

**Port Erin Biopharma Investments Limited**

**Directors' report and annual financial statements**

**For the year ended 30 June 2014**

Registration number: Isle of Man 006874V

# Port Erin Biopharma Investments Limited

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# Port Erin Biopharma Investments Limited

## Corporate information

Company's website	<a href="http://www.porterinbiopharma.com">www.porterinbiopharma.com</a>
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	Beaumont Cornish Limited 2 <sup>nd</sup> Floor, Bowman House 29 Wilson Street London, EC2M 2SJ (from 15 January 2014)
Broker	Peterhouse Corporate Finance Limited 31 Lombard Street London, EC3V 9BQ
Registrar	Capita Registrars (Isle of Man) Limited 3 <sup>rd</sup> 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 <sup>rd</sup> floor, Exchange House 54 – 62 Athol Street Douglas Isle of Man, IM1 1JD
Administrator	Burnbrae Limited 4 <sup>th</sup> 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 (the "Company") to 30 June 2014.

We continue to show a significant return on the capital we raised in September 2011 by almost doubling the net amount subscribed by shareholders: an increase of 98%. Unfortunately, the increase in Net Asset Value is still not reflected in the Company's market capitalisation which remains at a substantial discount. Notwithstanding, I remain extremely positive about the biotechnology sector as a whole which continues to show exceptional potential for growth.

Our investment holdings have performed well. As cornerstone investors in the Magna Biopharma Income Fund ("MBIF"), our entry price of €10 on 10 December 2013 has now increased to €13 (closing price 22 December 2014). Of the other investments, we remain extremely optimistic about the potential for both Plethora Solutions Holdings plc ("Plethora") and Summit plc ("Summit").

Plethora continues to make good progress in commercialising FORTACIN™ and expects to complete the New Drug Application filing and potential approval during Q4 2015. Regulatory approval has already been secured for the EU and a commercial partner, Recordati S.p.A., appointed for European and Russian distribution. Internal estimates made by Plethora suggest peak sales of US\$1 billion for the US and EU combined.

Summit which concentrates on developing products that address the unmet clinical needs of both Duchenne Muscular Dystrophy, a fatal genetic muscle wasting disease and also the infectious disease caused by the bacteria *C. difficile*. The former with encouraging Phase 1 trials underway and the latter with Phase 2 trials progressing well. The Company has recently announced a possible dual listing on the US NASDAQ exchange during 2015.

### Financial Review

The total comprehensive profit for the year was £1.38 million (2013: £0.41 million), a growth of 229%. Our income grew by 256% to £2.10 million (2013: £0.59 million). Expenses, including the performance fee of £0.38 million, were £0.72 million (2013: £0.18 million) and the board continues to ensure that the cost of operation is kept to the minimum.

Basic and diluted earnings per share are 4.08 pence (2013: 1.25 pence).

Total assets have grown to £5.38 million (2013: £3.63 million), of which our investment holdings value have increased to £4.83 million (2013: £2.92 million). Cash has fallen to £0.53 million (2013: £0.71 million). Shareholder funds have increased to £4.98 million (2013: £3.60 million).

### Strategy and Outlook

Following the EGM on 11 November 2013, shareholders resolved to change the Company's investing policy to allow the in specie purchase of shares in the Magna Biopharma Income Fund. As a result, we transferred approximately £2.71 million of our holdings in return for 324,174.177 shares in MBIF. Part of this agreement required us to accept a one year lock-in period from 10 December 2013. At the conclusion of which, we would return the current value of the MBIF to shareholders in an effort to minimise the considerable discount between the Net Asset Value of the Company and the AIM market capitalisation.

Determining the best way of achieving this has been more complicated than first envisioned but we have now reached agreement with our advisors as to the most cost effective method of achieving our aim. As a result, we anticipate sending our shareholder a Circular in early January which will detail a Tender Offer whereby shareholders will have the choice of either keeping their entire holding of MBIF within the Company, or alternatively, accepting cash in return for tendering and cancelling the proportion of their shares in the Company represented by their underlying pro rata MBIF entitlement. Post-tender, those shareholders accepting the Tender Offer will have a reduced holding in the Company in proportion to the value of the shares tendered.

Following the conclusion of the Tender Offer, the board will begin to actively consider other suitable investments which will be made under the investing policy adopted on 11 November 2013.

**Jim Mellon**  
Chairman

# Port Erin Biopharma Investments Limited

## Directors' report

The Directors of Port Erin Biopharma Investments Limited take pleasure in presenting the Directors' report and financial statements for year ended 30 June 2014.

## 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 £1,381,475 (2013: £415,158).

## Dividend

The Directors do not propose the payment of a dividend (2013: £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 2014, 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 <sup>(1)(2)(3)</sup>	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)

### 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 2014 representing 3% or more of the issued share capital of the Company:

	<b>Number of ordinary shares</b>	<b>Percentage of total issued capital</b>
James Mellon <sup>(1)</sup>	9,824,836	29.01%
Share Nominees Ltd	2,214,900	6.54%
Hargreaves Lansdown (Nominees) Limited HLNOM	2,139,372	6.32%
Hargreaves Lansdown (Nominees) Limited VRA	1,266,222	3.74%
The Bank of New York (Nominees)	1,250,000	3.69%
Idealing Nominees Limited	1,087,500	3.21%
Barclayshare Nominees Limited	1,018,621	3.01%
L R Nominees Limited	1,018,511	3.01%

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*

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 2014 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 2014 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 2014

	Notes	2014 £	2013 £
<b>Investment Income</b>	3	<b>2,099,040</b>	588,966
<b>Operating expenses</b>			
Directors' fees	2	(12,231)	(12,192)
Performance fee	2	(379,057)	(60,539)
Other costs	4	(230,302)	(112,428)
Foreign exchange (losses)/gains		(95,961)	2,662
<b>Profit from operating activities</b>	5	<b>1,381,489</b>	406,469
Interest (paid)/received		(14)	8,689
<b>Profit before taxation</b>		<b>1,381,475</b>	415,158
<b>Taxation</b>	1(i)	-	-
<b>Profit for the year</b>		<b>1,381,475</b>	415,158
Other comprehensive income		-	-
<b>Total comprehensive profit for the year</b>		<b>1,381,475</b>	415,158
Basic and diluted earnings per share	13	<b>0.0408</b>	0.0125

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

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

# Port Erin Biopharma Investments Limited

## Statement of financial position as at 30 June 2014

	Notes	2014	2013
		£	£
<b>Current assets</b>			
Financial assets at fair value through profit or loss	7	4,830,908	2,916,930
Trade and other receivables		24,997	7,797
Cash and cash equivalents		526,503	707,624
<b>Total assets</b>		<b>5,382,408</b>	<b>3,632,351</b>
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>			
Share capital	6	34	34
Share premium	6	2,759,551	2,759,551
Retained earnings		2,221,841	840,366
		<b>4,981,426</b>	<b>3,599,951</b>
<b>Current liabilities</b>			
Trade and other payables	10	400,982	32,400
<b>Total equity and liabilities</b>		<b>5,382,408</b>	<b>3,632,351</b>

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

These financial statements were approved by the Board of Directors on 29 December 2014 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 2014

	<i>Notes</i>	<b>Share Capital £</b>	<b>Share Premium £</b>	<b>Retained Profit £</b>	<b>Total £</b>
Balance at 30 June 2013		34	2,759,551	840,366	3,599,951
Total comprehensive income for the year		-	-	1,381,475	1,381,475
<b>Balance at 30 June 2014</b>		<u>34</u>	<u>2,759,551</u>	<u>2,221,841</u>	<u>4,981,426</u>

	<i>Notes</i>	<b>Share Capital £</b>	<b>Share Premium £</b>	<b>Retained Profit £</b>	<b>Total £</b>
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>

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

# Port Erin Biopharma Investments Limited

## Statement of cash flows for the year ended 30 June 2014

	Notes	2014 £	2013 £
<b>Cash flows from operating activities</b>			
Profit for the year		1,381,475	415,158
Adjusted for:			
Interest paid/(received)		14	(8,689)
Realised and unrealised gains on investments	3	(2,096,615)	(572,667)
Services settled by way of issue of shares	2	-	60,539
		<hr/>	<hr/>
<b>Operating loss before changes in working capital</b>		<b>(715,126)</b>	<b>(105,659)</b>
Change in receivables		(17,200)	1,783
Change in payables		368,582	500
		<hr/>	<hr/>
<b>Net cash outflow from operating activities</b>		<b>(363,744)</b>	<b>(103,376)</b>
<b>Cash flows from investing activities</b>			
Purchase of investments		(3,476,724)	(1,720,400)
Proceeds from sale of investments		3,659,361	2,285,320
Interest (paid)/received		(14)	8,689
		<hr/>	<hr/>
		<b>182,623</b>	<b>573,609</b>
		<hr/>	<hr/>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(181,121)</b>	<b>470,233</b>
Cash and cash equivalents at beginning of year		707,624	237,391
		<hr/>	<hr/>
<b>Cash and cash equivalents at the end of year</b>		<b>526,503</b>	<b>707,624</b>
		<hr/> <hr/>	<hr/> <hr/>
Significant non-cash transactions:			
Conversion of Amplphi 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 an integral part of these financial statements.

# Port Erin Biopharma Investments Limited

## Notes

*(forming an integral part of the financial statements for the year ended 30 June 2014)*

### 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 29 December 2014.

#### 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 2014.

##### *Functional and presentation currency*

These financial statements are presented in Pound Sterling (£) which is the Company's functional currency and rounded to the nearest pound.

#### 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 an integral part of the financial statements for the year ended 30 June 2014)

### 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 an integral part of the financial statements for the year ended 30 June 2014)

### 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 translated into functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into functional currency 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/improvements 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)
IAS 32 Financial Instruments Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities (December 2011)	1 January 2014
IFRS 9 Financial Instruments – Classification and measurement of financial asset and liabilities (as amended in December 2011)	TBA
Annual improvements to IFRSs – 2010 to 2012 cycle	1 July 2014
Annual improvements to IFRSs – 2011 to 2013 cycle	1 July 2014

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 an integral part of the financial statements for the year ended 30 June 2014)

### 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' and performance fees

The fees of Directors who served during the year ended 30 June 2014 were as follows:

	2014 £	2013 £
James Mellon	-	-
Nicholas James Woolard	-	10,000
Denham Eke	-	-
Alexander Anderson Stuart Whamond	12,231	2,192
	<u>12,231</u>	<u>2,192</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. Total fees payable to Shellbay Investments Limited for the year under this arrangement were £379,057 (2013: £60,539) of which £379,057 remains outstanding at the year-end (2013: £Nil as full amount was settled by issue of 864,836 new ordinary shares (see note 6)). This fee is recorded as performance fees since it is based on the performance of the Company. No other fees are due to James Mellon.

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 2014, there are no other fees due by the Company in respect of investment management services (2013: £Nil).



# Port Erin Biopharma Investments Limited

## Notes (continued)

(forming an integral part of the financial statements for the year ended 30 June 2014)

### 3 Investment income

	2014 £	2013 £
Dividend income	2,425	16,299
Net realised gains on sale of investments	966,330	769,484
Net unrealised gains/(losses) on investments	1,130,285	(196,817)
	<u>2,099,040</u>	<u>588,966</u>

### 4 Performance and other costs

	2014 £	2013 £
Auditors' fees	16,125	14,904
Bank charges	258	415
Insurance	6,300	6,283
Marketing	-	72
Performance fee paid to Shellbay Investments Limited (Note 2)	379,057	60,539
Professional fees	199,470	86,555
Sundry expenses	8,149	4,199
	<u>609,359</u>	<u>172,967</u>

The Company has no employees other than the Directors.

### 5 Profit from operating activities

Profit from operating activities is stated after charging:

	2014 £	2013 £
Auditors' fees	16,125	14,904
Directors' fees	12,231	12,192
	<u>28,356</u>	<u>27,096</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 an integral part of the financial statements for the year ended 30 June 2014)

### 6 Share capital and share premium (continued)

		2014 £	2013 £
<i>Authorised</i>			
2,000,000,000 Ordinary shares of			
£0.000001		<u>2,000</u>	<u>2,000</u>
	<b>No. of Shares</b>	<b>Share Capital</b>	<b>Share Premium</b>
<i>Issued</i>			
Balance at 01 July 2012	33,000,000	33	2,699,013
Shares issued in settlement of services	<u>864,836</u>	<u>1</u>	<u>60,538</u>
Balance at 30 June 2013	<u>33,864,836</u>	<u>34</u>	<u>2,759,551</u>
Balance at 30 June 2014	<u>33,864,836</u>	<u>34</u>	<u>2,759,551</u>

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 2014 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 an integral part of the financial statements for the year ended 30 June 2014)

7	Financial assets at fair value through profit or loss	2014 £	2013 £
	Quoted	4,454,788	2,667,817
	Unquoted	376,120	249,113
		<u>4,830,908</u>	<u>2,916,930</u>
	Equities	4,684,117	2,900,677
	Warrants	146,791	16,253
		<u>4,830,908</u>	<u>2,916,930</u>

## 8 Convertible loans

The Company subscribed £64,851 (US\$100,000) to a 10% Convertible Promissory Note issued by Amplphi Biosciences Corporation of Seattle, USA ("Amplphi") on 2 February 2012. The terms of the Note, at Amplphi'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 and securities with licensed banks and financial institutions. The Company considers the credit ratings of banks in which it holds funds in order to reduce exposure to credit risk. The funds are available on demand.

# Port Erin Biopharma Investments Limited

## Notes (continued)

(forming an integral part of the financial statements for the year ended 30 June 2014)

### 9 Financial instruments (continued)

#### *Credit Risk (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 2014 £	Carrying amount 2013 £
Investments and loans		
Quoted	4,454,788	2,667,817
Unquoted	376,120	249,113
Cash and cash equivalents	526,503	707,624
	<u>5,357,411</u>	<u>3,624,554</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 £48,309.

#### *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 2014 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 an integral part of the financial statements for the year ended 30 June 2014)

### 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 2014

	Investments £	Cash at bank £	Total by currency £
USD	128,201	490,334	618,535
AUD	-	-	-
CAD	211,857	-	211,857
CHF	-	-	-
DKK	-	-	-
EUR	2,901,683	-	2,901,683
SEK	-	-	-
	<u>3,241,741</u>	<u>490,334</u>	<u>3,732,075</u>

#### GBP equivalents as at 30 June 2013

	Investments £	Cash at bank £	Total by currency £
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
SEK	65,647	-	65,647
	<u>2,275,255</u>	<u>697,037</u>	<u>2,972,292</u>

The following significant exchange rates applied during the year:

	Average rate for active year 2014	Average rate for active year 2013
EUR	1.1986	1.2139
USD	1.6265	1.5691
	Year-end rate 2014	Year-end rate 2013
EUR	1.2487	1.1698
USD	1.7048	1.5216

# Port Erin Biopharma Investments Limited

## Notes (continued)

(forming an integral part of the financial statements for the year ended 30 June 2014)

### 9 Financial instruments (continued)

*Foreign currency risk (continued)*

*Sensitivity analysis*

A 5% percent strengthening of Sterling against the Euro at 30 June 2014 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.

	<b>Equity</b>	<b>Profit or loss</b>
EUR	(£138,197)	(£138,197)

A 5% percent weakening of Sterling against the Euro at 30 June 2014 would have the equal but opposite effect on the basis that all other variables, in particular interest rates, remain constant.

A 5% percent strengthening of Sterling against the US Dollar at 30 June 2014 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.

	<b>Equity</b>	<b>Profit or loss</b>
USD	(£29,460)	(£29,460)

A 5% percent weakening of Sterling against the US Dollar at 30 June 2014 would have 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 2014*

Investments in securities at fair value

	<b>Total</b>	<b>Quoted prices In active markets for identical assets (level 1)</b>	<b>Significant other observable inputs (level 2)</b>	<b>Significant unobservable Inputs (level 3)</b>
Investments				
Quoted	4,454,788	4,454,788	-	-
Unquoted	376,120	-	-	376,120
	<u>4,830,908</u>	<u>4,454,788</u>	<u>-</u>	<u>376,120</u>

There have been no disposals or reclassifications of investments classified as level 3 during the year (2013: Nil).

# Port Erin Biopharma Investments Limited

## Notes (continued)

(forming an integral part of the financial statements for the year ended 30 June 2014)

### 10 Trade and other payables

	2014	2013
	£	£
Due to related party (notes 2 and 12)	379,057	18,000
Provision for audit fee	15,000	14,400
Trade creditors	6,925	-
	<u>400,982</u>	<u>32,400</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 and 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 lapsed on 15 September 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 in the year in accordance with the contract was £30,000 (2013: £30,000) of which £Nil was outstanding as at the year-end (2013: £18,000).

Under an agreement dated 6 May 2011, Shellbay Investments Limited, a Company related to both James Mellon and Denham Eke, provide the services of James Mellon as Non-Executive Chairman of the Company (see note 2). The charge for services provided in the year was £379,057 (2013: £60,539) of which £379,057 was outstanding at the year-end (2013: £Nil).

### 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 £1,381,475 and the weighted average number of shares of 33,864,836 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 2014 because the warrants lapsed on 15 September 2013.

### 14 Subsequent events

There have been no significant events after the year end.

### 15 Commitments and contingent liabilities

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