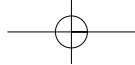


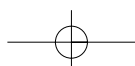
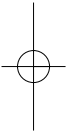
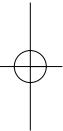


ANNUAL REPORT & ACCOUNTS

2006



# ANNUAL REPORT & ACCOUNTS | 2006



# CONTENTS

Chairman's review	2
Report of the directors	4
Officers and professional advisers	7
Report of the independent auditor to the shareholders of Eden Research plc	8
Consolidated profit and loss account	9
Consolidated balance sheet	10
Company balance sheet	11
Consolidated cash flow statement	12
Notes to the consolidated cash flow statement	13
Notes to the financial statements	14



## CHAIRMAN'S REVIEW

2006 saw the Company make significant progress and this has continued post period end in 2007. There have been particular developments in the following areas:

- Identifying and concluding appropriate further commercial deals to maximise the opportunities for our products in the major agricultural chemical markets of Europe, North America and East Asia;
- Clearing the remaining (regulatory) hurdles required to start worldwide sale of our lead fungicide (3AEY), for control of botrytis;
- Further enhancing the efficacy of our existing encapsulated terpene combinations;
- Confirming the lead products for control of nematodes;
- Identifying further plant fungal disease control products;
- Confirming the potential use of our products for mite control; and
- Making progress in exploiting the potential of our products for control of plant bacterial diseases.

As we get closer to achieving significant volume commercial sales, we see further ways to exploit the achievements of recent years in developing our existing encapsulated terpene technology for use in agriculture. Our marketing and projects staff have recently reviewed the markets for our products, identifying new opportunities in the volume cereal, oilseed and amenity markets due to the increasing biological resistance being shown by pests and diseases to conventional crop protection products. This, combined with the growth in demand for organic products and rising global awareness on chemical pollution, is driving the demand for our intellectual property and products.

We have also identified new ways of adapting our basic encapsulation technology, and further formulation development work will go ahead during the summer of 2007 with respect to these new target areas.

We were pleased to announce our Joint Development Agreement with Zagro Singapore PTE Ltd, a Singaporean based public company, in December. Under the agreement Eden has granted Zagro an exclusive licence for products that they trial and take to market in a number of selected territories, at the expense of Zagro. Zagro are currently undertaking this work to develop further and adapt our products for specific uses relevant to tropical crops in their markets.

Development of products for the temperate European, North American and East Asian markets remains a key priority, and this will now be complimented by the recent conclusion of the license agreement (post period end in May 2007) with Cheminova A/S, who have particular

strengths in these three regions. Suitable partners have still to be confirmed for East Asia, Australasia, Africa and the Middle East, with discussions and testing exercises in all these regions at a variety of stages.

### Regulatory Activities

Agrisearch International, our main regulatory contract research organisation (CRO), conducted 18 grape botrytis and 10 cucumber powdery mildew efficacy trials, as well as a variety of residue, taint and crop safety trials in Spain, Portugal and Greece during 2007. The Greek authorities were consulted about the draft results from this work, and expressed themselves satisfied with the competitiveness of our products in providing effective control of both botrytis and powdery mildew. The authorities indicated that little further work will be required for them to process our efficacy submission for registration of 3AEY, once EU-wide approval of the active substances in this formulation is given by the UK's Pesticide Safety Directorate (PSD). PSD have agreed to classify our ingredients under their Bio-pesticide Scheme, which will streamline the regulatory process.

With Europe identified as a major regional market for 3AEY, JSC International, our regulatory consultants, are presently overseeing statutory testing and preparing the crucial pan-European regulatory dossier for 3AEY and its ingredients. The dossiers will be submitted during the third quarter of this financial year. Much of the data will then be used by our commercial partners to obtain national regulatory approval in the United States and elsewhere.

### New Innovation

New avenues of investigation by consultants in a formulation lab at Worcester, Mass, USA identified improvements that will enable us to:

- exploit lower cost markets by increasing active ingredient concentrations in our formulations from 16% to 29%;
- enhance efficacy, and potentially reduce the unit cost of our products by optimising the proportions of active ingredients in specific formulations; and
- identify new formulation methods, including low cost high concentration powders, containing our encapsulated terpenes.

### Development Activities and Field Work

A number of grape Botrytis control efficacy trials were conducted in all the main production areas of the USA. This will heighten the status of our products by reconfirming the excellent performance of 3AEY as seen in several countries in Europe.

Following last year's exciting nematode screening results, the first nematode field trial using encapsulated terpenes started on grape vines near Cape Town in South Africa, where the strategically important fruit and vine industries have a growing need for this type of product. Early indications are that good nematode population control is being achieved without any signs of phytotoxicity. In-planta and field testing against other nematode types are also going on in the UK on root crops, as well as against nematode/virus complexes known to cause problems at the time of replanting orchards in North America.

Successful trials were also conducted showing encouraging results using our products for:

- control of spider mites (on roses);
- suppression of fire blight (a devastating disease of apples and pears);
- protection against blight in potatoes;
- suppression of vineyard trunk diseases; and
- controlling botrytis and powdery mildew on a variety of other fruit and vegetable crops.

#### Partnership development programme

During 2006 the Company continued its strategy of seeking appropriate commercial partners able to support our development programme with appropriately strong manufacturing and distribution expertise. At this time we have four agreements in place (two agreed at the end of 2005) comprising:

- A commercial licensing agreement with Cheminova AVS for the production and distribution of 3AEY in Western Europe and North America with an option to take up distribution in the whole of the Americas, Europe (excluding the territory held by Redestos) and the CIS. This agreement provides for upfront and milestone payments with an ongoing royalty more details of which will be given in the forthcoming half year results;
- A full technology license with Redestos (K & N Efthymiadis S.A.) for Greece and eight other states in South East Europe;
- A Joint Development Agreement with Zagro Singapore Pte Ltd whose strengths lie in the South East Asia region; and
- A Cross Licensing and Data Access agreement with Xeda S.A. the French post harvest experts.

Commercial discussions continue at various stages with several other major international distributors, with particular emphasis on the lucrative, high growth East Asian market. Most of these companies conducted co-operative testing are already partners with us, a trend

that we expect to continue, with materials already dispatched this year to eight destinations, three as the result of new interest from market leaders.

The wide geographical spread of the companies showing interest in our technologies continues to be very encouraging.

#### Summary

Commercial interest in, and support for our technology from distributors, researchers, growers and most importantly regulators, reconfirms and strengthens the valuation of Eden's growing intellectual property. To date and in these results we have continued a conservative policy of writing down the carried forward book value of our intellectual property bank notwithstanding that we believe our commercial developments underpin the intellectual property valuation. In these results this amortisation figure was £1,111,804 (2005: £1,438,271). Generally, I am pleased to say that our expenditure (and therefore loss) is in line with our budget and forecasts.

Our management team remains confident that new products under development and related patent applications will continue to emerge as we saw during 2006 when claims for Plant Bacteria and Spider Mite control were filed.

Eden Research plc is proud of the significant progress made in 2006. Patented crop protection technologies rarely make such rapid progress towards commercialisation and the Eden team and their key collaborators are to be congratulated for what they have achieved by their efforts.

The products we are developing should soon be in regular use by the World's farmers and crop growers, and we have confidence that the commercial partnership strategy we have followed will provide growing value for our shareholders. We remain focused on delivering real commercial products that are safer, more efficient and more cost-efficient to use than the current chemical based alternatives these will replace.

#### Share based payment

The Group has adopted FRS 20 Share based payment for the first time in this year's Report & Accounts. The effect of this is that the loss for the year has increased from £2,587,489 as reported in the preliminary results of 24 May 2007 to £4,092,332. No other adjustments have been made.

Chairman  
**K W Brooks**  
 27 July 2007



## REPORT OF THE DIRECTORS

The directors present their annual report with the financial statements of the Group for the year ended 31 December 2006.

### PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activities of the Group in the year under review were the development and marketing of intellectual property, particularly in the area of terpenes and other health-related projects. The review of this year's business activities is as set out in the Chairman's Review.

The key performance indicators of the business are that of the development of the Group's products and the management of its cash position.

Details of the development of the Group's products can be found in the 'Regulatory Activities' and 'Development Activities and Field Work' sections in the Chairman's Review on page 2.

The on-going financial support by shareholders has, up until now, been the main source of finance to the Group. This has primarily been by way of convertible loans which, the Directors believe, provide fair, cost effective financing. With this continued support, along with milestone payments that are due from existing licensing agreements as well as expected further licensing agreements, it is expected that the requirement for this type of financing will gradually diminish in the foreseeable future.

### RESEARCH AND DEVELOPMENT

An indication of research and development activities is included within the Chairman's Review.

### RESULTS AND DIVIDENDS

The loss for the year after taxation amounted to £4,092,332 (2005: £2,577,607). The directors are unable to recommend any dividend.

### DIRECTORS

The directors in office in the year and their beneficial interests in the Company's issued ordinary share capital at the end of the year were as follows:

	Ordinary shares of £0.01 each	
	2006	2005
	£	£
	(or date of appointment if later)	
K W Brooks	466,165	466,165
T Griffiths	12,200	12,200
I M Turner (Appointed 23 October 2006)	–	–

The directors have been granted options to subscribe for ordinary shares of £0.01 in the Company as set out below:

	At 1 January 2006 or date of appointment if later	Granted in the year	Lapsed in the year	At 31 December 2006	Exercise price £	Date from which exercisable	Expiry date
K W Brooks	990,681	–	–	990,681	0.42	27.11.03	27.11.07
	212,806	–	–	212,806	0.20	11.10.05	11.10.10
	–	500,000	–	500,000	0.20	08.06.06	08.06.11
	–	275,000	–	275,000	0.34	19.10.06	19.10.10
	<b>1,203,487</b>	<b>775,000</b>	<b>–</b>	<b>1,978,487</b>			
I M Turner	–	<b>150,000</b>	–	<b>150,000</b>	0.34	19.10.06	19.10.10
T Griffiths	55,550	–	(55,550)	–	0.42	18.04.97	17.07.06
	990,681	–	–	990,681	0.42	27.11.03	27.11.07
	15,000	–	–	15,000	0.55	03.06.04	03.06.07
	212,806	–	–	212,806	0.42	11.10.05	11.10.10
	–	500,000	–	500,000	0.20	08.06.06	08.06.11
	–	275,000	–	275,000	0.34	19.10.06	19.10.10
	<b>1,274,037</b>	<b>775,000</b>	<b>(55,550)</b>	<b>1,993,487</b>			

The directors have no interest in the shares of any other Group company, including rights to subscribe for shares.

#### STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.



## REPORT OF THE DIRECTORS

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### PAYMENT OF CREDITORS

It is the Group's and the Company's policy to pay suppliers within an acceptable period of allowed creditor days in accordance with the agreed terms. The Group and the Company acted in accordance with this policy throughout the year. The Company had 157 days purchases outstanding at 31 December 2006 (2005: 117 days) based on the average daily amount invoiced by suppliers during the year ended 31 December 2006.

### PRINCIPAL RISKS AND UNCERTAINTIES

The Company's credit risk is primarily attributable to its trade debtors. Credit risk is managed by running credit checks on customers and by monitoring payments against contractual agreements.

The Company monitors cash flow as part of its day to day control procedures. The board considers cash flow projections at its meetings and ensures that appropriate facilities are available to be drawn down upon as necessary.

The Company's prime risk is the on-going commercialisation of the Group's intellectual property, which involves testing of the Company's products, obtaining regulatory approval and reaching a commercially beneficial agreement for each product to be taken to market.

### INDEMNITY COVER

The Company purchases Directors and Officers insurance cover to protect the Directors from third party claims.

### FINANCIAL INSTRUMENTS

Details of the use of financial instruments by the Company and its subsidiary undertakings are contained in note 22 of the financial statements.

### STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the members have confirmed that they have taken all the steps that they ought to have taken as members in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

### AUDITOR

During the year Moore Stephens LLP resigned as auditor and Baker Tilly UK Audit LLP were appointed.

Baker Tilly UK Audit LLP will be proposed for reappointment in accordance with Section 385 of the Companies Act 1985.

By order of the board:

Oxford Corporate Services Ltd, Company Secretary  
Approved by the Board on 27 July 2007

Registered Office:  
Unit 3  
Manor Business Park  
Witney Road  
Finstock  
Oxfordshire  
OX7 3DG



## OFFICERS AND PROFESSIONAL ADVISERS

### THE BOARD OF DIRECTORS

Mr KW Brooks Chairman

Mr T Griffiths

Mr I M Turner (Appointed 23 October 2006)

---

### COMPANY SECRETARIES

Mr R E Sims

Oxford Corporate Services Ltd

---

### REGISTERED OFFICE

Unit 3

Manor Business Park

Witney Road

Finstock

Oxfordshire

OX7 3DG

---

### AUDITOR

Baker Tilly UK Audit LLP

1 Georges Square

Bath Street

Bristol

BS1 6BP

---

### BANKERS

The Royal Bank of Scotland plc

Southern Corporate Office

P O Box 391

40 Islington High Street

London

N1 8JX

---

### SOLICITORS

BrookStreet Des Roches

1 Des Roches Square

Witan Way

Witney

Oxfordshire

OX8 6BE

---

### STOCKBROKERS

J M Finn and Co

4 Coleman Street

London

EC2R 5TA



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EDEN RESEARCH PLC

We have audited the financial statements on pages 9 to 32.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Review that is cross referenced from the Principal Activity and Business Review section and the Research and Development section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination,

on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 31 December 2006 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

### Emphasis of matter – going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the group's ability to continue as a going concern. The group incurred a loss of £4,092,332 for the year ended 31 December 2006 and at that date the company had net liabilities of £3,063,573. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. The financial statements have been prepared on a going concern basis, the validity of which depends upon an improvement in the trading performance of the company. The financial statements do not include any adjustments if the company was unable to continue as a going concern.

BAKER TILLY UK AUDIT LLP  
Registered Auditor  
Chartered Accountants  
1 Georges Square  
Bath Street  
Bristol  
BS1 6BP

27 July 2007

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 £	2005 £
<b>Turnover</b>	2	102,559	–
Cost of sales		–	–
<b>Gross Profit</b>		102,559	–
Administrative expenses – normal		(1,416,972)	(1,069,152)
– amortisation and impairment of goodwill		(1,111,804)	(1,438,271)
– share based payments		(1,504,843)	–
Other operating income	3	(3,931,060)	(2,507,423)
		–	40,755
<b>Operating Loss</b>	4	(3,931,060)	(2,466,668)
Interest receivable and similar income		1,795	396
Interest payable	6	(163,067)	(111,335)
<b>Loss on ordinary activities before taxation</b>		(4,092,332)	(2,577,607)
Tax on loss on ordinary activities	7	–	–
<b>Loss on ordinary activities after taxation</b>		(4,092,332)	(2,577,607)
<b>Loss per share (pence) – normal and diluted</b>	8	(8.94)	(5.76)

The results shown in the profit and loss account above represent continuing operations.

The Group has no recognised gains or losses other than the loss for the above two financial years.

The Company has taken advantage of Section 230 of the Companies Act 1985, allowing it not to publish its own profit and loss account.

The notes on pages 14 to 32 form part of these financial statements



## CONSOLIDATED BALANCE SHEET

as at 31 DECEMBER 2006

	Note	2006 £	2005 £
<b>Fixed Assets</b>			
Intangible assets	9	7,415,545	8,527,349
Tangible assets	11	8,464	8,429
		<b>7,424,009</b>	<b>8,535,778</b>
<b>Current Assets</b>			
Debtors	13	156,443	67,944
Cash at bank and in hand		4,778	3,073
		<b>161,221</b>	<b>71,017</b>
<b>Creditors: amounts falling due within one year</b>	14	<b>(3,224,794)</b>	<b>(2,208,869)</b>
		<b>Net Current Liabilities</b>	<b>(2,137,852)</b>
		<b>Net Assets</b>	<b>6,397,926</b>
<b>Capital and Reserves</b>			
Called-up share capital	15	465,210	447,073
Share Premium Account	16	10,146,962	9,615,100
Merger Reserve	17	10,209,673	10,209,673
Warrant reserve	17	1,504,843	–
Profit and Loss Account	18	(17,966,252)	(13,873,920)
		<b>Shareholders' Funds</b>	<b>6,397,926</b>

These financial statements were approved and authorised for issue on 27 July 2007 by the directors and are signed on their behalf by:

K W BROOKS  
DIRECTOR

The notes on pages 14 to 32 form part of these financial statements

## COMPANY BALANCE SHEET

as at 31 DECEMBER 2006

	Note	2006 £	2005 £
<b>Fixed Assets</b>			
Intangible assets	9	7,415,545	1,181,540
Tangible assets	11	8,464	8,429
Investments	12	100	7,345,909
		<b>7,424,109</b>	<b>8,535,878</b>
<b>Current Assets</b>			
Debtors	13	156,343	67,844
Cash at bank and in hand		4,778	3,073
		<b>161,121</b>	<b>70,917</b>
<b>Creditors: amounts falling due within one year</b>	14	<b>(3,224,794)</b>	<b>(2,208,869)</b>
		<b>(3,063,673)</b>	<b>(2,137,952)</b>
<b>Net Current Liabilities</b>			
		<b>4,360,436</b>	<b>6,397,926</b>
<b>Net Assets</b>			
<b>Capital and Reserves</b>			
Called-up share capital	15	465,210	447,073
Share premium account	16	10,146,962	9,615,100
Merger reserve	17	10,209,673	10,209,673
Warrant reserve	17	1,504,843	–
Profit and loss account	18	(17,966,252)	(13,873,920)
		<b>4,360,436</b>	<b>6,397,926</b>
<b>Shareholders' Funds</b>			

These financial statements were approved and authorised for issue on 27 July 2007 by the directors and are signed on their behalf by:

K W BROOKS  
DIRECTOR

The notes on pages 14 to 32 form part of these financial statements



## CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 £	2006 £	2005 £	2005 £
<b>Net cash outflow from operating activities</b>		<b>(1,264,176)</b>		<b>(705,638)</b>
<b>Returns on investments and servicing of finance</b>				
Interest received	1,795		396	
Interest paid	(172)		–	
		<b>1,623</b>		<b>396</b>
		<b>(1,262,553)</b>		<b>(705,242)</b>
<b>Capital expenditure and financial investment</b>				
Purchase of intangible fixed assets	–		(34,428)	
Purchase of tangible fixed assets	(4,311)		(2,586)	
		<b>(4,311)</b>		<b>(37,014)</b>
<b>Cash outflow before financing</b>		<b>(1,266,864)</b>		<b>(742,256)</b>
<b>Financing</b>				
Shareholders loan – drawdown		<b>730,269</b>		<b>683,030</b>
Issue of equity shares		<b>549,999</b>		<b>–</b>
<b>Increase/(decrease) in cash during the year</b>		<b>13,404</b>		<b>(59,226)</b>

The notes on pages 14 to 32 form part of these financial statements

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

### RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2006 £	2005 £
Operating loss	(3,931,060)	(2,466,668)
Depreciation	4,276	4,423
(Increase)/decrease in debtors	(88,499)	38,757
Increase in creditors	134,460	279,579
Equity share based payment charge	1,504,843	–
Amortisation of trademarks and intellectual property	1,111,804	1,110,088
Goodwill amortisation and impairment	–	328,183
<b>Net cash outflow from operating activities</b>	<b>(1,264,176)</b>	<b>(705,638)</b>

### RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2006 £	2005 £
Increase/(decrease) in cash in the year	13,404	(59,226)
Cash inflow from debt financing	(730,269)	(683,030)
Interest accrued on shareholders loans	(162,895)	(111,335)
Change in net funds	(879,760)	(853,591)
Net debt at 1 January 2006	(1,770,776)	(917,185)
<b>Net debt at 31 December 2006</b>	<b>(2,650,536)</b>	<b>(1,770,776)</b>

### ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 2006 £	Cash Flows £	Non Cash changes £	At 31 December 2006 £
Cash at bank and in hand	3,073	1,705	–	4,778
Bank overdraft	(11,699)	11,699	–	–
Shareholders loans	(1,762,150)	(730,269)	(162,895)	(2,655,314)
<b>Net debt at 31 December 2006</b>	<b>(1,770,776)</b>	<b>(716,865)</b>	<b>(162,895)</b>	<b>(2,650,536)</b>

Non cash changes relate to interest accrued on shareholders' loans.

The notes on pages 14 to 32 form part of these financial statements



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

### 1. ACCOUNTING POLICIES

#### Basis of accounting

These financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

#### Basis of consolidation

The Group financial statements combine the financial statements of Eden Research plc and its wholly owned subsidiaries Eden Research Europe Ltd and Eden Research Inc. No profit and loss account is presented for Eden Research plc, as provided by Section 230(3) of the Companies Act 1985.

#### Going concern

The financial statements have been prepared on a going concern basis which contemplates the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group has reported a loss for the year after taxation of £4,092,332 (2005: £2,577,607). Net current liabilities amounted to £3,063,573 (2005: £2,137,852). The ability of the Group to continue as a going concern is ultimately dependent upon the amounts and timing of cash flows from the exploitation of the Group's Intellectual Property. The directors consider that it is appropriate that financial statements be prepared on a going concern basis and no adjustments have been made for impairment and reclassification of assets, and reclassification of liabilities, which would be necessary if the Group were no longer a going concern. The milestone payments that are due from Cheminova A/S as part of the licensing agreement, along with the ongoing support from shareholders, by way of convertible loans, as well as expected further licencing agreements provide the Board with confidence that the Group is a going concern.

#### Turnover

Turnover represents the value of products and services provided by the Group in accordance with the provisions of the underlying contract or licence, stated net of value-added tax (VAT).

#### Depreciation of tangible fixed assets

Depreciation is provided at rates calculated to write off the cost of each asset, less its estimated residual value, over its expected useful life as follows:

- Plant and equipment – 20% per annum on a straight-line basis
- Furniture, fixtures and fittings – 25% per annum on a straight-line basis
- Computer and office equipment – 33.33% per annum on a straight-line basis

#### Amortisation

Amortisation is calculated so as to write off the cost of each asset, less its estimated residual value, over its useful economic life as follows:

- Intellectual property, licences and trademarks – 10% per annum on a straight-line basis
- Goodwill on consolidation – 10% per annum on a straight-line basis

#### Operating lease agreement

Rentals applicable to operating leases, when substantially all of the benefits and risks of ownership remain with the lessor, are charged to the profit and loss account on a straight-line basis over the period of the lease.

#### Intangible fixed assets

Goodwill arising on consolidation is capitalised and amortised over its useful economic life.

Costs in relation to trademarks are capitalised when they are incurred and are then written off over their useful economic lives and the life of the trademark, which is currently deemed to be 10 years. Intellectual property is amortised over its estimated life of 10 years.

The directors regularly review the intangible assets for impairment, and provision is made if necessary.

#### Research and development

Research and development costs in relation to all existing products are written off in the year in which they are incurred.

**Investments in group companies**

Shares in Group companies are stated at cost less provision for any impairment in value.

**Deferred taxation**

Deferred taxation is provided in full with respect to taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred taxation balance has not been discounted.

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

**Foreign currencies**

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating loss. Assets, liabilities and results of overseas subsidiaries are translated at the rate ruling at the balance sheet date. Exchange differences arising are dealt with through reserves.

**Share based payment**

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the profit and loss account over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted, as long as all other vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification is also charged to the profit and loss

account over the remaining vesting period.

**Simultaneous issue of shares and warrants**

Where shares and warrants are issued simultaneously and the warrants can be transferred, cancelled or redeemed independently of the shares, then the related proceeds are apportioned to the shares and warrants in accordance with Financial Reporting Standard 4 "Capital Instruments". This apportionment is based upon the fair value of the warrants at the date of issue. The proceeds allocated to the warrants reserve. On the exercise of the warrants a transfer is made from the warrant reserve to the share premium account.

**Financial instruments**

The group uses certain financial instruments in its operating and investing activities that are deemed to be appropriate to its strategy and circumstances.

Financial instruments comprise short term debtors and creditors, cash and fixed interest convertible debt.

The company regularly reviews the funding opportunities available to it in order to finance its operations, including considering the use of borrowings, as well as equity, to fund short-term cash requirements.

The main risk arising from the company's present use of financial instruments is currency risk relating to the group's non-sterling cash resources.

The addition of any further borrowings to the company's portfolio of financial instruments may introduce interest-rate risk.

The company has taken advantage of the exemptions available under Financial Reporting Standards (FRS)13 for disclosures relating to short-term debtors and creditors.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

### 2. TURNOVER AND GROUP LOSS

The turnover and loss before tax of the Group during the year are attributable to the one principal activity of the Group.

An analysis of turnover is below:

Geographical analysis by origin	2006		2005	
	Turnover £	Loss before tax £	Turnover £	Loss before tax £
United Kingdom	102,559	(4,092,332)	–	(2,537,607)

All turnover originates from and all assets are situated in the United Kingdom, with the exception of some of the intellectual property which is located in the USA.

Net Assets – Geographical analysis by origin	2006	2005
	£	£
United Kingdom	4,360,436	–
United States of America	–	6,397,926

### 3. OTHER OPERATING INCOME

	2006	2005
	£	£
Rental Income	–	40,755

### 4. OPERATING LOSS

The operating loss is stated after charging/(crediting):

	2006	2005
	£	£
Net loss/(profit) on foreign exchange	926	1,045
Amortisation of trademarks and intellectual property	1,111,804	1,110,088
Amortisation and impairment of goodwill	–	328,183
Auditor's remuneration (see note overleaf) – as auditor	18,000	18,000
– Taxation	15,240	–
Depreciation – owned assets	4,276	4,423
Operating lease rentals – land and buildings	31,164	31,413
Research and development costs	410,356	198,862
Equity share based payment charge	1,504,843	–

	2006 £	2005 £
<i>Moore Stephens LLP</i>		
Fees in respect of the audit of the Company's annual accounts	–	19,145
Total audit fees	–	19,145
Other services		
Tax services	10,653	–
Total non-audit fees	10,653	–
<i>Baker Tilly</i>		
Fees in respect of the audit of the Company's annual accounts	–	–
Total audit fees	–	–
Other services		
Tax services	2,000	3,400
Total non-audit fees	2,000	3,400
<i>Baker Tilly</i>		
Fees in respect of the audit of the Company's annual accounts	18,500	–
Total audit fees	18,500	–
Other services		
Tax services	–	–
Total non-audit fees	–	–

## 5. EMPLOYEES AND DIRECTORS

During the year, staff costs, including executive directors, amounted to:

	2006 £	2005 £
Wages and salaries	207,456	128,407
Social security costs	15,996	14,032
	223,452	142,439

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

	No.	No.
Management	5	6
Administration	1	1
	6	7



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

Details of charges incurred with related parties with respect to management services are set out in note 21.

	2006 £	2005 £
Directors' remuneration	155,000	90,000

None of the directors are accruing benefits under Company pension schemes

### 6. INTEREST PAYABLE

	2006 £	2005 £
On shareholders loans (note 21)	162,895	111,335
Bank interest	172	–
	163,067	111,335

### 7. TAX ON LOSS ON ORDINARY ACTIVITIES

	2006 £	2005 £
Corporation tax	–	–

No tax charge arises on the results for the year. Tax losses carried forward amount to approximately £7,857,138 (2005: £6,622,821). 2005 tax losses carried forward were reduced from £7,083,000 due to the surrender of losses as part of the Research & Development tax credit refund for 2005.

### FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The UK standard rate of corporation tax is 30% (2005: 30%), whereas the current tax assessed for the financial year as a percentage of the loss before taxation is nil (2005: nil). The differences are explained below:

	2006 %	2005 %
Standard rate of corporation tax in the United Kingdom	(30.0)	(30.0)
Effects of:		
Losses carried forward	8.5	14.0
Other expenses not deductible for tax purposes	18.9	16.0
Research & development deduction	2.6	–
Current tax rate for the year	–	–

## UNPROVIDED DEFERRED TAX ASSET

	2006 £	2005 £
Losses at 30%	2,361,631	2,012,634

The deferred tax asset has not been recognised due to the uncertainty of suitable future profits against which it may be realised.

## 8. LOSS PER SHARE

	2006 £	2005 £
Loss per ordinary share (pence)	(8.94)	(5.76)

Loss per share has been calculated on the net basis on the loss on ordinary activities after taxation of £4,092,332 (2005: £2,577,607) using the weighted average number of ordinary shares in issue of 45,785,260 (2005: 41,707,260). Due to the loss for the year, there is no dilution of the loss per share arising from options in existence.

## 9. INTANGIBLE FIXED ASSETS

GROUP	Intellectual property £	Licenses and trademarks £	Total £
<b>Cost</b>			
At 1 January 2006 and 31 December 2006	10,828,467	290,118	11,118,585
<b>Amortisation</b>			
At 1 January 2006	2,494,759	96,477	2,591,236
Charge for the year	1,082,747	29,057	1,111,804
At 31 December 2006	3,577,506	125,534	3,703,040
<b>Net book value</b>			
At 31 December 2006	7,250,961	164,584	7,415,545
<b>Net book value</b>			
At 31 December 2005	8,333,708	193,641	8,527,349



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

COMPANY	Intellectual property £	Licenses and trademarks £	Total £
<b>Cost</b>			
At 1 January 2006	1,646,500	290,118	1,936,618
Transfer	9,181,967	–	9,181,967
<b>At 31 December 2006</b>	<b>10,828,467</b>	<b>290,118</b>	<b>11,118,585</b>
<b>Amortisation</b>			
At 1 January 2006	658,600	96,478	755,078
Charge for the year	164,650	29,056	193,706
Transfer	2,754,256	–	2,754,256
<b>At 31 December 2006</b>	<b>3,577,506</b>	<b>125,534</b>	<b>3,703,040</b>
<b>Net book value</b>			
At 31 December 2006	7,250,961	164,584	7,415,545
<b>Net book value</b>			
At 31 December 2005	987,900	193,640	1,181,540
<b>10. GOODWILL</b>			
<b>GROUP</b>			Positive goodwill £
<b>Cost</b>			
At 1 January 2006 and 31 December 2006			1,790,742
<b>Amortisation</b>			
At 1 January 2006 and 31 December 2006			1,790,742
<b>Net book value</b>			
At 31 December 2006			–
<b>Net book value</b>			
At 31 December 2005			–

**11. TANGIBLE FIXED ASSETS**

GROUP AND COMPANY	Plant and machinery £	Furniture, fixtures and fittings £	Computer and office equipment £	Total £
<b>Cost</b>				
At 1 January 2006	2,790	15,123	28,435	46,348
Additions	–	–	4,311	4,311
At 31 December 2006	2,790	15,123	32,746	50,659
<b>Amortisation</b>				
At 1 January 2006	650	13,300	23,969	37,919
Charge for the year	564	564	3,148	4,276
At 31 December 2006	1,214	13,864	27,117	42,195
<b>Net book value</b>				
At 31 December 2006	1,576	1,259	5,629	8,464
<b>Net book value</b>				
At 31 December 2005	2,140	1,823	4,466	8,429

**12. FIXED ASSET INVESTMENTS**

COMPANY	2006 £	2005 £
Balance at 1 January	7,345,909	9,181,967
Impairment	(918,098)	(1,836,058)
Transfer	(6,427,711)	–
Balance at 31 December	100	7,345,909

The transfer relates to the original investment in Eden Research Inc which was acquired so that the group could benefit from the Intellectual Property held in that company. In the year the Intellectual Property was transferred to the UK parent (Eden Research Plc) and is now recorded in that company.



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

The investment in subsidiary companies at book value comprises the following:

	2006 £	2005 £
Eden Research Inc	–	7,345,809
Eden Research Europe Ltd.	100	100

The company's investment in the capital of unlisted subsidiary and associated undertakings is as follows:

Company	Nature of business	Shareholding	Incorporated
Subsidiary undertakings:			
Eden Research Europe Ltd.	Dormant	100%	England
Eden Research Inc.	Intellectual property holding company	100%	USA
Associated undertakings:			
Bioclinical Services Ltd.	Dormant	30%	England

### 13. DEBTORS

	2006 £	2005 £
<b>GROUP</b>		
Trade debtors	26,816	–
Other debtors	82,027	40,977
VAT recoverable	47,600	26,967
	<b>156,443</b>	<b>67,944</b>
<b>COMPANY</b>		
Trade debtors	26,816	–
Other debtors	81,927	40,877
VAT recoverable	47,600	26,967
	<b>156,343</b>	<b>67,844</b>

**14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

GROUP AND COMPANY	2006 £	2005 £
Bank overdraft	–	11,699
Trade creditors	481,160	379,939
Other creditors	3,761	4,771
Convertible debt (note 21)	2,655,314	1,762,150
Accruals and deferred income	84,559	50,310
	<b>3,224,794</b>	<b>2,208,869</b>

The bank overdraft is secured by an Intercompany Composite Guarantee dated 30 January 2001 in favour of The Royal Bank of Scotland.

**15. CALLED-UP SHARE CAPITAL**

	2006 £	2005 £
Authorised 100,000,000 ordinary shares of £0.01 each (2005: 100,000,000)	1,000,000	1,000,000
Allotted and called up 46,520,985 ordinary shares of £0.01 each (2005: 44,707,260)	465,210	447,073

During the year 1,666,667 ordinary shares with an aggregate nominal value of £16,667 were issued at £0.30 per share, a premium of £483,333 and 147,058 ordinary shares with an aggregate nominal value of £1,471 were issued at £0.34 per share, a premium of £48,529.

The total premium on shares issued in the year amounted to £531,862 which has been credited to the share premium account (Note 16).



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

### SHARE OPTIONS

The following options relating to ordinary shares of £0.01 were outstanding at 31 December 2006:

Number	Exercise price	Exercisable until
100,000	£1.60	19 April 2007
100,000	£0.20	02 July 2007
100,000	£0.10	30 September 2007
1,981,362	£0.42	27 November 2007
200,000	£0.20	29 November 2007
60,435	£0.20	31 December 2007
242,752	£0.20	31 December 2007
2,000,000	£0.27	31 December 2007
50,000	£0.19	01 February 2009
400,000	£0.10	27 March 2009
350,000	£0.35	09 August 2009
60,000	£0.27	01 November 2009
425,612	£0.20	11 October 2010
1,225,000	£0.34	19 October 2010
150,000	£0.09	10 January 2011
1,170,000	£0.20	08 June 2011

The following Deed of Warrant Grants were outstanding at 31 December 2006:

Number	Exercise price	Exercisable until
500,000	£0.37	17 July 2007
250,000	£0.37	17 July 2007
150,000	£0.13	20 September 2010
2,269,565*	£0.18	21 July 2011
100,000*	£0.34	19 October 2010
100,000	£0.10	27 March 2009
2,000,000	£0.20	11 September 2009
200,000	£0.20	01 August 2009

\* These Deed of Warrant Grants relate to convertible loans detailed in note 21.

#### 16. SHARE PREMIUM ACCOUNT

GROUP AND COMPANY	2006 £	2005 £
At 1 January 2006	9,615,100	9,615,100
Premium on shares issued in the year	531,862	–
At 31 December 2006	10,146,962	9,615,100

#### 17. RESERVES

GROUP AND COMPANY	Merger reserve £	Warrant reserve £
At 1 January 2006	10,209,673	–
Movement in warrant reserve	–	1,504,843
At 31 December 2006	10,209,673	1,504,843



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

### 18. PROFIT AND LOSS ACCOUNT

GROUP	2006 £	2005 £
At 1 January 2006	(13,873,920)	(11,296,313)
Retained loss for the year	(4,092,332)	(2,577,607)
At 31 December 2006	(17,966,252)	(13,873,920)
COMPANY	2006 £	2005 £
At 1 January 2006	(13,873,920)	(10,706,635)
Retained loss for the year	(4,092,332)	(3,167,285)
At 31 December 2006	(17,966,252)	(13,873,920)

### 19. RECONCILIATION OF MOVEMENTS ON SHAREHOLDERS' FUNDS

GROUP	2006 £	2005 £
Loss for the financial year after taxation	(4,092,332)	(2,577,607)
New equity share capital issued (nominal value)	18,137	–
Share premium arising on new share capital subscribed	531,862	–
Movement in Warrant reserve	1,504,843	–
Opening shareholders' funds at 1 January 2006	6,397,926	8,975,533
Closing shareholders' funds at 31 December 2006	4,360,436	6,397,926
COMPANY	2006 £	2005 £
Loss for the financial year after taxation	(4,092,332)	(3,167,285)
New equity share capital issued (nominal value)	18,137	–
Share premium arising on new share capital subscribed	531,862	–
Movement in Warrant reserve	1,504,843	–
Opening shareholders' funds at 1 January 2006	6,397,926	9,565,211
Closing shareholders' funds at 31 December 2006	4,360,436	6,397,926

## 20. COMMITMENTS

### LEASE COMMITMENTS

At 31 December 2006, the Group and the company had annual commitments under non-cancellable operating leases as follows:

	2006 Land and buildings £	2005 Land and buildings £
Expiring – Less than 1 year	22,500	–
Expiring – 1-2 years	–	30,000

### 21. RELATED PARTY DISCLOSURES

The Company has taken advantage of the exemptions in Financial Reporting Standard 8 with regard to disclosure of transactions with other Group undertakings.

During the year, the Group traded with BrookStreet Des Roches, a firm of solicitors for which K W Brooks acts as a consultant, as follows:

	2006 £	2005 £
Provision of legal services	9,361	22,044
Trade creditors due at the year end	2,468	5,885

Also during the year, the Group traded with A H Brooks, of which K W Brooks is a partner. The transactions in aggregate were as follows:

	2006 £	2005 £
Provision of consulting services	60,000	–
Trade creditors due at the year end	29,375	–

During the year the Group traded with 3DM Worldwide PLC, a company in which K W Brooks is a director. The transactions in aggregate were as follows:

	2006 £	2005 £
Rent receivable	–	40,755
Other debtor at the year end	23,944	20,378



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

During the year the Group traded with Insight Medical Writing Limited, a company controlled by T Griffiths and his spouse K Walker. The transactions in aggregate were as follows:

	2006 £	2005 £
Medical writing fees	69,140	62,200
Trade creditor due at the year end	34,240	17,807

The directors regard all the transactions disclosed above as being on an arms length basis and in the normal course of business.

During 2005, the Group traded with Battlebridge Group Limited, a shareholder. The transactions in aggregate were as follows:

	2006 £	2005 £
Management and Administrative Services	–	174,360
Trade creditor due at the year end	–	111,672

Creditors include the following convertible loans advanced by the shareholders of the Company

	2006 £	2005 £
Battlebridge Group Limited	1,064,047	980,613
Battlebridge Nominees Limited	812,576	322,132
Oxford Commercial Services Limited	2,613	29,213
Oxford Equities Limited	115,000	108,125
Oxford Capital Plc.	552,439	268,317
Oxford Business Services Limited	108,639	53,750
	2,655,314	1,762,150

The loans are unsecured, carry an interest rate of 7.5% (2005 – 7.5%) per annum and there are no fixed terms for repayment.

## 22. FINANCIAL INSTRUMENTS

Where permitted by FRS 13, short-term debtors and creditors are excluded from these disclosures.

### DEBT INSTRUMENTS

At the present time, the Company is financed with short-term borrowings and equity. All borrowings at the year end were at floating rates, repayable on demand and denominated in pounds sterling.

### CURRENCY RISK

The Group publishes its financial statements in pounds sterling and conducts some of its business in US dollars. As a result, it is subject to foreign currency exchange risk due to exchange movements, which will affect the Group's transaction costs and translation of the results. No financial instruments are utilised to manage risk and currency gains, and losses are charged to the profit and loss account as incurred. At the year end, the Group had the following net foreign currency balances:

	2006 £	2005 £
US Dollars Creditor	52,662	30,323

### INTEREST RATE RISK

The Group currently finances its operations partly through borrowings. The Group borrows in sterling, generally at fixed rates of interest.

### LIQUIDITY RISK

Short-term flexibility is achieved by overdraft facilities.

### INTEREST RATE RISK PROFILE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

#### Financial assets

The Group has no financial assets, other than short-term debtors and an immaterial amount of cash at bank.

#### Financial liabilities

The interest rate profile of the Group's financial liabilities at 31 December 2006 was:

Currency	Total £	Floating rate financial liabilities £	Fixed rate financial liabilities £	Financial liabilities on which no interest is paid £
Sterling	2,655,314	-	2,652,701	2,613
Total	2,655,314	-	2,652,701	2,613



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

Currency	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years
Sterling	7.5	1.0	1.0
Total	7.5	1.0	1.0

### MATURITY OF FINANCIAL LIABILITIES

The maturity profile of the Group's financial liabilities at 31 December 2006 was as follows:

	£m
In one year or less, or on demand	3,224,794
In more than one year but not more than two years	–
In more than two years but not more than five years	–
In more than five years	–
	3,224,794

### BORROWING FACILITIES

The Group has no undrawn committed borrowing facilities.

### MARKET PRICE RISK

The Group's exposure to market price risk comprises interest rate and currency risk exposures. It monitors these exposures primarily through a process known as sensitivity analysis. This involves estimating the effect on results before tax over various periods of a range of possible changes in interest rates and exchange rates. The sensitivity analysis model used for this purpose makes no assumptions about any interrelationships between such rates or about the way in which such changes may affect the economies involved. As a consequence, figures derived from the Group's sensitivity analysis model should be used in conjunction with other information about the Group's risk profile.

The Group's policy towards currency risk is to eliminate all exposures that will impact on reported results as soon as they arise. This is reflected in the sensitivity analysis, which estimates that five and ten percentage point increases in the value of sterling against all other currencies would have had minimal impact on results before tax.

On the other hand, the Group's policy is to accept a degree of interest rate risk as long as the effects of various changes in rates remain within certain prescribed ranges. On the basis of the Group's analysis, it is estimated that a rise of one percentage point in all interest rates would have increased 2006 loss before tax by approximately 0.5 per cent and that a three percentage point increase would have reduced such profits by 1.8 per cent. This is well within the ranges that the Group regards as acceptable.

### 23. SHARE BASED PAYMENT

Eden Research plc operates an unapproved option scheme for executive directors, senior management and certain employees.

	2006 Weighted average exercise price (pence)	number
Outstanding at the beginning of the year	35	5,375,711
Granted during the year	23	3,295,000
Lapsed during the year	42	(55,550)
	<b>30</b>	<b>8,615,161</b>

The exercise price of options outstanding at the end of the year ranged between 9p and 160p and their weighted average contractual life was 2.2 years.

The weighted average share price (at the date of exercise) of options exercised during the year was £nil.

The weighted average fair value of each option granted during the year was 15p.

The following information is relevant in the determination of the fair value of options granted during the year under the unapproved options scheme operated by Eden Research plc:

	2006
<b>Equity-settled</b>	
Option pricing model used	Black Scholes
Weighted average share price at grant date (pence)	23
Exercise price (pence)	30
Weighted average contractual life (days)	787
<b>Equity-settled</b>	
Expected volatility	73.6%
Expected dividend growth rate	-
Risk-free interest rate	4.43



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

Eden Research plc issued warrants to third parties for the provision of services rendered and the provision of finance.

	2006	
	Weighted average exercise price (pence)	number
Outstanding at the beginning of the year	33	900,000
Granted during the year	19	4,669,565
	<b>21</b>	<b>5,569,565</b>

The exercise price of warrants outstanding at the end of the year ranged between 10p and 37p and their weighted average contractual life was 2.2 years.

The weighted average share price (at the date of exercise) of warrants exercised during the year was £nil.

The weighted average fair value of each warrant granted during the year was 12p.

The following information is relevant in the determination of the fair value of warrants granted during the year by Eden Research plc:

	2006
<b>Equity-settled</b>	
Option pricing model used	Black Scholes
Weighted average share price at grant date (pence)	23
Exercise price (pence)	21
Weighted average contractual life (days)	1,168
<b>Equity-settled</b>	
Expected volatility	73.6%
Expected dividend growth rate	-
Risk-free interest rate	4.43

The volatility assumption, measured at the standard deviation of expected share price returns is based on a statistical analysis of daily share prices over the 4 years.