

Port Erin Biopharma Investments Limited

Directors' report and annual financial statements

For the period from 3 May 2011 (date of incorporation) to 30 June 2012

Registration number: Isle of Man 006874V

Port Erin Biopharma Investments Limited

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Port Erin Biopharma Investments Limited

Corporate information

Directors	Jim Mellon (Chairman) Nicholas Woolard Denham Eke
Company's website	www.porterinbiopharma.com
Registered Office	18 Athol Street Douglas Isle of Man, IM1 1JA British Isles
Registered Agent	Greystone Trust Company Limited 18 Athol Street Douglas Isle of Man, IM1 1JA British Isles
Nominated Adviser	Libertas Capital Corporate Finance Limited 17c Curzon Street London W1J 5HU United Kingdom
Broker / Nominee	Cowen and Company, LLC 599 Lexington Avenue New York, NY 10022
Registrar	Capita Registrars (Isle of Man) Limited 3 rd floor, Exchange House 54 – 62 Athol Street Douglas Isle of Man, IM1 1JD
Auditors	KPMG Audit LLC Heritage Court 41 Athol Street Douglas Isle of Man, IM99 1HN
Legal Advisers	<i>As to Isle of Man Law</i> Long & Humphrey The Old Courthouse Athol Street Douglas Isle of Man, IM1 1LD
Legal Advisers	<i>As to English Law</i> Kerman & Co. LLP 200 Strand London, WC2R 1DJ
Depository	Capita Registrars (Isle of Man) Limited 3 rd floor, Exchange House 54 – 62 Athol Street Douglas Isle of Man, IM1 1JD
Administration	Burnbrae Limited 4 th floor, Viking House Nelson Street Douglas Isle of Man, IM1 2AH
Stock symbol	LSE : PEBI

Port Erin Biopharma Investments Limited

Chairman's statement

Introduction

I have great pleasure in presenting the maiden annual report and audited accounts for Port Erin Biopharma Investments Limited.

We set up the company over a year ago, essentially to track my own portfolio investments within the biotechnology sector. This is a sector which I believe to be both undervalued and to offer excellent opportunities in its potential for growth. This is a view that I have outlined in the recently published book "Cracking the Code", which outlines the tremendous advances being made in the bio sciences as a result of the fusion of computer power and cumulative human discovery.

Financial Review

We raised net cash of just under £2.7 million (£3.0 million before listing expenses) in September 2011. I am pleased to report that, by the reporting date, we have increased our total assets to £3,156,154 – nearly a 17% return on available capital. This is despite the fact that it took some time to become invested. At the end of June 2012, we held cash of £237,391, a portfolio of assets valued at £2,909,183 and receivables of £9,580.

During the same period, we have generated an income of £510,515 made up of £16,448 dividend income, net sales gains of £226,308 and net unrealised portfolio gains of £267,759. This, after subtracting all expenses of £94,062 and adding interest income and foreign exchange gains of £8,755, produced a total comprehensive income of £425,208. In addition, admission costs of £301,954 have been taken into equity.

Bearing in mind the current size of the company, I and the board have been very careful to minimise on-going operating expenses. Thus we have been able to keep the annual running cost of the Company, after listing expenses, under a relatively modest £95,000.

Strategy and Outlook

Our strategy is very simple – to invest the portfolio into those bio-pharma companies which I hold in my personal portfolios.

The bulk of the portfolio (approximately 70%) is and will be invested in companies that are cash generative, and often dividend paying, and which have market capitalisations in excess of US\$ 5 billion. Many of these companies are situated in the USA, home to the bulk of the world's largest drug companies, but there are also representatives from elsewhere in the world, providing us with a diversified spread and a generous income stream. Names such as Pfizer, Inc., Sanofi SA, Celgene Corporation and GlaxoSmithKline fall into this category, and while growth for these companies is somewhat constrained by their sheer scale, and by rich-world government pressures on health care costs, they have substantial exposure to emerging markets. The combination of rich-world standards in drug manufacture and emerging market potential growth in sales is a potent one and leads us to believe that many of these large companies will experience better than expected sales and profits in the years ahead. Emerging markets currently have very low per capita expenditure on drugs and we believe that this provides significant opportunities. Furthermore, Price Earnings ratios and other measures of share values indicate fundamental opportunities in these larger companies.

To provide greater, albeit more speculative, upside to the portfolio we also hold a range of smaller to medium sized companies which amount to approximately a third of the portfolio. Names such as Medivation, Inc. (which is commercialising a new prostate drug) and Plethora Solutions Holdings (developing a male sexual health product), as well as Summit plc (involved in research into Duchenne muscular dystrophy), all feature.

This balanced portfolio approach we hope will continue to yield positive NAV results and we remain optimistic for the next year.

Jim Mellon
Chairman

Port Erin Biopharma Investments Limited

Directors' report

The Directors of Port Erin Biopharma Investments Limited present the Directors' report and financial statements for the period from 3 May 2011 (date of incorporation) to 30 June 2012. The Directors have elected to prepare this set of financial statements from the date of incorporation to 30 June 2012. A previous set of financial statements from date of incorporation to 6 June 2011 was prepared for, the AIM admission.

Principal activity

The Company was formed for the purpose of investing in the biotechnology and biopharmaceutical sector. The Company was incorporated on 3 May 2011 under the Isle of Man Companies Act 2006 and has no employees other than Directors. On 15 September 2011 the Company's shares were admitted to AIM.

Results and transfer to reserves

The results and transfers to reserves for the year are set out on page 7.

The Company made a profit for the period after taxation of £425,208.

Dividend

The Directors do not propose the payment of a dividend.

Directors

The Directors who served during the period and to date were:

	Appointed	Resigned
James Mellon	3 May 2011	
Thomas Winniffrith	3 May 2011	30 May 2012
Nicholas James Woolard	3 May 2011	
Denham Eke	30 May 2012	

Directors' Interests

As at 30 June 2012, the interests of the Directors and their families (as such term is defined in the AIM Rules for Companies) in the share capital of the Company are as follows:

	Number of Ordinary Shares		Percentage of Issued Capital
	Direct Interests	Other Interests	
James Mellon ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	310,000	3,850,000	12.61%
Nicholas James Woolard	100,000	-	0.30%

Notes to Directors' Interests:

(1) Shellbay Investments Limited, wholly owned by a trust of which James Mellon is a life tenant, holds 3,100,000 Ordinary Shares.

(2) Galloway Limited, wholly owned by a trust of which James Mellon is a life tenant, holds 750,000 Ordinary shares.

(3) Denham Eke is a director of Shellbay Investments Limited and Galloway Limited.

(4) Post period, Galloway Limited acquired a further 250,000 Ordinary shares on 19 July 2012 and James Mellon is now interested, in aggregate, in 4,410,000 Ordinary shares representing approximately 13.36 per cent. of the Company's issued share capital.

Port Erin Biopharma Investments Limited

Directors' report (continued)

As at 30 June 2012 the Directors and their families (as such term is defined in the AIM Rules for Companies) held the following Warrants:

	Number of Warrants
James Mellon ⁽¹⁾	2,100,000
Nicholas James Woolard ⁽²⁾	100,000

Notes to Directors' Interests:

- (1) Shellbay Investments Limited acquired 1,500,000 Warrants on 5 August 2011 and a further 600,000 on 9 August 2011.
(2) Nicholas James Woolard acquired 50,000 Warrants on 12 July 2011 and a further 50,000 on 8 August 2011.

Significant shareholdings

Except for the interests disclosed in this note, the Directors are not aware of any holding of ordinary shares as at 30 June 2012 representing 3% or more of the issued share capital of the Company:

	Number of ordinary shares 30 June 2012	Percentage of total issued capital 30 June 2012
James Mellon ⁽¹⁾	4,160,000	12.61%
Share Nominees Limited	4,110,934	12.46%
State Street Nominees Limited	3,250,000	9.85%
The Bank of New York (Nominees)	2,260,000	6.85%
XCAP Nominees Limited	1,150,500	3.49%
Jim Nominees Limited	1,135,000	3.44%

Note:

- (1) James Mellon's shareholding consists of 3,100,000 shares held by Shellbay Investments Limited, and 750,000 shares held by Galloway Limited. Shellbay Investments Limited and Galloway Limited are companies which are indirectly wholly owned by the trustee of a settlement under which James Mellon is a life tenant. The balance of James Mellon's shareholding is held in his own name.

On behalf of the Board

Denham Eke

Director
30 October 2012

18 Athol Street
Douglas
Isle of Man
IM1 1JA
British Isles

Port Erin Biopharma Investments Limited

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

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations. In addition, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards.

The financial statements are required to 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 they have been prepared in accordance with International Financial Reporting Standards, 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 proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation governing the preparation and dissemination of financial statements may differ from one jurisdiction to another.

On behalf of the Board

Denham Eke

Director

30 October 2012

Port Erin Biopharma Investments Limited

Report of the Independent Auditors, KPMG Audit LLC, to the members of Port Erin Biopharma Investments Limited

We have audited the financial statements of Port Erin Biopharma Investments Limited for the period from 3 May 2011 (date of incorporation) to 30 June 2012 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows and the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs).

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the Directors are responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2012 and of its profit for the period then ended; and
- have been properly prepared in accordance with IFRSs.

KPMG Audit LLC

Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man IM99 1HN

Port Erin Biopharma Investments Limited

Statement of comprehensive income for the period from 3 May 2011 (date of incorporation) to 30 June 2012

	Notes	2012 £
Investment Income	3	510,515
Operating expenses		
Directors' fees	2,5	(10,000)
Other costs	4	(84,062)
Foreign exchange gains		6,295
Profit from operating activities	5	422,748
Interest received		2,460
Profit before taxation		425,208
Taxation	1(i)	-
Profit for the period		425,208
Other comprehensive income		-
Total comprehensive income for the period		425,208
Basic and diluted earnings per share (EPS)	13	0.0181

The Directors consider that the Company's activities are continuing.

The notes on pages 11 to 20 form part of these financial statements.

Port Erin Biopharma Investments Limited

Statement of financial position as at 30 June 2012

	Notes	2012 £
Current assets		
Convertible loans	8	64,033
Financial assets at fair value through profit or loss	7	2,845,150
Trade and other receivables		9,580
Cash and cash equivalents		237,391
Total assets		3,156,154
Equity and liabilities		
Capital and reserves		
Share capital	6	33
Share premium	6	2,699,013
Retained earnings		425,208
		3,124,254
Current liabilities		
Trade and other payables	10	31,900
Total equity and liabilities		3,156,154

The notes on pages 11 to 20 form part of the financial statements.

These financial statements were approved by the Board of Directors on 30 October 2012 and were signed on their behalf by:

Denham Eke

Director

Port Erin Biopharma Investments Limited

Statement of changes in equity

for the period from 3 May 2011 (date of incorporation) to 30 June 2012

	Share Premium £	Share Capital £	Retained Profit £	Total £
Balance at 3 May 2011	-	-	-	-
Total comprehensive income for the period	-	-	425,208	425,208
Shares issued	3,000,967	33	-	3,001,000
Share issue costs	(301,954)	-	-	(301,954)
Balance at 30 June 2012	2,699,013	33	425,208	3,124,254

The notes on pages 11 to 20 form part of these financial statements.

Port Erin Biopharma Investments Limited

Statement of cash flows

for the period from 3 May 2011 (date of incorporation) to 30 June 2012

	Notes	2012 £
Cash flows from operating activities		
Profit for the period		425,208
Adjusted for:		
Interest received		(2,460)
Realised and unrealised gains		(494,066)
		<hr/>
Operating profit before changes in working capital		(71,318)
Increase in receivables		(9,580)
Increase in payables		31,900
		<hr/>
Net cash outflow from operating activities		(48,998)
		<hr/>
Cash flows from investing activities		
Purchase of investments		(3,775,097)
Proceeds from sale of investments		1,359,980
Interest received		2,460
		<hr/>
		(2,412,657)
		<hr/>
Cash flows from financing activities		
Share issues	6	3,001,000
Share issue costs		(301,954)
		<hr/>
		2,699,046
		<hr/>
Increase in cash and cash equivalents		237,391
Cash and cash equivalents at beginning of period		-
		<hr/>
Cash and cash equivalents at the end of period		237,391
		<hr/> <hr/>

The notes on pages 11 to 20 form part of these financial statements.

Port Erin Biopharma Investments Limited

Notes

(forming part of the financial statements for the period from 3 May 2011 (date of incorporation) to 30 June 2012)

1 Accounting policies

Port Erin Biopharma Investments Limited is a Company domiciled in the Isle of Man. The Company's strategy is to create value for Shareholders through investing in companies that have the potential to generate substantial revenues through the development of biopharmaceutical drugs.

The principal accounting policies are set out below.

a) *Statement of compliance*

The financial statements are prepared on the historical cost basis except for the valuation of financial assets and liabilities at fair value through profit or loss and in accordance with International Financial Reporting Standards (IFRS) and the interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 30 October 2012.

b) *Basis of preparation*

Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of the revision and future periods if the revision affects both current and future periods.

Going concern

The financial statements have been prepared on a going concern basis, taking into consideration the level of cash and cash equivalents held by the Company. The Directors have a reasonable expectation that the Company will have adequate resources for its continuing existence and projected activities for the foreseeable future, and for these reasons, continue to adopt the going concern basis in preparing the financial statements for the period ended 30 June 2012.

Functional and presentation currency

These financial statements are presented in Pound Sterling which is the Company's functional currency.

c) *Investment income*

Any realised and unrealised gains and losses on investments are presented within Income.

Interest income earned during the period, is accrued on a time apportionment basis, by reference to the principal outstanding and the effective rate applicable.

Dividend income is recognised when a security held goes ex-dividend. Dividends are shown as net cash received, after the deduction of withholding taxes.

d) *Financial instruments*

Classification

The Company classifies its investments in equity securities as financial assets at fair value through profit or loss. These financial assets are classified as held for trading or designated at fair value through profit or loss at inception.

Port Erin Biopharma Investments Limited

Notes (continued)

(forming part of the financial statements for the period from 3 May 2011 (date of incorporation) to 30 June 2012)

1 Accounting policies (continued)

d) Financial instruments (continued)

Classification (continued)

Financial assets held for trading are acquired or incurred principally for the purpose of selling in the short term.

Financial assets designated at fair value through profit or loss are those that are managed and their performance evaluated on a fair value basis in accordance with the Company's documented investment strategy.

Financial assets that are classified as loans and receivables include amounts due from brokers, other receivables and cash and cash equivalents.

Recognition/de-recognition

Purchases and sales of investments are recognised on their trade date, which is the date on which the Company commits to purchase or sell the asset. Investments are initially measured at fair value. Investments are de-recognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

Measurement

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Any gains and losses arising from changes in Financial assets at fair value through profit or loss are included in profit or loss in the period in which they arise. Interest from Financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income using the effective interest rate method. Dividend income from Financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income when the Company's right to receive payment is established.

Fair value measurement principles

The fair value of investment holdings is based on their quoted market prices at the reporting date on a recognised exchange or in the case of non-exchange traded instruments, sourced from a reputable counterparty, without any deduction for estimated future selling costs. Financial assets are priced at their closing bid prices, while financial liabilities are priced at their closing offer prices.

Company assets may, at any time include securities and other financial instruments or obligations that are thinly traded or for which no market exists and/or which are restricted as to their transferability under securities laws.

If a quoted market price is not available on a recognised stock exchange, or a market is not sufficiently active for the market price to be considered reliable, or if a price is not available from a reputable counterparty, fair value of the financial instruments may be estimated by the Directors using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value.

Compound financial instruments

Compound financial instruments comprise convertible loans that can be converted to equity at the option of the issuer. The financial instrument is initially recognised at fair value. Subsequent to initial recognition, the derivative component is measured at fair value while the non-derivative loan component is measured at amortised cost using the effective interest method.

Port Erin Biopharma Investments Limited

Notes (continued)

(forming part of the financial statements for the period from 3 May 2011 (date of incorporation) to 30 June 2012)

1 Accounting policies (continued)

d) Financial instruments (continued)

Trade and other receivables

Trade and other receivables originated by the Company are initially recognised at fair value and subsequently stated at amortised cost less impairment losses.

Trade and other payables

Trade and other payables are initially recognised at fair value less directly attributable transaction costs. Subsequently they are measured at amortised cost using the effective interest method.

e) Share capital and share premium

Ordinary shares are classified as equity. The ordinary shares of the Company have a par value of £0.000001 each. Excess proceeds received for the issue of shares has been credited to share premium. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

f) Share based payments - warrants

The fair value of warrants is calculated using the Black-Scholes option pricing model (where no fair value of the service or assets provided is evident) and is recognised as expense over the vesting period where applicable with a corresponding increase in equity. On determining fair values, terms and conditions attaching to the warrants are taken into account. Management is also required to make certain assumptions and estimates regarding such items as the life of warrants, volatility and forfeiture rates. Changes in the assumptions used to estimate fair value could result in materially different results.

g) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

h) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the period, and have not been applied in preparing these financial statements:

New/Revised International Accounting Standards / International Financial Reporting Standards (IAS/IFRS)	Effective date (accounting periods commencing on or after)
IFRS 9 Financial Instruments- Classification and Measurement	1 January 2015
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013

The Directors do not expect the adoption of the standards and interpretations to have a material impact on the Company's financial statements in the period of initial application.

There has been no material impact on the Company's financial statements of new standards or interpretations that have come into effect during the current reporting period.

Port Erin Biopharma Investments Limited

Notes (continued)

(forming part of the financial statements for the period from 3 May 2011 (date of incorporation) to 30 June 2012)

1 Accounting policies (continued)

i) Taxation

The Company is subject to income tax at a rate of 0% in the Isle of Man, and accordingly, no tax has been provided for in these financial statements.

The Company may be subject to withholding taxes in relation to income from investments, or investment realisation proceeds or gains, and such amounts will be accounted for as incurred.

2 Directors' fees

The fees of Directors who served during the period from 3 May 2011 (date of incorporation) to 30 June 2012 were as follows:

	2012 £
James Mellon	-
Thomas Winniffrith	-
Nicholas James Woolard	10,000
Denham Eke	-
	<hr/>
	10,000
	<hr/> <hr/>

On 6 May 2011, Shellbay Investments Limited entered into a letter of appointment with the Company to provide the services of James Mellon as Non-Executive Chairman of the Company. The letter of appointment is for an initial period of twelve months, from 16 May 2011 and was renewed on 1 June 2012, and may be terminated on not less than one month's notice given by either party at any time. The letter of appointment contains provisions for early termination, *inter alia*, in the event of a breach by James Mellon. Remuneration under the letter of appointment shall be payable to Shellbay Investments Limited and shall be satisfied by the issue of such number of Ordinary Shares equivalent to 15.0 per cent. of any increase in the Net Asset Value of the Company over each quarterly period. There are no provisions providing for any benefit to Shellbay Investments Limited or James Mellon on the termination of the engagement. The Director of Shellbay Investments Limited has agreed to waive any share-based payments until the Net Asset Value of each share exceeds 10.00 pence.

On 6 May 2011, Thomas Winniffrith entered into a letter of appointment with the Company to provide services as an Executive Director and Chief Investment Officer of the Company. The letter of appointment was for an initial period of twelve months, from 16 May 2011. Thomas Winniffrith's employment was terminated on 30 May 2012 under the provisions of the appointment without compensation due.

On 6 May 2011 Nicholas James Woolard entered into a letter of appointment with the Company to provide services as a Non-Executive Director of the Company. The letter of appointment is for an initial period of twelve months, from 16 May 2011, and may be terminated on not less than three months' notice given by either party to the other at any time. The letter of appointment contains provisions for early termination, *inter alia*, in the event of a breach by Nicholas James Woolard. Remuneration under the letter of appointment shall be an annual fee of £10,000 payable on a quarterly basis. There are no provisions providing for any benefit to Nicholas James Woolard on the termination of the engagement.

Denham Eke was appointed a Director on 30 May 2012 and currently receives no remuneration for providing his services.

At present, there are no other fees due by the Company in respect of investment management services.

Port Erin Biopharma Investments Limited

Notes (continued)

(forming part of the financial statements for the period from 3 May 2011 (date of incorporation) to 30 June 2012)

3	Investment income	2012
		£
	Dividend income	16,448
	Net realised gains on sale of investments	226,308
	Net unrealised gains on investments	267,759
		<u>510,515</u>

4	Other costs	2012
		£
	Auditors' remuneration for the current period	14,400
	Bank charges	826
	Insurance	5,939
	Marketing	1,000
	Professional fees	61,857
	Sundry expenses	40
		<u>84,062</u>

The Company has no employees other than the Directors.

5	Profit from operating activities	2012
		£
	Profit from operating activities is stated after charging:	
		14,400
	Auditors' fees	10,000
	Directors' fees	<u>10,000</u>

6	Share capital and share premium
	Each share in the Company confers upon the shareholder:
	<ul style="list-style-type: none"> • the right to one vote at a meeting of the shareholders or on any resolution of shareholders; • the right to an equal share in any dividend paid by the Company, and • the right to an equal share in the distribution of the surplus assets of the Company on its liquidation

The Company may by resolution of Directors redeem, purchase or otherwise acquire all or any of the shares in the Company subject to regulations set out in the Company's Articles of Association.

		2012
		£
	<i>Authorised</i>	
	2,000,000,000 Ordinary shares of £0.000001	<u>2,000</u>
	<i>Issued</i>	
	33,000,000 Ordinary shares of £0.000001 each	<u>33</u>
		<u>33</u>

Port Erin Biopharma Investments Limited

Notes (continued)

(forming part of the financial statements for the period from 3 May 2011 (date of incorporation) to 30 June 2012)

6 Share capital and share premium (continued)

	2012 £
<i>Share premium</i>	
3 shares issued at incorporation	997
30,000,000 shares issued on 15 September 2011	2,999,970
Share issue costs	(301,954)
At 30 June 2012	2,699,013

On incorporation the authorised share capital of the Company was £2,000 divided into 2,000 ordinary shares of £1 each. At incorporation, 3 ordinary shares were subscribed for at £333.33 each, resulting in share premium of £997.

On 9 May 2011, pursuant to a Director's resolution, the authorised share capital was divided into 2,000,000,000 ordinary shares of £0.000001 each. Following this, the shares issued at incorporation were sub-divided by 1,000,000 resulting in there being 3,000,000 ordinary shares in issue at this date.

On 15 September 2011 the Company issued 30,000,000 ordinary shares at a price of £0.10 each resulting in share premium of £2,999,970.

Capital management

The Company manages its capital to maximise the return to shareholders through the optimisation of equity. The capital structure of the Company as at 30 June 2012 consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed.

The Company manages its capital structure and makes adjustments to it in the light of economic conditions and the strategy approved by shareholders. To maintain or adjust the capital structure, the Company may make dividend payment to shareholders, return capital to shareholders or issue new shares and release the share premium account. No changes were made in the objectives, policies or processes during the period under review.

7 Financial assets at fair value through profit or loss

	2012 £
Quoted	2,802,587
Unquoted	42,563
	<u>2,845,150</u>
Equities	2,834,603
Warrants	10,547
	<u>2,845,150</u>

8 Convertible loans

The Company has subscribed US\$ 100,000 to a 10% Convertible Promissory Note issued by Ampliphi Biosciences Corporation of Seattle, USA ("Ampliphi"). The terms of the Note, at Ampliphi's discretion, allow the principal and accrued interest to be converted into either Common Stock at the rate of US\$ 0.20 or, subject to a number of conditions precedent which, if met, allow the principal and accrued interest be converted at a discounted rate of 10% of US\$ 0.20.

Port Erin Biopharma Investments Limited

Notes (continued)

(forming part of the financial statements for the period from 3 May 2011 (date of incorporation) to 30 June 2012)

9 Financial instruments

Financial Risk Management

The Company has risk management policies that systematically view the risks that could prevent it from achieving its objectives. These policies are intended to manage risks identified in such a way that opportunities to deliver the Company's objectives are achieved. The Company's risk management takes place in the context of day-to-day operations and normal business processes such as strategic and business planning. The Directors have identified each risk and are responsible for coordinating and continuously improving risk strategies, processes and measures in accordance with the Company's established business objectives.

The Company's principal financial instruments consist of cash, receivables and payables arising from its operations and activities. The main risks arising from the Company's financial instruments and the policies for managing each of these risks are summarised below.

Credit Risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfil its obligations. The Company's credit risk is primarily attributable to investments, receivables and cash balances with the maximum exposure being the reported balance in the statement of financial position. The Company has a nominal level of debtors and as such the Company believes that the credit risk is minimal. The Company holds available cash with licensed banks which have a strong history. The Company considers the credit ratings of banks in which it holds funds in order to reduce exposure to credit risk.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount
	2012
	£
Investments and loans	
Quoted	2,802,587
Unquoted	42,563
Convertible loans	64,033
Cash and cash equivalents	237,391
	<hr/>
	3,146,574
	<hr/> <hr/>

Market price risk

Market price risk is the risk that the market price will fluctuate due to macro-economic issues such as changes in market factors specific to that security, market interest rates and foreign exchange rates.

The Company is exposed to significant market price risks as financial instruments recognised are linked to market price volatility.

A 1% increase/decrease in market value of investments would increase/decrease equity and profit by £28,452.

Cash flow and funding risk

The Company is exposed to liquidity risk to the extent that it holds investments that it may not be able to sell quickly at close to fair value.

The risk is managed by the Company by means of cash flow planning to ensure that future cash requirements are anticipated and, where financial instruments have to be sold to meet these requirements, the process is carried out in a controlled manner intended to minimise the liquidity risk involved.

Interest rate risk

A significant share of the Company's assets is comprised of cash held at banks. As a result, the Company is subject to risk due to fluctuations in the prevailing level of market interest rates. However, income earned from bank interest is not considered material to the Company's performance or financial position.

Port Erin Biopharma Investments Limited

Notes (continued)

(forming part of the financial statements for the period from 3 May 2011 (date of incorporation) to 30 June 2012)

9 Financial instruments (continued)

Fair values of financial instruments

At 30 June 2012 the carrying amounts of cash resources, trade and other receivables, and trade and other payables approximate fair value due to their short-term maturities.

Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations related to financial assets and liabilities that are denominated in a number of currencies.

GBP equivalents as at 30 June 2012

	Convertible loans £	Investments £	Trade & other receivables £	Cash at bank £	Total by currency £
GBP	-	424,240	9,580	120,905	554,725
USD	64,033	1,952,842	-	108,089	2,124,964
CAD	-	30,057	-	-	30,057
CHF	-	160,387	-	4,411	164,798
DKK	-	73,848	-	1,529	75,377
JPY	-	140,607	-	2,457	143,064
SEK	-	63,169	-	-	63,169
	<u>64,033</u>	<u>2,845,150</u>	<u>9,580</u>	<u>237,391</u>	<u>3,156,154</u>

The following significant exchange rate applied during the year:

	Average rate for active period	Period end rate (30 June 2012)
USD	1.5909	1.5617

Sensitivity analysis

A 5% per cent. strengthening of Sterling against the US Dollar at 30 June 2012 would have decreased equity and profit for the period by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Equity	Profit or loss
USD	(£138,558)	(£138,558)

A 5% per cent. weakening of Sterling against the US Dollar at 30 June 2012 would have increased equity and profit for the period by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Equity	Profit or loss
USD	£145,528	£145,528

Port Erin Biopharma Investments Limited

Notes (continued)

(forming part of the financial statements for the period from 3 May 2011 (date of incorporation) to 30 June 2012)

9 Financial instruments (continued)

Fair value hierarchy measurement at 30 June 2012

Investments in securities at fair value

	Total	Quoted prices In active markets for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable Inputs (level 3)
Investments				
Quoted	2,802,587	2,802,587	-	-
Unquoted	42,563	-	-	42,563
	<u>2,845,150</u>	<u>2,802,587</u>	<u>-</u>	<u>42,563</u>

There have been no disposals of investments classified as level 3 during the period.

10 Trade and other payables

	2012
	£
Due to related party (note 12)	17,500
Provision for audit fee	14,400
	<u>31,900</u>

11 Share warrants

At the date of admission to AIM, the Company issued 30,000,000 warrants, entitling the holder to subscribe for one new ordinary share for every placing share, and which will not be admitted to trading on AIM. The warrants may be exercised for 12.5 pence at any time within two years of the date of issue. The warrant exercise is either at the option of the holder or at the option of the Company, in the event that the closing price of the ordinary shares is more than 20 pence for five consecutive trading days. In considering the share subscription price, the lack of historic share price performance data, and the price and conditions attaching to exercise, the Directors deem the warrants to have no separate value from the shares issued on the Company's admission to AIM.

The total number of share warrants in issue as at the year-end is set out below:

Recipients	Grant Date	Term in Years	Exercise Price	Issued	Fair value of warrants at issue
Placing subscribers	9 September 2011	2	£0.125	30,000,000	-

12 Related party transaction

Under an agreement dated 1 December 2011, Burnbrae Limited, a Company related to both James Mellon and Denham Eke, provide certain services, principally accounting and administration, to the Company. This agreement may be terminated by either party on three months' notice. The charge for services provided is £30,000 per annum.

13 Basic and diluted earnings per share

The calculation of basic earnings per share of the Company is based on the profit for the year of £425,208 and the weighted average number of shares of 23,428,235 in issue during the period.

Port Erin Biopharma Investments Limited

Notes (continued)

(forming part of the financial statements for the period from 3 May 2011 (date of incorporation) to 30 June 2012)

13 Basic and diluted earnings per share (continued)

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares such as warrants and options. There is no dilutive effect at 30 June 2012 because the warrants are not able to be exercised until a market-based criterion is satisfied. This criterion had not been satisfied at 30 June 2012.

14 Commitments and contingent liabilities

There are no known commitments or contingent liabilities as at the period end.