

Port Erin Biopharma Investments Limited

Directors' report and annual financial statements

For the year ended 30 June 2013

Registration number: Isle of Man 006874V

Port Erin Biopharma Investments Limited

<i>Contents</i>	<i>Page</i>
Corporate information	1
Chairman's statement	2
Directors' report	3 and 4
Statement of Directors' responsibilities	5
Report of the independent auditors	6
Statement of comprehensive income	7
Statement of financial position	8
Statement of changes in equity	9
Statement of cash flows	10
Notes	11 to 21

Port Erin Biopharma Investments Limited

Corporate information

Company's website	www.porterinbiopharma.com
Registered Office	18 Athol Street Douglas Isle of Man, IM1 1JA
Registered Agent	Greystone Trust Company Limited 18 Athol Street Douglas Isle of Man, IM1 1JA
Nominated Adviser	Libertas Capital Corporate Finance Limited 110 Fenchurch Street London EC3M 5JT
Broker / Nominee	Peterhouse Corporate Finance Limited 31 Lombard Street London, EC3V 9BQ
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
Administrator	Burnbrae Limited 4 th floor, Viking House Nelson Street Douglas Isle of Man, IM1 2AH

Port Erin Biopharma Investments Limited

Chairman's statement

Introduction

I have great pleasure in presenting the annual report and audited accounts for Port Erin Biopharma Investments Limited to 30 June 2013.

Since setting the Company up in September 2011 as a vehicle to track my own portfolio investments within the biotechnology sector, we have managed to achieve an increase in the value of the Company's investment assets which I believe fully justifies my belief in this sector. I remain confident that the biotechnology sector is still undervalued and continues to offer excellent opportunities in its potential for growth.

Financial Review

At the time of the last audited accounts, we held £2.909 million in investment assets and £0.237 million of cash. At the end of the current period, the equivalent figures are £2.916 million in investment assets and £0.708 million in cash – an increase of 0.23% and 15.16% respectively. The overall increase in Total Assets is 15.09% - up £0.476 million to £3.632 million (2012: £3.156 million).

Investment Income has also shown a gain of 15.37% to £0.589 million (2012: £0.511 million). Overall profit has remained almost constant at £0.415 million (2012: £0.425 million).

Whilst we have continued to be very careful to minimise on-going operating expenses, the amount paid to Shellbay as a performance fee increased the Operating Expenses to £0.182 million (2012: £0.088 million).

Since inception, from the £2.7 million cash available for investment, we have increased the Company's assets by just over 34% to the current figure, with a Net Asset Value per share of 10.63 pence at the 30 June 2013.

Strategy and Outlook

I, and the Board, hold the view that the Company's market performance does not reflect the true asset value and we have undertaken a strategic review to determine how best to address the substantial discount to Net Asset Value our shares hold.

Accompanying these accounts is a Circular which, we believe, best addresses this issue. The Circular recommends in detail that shareholders resolve to change the Company's Investing Policy to allow for the Company to make an *in specie* transfer of its eligible assets to a UCITS sub fund – Magna Biopharma Investment Fund ("MBIF") - managed by Charlemagne Capital Limited. I, together with a dedicated team of professionals, will be the advisors to Charlemagne Capital for MBIF. This means that the same, or better, quality of advice will be provided to the PEBI shareholders. I urge all shareholders to read the Circular which describes the transaction prior to the voting at the Meeting of Shareholders on 11 November this year.

The rationale for this recommendation is not only to eliminate the prevailing discount to NAV by offering an exit in one year, but also to take the opportunity to participate in a potentially much larger vehicle with a more equitable performance fee. Whilst our Company will provide the initial stimulus to kick-start the Fund, there are likely to be additional investors. This enhanced pool of assets under management will allow, over time, the ability to access more significant positions in companies which we favour.

Meanwhile, the Company will still continue to trade on AIM and, at the conclusion of a one year "lock-in" period, we will approach our shareholders again to determine a process whereby the MBIF shares can be distributed, either *in specie* or in cash, as each shareholder elects.

I view this potential transaction, if approved, as an exciting new stage in the development of the Company, leaving the opportunity for the adoption of a suitable new Investment Policy in a year's time.

Jim Mellon
Chairman

Port Erin Biopharma Investments Limited

Directors' report

The Directors of Port Erin Biopharma Investments Limited (the "Company") take pleasure in presenting the Directors' report and financial statements for year ended 30 June 2013.

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 year after taxation of £415,158 (2012: £425,208).

Dividend

The Directors do not propose the payment of a dividend (2012: £nil).

Directors

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

	Appointed	Resigned
James Mellon		
Nicholas James Woolard		12 April 2013
Denham Eke		
Alexander Anderson Stuart Whamond	12 April 2013	

Directors' Interests

As at 30 June 2013, 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⁾	1,860,000	7,964,836	29.01%

Notes to Directors' Interests:

(1) Galloway Limited, wholly owned by a trust of which James Mellon is a life tenant, holds 4,000,000 Ordinary shares.

(2) Shellbay Investments Limited, wholly owned by a trust of which James Mellon is a life tenant, holds 3,964,836 Ordinary Shares.

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

Port Erin Biopharma Investments Limited

Directors' report (continued)

As at 30 June 2013 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

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.

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 2013 representing 3% or more of the issued share capital of the Company:

	Number of ordinary shares	Percentage of total issued capital
James Mellon ⁽¹⁾	9,824,836	29.01%
Harewood Nominees Limited	2,818,333	8.32%
Share Nominees Ltd	2,569,722	7.59%
Hargreaves Lansdown (Nominees) Limited	1,767,514	5.22%
Jim Nominees Limited	1,085,564	3.21%

Note:

(1) James Mellon's shareholding consists of 3,964,836 shares held by Shellbay Investments Limited, and 4,000,000 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

11 October 2013

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.

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 (the "Company") for the year ended 30 June 2013 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 2013 and of its profit for the year 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 year ended 30 June 2013

	<i>Notes</i>	2013 £	(Note 15) 2012 £
Investment Income	<i>3</i>	588,966	510,515
Operating expenses			
Directors' fees	<i>2</i>	(12,192)	(10,000)
Performance fee	<i>2</i>	(60,539)	0
Other costs	<i>4</i>	(112,428)	(84,062)
Foreign exchange gains		2,662	6,295
Profit from operating activities	<i>5</i>	406,469	422,748
Interest received		8,689	2,460
Profit before taxation		415,158	425,208
Taxation	<i>1(i)</i>	-	-
Profit for the year/period		415,158	425,208
Other comprehensive income		-	-
Total comprehensive income for the year/period		415,158	425,208
Basic and diluted earnings per share	<i>13</i>	0.0125	0.0181

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

The notes on pages 11 to 21 form part of these financial statements.

Port Erin Biopharma Investments Limited

Statement of financial position as at 30 June 2013

	Notes	2013 £	(Note 15) 2012 £
Current assets			
Convertible loans	8	-	64,033
Financial assets at fair value through profit or loss	7	2,916,930	2,845,150
Trade and other receivables		7,797	9,580
Cash and cash equivalents		707,624	237,391
Total assets		3,632,351	3,156,154
Equity and liabilities			
Capital and reserves			
Share capital	6	34	33
Share premium	6	2,759,551	2,699,013
Retained earnings		840,366	425,208
		3,599,951	3,124,254
Current liabilities			
Trade and other payables	10	32,400	31,900
Total equity and liabilities		3,632,351	3,156,154

The notes on pages 11 to 21 form part of the financial statements.

These financial statements were approved by the Board of Directors on 11 October 2013 and were signed on their behalf by:

Denham Eke
Director

Port Erin Biopharma Investments Limited

Statement of changes in equity for the year ended 30 June 2013

	<i>Notes</i>	Share Capital £	Share Premium £	Retained Profit £	Total £
Balance at 30 June 2012		33	2,699,013	425,208	3,124,254
Total comprehensive income for the year		-	-	415,158	415,158
Shares issued	6	1	60,538	-	60,539
Balance at 30 June 2013		<u>34</u>	<u>2,759,551</u>	<u>840,366</u>	<u>3,599,951</u>

	<i>Notes</i>	Share Capital £	Share Premium £	Retained Profit £	Total £
Balance at 3 May 2011	-	-	-	-	-
Total comprehensive income for the year		-	-	425,208	425,208
Shares issued	6	33	3,000,967	-	3,001,000
Share issue costs	6	-	(301,954)	-	(301,954)
Balance at 30 June 2012		<u>33</u>	<u>2,699,013</u>	<u>425,208</u>	<u>3,124,254</u>

The notes on pages 11 to 21 form part of these financial statements.

Port Erin Biopharma Investments Limited

Statement of cash flows for the year ended 30 June 2013

	Notes	2013 £	(Note 15) 2012 £
Cash flows from operating activities			
Profit for the year/period		415,158	425,208
Adjusted for:			
Interest received		(8,689)	(2,460)
Realised and unrealised gains on investments	3	(572,667)	(494,066)
Services settled by way of issue of shares	2	60,539	-
		<hr/>	<hr/>
Operating loss before changes in working capital		(105,659)	(71,318)
Decrease/(increase) in receivables		1,783	(9,580)
Increase in payables		500	31,900
		<hr/>	<hr/>
Net cash outflow from operating activities		(103,376)	(48,998)
Cash flows from investing activities			
Purchase of investments		(1,720,400)	(3,775,097)
Proceeds from sale of investments		2,285,320	1,359,980
Interest received		8,689	2,460
		<hr/>	<hr/>
		573,609	(2,412,657)
Cash flows from financing activities			
Proceeds from share issues	6	-	3,001,000
Payment of share issue costs		-	(301,954)
		<hr/>	<hr/>
		-	2,699,046
		<hr/>	<hr/>
Increase in cash and cash equivalents		470,233	237,391
Cash and cash equivalents at beginning of year		237,391	-
		<hr/>	<hr/>
Cash and cash equivalents at the end of year		707,624	237,391
		<hr/> <hr/>	<hr/> <hr/>
Significant non-cash transactions:			
Conversion of Ampliphi Biosciences Corp. loan to shares	8	73,630	-
Issue of shares in settlement of services	2,6	60,539	-

The notes on pages 11 to 21 form part of these financial statements.

Port Erin Biopharma Investments Limited

Notes

(forming part of the financial statements for the year ended 30 June 2013)

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 11 October 2013.

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 short term investments 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 year ended 30 June 2013.

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 'Investment 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 year ended 30 June 2013)

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 derecognised 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 year ended 30 June 2013)

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

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 year ended 30 June 2013)

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 year ended 30 June 2013 were as follows:

	2013 £	(Note 15) 2012 £
James Mellon	-	-
Nicholas James Woolard	10,000	10,000
Denham Eke	-	-
Alexander Anderson Stuart Whamond	2,192	-
	<u>12,192</u>	<u>10,000</u>

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 was 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, subject to an initial high watermark of 10 pence per share. There are no provisions providing for any benefit to Shellbay Investments Limited or James Mellon on the termination of the engagement. Shellbay Investments Limited were awarded a fee of £60,539 on 9 April 2013 which was settled by the issue of 864,836 new ordinary shares (see note 6).

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 was 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 contained provisions for early termination, *inter alia*, in the event of a breach by Nicholas James Woolard. Remuneration under the letter of appointment was for an annual fee of £10,000 payable on a quarterly basis. There were no provisions providing for any benefit to Nicholas James Woolard on the termination of the engagement. Nicholas Woolard resigned from his position on 12 April 2013.

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

Alexander Anderson Stuart Whamond was appointed as a Non-Executive Director of the Company on 12 April 2013 and is entitled to receive a fee of £10,000 per annum.

As at 30 June 2012, 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 year ended 30 June 2013)

3	Investment income	(Note 15)	
		2013	2012
		£	£
	Dividend income	16,299	16,448
	Net realised gains on sale of investments	769,484	226,308
	Net unrealised (losses)/gains on investments	(196,817)	267,759
		<u>588,966</u>	<u>510,515</u>

4	Other costs	(Note 15)	
		2013	2012
		£	£
	Auditors' remuneration for the current year/period	14,904	14,400
	Bank charges	415	826
	Insurance	6,283	5,939
	Marketing	72	1,000
	Performance fee paid to Shellbay Investments Limited (Note 2)	60,539	-
	Professional fees	86,555	61,857
	Sundry expenses	4,199	40
		<u>172,967</u>	<u>84,062</u>

The Company has no employees other than the Directors.

5 Profit from operating activities

Profit from operating activities is stated after charging:

	(Note 15)	
	2013	2012
	£	£
Auditors' fees	14,904	14,400
Directors' fees	12,192	10,000
	<u>27,096</u>	<u>24,400</u>

6 Share capital and share premium

Each share in the Company confers upon the shareholder:

- 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.

Port Erin Biopharma Investments Limited

Notes (continued)

(forming part of the financial statements for the year ended 30 June 2013)

6 Share capital and share premium (continued)

		2013 £	2012 £
<i>Authorised</i>			
2,000,000,000 Ordinary shares of £0.000001		<u>2,000</u>	<u>2,000</u>
	No. of Shares	Share Capital	Share Premium
<i>Issued</i>			
Incorporation	3	3	997
1 to 1,000,000 stock split	2,999,997	-	-
Share issue at £0.10 each	30,000,000	30	2,999,970
Share issue cost	-	-	(301,954)
Balance at 30 June 2012	<u>33,000,000</u>	<u>33</u>	<u>2,699,013</u>
Shares issued in settlement of services	864,836	1	60,538
Balance at 30 June 2013	<u>33,864,836</u>	<u>34</u>	<u>2,759,551</u>

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.

On 9 April 2013 the Company issued 864,836 ordinary shares at a price of £0.07 each resulting in share premium of £60,538. The shares were issued to Shellbay Investments Limited in settlement of services provided to the Company (see note 2).

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 2013 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.

Port Erin Biopharma Investments Limited

Notes (continued)

(forming part of the financial statements for the year ended 30 June 2013)

7	Financial assets at fair value through profit or loss	2013 £	2012 £
	Quoted	2,667,817	2,802,587
	Unquoted	249,113	42,563
		<u>2,916,930</u>	<u>2,845,150</u>
	Equities	2,900,677	2,834,603
	Warrants	16,253	10,547
		<u>2,916,930</u>	<u>2,845,150</u>

8 Convertible loans

The Company subscribed £64,851 (US\$100,000) to a 10% Convertible Promissory Note issued by Ampliphi Biosciences Corporation of Seattle, USA ("Ampliphi") on 2 February 2012. The terms of the Note, at Ampliphi's discretion, allowed for 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, allowed for the principal and accrued interest to be converted at a discounted rate of 10% of US\$ 0.20.

The principal amount and accrued interest of £73,630 (US\$113,971) was converted to 90,453 preference shares on 26 June 2013. In addition, the preference shares included 226,132 warrants with a strike price of US\$0.14 exercisable at any time prior to 26 June 2018.

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 to these 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 bank accounts are held under a fiduciary agreement and funds are available on demand.

Port Erin Biopharma Investments Limited

Notes (continued)

(forming part of the financial statements for the year ended 30 June 2013)

9 Financial instruments (continued)

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

	Carrying amount 2013 £	Carrying amount 2012 £
Investments and loans		
Quoted	2,667,817	2,802,587
Unquoted	249,113	42,563
Convertible loans	-	64,033
Cash and cash equivalents	707,624	237,391
	<u>3,624,554</u>	<u>3,146,574</u>

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 £29,169.

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.

Fair values of financial instruments

At 30 June 2013 the carrying amounts of cash resources, trade and other receivables, and trade and other payables approximate fair value due to their short-term maturities.

Port Erin Biopharma Investments Limited

Notes (continued)

(forming part of the financial statements for the year ended 30 June 2013)

9 Financial instruments (continued)

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 2013

	Convertible loans £	Investments £	Trade & other receivables £	Cash at bank £	Total by currency £
GBP	-	641,675	7,797	10,587	660,059
USD	-	1,862,649	-	692,668	2,555,317
AUD	-	47,786	-	(114)	47,672
CAD	-	32,150	-	-	32,150
CHF	-	84,006	-	1,872	85,878
DKK	-	65,635	-	938	66,573
EUR	-	117,382	-	1,673	119,055
JPY	-	-	-	-	-
SEK	-	65,647	-	-	65,647
	-	2,916,930	7,797	707,624	3,632,351

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
AUD	-	-	-	-	-
CAD	-	30,057	-	-	30,057
CHF	-	160,387	-	4,411	164,798
DKK	-	73,848	-	1,529	75,377
EUR	-	-	-	-	-
JPY	-	140,607	-	2,457	143,064
SEK	-	63,169	-	-	63,169
	64,033	2,845,150	9,580	237,391	3,156,154

The following significant exchange rate applied during the year:

	Average rate for active year 2013	Average rate for active period 2012
USD	1.5691	1.5909
	Year end rate 2013	Period end rate 2012
USD	1.5216	1.5617

Port Erin Biopharma Investments Limited

Notes (continued)

(forming part of the financial statements for the year ended 30 June 2013)

9 Financial instruments (continued)

Sensitivity analysis

A 5% per cent. strengthening of Sterling against the US Dollar at 30 June 2013 would have decreased equity and profit for the year by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Equity	Profit or loss
USD	(£121,712)	(£121,712)

A 5% percent weakening in these currencies would have had the equal but opposite effect on the basis that all other variables, in particular interest rates, remain constant.

Fair value hierarchy measurement at 30 June 2013

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	2,667,817	2,667,817	-	-
Unquoted	249,113	-	-	249,113
	<u>2,916,930</u>	<u>2,667,817</u>	<u>-</u>	<u>249,113</u>

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

10 Trade and other payables

	2013 £	2012 £
Due to related party (note 12)	18,000	17,500
Provision for audit fee	14,400	14,400
	<u>32,400</u>	<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. All warrants will lapse on 15 September 2013.

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	-

Port Erin Biopharma Investments Limited

Notes (continued)

(forming part of the financial statements for the year ended 30 June 2013)

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 £415,158 and the weighted average number of shares of 33,196,661 in issue during the year.

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 2013 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 2013.

14 Commitments and contingent liabilities

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

15 Comparative period

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

