes, which are natural product derivatives, our lead compounds are entirely synthetic and have the potential to be dosed via the oral route. Programme lead compounds have been shown to have significant oral bioavailability with potent anti-proliferative effects against a range of colon, lung, breast, prostate and leukaemia cell lines.

We intend to expand our understanding of Structure Activity Relationships (SAR) within this series, whilst seeking to improve potency and pharmacokinetic properties, before initiating marketing activities.

VEGFR-3 (FLT4) kinase

VEGFR-3 kinase is an important driver in blood and lymph angiogenesis. It also controls the mobilisation of cancer cells, a key process involved in metastasis, the main cause of death in cancer patients. Sareum has discovered potent and selective inhibitors of VEGFR-3 and the programme is currently in the lead optimisation stage. We have prioritised our recent research spend on other programmes whilst we pursue grant funding opportunities alongside an academic partner with the necessary biology expertise to assist us in the progression of this programme.

Chairman's and Chief Executive's statement

"This year has been a defining one for Sareum with the nomination of a pre-clinical development candidate in the Chk1 kinase programme and the reports on the activity of the programme inhibitors alone against specific cancers such as neuroblastoma."

In summary

- The Company raised £252,500 (before expenses) in June 2012 through placings of 29,705,880 shares at 0.85p. This was completed in a difficult investment market and is a reflection of the strong support for the Company's strategy.
- The availability of financing provided by Yorkville's SEDA complements the flexibility of Sareum's outsourced research model and demonstrates that the Company has the means to continue to add value to its research programmes.
- The Company is now well funded through the placing that was concluded earlier in the year and the recently announced SEDA draw down facility.

Whilst the Chk1 programme made most of the headlines, other pipeline activities made good progress, with at least one where a potential pre-clinical development candidate is beginning to emerge and another programme which may have potential outside the cancer field. Our SKIL® (Sareum Kinase Inhibitor Library) chemical template platform continues to provide a route to identifying potential candidate compounds for the future.

Collaboration and licensing discussions around several programmes are ongoing and, as noted in several recent RNS announcements (the most recent being on 10 September 2012 when the Company announced the £4.0 million SEDA facility, details of which are summarised below), the Directors continue to believe the Company will conclude at least one deal before the end of the calendar year.

The Company raised £252,500 (before expenses) in June 2012 through placings of 29,705,880 shares at 0.85 pence. This was completed in a difficult investment market and is a reflection of the strong support for the Company's strategy. The funds are being used to support ongoing development work and to progress new programmes. This research work continues to be outsourced to third-party providers, thus maintaining a low operational cost base.

In addition, after the year end, the Company announced (on 10 September 2012) that it had entered into a £4.0 million Standby Equity Distribution Agreement (SEDA) with YA Global Master SPV Ltd, an investment fund managed by Yorkville Advisors LLC (Yorkville).

The SEDA is intended to provide a flexible source of future funding to the Company to support its ongoing drug research activities as well as reassurance to Sareum's potential commercial partners that it has access to other funds, in addition to any current or future anticipated licence deal income.

Although not an immediate requirement for the Company, the availability of financing provided by Yorkville's SEDA complements the flexibility of Sareum's outsourced research model and demonstrates to potential commercial partners that the Company has the means to continue to add value to its research programmes.

The Directors believe that the SEDA agreement, in conjunction with existing funds, can provide sufficient working capital for the foreseeable future based upon current spending levels on ongoing programmes. Cash at bank at the year end was £511,000 and the loss after taxation was £651,000 in line with our budget and market expectations.

Outlook

The Company is now well funded through the placing that was concluded earlier in the year and the recently announced SEDA draw down facility. It is able to more actively pursue its key programmes, in particular Aurora+FLT3, Chk1 and TYK2, as well as new areas such as Microtubule Binding Agents. The SEDA draw down facility has the potential to provide up to £4.0 million of new funding and it is our intention to take some programmes into pre-clinical testing and into early Phase 1 studies before seeking to partner them. This will potentially lead to more lucrative deals since the risk of early failure has been reduced as the quantum of data from studies in patients accumulates. Moreover, it is a simpler process to partner later stage programmes and on better terms.

Sareum's CEO, Dr Tim Mitchell, is leading an initiative to broaden our pipeline activities to replace programmes that are reaching maturity. The team will be evaluating new kinase targets and extending the review beyond the boundaries of applications in oncology into other therapeutic areas.

We are expecting a busy period ahead with activities on a number of fronts all aimed at building the value of intellectual assets in the business and reaping some rewards for the research and development completed to date which can then be used to pursue new programmes.

Paul Harper PhD
Chairman
2 October 2012

Tim Mitchell PhD
Chief Executive

Case Study: Chk1

Pre-clinical studies show that the Chk1 pre-clinical development candidate boosts the effectiveness of chemotherapy treatments for many cancer types.

The pre-clinical development candidate from our Chk1 programme has been developed in a collaboration with The Institute of Cancer Research and Cancer Research Technology Ltd.

In laboratory studies, scientists showed more cancer cells died when Chk1 programme lead compounds were given 24 or 48 hours after the chemotherapy agents gemcitabine or irinotecan than when these drugs were given alone.

The Chk1 programme lead compounds were tested on colon, pancreatic and non-small cell lung cancer cells with a common cancer-linked mutation called p53. They also killed neuroblastoma cells with a MYCN mutation when given alone.

These studies have been published in the peer-reviewed journals Clinical Cancer Research and Journal of Medicinal Chemistry and represent the first time details have been published of an orally bioavailable Chk1 inhibitor that has killed cancer cells in the lab.

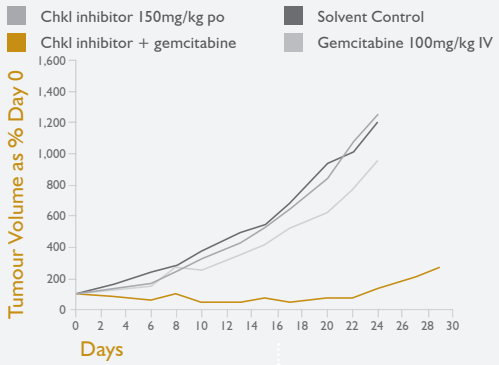
Tim Mitchell says "The oral dosing of our Chk1 pre-clinical development candidate offers an advantage over competitor programmes that can only be administered intravenously."

Further studies have also shown that a Chk1 programme compound can also boost the effects of radiotherapy.

What's next?

- Pre-clinical development continues, testing efficacy in further model systems
- Licensing discussions continue with an extensive dossier of pre-clinical efficacy and safety data

Effect of Compound on Tumour Growth



Oral Chk1 pre-clinical candidate potentiates the efficacy of gemcitabine in HT29 colon cancer xenograft model studies.

Case Study: TYK2

An initial multiple sclerosis model study into the effectiveness of a programme lead compound was encouraging, giving a statistically significant reduction in disease severity.

Tyrosine kinase 2 (TYK2) controls a biochemical pathway which is over-stimulated in many auto-immune disorders. Inhibition of TYK2 has potential for treating diseases such as multiple sclerosis, rheumatoid arthritis, psoriasis and Crohn's disease.

Sareum used its SKIL® platform to develop a novel chemical series that inhibit the activity of TYK2 kinase. In a pre-clinical model of multiple sclerosis, a TYK2 programme lead showed a dose-dependent reduction in disease severity when dosed twice-daily via the oral route. The TYK2 programme lead was well tolerated and no toxicity was observed. Significant beneficial effects were also seen in a pre-clinical model of arthritis. The programme leads have been further optimised to increase potency and selectivity, validated by cellular model studies.

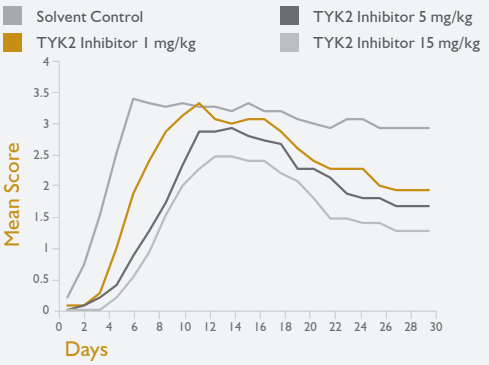
This programme demonstrates the ability of Sareum's SKIL platform to discover potent and selective compounds against many different kinase enzyme types. Multiple sclerosis and arthritis represent significant opportunities as patients are poorly served by current therapies. The targeting of auto-immune disease expands Sareum's commercial prospects over its established cancer opportunities.

Tim Mitchell says "There is sufficient interest in this area from pharma companies to make early approaches worthwhile, and a number of conversations are taking place with interested parties."

What's next?

- Further studies are ongoing, aiming to improve efficacy in model systems.
- Discussions continue with co-development partners with expertise in auto-immune disease biology.

Effect of Compound in MS model



Oral TYK2 inhibitor shows a dose-dependant response in an EAE model of multiple sclerosis.

Directors

Paul Harper PhD

Non-executive Chairman

Dr Paul Harper, aged 66, has over 30 years' experience in the life sciences industry covering both drug development and medical devices. He is Chairman of Physiomics plc and Director of Reneuron Holdings plc, both AIM quoted companies. In addition, he is Chairman of Oxford Medical Diagnostics Ltd and Monica Healthcare Ltd.

Paul has served as Chief Executive of Cambridge Antibody Technology Limited, and founded Provensis Limited. He has also served as Corporate Development Director of Unipath Limited, then the medical diagnostics business of Unilever PLC, and as Director of Research and Development for Johnson & Johnson Limited. Formerly head of Antimicrobial Chemotherapy for Glaxo PLC, Paul has a PhD in Molecular Virology and is the author of over 50 publications.

Tim Mitchell PhD

Founder and CEO

Dr Tim Mitchell, aged 52, has over 25 years' experience in the industry with key management and business expertise gained from his positions at Cambridge Discovery Chemistry and his roles at Millennium as a member of the management team and in forming the integrated Structure-Based Discovery department.

As Director of the Millennium Structure-Based Discovery department, Tim was responsible for global provision of protein structure and high throughput chemical synthesis for Millennium as well as for local computational chemistry, informatics and automation capabilities. Prior to that, he was Director of computational chemistry at Cambridge Discovery Chemistry Ltd and a team leader in the Computational and Structural Sciences department at SmithKline Beecham Pharmaceuticals. Tim has a PhD in Computational Chemistry and a BSc in Chemistry.

John Reader PhD

Founder and CSO

Dr John Reader, aged 45, has 19 years' experience within the industry and was formerly Associate Director, Chemical Technologies at Millennium Pharmaceuticals Research and Development Ltd, prior to which he worked with Pharmacopeia Inc. and Cambridge Discovery Chemistry in the provision of high throughput chemistry services to external and internal clients.

John has extensive experience of leading large research teams and in the invention and application of new technologies to the drug-discovery process, with an excellent track record of delivering successful projects to clients and has authored or co-authored many patents and publications. The majority of patents granted to John cover composition of matter discovered in the multiple projects in which he has worked, with further patents covering technological innovations in the field. John is a member of the EPSRC Peer Review College and has a PhD in Chemistry and a BSc in Applied Chemistry.

Report of the Directors

for the year ended 30 June 2012

The Directors present their report with the financial statements of the Company and the Group for the year ended 30 June 2012.

Principal activities

The principal activities of the Company in the year under review were those of a holding company. The principal activity of the Group is the discovery and development of new therapeutic drugs by a combination of skills in biology, computational chemistry and medicinal chemistry.

Review of business

The loss for the year was £650,563 and at 30 June 2012 cash and cash equivalents amounted to £510,555.

During the year the Group raised £252,500, before expenses, by way of two placings of new Ordinary shares on AIM, made up of £227,500 on 6 June 2012 and £25,000 on 7 June 2012. The funds raised will underwrite the ongoing development of the Group's programmes.

Throughout the period under review the Group continued to develop its drug discovery programmes using outsourced biology and chemistry resources as well as exploring commercial opportunities with potential partners. In the future the Group will continue to build value from its in-house research and development by seeking to advance and commercialise its drug discovery programmes.

A comprehensive review of the year is given in the Chairman's and Chief Executive's statement together with an outline of future developments.

Post balance sheet events

Financing

On 10 September 2012 Sareum announced that it had entered into a £4.0 million Standby Equity Distribution Agreement (SEDA) with YA Global Master SPV Ltd, an investment fund managed by Yorkville Advisors LLC (Yorkville).

The SEDA is intended to provide a flexible source of future funding to support ongoing drug research activities as well as reassurance to potential commercial partners that Sareum has access to other funds, in addition to any anticipated licence deal income.

Subject to its terms, the £4.0 million SEDA facility can be used entirely at the discretion of the Company. Under the terms of the SEDA, Sareum may draw down funds over a period of up to three years in exchange for the issue of new Ordinary shares in the Company. The Ordinary shares will be issued at a 5% discount to the lowest volume weighted average price during the pricing period (a period of 20, 15, ten or five trading days as determined under the SEDA) following a draw down request. The Company may also set a minimum price for each draw down, which may reduce the size of the permitted draw down. The maximum advance that may be requested is 400% of the average daily trading volume of Ordinary shares multiplied by the volume weighted average price of such shares for each of the 20 trading days following the draw down request and with an overall advance limit of £500,000 per draw down. The facility may only be drawn upon once every ten trading days. Yorkville is not obliged to allow draw downs to the extent they would result in Yorkville holding in excess of notifiable amounts specified under UK regulation (including the Takeover Code).

Dividends

No dividends will be distributed for the year ended 30 June 2012.

Research and development

The Group undertakes research and development on its cancer research programmes. Further information is provided in the Chairman's and Chief Executive's statement. The costs relating to this which have been written off during the year amounted to £330,974 (2011: £282,733).

Directors

The Directors shown below have held office during the whole of the period from 1 July 2011 to the date of this report.

Tim Mitchell PhD

John Reader PhD

Paul Harper PhD

Group's policy on payment of creditors

The Group's policy is to pay its suppliers within 30 days of invoice date. At 30 June 2012, the invoices representing the trade creditors of the Group had an average age of 67 days (2011: 54 days) based on the average daily amount invoiced by suppliers to the Group during the year.

Report of the Directors (continued)

for the year ended 30 June 2012

Financial instruments

Details regarding the Group's use of financial instruments and their associated risks are given in note 16 to the consolidated financial statements.

Key performance indicators

The Directors consider cash and spending on research and development to be the Group's key performance indicators. A budget is approved by the Board at the beginning of each financial year and performance is regularly monitored against budget with significant variances investigated.

Principal risks

The principal risks facing the Group are the following:

- the drug discovery programmes undertaken may fail due to fundamental scientific uncertainty;
- the Group may not complete sufficient commercial partnerships to create a sustainable business; and
- it may not be possible to raise sufficient funding to support the Company through to profitability.

The Directors address these uncertainties by reviewing reports on scientific progress, business development and financial status at the monthly Board meetings and implementing alternative plans to reduce the risks if these are considered necessary.

Statement of directors' responsibilities

The Directors are responsible for preparing the Report of the Directors 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 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 the Group and of the profit or loss of the Group 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 applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

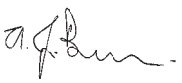
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions.

Statement as to disclosure of information to auditor

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group's auditor is unaware and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

ON BEHALF OF THE BOARD:



Tony Bunn FCMA – Secretary
2 October 2012

Corporate governance report

Introduction

Sareum Holdings plc was listed on AIM on 11 October 2004. Although the rules of AIM do not require the Company to comply with the Combined Code on Corporate Governance (the Code), the Company fully supports the principles set out in the Code and will attempt to comply wherever possible, given the resources available to the Company. Details are provided below of how the Company applies the Code.

The Board

The Board of Directors comprises two Executive Directors and one independent Non-executive Director, the Chairman.

The Board generally meets monthly and receives reports covering finance, compliance, business development, safety, operations and science together with any other material deemed necessary for the Board to discharge its duties. It is the Board's responsibility to review and approve the Group's strategy, budgets, staff recruitment, major items of expenditure and acquisitions.

Under the Articles of Association, all Directors must offer themselves for re-election at least once every three years. One third of the Directors retire by rotation at every AGM and are eligible for re-appointment.

Board Committees

The Board has established an Audit Committee and a Remuneration Committee with written terms of delegated responsibilities. The terms of reference are as close to the model terms of the Institute of Chartered Secretaries and Administrators as is possible for a Board with one independent Non-executive Director. The terms of reference of the Committees are published on the Company's website: www.sareum.co.uk.

Audit Committee

The Audit Committee currently comprises Dr Paul Harper, Non-executive Chairman and Dr Tim Mitchell, CEO. It is scheduled to meet twice a year. It is the Audit Committee's role to provide formal and transparent arrangements covering the financial reporting and internal control requirements of the Code, whilst maintaining an appropriate relationship with the independent auditors of the Group.

Remuneration Committee

The Remuneration Committee currently comprises Dr Paul Harper, Non-executive Chairman. It meets at least once a year. It is the Remuneration Committee's role to establish a formal and transparent policy on executive remuneration and to set remuneration packages for individual Directors. The Committee also ensures that recommendations made by the Executive Directors on staff remuneration are appropriate and fair from a shareholder's perspective. Further information on the work of the Committee can be found on page 13.

Shareholder relations

The Company meets with its institutional shareholders and analysts as appropriate and uses the AGM to encourage communication with shareholders. In addition, the Company issues the Annual Report and Accounts, Interim Statement and press releases as well as using its website (www.sareum.co.uk) to provide further information to shareholders.

Corporate governance report (continued)

Internal control and risk management

The Board is responsible for the systems of internal control and for reviewing their effectiveness. The internal controls are designed to manage rather than eliminate risk and provide reasonable but not absolute assurance against material misstatement or loss. The Audit Committee reviews the effectiveness of these systems annually. This it does primarily by discussions with the external auditors and by considering the risks potentially affecting the Group.

The Group does not have an internal audit function since the administrative function is very small. Instead there is a detailed Director review and authorisation of transactions. The annual audit by the Group auditors, which tests a sample of transactions, did not highlight any significant system improvements in order to reduce risks.

A comprehensive budgeting process is completed once a year and is reviewed and approved by the Board. The Group's results, compared with the budget, are reported to the Board on a monthly basis and discussed in detail.

The Group maintains appropriate insurance cover in respect of actions taken against the Executive Directors because of their roles, as well as against material loss or claims against the Group. The insured values and types of cover are comprehensively reviewed on a periodic basis.

Corporate social responsibility

Sareum is a small, motivated team of professional people which operates to high standards. These standards include a commitment to best practice in meeting the Company's social responsibilities.

Health and safety

The Company is proactive in considering the safety of staff, visitors and the public. It had no notifiable safety incidents during the year and no working days were lost due to accidents.

Employees

Sareum is committed to a policy of equal opportunities in the recruitment, engagement and treatment of its staff.

Environment

Sareum disposes of its waste products using reputable agents. The Company's landlord provides these agents to enable it to recycle its waste as appropriate.

Remuneration committee report

Introduction

The Company recognises the value of the Combined Code on Corporate Governance issued by the London Stock Exchange. It seeks to comply with the Combined Code so far as is practicable and appropriate for a public company of its size and nature. The Company also seeks to follow the Guidance for Smaller Quoted Companies on the Combined Code issued by the Quoted Companies Alliance in August 2004. Companies trading on AIM are not required to provide a formal remuneration report. However, in line with current best practice, this report provides information to enable a greater level of understanding as to how remuneration is determined by the Board.

The Remuneration Committee of the Board is responsible for considering staff and Directors' remuneration packages and makes its recommendations to the Board. The Committee currently comprises Dr Paul Harper, Non-executive Chairman. It meets at least once a year to review salaries and share option schemes for the Directors.

Remuneration policy

Remuneration packages are designed to be competitive and to reward above average performance. At present, Executive Directors receive salary, death-in-service benefit, critical illness and medical cover and a pension contribution.

Executive Directors' service contracts

The two full-time Executive Directors have executive service agreements with the Company dated 7 July 2004. The service agreements are subject to termination upon six months' notice being given by either party and are subject to standard terms in the event of termination.

For the year from 1 July 2011 a Directors' bonus scheme was in effect to reward the Directors based on performance targets that build shareholder value.

Pensions

The Group does not have a pension scheme but makes contributions to Executive Directors' personal pension schemes amounting to 6.375% of annual salary. In addition, the Executive Directors contribute to their pension schemes via salary sacrifice and the National Insurance savings made by the Group as a result of this arrangement are added to the Group's contributions.

Share option schemes

In setting up share option schemes for staff, the Committee took into account the recommendations of shareholder bodies, such as that of the insurance companies, on the number of options to issue and the criteria for vesting. It approved the following share incentive arrangements for staff:

- an Inland Revenue approved (EMI) share option scheme (approved scheme); and
- an unapproved share option scheme (unapproved scheme), identical to the approved scheme but for part-time staff who do not fulfil the EMI employment criteria.

The interests in the share option schemes of the Directors who served during the year were as follows:

Director	Share scheme	Exercise price pence	As at 1 July 2011 No.	Granted during the year No.	Lapsed during the year	As at 30 June 2012 No.
Dr Tim Mitchell	EMI	0.25	6,400,000	—	—	6,400,000
Dr Tim Mitchell	EMI	0.26	6,153,846	—	—	6,153,846
Dr Tim Mitchell	EMI	1.2	—	2,566,666	—	2,566,666
Dr John Reader	EMI	0.25	6,400,000	—	—	6,400,000
Dr John Reader	EMI	0.26	6,153,846	—	—	6,153,846
Dr John Reader	EMI	1.2	—	2,566,666	—	2,566,666

Remuneration committee report (continued)

Share option schemes (continued)

On 13 March 2012 options over 5,133,332 Ordinary shares (2,566,666 each) were granted under the approved scheme to Dr Tim Mitchell (CEO) and Dr John Reader (CSO). The exercise price of the options granted was 1.2 pence and at the date of granting the options the market price of the shares was 1.2 pence. The exercise price was determined as the average mid-market closing price of the Group's shares at the end of the week before granting the options.

Of the options granted to each Director during the period, 1,283,333 vested immediately and are exercisable until 13 March 2022. In addition, the remaining 1,283,333 options will vest subject to pre-determined performance criteria and are thereafter capable of being exercised until 13 March 2022.

The market price of the shares at 30 June 2012 was 0.725 pence and the range during the year was 0.65 pence to 1.85 pence.

Non-executive Directors

The Non-executive Chairman entered into a letter of engagement dated 19 September 2004. Members may request copies of the letter by sending a stamped addressed envelope to the Company Secretary. The appointment can be terminated by either party giving six months' notice.

Directors' remuneration

Details of Directors' annual remuneration as at 30 June 2012 are set out below:

	Salary £	Healthcare £	Emoluments £	Pension £	**Total 2012 £**	Total 2011 £
Executive Directors						
Dr TJ Mitchell	88,000	745	88,745	6,749	**95,494**	87,863
Dr JC Reader	88,000	559	88,559	7,310	**95,869**	87,939
Non-executive Directors						
Dr PB Harper	15,000	—	15,000	—	**15,000**	12,000
Total	191,000	1,304	192,304	14,059	**206,363**	187,802

The values reported here are contractual amounts as at the year-end date. Directors' emoluments disclosed in the financial statements are actual payments made during the year and may be different.

Report of the independent auditor

to the members of Sareum Holdings plc

We have audited the financial statements of Sareum Holdings plc for the year ended 30 June 2012 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated and Company Balance Sheet, Consolidated and Company Statement of Changes in Equity, Consolidated and Company Cash Flow Statement and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union, and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in a Report of the Auditor and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 10, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 30 June 2012 and of the Group's loss for the year then ended;
- the Group's financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Joseph Kinton (Senior Statutory Auditor)
for and on behalf of Shipleys LLP
Chartered Accountants and Statutory Auditor
10 Orange Street, Haymarket
London WC2H 7DQ
2 October 2012

Consolidated income statement

for the year ended 30 June 2012

	Notes	2012 £	2011 £
Continuing operations			
Revenue		**—**	—
Administrative expenses		**(726,660)**	(637,859)
Operating loss		**(726,660)**	(637,859)
Finance income	4	**4,821**	9,611
Loss before income tax	5	**(721,839)**	(628,248)
Income tax	6	**71,276**	59,890
Loss for the year		**(650,563)**	(568,358)
Loss attributable to:			
Owners of the parent		**(650,563)**	(568,358)
Loss per share expressed in pence per share:	8		
Basic		**(0.04)p**	(0.04)p

Consolidated statement of comprehensive income

for the year ended 30 June 2012

	2012 £	2011 £
Loss for the year	**(650,563)**	(568,358)
Other comprehensive income	**—**	—
Total comprehensive income for the year	**(650,563)**	(568,358)
Total comprehensive income attributable to:		
Owners of the parent	**(650,563)**	(568,358)

The notes form part of these financial statements.

Consolidated balance sheet

30 June 2012

	Notes	2012 £	2011 £
Assets			
Non-current assets			
Intangible assets	9	**—**	393
Property, plant and equipment	10	**363**	851
Investments	11	**—**	—
		363	1,244
Current assets			
Trade and other receivables	12	**30,972**	40,768
Tax receivable		**61,362**	60,090
Cash and cash equivalents	13	**510,555**	870,829
		602,889	971,687
Liabilities			
Current liabilities			
Trade and other payables	14	**122,874**	97,168
Net current assets		**480,015**	874,519
Net assets		**480,378**	875,763
Shareholders' equity			
Called up share capital	17	**370,075**	362,649
Share premium	18	**7,131,433**	6,901,816
Share-based compensation reserve	18	**46,473**	28,338
Merger reserve	18	**27**	27
Retained earnings	18	**(7,067,630)**	(6,417,067)
Total equity		**480,378**	875,763

The financial statements were approved by the Board of Directors on 2 October 2012 and were signed on its behalf by:

Tim Mitchell PhD – Director

The notes form part of these financial statements.

Company balance sheet

30 June 2012

	Notes	2012 £	2011 £
Assets			
Non-current assets			
Investments	11	**30,000**	30,000
Trade and other receivables	12	**—**	—
		30,000	30,000
Liabilities			
Net current liabilities		**—**	—
Net assets		**30,000**	30,000
Shareholders' equity			
Called up share capital	17	**370,075**	362,649
Share premium	18	**7,131,433**	6,901,816
Share-based compensation reserve	18	**46,473**	28,338
Retained earnings	18	**(7,517,981)**	(7,262,803)
Total equity		**30,000**	30,000

The financial statements were approved by the Board of Directors on 2 October 2012 and were signed on its behalf by:

Tim Mitchell PhD – Director

The notes form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2012

	Called up share capital £	Profit and loss account £	Share premium £
Balance at 1 July 2010	293,899	(5,848,709)	6,077,821
Changes in equity			
Issue of share capital	68,750	—	823,995
Total comprehensive income	—	(568,358)	—
Share-based compensation	—	—	—
Balance at 30 June 2011	362,649	(6,417,067)	6,901,816
Changes in equity			
Issue of share capital	7,426	—	229,617
Total comprehensive income	—	(650,563)	—
Share-based compensation	—	—	—
Balance at 30 June 2012	**370,075**	**(7,067,630)**	**7,131,433**

	Share-based compensation reserve £	Merger reserve £	Total equity £
Balance at 1 July 2010	—	27	523,038
Changes in equity			
Issue of share capital	—	—	892,745
Total comprehensive income	—	—	(568,358)
Share-based compensation	28,338	—	28,338
Balance at 30 June 2011	28,338	27	875,763
Changes in equity			
Issue of share capital	—	—	237,043
Total comprehensive income	—	—	(650,563)
Share-based compensation	18,135	—	18,135
Balance at 30 June 2012	**46,473**	**27**	**480,378**

The notes form part of these financial statements.

Company statement of changes in equity

for the year ended 30 June 2012

	Called up share capital £	Profit and loss account £	Share premium £	Share-based compensation reserve £	Total equity £
Balance at 1 July 2010	293,899	(6,341,720)	6,077,821	—	30,000
Changes in equity					
Issue of share capital	68,750	—	823,995	—	892,745
Total comprehensive income	—	(921,083)	—	—	(921,083)
Share-based compensation	—	—	—	28,338	28,338
Balance at 30 June 2011	362,649	(7,262,803)	6,901,816	28,338	30,000
Changes in equity					
Issue of share capital	7,426	—	229,617	—	237,043
Total comprehensive income	—	(255,178)	—	—	(255,178)
Share-based compensation	—	—	—	18,135	18,135
Balance at 30 June 2012	**370,075**	**(7,517,981)**	**7,131,433**	**46,473**	**30,000**

The notes form part of these financial statements.

Consolidated cash flow statement

for the year ended 30 June 2012

	Notes	2012 £	2011 £
Cash flows from operating activities			
Cash used in operations	24	**(672,142)**	(622,918)
Tax received		**70,004**	74,774
Net cash from operating activities		**(602,138)**	(548,144)
Cash flows from investing activities			
Purchase of tangible fixed assets		**—**	(264)
Sale of tangible fixed assets		**—**	100
Interest received		**4,821**	9,611
Net cash from investing activities		**4,821**	9,447
Cash flows from financing activities			
Share issue		**7,426**	68,750
Share premium on share issue		**229,617**	823,995
Net cash from financing activities		**237,043**	892,745
(Decrease)/increase in cash and cash equivalents		**(360,274)**	354,048
Cash and cash equivalents at beginning of year	25	**870,829**	516,781
Cash and cash equivalents at end of year	25	**510,555**	870,829

The notes form part of these financial statements.

Company cash flow statement

for the year ended 30 June 2012

	Notes	2012 £	2011 £
Cash flows from operating activities			
Cash used in operations	24	**(237,043)**	(892,745)
Net cash from operating activities		**(237,043)**	(892,745)
Cash flows from financing activities			
Share issue		**7,426**	68,750
Share premium on share issue		**229,617**	823,995
Net cash from financing activities		**237,043**	892,745
Increase in cash and cash equivalents		**—**	—
Cash and cash equivalents at beginning of year	25	**—**	—
Cash and cash equivalents at end of year	25	**—**	—

The notes form part of these financial statements.

Notes to the consolidated financial statements

for the year ended 30 June 2012

1. Adoption of new and revised international financial reporting standards

In the current year, the Group has adopted all of the revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations.

The Group has adopted the following new and amended IFRS and IFRIC interpretation during the year. Adoption of this revised standard and interpretation did not have any effect on the financial performance or financial position of the Group in the current or prior periods.

» Amendments to IFRS 7 'Financial instruments: Disclosures' – disclosures on transfers of financial assets

The IASB has issued the following standards and interpretations considered relevant to the Group, with an effective date after the date of these financial statements. Their adoption, where applicable, is not expected to have a material effect on the financial statements of the Group.

» Amendment to IAS 1 'Presentation of financial statements' – presentation of items of other comprehensive income (applies to periods beginning from 1 July 2012)
» IFRS 10 'Consolidated financial statements' (applies to periods beginning from 1 January 2013)
» IFRS 12 'Disclosure of interests in other entities' (applies to periods beginning from 1 January 2013)
» IFRS 13 'Fair value measurement' (applies to periods beginning from 1 January 2013)
» IAS 19 (revised) 'Employee benefits' (applies to periods beginning from 1 January 2013)
» IFRS 9 'Financial instruments' – classification of financial assets and financial liabilities (applies to periods beginning from 1 January 2015)

2. Accounting policies

Basis of preparation

The consolidated financial statements of Sareum Holdings plc and its subsidiaries (the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted for use in the European Union, with IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

IFRS comprise standards and interpretations approved by IASB. IFRS as adopted by the European Union differ in certain respects from IFRS as issued by the IASB. However, consolidated financial statements for the financial years presented would be no different had IFRS as issued by the IASB been applied. References to IFRS hereafter should be construed as references to IFRS as adopted by the European Union.

Going concern

Sareum Holdings plc is a research and development based business with, at present, no currently marketed products. The Directors consider that the cash held by the Group, together with financing from the Standby Equity Distribution Agreement, described in more detail in the Report of the Directors, will be sufficient to support the Group's activities for the foreseeable future and therefore the financial statements have been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 June each year. Control is achieved where the Company has the power to govern the financial and operating policies of another entity or business, so as to obtain benefits from its activities. The consolidated financial statements present the results of the Company and its subsidiaries (the Group) as if they formed a single entity. Inter-company transactions and balances between group companies are eliminated on consolidation.

Notes to the consolidated financial statements (continued)

for the year ended 30 June 2012

2. Accounting policies (continued)

Amortisation of intangibles

Amortisation is calculated so as to write off the cost of an asset over the useful economic life of that asset as follows:

Intellectual property – straight-line over five years.

Property, plant and equipment

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life:

Fixtures and computers – straight-line over three or four years.

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to insignificant risk of change in value.

Taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exception:

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on the tax rates and laws enacted or substantively enacted at the balance sheet date.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Operating lease agreements

Rentals applicable to operating leases where substantially all the benefits and risks of ownership remain with the lessor are charged against profits on a straight-line basis over the period of the lease.

Pension contributions

The Group does not operate a pension scheme for the benefit of its employees but instead makes contributions to their personal pension policies. The contributions due for the period are charged to the profit and loss account.

Employee share scheme

The Group has in place a share option scheme for employees, which allows them to acquire shares in the Company. Equity settled share-based payments are measured at fair value at the date of grant. The fair value of options granted is recognised as an expense spread over the estimated vesting period of the options granted. Fair value is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted.

3. Employees and directors

	2012 £	2011 £
Wages and salaries	**184,500**	174,483
Social security costs	**18,546**	18,116
Other pension costs	**13,420**	11,244
	216,466	203,843

The average monthly number of employees during the year was as follows:

	2012	2011
Office and management	**1**	1
Research	**1**	1
	2	2

	2012 £	2011 £
Directors' remuneration	**184,092**	174,199
Directors' pension contributions to money purchase schemes	**13,420**	11,244

The number of directors to whom retirement benefits were accruing was as follows:

	2012 Number	2011 Number
Money purchase schemes	**2**	2

The Directors comprise the key management personnel of the Group. Further information regarding directors' remuneration is provided in the Remuneration Committee report.

4. Net finance income

	2012 £	2011 £
Finance income:		
Deposit account interest	**4,821**	9,611

Notes to the consolidated financial statements (continued)

for the year ended 30 June 2012

5. Loss before income tax

The loss before income tax is stated after charging:

	2012 £	2011 £
Other operating leases	**10,686**	10,726
Depreciation – owned assets	**488**	487
Loss on disposal of fixed assets	**—**	56
Intellectual property amortisation	**393**	591
Research and development	**330,974**	282,733
Auditor's remuneration – see analysis below	**11,750**	11,790

The analysis of auditor's remuneration is as follows:

	2012 £	2011 £
Fees payable to the Company's auditor for the audit of the annual accounts		
Audit of the Company	**4,000**	3,700
Audit of subsidiaries	**6,500**	5,780
Total audit fees	**10,500**	9,480
Fees payable to the Company's auditor for other services		
Taxation services	**1,250**	2,310
Total fees payable to the Company's auditor	**11,750**	11,790

6. Income tax

	2012 £	2011 £
Current tax:		
UK corporation tax credit on losses of the period	**(61,362)**	(54,887)
Adjustments recognised in the current year in relation to the current tax of prior years	**(9,914)**	(5,003)
Tax credit to the Income Statement	**(71,276)**	(59,890)

The credit for the year can be reconciled to the accounting loss as follows:

	2012 £	2011 £
Loss before tax	**(721,839)**	(628,248)
At standard rate of 20% (2011: 21%)	**(144,368)**	(131,932)
Effects of:		
Expenses not allowable for tax purposes	**11,627**	5,951
Capital allowances in excess of depreciation	**(657)**	(938)
Unutilised tax losses	**91,041**	79,873
Losses surrendered for research and development tax credits (less uplift)	**42,357**	47,046
Research and development tax credits claimed	**(61,362)**	(54,887)
Prior year adjustments	**(9,914)**	(5,003)
Actual current tax credit in the year	**(71,276)**	(59,890)

The tax rate used above for the 2012 and 2011 reconciliations of 20% and 21% respectively are the small company corporation tax rates applicable in the United Kingdom, on taxable profits under tax law in that jurisdiction.

7. Loss of parent company

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The parent company's loss for the financial year was £255,178 (2011: £921,083 loss).

The loss represents costs of £134,019 (2011: £93,762) associated with the Company's obligations to maintain its AIM listing, the share-based compensation adjustment of £18,135 (2011: 28,338) and a provision of £103,024 (2011: £798,983) for impairment of amounts owed by group undertakings.

8. Earnings per share

The calculation of loss per share is based on the following data:

	2012	2011
Loss on ordinary activities after tax	**£(650,563)**	£(568,358)
Weighted average number of shares for basic loss per share	**1,452,212,949**	1,348,885,384
Basic and diluted loss per share	**(0.04)p**	(0.04)p

As the Group has generated a loss for the period, there is no dilutive effect in respect of share options.

9. Intangible assets

Group	Intellectual property £
Cost	
At 1 July 2011 and 30 June 2012	2,953
Amortisation	
At 1 July 2011	2,560
Amortisation for year	393
At 30 June 2012	**2,953**
Net book value	
At 30 June 2012	**—**
At 30 June 2011	393

Notes to the consolidated financial statements (continued)

for the year ended 30 June 2012

10. Property, plant and equipment

Group	Fixtures and computers £
Cost	
At 1 July 2011	8,151
Disposals	(2,068)
At 30 June 2012	**6,083**
Depreciation	
At 1 July 2011	7,300
Charge for year	488
Eliminated on disposal	(2,068)
At 30 June 2012	**5,720**
Net book value	
At 30 June 2012	**363**
At 30 June 2011	851

11. Investments

Company	Shares in group undertakings £
Cost	
At 1 July 2011 and 30 June 2012	30,000
Net book value	
At 30 June 2012	**30,000**
At 30 June 2011	30,000

On 5 July 2004, the Company acquired 100% of the issued share capital of Sareum Limited; a company incorporated in England and Wales and operating in the United Kingdom. In consideration, the shareholders in Sareum Limited received Ordinary shares in Sareum Holdings plc and a loan to finance its operations. This event was not an acquisition in the normal way but purely a mechanism for floating Sareum Limited on AIM. Sareum Limited is included within the consolidated financial statements of Sareum Holdings plc.

12. Trade and other receivables

	Group	
	2012 £	2011 £
Current		
VAT	**5,803**	6,895
Prepayments and accrued income	**25,169**	33,873
	30,972	40,768

	Company	
	2012 £	2011 £
Non-current		
Amounts owed by group undertakings	**6,633,398**	6,530,374
Provision for impairment	**(6,633,398)**	(6,530,374)
	—	—

The Directors have confirmed that they will not seek repayment of the inter-company balance owing from Sareum Limited within the next twelve months, therefore this balance is considered to be repayable in more than a year from the balance sheet date. The Directors have also considered the recoverability of the inter-company balance and have made provision for the full value of the debt.

13. Cash and cash equivalents

	Group	
	2012 £	2011 £
Bank deposit account	**500,115**	859,978
Bank accounts	**10,440**	10,851
	510,555	870,829

14. Trade and other payables

	Group	
	2012 £	2011 £
Current		
Trade creditors	**97,033**	69,905
Social security and other taxes	**5,782**	5,130
Other creditors	**2,735**	4,074
Accrued expenses	**17,324**	18,059
	122,874	97,168

The Company has no creditors outstanding at the year end date.

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit term agreed with suppliers is 30 days and payment is generally made within the agreed terms.

Notes to the consolidated financial statements (continued)

for the year ended 30 June 2012

15. Leasing agreements

Group	Non-cancellable operating leases 2012 £	2011 £
Within one year	**10,600**	5,300
Between one and five years	**15,900**	—
	26,500	5,300

The outstanding commitments represent rental payments due under the lease for the Group's office premises which expires in December 2014. The lease does not include any onerous restriction of the Group's activities.

Company

The Company had no lease commitments at 30 June 2012.

16. Financial instruments

The Group's principal financial instruments are trade and other receivables, trade and other payables and cash. The main purpose of these financial instruments is to finance the Group's ongoing operational requirements. The Group does not trade in derivative financial instruments.

The major financial risks faced by the Group, which remained unchanged throughout the year, are interest rate risk, foreign exchange risk and liquidity risk.

Policies for the management of these risks are shown below and have been consistently applied.

Market risks

Interest rate risk

The Group is exposed to interest rate risk as cash balances in excess of immediate needs are placed on short term deposit. The Group seeks to optimise the interest rates received by continuously monitoring those available.

Foreign exchange risk

The Group's activities expose it to fluctuations in the exchange rate for the Euro and the US dollar.

Funds are maintained in Sterling and foreign currency is acquired on the basis of committed expenditure.

The Group's results are not considered to be materially sensitive to the above risks and therefore no sensitivity analysis has been provided.

Non-market risks

Liquidity risk

The Board has responsibility for reducing exposure to liquidity risk and ensures that adequate funds are available to meet anticipated requirements from existing operations by a process of continual monitoring.

17. Called up share capital

Allotted, issued and fully paid:

Number	Class:	Nominal value:	2012 £	2011 £
1,480,303,593 (2011: 1,450,597,713)	Ordinary shares	0.025p	**370,075**	362,649

The Ordinary shares carry equal rights in respect of voting at a general meeting of shareholder, payment of dividends and return of assets in the event of a winding up.

In June 2012, 29,705,880 Ordinary shares of 0.025 pence were issued at 0.85 pence per share.

Details of share options granted can be found in note 23 to the financial statements, Share-Based Payment Transactions.

18. Reserves

Reserve	Description and purpose
Share capital	Amount of the contributions made by shareholders in return for the issue of shares.
Share premium	Amount subscribed for share capital in excess of nominal value.
Merger reserve	Premium on shares issue in consideration of the acquisition of subsidiaries.
Retained earnings	Cumulative net gains and losses recognised in the consolidated and the Company Balance Sheet.
Share-based compensation reserve	Cumulative fair value of share option granted and recognised as an expense in the Income Statement.

Details of movements in each reserve are set out in the Consolidated Statement of Changes in Equity on page 19.

19. Pension commitments

The Group makes contributions to its employees' own personal pension schemes. The contributions for the period of £13,420 (2011: £11,244) are charged to the profit and loss account. At the balance sheet date contributions of £2,729 (2011: £4,074) were owed and are included in creditors.

20. Contingent liabilities

There are no contingent liabilities (2011: £nil).

21. Related party disclosures

Disclosure regarding the remuneration of key management personnel is given in note 3, Employees and Directors, and in the Remuneration Committee report.

Transactions between the Company and its subsidiary, Sareum Limited, which is a related party, have been eliminated on consolidation. The ultimate holding company of the Group is Sareum Holdings plc.

During the year, Sareum Holdings plc continued to provide an interest free loan to Sareum Limited, further details of which can be found in note 12 to the financial statements.

Notes to the consolidated financial statements (continued)

for the year ended 30 June 2012

22. Reconciliation of movements in shareholders' funds

	Group	
	2012 £	2011 £
Loss for the financial year	**(650,563)**	(568,358)
Issue of share capital	**237,043**	892,745
Share-based compensation reserve	**18,135**	28,338
Net (reduction)/addition to shareholders' funds	**(395,385)**	352,725
Opening shareholders' funds	**875,763**	523,038
Closing shareholders' funds	**480,378**	875,763

	Company	
	2012 £	2011 £
Loss for the financial year	**(255,178)**	(921,083)
Issue of share capital	**237,043**	892,745
Share-based compensation reserve	**18,135**	28,338
Opening shareholders' funds	**30,000**	30,000
Closing shareholders' funds	**30,000**	30,000

23. Share-based payment transactions

The Group operates a share option scheme under the Enterprise Management Incentive Scheme (EMI) for employees of the Group. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Details of the share options outstanding during the year are as follows:

	2012		2011	
	Number of share options	**Weighted average exercise price (in pence)**	Number of share options	Weighted average exercise price (in pence)
Outstanding at beginning of period	**25,107,692**	**0.255**	12,800,000	0.25
Granted during the period	**5,133,332**	**1.2**	12,307,692	0.26
Forfeited during the period	**—**	**—**	—	—
Exercised during the period	**—**	**—**	—	—
Expired during the period	**—**	**—**	—	—
Outstanding at the end of the period	**30,241,024**	**0.415**	25,107,692	0.255
Exercisable at the end of the period	**15,120,512**	**0.415**	12,553,846	0.255

The options outstanding at 30 June 2012 had a weighted average remaining contractual life of eight years and three months (30 June 2011: eight years and eleven months). The options outstanding but not exercisable at 30 June 2012 and 30 June 2011 vest on the date upon which a significant commercial deal is signed by the Group.

Further information concerning share options granted to directors is provided in the Remuneration Committee report.

23. Share-based payment transactions (continued)

Fair value calculation

Fair value was estimated using the Black-Scholes model. The key data and assumptions used were:

Date of grant	March 2012	December 2010	December 2009
Share price	1.2 pence	0.25 pence	0.25 pence
Exercise price	1.2 pence	0.26 pence	0.25 pence
Volatility	50%	50%	83%
Time until maturity	three years	three years	three years
Risk free rate of interest	1%	1%	1%
Expected dividend yield	nil	nil	nil

Volatility for the options granted in March 2012 and December 2010 is based on share price performance for companies operating in a similar field. Volatility for the options granted in December 2009 is calculated using the Group's historical share price data and is the annual volatility at 30 June 2010.

The weighted average fair value of the share options at 30 June 2012 was 0.202 pence per share (2011: 0.158 pence per share). A fair value charge of £18,135 has been provided in the year (2011: £28,338).

24. Reconciliation of loss before income tax to cash generated from operations

Group	**2012 £**	2011 £
Loss before income tax	**(721,839)**	(628,248)
Depreciation charges	**881**	1,078
Loss on disposal of fixed assets	**—**	56
Add back: Share-based compensation	**18,135**	28,338
Finance income	**(4,821)**	(9,611)
	(707,644)	(608,387)
Decrease/(increase) in trade and other receivables	**9,796**	(14,141)
Increase/(decrease) in trade and other payables	**25,706**	(390)
Cash used in operations	**(672,142)**	(622,918)

Company	**2012 £**	2011 £
Loss before income tax	**(255,178)**	(921,083)
Add back: Impairment provision	**103,024**	798,983
Add back: Share-based compensation	**18,135**	28,338
	(134,019)	(93,762)
Increase in trade and other receivables	**(103,024)**	(798,983)
Cash used in operations	**(237,043)**	(892,745)

Notes to the consolidated financial statements (continued)

for the year ended 30 June 2012

25. Cash and cash equivalents

The amounts disclosed in the Cash Flow Statements in respect of cash and cash equivalents are in respect of these balance sheet amounts:

	Group		Company	
Year ended 30 June 2012	**30 June 2012 £**	1 July 2011 £	**30 June 2012 £**	1 July 2011 £
Cash and cash equivalents	**510,555**	870,829	**—**	—

Year ended 30 June 2011	30 June 2011 £	1 July 2010 £	30 June 2011 £	1 July 2010 £
Cash and cash equivalents	870,829	516,781	—	—

26. Capital risk management

The Group manages its capital to ensure that the Group and its subsidiary company will be able to continue as going concerns.

The capital structure of the Group consists of equity, comprising issued share capital and reserves as disclosed in notes 17 and 18, and cash and cash equivalents.

27. Deferred tax

No provision has been made in the Group's accounts and the amounts not provided for at the end of the year are as follows:

	2012 £	2011 £
Excess of depreciation on fixed assets over taxation allowances claimed	**(3,364)**	(4,020)
Tax losses available	**(781,450)**	(697,889)
	(784,814)	(701,909)

A potential deferred tax asset of £784,814 has not been recognised, as there is significant uncertainty that the Group will make sufficient profits in the foreseeable future to justify recognition. The deferred tax asset would be recognised should sufficient profits be generated in the future against which it may be recovered.

28. Post balance sheet events

On 10 September 2012 Sareum announced that it had entered into a £4.0 million Standby Equity Distribution Agreement (SEDA) with YA Global Master SPV Ltd, an investment fund managed by Yorkville Advisors LLC (Yorkville).

The SEDA is intended to provide a flexible source of future funding to support ongoing drug research activities as well as reassurance to potential commercial partners that Sareum has access to other funds, in addition to any anticipated licence deal income.

Subject to its terms, the £4.0 million SEDA facility can be used entirely at the discretion of the Company. Under the terms of the SEDA, Sareum may draw down funds over a period of up to three years in exchange for the issue of new Ordinary Shares in the Company. The Ordinary Shares will be issued at a 5% discount to the lowest volume weighted average price during the pricing period (a period of 20, 15, ten or five trading days as determined under the SEDA) following a draw down request. The Company may also set a minimum price for each draw down, which may reduce the size of the permitted draw down. The maximum advance that may be requested is 400% of the average daily trading volume of Ordinary shares multiplied by the volume weighted average price of such shares for each of the 20 trading days following the draw down request and with an overall advance limit of £500,000 per draw down. The facility may only be drawn upon once every ten trading days. Yorkville is not obliged to allow draw downs to the extent they would result in Yorkville holding in excess of notifiable amounts specified under UK regulation (including the Takeover Code).

Notes

Notes

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