

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document, or the action you should take, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities before taking any action. If you have sold or transferred all your Ordinary Shares in Isis Resources plc, you should send this document, together with the accompanying form of proxy, to the stockbroker, bank or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

This document is an admission document, which has been drawn up in accordance with the AIM Rules and has been issued in connection with the Company's application for Re-Admission. This document does not constitute a prospectus for the purposes of the Prospectus Rules of the Financial Services Authority and a copy of it has not been, and will not be, reviewed by the Financial Services Authority or the UK Listing Authority.

The Company, the Existing Directors and the Proposed Directors whose names appear on page 3 of this document, accept responsibility for the information contained in this document including collective and individual responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Company, the Existing Directors and the Proposed Directors, who have taken reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. In connection with this document, no person is authorised to give any information or make any representation other than as contained in this document.

Application will be made for the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Re-Admission will become effective and that dealings will commence on 19 September 2006. It is emphasised that no application has been made, or is being made, for admission of these securities to the Official List of the UK Listing Authority or to trading on the London Stock Exchange's market for listed securities. The Ordinary Shares are not dealt in on any regulated market other than AIM and, apart from the application for admission to AIM, no application has been or is intended to be made for the Ordinary Shares to be admitted to trading on any such market.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority.

A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

London Stock Exchange plc has not itself examined or approved the contents of this document.

THE WHOLE OF THE TEXT OF THIS DOCUMENT SHOULD BE READ AND IN PARTICULAR, YOUR ATTENTION IS DRAWN TO THE SECTION HEADED "RISK FACTORS" IN PART III OF THIS DOCUMENT.

ISIS RESOURCES PLC

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

Proposed Acquisition of Rhinopharma Limited Placing of 51,075,000 Ordinary Shares at 4 pence per share Re-Admission to trading on AIM Proposed change of name to Verona Pharma plc and Notice of Extraordinary General Meeting

**Nominated Adviser and Broker
Hanson Westhouse LLP**

Share capital immediately following Re-Admission

| Authorised | | Ordinary Shares of | Issued and fully paid | |
|-------------------|----------------|---------------------------|------------------------------|---------------|
| <i>Amount</i> | <i>Number</i> | | <i>Amount</i> | <i>Number</i> |
| £10,000,000 | 10,000,000,000 | £0.001 each | £144,275 | 144,275,000 |

The New Ordinary Shares will, on issue, rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive all dividends or other distributions declared, made or paid after the issue of the New Ordinary Shares.

Hanson Westhouse LLP, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is the Company's nominated adviser and broker for the purposes of the AIM Rules. Its responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any director or to any other person in respect of his reliance on any part of this document. Hanson Westhouse LLP is acting for the Company and no one else and will not be responsible to any other person for providing the protections afforded to customers of Hanson Westhouse LLP nor for providing advice in relation to the contents of this document or any matter referred to herein. No liability whatsoever is accepted by Hanson Westhouse LLP for the accuracy of any information or opinions contained in this document or for the omission of any material information, for which it is not responsible.

The Placing described in this document is only being made in the United Kingdom to a limited number of persons who are qualified investors within the meaning of section 86(7) of the Financial Services and Markets Act 2000 and who are of a kind described in Articles 19(1) and 19(5) (Investment Professionals) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the "Order") and Article 49(2) (high net worth companies) of the Order or to whom it would otherwise be lawful to distribute it. This document contains no offer to the public within the meaning of section 102B of the Financial Services and Markets Act 2000, the Companies Act 1985 or otherwise.

The Ordinary Shares have not been, and will not be registered under the applicable securities laws of Australia, Canada, Japan, the Republic of Ireland or the United States (together, "Prohibited Territories"). The Ordinary Shares may not be offered or sold or delivered directly or indirectly, in or into any Prohibited Territory and this document must not be mailed or otherwise distributed or sent to or into any Prohibited Territory save for to the persons specified in and in accordance with the provisions set out in paragraph 2(c)(i) of Part I of this document.

In making any investment decision in respect of the Placing, no information or representation should be relied upon in relation to the Placing or in relation to the Placing Shares other than as contained in this document. No person has been authorised to give any information or make any representation other than as contained in this document, and if given or made, any such information or representation must not be relied upon as having been authorised.

A notice convening an Extraordinary General Meeting of the Company to be held at the offices of Verona Capital Pty Ltd, Ground Floor, 8 Colin Street, West Perth WA 6005 at 3 p.m. (Perth time) on 18 September 2006 and by video link at the Company's registered office at Adderbury Hill Barn, Milton Road, Adderbury, Oxfordshire OX17 3HN at 8 a.m. (London time) on 18 September 2006 is set out at the end of this document. To be valid, the Form of Proxy accompanying this document must be completed and returned in accordance with the instructions printed thereon so as to be received by the Company's registrars as soon as possible but, in any event, not later than 48 hours before the time fixed for the meeting. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered in the register of members in order to have the right to attend and vote at the meeting is 48 hours prior to the time of the meeting. Completion of a Form or Proxy will not preclude a member from attending the meeting and voting in person.

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DIRECTORS, SECRETARY AND ADVISERS

| | |
|--|--|
| Existing Directors prior to Re-Admission: | Craig Ian Burton (<i>Executive Chairman</i>) Josef El-Raghy (<i>Non-Executive</i>) Herbert Stuart Bottomley (<i>Non-Executive</i>) |
| Proposed Directors following Re-Admission: | Professor Clive Peter Page (<i>Non-Executive Chairman</i>) Professor Michael John Alfred Walker (<i>Chief Executive Officer</i>) Claire Louise Poll (<i>Executive Director</i>) Professor Trevor Mervyn Jones (<i>Non-Executive</i>) Herbert Stuart Bottomley (<i>Non-Executive</i>) <i>all of:</i> Adderbury Hill Barn Milton Road Adderbury Oxon OX17 3HN |
| Company Secretary and Registered Office | Katie Macdonald Adderbury Hill Barn Milton Road Adderbury Oxon OX17 3HN |
| Nominated Adviser and Broker | Hanson Westhouse LLP 12th Floor One Angel Court London EC2R 7HJ |
| Auditors and Reporting Accountants | UHY Hacker Young St. Alphage House 2 Fore Street London EC2Y 5DH |
| Solicitors to the Company | Watson, Farley & Williams LLP 15 Appold Street London EC2A 2HB |
| Solicitors to the Nominated Adviser and Broker | Pinsent Masons Dashwood House 69 Old Broad Street London EC2M 1NR |
| Solicitors to Rhinopharma and the Vendors | Clyde & Co 51 Eastcheap London EC3M 1JP |
| Registrars | Computershare Investor Services PLC PO Box 82, The Pavilions Bridgwater Road Bristol BS99 7NH |

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

2006

| | |
|--|---------------------------|
| Date of publication of this document | 23 August |
| Last time and date for receipt of Forms of Proxy | by 8 a.m. on 16 September |
| Extraordinary General Meeting | 18 September |
| Completion of the Acquisition | 18 September |
| Re-Admission effective and commencement of dealings on AIM | 19 September |
| Settlement of Placing Shares through CREST | 19 September |
| Despatch of definitive share certificates | by 26 September |

RE-ADMISSION AND PLACING STATISTICS

| | |
|--|----------------|
| Placing Price per Placing Share | 4p |
| Mid-market price per Ordinary Share on 3 April 2006 (being the most recent date prior to the suspension from trading of the Ordinary Shares) | 4.75p |
| Number of Ordinary Shares in issue prior to the Acquisition and the Placing | 50,200,000 |
| Number of Consideration Shares | 38,000,000 |
| Number of Ordinary Shares to be issued in consideration for services in connection with the Proposals | 5,000,000 |
| Number of Placing Shares | 51,075,000 |
| Number of Ordinary Shares in issue following the Acquisition and the Placing | 144,275,000 |
| Number of Ordinary Shares in issue following the Acquisition and the Placing (fully diluted) | 168,960,500 |
| Consideration Shares as a percentage of the Enlarged Share Capital | 26.3 per cent. |
| Placing Shares as a percentage of the Enlarged Share Capital | 35.4 per cent. |
| Gross proceeds of the Placing to be received by the Company | £2,043,000 |
| Net proceeds of the Placing to be received by the Company | £1,703,000 |
| Market capitalisation of the Company following the Acquisition and Placing at the Placing Price | £5,771,000 |

KEY INFORMATION

The following information does not purport to be complete and should be read in conjunction with the full text of this Admission Document from which it is derived. Prospective investors should be aware that an investment in the Company involves a high degree of risk and should only be made by those with the necessary expertise to appraise the investment. Your attention is drawn to the Risk Factors set out in Part III of this Admission Document.

Isis has conditionally agreed to acquire the entire issued share capital of Rhinopharma, a private company that is developing new therapeutic drugs for the treatment of allergic rhinitis (hay fever) and other chronic respiratory and inflammatory diseases.

- Following the Acquisition, the Company's strategy will be to build a company recognised for the discovery of early stage intellectual property, and subsequent development to clinical proof of concept, of new therapeutic drugs for the treatment of allergic rhinitis and other chronic respiratory diseases, such as asthma and chronic obstructive pulmonary disease (COPD), as well as chronic inflammatory diseases.
- Allergic rhinitis, asthma and COPD are among the most prevalent respiratory diseases in the industrialised world. There is a significant global market for drug treatments for these diseases. In 2004, global annual sales for these treatments were estimated to be US\$25 billion, with US\$10.6 billion from allergic rhinitis, US\$10.3 billion for asthma and US\$4.6 billion for COPD.
- There is currently no ideal drug treatment for allergic rhinitis, asthma or COPD. Whilst there are a number of treatments either available on the market or under development, many of these have unwanted side effects or limited effectiveness.
- Rhinopharma currently has the following two potential drug treatments under development aimed at the respiratory and inflammatory diseases markets:
 - The lead drug compound (RPL554) belongs to a class of drugs known as a mixed phosphodiesterase, or PDE 3/4 inhibitor, that combines bronchodilator and anti-inflammatory actions in a single drug. RPL554 was selected from a class of compounds co-invented by Sir David Jack, the former Director of Research & Development at Glaxo, who was responsible for the team that discovered many of the commercially successful drugs used in the treatment of respiratory diseases. RPL554 is planned to be administered by nasal inhalation, thereby reducing the unwanted gastrointestinal side effects of many orally administered drugs. It is expected to be long acting, thereby allowing once a day treatment which is likely to increase medication compliance. As far as the New Board is aware, RPL554 is the only mixed PDE 3/4 inhibitor currently under development for respiratory diseases.
 - Rhinopharma's longer term focus has been to identify new synthetic and analytical chemical techniques to develop polysaccharide drugs useful in the treatment of a wide range of respiratory and inflammatory diseases. The polysaccharide, heparin, is a well known anticoagulant that has been shown to have anti-inflammatory effects in a range of diseases, but the use of which is limited by its anticoagulant effect. Rhinopharma has identified in certain marine organisms natural sources of novel anti-inflammatory polysaccharides (NAIPS) without anticoagulant actions which the Company plans to tailor for the treatment of specific indications.
- Following the Acquisition, the Company will seek to rapidly progress RPL554 through toxicological and Phase I clinical studies, with the aim of proving clinical effectiveness in patients with allergic rhinitis and asthma by mid to late 2007. In parallel, the Company intends to undertake experimental proof of concept studies for its NAIPS programme in preparation for toxicological studies in late 2007.
- To reflect the change of focus in its activities, following the Acquisition, the Company will have a strong, expert board and a management team with an appropriate mix of scientific, pharmaceutical, commercial and financial expertise. Professor Clive Page, a founder of Rhinopharma, will be appointed Chairman of the New Board. He is internationally recognised as an expert in the pharmacology of drugs for the treatment of respiratory and inflammatory diseases. Professor Michael Walker, another founder of Rhinopharma who will be appointed Chief Executive Officer, was the founder of the business that became Cardiome Pharma Corp. whose anti-arrhythmic drug is currently the subject of a New Drug Application filed with the US Food and Drug Administration.

- The New Board aims to derive maximum value from the Company's assets and resources whilst managing business and product specific risk. The key elements of this strategy are to:
 - Leverage the experience and network of the Company's board and management team to build a pipeline of new potential drug candidates for the treatment of respiratory and inflammatory diseases.
 - Focus the Company's drug development portfolio on programmes with a relatively rapid and low cost route to market, such as in allergic rhinitis.
 - Define early crucial milestones for its programmes so that any scientific or other issues can be identified before a significant investment is made.
 - Remain cost effective and flexible by outsourcing much of the Company's R&D, thereby reducing the need for a large specialised workforce and investment in physical infrastructure.
 - Sharing of commercialisation risk by entering into out-licensing or other arrangements with commercial development partners at the clinical proof of concept or earlier, if appropriate, in exchange for up-front milestone and royalty payments.
- The Company is proposing to raise £2,043,000, before expenses, through the issue of 51,075,000 Placing Shares at a price of 4 pence per share.
- On Re-Admission, the Company will have a market capitalisation of approximately £5.77 million at the Placing Price with approximately £2.56 million in cash.

PART I

LETTER FROM THE CHAIRMAN OF ISIS

ISIS RESOURCES PLC

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

Directors:

Craig Burton (Executive Chairman)
Josef El-Raghy (Non-Executive)
Stuart Bottomley (Non-Executive)

Registered Office:

Adderbury Hill Barn
Milton Road
Adderbury
Oxon OX17 3HN

23 August 2006

To the holders of Existing Ordinary Shares

Dear Shareholder

Proposed Acquisition of Rhinopharma
Placing of 51,075,000 Ordinary Shares at 4 pence per share
Re-Admission to trading on AIM
Proposed change of name to Verona Pharma plc
and
Notice of Extraordinary General Meeting

1. Introduction

The Company today announced that it had conditionally agreed to acquire the entire issued share capital of Rhinopharma from the Vendors. Following the Acquisition, the Company's strategy will be to build a company recognised for the discovery of early stage intellectual property, and subsequent development to clinical proof of concept, of new therapeutic drugs for the treatment of allergic rhinitis (hay fever) and other chronic respiratory and inflammatory diseases.

Further information on Rhinopharma is set out in Part II of this document. The Independent Expert's Report prepared for the Company, and included in Part IV of this document, indicates that the lead drug development programme being pursued by Rhinopharma (the RPL554 programme) represents one of the most promising developments in rhinitis and asthma research for many years. The Independent Expert's Report attests to the significant experience of the Rhinopharma founders in drug discovery and development and endorses the scientific and commercial strategies adopted by Rhinopharma.

Financial information on Rhinopharma is included in Part A of Part V of this document.

In conjunction with the Acquisition, the Company intends to raise approximately £2,043,000 (before expenses) through the issue of 51,075,000 Placing Shares at 4 pence per share. Details of the intended use of proceeds of the Placing are set out in paragraph 2 of this Part I. The Placing is conditional upon, *inter alia*, completion of the Acquisition and Re-Admission.

It is intended that the name of the Company will be changed to Verona Pharma plc to reflect the Company's new focus on the pharmaceuticals industry. In addition, Craig Burton and Josef El-Raghy have agreed to step down from the board and Clive Page, Michael Walker, Claire Poll and Trevor Jones will be appointed to the board. Further details of the New Board are set out in paragraph 3 of this Part I.

Due to the size of the Acquisition in relation to the Company and the fact that there will be a fundamental change in the Company's business and board of Directors, the Acquisition is classified as a reverse takeover of the Company under the AIM Rules and therefore requires the approval of Shareholders at the EGM.

If EGM Resolutions (1) to (3) are duly passed at the EGM, trading in the Existing Ordinary Shares will be cancelled and it is expected that the Enlarged Share Capital will be admitted to trading on AIM on 18 September 2006.

The purpose of this document, which comprises an admission document prepared under the AIM Rules, is to provide you with information on the Acquisition, the Placing and Re-Admission and to explain why the Existing Directors consider that the Proposals are in the best interests of the Company and why they recommend that Shareholders vote in favour of the EGM Resolutions.

2. The Proposals

(a) Background

The Company was admitted to trading on AIM on 30 March 2005 as an investing company with a strategy of undertaking investments in the natural resources sector. The Existing Directors reviewed a number of natural resource opportunities and, in each case, concluded that the proposition did not offer an appropriate level of return for the risk to be assumed. Consequently, the Existing Directors reviewed the investment strategy and widened the range of potential investments. Having identified Rhinopharma and considered the reputation and track record of its founders, the Existing Directors formed the view that the Acquisition would offer the potential for major growth in shareholder value.

(b) The Acquisition

(i) Rhinopharma

Rhinopharma is a private drug discovery company established in Vancouver, Canada in April 2004, focused on the discovery and development of new therapeutic drugs for the treatment of allergic rhinitis and other chronic respiratory and inflammatory diseases.

Rhinopharma is currently developing a long-acting mixed bronchodilator/anti-inflammatory drug (belonging to a class of drugs known as a phosphodiesterase, PDE 3/4 inhibitor) that could be rapidly brought to clinical proof of concept for the treatment of allergic rhinitis and then be subsequently developed for the treatment of asthma and chronic obstructive pulmonary disease (COPD). A longer term focus of Rhinopharma is to apply new synthetic and analytical chemical techniques to develop polysaccharide drugs which may be used in the treatment of a wide range of respiratory and inflammatory diseases.

The principal scientific founders of Rhinopharma are renowned worldwide for their expertise in drug discovery and development.

Professor Michael Walker was the founder of the business that became Cardiome Pharma Corp., a company listed on the Toronto and NASDAQ Stock Exchanges with a market capitalisation of approximately C\$690 million. Cardiome's anti-arrhythmic drug has recently completed Phase III clinical trials and is currently the subject of a New Drug Application filed with the US Food and Drug Administration.

Professor Clive Page is internationally recognised as an expert in the pharmacology of drugs for the treatment of respiratory and inflammatory diseases and is one of the inventors of the polysaccharide technology being developed by Rhinopharma.

Rhinopharma's strategy has been to derive maximum value from its intellectual property assets and resources whilst reducing business risk. The drug development programmes pursued by Rhinopharma have a relatively rapid route to market, such as in allergic rhinitis, and are targeted at markets in which there is significant demand but no ideal treatments. Rhinopharma operates a business model which involves outsourcing much of its R&D to clinical research and contract manufacturing organisations. In addition, Rhinopharma intends to out-license its drug development programmes to commercial development partners after Phase II clinical proof of concept trials, or earlier, depending on the programme concerned, the level of interest from potential partners and commercial terms achievable.

Further details on Rhinopharma are set out in Part II of this document.

(ii) Principal Terms of the Acquisition

Under the terms of the Acquisition Agreement:

1. the Company has agreed to acquire the entire issued share capital of Rhinopharma for a total consideration of £1.52 million to be satisfied by the issue of the 38,000,000 Consideration Shares to the Vendors at 4 pence per share;

2. the consideration will be payable on Completion; and
3. Completion is conditional on, amongst other things, the Conditions being satisfied.

Further information in respect of the Acquisition Agreement is provided in paragraph 8.6 of Part VI of this document.

(iii) Details of the Consideration Shares

The Consideration Shares will be issued credited as fully paid and, immediately following Re-Admission, will represent approximately 26.3 per cent. of the Enlarged Share Capital.

The Consideration Shares will, upon issue, rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive any dividends and other distributions declared, made or paid following Re-Admission and will be issued credited as fully paid.

(iv) Financial effects of the Acquisition

An unaudited pro forma statement of consolidated net assets of the Enlarged Group, prepared for illustrative purposes only, showing the effect of the Acquisition is set out in Part B of Part V of this document.

(v) Following the Acquisition

Following Completion, it is proposed that all of the assets and liabilities of Rhinopharma will be transferred to Isis and that Rhinopharma will subsequently be dissolved by way of voluntary dissolution. The Directors estimate that this restructuring will result in a tax liability for Isis of approximately £55,000 and this has been taken into account in agreeing the amount of consideration to be paid to the Vendors under the Acquisition Agreement. The tax liability has been estimated following an independent valuation of the Acquisition but it remains an estimate and the actual liability may ultimately exceed such estimate. To the extent that the actual tax liability exceeds £100,000, the Company may (subject to certain limitations) be able to claim any excess amounts from the Vendors under an indemnity in Acquisition Agreement. However there can be no guarantee that all or any of such amount will prove recoverable.

(c) The Placing

(i) Details of the Placing

The Company is proposing to raise £2,043,000, before expenses, through a conditional placing by Hanson Westhouse of 37,950,000 Placing Shares pursuant to the Placing Agreement and subscriptions for 13,125,000 Placing Shares pursuant to the Overseas Subscription Agreements, in each case at the Placing Price.

The Placing Shares will represent approximately 35.4 per cent. of the Enlarged Share Capital immediately following Re-Admission.

The Placing is conditional on, amongst other things, the Conditions being satisfied.

The Placing Shares will, upon issue, rank *pari passu* in all respects with the Existing Ordinary Shares and the Consideration Shares, including the right to receive any dividends and other distributions declared, made or paid following Re-Admission and will be issued credited as fully paid.

The Placing is not being underwritten. Further details of the Placing Agreement and the Overseas Subscription Agreements are set out in paragraphs 8.5 and 8.8 of Part VI of this document.

Certain of the Placing Shares are being made available to investors in Australia (the “Australian Placing Shares”). In this regard, please note that this document has not been lodged with, or registered by, the Australian Securities and Investments Committee.

The Australian Placing Shares are being offered and sold in Australia, to “Sophisticated Investors” as such term is defined in Section 708(8) of the Australian Corporations Act 2001 and who have been certified as persons falling within the category by an Australian chartered accountant, in private sales exempt from the registration requirements under the Australian Corporations Act 2001 and other applicable securities laws.

Subscribers for Placing Shares must not:

- a. directly or indirectly offer for subscription or purchase or issue an invitation to subscribe for or buy or sell, the Placing Shares; or

- b. distribute any draft or definitive document in relation to any such offer, invitation or sale in the Commonwealth of Australia, its states, territories or possessions (“Australia”) or to any resident including Corporations and other entities organised under the laws of Australia but not including a permanent establishment of such corporation or entity located outside Australia,

except in accordance with an applicable exemption.

(ii) *Use of Proceeds*

The Company intends to use the majority of the net proceeds from the Placing together with existing cash held by the Company and Rhinopharma to fund pre-clinical and clinical studies of its RPL554 programme. The Directors also intend to invest funds from the Placing in ongoing research and pre-clinical studies of its NAIPS programme and in R&D of other programmes pursued by the Company for the potential development of new drugs for the treatment of chronic respiratory and inflammatory diseases.

The Directors also plan to use part of the net proceeds from the Placing to fund licensing and patent costs incurred in connection with its drug development programmes and other working capital requirements. In addition, the Directors intend that the tax liability expected to result from the transfer of the assets and liabilities of Rhinopharma to Isis following the Acquisition (discussed in paragraph 2(b)(v) above in this Part I) will be funded from the net proceeds from the Placing.

A summary of the proposed application of the net proceeds from the Placing over the 18 months from Re-Admission is set out in the table below. The expenditure proposals are based on the current intentions and estimates of the Company and remain subject to reassessment.

| | £’000 |
|--|--------------|
| Funding Sources | |
| Existing Isis & Rhinopharma cash | 860 |
| Proposed gross Placing proceeds | 2,043 |
| Total Funds Available | <u>2,903</u> |
| Use of Funds (in order of priority) | |
| Pre-clinical & clinical studies of RPL554 | 690 |
| R&D and pre-clinical studies of NAIPS | 190 |
| R&D of other potential drug candidates | 130 |
| Licensing and patent costs | 190 |
| Total R&D Expenditure | <u>1,200</u> |
| Ongoing administration & corporate | 440 |
| AIM Re-Admission and Acquisition related expenditure | 300 |
| Placing commission | 40 |
| Unallocated working capital | 923 |
| Total | <u>2,903</u> |

3. Existing Directors and Proposed Directors

Prior to Re-Admission, Craig Burton (aged 42) and Josef El-Raghy (aged 35) will resign as directors of the Company and Professor Clive Page, Professor Michael Walker, Claire Poll and Professor Trevor Jones will be appointed as directors of the Company. The New Board will comprise:

Professor Clive Page, PhD, Non-Executive Chairman, aged 47

Professor Page is a Professor of Pharmacology and Director of the Sackler Institute of Pulmonary Pharmacology in the Division of Pharmaceutical Sciences, King’s College, University of London. He is a recognised authority in the area of lung disease and inflammation, as well as being internationally recognised for his work in connection with heparin and related molecules as anti-inflammatory drugs. His academic research has resulted in more than 200 scientific publications and he has edited a number of leading books in pharmacology of lung diseases. He has previous experience in the pharmaceutical industry at Sandoz, Inc (now Novartis AG), Basel, Switzerland and is highly regarded internationally as a consultant to both the pharmaceutical and biotech industries. He is currently a consultant to Johnson & Johnson and Z-cube, the venture capital arm of Zambon

Group S.p.A. He has previous board experience with Nortran Pharmaceuticals Inc., which became Cardiome, and is currently Chairman of Stirling Products Limited, a company specialising in animal health products based in Perth, Australia. He is also a director of Helperby Therapeutics Group plc in London. Professor Page is one of the inventors of the NAIPS technology being developed by Rhinopharma.

Professor Michael Walker, PhD, Chief Executive Officer, aged 66

Professor Walker is an Emeritus Professor at the Department of Anesthesiology, Pharmacology & Therapeutics, University of British Columbia, Canada, where he has worked since 1972. His career encompasses academia (research, teaching and administration) and the creation and operation of various biotech companies in Canada and the UK. His research interests are wide including many aspects of general pharmacology (from basic to clinical studies), marine toxins and respiratory and cardiac pharmacology. In cardiac pharmacology, Professor Walker has an international research profile in anti-arrhythmic drug discovery. His research has resulted in over 200 publications in journals, editorials, books and meeting abstracts and many presentations to scientific and other audiences. He founded Rhythm Search Developments (RSD) Ltd in 1992 for the purpose of discovering new anti-arrhythmic drugs. This company evolved into Nortran Pharmaceuticals Inc. and subsequently Cardiome (TSX:COM, NASDAQ: CRME) whose drug, RSD1235, for the acute termination of atrial fibrillation (a disorder of heart beating), is currently the subject of a New Drug Application filed with the FDA in March 2006. Between 1992 and 2003, he occupied various positions, including Chairman, in that company which now has a market capitalisation of approximately C\$690 million. More recently, Professor Walker's research focus has been on discovering new respiratory drugs utilising the drug discovery paradigms he has previously used successfully for cardiac and other drugs.

Claire Poll (née Marshall), BA, BJuris, LLB, ASIA, Executive Director, aged 39

Ms Poll has over 15 years' experience as a legal and corporate executive for start-up and mature companies internationally. As director of corporate development for Inmarsat Ventures plc in London, an international provider of satellite communication services, she had responsibility for group strategy, mergers and acquisitions and managed the divestment of Inmarsat to a group of venture capitalists for approximately £900 million. Ms Poll has managed the listing and development of large and small cap companies on the London Stock Exchange, AIM, Nasdaq and Australian stock exchanges. More recently, she has been working with Verona Capital Pty Ltd, a private venture capital group that develops, invests in and manages start-up technology and resource companies.

Professor Trevor Jones CBE, FKC FRSC FPS Hon FRCP FFPM FBPharmacolS, Non-Executive Director, aged 63

Professor Jones is a Director of Allergan Inc (USA) and Senior R&D Adviser to Esteve SA (Spain) and Servier (France). He is also Deputy Chairman of Council and a visiting professor at King's College, London, Chairman of AIM-quoted stem cell biotech company ReNeuron Group plc and the Dutch biotech company BAC BV and a member of the Board of NextPharma Technologies Limited. From 1987 to 1994, he was a director of The Wellcome Foundation, where he was responsible for R&D including the development of AZT, Zovirax, Malarone and other medicines. He is a founder member of the Geneva-based, Public: Private Partnership, Medicines for Malaria Venture (MMV) and, in 2004, was appointed to the World Health Organisation (WHO) Commission on Intellectual Property Rights, Innovation and Public Health (CIPRIH). He was for 12 years a member of the UK Government regulatory agency, the Medicines Commission. For 10 years until September 2004, he was Director General of the Association of the British Pharmaceutical Industry (ABPI). In 2005, he was the winner of the SCRIP Life Time Achievement award for his contribution to the pharmaceutical sciences and industry. He received a CBE in 2003 for services to the pharmaceutical industry.

Stuart Bottomley, Non-Executive Director, aged 61

Mr Bottomley was appointed as a non-executive director of the Company in February 2005. He worked initially as a stockbroker for nine years, before joining Dawnay Day where he worked as a portfolio manager for the Target Group of Unit Trusts. During his time with Target, he successfully managed the Special Situations Fund and Target Energy. In 1984, he joined Fidelity International in London, working with the ERISA group, focused on UK and European markets. Since leaving Fidelity, Mr Bottomley has consulted for numerous private and public companies, advised a number of Australian companies on admissions to AIM and assisted in IPOs and other fundraisings. He is currently a non-executive director of Centamin Egypt Limited and African Consolidated Resources plc.

4. Current trading and prospects

The Company is currently an investing company (as defined by the AIM Rules) and (save for entering into the Acquisition Agreement and the other material contracts described in paragraph 8 of Part VI of this document) has not traded since incorporation.

Following completion of the Acquisition, the Company's sole business will be that of Rhinopharma. Rhinopharma has had limited trading since its incorporation in April 2004. Rhinopharma has not sold any products or performed any services and its sole focus has been on licensing in and maintenance of its intellectual property and conducting R&D in connection with its drug development programmes.

Following Completion, the Company's primary focus will be to progress rapidly through the necessary toxicological and Phase I clinical studies the PDE 3/4 inhibitor (known as RPL554) under development by Rhinopharma, with the aim of proving clinical effectiveness in patients with allergic rhinitis and asthma by mid to late 2007. In parallel, the Company intends to undertake experimental proof of concept studies of its anti-inflammatory polysaccharides (known as NAIPS) in preparation for toxicological studies in late 2007.

5. Corporate governance

Due to the size and nature of the Company, it does not currently fully comply with the provisions of the Combined Code. However, the Proposed Directors recognise the importance of sound corporate governance and intend, where practicable for a company of the Company's size and nature, to comply with the key provisions of the Combined Code.

The Board has established an Audit Committee and a Remuneration Committee with formally delegated duties and responsibilities. On Re-Admission, Stuart Bottomley, Trevor Jones and Claire Poll will be the initial members of the Audit Committee, with Stuart Bottomley as chairman. Stuart Bottomley and Trevor Jones will be the initial members of the Remuneration Committee, with Trevor Jones as chairman.

The Audit Committee will receive and review reports from management and the Company's auditors relating to annual and interim accounts and the accounting and internal controls in place throughout the Enlarged Group. It will meet at least twice a year and will have unrestricted access to the Enlarged Group's auditors.

The Remuneration Committee will set the terms and amount of the remuneration payable to Proposed Directors and members of the Company's management. It will be empowered to obtain advice from external consultants on appropriate levels of compensation. In addition, it will administer the Company's share option arrangements (see paragraph 7 of Part VI of this document).

The Company has adopted a share dealing code in order to ensure compliance with Rule 21 of the AIM Rules on a similar basis to that set out in the "Model Code" annexed to the Listing Rules.

6. Dealings and trading

The trading on AIM of the Ordinary Shares was suspended on 3 April 2006 in accordance with the London Stock Exchange's Guidance Note to Rule 8 of the AIM Rules.

Application will be made to the London Stock Exchange for the Existing Ordinary Shares to be re-admitted to trading on AIM and for the Consideration Shares and Placing Shares to be admitted to trading on AIM. Re-Admission of the Existing Ordinary Shares and, subject to the Conditions being satisfied, admission of the New Ordinary Shares to trading on AIM is expected to take place on or around 19 September 2006. The Ordinary Shares are in registered form.

If the Acquisition is not completed, trading in the Existing Ordinary Shares will continue to be suspended, the New Ordinary Shares and Placing Shares will not be issued or admitted to AIM, the New Board will not be formed and Craig Burton and Josef El-Raghy will remain Directors. In the event that Completion does not take place prior to 3 October 2006 (and assuming that no further transaction constituting a reverse takeover of the Company should occur by that date) the Company's quotation on AIM will be cancelled.

7. CREST

CREST is a paperless settlement system enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument. The Articles contain provisions concerning the transfer of shares which are consistent with the transfer of shares in dematerialised form under the CREST Regulations. Accordingly, settlement of transactions in the Ordinary Shares following Re-Admission may continue to take place within the CREST system if Shareholders so wish. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

8. The City Code

At present, the City Code does not apply to the Company on the basis that the Company's place of central management and control is not in the UK, the Channel Islands or the Isle of Man.

There are provisions in the Articles which state that, if at any time when the City Code does not apply to the Company, a person (together with any persons held to be acting in concert with him) acquires shares in the Company which would have obliged them to extend an offer (a "mandatory offer") to the holders of all shares in the Company had the City Code applied, the directors have the discretion to disenfranchise such person until a compliant mandatory offer is made. As the Existing Directors are recommending the Acquisition, they do not propose to use this discretion afforded by the Articles.

Following the appointment of the New Board (see information set out above under the heading "Existing Directors and Proposed Directors"), the Company will be centrally managed and controlled in the UK and the City Code will apply to the Company from that time.

Under the City Code, when any person acquires an interest in shares which, when taken together with shares in which persons acting in concert with him are interested, carry 30 per cent. or more of the voting rights of a company which is subject to the City Code, such person or persons, is or are normally required to make a general offer to all other shareholders in that company to acquire their shares. Similarly, when any person, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30 per cent. but does not hold more than 50 per cent. of the voting rights of such a company, a general offer will normally be required if any further shares are acquired. An offer must be in cash and at the highest price paid, within the preceding 12 months, for any interest in shares in the company by the person required to make the offer or any person acting in concert with him.

Existing and future Shareholders should be aware that a person or group of persons acting in concert may come to hold 30 per cent. or more of the Company's voting rights following completion of the Proposals. However, as the City Code is not applicable at the time of the Proposals, there will be no requirement for a mandatory offer to be made as a consequence of such acquisition of shares, but the provisions of the City Code will apply in respect of the acquisition of any further interests in shares.

The Code is designed principally to ensure that shareholders are treated fairly and are not denied an opportunity to decide on the merits of a takeover and that shareholders of the same class are offered equivalent treatment by an offeror. The Code also provides an orderly framework within which takeovers are conducted. In addition, it is designed to promote, in conjunction with other regulatory regimes, the integrity of the financial markets.

The Code is not concerned with the financial or commercial advantages or disadvantages of a takeover. These are matters for the Company and its shareholders. Nor is the Code concerned with those issues, such as competition policy, which are the responsibility of government and other bodies.

Following completion of the Acquisition and the Placing and assuming the exercise of all options held by members of the Concert Party, and that no other options are exercised, the Concert Party's interest in the Company would represent, in aggregate, 19.43 per cent. of the voting rights attached to the Company's issued ordinary share capital.

The interests of the Concert Party in the share capital of the Company will be as follows:

| Name | No. of Shares | No. of Options | Total | Per cent*. |
|--------------------------------|-------------------|------------------|-------------------|------------|
| Lewis Choi | 620,408 | – | 620,408 | 0.42 |
| Len Cuthbert | 1,209,796 | – | 1,209,796 | 0.82 |
| Danny Lowe | 2,419,592 | – | 2,419,592 | 1.63 |
| Clive Page | 5,649,846 | 2,000,000 | 7,649,846 | 5.16 |
| Yvette Paton | 2,419,592 | – | 2,419,592 | 1.63 |
| David Saint | 5,643,648 | – | 5,643,648 | 3.81 |
| Michael Walker | 5,643,651 | 2,000,000 | 7,643,651 | 5.16 |
| Nelson River Resources Limited | 1,209,796 | – | 1,209,796 | 0.82 |
| | <u>24,816,329</u> | <u>4,000,000</u> | <u>28,816,329</u> | |

* Upon completion of the Acquisition and Placing and assuming the exercise of all options held by members of the Concert Party and that no other options are exercised.

9. Dividend Policy

The nature of the Company's business means that it is unlikely that the Directors will recommend a dividend in the early years following Re-Admission. The Existing Directors and the Proposed Directors believe that the Company should seek to generate capital growth for its Shareholders but may recommend distributions at some future date, depending upon the generation of sustainable profits, when it becomes commercially prudent to do so. As at date of this document, neither the Company nor Rhinopharma have declared any dividends.

10. Lock-ins and Orderly Market Arrangements

The Proposed Directors, their related parties and applicable employees (as defined in the AIM Rules) and certain other shareholders including the members of the Concert Party whose interests in the Company will amount to 24.83 per cent. of the Enlarged Share Capital on Re-Admission, have undertaken:

1. not to dispose of any interest in their Ordinary Shares for a period of 12 months following Re-Admission (the "**Lock-in Period**") in accordance with Rule 7 of the AIM Rules, except in the very limited circumstances allowed by the AIM Rules; and
2. not to dispose of their Ordinary Shares at any time during the period of 12 months following the expiry of the Lock-in Period except in certain circumstances, unless they do so through Hanson Westhouse (or the Company's broker from time to time, or in the case of Len Cuthbert and Nelson River Resources Limited, the company through which Kirk Fyffe holds his interest, through Haywood Securities (UK) Limited due to Canadian Securities regulations on brokers dealing in shares) provided that, *inter alia*, such disposal is effected at a competitive price and that the relevant commission and fee to be charged is competitive with those charged by other reputable brokers.

Further details of the lock-ins and orderly market arrangements are set out in paragraph 8.7 of Part VI of this document.

11. Taxation

The attention of prospective investors is drawn to the taxation section in paragraph 11 of Part VI of this document.

12. Further Information

Your attention is drawn to the further information set out in the remainder of this document and, in particular, to the risk factors set out in Part III of this document.

13. Extraordinary General Meeting

At the end of this document, you will find a notice convening the EGM, which is to be held at 3 p.m. (Perth time) on 18 September 2006 at the offices of Verona Capital Pty Ltd, Ground Floor, 8 Colin Street, West Perth WA 6005 and, by video link, at the Company's registered office at Adderbury Hill Barn, Milton Road Adderbury, Oxon OX17 3HN at 8 a.m. (London time) on 18 September 2006. The resolutions to be proposed at the EGM will be as follows:

1. to approve the Acquisition as a reverse takeover for the purposes of Rule 14 of the AIM Rules;
2. to authorise the Directors pursuant to section 80 of the Act to allot relevant securities, including, *inter alia*, the New Ordinary Shares;
3. to authorise the Directors pursuant to section 95(1) of the Act to allot relevant securities for cash as if the statutory pre-emption rights set out in section 89 of the Act did not apply to such allotment; and
4. to change the name of the Company to Verona Pharma plc.

EGM Resolutions (1) and (2) will be proposed as ordinary resolutions while resolutions (3) and (4) will be proposed as special resolutions. Resolutions (1) to (3) are conditions of the Proposals and the Proposals will only proceed if each of these resolutions is passed.

14. Action to be taken

You will find enclosed with this document a Form of Proxy for use in connection with the EGM. Whether or not you intend to be present at the EGM, you are asked to complete the Form of Proxy in accordance with the instructions printed on it so as to be received by Computershare as soon as possible but in any event not later than 8 a.m. (London time) on 16 September 2006. Completion of the Form of Proxy will not preclude you from attending and voting at the meeting should you so wish.

If you have any doubt as to how to sign and complete the Form of Proxy please call Computershare on telephone number 0870 707 1083 open from 8 a.m. to 5.30 p.m. (London time). For legal reasons the helpline will not be able to provide advice on the merits of the Proposals or to provide any financial advice.

15. Recommendation

The Existing Directors recommend that you vote in favour of the EGM Resolutions. Shareholders (including the Existing Directors) have (save where a termination notice is served in accordance with Clause 14.1 of the Acquisition Agreement) irrevocably undertaken to do so in respect of their own beneficial and non-beneficial holdings amounting, in aggregate, to 28,200,000 Ordinary Shares, representing 56.2 per cent. of the Existing Ordinary Shares.

Yours faithfully

Craig Burton

Executive Chairman

PART II

INFORMATION ON RHINOPHARMA

INTRODUCTION

Rhinopharma is a drug discovery company which was established in Vancouver, Canada in April 2004. The company is focused on finding new therapeutic drugs for the treatment of chronic respiratory and inflammatory diseases.

Rhinopharma is currently developing a long-acting mixed bronchodilator/anti-inflammatory drug (belonging to a class of drugs known as a phosphodiesterase, PDE 3/4 inhibitor) that could be rapidly brought to clinical proof of concept for the treatment of allergic rhinitis and be subsequently developed for the treatment of asthma and chronic obstructive pulmonary disease (COPD). A proposed longer term focus is to apply new synthetic and analytical chemical techniques to modify heparin, and related polysaccharide molecules, to develop drugs for the treatment of respiratory allergies, asthma and other inflammatory diseases, such as arthritis and skin and bladder diseases.

The scientific founders of Rhinopharma are Professor Michael Walker, Emeritus Professor at the Department of Pharmacology and Therapeutics, University of British Columbia, Professor Clive Page, Professor of Pharmacology and Director of the Sackler Institute of Pulmonary Pharmacology, King's College, University of London and Professor David Saint, Professor at the School of Molecular and Biomedical Science, University of Adelaide. They have considerable experience in the development and commercialisation of drugs. In particular Professor Michael Walker was the founder of what became Cardiome, which is listed on the Toronto and NASDAQ stock exchanges with a market capitalisation of approximately C\$690 million.

MARKET OPPORTUNITIES IN RESPIRATORY DISEASE

Current State of the Respiratory Product Market

In recent years, the respiratory product market has been evolving with the increasing prevalence of allergic rhinitis, asthma and COPD. In 2004, global annual sales of drug treatments for these three diseases were estimated to be US\$25 billion. Over half of these global sales came from asthma (US\$10.3 billion) and COPD (US\$4.6 billion). The major current treatments for both diseases include: short-acting and long-acting beta-2 receptor agonists (SABAs and LABAs); inhaled corticosteroids (ICS); inhaled anticholinergics; leukotriene antagonists; systemic and inhaled xanthines; combination ICS/LABA and combination anticholinergics/LABA. The allergic rhinitis market represented approximately US\$10.6 billion in global sales in 2004. Allergic rhinitis is predominantly treated with two drug categories: second generation antihistamines such as Allegra, Zyrtec and Clarinex (aggregate global sales US\$6.6 billion in 2004); and intranasal corticosteroids such as Flonase (aggregate global sales of US\$2.7 billion in 2004). Sales in the USA represented 63 per cent. (or US\$16 billion) of the worldwide sales for respiratory disease products in 2004.

Principal Respiratory Diseases Targeted by the Company

Allergic Rhinitis – the first disease target for the Company

Definition and Aetiology

Rhinitis is inflammation of the nose and associated upper airways. It typically results in a range of symptoms including sneezing, runny nose, itching, mucous secretion, nasal obstruction and nasal irritability. Rhinitis can be caused by infection, but is more often the result of an allergic reaction. Seasonal allergic rhinitis is triggered by prevailing tree, grass or ragweed pollens in the spring and summer months, whereas the more chronic perennial allergic rhinitis is provoked by indoor airborne allergens, usually from dust mites, animal dander and moulds. In allergic rhinitis, the disease process begins with mast cell degranulation and activation of the immune system. This causes the release of local agents, nasal oedema, nerve stimulation, mucous secretion and later leukocyte infiltration and nasal irritability.

Prevalence and Market Opportunity

Allergic rhinitis, asthma and COPD are among the most chronic respiratory diseases in the industrialised world. According to the World Health Organization, allergic rhinitis occurs in 10-20 per cent. of children and 25-33 per cent. of adults worldwide. In 2005, taking into account the country-specific variations in definitions and diagnosis of the disease, it was estimated that the prevalence rate of allergic rhinitis was 15-25 per cent., with an estimated 59.4 million people affected in the USA alone (Table 1).

Table 1 Estimated prevalence of allergic rhinitis in the USA, Japan and five major European markets, 2005

| | USA | France | Germany | Italy | Spain | UK | Japan | Total |
|----------------------------------|-------------|---------------|----------------|--------------|--------------|-------------|--------------|--------------|
| Population (m) * | 300.1 | 60.7 | 82.6 | 57.3 | 41.2 | 59.6 | 128.0 | 729.5 |
| Prevalence (%) | 19.8 | 24.6 | 18.2 | 17.1 | 14.0 | 26.5 | 19.6 | n.a. |
| Allergic Rhinitis population (m) | 59.4 | 14.9 | 15.0 | 9.8 | 5.8 | 15.8 | 25.1 | 145.8 |

* UN database figures

Source: Datamonitor

The prevalence of allergic rhinitis is increasing. The reasons for this are not clear, but some contributory factors may include an increase in airborne pollution and an increase in dust mite populations. Other more controversial theories that attempt to explain the increased prevalence of allergic rhinitis over recent years include changes in diet, antibiotic use and immunisations and the poor development of immune defences. The latter theory, the 'hygiene hypothesis', proposes that because of improved sanitation, particularly in developed countries, infants and young children are not exposed to the large numbers of microorganisms (bacteria, viruses, fungi) required to develop normal immune defences.

Asthma – the second disease target for the Company

Definition and Aetiology

Asthma is a chronic inflammatory disease that typically affects the bronchi. Inflammation can be initiated by a number of factors, in particular, airborne irritants, allergens, cold air, exercise and respiratory infections. This may lead to reversible bronchial obstruction and/or bronchial hyperresponsiveness, which together represent the principal symptoms of an asthma attack resulting in wheezing, shortness of breath, coughing and excess mucus production. Asthma is classified according to severity and duration of inflammation, typically measured using Peak Expiratory Volume (PEV) and the frequency of asthma attacks. The four categories are: mild intermittent, mild persistent, moderate persistent and severe persistent.

Prevalence and Market Opportunity

In 2005, the prevalence of asthma across the USA, Japan and five major European countries was estimated to be 45.0 million people, or a prevalence rate of 6.3 per cent. (Table 2). By 2013, the prevalence rate is forecast to rise to 48.7 million people, or 8 per cent.

Table 2 Estimated prevalence of asthma in the USA, Japan and five major European markets, 2005

| | USA | France | Germany | Italy | Spain | UK | Japan | Total |
|-----------------------|-------------|---------------|----------------|--------------|--------------|------------|--------------|--------------|
| Population (m) * | 300.1 | 60.7 | 82.6 | 57.3 | 41.2 | 59.6 | 128.0 | 729.5 |
| Prevalence (%) ** | 7.9 | 5.6 | 5.8 | 4.9 | 4.8 | 10.3 | 4.8 | 6.3 |
| Asthma population (m) | 22.6 | 3.1 | 4.2 | 2.4 | 1.8 | 5.5 | 5.4 | 45.0 |

* UN database figures

** The prevalence rates shown appear to be based on the average of the average prevalence rates for children, adults and the elderly.

Source: Datamonitor

COPD – the third potential disease target for the Company

Definition and Aetiology

Chronic obstructive pulmonary disease (COPD) is a respiratory syndrome associated with a progressive, non-reversible limitation to airflow and abnormal inflammatory responses involving the small airways. COPD is a preventable disease with exposure to cigarette smoke being the most common cause. Other suggested causes include airway hyperresponsiveness, air pollution and allergy. This disease normally occurs in 5 per cent. of lifetime non-smokers, in whom passive exposure to environmental tobacco smoke has been proposed as a possible cause.

Prevalence and Market Opportunity

COPD is a leading cause of morbidity and mortality that typically affects middle aged and elderly people. In 2005, the prevalence of COPD across the US, Japan and five major European countries was estimated to be 31.2 million people, or a prevalence rate of 4.4 per cent. (Table 3). As patients suffering from mild forms of the disease are largely asymptomatic, it is estimated that only half of the COPD sufferers across the US, Japan and five major European Countries are diagnosed, equivalent to 15.1 million patients.

Table 3 Estimated prevalence of COPD in the USA, Japan and five major European markets, 2005

| | USA | France | Germany | Italy | Spain | UK | Japan | Total |
|-------------------------------|------------|------------|------------|------------|------------|------------|------------|-------------|
| Population (m) * | 300.1 | 60.7 | 82.6 | 57.3 | 41.2 | 59.6 | 128.0 | 729.5 |
| Prevalence (%) | 4.1 | 4.4 | 4.6 | 4.6 | 4.4 | 4.3 | 4.4 | n.a. |
| Diagnosed COPD population (m) | 5.9 | 1.3 | 1.8 | 1.3 | 0.9 | 1.3 | 2.7 | 15.1 |

* UN database figures

Source: Datamonitor

Potential Benefits of Targeting the Allergic Rhinitis Market

Biological Relationship with Asthma

Evidence strongly supports a direct relation between allergic rhinitis and allergic asthma and that both are presentations of similar inflammatory processes in the respiratory system, albeit involving the nose and lungs respectively. An estimated 20 per cent. of patients with allergic rhinitis suffer or will suffer from asthma. As well as the link to asthma, poorly controlled allergic rhinitis may lead to the development of other nasal or sinus diseases, such as recurrent nasal polyps or acute and chronic sinusitis, ear disorders, such as otitis media and hearing impairment, conditions caused by mouth breathing resulting from chronic nasal congestion, such as abnormal craniofacial development in children, sleep apnoea and related complications. The prevalence of the upper and lower respiratory tract disorders associated with allergic rhinitis is shown in Figure 1.

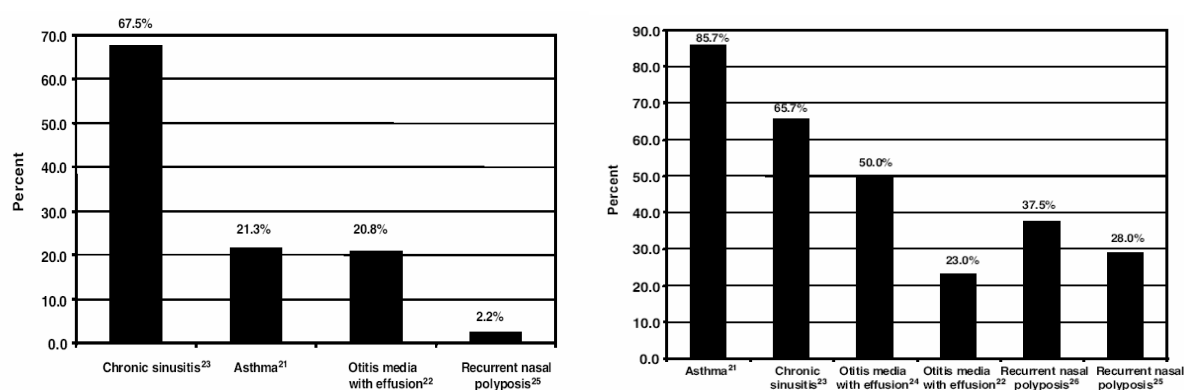


Figure 1: Proportion of patients with allergic rhinitis who have, concomitantly with rhinitis, diseases such as chronic sinusitis, asthma, otitis media or recurrent nasal polyps is indicated on the lower axis. The percentage of rhinitis patients with the selected conditions is shown on the vertical axis.

Source: Medscape

The New Board believes that the association of allergic rhinitis with other respiratory diseases and the linked aetiology of diseases, such as asthma and allergic rhinitis, opens up large potential markets for the anti-inflammatory drugs initially being developed by Rhinopharma for the treatment of allergic rhinitis.

RHINOPHARMA'S APPROACH TO DRUG DEVELOPMENT

Current Drug Development Programmes

RPL554 Programme

Upon completion of the Acquisition, the Company's initial focus will be to seek to rapidly progress the lead compound under development by Rhinopharma (RPL554) through the necessary toxicological and Phase I clinical studies to allow early clinical proof of concept studies in patients with allergic rhinitis and asthma.

RPL554 was selected from a class of compounds co-invented by Sir David Jack, the former Director of Research at Glaxo who was responsible for the team that discovered many of the commercially successful drugs used in the treatment of respiratory diseases including salbutamol, salmeterol, beclomethasone dipropionate and fluticasone propionate, as well as several other commercially successful drugs (ranitidine, sumatriptan and ondansetron).

Current therapies for respiratory disease such as asthma and COPD rely on combination inhalers of LABAs and topical glucocorticosteroids. However, the FDA has recently required that a warning be put on all products containing LABAs that, although these products may decrease the frequency of asthma attacks, they may make the attacks more severe when they occur. In addition, there remain serious concerns about the chronic use of glucocorticosteroids, particularly in children, an age group particularly affected by allergic diseases and by glucocorticosteroids. The New Board believes that the competitive advantages of RPL554 include the fact that it is a mixed PDE 3/4 inhibitor resulting in bronchodilator and anti-inflammatory actions being combined in a single molecule - something that, as far as the New Board is aware, is currently only achieved with a LABA and glucocorticosteroid combination. In addition, RPL554 is expected to be a long acting drug allowing it to be given only once a day to reduce the problem of poor medication compliance. It is already established that PDE 3 inhibitors are bronchodilators and that PDE 4 inhibitors have shown effectiveness in the treatment of rhinitis, asthma and COPD. However, when these drugs are given orally, they have unwanted side effects which have limited their development to date. The development of RPL554 as an inhaled/topical product is expected to reduce this problem and, as far as the New Board is aware, it is the only mixed PDE 3/4 inhibitor currently under development for respiratory diseases.

The chemical development work on RPL554 completed to date includes chemical synthesis and knowledge of chemical stability, and creation of a chemical assay for determining its concentration in relevant body fluids, such as the blood. Much of the initial proof of concept and pre-clinical pharmacological studies with the compound have been carried out and expanded into animal models to assist in establishing pharmacological effectiveness of the compound in the treatment of airway diseases.

Novel Anti-inflammatory Polysaccharides (NAIPS) Programme

The New Board intends that a longer term focus for the Company will be the discovery and development of a range of drugs for the treatment of respiratory and other inflammatory conditions based on novel anti-inflammatory polysaccharides. The polysaccharide, heparin, is a well known anticoagulant that has recently been shown to be an anti-inflammatory drug in a range of diseases in humans including asthma and rhinitis, but cannot be widely used for this purpose since its concomitant anticoagulant effect is an unwanted side effect in the treatment of allergic diseases. Rhinopharma has identified natural sources of NAIPS in marine organisms, such as echinoderms, which the Company plans to exploit as lead compounds with which to identify polysaccharides that lack anticoagulant activity with potential application in the treatment of a wide range of inflammatory diseases.

Intellectual Property

Rhinopharma has invested in protecting its intellectual property. The New Board intends for this to continue to be an important aspect of the Company's drug development strategy, with particular focus on obtaining appropriate protection for its patents in key commercial markets and extension of patent life where possible and appropriate.

In February 2005, Rhinopharma entered into a licence and assignment agreement with Vernalis, a subsidiary of Vernalis plc in the UK. Under this agreement, Vernalis assigned to Rhinopharma rights to certain patents and patent applications with respect to the RPL554 programme and granted Rhinopharma an exclusive licence to the know-how and other intellectual property in the programme. The original inventors of these patents include Sir

David Jack, the former Director of Research at Glaxo and Dr. Alexander Oxford, a medicinal chemist who also worked with Glaxo and continues to act as a consultant to Rhinopharma. Patent applications have been submitted with respect to the RPL554 programme in 25 countries with 22 patents having been issued at the date of this document.

In November 2005, Rhinopharma entered into a licence agreement with the King's Consortium under which certain patents and patent applications with respect to the NAIPS programme were licensed to Rhinopharma. Patent applications have been submitted in five countries with two patents having been issued at the date of this document.

Summaries of the Vernalis and King's Consortium agreements are set out in paragraphs 8.1 and 8.2 respectively of Part VI of this document. A report on the patents and patent applications with respect to the RPL554 and NAIPS programmes is contained in the Independent Expert's Report in Part IV of this document.

Additional Intellectual Property

The Company owns the internet domain names veronapharma.com and veronapharma.co.uk. Rhinopharma owns the internet domain name rhinopharma.com.

STRATEGY

The New Board's strategy will be to build a company recognised for the discovery of early stage intellectual property for new therapeutic drugs for the treatment of chronic respiratory and inflammatory diseases, and subsequent development to clinical proof of concept. With the drugs currently under development by Rhinopharma and the experience, track record and network of the New Board and management of the Company, the New Board believes that the Company will be well-placed to exploit this potential.

The Company's strategy has been formulated to achieve the above objectives whilst at the same time reducing business and product specific risk. The strategy has the following key elements:

- ***Rapid and cost-effective drug development with early crucial milestones***

Following Completion, the Company's portfolio will include drug development programmes with a relatively rapid route to market, such as in allergic rhinitis. The clinical trial design requirements of regulatory agencies such as the FDA are well-established for allergic rhinitis and the clinical development of respiratory drugs has been found to be fast compared to drugs developed in other therapeutic areas. Importantly, the Company's management will seek to take an objective view to each drug development programme and define early crucial milestones to enable management to identify any scientific or other issues in a programme before a significant investment is made.

The Company intends to undertake drug development using a general approach covering lead identity up to Phase II clinical trials.

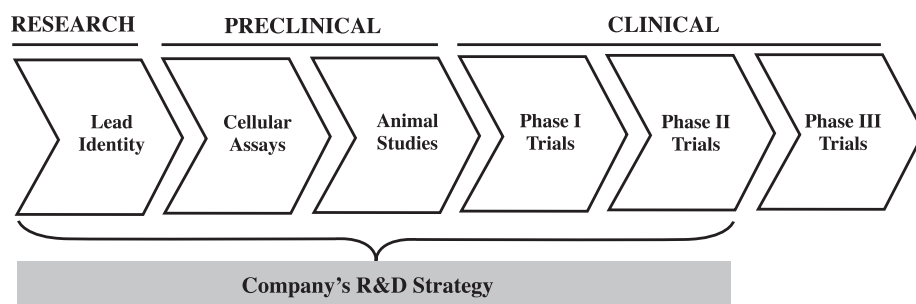


Figure 2: The Company's R&D strategy to identify intellectual property and take it rapidly through preclinical and early clinical development in order to demonstrate proof of concept.

- ***Opportunistic approach to product pipeline***

To supplement the existing drug development programmes, the New Board believes that the experience and network of the management team will place the Company in a strong position to access intellectual property for the development of new drugs, with the objective of building a pipeline of further drug candidates for the treatment of respiratory and inflammatory diseases. Rhinopharma has already identified and is pursuing potential opportunities to access such novel intellectual property.

- ***Virtual R&D model***

Recognising the limitations of the Company's internal resources and its objective to remain cost effective and responsive to changes in research direction or focus if they become necessary, the New Board intends to outsource much of its R&D work, thereby reducing the need for a large specialised workforce and investment in physical infrastructure. Rhinopharma has already established relationships with leading academic and contract research organisations for this purpose.

See "Established Network and Collaborations" under "Management Expertise and Network" in this Part II for further discussion on these relationships.

- ***Risk-sharing approach and focus on cash flow***

The New Board will seek to gain the best commercial return on projects at the optimum time within acceptable risk levels, whether by licensing, partnering, asset sale or co-development. For example, in common with many small biopharmaceutical companies, the Company may out-license a programme to a large pharmaceutical company or other suitable biotechnology entity after Phase II clinical trials, or earlier, depending on the programme concerned, level of interest from potential partners and commercial terms achievable. Table 4 includes examples of early stage out-licensing deals in the respiratory area that have been achieved by smaller biopharmaceutical companies in recent years. The Company does not intend to manufacture or undertake the marketing and sale of its products.

Table 4 Examples of early stage out-licensing deals in the respiratory area by small biopharmaceutical companies

| Licensor | Licensee | Date | Stage | Potential payments |
|------------------------------|--------------------------|-------------|--------------|---------------------------|
| Glenmark Pharmaceuticals Ltd | Forest Laboratories Inc. | Feb 06 | Phase I | Up to US\$243m |
| Theravance Inc. | GlaxoSmithKline Inc. | Mar 05 | Phase I | Up to US\$250m |
| Arakis Ltd/Vectura Ltd | Novartis AG. | Apr 05 | Phase II | Up to US\$375m |

- ***Maintain a mix of management expertise***

The New Board intends to maintain an appropriate mix of scientific, pharmaceutical, commercial and financial expertise within the management team to provide the skills the New Board considers necessary to manage and deliver commercial success.

MANAGEMENT EXPERTISE AND NETWORK

Senior Management

The scientific founders of Rhinopharma, Professor Michael Walker, Professor Clive Page and Professor David Saint, are renowned worldwide for their expertise in drug discovery and development. Professor Walker founded the business that became Cardiome, a company listed on the Toronto and NASDAQ stock exchanges, whose anti-arrhythmic drug (RSD1235) has recently completed Phase III clinical trials and is currently the subject of a New Drug Application filed with the FDA in March of this year.

Professor Page is highly regarded as a consultant for the pharmaceutical and biotechnology industries and the legal profession in Europe and the United States. He has extensive experience in the pharmacology of drugs for the treatment of respiratory and inflammatory diseases and is one of the inventors of the NAIPS technology held by Rhinopharma.

Professor Saint has extensive experience as a commercialisation consultant for companies and universities in Australia.

On Completion, Professor Page will join the Company as Chairman, and Professor Walker will join the Company as Chief Executive Officer. Professor Saint will continue to contribute to the business in a consultative role on an *ad hoc* basis. Other members of the management team will be Claire Poll as Corporate Director, Lui Franciosi as Chief Operating Officer and Danny Lowe as Chief Financial Officer. The management team brings a wide range of scientific, pharmaceutical, commercial and financial expertise to the Company, in addition to specific know-how in bringing new technology to market.

Further information on the experience of Professor Page, Professor Walker and Ms Poll is contained in Part I of this document.

Lui Franciosi, PhD, Chief Operating Officer, aged 35

Dr. Franciosi has coordinated many drug and medical device trials in academia and industry for more than 15 years. He has recently completed his post-doctoral research in COPD progression modelling at the Clinical Pharmacology & Discovery Medicine Unit, GlaxoSmithKline, UK and the Leiden/Amsterdam Centre for Drug Research, The Netherlands. Previously, he worked as a clinical trial manager and monitor with Nortran Pharmaceuticals Limited (now Cardiome) to investigate novel anti-arrhythmics and peripheral analgesics in various countries. He has also coordinated clinical trials and developed prototypes of a novel wound management system at Aero-therapeutic Wound Management Inc in Canada. Based on these experiences, he obtained his Doctorate and Masters degrees at the Departments of Anaesthesia and Pharmacology & Therapeutics, the University of British Columbia, Canada, and he is now pursuing a Masters of Business Administration at the University of Warwick.

Danny Lowe, CMA, Chief Financial Officer, aged 50

Mr. Lowe has extensive experience in corporate finance management with public companies. He currently serves as chief financial officer of Kilgore Minerals Ltd., a mineral exploration company listed on the TSX Venture Exchange of Canada and was the founding chief financial officer of Azure Dynamics Corporation, a public company dual listed on AIM and the Toronto Stock Exchange of Canada. Mr Lowe worked with Nortran Pharmaceuticals Limited which became Cardiome, serving in the capacity of financial controller. Mr. Lowe is a registered member of the Society of Management Accountants of British Columbia, Canada.

Scientific Advisory Board

Rhinopharma has established a network of scientists and laboratories to interact with and some of whom have been incorporated into a Scientific Advisory Board whose principal objective has been to guide the progress of Rhinopharma's scientific development. Following Re-Admission, it is envisaged that the Scientific Advisory Board will continue to advise the Company. However, as the Company's programmes advance, its constitution is likely to evolve depending upon the expertise required.

The Scientific Advisory Board currently comprises the following internationally recognised experts in respiratory and inflammatory diseases: Professor J Foreman, University College, London (expert on allergic rhinitis); Dr. C Persson, University of Lund, Sweden (expert on allergic rhinitis and asthma, formerly at AstraZeneca); Dr. G Scadding, University of London (clinical expert on allergic rhinitis and asthma); Dr. D Spina, King's College, University of London (expert on models of allergic rhinitis and asthma); Dr. B MacLeod, the University of British Columbia, Canada (clinical expert on airway nerves and irritability); Dr B Mulloy, National Institute for Biological Standards and Control, Potters Bar, UK (expert on heparin and related polysaccharides); and Dr. Alexander Oxford (expert on chemistry, formerly at Glaxo).

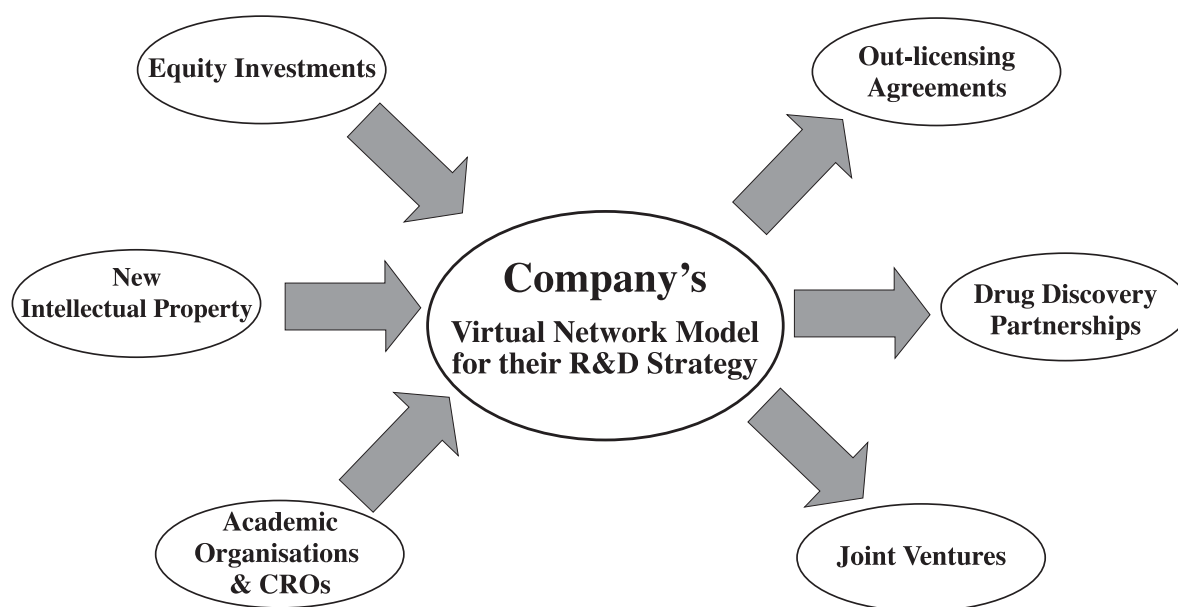
Established Network and Collaborations

The experience and contacts of its founders has enabled Rhinopharma to establish a network of organisations and individuals with whom Rhinopharma has relationships for the identification of intellectual property for sources of new drugs and the advancement of its existing drug discovery and development programmes. The New Board believes that this network will continue to represent an important part of the Company's strategy. It will allow the Company to maintain its focus and flexibility without over-committing its limited resources, whilst benefiting from the external expertise and know-how of organisations and individuals who are highly regarded in the biotechnology and pharmaceutical industries.

In terms of research activities, Rhinopharma has established collaborative arrangements with the University of British Columbia and, until recently King's College to assist in the R&D of the RPL554 and the NAIPS programmes (Rhinopharma intends to reactivate its arrangement with Kings College following Re-Admission). The New Board is of the opinion that these arrangements allow Rhinopharma to optimise its R&D activities and draw on the resources and facilities available at these well-established institutions.

In terms of development programmes, Rhinopharma has developed relationships with a number of contract research organisations (CROs) to which it is intended that the Company will outsource most of the work for the pre-clinical and clinical trials of its RPL554 and NAIPs programmes using a 'Virtual Network Model' (Figure 3).

Figure 3 The Company's Virtual Network Model



COMPETITION

Current Treatments for Respiratory Diseases

There are currently a number of drug treatments for allergic rhinitis available on the market. They include nasal steroid sprays, antihistamines, decongestant drugs and immunotherapy.

Nasal steroid sprays reduce symptoms of sneezing, itching and runny and stuffy nose and may also improve eye symptoms. A nasal steroid spray takes from several hours to days to act fully and does not, therefore, bring immediate relief. Nasal steroids work best if taken daily. Common nasal steroid sprays include: Beconase and Vancenase products (beclomethasone); Rhinocort and Nasarel products (flunisolide); Flonase (fluticasone); Nasonex (mometasone); and Nasacort products (triamcinolone).

Antihistamines, which are available over the counter, help to decrease allergy symptoms. They may be used daily during allergy season or when allergy symptoms occur. There are many different antihistamines that can be used including common antihistamines and older antihistamines. Common antihistamines include: Claritin (loratadine); Clarinex (desloratadine); Allegra (fexafenadine); and Zyrtec (cetirizine). The older antihistamines, such as mepyramine, are more likely to produce drowsiness and are best reserved for night time use.

Decongestant drugs such as Sudafed (pseudoephedrine) can be used to control rhinorrhea (runny nose) and are available over the counter, but they have limited effectiveness and such drugs need to be used with caution since using them longer than four days can have the reverse effect, namely the production of more nasal congestion. They are also contraindicated in those with high blood pressure. Atrovent (ipratropium bromide) is a nasal anticholinergic spray and may be helpful for decreasing symptoms of a runny nose.

Immunotherapy (or allergy shots) is helpful for specific allergies that are not controlled with medicine. However, this therapy is limited in that the problem allergen needs to be identified and multiple injections need to be performed.

In asthma, there are four major categories of treatments. They include short-acting and long-acting beta-2 receptor agonists (SABAs and LABAs); inhaled corticosteroids (ICS); and combination of long-acting beta-2 agonists and inhaled corticosteroids (LABA-ICS). There are also third line therapies, which include: xanthines, anticholinergics, leukotriene antagonists, and more recently in the US, anti-IgE injections.

Drug treatments used for COPD are often those used for asthma. In particular, there is increasing use of the combination inhalers, Advair and Symbicort, although the evidence that glucocorticosteroids have a real beneficial effect in patients with COPD is far from clear. Anticholinergic drugs, particularly the recently introduced ‘Spiriva’ from Boehringer-Ingelheim, are also widely used for the treatment of COPD.

Limitations of Current Treatments

None of the current drug treatments for rhinitis are ideal. For example, nasal steroids are generally effective, but do not provide immediate relief and, because of actual or perceived side effects, patients are generally reluctant to use steroids for non-life threatening conditions, especially for the extended period of time required for treating perennial allergic rhinitis. Antihistamines are effective against itching and sneezing, but not against congestion and can cause drowsiness and/or disruption of sleep architecture or cognitive effects. Other treatments can be perceived to be cumbersome as multiple and frequent administration can be required for optimal efficiency.

The New Board believes that the existence of so many different types of drugs for the treatment of rhinitis demonstrates the need for more effective and useful drugs.

Table 5 lists the major categories of the drugs currently available for the treatment of allergic rhinitis and the New Board’s assessment of their effectiveness and limitations.

Table 5 Effectiveness and Limitations of Current Treatments for Allergic Rhinitis

| Major Drug Classes | Effectiveness | | | | | Onset of Action | Duration | Limitations |
|--------------------|-----------------|-------------------|-------------------|-------------------|---------------------|-----------------|-------------|---|
| | <i>Sneezing</i> | <i>Runny Nose</i> | <i>Congestion</i> | <i>Nasal Itch</i> | <i>Eye Symptoms</i> | | | |
| Antihistamines | | | | | | | | |
| Oral | ++ | ++ | + | +++ | ++ | 1 hour | 12-24 hours | Symptomatic relief only; drowsiness |
| Intranasal | ++ | ++ | + | ++ | No Effect | 15 min. | 6-12 hours | |
| Intraocular | No Effect | No Effect | No Effect | No Effect | +++ | | | |
| Corticosteroids | | | | | | | | |
| Intranasal | +++ | +++ | +++ | ++ | ++ | 12 hours | 12-48 hours | No acute relief; steroid phobia |
| Chromones | | | | | | | | |
| Intranasal | + | + | + | + | No Effect | Variable | 2-6 hours | Chronic prophylaxis/ Generic |
| Intraocular | No Effect | No Effect | No Effect | No Effect | ++ | | | |
| Decongestants | | | | | | | | |
| Intranasal | No Effect | No Effect | ++++ | No Effect | No Effect | 5-15 min. | 3-6 hours | Drug induced rhinitis possible; Unwanted cardiovascular effects; likely to be discontinued in the near future |
| Oral | No Effect | No Effect | + | No Effect | No Effect | | | |
| Anti-cholinergics | No Effect | ++ | No Effect | No Effect | No Effect | 15-30 min. | 4-12 hours | Nasal dryness, irritations, burning |
| Anti-leukotrienes | No Effect | + | ++ | No Effect | ++ | Within 24 hours | 24 hours | Limited applicability |

Abbreviations + marginal effect, ++ moderate effect, +++ moderately large effect, ++++ substantial effect (under natural exposure conditions).

Source: the information in this table has been derived from: Van CP, Bachert C, Passalacqua G, Bousquet J, Canonica GW, Durham SR, et al, Consensus Statement on the Treatment of Allergic Rhinitis, European Academy of Allergy and Clinical Immunology 2000.

Drug Treatments under Development for Respiratory Diseases

The New Board is aware that there are a number of drug treatments currently being developed for the treatment of rhinitis, asthma and COPD, under the various drug classes discussed above and at various stages of development.

However, as far as the New Board is aware, there are a limited number of drugs under development with similar pharmacological properties to the RPL554 drug being developed by Rhinopharma and, in particular, which provide both bronchodilator and anti-inflammatory actions. Table 6 below lists the drugs known to the Directors to be currently under development which have both actions, either as combination inhalers or as a single molecule.

Table 6 Drugs under development for respiratory diseases with both bronchodilator and anti-inflammatory actions

| Drug | Company | Stage | Indications |
|--------------------|-----------------------|--------------|--------------------|
| Chaperonins | Helperby Therapeutics | Preclinical | Rhinitis/Asthma |
| NCX-1510 | Nicox | Phase II | Rhinitis |
| GSK159797 | Theravance | Phase II | Asthma/COPD |
| Indacaterol (LABA) | Novartis | Phase II | Asthma/COPD |
| rEV131 | Evolutec | Phase II | Rhinitis |
| R-112 | Rigel | Phase II | Rhinitis |
| NVA237 (LAMA) | Arakis/Vectura | Phase IIb | COPD |

PDE 4 inhibitors under development

The New Board believes that, whilst there are a number of PDE 4 inhibitors under development for the treatment of rhinitis, RPL554 is the only mixed PDE 3/4 inhibitor under development for the treatment of respiratory diseases.

The PDE 4 inhibitors, Roflumilast and Cilomilast, are under development as orally active anti-inflammatory drugs. They have been shown to be effective in patients with asthma, COPD and rhinitis. Both drugs are in Phase III clinical development while a number of other PDE 4 inhibitors are in earlier stages of clinical development. PDE 4 inhibitors under development or investigated to date have been limited in terms of the maximum dose that can be given due to significant side effects, particularly gastrointestinal intolerance, which an inhaled drug such as RPL554 is expected to reduce. Furthermore, as far as the New Board is aware, none of the PDE 4 inhibitors have shown any direct bronchodilator activity in humans. As RPL554 is a mixed PDE 3/4 inhibitor, the Company anticipates significant bronchodilator activity will be achieved in addition to anti-inflammatory activity.

Table 7 below lists the PDE 4 inhibitors known to the Directors to be currently under development or previously investigated.

Table 7 PDE 4 inhibitors Under Development or Previously Investigated

| Drug | Company | Stage | Status and Limitations |
|-------------|-------------------------------|--------------------------|---|
| ELB 353 | Elbion/GSK | Preclinical | Information not available |
| IPL455,903 | Inflazyme/Helicon | Phase II | Under development as a memory enhancer |
| C-3885 | Merck | Phase II | Discontinued 2003 because of mesenteric vasculitis in clinical studies |
| GRC 576 | Glenmark/Forrest Laboratories | Phase II | Information not available |
| TETOMILAST | Otsuka | Phase II | Information not available |
| MT-810 | Mitsubishi Pharma | Phase II | Information not available |
| ROFLUMILAST | Altana | Phase III | Dose limited by side effects; EU dossier recently withdrawn in order for future studies to be completed |
| CILOMILAST | GlaxoSmithKline | FDA Approvable Letter | Approval letter from FDA for COPD and possible EU file pending; discontinued for asthma |
| AROFYLLINE | Almirall Prodesfarma | Phase III | Information not available |

Polysaccharide-related Molecules under Development

There are a number of polysaccharide-related molecules under development for various indications (Table 8). As far as the Directors are aware, none of these are being developed specifically for the treatment of rhinitis. The NAIPS under examination by Rhinopharma for the treatment of rhinitis and asthma are a non-mammalian analogue to heparin, a compound which is known to have anti-inflammatory actions, but whose use is limited by its anticoagulant actions. The New Board believes that the marine compounds show promise as anti-inflammatory agents without the undesirable anticoagulant actions.

Table 8 Examples of polysaccharide-related molecules under development (for all indications)

| Drug | Company | Stage | Indications |
|--|--|--------------------------------------|--|
| Pentosan polysulphate (elmiron) | Ivax | FDA Approved | Interstitial cystitis |
| Glycosaminoglycans mimetics | Meditech / Curtin University of Technology | Preclinical | Various |
| Biopolysaccharides | Glycores/Brescia University | Preclinical | Anti-cancer |
| Sugars from Marine organisms | GlycoMar | Preclinical | Various * |
| Novel Heparin Mimetics | OTR3 Sarl | Preclinical | Anti-cancer |
| ATH coating, GD4040 GH9001 (Compounds acquired with GlycodeSIGN) | Inflazyme | Phase Ib | Anti-thrombotic coating for devices/therapy |
| GCS-100 | GlycoGenesys | Phase I/II | Anti-cancer |
| Oral formulations of heparin | Emisphere | Phase III | Anticoagulant |
| Davanet | Pro-pharmaceuticals | Phase II | Co-administration of sugars with anti-cancer drugs |
| Sulodexide | Keryx | Phase II/III/IV Approved | Diabetic neuropathy |
| M-Enoxaparin (generic version of Lovenox) | Momenta Pharmaceuticals | Expect to file with FDA in 12 months | Anticoagulant |
| gMS, IBDX | Glycominds | | Auto-immune diagnostics |

* Note: Rhinopharma has a collaboration with GlycoMar to supply marine polysaccharides in connection with its NAIPS programme.

PART III

RISK FACTORS

Shareholders should be aware that an investment in the Company involves a high degree of risk and should only be made by those with the necessary expertise to appraise the investment. The following are considered by the Existing Directors and the Proposed Directors to be the risk factors which are specific to the Company and its industry and which are material to taking investment decisions in the Ordinary Shares and should be read in conjunction with the other information contained in this document. Additional risks and uncertainties not presently known to the Existing Directors and the Proposed Directors, or which they currently believe to be immaterial, may also have an adverse effect on the Company.

An investment in the Company is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses which may arise therefrom (which may be equal to the whole amount invested). There can be no certainty that the Company will be able to implement successfully the strategy set out in this document. No representation is or can be made as to the future performance of the Company and there can be no assurance that the Company will achieve its objectives.

Continuing losses and funding availability

The Company has not traded since its incorporation. Both the Company and Rhinopharma have incurred aggregate losses since their inception and it is therefore not possible to evaluate the Enlarged Group's prospects based on past performance. The Company expects to incur further substantial operating losses for the foreseeable future as its R&D activities continue and increase. There can be no assurance that the Company will ever achieve significant revenues or profitability from its activities. This could impair the ability of the Company to sustain operations and to obtain any additional required funds.

Unproven Technology

The Company's technology is at an early stage of development. As a result, the safety and effectiveness of the Company's technologies for the treatment of human disease has not yet been established and its R&D activities may not result in commercially viable products, whether for many years or at all. This may be for a number of reasons, including that:

- the technologies may not prove to be safe and effective in pre-clinical or clinical trials;
- relevant regulatory approvals may not be granted or maintained in a timely fashion or at all;
- the Company may not be able to secure and maintain sufficient intellectual property protection for the technologies and challenges may be made against the Company's relevant intellectual property;
- competitors may develop more attractive alternative products; and
- any products that are approved may not be accepted in the marketplace.

Regulatory approval and product testing

The pre-clinical and clinical testing, manufacture and marketing of the Company's proposed products and its ongoing R&D are subject to regulation by government and regulatory agencies in countries where the Company or any of its potential licensees or collaborators intend to test, manufacture or market products. There can be no assurance that any of the Company's proposed products will successfully complete these processes or that regulatory approvals to manufacture and market the proposed products will ultimately be obtained.

If regulatory approval is obtained, the products and their manufacture are subject to continual review and there can be no assurance that such approval will not be withdrawn or restricted. Changes in the application of legislation or regulatory policies or the discovery of problems with the products or their manufacture may result in the imposition of restrictions on the products or their manufacture.

The extent of pre-clinical studies and clinical trials that will be required to test the safety and efficacy of the Company's proposed products will vary depending on the product, the treatment being evaluated, the trial results and regulations applicable to the particular product. The results of pre-clinical studies and initial clinical trials of

the Company's proposed products do not necessarily predict the results of later-stage clinical trials. Proposed products in the later stages of clinical trials may fail to show the desired safety and efficacy despite having progressed through initial clinical trials. There can be no assurance that the data collected from the pre-clinical studies and clinical trials of the Company's proposed products will be sufficient to support regulatory approvals. The Existing Directors and the Proposed Directors cannot accurately predict when the planned clinical trials will be completed, if at all.

The Company's proposed products may produce unexpected side effects or serious adverse events which could interrupt, delay or halt clinical trials of the products and could result in regulatory authorities denying approval of its products for any or all targeted treatments. An independent safety monitoring board, a regulatory authority or the Company itself may suspend or terminate trials at any time. There can be no assurances that any of the Company's proposed products will ultimately prove to be safe for human use. The Company's clinical trials could also be delayed or terminated in the event that the product being tested is in the same class of drug as a marketed product that is revealed to cause side effects.

Reliance on third parties

The business model for the Company anticipates that it will have limited internal resources over the next few years and that it will use third party providers wherever possible to conduct the research, development, registration, manufacture, marketing and sales of its proposed products. The commercial success of the Company's products will depend upon the performance of these third parties. The Company cannot guarantee that the third parties will be able to carry out their obligations under the relevant arrangements. Disagreements between the Company and any of these third parties could lead to delays in the Company's R&D programme and/or commercialisation plans. If any of those third parties were to terminate its relationship with the Company, the Company would be required to obtain development and/or commercialisation services from other parties or develop these functions internally. The process of entering into such similar relationships or developing these functions internally could require significant expenditure and, while the Existing Directors and the Proposed Directors believe that the Company would be able to enter into arrangements with other companies within a reasonable period of time, upon commercially reasonable terms, and in compliance with applicable regulatory requirements, no assurance can be given that it would be able to do so, and failure to do so, or failure to do so in a timely manner, could materially and adversely affect the Company's business, operating results and financial condition.

In order to access worldwide markets in the marketing and sales of its products, the Company intends to enter into third party out-licensing arrangements with pharmaceutical companies and other suitable industry players. The Company cannot guarantee that it will be able to enter into suitable arrangements, that any such arrangement or agreement will be on favourable terms or that any such arrangement or agreement will prove successful.

Manufacturing

There can be no assurance that the Company's proposed products will be capable of being manufactured in commercial quantities, in compliance with regulatory requirements and at an acceptable cost. The Company intends to outsource the manufacture of the raw materials required in connection with the R&D of its proposed products and, as such, will be dependent upon third parties for the provision of adequate facilities and raw material supplies. In addition, where the Company is dependent upon third parties for manufacture, its ability to procure the manufacture of the drugs in a manner which complies with regulatory requirements may be constrained, and its ability to develop and deliver such products on a timely and competitive basis may be adversely affected.

Competition and technical advances

The market in which the Company operates is characterised by rapidly evolving technology and industry standards and many of the companies competing in this sector have substantially greater financial, technical and marketing resources, longer operating histories, greater name recognition, larger customer bases and more established co-operative relationships. Competitors could develop superior or more cost-effective techniques which could render the Company's products uncompetitive or develop products that achieve greater market acceptance than the Company's products. In the future, the Company's products may experience pricing pressure from competing products which may adversely affect sales levels and/or gross margins.

Pharmaceutical pricing environment

In common with other pharmaceutical companies, the ability of the Company and any of its licensees or collaborators to market its products successfully depends in part on the extent to which reimbursement for the cost of such products and related treatment will be available from government health administration authorities, private health coverage insurers and other organisations. There is uncertainty as to the reimbursement status of newly approved healthcare products, and there is no assurance that adequate health administration or third party coverage will be available for the Company or its licensees or collaborators to obtain satisfactory price levels to realise an appropriate return on the Company's investment.

Intellectual property and proprietary technology

The commercial success of the Company will depend to a great extent on its ability to secure and maintain patent protection for its products and to preserve the confidentiality of its know how and to operate without infringing the proprietary rights of third parties.

No assurance can be given that any pending patent applications or any future patent applications will result in granted patents, that the scope of any patent protection will exclude competitors or provide competitive advantages to the Company, that any of the Company's patents will be held valid if challenged or that third parties will not claim rights in or ownership of the patents and other proprietary rights held by the Company.

The lead drug development programme (RPL554) of the Company relies on patents and patent applications assigned by Vernalis to Rhinopharma. The registrations of the assignment of each of these patents and patent applications with the relevant authorities in each territory in which the patents and patent applications are registered are ongoing. There can be no assurance that these registrations will be effected in a timely manner or at all.

The Company may be subject to claims in relation to infringement of patents, trademarks or other proprietary rights. Adverse judgments against the Company may give rise to significant liability in monetary damages, legal fees and an inability to manufacture, market or sell products either at all or in particular territories using existing trademarks and/or particular technology. Where the Company has given assurances to customers that its products do not infringe proprietary rights of third parties, any such infringement might also expose the Company to liabilities to those customers. Even claims without merit could deter customers and have a detrimental effect on the Company's business as well as being costly and time consuming to defend and diverting Company resources.

Further, there can be no assurance that others have not developed or will not develop similar products, duplicate any of the Company's products or design around any patents held by the Company. Others may hold or receive patents which contain claims having a scope that covers products developed by the Company (whether or not patents are issued to the Company).

The Company relies on patents to protect, among other things, its products. These rights act only to prevent a competitor from copying but not from independently developing products that perform the same functions. No assurance can be given that others will not independently develop or otherwise acquire substantial equivalent techniques or otherwise gain access to the Company's unpatented proprietary technology or disclose such technology or that the Company can ultimately protect meaningful rights to such unpatented proprietary technology.

Requirement for future funding

The Directors believe that the net proceeds of the Placing will meet the Company's current funding requirements, that is for at least the twelve months following Re-Admission. However, the Company's future capital requirements to continue the development and commercialisation of its products will be substantial and may require additional equity issues. There can be no guarantee that the necessary funds will be available at the relevant time. If additional funds are raised by issuing equity securities, dilution to the then existing shareholders may result.

Recruitment and retention of key personnel

The success of the Company and its business strategy are dependent on its ability to retain and attract key management, research and development, sales, marketing and other operating personnel, consultants and advisers with the relevant expertise and experience. The loss of service of any of the Company's personnel or the inability to recruit and effectively integrate additional personnel as needed could have an adverse effect on the Company's product development programmes and on its business, financial condition and results.

Liability and insurance

The nature of the Enlarged Group's business means that the Company may be exposed to potentially substantial liability for damages in the event of product failure or side effects. Any such liability could have a materially adverse effect on the Company's business and financial condition. There can be no assurance that future necessary insurance cover will be available to the Company at an acceptable cost, if at all, nor that in the event of any claim, the level of insurance carried by the Company now or in the future will be adequate or that a product liability or other claim would not materially and adversely affect the business of the Company.

The Company's operations are also subject to environmental and safety laws and regulations, including those governing the use of hazardous materials, such as biological materials. The cost of compliance with these and similar future regulations could be substantial and the risk of accidental contamination or injury from the biological and other hazardous materials with which it works cannot be eliminated. If an accident or contamination occurred, the Company would likely incur significant costs associated with civil damages and penalties or criminal fines and in complying with environmental laws and regulations. The Company's insurance may not be adequate to cover the damages, penalties and fines that could result from an accident or contamination and the Company may not be able to obtain adequate insurance at an acceptable cost or at all.

Adverse public opinion

Government bodies and regulatory agencies require that potential pharmaceutical products are subject to pre-clinical studies, including animal testing, prior to conducting human trials. Such work can be subject to adverse public opinion and has attracted the attention of special interest groups, including those of animal rights activists. There can be no assurance that such groups will not, in the future, focus on the Company's activities or those of its licensees or collaborators, or that any such public opinion would not adversely affect the Company's operations.

The pharmaceutical industry is frequently subject to adverse publicity on many topics, including corporate governance or accounting issues, product recalls and research and discovery methods, as well as to political controversy over the impact of novel techniques and therapies on humans, animals and the environment. Adverse publicity about the Company, its collaborators, its products, or any other part of the industry may adversely affect the Company's public image, which could harm its operations, impair its ability to gain market acceptance for its products or cause the Company's share price to decrease.

Investment risk

The value of the Ordinary Shares may go down as well as up. Furthermore, an investment in a share or other security that is traded on AIM is likely to carry a higher risk than an investment in a share or other security listed on the Official List.

The market price of the Ordinary Shares may not reflect the underlying value of the assets of the Company. The market in the Ordinary Shares may be illiquid or subject to sudden or large fluctuations and it may be difficult for investors to sell their Ordinary Shares and they may receive less than the amount originally invested.

Share volatility and trading basis

The share price of publicly traded biotechnology companies can be highly volatile. The price at which the Ordinary Shares will be quoted and the price which investors may realise for their Ordinary Shares will be influenced by a large number of factors, some specific to the Company and its operations and some which may affect the quoted healthcare and pharmaceutical sector, or quoted companies generally. These factors could include the performance of the Company's R&D programmes, large purchases or sales of the securities, legislative changes in the healthcare environment or pharmaceutical sector and general economic conditions.

Re-Admission should not be taken as implying that there will be a liquid market for the Ordinary Shares. It may be more difficult for an investor to realise an investment on AIM than to realise an investment in a company whose shares or other securities are quoted on the Official List.

Currency risk

The Company expects to present its financial information in Sterling although part of its business may be conducted in other currencies. As a result, it will be subject to foreign currency exchange risk due to exchange rate movements which will affect the Company's transaction costs and the translation of its results.

Economic, political, judicial, administrative, taxation or other regulatory factors

The Company may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors, in the areas in which the Company will operate.

Taxation

Any change in the Company's tax status or the tax applicable to holding Ordinary Shares or in taxation legislation or its interpretation, could affect the value of the investments or assets held by the Company, affect the Company's ability to provide returns to Shareholders and/or alter the post-tax returns to Shareholders. Statements in this document concerning the taxation of the Company and its investors are based upon current tax law and practice which may be subject to change.

PART IV

INDEPENDENT EXPERT'S REPORT

The Directors
Isis Resources plc
Adderbury Hill Barn
Milton Road
Adderbury
Oxon OX17 3HN

The Directors
Hanson Westhouse LLP
12th Floor
One Angel Court
London EC2R 7HJ

9 August 2006

Dear Sirs

I, Dr. Gunnar Aberg, Sarasota, Florida, USA prepared this report.

A summary of my credentials can be found at the end of this document.

I have been requested by Isis Resources plc ("Isis") and Hanson Westhouse LLP to undertake and prepare an Independent Expert's Report covering the intellectual properties and the research projects of Rhinopharma Limited ("Rhinopharma" or the "Company") for inclusion in the AIM admission document to be published by Isis in connection with its proposed acquisition of Rhinopharma and application for re-admission of its ordinary shares to trading on AIM.

Neither I, nor any members of my immediate family have any ownership in Rhinopharma or in any other company involved in the present transactions. Furthermore, there are no scientific or other relationships between my company, Bridge Pharma, Inc. and Rhinopharma or any other company involved in the present transactions.

INTRODUCTION

Rhinopharma was incorporated in British Columbia, Canada, on 22 April 2004 by Dr. Clive P Page, who is Professor of Pharmacology and Head of the Sackler Institute of Pulmonary Pharmacology at the School of Biomedical Sciences, King's College, University of London, Dr. David Saint, who is an Associate Professor of Physiology at the School of Molecular & Biomedical Science, University of Adelaide, Australia, and Dr. Michael J A Walker, who is a Senior Professor at the Department of Pharmacology at the University of British Columbia, Vancouver, Canada (together the "Founders"). The Company draws from the vast knowledge of the Founders and its associates, consultants and affiliated researchers in the areas of atopic diseases and other inflammatory diseases. The stated mission of Rhinopharma is to perform research aimed at finding and developing new drug treatments initially for allergic rhinitis and later for other respiratory diseases. Related to this, Rhinopharma has a longer-term general interest in other types of inflammatory diseases, such as for example arthritis, skin and bladder diseases.

Although Rhinopharma does not have laboratories of its own, the Company has access to synthetic and analytic chemistry and to biological testing. It is my understanding that the Company is purchasing such services from carefully selected external vendors.

The plan is that the research projects of Rhinopharma will originate both from inventions by the Founders or their employees and from projects which are licensed from external sources. The Company is presently committed to two research projects, both of which have been licensed from external sources.

STRATEGIC OVERVIEW

The Management Team of Rhinopharma has the skills that I believe are needed to manage an emerging life sciences company. All three scientific founders are established researchers in the scientific community and in addition to their academic credentials, all of them have significant experience in R&D in start-up pharmaceutical companies.

Professor Walker founded the biotech company Cardiome Pharma Corp. (“Cardiome”) that has a current market capitalisation of approximately C\$690 million and a drug close to regulatory approval.

Professor Page also has in-depth and recent management experience in the biotech sector. In addition to being Professor of Pharmacology at King’s College in London, UK, Dr. Page is Chairman of the Board of the biotech company Stirling Products, Ltd in Perth, Australia, where his contributions, both in his management capacity and as a project leader are of pivotal importance.

I have known Professors Walker and Page for several years and I have followed their successful work at Cardiome, where Dr. Page was also a Non-Executive Director.

In addition to his academic credentials, **Dr. Saint** has an MBA (Advanced) from Adelaide University. Another co-founder, **Danny Lowe**, has a Certified Management Accountants (CMA) degree and is presently the principal of a public accounting practice in Vancouver; he has extensive knowledge and personal experience in corporate finance management for public companies. **Ron Paton**, is presently practicing business law with a Vancouver law firm and has been involved as a director and officer of several public and private companies.

The Scientific Advisory Board of Rhinopharma is composed of internationally recognized experts in the fields of research that are of interest to the Company. Thus, the Scientific Advisory Board includes Dr. J. Foreman, University College, London; Dr. C Persson, Lund, Sweden; Dr. G Scadding, University of London; Dr. D Spina, King’s College, London, Dr. B MacLeod, University of British Columbia, Vancouver and Dr. B. Mulloy, National Institute for Biological Standards and Control, Potters Bar, UK. The Board members bring additional knowledge and experience to Rhinopharma and as an example, Dr. MacLeod has many years of clinical medical experience and Dr. Mulloy is a world authority on heparin and related polysaccharides.

The Facilities of Rhinopharma include the Company head office, which is located in the Gerald McGavin building, a biotech incubator site on the University of British Columbia campus. This puts the Company in the heart of a growing biotechnology network, and gives easy access to the intellectual and infrastructure resources of the University. Research is performed at various locations including the University of British Columbia, Vancouver, Canada and King’s College, University of London, UK.

The scientific and commercial strategies of Rhinopharma are well defined and include the following research plans, exploratory research plans and commercialisation plans:

- (1) Rhinopharma performs R&D aimed at obtaining regulatory approvals to initiate clinical studies of at least one of the combined Phosphodiesterase 3/4 inhibitors that the Company has obtained from Vernalis, particularly RLP554 (the “RLP554 Project”).
- (2) Rhinopharma also intends to perform exploratory research with technology that the Company has licensed in from King’s College, which is aimed at isolating and evaluating certain novel anti-inflammatory polysaccharide molecules (“NAIPS”) produced by echinoderms (starfish and related organisms) (the “NAIPS Project”).
- (3) Rhinopharma intends to commercialize selected molecules from its R&D activities as human drugs in collaboration with larger companies that have significant commercial strength.

The strategy for the next two years will be focused on establishing clinical proof of concept for RPL554 in the treatment of allergic rhinitis. The strategic choice of allergic rhinitis as the initial clinical target is important since it provides the quickest and easiest route to clinical proof of concept. A smaller fraction of the time and effort will be devoted to the NAIPS Project so as to identify potential lead compounds useful in the treatment initially of rhinitis and later of related conditions.

In order to ensure a pipeline of discovery, Rhinopharma will also be investigating new potential projects that may be acquired, licensed or developed by the Company.

It is my opinion that this strategy, if well focused and carefully implemented, will serve Rhinopharma very well. I see a future need for additional projects in order to diversify the research portfolio, while staying within the frameworks of the experience of the Founders.

RESEARCH PROJECT OVERVIEW

As mentioned above, Rhinopharma presently has two research projects: a project that concerns novel chemicals with combined phosphodiesterase 3/4 inhibitory actions (the RPL554 Project) and the Novel Anti-Inflammatory Polysaccharide (NAIPS) Project concerning new polysaccharide compounds with anti-inflammatory activity.

1. RPL554 PROJECT

Although one of the clinical indications for a PDE 3/4 inhibitor will be asthma, Rhinopharma will initially focus on a closely related atopic indication: allergic rhinitis. I agree with this strategic approach, which I consider to be both intelligent and innovative, particularly since the clinical tests of drugs active against allergic rhinitis are less complicated and less costly than clinical tests of new medications for asthma, COPD or other inflammatory diseases. In this context, it should be pointed out that there is considerable co-morbidity between asthma and allergic rhinitis.

Present anti-asthma therapy is based upon two principles: relief of symptoms by bronchodilator drugs such as adrenergic beta-2 receptor agonists and suppression of the chronic inflammatory process by glucocorticoids.

There is clear evidence that theophylline, which is a widely prescribed asthma drug, has both bronchodilator activity and anti-inflammatory activity (Barnes & Pauwels, Eur Respir J. 1994, 7: 579-591). Theophylline is a known inhibitor of phosphodiesterases (PDE), but since non-selective phosphodiesterase inhibitors cause a wide variety of unwanted pharmacological side effects, investigators have synthesized and studied the effects of compounds that express selective phosphodiesterase inhibition of specific sub-types of various cyclic nucleotide phosphodiesterases.

It has been found that inhibition of both PDE 3 and PDE 4 results in bronchodilation and emphasis has for many years been given to the search for selective PDE 4 inhibitors, since PDE 3 inhibitors have been perceived as causing cardiovascular side effects. Also PDE 4 inhibitors have been perceived as causing side effects, such as vomiting, but recent research has resulted in several PDE 4 inhibitors that seem to be free from this side effect.

Since PDE 3 inhibitors cause bronchodilation and since both PDE 3 and PDE 4 inhibitors have anti-inflammatory effects, recent research efforts have been directed to finding new compounds with combined PDE 3 and PDE 4 inhibitory activity. Interestingly, and very encouragingly, it has been found that compounds with combined PDE 3 and PDE 4 inhibitory effects not only cause both bronchodilation and anti-inflammatory effects, but compounds with such combined effects are in some cases more effective in vivo than expected from just testing their inhibitory effects in vitro on the PDE enzymes. Thus, there seems to be a potentiation of therapeutic effects when compounds are used that combine PDE 3 and PDE 4 activities: Firstly, there is a synergism of PDE 3 and PDE 4 in airway smooth-muscle relaxation; secondly, there is a potentiation of the anti-inflammatory effects; thirdly, synergistic pharmacological activities will lower the therapeutic doses and thereby reduce the frequency and intensity of side effects of the new drugs.

I find it interesting that Rhinopharma is contemplating topical/inhaled routes of administration for the treatment of respiratory diseases as a way of reducing systemic side effects that have limited the use of orally administered PDE 3 and PDE 4 inhibitors to date. This, I think, is yet another example of the innovative thinking of the Rhinopharma founders.

The RPL554 Project of Rhinopharma is aimed at developing new compounds of the above type. It is my opinion that this research is very timely, and represents one of the most promising developments we have seen in allergic rhinitis and asthma research in a very long time.

THE NEW COMPOUNDS

Pharmacological properties of the combined PDE 3 and PDE 4 inhibitors from Rhinopharma are described in patent documents and in a manuscript for publication. The patent documents are further described below. The manuscript for publication is called "The Pharmacology of Two Novel Long-Acting Phosphodiesterase Inhibitors RPL 554 and RPL 565" by Boswell-Smith *et al.* This manuscript was accepted for publication in the Journal of Experimental Pharmacology and Therapeutics on 29 December 2005. This journal is a prestigious, peer-reviewed and leading pharmacological scientific publication. Thus, the acceptance by this journal can be considered as an endorsement and acknowledgement of the quality of science presented in the manuscript.

CHEMISTRY

The compounds being developed by Rhinopharma are new chemical entities with combined PDE 3 and PDE 4 activities, as described above. The selected compounds have rather complicated chemical structures that are vastly different from the chemical structure of selective PDE 3 inhibitors such as milrinone and selective PDE 4 phosphodiesterase inhibitors such as rolipram. The Rhinopharma compounds are also chemically different from previous PDE 3/PDE 4 inhibitors, such as benafentrine, zardaverine, tolafentrine, Org 20241, Org 30029 and EMD 54622.

It is expected that further chemical research will be focused on making the possible syn and anti isomers of RPL 554 to ensure that patent coverage is completed.

Later in the drug development process, additional chemical research will be needed to develop large-scale manufacturing procedures. The Rhinopharma founder Dr. Walker has considerable experience of patent strategies in the pharmaceutical industry and I am convinced that he realises the opportunities for patent extensions that are available to the Company through chemical research in its RPL554 Project.

DIFFERENCE FROM PREVIOUSLY KNOWN COMPOUNDS

The Rhinopharma compounds differ from previous generations of PDE 3/PDE 4 inhibitors as the new compounds have a long duration of activity, as stated in the patent documentation. Interestingly, the new compounds are devoid of the bitter taste that has made it impossible to administer by inhalation many previous phosphodiesterase inhibitors.

POTENT PDE INHIBITORS

The new compounds are potent PDE inhibitors and compare favorably with the PDE 3 inhibitor Cilostamide and the PDE 4 inhibitor Rolipram. The new compounds also potently inhibit the release of the pro-inflammatory substance when compared with the PDE 3 inhibitor Siguazodan and the PDE 4 inhibitor CDP 840 (EU Patent [0120]). The new compounds potently cause relaxation of bronchial smooth muscle.

CONCLUSIONS REGARDING CHEMICAL AND BIOLOGICAL EFFECTS

The new combined PDE 3/PDE 4 inhibitors from Rhinopharma have favourable pharmacological properties in the tests shown in the available literature and it is my belief that the compounds RPL 554 will express advantageous activities in the clinic.

PATENTS

The new combined PDE 3/4 enzyme inhibitors are claimed in a series of patents and patent applications that are derived from PCT/GB00/01193, filed 29 March 2000 and claiming priority from 31 March 1999 (GB9907454). The patent applications have been successfully prosecuted and patents have been obtained in most countries. Set out below is a table of patents and patent applications directed to the RPL554 Project. This information was obtained from Rhinopharma on 21 April 2006. I have been informed by Rhinopharma that there have not been any changes to this information, except for a Notice of Allowance received with respect to the first US divisional application (3014US) for the RPL554 Project.

INVENTORS

The inventors of the present RPL compounds include the well-known scientist Sir David Jack, which lends additional endorsement and credit to this project. Sir David Jack, CBE FRS FRSE is a former Director of Research and Development at the pharmaceutical company Glaxo. Results from research at Glaxo during the long and outstanding tenure of Sir David encompassed salbutamol (Ventolin), beclomethasone (Becotide), ranitidine (Zantac) and numerous other important drugs. Many other outstanding scientists have made major contributions to the success of Glaxo, one of whom is the well-known and excellent medicinal chemist Dr. Alexander W R Oxford, who is a co-inventor of Rhinopharma's RPL 554 patents.

Patents / Patent Applications Directed to RPL554 and Related Compounds

| Ref.No | Title | Country | Application and Patent Numbers | Status |
|--------|---|---------------|----------------------------------|----------------------------------|
| 3013AU | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | Australia | AU773504 | Issued |
| 3013BE | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | Belgium | BE1165558 | Issued |
| 3013BR | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | Brazil | BR0009446 | Under Prosecution |
| 3013CA | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | Canada | CA2368413 | Under Prosecution |
| 3013CH | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | Switzerland | CH1165558 | Issued |
| 3013CN | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | China | CN1348453 | Under Prosecution |
| 3013DE | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | Germany | DE60005493 | Issued |
| 3013DK | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | Denmark | DK1165558 | Issued |
| 3013EP | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | Europe | EP1165558 | Issued |
| 3013ES | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | Spain | ES2208310 | Issued |
| 3013FR | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | France | FR1165558 | Issued |
| 3013GB | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | Great Britain | GB1165558 | Issued |
| 3013GR | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | Greece | GR1165558 | Issued |
| 3013IT | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | Italy | IT1165558 | Issued |
| 3013JP | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | Japan | JP2002540207 | Under Prosecution |
| 3013MX | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | Mexico | MX226070 | Issued |
| 3013NL | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | Netherland | NL1165558 | Issued |
| 3013SE | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | Sweden | SE00920857 | Issued |
| 3013US | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | U.S.A. | US6794391 | Issued |
| 3014US | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | U.S.A. | US10/786650 (divisional appl) | Under Prosecution |
| 3015US | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | U.S.A. | US/10786400 (divisional appl) | Under Prosecution |
| 3013W0 | DERIVATIVES OF PYRIMIDO[6,1-A]ISOQUINOLIN-4-ONE | PCT | PCT/GB00/ 01193 WO00/58308 | Internat'l Phase Completed |

Major marketing countries are included in this list. Additional patent applications will be expected to follow, such as a manufacturing patent application, patent application seeking protection for various formulations, etc. As part of a patent extension strategy by Rhinopharma, I expect a patent application protecting the use of the RPL compounds in allergic rhinitis.

ASSIGNMENTS OF PATENTS and PATENT APPLICATIONS

The patents and patent applications were originally assigned to Vanguard Medica Limited or Vernalis Limited. I have been informed that the process of reassigning this intellectual property to Rhinopharma is now ongoing in all the countries/territories listed above. This is merely an administrative process and I would not anticipate any problems preventing Rhinopharma from effecting the assignments.

PATENTS AND PATENT STRATEGY

The many patents listed in this document are international versions of one and the same patent. This patent is a composition-of-matter patent, which means that the chemical entities have been patented and nobody else can make or sell drugs containing these compounds for any indication. This patent describes and protects the core intellectual property ("IP") of Rhinopharma's RPL554 Project.

The patent describes and claims a large number of compounds, although a limited number of those compounds have actually been described in the patent. The "Abstract" of the patent gives good overview of the scope of the patent. It is written in technical terms and it simply describes a large number of compounds that are chemically related to the lead compound. The chemistry and the synthesis of the patented compounds have been well described, with carefully selected examples given in the specification section of the patent. Identity and yield have been properly described for the compounds described in the examples. As expected, the claims include the compounds, processes for preparing the compounds and compositions containing the compounds. Medicinal uses of the compounds were claimed in the original patent application and may be allowed in some countries. Therapeutic use of the compounds was obviously not allowed in the US patent, which is not of major importance since those claims have already been published and were allowed in the EP patents. This will adequately prevent third parties from obtaining patents for certain uses of the Rhinopharma compounds.

Patent Strategic Considerations

While the present patent is valuable IP, additional patent applications have to be filed to further protect the current IP. Thus, additional pharmacology has to be done and has to be published or patented in order to protect the IP. It is my understanding that Rhinopharma has successfully been able to scale up the current synthetic method, which is very positive. It will be important to file for manufacturing process patent protection when the new methodology has been thoroughly tested and validated. In addition to defence-publications, defence-patents and manufacturing patents, Rhinopharma will have to develop optimal formulations for the various indications of its phosphodiesterase inhibitors and publish or (preferentially) seek patent protection for such formulations.

It is possible that at least some of the chemical compounds can exist in certain stable molecular configurations that have not been described in the present patent (chemically and metabolically stable syn and anti isomeric forms). If such forms exist, which in my opinion is very possible, Rhinopharma will have to decide how such patent applications will fit into the Company's general patent strategy for the RPL554 Project. I want to point out that the patent strategy is not just an acute issue for Rhinopharma, but a patent strategy has to be vigorously and continuously pursued also by licensees of the Rhinopharma technology.

PRECLINICAL STUDIES

The responsible investigators, particularly Professor Walker, have excellent and recent experience in preclinical drug development. The time to the first IND filing will probably be slightly more than a year and will depend more on chemistry than toxicology. The cost for the preclinical development will be approximately US\$2 million. Additional pharmacological studies should be performed of analogues to the lead compound, but this is usually done after the first proof-of-concept studies have been performed in humans, as Professor Walker knows very well from his previous experience from numerous drug development projects.

CLINICAL STUDIES

The responsible investigators, particularly Professor Page, have excellent experience in the area of clinical studies of drugs used for atopic diseases. Professor Page has an outstanding international reputation for his work in the respiratory field and he has access to an extensive network of clinical investigators, which will allow rapid development of present and future Rhinopharma drugs for a variety of indications. I anticipate that a Clinical Research Organisation with experience in the regulatory process and in early-phase clinical atopy studies will be selected.

Professor Walker has recent experience of clinical pharmaceutical research, as he has been closely involved in clinical studies of various drug candidates from Cardiome.

Phase I and Phase II clinical studies, using single nasal drug applications to healthy individuals and to individuals suffering from allergic rhinitis, may take up to two years, but the time frame can be significantly shortened if the studies are well planned and running in parallel.

Phase III will probably take a minimum of three years – the time required for clinical studies is very different between countries with Japan usually being the last country to give regulatory approvals.

It is my understanding, though, that Rhinopharma intends to out-license the RPL554 Project after one or two proof-in-man studies (allergic rhinitis) have been successfully finished. One or more licensee companies will then perform the toxicological studies needed for worldwide NDA-filings as well as the clinical studies needed for atopic indications, such as allergic rhinitis and asthma.

Rhinopharma's objective to perform its early clinical studies not for asthma, but for the allergic rhinitis indication is sensible - this will save time and money for the Company, yet still provide proof of concept studies in a relevant patient population to provide confidence that RPL554 will also work in other respiratory diseases.

DEVELOPMENT COST

Rhinopharma has to decide when the RPL554 Project will be out-licensed. If the outlicensing takes place during Phase I or II, the Company does not have to perform any long-term toxicological studies and the total development cost will be approximately US\$2 million, as stated above.

If Rhinopharma wants to receive high double-digit royalties, the RPL554 Project has to be in late Phase III at the time of outlicensing. If so, the cost for safety pharmacology/toxicology/GMP drug substance/formulations will become significantly higher and the investment will be more than US\$20 million before the expected royalties will reach 12 to 15 per cent. Financial assistance from governments is available in many countries, as for example in Canada and USA.

In reality, most companies of the size of Rhinopharma have to decide the time frames for out-licensing as a function of available funding, which is to say that they may find it necessary to spend not more than (for example) two to three years and (for example) US\$5 million before they have to out-license a specific project.

In general, small and research-oriented companies, like Rhinopharma, have to choose between two ways to conduct their business. If they have access to a steady stream of promising pre-clinical research projects, they can afford to out-license their projects at an early development phase. If they do not have access to multiple projects, they may hold on to their projects and execute their out-licensing at a much later stage. Companies that choose the first strategy usually have a lower risk of total failure, and I believe that Rhinopharma is right to adopt this strategy.

CHANCES OF R&D SUCCESS

Chances of reaching Phase I, Phase II and Phase III

The RPL554 Project is still in an early preclinical stage and the most recent milestones were the selection of the drug candidate molecule RPL554 (with backup drug candidate RPL565) and the successful prosecution of the initial patent application. GMP manufacturing method development, limited toxicological, limited safety pharmacological and formulation studies and limited stability testing will be needed for regulatory approvals to start Phase I studies.

It is my opinion that the RPL554 Project has an excellent chance to successfully be brought to initiation of the Phase I (initial clinical studies) within 12 months. However, careful planning and forceful execution of the plans will be necessary.

In light of the pharmacological actions of the compounds, the nature of the chemical structure of RPL554, and the experience of the investigators, it is my opinion that this project has a good chance to reach Phase II within two years.

I expect competing projects to reach the asthma market or to reach end-stage development at the time when the RPL554 project enters Phase III. To my knowledge, the Rhinopharma project may be the only PDE 3/4 project that initially is directed towards the allergic rhinitis indication, which is an innovative way to enter into the atopy market. I expect the Rhinopharma lead compound to be out-licensed before the initiation of any Phase III studies, particularly since the intelligent strategy of starting with allergic rhinitis will most likely appeal to many of the companies that have current presence in the worldwide antihistamine market.

Experienced investigators

The Founders have significant and recent experience in the drug development process, which is absolutely necessary for a project like this to succeed. As in all drug development projects, the ultimate success will depend on the experience and the persistence of the investigators. The Founders have experience that will be needed to deal with the problems that are involved in all drug development projects.

Major risk factors.

The major risks in my opinion are unexpected toxicological effects (particularly cardiovascular effects), chemical stability problems and problems with oral bioavailability (which may be circumvented by administration by nasal insufflation for the allergic rhinitis indication).

Conclusion

Although pharmacological effects are often not predictive of toxicological effects, I do not see any specific reasons for concern at this point. All the usual risk factors in drug development certainly apply to this project.

MARKETING SUCCESS

It is my understanding that Rhinopharma plans on licensing-out the RPL554 Project for all atopy indications, but with initial emphasis on allergic rhinitis, at the Phase II stage of the R&D process. This is a good plan, since the Phase III studies, the regulatory approval process and the marketing will be very costly and since successful marketing will require access to significant sales forces in most countries. The marketing success will very much depend on the selection of licensee(s). With one single licensee having worldwide rights, the risk of marketing failure is higher and so multiple licensees are typically preferable.

OUT-LICENSING SUCCESS

It is not possible at this point to determine the applicable royalty rates that would be obtained when Rhinopharma is ready to out-license the RPL554 Project. The rule of thumb is that a preclinical project will generate single-digit royalties, while projects in late-Phase III and projects with approved NDA applications in major market areas may draw royalties in excess of 20 per cent., sometimes higher. There will most likely be one or more licensing agreement(s) with escalating royalties (higher royalty rates following higher sales).

Typically the licensee will make an initial payment (US\$1 million to US\$3 million for preclinical deals and in excess of US\$20 million for deals that concern projects close to marketing). Milestone payments and bonus payments are also common and while each of the milestone payments is usually less than US\$10 million, the bonuses are usually well in excess of US\$10 million and payable upon the arrival at annual or cumulative commercial goals. Pharma deals usually have a duration that are in full force for the duration of the patent life, but it may be possible to obtain extended licensing fees until sales have eroded due to generic competition. Depending upon the exact nature of the disease, and the size of the potential market, up-front milestone and bonus payments in successful licensing deals can bring in sums in excess of US\$50 million before marketing even begins.

ADDITIONAL OPPORTUNITIES

A compound with combined PDE 3 and PDE 4 inhibitory activities may be useful for other indications than those described in the current patents. It is expected that Rhinopharma will file additional patents to cover such indications.

CONCLUSIONS ON THE RPL 554 PROJECT

- I believe that Rhinopharma's innovative approach to entry into the atopy market via the allergic rhinitis indication will prove to be successful.
- The therapeutic need for combined PDE 3/4 inhibitors is obvious and the potential market is very large for compounds of this type, for all atopic indications, and for certain related indications as well.
- The suggested molecules have good promise and have excellent patent coverage.
- There is an outstanding team of experienced investigators at Rhinopharma and it will be of pivotal importance that the team members are kept motivated and that they stay with the project.

2. NAIPS PROJECT

This is an exploratory research project. The project is expected to result in new compounds with therapeutically important effects as anti-inflammatory agents.

Mucus from the starfish *Marthasterias glacialis* and other starfish species is released from the echinoderms when the animals are disturbed. Mucus of different types may be released from the animals when they are exposed to different stimuli. It has been found by Grundy *et al* (US Patent 6,991,810) that the released mucus from starfish contains proteoglycans that have interesting biological properties. Thus, the mucus from starfish contains substances that inhibit adhesion of cells to other cells or surfaces, be it inflammatory cells of the immune system or marine surfaces such as boats. It is described in US patent 6,991,810, which has been licensed to Rhinopharma, that the mucus secretion from starfish contains one or more biological anti-stick anti-fouling agents. The US patent describes the collection and purification of proteoglycan products from the starfish.

In order to commercialise this project, the active compound(s) in the starfish mucus have to be determined, and probably further fractionated such that the best compounds can be developed into small-molecule compounds that can be manufactured cost effectively.

It has also been found that the mucus from the starfish *Marthasterias glacialis* has important medical anti-inflammatory properties, probably as a result of acting as an “anti-fouling” property on the cells of the immune system as they migrate within the body to participate in immune reactions. Inflammation is a basic problem in medicine since the human body seems to react and over-react with inflammation as a response to various stimuli and in many situations.

The anti-inflammatory agents available today are only a few steps away from aspirin and the first synthetic steroids and there is a long way to go before the various types of inflammatory responses in the human body can be properly defined and the patients can be treated with selective and effective anti-inflammatory medications. Since we are in a very early phase in the development of anti-inflammatory medicines, promising lead molecules should be carefully investigated with regard to their chemistry and their mechanisms of activity.

Given the scientific experience and interest of the Founders in mind, research aiming at identifying new anti-inflammatory molecules fits in well as an exploratory research project at Rhinopharma. Historically, a number of natural products, penicillin for example, have been discovered from secretions of mold, fungi or soil bacteria. Using mucus secretions from an echinoderm like the starfish as a starting point makes good sense from a scientific point of view, since these animals have many natural enemies, against which they have developed defence systems. I believe that this project can lead to interesting findings and results.

PATENTS

The first steps towards identification of active compounds from Starfish mucus have been taken, as described in US Patent 6,991,810. Thus, the anti-inflammatory product(s) in starfish mucus are big molecules, called glycoproteins. The present glycoproteins are stated as having a molecular weight of about 1,100 kDa, which, if correct, represents a very big molecule; in comparison, the glycoprotein ovalbumin has a molecular weight of 45 kDa. Further metabolic stability properties and some chemical properties of the active compound(s) have been determined and described in USP 6,991,810, where the anti-inflammatory product, the method of preparing the anti-inflammatory product and compositions containing said product are claimed.

The priority date for the present patent and patent applications is 8 June 1999 and the PCT application (WO00/75183) was filed on 8 June 2000. The expected durations of the various patents are 20 years – in the present case, the US patent will expire after 20 years and 80 days. The patent applications have been filed from King’s College in London and Dr Grundy has six co-inventors, one of whom is Dr. Clive Page, a co-Founder of Rhinopharma.

CONTRACTUAL ACCESS TO INTELLECTUAL PROPERTY

The present patents and patent applications are assigned to King’s College, London, UK and Rhinopharma has an exclusive licence to the patents and patent applications, according to the Agreement between King’s College and Rhinopharma.

Set out below is a table of patents and patent applications directed to the NAIPS Project.

Patents/Patent Applications Directed to the NAIPS Project

| Reference No | Title | Country | Application No/ Publication No/ Patent No | Status |
|---------------------|-----------------------|----------------------------------|--|-------------------------------------|
| 6825AU | PRODUCT FROM STARFISH | Australia | AU782293 | Issued |
| 6825CA | PRODUCT FROM STARFISH | Canada | CA2376031 | Under Prosecution |
| 6825EP | PRODUCT FROM STARFISH | Europe | EP00937083 EP1192180 | Under Prosecution |
| 6825JP | PRODUCT FROM STARFISH | Japan | JP2001502464 JP2003501442 | Under Prosecution |
| 6825US | PRODUCT FROM STARFISH | U.S.A. | US 6,991,810 | Issued |
| 6825WO | PRODUCT FROM STARFISH | Patent Co-operation Treaty | PCT/GB00/02233 WO00/75183 | International Phase Completed |

PATENT AND PATENT STRATEGY

The Present Patent

This patent claims some very big molecules, called glycoproteins, which can be obtained from starfish. These molecules have important anti-inflammatory effects. The exact chemical structure of the proteoglycans is not known, but certain properties of the molecule have been described in the patent. This patent also claims the preparation of the proteoglycans, where it comes from (the starfish) and pharmaceutical compositions containing the glycoprotein. This is the first patent in Rhinopharma's NAIPS project and it defines and claims the current knowledge that is available for a lead to what can become very important anti-inflammatory drugs.

Patent Strategic Considerations

The NAIPS Project is in a very early phase and is described as an exploratory research project. At this point, it is difficult to outline a patent strategy since nobody knows at this point where the future exploratory research will lead the project and the investigators. Since the Founders are well aware of the importance of adequate patent protection and since they are experienced scientists and drug developers, they are certainly competent to decide on a patent strategy that will not waste money, but will offer the protection that is necessary for all successful research projects in the pharmaceutical industry.

CHANCES FOR SUCCESS

The NAIPS Project is an exploratory research project at Rhinopharma. At the present stage, the chance that the project will lead to useful human medication is less than that of the RPL554 Project. However, I have seen a small exploratory gastrointestinal project develop into a multi-billion dollar drug (omeprazol/esomeprazol).

It should be kept in mind that it is never possible to forecast the requirements of time and money for exploratory research projects. Although such projects are common in the pharmaceutical industry, it is usually strongly recommended that exploratory research projects be conducted in close collaboration with academic scientists. This is not a problem for Rhinopharma, since the Company has its roots in academia and strong connections with academic research.

I accept responsibility for the information contained in this report, in compliance with Schedule 2 of the AIM Rules. To the best of my knowledge, having taken all reasonable care to ensure that such is the case, the information contained in this report is in accordance with the facts and does not omit anything likely to affect its import.

Yours faithfully

Gunnar Aberg, Ph.D.
902 Contento Street
Sarasota, FL 34242
USA

Dr. Gunnar Aberg is a citizen of Sweden, a permanent resident of the USA, and resident of the City of Sarasota, Sarasota County, Florida, USA.

He is presently Chief Executive Officer of Bridge Pharma, Inc., 902 Contento Street, Sarasota, Florida 34242, USA. From 1992 to 1996, Dr. Aberg was Vice President and Senior Vice President of Research at Sepracor Inc; from 1982 to 1992, he was Director and Executive Director of Pharmacology at Squibb and Bristol-Myers Squibb; from 1980 to 1982, he was Director of Cardiovascular Pharmacology at Ciba-Geigy; from 1978 to 1980, he was Director of Pharmacology at Astra, USA; from 1974 to 1978, he was Head of General Pharmacology at AB Hässle, Sweden and from 1968 to 1973, Dr. Aberg was Director of Pharmacology at Bofors Nobel-Pharma, Sweden. Dr. Aberg has over thirty years of experience of academic and industrial research and he has participated in more than a dozen research projects that resulted in registered drugs.

Dr. Aberg is an inventor of more than 60 U.S. patents and patent applications and numerous international patents and patent applications.

Dr. Aberg is a graduate of the University of Linköping, Sweden from which he holds a degree in Pharmacology and of the University of Gothenburg, Sweden, from which he holds a degree in Zoophysiology. Dr. Aberg's thesis in pharmacology concerned pharmacological effects of optically active isomers and his thesis in zoophysiology concerned smooth muscle contractility and electro-physiology.

Dr. Aberg's academic appointment is as Docent in Applied Pharmacology at the University of Linköping, Sweden. He is an author of over a hundred scientific publications in pharmacology, toxicology and drug metabolism.

PART V

FINANCIAL INFORMATION

A Audited Financial Information and Accountants' Report on Rhinopharma

The following audited financial information of Rhinopharma Limited is for the period from the date of its incorporation on 22 April 2004 to 31 December 2004 and for the year ended 31 December 2005 and was approved by the directors on 15 August 2006.

INCOME STATEMENTS

For the year ended 31 December 2005 and period ended 31 December 2004

| | | 31 December 2005 | 31 December 2004 |
|------------------------------|-------|---------------------|---------------------|
| | Notes | £ | £ |
| CONTINUING OPERATIONS | | | |
| Administrative expenses | | (105,657) | (26,959) |
| Operating loss | | (105,657) | (26,959) |
| Investment income | | 753 | 823 |
| Loss for the period | | (104,904) | (26,136) |
| Basic loss per share | 4 | (1.03)p | (0.29)p |

BALANCE SHEETS**As at 31 December 2005 and 31 December 2004**

| | | 31 December 2005 | 31 December 2004 |
|-------------------------------|--------------|-----------------------------|-----------------------------|
| | Notes | £ | £ |
| ASSETS | | | |
| Non current assets | | | |
| Property, plant and equipment | 5 | 2,183 | 3,374 |
| Intangible assets | 6 | 49,227 | – |
| | | <hr/> | <hr/> |
| | | 51,410 | 3,374 |
| | | <hr/> | <hr/> |
| Current assets | | | |
| Cash and cash equivalents | | 88,688 | 97,924 |
| Trade and other receivables | | 28,960 | 7,559 |
| | | <hr/> | <hr/> |
| | | 117,648 | 105,483 |
| | | <hr/> | <hr/> |
| Total assets | | <hr/> 169,058 <hr/> | <hr/> 108,857 <hr/> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | | 58,271 | 5,818 |
| | | <hr/> | <hr/> |
| Total liabilities | | <hr/> 58,271 <hr/> | <hr/> 5,818 <hr/> |
| | | <hr/> | <hr/> |
| Net assets | | <hr/> 110,787 <hr/> | <hr/> 103,039 <hr/> |
| EQUITY | | | |
| Share capital | 7 | 241,827 | 129,175 |
| Retained earnings | | (131,040) | (26,136) |
| | | <hr/> | <hr/> |
| Total equity | | <hr/> 110,787 <hr/> | <hr/> 103,039 <hr/> |

CASH FLOW STATEMENTS

For the year ended 31 December 2005 and period ended 31 December 2004

| | 31 December 2005 £ | 31 December 2004 £ |
|---|--------------------------|--------------------------|
| Net cash outflow from operating activities (Note 1) | (70,454) | (28,246) |
| Investing activities | | |
| Interest received | 753 | 823 |
| Purchase of equipment | – | (3,828) |
| Patent cost capitalised | (52,187) | – |
| Net cash used in investing activities | (51,434) | (3,005) |
| Financing activities | | |
| Net proceeds from issue of ordinary share capital | 112,652 | 129,175 |
| Net (decrease)/increase in cash and cash equivalents | (9,236) | 97,924 |

Notes to the Cash Flow Statements

| | 31 December 2005 £ | 31 December 2004 £ |
|--|--------------------------|--------------------------|
| 1. Net cash outflow from operating activities | | |
| Operating loss | (105,657) | (26,959) |
| Depreciation and amortisation | 4,151 | 454 |
| Increase in receivables and other current assets | (21,589) | (6,684) |
| Increase in trade and other payables | 52,641 | 4,943 |
| | (70,454) | (28,246) |

NOTES TO THE FINANCIAL INFORMATION

For the year ended 31 December 2005 and period ended 31 December 2004

1. Accounting policies

Basis of accounting

The financial information has been prepared under the historical cost convention and in accordance with International Financial Reporting Standards (International Generally Accepted Accounting Practice).

Use of estimates

The preparation of the financial information in conformity with International Generally Accepted Accounting Practice requires management to make estimates and assumptions that affect the amounts recorded in the financial information. Actual results could differ from those estimated by management.

Foreign exchange

The Company follows the temporal method of accounting for the translation of foreign currency amounts. Under this method monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at exchange rates prevailing at the historical transaction date. Revenue and expenses are translated at monthly average exchange rates throughout the year. Exchange gains or losses are reflected in the results of operations.

Cash and cash equivalents

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the expected useful lives as follows:

| | |
|--------------------------------|---------|
| Office furniture and equipment | 5 years |
| Computer equipment | 3 years |

Patent costs

Patent costs associated with the preparation, filing, and obtaining of patents are capitalised and amortised on a straight-line basis over the estimated useful lives of the patents of ten years. Management evaluates the recovery of patents on an annual basis by comparing the carrying value to the undiscounted amounts of expected future cash flows. The amounts shown for patent costs do not necessarily reflect present or future values and the ultimate amount recoverable will be dependant upon the successful development and commercialisation of products based on the patents.

Research and development costs

Research costs are charged as an expense in the period in which they are incurred. Development costs are charged as an expense in the period incurred unless the Company believes a development project meets generally accepted accounting criteria for deferral and amortisation. At 31 December 2004 and 31 December 2005, no development costs have been deferred.

Deferred taxation

Future income taxes are recognised for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of the change in rates is included in earnings in the period that includes the enactment date. Future income tax assets are recorded in the financial statements if realisation is considered more likely than not. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Loss per share

Loss per share is calculated based on the weighted average number of shares outstanding. Fully diluted loss per share has not been presented since it would be anti-dilutive.

Stock-based compensation

The Company has applied the requirements of IFRS 2: Share-based payment. This standard requires that all share based awards be measured and recognised using a fair value based method.

The fair value of stock options is estimated at the date of grant using the Black-Scholes Option Pricing Model and is amortised over the vesting term. The calculated minimum value of options granted was £2,403, based on the assumptions of risk-free interest rate of 3.9%, expected life of options of three years, annualised volatility and dividend rate at 0% which would be recognised over a period of 18 months. Management felt that the amount to be recognised in 2005 would be immaterial and therefore, no share based compensation expense is recorded in this financial information.

Investment tax credits

The benefits of investment tax credits for scientific research and development expenditures are recognised in the year the qualifying expenditure is made providing there is reasonable assurance of recoverability. The investment tax credit reduces the carrying cost of expenditures for capital assets and research and development expenses to which they relate.

2. Going concern and nature of operations

Rhinopharma Limited (the “Company”) was incorporated under the Business Corporations Act of the Province of British Columbia on 22 April 2004. The Company is a drug discovery and development company focused on developing proprietary drugs to treat allergic rhinitis and other respiratory diseases.

The financial information has been prepared on the basis of accounting principles applicable to a going concern which assumes the realisation of assets and settlement of liabilities in the normal course of business. Management plans to ensure the Company continues to operate as a going concern are described below. The financial information does not include any adjustments that might result from the outcome of this uncertainty.

The Company has financed its cash requirements primarily from share issuances. To date, the Company has not earned significant revenues and is considered to be in the development stage. The Company’s ability to realise the carrying value of its assets is dependent on successfully bringing its technologies to the market and achieving future profitable operations, the outcome of which cannot be predicted at this time. It will be necessary for the Company to raise additional funds for the continuing development of its technologies.

3. Financial instruments

(a) Fair values

The carrying amounts of cash and cash equivalents; Goods and Services Tax receivable; investment tax credit recoverable; and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these instruments.

(b) Credit risk

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

(c) Currency risk

Foreign currency risk reflects the risk that the Company’s net assets will be negatively impacted due to fluctuations in exchange rates. The Company has not entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations. At 31 December 2005, accounts payable and accrued liabilities include a balance of £14,692 (2004: £Nil).

4. Loss per share

Loss per share of 1.03p (2004: 0.29p) is calculated by dividing the loss for the period of £104,904 (2004: £26,136) by the average number of ordinary shares in issue of 10,241,097 (2004: 8,755,906).

5. Property, plant and equipment

| | Computer equipment £ | Furniture & equipment £ | Total £ |
|------------------------------|----------------------------|-------------------------------|------------|
| Cost | | | |
| At 22 April 2004 | — | — | — |
| Additions | 3,191 | 637 | 3,828 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2004 and 2005 | 3,191 | 637 | 3,828 |
| | <hr/> | <hr/> | <hr/> |
| Depreciation | | | |
| At 22 April 2004 | — | — | — |
| Charge for period | 436 | 18 | 454 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2004 | 436 | 18 | 454 |
| Charge for year | 1,064 | 127 | 1,191 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2005 | 1,500 | 145 | 1,645 |
| | <hr/> | <hr/> | <hr/> |
| Net book value | | | |
| At 31 December 2005 | 1,691 | 492 | 2,183 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2004 | 2,755 | 619 | 3,374 |
| | <hr/> | <hr/> | <hr/> |

6. Intangible assets

| | Patents £ |
|---------------------|--------------|
| Cost | |
| At 1 January 2005 | — |
| Additions | 52,187 |
| | <hr/> |
| At 31 December 2005 | 52,187 |
| | <hr/> |
| Amortisation | |
| At 1 January 2005 | — |
| Charge for year | 2,960 |
| | <hr/> |
| At 31 December 2005 | 2,960 |
| | <hr/> |
| Net Book Value | |
| At 31 December 2005 | 49,227 |
| | <hr/> |

7. Share capital

Authorised

Unlimited common shares without par value

£

Issued and fully paid

11,500,001 common shares without par value

241,827

The Company was incorporated on 22 April 2004 with authorised share capital of unlimited common shares without par value, of which 1 share was issued for £0.50 fully paid, on incorporation.

During the period ended 31 December 2004, the Company issued 10,000,001 common shares for proceeds of £129,175.

During the year ended 31 December 2005, the Company completed a non-brokered private placement of 1,500,000 units at a price of £0.0751 per unit for total gross proceeds of £112,652. Each unit is comprised of one common share without par value in the share capital of the company and one half share purchase warrant ("Warrant"). Each whole Warrant entitles the holder to purchase one additional common share at a price of £0.138 per share. 500,000 Warrants expire on 31 October 2006 and 250,000 Warrants expire on 10 November 2006.

Stock option plan

The following is a summary of stock options granted:

| | Number of optioned common shares | Weighted average exercise price £ |
|--------------------------|--|--|
| Granted | 205,000 | 0.25 |
| Balance 31 December 2004 | 205,000 | 0.25 |
| Granted | 400,000 | 0.12 |
| Balance 31 December 2005 | 605,000 | 0.165 |

At 31 December 2005 common share purchase options outstanding are as follows:

| Number of exercise stock options outstanding | Price £ | Expiry date | Exercise number of stock options exercisable | Price £ |
|--|------------|---------------------------|--|------------|
| 605,000 | 0.165 | Oct. 2009 to Oct. 2010 | 173,500 | 0.25 |

Common share purchase warrants

As at 31 December 2005 common shares issuable upon exercise of common share purchase warrants were outstanding as follows:

| | Number of warrants £ | Exercise price |
|--------------------------|----------------------------|-------------------|
| 31 October 2006 | 500,000 | 0.137 |
| 10 November 2006 | 250,000 | 0.137 |
| Balance 31 December 2005 | 750,000 | |

8. Related party transactions

During the year ended 31 December 2005, the Company incurred legal fees and related provincial sales tax and disbursements totalling £3,848 (2004: £3,352), charged by a law firm in which an officer of the Company is an associate counsel.

9. Commitments

(a) Research contracts

The Company has entered into various collaborative clinical research agreements requiring it to fund fixed research expenditures of approximately £12,017 for various periods ending in the financial year ending 31 December 2006.

(b) Licence agreements

Pursuant to a licence agreement, the Company is responsible for a milestone payment of £60,000 upon initiation of the first 14-day toxicology study, a further £100,000 on the filing of the first investigational New Drug, and a further £500,000 upon filing a New Drug Application in the United States or Canada for the licensed technology. The Company is also responsible for payment of 15 per cent. of any sublicensing revenue, and royalties based on a percentage of net sales revenue. At 31 December 2005, no amounts were payable.

Pursuant to a licence agreement, the Company is responsible for milestone payment of £500,000 after achievement of the first approval of a regulatory authority for the commercialisation of any licensed products in any country in the world. The Company is also responsible for payment of royalties based on a percentage of net sales revenue.

10. Taxation

As at 31 December 2005, the Company has scientific research and experimental development expenditures of approximately £42,228 (2004: £7,885) available for carry forward indefinitely and temporary differences of approximately £4,605 (2004: £454) relating to property and equipment and patents which may be deducted against future taxable income. The Company also has non-capital loss carry forward to offset future Canadian taxable income and future Canadian federal income taxes payable respectively that expire as follows:

| | Non-capital losses £ |
|------------------------------|-------------------------------------|
| 2014 | 11,430 |
| 2015 | 46,974 |
| | <hr/> |
| | 58,404 |
| Less: valuation allowance | (58,404) |
| | <hr/> |
| Net future income tax assets | — |
| | <hr/> <hr/> |

The ability of the Company to utilise the scientific research and development expenditures and other tax balances carried forward in the future does not meet the “More likely than not” criteria and therefore the tax benefits have not been recognised in these financial statements and have been offset by a valuation allowance.

11. Segmental information

The Company operates primarily in one business segment with substantially all of its assets and operations in Canada.

12. Subsequent events

Effective 31 January 2006, the Company entered into a Heads of Agreement with Isis Resources plc, a company incorporated in the United Kingdom and listed on London's Alternative Investment Market (AIM), under which Isis Resources plc proposed to purchase all the issued share capital of the Company by issuing 38 million shares from their authorised share capital. This transaction is subject to certain conditions including shareholders' and regulatory approval.

The 750,000 common share purchase warrants outstanding as at 31 December 2005 (see note 7) were exercised in April 2006.

The following is the full text of a report on Rhinopharma Limited from UHY Hacker Young, the Reporting Accountants, to the Directors of the Rhinopharma Limited.



St Alphage House
2 Fore Street
London EC2Y 5DH

Phone 020 7216 4600
Fax 020 7638 2159
Email london@uhy-uk.com
Web www.uhy-uk.com

23 August 2006

Dear Sirs

RHINOPHARMA LIMITED

We report on the audited financial information set out in part V(a) of the AIM Admission Document of Isis Resources plc dated 23 August 2006 ("the Document"). This financial information has been prepared for inclusion in the Document on the basis of the accounting policies set out in note 1 to the financial information. This report is required by paragraph (a) of Schedule Two of the AIM Rules and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The directors of Rhinopharma Limited are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with International Financial Reporting Standards.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view for the purposes of the Document and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Document, a true and fair view of the state of affairs of Rhinopharma Limited as at 31 December 2005 and 31 December 2004 and of its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in note 1 to the financial information and in accordance with International Financial Reporting Standards.

Declaration

For the purposes of paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

UHY Hacker Young

Registered to carry on audit work and regulated for a wide range of investment business activities by the Institute of Chartered Accountants in England and Wales.

A list of partners' names is open for inspection at the above address.

A member of the UHY Hacker Young Group of independent UK partnerships.
A member of UHY, an international association of independent accounting and consulting firms.

B Unaudited pro forma statement of consolidated net assets of the Enlarged Group

The following table sets out a pro forma statement of consolidated net assets of the Enlarged Group (“the pro forma statement”) following completion of the Acquisition and the Placing as if they had been completed on 31 December 2005. The pro forma statement is based on the audited balance sheet of the Company as at 31 December 2005 and adjusted to reflect the Acquisition and the expected net proceeds of the Placing. The pro forma statement has been prepared on the bases set out in the notes below. The pro forma statement has been prepared for illustrative purposes only and, because of its nature, may not give a true picture of the financial position of the Enlarged Group following completion of the Acquisition and the Placing.

| | Isis Resources plc as at 31 December 2005 £'000 | Adjustments to reflect: (Note 1) Acquisition £'000 | (Note 2) Placing £'000 | Pro Forma Enlarged Group as at 31 December 2005 £'000 |
|-------------------------------|---|---|------------------------------|--|
| ASSETS | | | | |
| Non current assets | | | | |
| Property, plant and equipment | – | 2 | – | 2 |
| Goodwill | – | 1,409 | – | 1,409 |
| Other intangible assets | – | 49 | – | 49 |
| | – | 1,460 | – | 1,460 |
| Current assets | | | | |
| Cash and cash equivalents | 982 | 89 | 1,703 | 2,774 |
| Trade and other receivables | 9 | 29 | – | 38 |
| | 991 | 118 | 1,703 | 2,812 |
| Total assets | 991 | 1,578 | 1,703 | 4,272 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Trade and other payables | 12 | 58 | – | 70 |
| Total liabilities | 12 | 58 | – | 70 |
| Net assets | 979 | 1,520 | 1,703 | 4,202 |

Note 1 – Acquisition of Rhinopharma

The assets and liabilities of Rhinopharma as at 31 December 2005 are taken from the Financial Information set out in Part V section A. Goodwill on acquisition arises as follows:

| | £'000 |
|-------------------------|-------------|
| Net tangible assets | 111 |
| Goodwill on acquisition | 1,409 |
| | <hr/> |
| Total assets acquired | 1,520 |
| | <hr/> <hr/> |

Consideration

| | £'000 |
|---|-------------|
| 38,000,000 ordinary shares of £0.001 each issued at 4p per share | £1,520 |
| | <hr/> <hr/> |

Note 2 – Placing

| | £'000 |
|---|-------------|
| 51,075,000 ordinary shares of £0.001 each issued at 4p per share | 2,043 |
| Less costs of the placing | (340) |
| | <hr/> |
| Net increase in cash | 1,703 |
| | <hr/> <hr/> |

PART VI

ADDITIONAL INFORMATION

1. Responsibility

The Company and the Existing Directors and the Proposed Directors whose names, business addresses and functions appear on page 3 of this document, accept responsibility for the information contained in this document including collective and individual responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Company and the Proposed Directors and the Existing Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Isis

- 2.1 Isis is registered in England and Wales, having been incorporated on 24 February 2005 under the Act with registered number 5375156 as a public company limited by shares with the name Isis Resources Plc. The liability of members is limited.
- 2.2 Isis is domiciled in Australia. Following the appointment of the New Board, it is expected that the Company will be domiciled in the UK.
- 2.3 On 21 March 2005, the Registrar of Companies issued a certificate to Isis entitling it to do business under section 117 of the Act.
- 2.4 The principal legislation under which Isis operates is the Act and regulations made thereunder.
- 2.5 Isis' registered office is Adderbury Hill Barn, Milton Road, Adderbury, Oxfordshire OX17 3HN. Isis' principal place of business is Ground Floor, 8 Colin Street, West Perth, Western Australia 6005. Isis' telephone number at its principal place of business is +618 9324 1177.
- 2.6 Following the Acquisition, the Company's main activity will be the discovery and development of new therapeutic drugs for the treatment of allergic rhinitis and other chronic respiratory diseases, such as asthma and chronic obstructive pulmonary disease (COPD), as well as chronic inflammatory diseases.
- 2.7 Isis has the following wholly owned subsidiary which is incorporated in England and Wales: Verona Pharma Limited.
- 2.8 Following the Acquisition, Rhinopharma will become a wholly owned subsidiary of Isis. Rhinopharma is incorporated in British Columbia, Canada.

3. Share capital

- 3.1 On incorporation, the Company had an authorised share capital of £10,000,000 divided into 10,000,000,000 ordinary shares of £0.001 each, of which 2 were issued, fully paid, to the subscribers to the memorandum of association of the Company. The Ordinary Shares were created under the Act.
- 3.2 On 14 March 2005, the Company issued 2,999,998 Ordinary Shares at 2 pence each.
- 3.3 On 14 March 2005, the Company issued 10,000,000 options exercisable on or before 30 June 2008 with an exercise price of 2 pence each. The options are assignable and 9,800,000 are currently outstanding. 200,000 options were exercised on 24 August 2005.
- 3.4 On 15 April 2005, the Company issued a further 47,000,000 Ordinary Shares for cash at £0.02 per share pursuant to a placing.
- 3.5 On 25 May 2005, the Company issued 1,000,000 options exercisable on or before 30 June 2008 with an exercise price of 2.5 pence each. These options are assignable and all are currently outstanding.
- 3.6 On Re-Admission, the Company intends to issue:
 - (a) 51,075,000 Ordinary Shares pursuant to the Placing;

- (b) 38,000,000 Ordinary Shares (the Consideration Shares) pursuant to the Acquisition Agreement;
- (c) 3,000,000 Ordinary Shares to Etchell Capital Pty Ltd as consideration for the release of liabilities owed for services to the Company performed prior to Re-Admission in connection with the Proposals; and
- (d) 2,000,000 Ordinary Shares to Claire Poll or her nominee as consideration for the release of liabilities owed to her for her services to the Company performed prior to Re-Admission in connection with the Proposals.

3.7 The existing authorised and issued fully paid up share capital of the Company as at the date of this document is as follows:

| <i>Authorised</i> | | | <i>Issued and fully paid</i> | |
|-------------------|----------------|---------------------------|------------------------------|---------------|
| <i>Amount</i> | <i>Number</i> | Ordinary Shares of | <i>Amount</i> | <i>Number</i> |
| £10,000,000 | 10,000,000,000 | £0.001 each | £50,200 | 50,200,000 |

3.8 The authorised and issued fully paid up share capital of the Company as it is expected to be immediately following the Proposals (and assuming full subscription under the Placing and no Options are exercised) is:

| <i>Authorised</i> | | | <i>Issued and fully paid</i> | |
|-------------------|----------------|---------------------------|------------------------------|---------------|
| <i>Amount</i> | <i>Number</i> | Ordinary Shares of | <i>Amount</i> | <i>Number</i> |
| £10,000,000 | 10,000,000,000 | £0.001 each | £144,275 | 144,275,000 |

3.9 The Company has, conditional on Re-Admission, granted options to Daniel Wise to subscribe for a total of 1,000,000 Ordinary Shares at 5 pence per Ordinary Share at any time up to the fifth anniversary of the date of grant. The options will be assignable.

3.10 The Company has, conditional on Re-Admission, granted options to each of the Proposed Directors to subscribe for a total of 2,000,000 Ordinary Shares each at 5 pence per Ordinary Share at any time up to the fifth anniversary of the date of grant. 25 per cent. of such options will vest immediately on issue with the remaining 75 per cent. vesting in equal proportions on the first, second and third anniversary of the date of the grant. These options will be assignable subject to the lock-in restrictions in the Lock-in Deed, further details of which are set out in paragraph 8.7 below.

3.11 The Company has, conditional on Re-Admission, granted an option to subscribe for Ordinary Shares, to Hanson Westhouse, further details of which are set out in paragraph 8.3 below.

3.12 The Ordinary Shares will rank *pari passu* in all respects including the right to receive all dividends and other distributions declared, made or paid on the Ordinary Shares from the date of this document.

3.13 The International Securities Identification Number (ISIN) for the Ordinary Shares is GB00B06GSH43.

3.14 The Ordinary Shares are in registered form and, following Re-Admission, the Ordinary Shares may be held in either certificated or uncertificated form.

3.15 Save as disclosed in this document:

- (a) no share or loan capital of the Company has been issued or is proposed to be issued;
- (b) no person has any preferential subscription rights for any share capital of the Company;
- (c) no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option; and
- (d) no commissions, discounts, brokerages or other special terms have been granted by the Company since its incorporation in connection with the issue or sale of any share or loan capital of the Company.

3.16 Subject to any direction to the contrary which may be given by the Company in general meeting, the Directors are unconditionally authorised to allot, create, deal with or otherwise dispose of relevant securities (within the meaning of section 80(2) of the Act) to such persons (including any Director) on such terms and at such times as they think fit, but no shares shall be issued at a discount to their par value. This authority remains in force until the first Annual General Meeting of the Company.

- 3.17 The provisions of section 89(1) of the Act, which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash, apply to the authorised but unissued share capital of the Company except as set out in paragraph 3.18 below. These statutory pre-emption rights would require the Company to offer new shares for allotment to existing shareholders on a pro-rata basis before allotting these to other persons. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to the Company's shareholders.
- 3.18 At present, 9,949,800,000 Ordinary Shares remain authorised and unreserved for issue free from pre-emption rights which represents the entire authorised unissued share capital of the Company. The Company has also granted 11,000,000 options, 10,800,000 of which are outstanding and exercisable on or before 30 June 2008. The Directors have the authority to issue Ordinary Shares free of pre-emption rights up to an aggregate nominal amount equal to 100 per cent. of the unissued ordinary share capital of the Company
- 3.19 Following the Acquisition (and issue of the Consideration Shares), the Placing (and issue of the Placing Shares) and the issue of the shares referred to in paragraphs 3.6(c) and 3.7(d) above, 42,600,000 Ordinary Shares will remain authorised and unreserved for issue free from pre-emption rights. The Company will also grant, conditional on Re-Admission, 10,000,000 options (in aggregate) to the Proposed Directors as set out in paragraph 3.10 above.

4. Memorandum and articles of association

- 4.1 In this paragraph 4, references to the "Statutes" are references to the Act and every other act for the time being in force concerning companies and affecting the Company.
- 4.2 The principal objects of the Company are set out in full in clause 4 of the memorandum of association and include carrying on the business of a general commercial company.
- 4.3 The articles of association of the Company (the "Articles") contain, *inter alia*, provisions to the following effect:

Transfer

Except as may be required by the Statutes and the facilities and requirements of the relevant system concerned, the directors shall have power to implement any arrangements they may, in their absolute discretion, think fit in relation to the evidencing and transfer of uncertificated shares. All transfers of certificated shares must be in writing in the usual common form or in any other form, which the directors may approve. The instrument of transfer must be signed by or on behalf of the transferor and, if the shares being transferred are not fully paid, by or on behalf of the transferee. The directors may refuse to register any transfer of any share that is not fully paid and they may refuse to register the transfer of any share on which the Company has a lien provided that such refusal does not prevent dealings in the shares from taking place on an open and proper basis. They may also refuse to register a transfer of any share in favour of more than four persons jointly and in certain other exceptional circumstances, and a transfer of certificated shares which has not been duly stamped and lodged at the Company's registered office or such place as the board may determine and which is not accompanied by the certificates for the shares to which it relates (except in the case of a transfer by a recognised person to whom a certificate has not been issued) and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer. The directors may also refuse to register a transfer of uncertificated shares in such other circumstances as may be permitted by relevant legislation and the requirements of the relevant system concerned.

Voting rights

Subject to any special terms as to voting upon which any shares may be issued or may for the time being be held (as to which there are none at present) and subject to certain other Articles, on a show of hands every holder of an Ordinary Share present in person (if an individual) or duly authorised representative (if a corporation) shall have one vote, and on a poll every member present in person or by proxy and entitled to vote shall have one vote for each Ordinary Share of which he is the holder.

If at any time when the City Code does not apply to the Company, a person (together with any persons held to be acting in concert with him) acquires shares in the Company which would have obliged them to

extend an offer (a “mandatory offer”) to the holders of all other shares in the Company had the City Code applied, the directors have the discretion to disenfranchise such person until a compliant mandatory offer is made.

If two or more persons are jointly entitled to a share, then, in voting upon any question, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other registered holders of the share, and for this purpose seniority shall be determined by the order in which the names stand in the Register.

No Shareholder shall be entitled to be present or to be counted in the quorum at any general meeting unless he shall be the holder of one or more shares (upon which all calls or other moneys due and payable in respect of the same shall have been paid) giving the right to attend general meetings and no Shareholder shall be entitled to vote at any general meeting or upon a poll either personally or by proxy in respect of any share upon which any call or other moneys due and payable have not been paid.

Votes may be given either personally or by proxy. On a show of hands a Shareholder (other than a corporation) present only by proxy shall have no vote, but a proxy for or representative of a corporation may vote on a show of hands. A proxy need not be a Shareholder and a Shareholder may appoint one or more than one person to act as his proxy.

The appointment of a proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote at such poll.

Dividends

The profits of the Company available for distribution and resolved to be distributed shall be applied in the payment of dividends to the members in accordance with their respective rights and priorities. The Company in general meeting may from time to time declare dividends by ordinary resolution but no such dividends shall (except as expressly authorised by the Statutes) be payable otherwise than out of the profits of the Company available for the purpose in accordance with the Statutes. No dividend may exceed the amount recommended by the Board of directors.

Subject to the provisions of the Statutes, the Board may if it thinks fit from time to time pay to the Shareholders such interim dividends as appear to the Board to be justified by the profits of the Company and in particular (but without prejudice to the generality of the foregoing) if at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferred rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend and the Board may also pay six monthly or at other suitable intervals to be settled by it any dividend which may be payable at a fixed rate if it is of the opinion that the profits justify the payment, provided the directors act *bona fide* they shall not incur any responsibility to the holders of shares conferring a preference for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non-preferred rights.

Notwithstanding any other provision of the Articles, the directors may fix a date as the record date for any dividend, distribution, allotment or issue and such record date may be on or at any time within six months before or after any date on which such dividend, distribution, allotment or issue is declared, paid or made. There is no fixed date on which an entitlement to dividend arises.

With the sanction of a general meeting, dividends may be paid wholly or in part *in specie* and may be satisfied in whole or in part by the distribution amongst Shareholders in accordance with the rights of fully paid shares debentures or other securities of the Company or of any other company, or of any other property suitable for distribution as aforesaid provided that no distribution shall be made which would amount to a reduction of capital except in the manner approved by law. The Board shall have full liberty to make all such valuations, adjustments and arrangements (including cash payments to Shareholders upon the basis of the value fixed in order to adjust the rights of Shareholders and vesting any specific assets in trustees upon trust for the persons entitled to the dividend), and to issue, in the case of certificated shares, all such certificates or documents of title as may in its opinion be necessary or expedient with a view to facilitating the equitable distribution amongst the Shareholders of any dividends or portions of dividends to be satisfied as aforesaid or to giving them the benefit of their proper shares

and interests in the property and no valuation, adjustment or arrangement so made shall be questioned by any Shareholder.

The directors may resolve that ordinary shareholders will be entitled to elect to receive an allotment of further Ordinary Shares (a scrip dividend) credited as fully paid in lieu of any cash dividend or any part of a cash dividend, subject to the Articles and to such exclusions or restrictions as the directors may in their absolute discretion deem necessary or desirable in relation to compliance with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory.

The directors shall give notice in writing to the ordinary shareholders of their rights of election in respect of the scrip dividend and of the procedure to be followed in order for an election to be made. In relation to uncertificated shares, the directors may make such arrangements as they in their absolute discretion think fit (subject always to the facilities and requirements of the relevant system concerned).

The directors may resolve that the rights to elect for a scrip dividend shall not be made available to shareholders resident in a country or countries where, in the opinion of the directors, compliance with local laws or regulatory requirements would be unduly burdensome.

Any dividend, instalment of dividend or interest or other moneys payable in cash in respect of any share may be paid by cheque or warrant payable to the order of the Shareholder entitled thereto or (in the case of joint holders) of that Shareholder whose name stands first on the Register in respect of the joint holding. Every such cheque or warrant shall (unless otherwise directed) be sent by post to the last registered address of the Shareholder entitled thereto, and payment of the cheque or warrant shall be a good discharge to the Company for the same. Any such dividend or other moneys may also be paid by such other method (including, without limitation, direct debit, bank or other funds transfer system) as the directors may in their absolute discretion think fit (subject always, in the case of uncertificated shares, to the facilities and requirements of the relevant system concerned where payment is to be made by means of such system) to or through such person as the holder or person entitled may in writing direct.

Return of capital

If the Company shall be wound up, the liquidator may, with the authority of an extraordinary resolution (and any other sanction required by the Statutes), divide among the members in proportion to their shareholdings *in specie* the whole or any part of the assets of the Company and may determine how such division shall be carried out between the members or different classes of members. The liquidator may, with the like authority, vest the whole or any part of the assets in trustees upon such trusts for the benefit of Shareholders as the liquidator shall think fit, and the liquidation of the Company may be closed and the Company dissolved, but so that no Shareholder shall be compelled by the liquidator to accept any assets in respect of which there is attached a liability or potential liability.

Variation of rights

Subject to the Statutes, none of the rights, privileges or conditions for the time being attached to or belonging to any class of shares forming part of the issued share capital for the time being of the Company shall (unless otherwise provided by the terms of issue of the shares of that class) be modified, varied or abrogated in any manner except with the consent in writing of the holders of three fourths in nominal value of the issued shares of the class or, subject to the provisions of the Statutes, the sanction of an extraordinary resolution passed at a separate meeting of the members of that class, and then only subject to the provisions of section 127 of the Act. To any such separate meeting all the provisions of the Articles as to general meetings shall *mutatis mutandis* apply but so that the necessary quorum (other than at an adjourned Meeting) shall be not less than two persons personally present and holding or representing, either by proxy or as the duly appointed representative of a corporation which is a Shareholder, at least 33.33 per cent. of the capital paid up on the issued shares of the class and, at an adjourned Meeting, one Shareholder holding shares of the class in question or his proxy, and so that any holder of shares of the class in question present in person or by proxy may demand a poll and shall be entitled on a poll to one vote for every such share held by him. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the Articles or by the terms of issue of the shares of that class, be deemed to be modified, varied or

abrogated by the creation or issue of further shares ranking *pari passu* in all respects (save as the date from which such new shares shall rank for dividend) therewith or subsequent to those already issued.

Changes in share capital

The Company may by ordinary resolution increase its share capital, cancel any unissued shares, consolidate and divide all or any of its share capital into shares of a larger amount and, subject to the provisions of the Statutes, subdivide all or any of its shares into shares of a smaller amount. Subject to the provisions of the Statutes, the Company may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way.

Purchase by the Company of its own shares

Subject to the provisions of the Statutes, to any rights conferred on the holders of any other shares and to the authority of the Company in general meeting required by the Statutes, the Company may purchase its own shares.

Unclaimed dividends

Any dividend unclaimed after a period of 12 years from the date it became due for payment shall, if the directors so resolve, be forfeited and cease to remain owing by the Company and shall thenceforth belong to the Company absolutely.

Borrowing powers

The directors may exercise all the powers of the Company to borrow money and, subject to the Statutes, to grant any mortgage, charge or debentures, debenture stock or other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

Directors

The business of the Company shall be managed by the Board, which may exercise all such powers of the Company and do on behalf of the Company all such acts as may be exercisable and done by the Company, and as are not by the Statutes or by the Articles required to be exercised or done by the Company in general meeting, subject to any regulations of the Articles, to the provisions of the Statutes, and to such regulations being not inconsistent with the aforesaid regulations or provisions as may be prescribed by the Company in general meeting but no regulation made by the Company in general meeting shall invalidate any prior act of the Board which would have been valid if such regulation had not been made. This general power shall not be limited or restricted by any special authority or power given to the directors by any other Article.

The Board may delegate any of its powers, authorities and discretions (with power to sub-delegate) for such time on such terms and subject to such conditions as it thinks fit to any committee consisting of two or more directors and (if thought fit) one or more other persons, provided that (a) a majority of the members of a committee shall be directors; and (b) no resolution of a committee shall be effective unless a majority of those present when it is passed are directors or alternate directors.

The Board may from time to time and at any time appoint any other person to be a director either to fill a casual vacancy or by way of addition to the Board. A director so appointed shall hold office only until the annual general meeting following next after his appointment, when he shall retire, but shall then be eligible for re-election.

A director may hold any other office or place of profit under the Company (except that of Auditor) in conjunction with his office of director and subject to section 319 of the Act on such terms as to remuneration and otherwise as the Board shall arrange.

Subject to the Statutes, the Board may from time to time appoint one or more of its body to be the holder of any executive office, including the office of managing or joint or assistant managing director, on such terms and for such period as it may determine.

A director holding any executive office shall receive such remuneration, whether in addition to or in substitution for his ordinary remuneration as a director and whether by way of salary, commission, participation in profits or otherwise as a remuneration committee (if established) or the Board (if no remuneration committee is in existence at the time) may determine.

The Board may establish any local boards or agencies for managing any of the affairs of the Company, and may appoint any persons to be members of such local boards or any managers or agents and may fix their remuneration, and may delegate to any local board, manager or agent any of the powers, authorities and discretions vested in the Board, with power to sub-delegate, and may authorise the members of any local board, or any of them, to fill any vacancies therein, and to act notwithstanding vacancies, and any such appointment or delegation may be made upon such terms and subject to such conditions as the Board may think fit.

At the annual general meeting in every year, one-third of the directors for the time being (other than those retiring in accordance with other Articles) or if their number is not a multiple of 3 then the number nearest to but not exceeding 33.33 per cent. shall retire from office, provided always that if in any year the number of directors (other than those retiring as aforesaid) is two, one of such directors shall retire, and if in any year there is only one director (other than those retiring as aforesaid) that director shall retire.

The directors to retire at the annual general meeting in every year shall include (so far as necessary to obtain the number required) any director who wishes to retire and not to offer himself for re-election. Any further directors so to retire shall be the directors who have been longest in office since their last election. As between directors of equal seniority, the directors to retire shall in the absence of agreement be selected from among them by lot. A retiring director shall be eligible for re-election and shall act as a director throughout the Meeting at which he retires.

The Board or any committee of the Board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it thinks fit, and determine the quorum necessary for the transaction of business. Meetings of the Board or of any committee of the Board may take place in any part of the world and may take place via telephonic communication, video conference or similar means of communication notwithstanding that the directors or committee members present may not all be meeting in one particular place. Unless otherwise determined by the Board, two directors shall be a quorum.

A director (other than an alternate director) may from time to time by writing under his hand appoint another director or any other person to be his alternate but no such appointment of any person not being a director shall be operative unless and until approved by the Board. The Board may also from time to time appoint any person to be an associate director of the Company.

Unless otherwise determined by ordinary resolution, the number of directors shall be not less than two.

Conduct of Annual and Extraordinary General Meetings

An annual general meeting of the Company shall be held in each year in addition to any other Meetings which may be held in that year, and such Meeting shall be specified as the annual general meeting in the notices calling it. Not more than 15 months shall elapse between the date of one annual general meeting and the date of the next. Subject as aforesaid and to the provisions of the Statutes the annual general meeting shall be held at such time and place as the Board shall appoint.

All Meetings of the Company other than annual general meetings shall be called extraordinary general meetings.

The Board may call an extraordinary general meeting whenever it thinks fit. Extraordinary general meetings shall also be convened on requisition by shareholders, as provided by the Statutes, whereupon the Board shall forthwith proceed to convene an extraordinary general meeting for a date not more than 28 days after the date of the notice convening the Meeting. If at any time there are not sufficient directors capable of acting to form a quorum of the Board any director or any two Shareholders of the Company may convene an extraordinary general meeting in the same manner as nearly as possible as that in which meetings may be convened by the Board.

In the case of an extraordinary general meeting called in pursuance of a requisition, unless such Meeting shall have been called by the directors, no business other than that stated in the requisition as the objects of the Meeting shall be transacted.

At least 21 clear days' notice of every annual general meeting and of every extraordinary general meeting at which it is proposed to pass a special resolution and at least 14 clear days' notice of every other extraordinary general meeting shall be given in manner hereinafter mentioned to such Shareholders as are under the provisions of the Articles entitled to receive such notices from the Company and to the Auditors

of the Company. Every notice of Meeting shall specify the place, day and hour of meeting and, in the case of special business, the general nature of such business and shall also state with reasonable prominence that a Shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not also be a Shareholder. In the case of a Meeting convened for passing a special or extraordinary resolution the notice shall specify the intention to propose the resolution as a special or extraordinary resolution as the case may be. Subject to the provisions of the Articles, to the rights attaching to any class of shares and to any restrictions imposed on any holder, notice shall be given to all Shareholders, the directors and the auditors.

A Meeting of the Company shall notwithstanding that it is called by shorter notice than that specified above be deemed to have been duly called if it is so agreed (a) in the case of a Meeting called as the annual general meeting, by all the Shareholders entitled to attend and vote thereat; and (b) in the case of any other Meeting, by a majority in number of the Shareholders having a right to attend and vote at the Meeting being a majority together holding not less than 95 per cent. in nominal value of the shares giving a right to attend and vote at the Meeting.

The directors may from time to time make such arrangements for controlling the level of attendance at any Meeting place (whether involving the issue of tickets or the imposition of some other means of selection or otherwise) as they shall in their absolute discretion consider appropriate, and may from time to time change any such arrangements, provided that a Shareholder who, pursuant to such arrangements, is not entitled to attend, in person or by proxy, at any particular place shall be entitled so to attend at one of the other places; and the entitlement of any Shareholder so to attend the meeting or adjourned Meeting at such place shall be subject to any such arrangement as may be for the time being in force and by the notice of Meeting or adjourned Meeting stated to apply to the Meeting.

5. Directors' and other interests

- 5.1 The interests, all of which are beneficial, of the Existing Directors and the Proposed Directors and their immediate families and of persons connected with them within the meaning of section 346 of the Act in the share capital of the Company (which have been notified or in the case of a Proposed Director would if he were an Existing Director, be required to be notified to the Company pursuant to section 324 of the Act or which are or would be required to be entered in the Register of Directors' interests maintained under the provisions of section 325 of the Act or which could, with reasonable diligence, be ascertained by an Existing Director or a Proposed Director) are as at the date of this document and as they are expected to be immediately following the Proposals, as follows:

| <i>Name</i> | <i>As at the date of this document</i> | | | <i>Immediately following the Proposals</i> | | |
|-----------------------------------|--|---|------------------------------|--|---|------------------------------|
| | <i>Number of Ordinary Shares</i> | <i>Percentage of issued share capital</i> | <i>Number of Options</i> | <i>Number of ordinary shares</i> | <i>Percentage of issued share capital</i> | <i>Number of Options</i> |
| Craig Burton ^{*(1)} | 10,000,000 | 19.9% | 3,000,000 | 12,500,000 | 8.66% | 3,000,000 |
| Stuart Bottomley ^{#+(2)} | 3,500,000 | 7.0% | 1,250,000 | 6,000,000 | 4.16% | 3,250,000 |
| Josef El Raghy [*] | 3,000,000 | 6.0% | 1,150,000 | 4,250,000 | 2.95% | 1,150,000 |
| Clive Page ⁺ | — | — | — | 5,649,846 | 3.92% | 2,000,000 |
| Michael Walker ⁺ | — | — | — | 5,643,651 | 3.91% | 2,000,000 |
| Claire Poll ⁺⁽³⁾ | — | — | — | 2,000,000 | 1.39% | 2,000,000 |
| Trevor Jones ⁺ | — | — | — | — | — | 2,000,000 |

* Existing Directors

+ Proposed Directors

Notes:

1. Mr. Burton's interests are held through the CI Burton Family Trust A/C and CI Burton Super Fund A/C.
2. Mr. Bottomley's shares are held through The Bank of New York (Nominees) Limited.
3. Ms. Poll's interests will be held through the Poll Investment Family Trust A/C.

- 5.2 Irrevocable undertakings to vote in favour of all the EGM Resolutions (save in circumstances where the Acquisition Agreement has been terminated) have been given by the following Shareholders in respect of the following numbers of Ordinary Shares:

| <i>Shareholder</i> | <i>Number of Ordinary Shares</i> | <i>Percentage of Existing Ordinary Shares</i> |
|---------------------------|----------------------------------|---|
| Craig Burton | 10,000,000 | 19.9% |
| Stuart Bottomley | 3,500,000 | 7.0% |
| Josef El Raghy | 3,000,000 | 6.0% |
| Jamie Boyton | 2,400,000 | 4.8% |
| William Fairweather | 2,300,000 | 4.6% |
| Dolce Capital Pty Ltd | 2,000,000 | 4.0% |
| Tolle Investments Pty Ltd | 2,000,000 | 4.0% |
| AFM Perseus Fund Limited | 1,400,000 | 2.8% |
| WM Mitchell | 1,000,000 | 2.0% |
| EGR Investments Pty Ltd | 600,000 | 1.2% |

- 5.3 Save as disclosed above, none of the Existing Directors or Proposed Directors nor any member of their respective immediate families nor any person connected with the Existing Directors or Proposed Directors (within the meaning of section 346 of the Act) has any interest, whether beneficial or non-beneficial, in any share capital of the Company.
- 5.4 There are no outstanding loans granted or guarantees provided by the Company to or for the benefit of any of the Existing Directors or the Proposed Directors.
- 5.5 The Proposed Directors whose names appear in the section entitled “Existing Directors and Proposed Directors” in Part I of this document, will, prior to Re-Admission, be appointed to the offices set out against their respective names. Set out below are summaries of the terms of their appointments. Each agreement referred to contains standard restraint, confidentiality and protection of intellectual property provisions.

Clive Page

Clive Page will take up the position of Non-Executive Chairman. Professor Page will provide his services under a consultancy agreement entered into between the Company and Gryon Consulting Ltd (“Gryon”) on 14 August 2006 which is conditional upon Re-Admission. Gryon will receive £35,000 per annum, the options to subscribe for Ordinary Shares referred to in paragraph 3.10 and reimbursement of all reasonable travel and other business-related expenses. The contract may be terminated by either party on 12 months’ notice.

Michael Walker

Michael Walker will take up the position of Chief Executive Officer. Professor Walker will provide his services under a consultancy contract entered into between the Company and Magic Bullets Enterprises Ltd (“MBE”) on 14 August 2006 which is conditional upon Re-Admission. MBE will receive £60,000 per annum, the options to subscribe for Ordinary Shares referred to in paragraph 3.10 and reimbursement of all reasonable travel and other business-related expenses. The contract may be terminated by either party on 12 months’ notice.

Claire Poll

Claire Poll will take up the position of Executive Director. Ms Poll will provide her services under a consultancy agreement entered into between the Company and Delacroix Pty Ltd (“Delacroix”) on 14 August 2006 which is conditional upon Re-Admission. Delacroix will receive £25,000 per annum, the options to subscribe for Ordinary Shares referred to in paragraph 3.10 and reimbursement of all reasonable travel and other business-related expenses. She will also receive 2,000,000 Ordinary Shares in consideration for her services to the Company in connection with the Acquisition and Re-Admission. The contract may be terminated by either party on six months’ notice.

Trevor Jones

Trevor Jones entered into a consultancy contract with the Company on 14 August 2006 which is conditional upon Re-Admission and for which he will receive £12,500 per annum, the options to subscribe for Ordinary Shares referred to in paragraph 3.10 and reimbursement of all reasonable travel and other business-related expenses. The contract may be terminated by either party on three months' notice.

Stuart Bottomley

Stuart Bottomley entered into a consultancy contract with the Company on 14 August 2006 which is conditional upon Re-Admission and for which he will receive £12,500 per annum, the options to subscribe for Ordinary Shares referred to in paragraph 3.10 and reimbursement of all reasonable travel and other business-related expenses. The contract may be terminated by either party on three months' notice.

The Existing Directors, Mr Burton, Mr El-Raghy and Mr Bottomley, provide director services to the Company directly with remuneration payable of £6,000 per annum. They have served as directors since 24 February 2005. Prior to Re-Admission, both Mr Burton and Mr El-Raghy will step down from their respective Board positions and terminate their service agreements with the Company. Mr Bottomley has provided additional consultancy services to the Company for which he is entitled to receive £20,000.

- 5.6 Save as disclosed above, there are no service contracts between any director and the Company which provides for benefits upon termination.
- 5.7 Save as disclosed in paragraphs 5.8 and 5.9 below and elsewhere in this document, no Existing Director or Proposed Director has any interest, whether direct or indirect, in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company or Rhinopharma taken as a whole and which was effected by the Company or Rhinopharma since its incorporation and which remains in any respect outstanding or unperformed.
- 5.8 On 7 February 2005, Rhinopharma entered into an intellectual property assignment and licence agreement with Vernalis. Under the agreement, in certain circumstances, Rhinopharma is obliged to make payments to Vernalis to enable Vernalis to fulfil its obligations to third parties, including Clive Page, who have transferred and assigned know-how to Vernalis which has been incorporated as part of the Programme IP (as defined in paragraph 8 below). Under an assignment of know-how agreement entered into between Vernalis and Clive Page, Clive Page is entitled to: (a) a royalty of 1.25 per cent. of any cash payments received by Vernalis which result from commercial exploitation of a patent which arose from the assigned know-how; and (b) a 0.125 per cent. royalty of net sales revenue in respect of any product covered by a patent which arose from the assigned know-how.
- 5.9 Under a revenue sharing policy published by KCL Enterprises Ltd, Clive Page is entitled to a share of the net income derived by King's College, London as a result of technology invented under the King's College Consortium agreement (see paragraph 8.2 below).

As one of five inventors, Clive Page is entitled to 20 per cent. of the inventors' entitlement under the policy. The policy provides for the sharing of revenue in the following proportions:

| <i>Net Income</i> | | <i>Inventor(s)</i> | <i>College</i> |
|-------------------|---------|--------------------|----------------|
| | £ | % | % |
| First | 10,000 | 100 | 0 |
| Next | 41,100 | 75 | 25 |
| Next | 139,900 | 50 | 50 |
| Next | 279,700 | 40 | 60 |
| In excess of | 470,700 | 33.33 | 66.66 |

- 5.10 Save for the following persons and those disclosed in paragraph 5.1, the Company is not aware of any person who, at the date of this document and following the Proposals, directly or indirectly, jointly or severally, holds or will hold 3 per cent. or more of the ordinary share capital of the Company or exercises or could exercise control over the Company:

| <i>Name</i> | <i>As at the date of this document</i> | | | <i>Immediately following the Proposals</i> | | |
|-----------------------------|--|---|--------------------------|--|---|--------------------------|
| | <i>Number of Ordinary Shares</i> | <i>Percentage of issued share capital</i> | <i>Number of Options</i> | <i>Number of ordinary shares</i> | <i>Percentage of issued share capital</i> | <i>Number of Options</i> |
| David Saint | – | – | – | 5,643,648 | 3.91% | – |
| Jamie Boyton | 2,400,000 | 4.8% | 400,000 | 3,650,000 | 2.53% | 400,000 |
| William Fairweather | 2,300,000 | 4.6% | – | 2,300,000 | 1.59% | – |
| Mark Freeman ⁽¹⁾ | 2,000,000 | 4.0% | 2,000,000 | 2,000,000 | 1.39% | 2,000,000 |
| Tolle Investments Pty Ltd | 2,000,000 | 4.0% | – | 2,000,000 | 1.39% | – |

Notes:

1. Mr. Freeman's options are held through Dolce Capital Pty Ltd.

None of the major shareholders of the Company set out above has different voting rights from any other holder of Ordinary Shares in respect of any Ordinary Shares held by them.

- 5.11 Save as disclosed in paragraph 5.5 above, the Placing Agreement (as described in paragraph 8.5 of this Part VI below) and the Lock-In Deed (as described in paragraph 8.7 of this Part VI below), there are no contracts, existing or proposed, between any Existing Director or Proposed Director and the Company.
- 5.12 There is no arrangement under which any Director has agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.
- 5.13 The aggregate emoluments (including benefits in kind) to be paid to the Existing Directors and their associated consultancy companies, as the case may be, in respect of the current financial period ending on 31 December 2006 is estimated to be approximately £50,000. From Re-Admission, the aggregate emoluments (including benefits in kind) of the Proposed Directors in respect of the current financial period ending on 31 December 2006 is estimated to be approximately £42,000 under the arrangements in force at the date hereof.
- 5.14 The directorships held by each of the Existing Directors and Proposed Directors over the five years preceding the date of this document, and partnerships in which they have been partners over the same period, are as follows:

| <i>Name</i> | <i>Current Directorships and Partnerships</i> | <i>Past Directorships and Partnerships</i> |
|--------------|---|--|
| Craig Burton | Albidon Ltd Bluefire Energy Ltd Capital Drilling Ltd Exco Resources NL Isis Resources plc Liberty Gold NL Livingstone Petroleum Ltd Matra Petroleum plc Mirabela Nickel Limited Mitchell River Group Pty Ltd Nullabor Prospecting Co Pty Ltd Rewards Group Ltd Sampala Investments Pty Ltd Sequentes Pty Ltd Verona Capital Pty Ltd | Energy Ventures Ltd Golden Gate Petroleum Ltd Halcyon Group Ltd Lennard Brook Pty Ltd Oriel Communications Ltd Sallay Malay Mining Ltd Stella Resources plc West Oil NL |

| <i>Name</i> | <i>Current Directorships and Partnerships</i> | <i>Past Directorships and Partnerships</i> |
|------------------|--|--|
| Josef El-Raghy | Centamin Egypt Ltd Centamin Egypt Ltd Centamin Ltd (Bermuda) El-Raghy Kriewaldt Pty Ltd Isis Resources plc Montana Realty Pty Ltd Nordana Pty Ltd North African Resources NL Pharaoh Gold Mines NL Viking Resources Ltd Viking Resources Ltd | CIBC Eyres Reed Ltd Paterson Ord Minnett Pharaoh Gold Mines Ltd (Bermuda) |
| Stuart Bottomley | African Consolidated Resources plc Centamin Egypt Ltd Isis Resources plc | None |
| Clive Page | 554238 B.C. Ltd Gryon Consulting Ltd Helperby Therapeutics Ltd MBE Ltd Pneumo Labs Inc. Pulmovet ApS Rhinopharma Ltd Stirling Products Ltd | Cardiome Phama Corp. |
| Michael Walker | 554238 B.C. Ltd Magic Bullets Enterprise Ltd Pneumo Labs Inc. Pneumolabs (UK) Ltd Rhinopharma Ltd | Cardiome Pharma Corp. |
| Claire Poll | Cool Energy Ltd Delacroix Pty Ltd Transerv Australia Limited | Matra Petroleum plc Stella Resources plc Energy Ventures Ltd |
| Trevor Jones | Allergan Inc B.A.C. BV Kinetique Ltd Medicines for Malaria Venture Merlin General Partners Ltd Merlin General Partners II Ltd NextPharma Technologies Holding Ltd People in Health Ltd ReNeuron Group plc The Merlin Biosciences Fund LP The Merlin Fund L.P. The UK Stem Cell Foundation | ABPI Services Limited ABPI Institute for Education & Trading Datapharm Communications Ltd Healthcare Reform Investment Trust Plc OHE-IFPMA HEED Database Ltd |

5.15 Save as disclosed above none of the Existing Directors or Proposed Directors has:

- any unspent convictions in relation to indictable offences;
- had any bankruptcy order made against him or entered into any voluntary arrangements;
- been a director of a company which has been placed in receivership, compulsory liquidation, creditors voluntary liquidation, administration, been subject to a company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company or within the 12 months after he ceased to be a director of that company;

- been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
- been the owner of any assets or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within 12 months after he ceased to be a partner in that partnership;
- been publicly criticised by any statutory or regulatory body (including recognised professional bodies); or
- been disqualified by a court from acting as a director of any company or from acting in the management or conduct of affairs of a company.

6. Employees

Apart from its directors, the Company has had no employees since incorporation. Apart from its directors, Rhinopharma has had one employee since incorporation. Following Re-Admission, the Company will engage, in addition to the Proposed Directors, personnel in the following key roles:

- (i) Chief operating officer;
- (ii) Chief financial officer; and
- (iii) Manager of Intellectual Property.

The members of the Scientific Advisory Board are engaged by Rhinopharma as consultants or advisers.

7. Share option arrangements

The New Board believes that it is important that the directors, consultants and employees of the Company are appropriately motivated and rewarded and accordingly, following Re-Admission, the Company intends to grant options according to the following principles:

- (a) all directors, consultants and employees of the Company will be eligible to participate;
- (b) the total number of Ordinary Shares under option will represent no more than 10 per cent. of the issued share capital of the Company in any 10 year period;
- (c) the price at which options granted may be exercised will be determined by a remuneration committee (the “Remuneration Committee”) to be appointed by the New Board but will not be less than the higher of: (i) the Placing Price; or (ii) the mid-market price of Ordinary Shares at the date of grant; and
- (d) the terms upon which options granted will vest and expire and the exercise period will be determined by the Remuneration Committee (although the exercise period will not exceed five years).

8. Material contracts

The following contracts, not being contracts entered into in the ordinary course of business of the Company or Rhinopharma, have been entered into by the Company or Rhinopharma and are or may be material:

8.1 Vernalis Intellectual Property Assignment and Licence Agreement

Parties, date and scope

The agreement was entered into on 7 February 2005 between Vernalis and Rhinopharma.

The agreement provides for: (a) the assignment to Rhinopharma of the rights, title and interest held by Vernalis in various patents and patent applications relating to VMX-554 and related compounds (the “Programme Patents”); and (b) the grant of an exclusive, worldwide, royalty-bearing licence to Rhinopharma to develop, manufacture and commercialise (or any of those activities) phosphodiesterase inhibitors (developed using various patents, know-how and the physical stock of compound VMX 554 and VMX 565 (the “Programme IP”)) in the treatment of human or animal allergic or inflammatory disorders.

Term and termination

The agreement commenced on 7 February 2005 and shall continue in force until terminated by either party in accordance with the terms of the agreement. However, royalties are payable in respect of each licensed product until the later of: (a) the date ten years from the date of the first commercial sale of the licensed product in each country; and (b) the expiration of all patent rights of such licensed product in such country.

The agreement may be terminated in various circumstances including where Rhinopharma notifies Vernalis of its intention to abandon any of the Programme Patents or allow any of the Programme Patents to lapse and where either party is in material or persistent breach of any of its obligations under the agreement and either the breach is incapable of remedy or is not remedied within 30 days after receiving written notice requiring that the breach be remedied.

Assignment and sublicensing

Neither the agreement nor any rights or obligations under the agreement may be assigned, transferred or otherwise disposed of by either party without the prior written consent of the other party (such consent not to be unreasonably withheld or delayed), except to a party that acquires all or substantially all of the business of the assigning party to which the subject matter of the agreement relates. In addition, the agreement specifically states that Rhinopharma may not assign the Programme Patents to any “third party” without the prior written consent of Vernalis (the definition of “third party” includes an entity which controls, is controlled by or is under common control with Rhinopharma). Rhinopharma may grant sublicences under the Programme IP.

Payment obligations

Rhinopharma is obliged to make the following payments (by way of royalty) to Vernalis: (a) £5,000,000 on obtaining the first approval of a regulatory authority for the commercialisation of any phosphodiesterase inhibitors developed using the Programme IP (“Licensed Product”); (b) 6 per cent. of net sales of each Licensed Product that is covered by a Programme Patent; (c) 3 per cent. of net sales of each Licensed Product that is not covered by a Programme Patent; and (d) 25 per cent. of all cash and non-cash consideration paid to Rhinopharma by any sub-licensees for the particular license granted.

As regards enforcement of patents, Rhinopharma is obliged to prosecute instances of third party infringement of the Programme IP or, if it does not so prosecute, pay all the expenses reasonably incurred by Vernalis in conducting enforcement proceedings, including legal fees and related costs.

Rhinopharma is obliged to make additional payments to Vernalis to allow Vernalis to fulfil certain obligations to make payments to third parties (including Clive Page) under certain assignment of know-how agreements (see paragraph 5.8 above), to the extent that the other payments under the agreement are not sufficient to allow Vernalis to discharge such obligations.

Governing law

The agreement is governed by English law provided that any disputes in connection with the recordal or validity of a Programme Patent shall be subject to the jurisdiction of registration of the relevant Programme Patent. The parties have agreed to submit to the exclusive jurisdiction of the English courts.

8.2 King’s College Consortium Agreement

Parties, date and scope

The agreement was entered into on 3 November 2005 between the King’s College Consortium and Rhinopharma.

The agreement provides Rhinopharma with an exclusive, worldwide, royalty-bearing licence under the patents and patent applications arising from the GB patent application GB9913237.5, PCT/GB00/02233, published as WO00/75183 and the related US provisional patent application 60/167340 (and any patents issuing from such patent applications) (the “Licensed Patent Rights”) to develop, make, have made, use, market, sell, have sold and import products for the term of the agreement.

Term and termination

The agreement commenced on 3 November 2005 and shall continue in full force and effect for a period of twenty years from that date. On expiry of the initial term, the agreement may be extended for a further period or periods with the written agreement of the King's College Consortium and Rhinopharma.

The agreement may be terminated in various circumstances including where Rhinopharma is unable to satisfy the payment obligations set out below and where Rhinopharma opposes the grant of any patent or patent application within the Licensed Patent Rights or disputes the validity of any patent within the Licensed Patent Rights.

Improvements

Rhinopharma is obliged to disclose to the King's College Consortium all improvements to the Licensed Patent Rights. If Rhinopharma indicates to the King's College Consortium that it does not intend to file any patent application in respect of any improvement so disclosed, it must, at the King's College Consortium's option, assign free of charge any such improvement to the King's College Consortium and assist the King's College Consortium to file any patent applications in respect of it.

Transfer and sublicensing

The agreement is non-transferable except to a subsidiary of Rhinopharma. The licence granted pursuant to the agreement is sublicensable but any sublicense is not sublicensable. Rhinopharma intends to seek the consent of the King's College Consortium to the transfer of the agreement to the Company. This will allow the Company to outlicense the Licensed Patent Rights in accordance with its business model.

Payment obligations

Rhinopharma is obliged to make the following payments (by way of royalty) to the Consortium: (a) seven per cent. of net sales of any device, compound, kit or service with utility which is covered by the Licensed Patent Rights; (b) 15 per cent. of any sublicensing revenue; (c) £60,000 (plus VAT) on the initiation of toxicology studies; (d) £100,000 (plus VAT) on the first investigational new drug filing to conduct a phase I clinical trial for each compound covered by the Licensed Patents Rights; and (e) £500,000 (plus VAT) on submission of the first marketing authorisation or new drug application for each compound covered by the Licensed Patents Rights.

As regards prosecution of patents, Rhinopharma is responsible for the payment of all prosecution and maintenance costs relating to the Licensed Patent Rights. In relation to enforcement of patents, Rhinopharma is responsible for all costs of enforcing or defending the patents, or for any other cause relating to the Licensed Patent Rights.

Governing law

The agreement is governed by English law and the parties have agreed to submit to the non-exclusive jurisdiction of the English courts.

Save as disclosed above, there are no contracts (other than contracts entered into in the ordinary course of business) which have been entered into by the Company since its incorporation and which are or may be material.

8.3 Nominated Adviser and Broker Agreement in connection with the Acquisition, the Placing and Re-Admission (the "Transaction Engagement Letter**")**

On 28 February 2006, the Company entered into an agreement with Hanson Westhouse pursuant to which Hanson Westhouse agreed to act as nominated adviser and broker to the Company in connection with the Acquisition, the Placing and Re-Admission.

Under the agreement, Hanson Westhouse is entitled to: (i) a fee of £50,000; (ii) the commission to be referred to in the Placing Agreement; (iii) an option to subscribe for such number of Ordinary Shares as is equivalent to 2 per cent. of the Enlarged Share Capital at an exercise price equal to a 50 per cent. premium to the Placing Price; and (iv) properly incurred out of pocket expenses (including the fees of lawyers retained by Hanson Westhouse in connection with the Acquisition, the Placing and Re-Admission).

The agreement contains an indemnity pursuant to which the Company has agreed to indemnify Hanson Westhouse for, *inter alia*, any claims, losses or damage suffered by Hanson Westhouse relating to the engagement except in certain restricted circumstances.

The agreement may be terminated immediately by Hanson Westhouse in certain circumstances by giving written notice to the Company. The Company may terminate the agreement in certain circumstances by giving written notice to Hanson Westhouse.

8.4 Nominated Adviser and Broker Agreement

On 28 February 2006, the Company entered into an agreement with Hanson Westhouse pursuant to which Hanson Westhouse agreed to act as nominated adviser and broker to the Company on an ongoing basis.

Under the agreement, Hanson Westhouse is entitled to: (i) an annual retainer fee of £20,000 which shall be increased to £35,000 following completion of the Acquisition; (ii) properly incurred out of pocket expenses; and (iii) in connection with specific corporate advice outside the scope of the engagement, reasonable fees to be agreed between the parties.

The agreement contains the same indemnity provision as the Transaction Engagement Letter (referred to above).

The agreement is terminable on three months' written notice by either party. Hanson Westhouse may terminate the engagement at any time if the Company materially breaches the terms and conditions of the agreement.

8.5 Placing Agreement

The Placing Agreement is dated 23 August 2006 and made between (a) the Company, (b) Hanson Westhouse, (c) the Existing Directors and (d) the Proposed Directors. Pursuant to the Placing Agreement, Hanson Westhouse has agreed to use its reasonable endeavours as agent to procure Placees located in the United Kingdom on behalf of the Company to subscribe for 37,950,000 Placing Shares at the Placing Price. The Placing Agreement is conditional upon, *inter alia*, the passing of the EGM Resolutions and Re-Admission having occurred by 19 September 2006, or such later date (being no later than 31 September 2006) or may be agreed between the Company and Hanson Westhouse.

Pursuant to the Placing Agreement, the Company has agreed to pay Hanson Westhouse a fee of £50,000 (as referred to in the Transaction Engagement Letter) and an aggregate commission of £40,490 out of which Hanson Westhouse shall be entitled to pay commissions to third parties who procure subscribers.

Under the Placing Agreement the Existing Directors and the Proposed Directors and the Company have given certain warranties and the Company has given certain indemnities, *inter alia*, as to the accuracy of the information contained in the Admission Document and other matters in relation to the Company and its business.

Lock-in restrictions have been incorporated into the Placing Agreement rather than separate lock-in agreements. Under the Placing Agreement, the Proposed Directors have given an undertaking to Hanson Westhouse and the Company not to dispose of any interest they have in any Ordinary Shares during the period: (i) from Re-Admission until the first anniversary of Re-Admission, except in certain circumstances; and (ii) from the first anniversary of Re-Admission until the second anniversary of Re-Admission, unless they do so through Hanson Westhouse (or the Company's broker from time to time) provided that, *inter alia*, such disposal is effected at a competitive price and that the relevant commission and fee to be charged is competitive with those charged by other reputable brokers.

The Placing Agreement may be terminated prior to Re-Admission by Hanson Westhouse in certain circumstances, including for material breach of the warranties.

8.6 Acquisition Agreement

On 23 August 2006 the Company entered into the Acquisition Agreement with the Vendors pursuant to which the Company agreed to acquire and the Vendors agreed to sell the entire issued share capital of Rhinopharma for a consideration of £1,520,000 to be satisfied by the issue of the Consideration Shares. The Acquisition Agreement is conditional on EGM Resolutions (i) to (iii) being passed at the EGM and Re-Admission and contains warranties given by the Vendors in connection with Rhinopharma.

8.7 Lock-in Deed

On 23 August 2006 certain shareholders whose interests in the Company will amount to 24.83 per cent. of the Enlarged Share Capital on Re-Admission have entered into an agreement with the Company and Hanson Westhouse pursuant to which they have given an undertaking to Hanson Westhouse and the Company not to dispose of any interest they have in any Ordinary Shares during the period: (i) from Re-Admission until the first anniversary of Re-Admission, save in certain very limited circumstances; and (ii) from the first anniversary of Re-Admission until the second anniversary of Re-Admission, except in certain circumstances, unless they do so through Hanson Westhouse (or the Company's broker from time to time) or, where appropriate, through Haywood Securities (UK) Limited provided that, *inter alia*, such disposal is effected within five business days of being requested by notice in writing to do so at a competitive price and that the relevant commission and fee to be charged is competitive with those charged by other reputable brokers. The lock-in provisions will not apply in the following limited circumstances: (i) in the event of an intervening Court order; (ii) on the death of a party subject to the lock-in agreement; (iii) in respect of an acceptance of a takeover offer (or the execution of an irrevocable commitment to accept a takeover offer); (iv) to the extent a disposal is made in accordance with the Acquisition Agreement; and (v) on the issue of a certificate by the accountant of the party subject to the lock-in agreement certifying that, without the disposal of the Ordinary Shares, the relevant party would not have sufficient assets to discharge its liabilities to creditors as they fall due.

8.8 Overseas Subscription Agreements

A number of subscription agreements have been entered into each dated on or around the date of this document between (a) the Company and (b) certain overseas investors pursuant to which the overseas investors have conditionally subscribed for an aggregate of 13,125,000 Placing Shares to be allotted and issued to them for cash at the Placing Price. The agreements are conditional on, *inter alia*, Re-Admission. Under the Overseas Subscription Agreements the overseas investors have each given certain warranties.

9. Litigation

Since incorporation neither the Company nor any other member of the Enlarged Group has been engaged in, or is currently engaged in, any governmental, legal or arbitration proceedings which have had or may have a significant effect on the financial position or profitability of the Company and, so far as the Existing Directors and the Proposed Directors are aware, there are no such proceedings pending or threatened against the Company or any other member of the Group.

10. Working capital

The Directors are of the opinion that, taking into account the net proceeds of the Placing and having made due and careful enquiry, the working capital available to the Company will, from the date of Re-Admission, be sufficient for its present requirements, that is, for at least the next 12 months from the date of Re-Admission.

11. Taxation

The following information is intended only to provide a general outline of the taxation implications to UK residents of an investment in Ordinary Shares.

The statements set out below are intended only as a general guide to the tax position based on current UK tax legislation and H.M. Revenue and Customs practice and apply only to certain categories of UK persons. The summary does not purport to be a complete analysis or listing of all the potential tax consequences of holding Ordinary Shares. Prospective purchasers of Ordinary Shares are advised to consult their own tax advisers concerning the consequences under any tax laws of the acquisition, ownership and disposition of Ordinary Shares. In particular, Shareholders are advised to consider the potential impact of any relevant Double Tax Agreement on their shareholding. Shareholders who may be subject to tax in any jurisdiction other than the UK should consult their professional advisers without delay.

The statements do not cover all aspects of UK taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Ordinary Shares by particular investors. The statements apply only to Shareholders who are the beneficial owners of the Ordinary Shares but are not applicable to all categories of Shareholders, and in particular are not addressed to:

- Shareholders who do not hold their Ordinary Shares as capital assets;
- Shareholders who own (directly or indirectly) 10 per cent. or more of the Company;
- special classes of Shareholders such as dealers in securities or currencies, broker-dealers or investment companies;
- Shareholders who hold Ordinary Shares as part of hedging or conversion transactions; or
- Shareholders who hold Ordinary Shares in connection with a trade profession or vocation carried on in the UK (whether through a permanent establishment or otherwise).

The statements below in respect of the taxation of dividends and distributions and the taxation of chargeable gains only cover the principal UK tax consequences of holding Ordinary Shares for holders who are resident in the UK for tax purposes.

11.1 Tax residence of the Company

The Existing Directors and the Proposed Directors consider that the Company will be, following Re-Admission, resident for tax purposes in the UK. The following summary has been prepared on this basis.

11.2 Taxation of Dividends

Under current UK tax legislation, no taxation should be withheld at source from dividend payments made by the Company to its shareholders.

Individual shareholders resident for tax purposes in the UK should generally be entitled to a tax credit in respect of dividends paid by the Company at the rate of one ninth of the cash dividend or 10 per cent. of the aggregate of the cash dividend and the associated tax credit. An individual shareholder will be liable to income tax on the aggregate of the dividend and the tax credit (which will be regarded as the top slice of the individual's income) at the ordinary rate (10 per cent. in 2006-2007) in the case of lower and basic rate taxpayers or the higher rate (32.5 per cent. in 2006-2007) in the case of higher rate taxpayers. The effect will be that taxpayers who are otherwise liable to pay tax at the lower or basic rate of income tax will have no further liability to income tax in respect of the dividend payment. Higher rate taxpayers will have an additional tax liability (after taking into account the tax credit) of 22.5 per cent. of the aggregate of the dividend and associated tax credit. If the tax credit exceeds the Shareholder's overall liability to income tax, the taxpayer will not be able to claim payment of the excess in cash from HM Revenue & Customs.

UK resident corporate shareholders will generally not be subject to corporation tax in respect of dividends received from the Company unless the Shareholder is carrying on a trade of dealing in shares.

11.3 Taxation on chargeable gains

If a Shareholder who is resident and ordinarily resident for tax purposes in the UK disposes of some or all of his Ordinary Shares, such a disposal may give rise to a chargeable gain or an allowable loss for the purposes of capital gains tax. In computing a chargeable gain, the Shareholder should be entitled to deduct from the disposal proceeds the cost to him of acquiring the Ordinary Shares as well as utilising any available exemptions, allowances or reliefs.

Taper relief may be available to reduce chargeable gains accruing to individuals. Taper relief reduces the proportion of any chargeable gain assessable to capital gains tax by reference to the period of ownership of the Ordinary Shares by a Shareholder. The rate of relief depends upon whether the Shareholder holds the Ordinary Shares as "business assets" or "non-business assets" for taper relief purposes, with the rate of taper relief for "business assets" being accelerated. Shares in qualifying unlisted companies may constitute business assets including, for these purposes, companies whose shares are admitted to trading on AIM. However, the Company may not be treated as a qualifying unlisted company until after the Acquisition has been completed.

11.4 Stamp duty and stamp duty reserve tax ("SDRT")

No stamp duty or stamp duty reserve tax ("SDRT") will generally be payable on the issue by the Company of Ordinary Shares.

Transfers of Ordinary Shares for value will give rise to a liability to *ad valorem* stamp duty or SDRT at the rate of 0.5 per cent. of the consideration (in the case of stamp duty, rounded up to the nearest £5).

No stamp duty or SDRT should arise on the transfer of the Ordinary Shares to CREST for conversion into uncertified form, unless the transfer is for consideration. Transfers under the CREST system for paperless transfers of shares will generally be liable to SDRT at the rate of 0.5 per cent. of the consideration. CREST is obliged to collect SDRT from the transferee in relation to transfers settled through the CREST system.

The above statements are intended as a general guide only to the current taxation regime in the UK and are not exhaustive. Any person who is in any doubt as to their taxation position, or is subject to tax in a jurisdiction other than the UK, should consult their own professional adviser.

12 Squeeze-out and sell-out rules relating to the Ordinary Shares

12.1 Squeeze-out

Under the Act, if an offeror were to acquire or contract to acquire 90 per cent. of the Ordinary Shares to which the offer relates within four months of making its offer, it could then compulsorily acquire the remaining 10 per cent. It would do so by sending a notice to outstanding Shareholders telling them that it will compulsorily acquire their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding Shareholders. The consideration offered to the Shareholders whose shares are compulsorily acquired under the Act must, in general, be the same as the consideration that was available under the takeover offer.

12.2 Sell-out

The Act also gives minority Shareholders a right to be bought out in certain circumstances by an offeror who had made a takeover offer. If a takeover offer related to all the Ordinary Shares and, at any time before the end of the period within which the offer could be accepted, the offeror held or had agreed to acquire not less than 90 per cent. of the Ordinary Shares to which the offer relates, any holder of shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those shares.

The offeror would be required to give any Shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority Shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a Shareholder exercises his/her rights, the offeror is bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

There have been no takeover offers by third parties in respect of the share capital of the Company since the date of its incorporation.

13 General

13.1 The accounting reference date of the Company is 31 December.

13.2 Hanson Westhouse has given and has not withdrawn its written consent to the inclusion in this document of the references to its name in the form and context in which they appear.

13.3 UHY Hacker Young (a member of the Institute of Chartered Accountants in England and Wales) accepts responsibility for its reports set out in Part V of this document and has given and not withdrawn its written consent to the inclusion of those reports in this document and the references to them and to its name in the form and context in which they appear.

13.4 Dr. Gunnar Aberg has given and not withdrawn his written consent to the inclusion of his report in the form set out in Part IV of this document and the references to such report in the form and content in which they appear and accepts responsibility for such report.

13.5 Vernalis has given and not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which it appears.

13.6 A consortium including King's College London, National Institute of Biological Standards and Control, Scottish Association for Marine Science, Dunstaffnage Marine Laboratory, the University of Liverpool and the University Court of St. Andrews has given and not withdrawn its written consent to the inclusion in this document of its name and the references to it in the form and context in which it appears.

- 13.7 The information contained in Parts IV and V of this document has been accurately reproduced and, so far as the Company is aware and is able to ascertain from the authors of those documents, comprising Dr. Gunnar Aberg and UHY Hacker Young, respectively, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 13.8 The total costs and expenses payable by the Company in connection with the Proposals (including professional fees, commissions, the costs of printing and the fees payable to the registrars) are estimated to amount to approximately £340,000 (including VAT).
- 13.9 Save as disclosed in this document, no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has:
- 13.9.1 received, directly or indirectly, from the Company within 12 months preceding the application for Re-Admission; or
 - 13.9.2 entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company on or after Re-Admission any of the following:
 - (a) fees totalling £10,000 or more; or
 - (b) securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price; or
 - (c) any other benefit with a value of £10,000 or more at the date of Re-Admission.
- 13.10 The Company's principal investments in progress and since incorporation are as set out in Part I and II of this document and, on Re-Admission, will comprise its investment in Rhinopharma. Neither Rhinopharma or any member of the Group has made any other firm commitment in respect of any other investments, including in relation to the Enlarged Group.
- 13.11 There has been no significant change in the financial or trading position of the Company or any member of the Enlarged Group since respectively the last published audited accounts of the Company and the last published audited accounts of Rhinopharma.
- 13.12 Save as set out in this document, the Directors are not aware of any exceptional factors that have influenced the Company's activities.
- 13.13 The Placing has not been underwritten or guaranteed by any person.
- 13.14 Save as set out in this document, no commission is payable by the Company to any person in consideration of his agreeing to subscribe for securities to which this document relates or of his procuring or agreeing to procure subscriptions for such securities.
- 13.15 No paying agent has been appointed by the Company.
- 13.16 The Placing Shares will be issued at 4 pence per share, a premium of 3.999 pence per Ordinary Share above nominal value.
- 13.17 Save as disclosed in this document, no payment (including commissions) or other benefit has been or is to be paid or given to any promoter of the Company.
- 13.18 Save as disclosed in this document, there are no patents, licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the business or profitability of the Company.
- 13.19 Save as disclosed in this document, there have been no related party transactions which were, as a single transaction or in their entirety, material to the Company or Rhinopharma prior to the date of this document.
- 13.20 Save as set out in this document, neither the Company nor Rhinopharma have sold any products or performed any services during the period covered by the historical financial information and there are therefore no significant trends in production, sales and inventory costs and selling prices between the end of the last financial year and the date of this document.

14 Documents available for inspection

Copies of the following documents will be available for inspection from the date of this document until the date which is one month after Re-Admission, at the offices of Watson, Farley & Williams LLP during normal business hours on any day (Saturdays, Sundays and public holidays excepted):

- 14.1 the memorandum and articles of association of the Company;
- 14.2 the Accountants' Report set out in Part V of this document; and
- 14.3 the letters of consent referred to in paragraphs 13.2 to 13.5 of this Part VI.

15 Availability of Admission Document

Copies of the Admission Document will be available for inspection from the date of this document until the date which is one month after Re-Admission, at the offices of Watson, Farley & Williams LLP, 15 Appold Street, London EC2A 2HB during normal business hours on any day (Saturdays, Sundays and public holidays excepted), and on the Company's website at www.veronapharma.com.

23 August 2006

DEFINITIONS

In this document, unless the context requires otherwise, the words and expressions set out below shall bear the following meanings.

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| “Acquisition” | the proposed acquisition of the entire issued share capital of Rhinopharma pursuant to the Acquisition Agreement |
| “Acquisition Agreement” | the conditional agreement dated 23 August 2006 between the Vendors and the Company relating to the Acquisition as described in paragraph 8.6 of Part VI of this document |
| “Act” | the Companies Act 1985, as amended |
| “AIM” | the market of that name operated by the London Stock Exchange |
| “AIM Rules” | the AIM Rules for Companies published by the London Stock Exchange |
| “Articles” | the Articles of Association of the Company |
| “C\$” | Canadian Dollars |
| “Cardiome” | Cardiome Pharma Corp., a company listed on the Toronto and NASDAQ stock exchanges |
| “City Code” | the City Code on Takeovers and Mergers |
| “Combined Code” | the “Combined Code on Corporate Governance” published in July 2003 by the Financial Reporting Council |
| “Company” | Isis Resources plc and, where the context requires, its subsidiary undertakings on Re-Admission |
| “Completion” | completion of the Acquisition in accordance with the Acquisition Agreement |
| “Computershare” | the Company’s registrar, Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH |
| “Concert Party” | Lewis Choi, Len Cuthbert, Danny Lowe, Clive Page, Yvette Paton, David Saint, Michael Walker and Nelson River Resources Limited |
| “Conditions” | the conditions to the Acquisition being: (i) EGM Resolutions (1) to (3) being passed at the EGM; (ii) the Company or Rhinopharma not terminating the Acquisition Agreement prior to Completion; and (iii) Re-Admission |
| “Consideration Shares” | the 38,000,000 new Ordinary Shares to be allotted and issued to the Vendors pursuant to the Acquisition Agreement |
| “CREST” | the computerised settlement system (as defined in the CREST Regulations) in the UK operated by CRESTCo which facilitates the transfer of title to shares in uncertificated form (as defined in the CREST Regulations) |
| “CREST Regulations” | the Uncertificated Securities Regulations 2001 (as amended) (SI 2001/3755) |
| “CRESTCo” | CRESTCo Limited |
| “Directors” | the Existing Directors and the Proposed Directors |
| “EGM Resolutions” | the resolutions set out in the notice of Extraordinary General Meeting attached to this document |

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| “Enlarged Group” | the Company and its subsidiary undertakings on Re-Admission |
| “Enlarged Share Capital” | the Ordinary Shares in issue immediately following Re-Admission |
| “Existing Directors” or “Board” | the Existing Directors of the Company whose names are set out on page 3 of this document |
| “Existing Ordinary Shares” | the 50,200,000 Ordinary Shares in issue at the date of this document |
| “Extraordinary General Meeting” or “EGM” | the extraordinary general meeting of the Company to be held on 18 September 2006, notice of which is attached to this document |
| “Form of Proxy” | the form of proxy which accompanies this document for use by holders of Existing Ordinary Shares in connection with the EGM |
| “FSMA” | the Financial Services and Markets Act 2000 |
| “Group” | the Company and its subsidiaries from time to time |
| “Hanson Westhouse” | Hanson Westhouse LLP |
| “Independent Expert’s Report” | the Independent Expert’s Report prepared by Dr. Gunnar Aberg set out in Part IV of this document |
| “Isis” | Isis Resources plc |
| “King’s Consortium” | a consortium including King’s College London, National Institute for Biological Standards and Control, Scottish Association for Marine Science, Dunstaffnage Marine Laboratory, the University of Liverpool and the University Court of St. Andrews |
| “London Stock Exchange” | London Stock Exchange plc |
| “New Board” | the Proposed Directors |
| “New Ordinary Shares” | the Consideration Shares and the Placing Shares |
| “Official List” | the Official List of the UK Listing Authority |
| “Options” | the 10,000,000 existing options, each of which entitles the holder to subscribe for one Ordinary Share at a price of 2 pence per share on or before 30 June 2008, and the 1,000,000 existing options, each of which entitles the holder to subscribe for one Ordinary Share at a price of 2.5 pence per share on or before 30 June 2008 |
| “Ordinary Shares” | ordinary shares of £0.001 each in the capital of the Company |
| “Overseas Subscription Agreements” | the conditional agreements dated on or around the date of this document between the Company and certain overseas investors further details of which are set out in paragraph 8.8 of Part VI of this document |
| “Placees” | the subscribers for Placing Shares pursuant to the Placing |
| “Placing” | the conditional placing by the Company of the Placing Shares at the Placing Price to the Placees |

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| “Placing Agreement” | the conditional agreement dated 23 August 2006 between the Company, Hanson Westhouse, the Existing Directors and the Proposed Directors relating to the Placing and Re-Admission, further details of which are set out in paragraph 8.5 of Part VI of this document |
| “Placing Price” | 4 pence per Placing Share |
| “Placing Shares” | the 51,075,000 new Ordinary Shares being issued by the Company pursuant to the Placing |
| “Proposals” | the Acquisition, the Placing and Re-Admission |
| “Proposed Directors” | the Proposed Directors of the Company following Re-Admission whose names are set out on page 3 of this document |
| “Re-Admission” | the re-admission of the Existing Ordinary Shares and admission of the New Ordinary Shares to trading on AIM becoming effective in accordance with the AIM Rules |
| “Rhinopharma” | Rhinopharma Limited, a company incorporated in British Columbia, Canada |
| “Shareholders” | holders of Ordinary Shares |
| “Takeover Panel” | the Panel on Takeovers and Mergers |
| “UK” | United Kingdom of Great Britain and Northern Ireland |
| “UK Listing Authority” | the FSA, in its capacity as the competent authority for the purposes of the admission of securities to the Official List |
| “USA” | United States of America |
| “Vendors” | the holders of all the issued shares in the capital of Rhinopharma |
| “Vernalis” | Vernalis Development Limited |

GLOSSARY OF TECHNICAL TERMS

The following technical terms are used in this document:

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| “aetiology” | the cause or origin of disease |
| “agonist” | a chemical that binds to a receptor of a cell and produces a response by the cell. Opiates, cannabis, nicotine and some hallucinogens are agonists. The effect of an agonist can be reduced or blocked with an antagonist |
| “airway hyperresponsiveness” or “bronchial hyperresponsiveness” | an exaggerated response to a variety of stimuli that leads to narrowing of the airway passages of the lung (bronchoconstriction) |
| “airway smooth muscle” | the smooth muscle surrounding the bronchi (airway tubes) |
| “allergen” | a substance that causes an allergic reaction |
| “allergic” | inflammation caused by unusual sensitivity to foreign substances |
| “allergic rhinitis” | commonly known as hay fever, a collection of symptoms, predominantly in the nose and eyes, that occur after exposure to airborne particles of dust, dander or the pollens of certain seasonal plants in people who are allergic to these substances |
| “amino acid” | an organic compound containing nitrogen, carbon, hydrogen and oxygen; the building block of protein |
| “antagonist” | a molecule that blocks the ability of a chemical to bind to a receptor of a cell, preventing a response by the cell |
| “anti-arrhythmic drug” | a drug used to treat an abnormal heart rhythm |
| “antibody” | a protein produced by B lymphocytes to bind and neutralise antigens |
| “anticholinergic” | a drug that antagonises the parasympathetic nervous system producing relaxation and dilation of the bronchi (airways) to improve the flow of air into and out of the lungs. |
| “anticoagulant” | a substance that prevents the clotting or thickening of blood |
| “antigen” | a substance or molecule that triggers an immune response either by binding to an antibody or a T cell receptor |
| “anti-IgE” | an antibody that has been developed against a protein known as immunoglobulin E(IgE) that circulates in the human blood; this antibody blocks the release of inflammatory mediators by keeping the IgE from binding to the mast cells during the allergic process |
| “antihistamine” | a drug that reverses the effects of histamine released during an allergic reaction by blocking the action of the histamine on the tissue |
| “anti-thrombotic” | a drug that blocks or reverses the formation or development of a blood clot |
| “apnoea” | absence of breathing or pause in breathing |
| “asthma” | a lung disease in which tightening of the air passages can provoke wheezing and difficulty in breathing |

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| “autoimmune” | a process by which a person’s immune system attacks the body’s own tissues. Rheumatoid arthritis is an example of an autoimmune disease |
| “bacteria” | microorganisms that reproduce by cell division and are shaped like a rod, sphere or spiral. Many types of bacteria cause infection and disease |
| “bacterial” | relating to or caused by bacteria |
| “basophil” | a type of white blood cell that contains histomira |
| “beta receptor” | receptors postulated to exist predominantly on nerve cell membranes of the sympathetic nervous system in order to explain the specificity of certain human hormones or man-made drugs that affect only some of the body’s reflexes (such as increased blood flow (vasodilation) in response to hot temperatures or an increased heart rate when running) |
| “bronchi” | the large air passages that lead from the trachea (windpipe) to the lungs |
| “bronchitis” | inflammation of the membranes lining the bronchial tubes |
| “cardiovascular” | of or pertaining to or involving the heart and blood vessels |
| “cell membrane” | a delicate structure which encloses the cell, separating the contents of the cell from the surrounding environment |
| “cellular assays” | a test to evaluate new drugs for their ability to influence the activity of relevant cells in vitro e.g. airway smooth muscle or inflammatory cells |
| “chromone” | a substance that acts by inhibiting the release of chemicals from sensitised mast cells |
| “chronic” | being long-lasting and recurrent or characterised by long suffering |
| “chronic sinusitis” | long-lasting and recurrent inflammation, either bacterial, viral, allergic or autoimmune, of the paranasal sinuses |
| “COPD” | chronic obstructive pulmonary disease, a condition characterised by destruction and progressive loss of elasticity of lung tissue, of which a substantial part is the presence of bronchitis |
| “corticosteroid” | a steroid hormone produced by the body or synthesised. Administered as drugs they reduce swelling and decrease the body's immune response |
| “craniofacial” | referring to the skull and face |
| “decongestant” | a drug which relieves mucous congestion usually in the nose |
| “degranulation” | discharge of the contents of a cell |
| “echinoderm” | a variety of marine animals including the starfish |
| “eosinophil” | a granulocyte that is characteristic of the inflammation of asthma |
| “FDA” | Food and Drug Administration, a US government organisation charged with the regulation and approval of all new therapeutic drugs |
| “glucocorticosteroids” | drugs or natural substances made by the adrenal glands that affect the body’s metabolism, raise sugar levels in the blood and reduce inflammation |

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| “granulocyte” | a type of white blood cell. There are three types that circulate in the blood: neutrophils, eosinophils and basophils; and one, a mast cell, that normally remains static in the tissues |
| “heparin” | a drug used to slow the clotting of the blood |
| “histamine” | a naturally occurring substance that is released by certain inflammatory cells after being exposed to an allergen |
| “hygiene hypothesis” | a scientific hypothesis stating that an excessively hygienic environment in early childhood may predispose some people towards asthma, allergies and other autoimmune diseases |
| “ICS” | inhaled corticosteroids |
| “immunotherapy” | treatment that uses the body’s natural defences to fight diseases such as cancer or allergy |
| “LABA” | long-acting beta receptor agonist |
| “lead identity” | the identification of a molecule having the desired biological characteristics to be taken into further development |
| “leukocyte” | a white blood cell |
| “leukotriene” | a chemical substance that plays an important role in inflammation that occurs in diseases such as asthma |
| “ligand” | a signalling molecule that binds to a receptor |
| “lymphocyte” | a type of white blood cell found in the blood, lymph and lymphoid tissues and that participates in the immune response |
| “mast cells” | a granulocyte in the tissues, that contains granules of chemicals including histamine in inflammatory responses |
| “mesenteric vasculitis” | inflammation of the blood vessels located in the tissue folds of the abdominal cavity that connect the intestines to the back of the abdominal wall |
| “mixed PDE 3/4 inhibitors” | a substance that has a varying ability to inhibit both the phosphodiesterase 3 and 4 enzymes of the body |
| “molecule” | the result of two or more atoms combining by chemical bonding |
| “morbidity” | the extent of illness, injury, or disability in a defined population |
| “NAIPS” | novel anti-inflammatory polysaccharides |
| “nasal oedema” | swelling in the tissues of the nose |
| “neutrophil” | a type of white blood cell activated in the inflammatory response, often in large numbers |
| “otitis media” | inflammation of the ear, which may be marked by pain, fever, hearing abnormalities and deafness |
| “paranasal” | adjacent to the nasal cavities |
| “parasympathetic nervous system” | a division of the human nervous system that when stimulated can decrease heart rate, lower blood pressure or reduce breathing. In another words, it acts to oppose the effects of the sympathetic nervous system |

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| “perennial allergic rhinitis” | rhinitis that lasts throughout the year |
| “pharmacology” | the study of drugs and their origin, nature, properties and effects upon living organisms |
| “Phase I clinical trial” | the assessment of the safety of a biologically active substance or drug in a small group of healthy volunteer subjects |
| “Phase II clinical trial” | the assessment of a drug in a small group of patients to determine the dose range and preliminary and safety efficacy compared to an inactive treatment such as the placebo (“sugar pill”) |
| “Phase III clinical trial” | the assessment of a drug in a large group of patients with various characteristics to determine the dose range and efficacy compared to a standard therapy |
| “phosphodiesterase” or “PDE” | a family of enzymes found in various cells in the body and includes phosphodiesterase 3, being predominately in airway smooth muscle and phosphodiesterase 4, which is mainly found in inflammatory cells |
| “physiological” | relating to the science that studies the mechanical, physical, and biochemical processes and functions of living things |
| “polymer” | a natural or man-made material formed by combining units, called monomers, into long chains |
| “polyps” | a mass of tissue that develops on the inside wall of a hollow organ, such as the nose |
| “polysaccharides” | sugars or carbohydrates made up of more than one sugar unit (monosaccharide) |
| “preclinical” | tests carried out on a candidate drug or therapy prior to commencing studies in humans |
| “proof of concept” | preclinical or clinical results such as those obtained from Phase I or II clinical trials that demonstrate that a candidate drug treatment is effective |
| “prophylaxis” | the administration of a drug or therapy to prevent disease |
| “protein” | an organic molecule consisting of many linked amino acids |
| “R&D” | research and development |
| “receptor” | a protein normally located in the cell membrane that transmits a signal from outside to the inside of the cell |
| “receptor antagonist” | also known as a receptor blocker. Molecules that bind to receptors with greater affinity than the natural ligand thus blocking that receptor from being activated by the ligand |
| “respiratory” | relating to breathing or the lungs |
| “rhinitis” | inflammation of the lining of the nose |
| “rhinorrhea” | persistent watery mucus discharging from nose i.e. runny nose |
| “RPL554” | Rhinopharma’s lead compound numbered 554, which is a mixed phosphodiesterase 3/4 inhibitor |
| “SABA” | short-acting beta receptor agonist |
| “seasonal allergic rhinitis” | rhinitis that occurs at certain times of the year such as pollen season |

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| “second generation antihistamines” | the second subclass of drugs which reduce or eliminate effects mediated by histamine |
| “sinusitis” | inflammation of the lining of the cavities in the bone surrounding the nose (the sinuses), usually as a result of a bacterial infection spreading from the nose |
| “sympathetic nervous system” | a division of the body’s nervous system over which a person does not have conscious control such as the production of body reflexes or maintaining the functions of the human heart or lungs. It opposes the physiological effects of the parasympathetic nervous system |
| “synthesis” | the process of producing a chemical compound, usually from the union of simpler chemical compounds |
| “T cell receptor” | a cell surface molecule that binds specifically to T-type immune cells, which are a type of white blood cell that is involved in rejecting foreign tissue, regulating immunity, and controlling the production of antibodies to fight infection |
| “therapeutic” | referring to the cure or management of a disease |
| “topical” | the surface of, or for application to the body |
| “toxicological” | of or relating to toxicology, which is the study of the adverse effects of chemicals, including drugs |
| “validation” | the process of establishing documented evidence which provides a high degree of assurance that a specific process will consistently produce a product meeting pre-determined specifications and quality standards |
| “viral” | relating to or caused by a virus |
| “xanthines” | a group of chemical substances that are commonly used for their effects as mild stimulants and as bronchodilators, notably in treating the symptoms of asthma |

ISIS RESOURCES PLC

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the Company will be held at 3 p.m. (Perth time) on 18 September 2006 at the offices of Verona Capital Pty Ltd, Ground Floor, 8 Colin Street, West Perth WA 6005 and, by video link, at the Company's registered office at Adderbury Hill Barn, Milton Road Adderbury, Oxon OX17 3HN at 8 a.m. (London time) on 18 September 2006 for the purposes of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

1. THAT the acquisition by the Company (the "Acquisition") of the entire issued share capital of Rhinopharma Limited be and is hereby approved in accordance with Rule 14 of the AIM Rules for Companies published by the London Stock Exchange plc.
2. THAT, in substitution for all existing authorities under the following section to the extent unutilised, the directors be and are hereby generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 ("the Act") to exercise all powers of the Company to allot, grant options over, offer or otherwise deal with or dispose of any relevant securities within the meaning of that section to such persons at such time and on such terms as the directors think proper (including in connection with the Acquisition) up to an aggregate nominal amount of £132,600.

PROVIDED THAT:

- a. this authority expires (unless previously renewed, varied or revoked by the Company in general meeting) on the earlier of the date falling 15 months after the passing of this resolution and the conclusion of the annual general meeting of the Company in 2007, but so that the Company may make an offer or agreement which would or might require relevant securities to be allotted after the expiry of this authority and the directors may allot relevant securities in pursuance of that offer or agreement; and
- b. in connection with the Acquisition, this authority is limited to the allotment of up to 38,000,000 ordinary shares of 0.1p in the capital of the Company ("Ordinary Shares").

SPECIAL RESOLUTIONS

3. THAT, in substitution for all existing authorities to the extent unutilised, the directors be and are hereby generally empowered pursuant to section 95(1) of the Act to allot equity securities (within the meaning of the section 94(2) of the Act) for cash pursuant to the authority conferred by resolution 2 above, as if section 89(1) of the Act did not apply to the allotment PROVIDED THAT this power:
 - a. expires on the earlier of the date falling 15 months after the passing of this resolution and the conclusion of the annual general meeting of the Company in 2007, whichever is the earlier, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this authority and the directors may allot equity securities in pursuance of that offer or agreement; and
 - b. is limited to:
 - i. allotments of equity securities where such securities have been offered (whether by way of a rights issue, open offer or otherwise) to holders of ordinary shares in the capital of the Company in proportion (as nearly as may be) to their existing holdings of ordinary shares but subject to the directors having a right to make such exclusions or other arrangements in connection with the offer as they deem necessary or expedient:
 - A to deal with equity securities representing fractional entitlements; and
 - B to deal with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory; and

- ii. the allotment of 51,075,000 ordinary shares of £0.001 each in the capital of the Company pursuant to the Placing (as defined in the admission document of the Company dated 23 August 2006);
- iii. the allotment of 3,000,000 ordinary shares to Etchell Capital Pty Ltd and the allotment of 2,000,000 ordinary shares to Claire Poll or her nominee as consideration for the release of liabilities owed for the performance of services to the Company prior to Re-Admission; and
- iv. the allotment of equity securities for cash otherwise than pursuant to sub-paragraph (i) and (ii) up to an aggregate nominal amount of £42,600.

4. THAT the name of the Company be changed to Verona Pharma plc.

BY ORDER OF THE BOARD

Katie Macdonald

Secretary

23 August 2006

Registered office:
Adderbury Hill Barn
Milton Road
Adderbury
Oxon OX17 3HN

Notes:

1. Any shareholder who is entitled to vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.
2. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of any joint holders. For these purposes, seniority shall be determined by the order of the names appearing in the register of members in respect of the joint holding.
3. In the case of a corporation, the form of proxy must be executed under its common seal or signed on its behalf by a duly authorised attorney or duly authorised officer of the corporation.
4. To be valid, such proxy card and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney must be deposited with the Registrars of the Company, Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, in accordance with the instructions printed thereon, so as to be received no later than 48 hours before the time of the meeting, or any adjournment thereof.
5. The completion and return of a proxy card will not affect the right of a member to attend and vote in person at the meeting convened by this notice.
6. Pursuant to regulation 41 of The Uncertificated Securities Regulations 2001, members will be entitled to attend and vote at the meeting if they are registered on the Company's register of members 48 hours before the time appointed for the meeting or any adjournment thereof.

